

Registered number: 4706930

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## ROLLS-ROYCE GROUP PLC

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### DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011



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**ROLLS-ROYCE GROUP PLC**

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**COMPANY INFORMATION**

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**DIRECTORS**

James Guyette  
Mark Morris (appointed 1 January 2012)  
John Rishton  
Simon Robertson (resigned 23 May 2011)  
John Rose (resigned 31 March 2011)  
Andrew Shilston (resigned 31 December 2011)  
Colin Smith  
Michael Terrett  
Helen Alexander (resigned 23 May 2011)  
Peter Byrom (resigned 23 May 2011)  
Ian Conn (resigned 23 May 2011)  
Peter Gregson (resigned 23 May 2011)  
John McAdam (resigned 23 May 2011)  
John Neill (resigned 23 May 2011)  
Ian Strachan (resigned 23 May 2011)

**COMPANY SECRETARY**

Paul Davies

**COMPANY NUMBER**

4706930

**REGISTERED OFFICE**

65 Buckingham Gate  
London  
SW1E 6AT

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**ROLLS-ROYCE GROUP PLC**

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## **ROLLS-ROYCE GROUP PLC**

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### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2011**

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The directors present their report and the financial statements for the year ended 31 December 2011

#### **PRINCIPAL ACTIVITIES**

The principal activities of the company are to hold investments in its subsidiary companies and to sponsor a share trust used to hold investments in its parent company Rolls-Royce Holdings plc, which is listed on the London Stock Exchange, to fulfil the group's share-based payment plans to its employees

#### **BUSINESS REVIEW**

On 23 May 2011, under a scheme of arrangement between Rolls-Royce Group plc, the former holding company of the Group, and its shareholders under Part 26 of the Companies Act 2006, and as sanctioned by the High Court, all the issued ordinary shares in that company were cancelled and the same number of new ordinary shares were issued to Rolls-Royce Holdings plc in consideration for the allotment to shareholders of one ordinary share in Rolls-Royce Holdings plc for each ordinary share in Rolls-Royce Group plc held on the record date (20 May 2011)

Upon formation of the new holding company, own shares previously held at cost were reclassified as available for sale assets which are measured at fair value. Subsequent revaluation gains recognised were £52,649 thousand (2010: £nil)

The non-executive directors resigned on 23 May 2011

#### **RESULTS**

The loss for the year, after taxation, amounted to £917 thousand (2010: profit £549,464 thousand)

#### **DIRECTORS**

The directors who served during the year and up to the date of signing were

James Guyette  
Mark Morris (appointed 1 January 2012)  
John Rishton  
Simon Robertson (resigned 23 May 2011)  
John Rose (resigned 31 March 2011)  
Andrew Shilston (resigned 31 December 2011)  
Colin Smith  
Michael Terrett  
Helen Alexander (resigned 23 May 2011)  
Peter Byrom (resigned 23 May 2011)  
Ian Conn (resigned 23 May 2011)  
Peter Gregson (resigned 23 May 2011)  
John McAdam (resigned 23 May 2011)  
John Neill (resigned 23 May 2011)  
Ian Strachan (resigned 23 May 2011)

#### **QUALIFYING THIRD PARTY INDEMNITY PROVISIONS**

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

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**ROLLS-ROYCE GROUP PLC**

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**DIRECTORS' REPORT  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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**PROVISION OF INFORMATION TO AUDITORS**

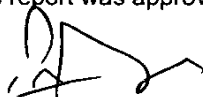
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information

**AUDITORS**

Under section 487(2) of the Companies Act 2006, KPMG Audit Plc will be deemed to have been reappointed as auditors 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier

This report was approved by the board and signed on its behalf



**Paul Davies**  
Secretary  
Date 12 June 2012

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**ROLLS-ROYCE GROUP PLC**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND  
THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards and applicable law (United Kingdom Generally Accepted Accounting Practice). 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- 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 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROLLS-ROYCE GROUP PLC**

We have audited the financial statements of Rolls-Royce Group plc for the year ended 31 December 2011, set out on pages 5 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an Auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

As explained more fully in the Directors' responsibilities statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS**

A description of the scope of an audit of financial statements is provided on the Auditing Practices Board's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

### **OPINION ON FINANCIAL STATEMENTS**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

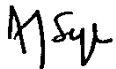
### **OPINION ON OTHER MATTER PRESCRIBED BY THE COMPANIES ACT 2006**

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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

  
A.J. Sykes (Senior statutory auditor)  
for and on behalf of  
**KPMG Audit Plc**  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

12 June 2012

**ROLLS-ROYCE GROUP PLC**

**PROFIT AND LOSS ACCOUNT  
FOR THE YEAR ENDED 31 DECEMBER 2011**

	Note	2011 £000	2010 £000
Administrative expenses		(72)	(259)
<b>OPERATING LOSS</b>	2	(72)	(259)
Loss on sale of investments		(1,204)	-
Transfer of revaluation of parent company shares held under trust		795	-
<b>LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST</b>		(481)	(259)
Income from shares in group undertakings		-	550,000
Interest receivable and similar income		32	-
Interest payable and similar charges	5	(574)	(397)
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,023)	549,344
Tax on (loss)/profit on ordinary activities	6	106	120
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		(917)	549,464

All amounts relate to continuing operations

The notes on pages 8 to 15 form part of these financial statements



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**ROLLS-ROYCE GROUP PLC**

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**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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	Note	2011 £000	2010 £000
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		<b>(917)</b>	<b>549,464</b>
Revaluation of fixed asset investments		<u><b>52,649</b></u>	<u>-</u>
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		<u><u><b>51,732</b></u></u>	<u><u><b>549,464</b></u></u>

The notes on pages 8 to 15 form part of these financial statements

**ROLLS-ROYCE GROUP PLC**  
**REGISTERED NUMBER: 4706930**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2011**

	Note	£000	2011 £000	£000	2010 £000
<b>FIXED ASSETS</b>					
Investments	7		2,445,648		2,273,815
<b>CURRENT ASSETS</b>					
Debtors	8	27,493		250,649	
Cash at bank		847		735	
		<u>28,340</u>		<u>251,384</u>	
<b>CREDITORS:</b> amounts falling due within one year	9	<u>(2,346)</u>		<u>(90,048)</u>	
<b>NET CURRENT ASSETS</b>			<u>25,994</u>		<u>161,336</u>
<b>NET ASSETS</b>			<u><u>2,471,642</u></u>		<u><u>2,435,151</u></u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	10		374,534		374,356
Share premium account	11		16,028		132,963
Revaluation reserve	11		51,854		-
Capital redemption reserve	11		1,130,341		987,169
Own shares reserve	11		-		(125,689)
Profit and loss account	11		<u>898,885</u>		<u>1,066,352</u>
<b>SHAREHOLDERS' FUNDS</b>	12		<u><u>2,471,642</u></u>		<u><u>2,435,151</u></u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by



**Mark Morris**  
Director  
Date 12 June 2012

The notes on pages 8 to 15 form part of these financial statements

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## **ROLLS-ROYCE GROUP PLC**

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### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011**

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#### **1 ACCOUNTING POLICIES**

##### **1.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of listed investments and in accordance with applicable accounting standards

##### **1.2 Group financial statements**

The company is exempt by virtue of section 399 of the Companies Act 2006 from the requirement to prepare group financial statements

##### **1.3 Cash flow statement**

The company is a wholly owned subsidiary of Rolls-Royce Holdings plc and is included in the consolidated financial statements of Rolls-Royce Holdings plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1

##### **1.4 Related party transactions**

The company has taken advantage of the exemption in FRS 8 not to disclose related party transactions with other group companies

##### **1.5 Investments**

Investments held as fixed assets are shown at cost less provision for impairment

##### **1.6 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 profit and loss account

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## ROLLS-ROYCE GROUP PLC

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### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

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#### 1 ACCOUNTING POLICIES (continued)

##### 1.7 Financial instruments

FRS 26 requires the classification of financial instruments into separate categories for which the accounting treatment is different. The company has classified its financial instruments as

- Investments, other than investment in subsidiaries and unlisted investments, are classified as available for sale assets
- Borrowings and obligations under its own C Shares are generally treated as financial liabilities

Financial instruments are initially measured at fair value. Their subsequent measurement depends on their classification

- Available for sale assets are held at fair value. Changes in fair value are taken to equity. On disposal of the related asset, the accumulated changes in value recorded in equity are included in the gain or loss recorded in the profit and loss account
- Financial liabilities relating to C Shares are held at amortised cost from the date of issue until redeemed

##### 1.8 Share-based payments

The company sponsors a share trust that holds shares in Rolls-Royce Holdings plc to fulfil share based payment obligations to employees of the Rolls-Royce group. The costs of share-based payments in respect of these awards are charged by the employing company and are treated as an increased investment in the holding company. Any payments received from subsidiary undertakings in respect of these arrangements are treated as a reduction in the investment.

#### 2 OPERATING LOSS

The operating loss is stated after charging/(crediting)

	2011 £000	2010 £000
Difference on foreign exchange	(23)	(7)

#### 3 AUDITOR'S REMUNERATION

The fees for the audit of the company financial statements were £5,000 (2010: £5,000) and were paid by Rolls-Royce plc.

#### 4 STAFF COSTS

The company has no employees other than the directors, who did not receive any remuneration (2010: £NIL).

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**ROLLS-ROYCE GROUP PLC**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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**5. INTEREST PAYABLE**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
On bank loans and overdrafts	<b>432</b>	<b>213</b>
Dividends paid on shares classed as debt	<b>142</b>	<b>184</b>
	<u><b>574</b></u>	<u><b>397</b></u>

**6 TAXATION**

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Group taxation relief at 26.5% (2010 - 28%)	<b>(106)</b>	<b>(120)</b>
<b>Tax on (loss)/profit on ordinary activities</b>	<u><b>(106)</b></u>	<u><b>(120)</b></u>

**Factors affecting tax charge for the year**

The tax assessed for the year is higher than (2010 - lower than) the standard rate of corporation tax in the UK of 26.5% (2010 - 28%). The differences are explained below

	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
(Loss)/profit on ordinary activities before tax	<u><b>(1,023)</b></u>	<u><b>549,344</b></u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 - 28%)	<b>(271)</b>	<b>153,816</b>
<b>Effects of:</b>		
Expenses not deductible for tax purposes	<b>376</b>	<b>66</b>
Non-taxable income	<b>(211)</b>	<b>(154,002)</b>
<b>Current tax credit for the year (see note above)</b>	<u><b>(106)</b></u>	<u><b>(120)</b></u>

**Factors that may affect future tax charges**

There were no factors that may affect future tax charges

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**ROLLS-ROYCE GROUP PLC**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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**7. FIXED ASSET INVESTMENTS**

The following movements occurred in the year

Investment in subsidiary companies - Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments until the date of formation of the new holding company

Listed investment - Upon formation of the new holding company, own shares previously held at cost were replaced with shares in the new holding company and reclassified as available for sale assets which are measured at fair value. Subsequent revaluation gains recognised were £52,649 thousand (2010: £nil). Disposal of listed investments to satisfy share-based payment obligations were £3,821 thousand (2010: £nil).

Unlisted investment – the company holds C Shares, non-cumulative redeemable preference shares of its parent company, as an alternative to receiving a cash dividend

	Investments in subsidiary companies £000	Listed investments £000	Unlisted investments £000	Total £000
<b>Cost or valuation</b>				
At 1 January 2011	2,273,815	-	-	2,273,815
Additions	1,565	119,441	1,999	123,005
Disposals	-	(3,821)	-	(3,821)
Revaluations	-	52,649	-	52,649
At 31 December 2011	<u>2,275,380</u>	<u>168,269</u>	<u>1,999</u>	<u>2,445,648</u>
<b>Net book value</b>				
At 31 December 2011	<u>2,275,380</u>	<u>168,269</u>	<u>1,999</u>	<u>2,445,648</u>
At 31 December 2010	<u>2,273,815</u>	<u>-</u>	<u>-</u>	<u>2,273,815</u>

**Subsidiary undertakings**

The following were subsidiary undertakings of the company

Name	Class of shares	Holding
Rolls-Royce plc	Ordinary	100 %

**Listed investments**

The market value of the listed investments at 31 December 2011 was £168,269 thousand (2010 - £NIL)

**ROLLS-ROYCE GROUP PLC**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

**8 DEBTORS**

	<b>2011 £000</b>	<b>2010 £000</b>
Amounts owed by group undertakings	<b>27,387</b>	250,529
Corporation tax - Group relief	<b>106</b>	120
	<u><b>27,493</b></u>	<u>250,649</u>

**9 CREDITORS:  
Amounts falling due within one year**

	<b>2011 £000</b>	<b>2010 £000</b>
Bank loans and overdrafts	-	66,500
Amounts owed to group undertakings	<b>2,346</b>	-
Accruals and deferred income	-	168
Share capital treated as debt (Note 10)	-	23,380
	<u><b>2,346</b></u>	<u>90,048</u>

Disclosure of the terms and conditions attached to the non-equity shares are made in note 10

**10 SHARE CAPITAL**

	<b>2011 £000</b>	<b>2010 £000</b>
<b>Shares classified as capital</b>		
<b>Allotted, called up and fully paid</b>		
1,872,669,328 (2010 - 1,871,779,201) Ordinary shares of £0 20 each	<b>374,534</b>	374,356
1 Ordinary A share of £0 20	-	-
1 Special share of £1	-	-
	<u><b>374,534</b></u>	<u>374,356</u>
<b>Shares classified as debt</b>		
<b>Allotted, called up and fully paid</b>		
23,379,971,475 C shares of £0 001 each	-	23,380

During the year 890,127 ordinary shares with a nominal value of £178 thousand were allotted, called up and fully paid to satisfy share option schemes. 1 special share with a nominal value of £1 was redeemed and the special shareholder was given a new special share in the new holding company, Rolls-Royce Holdings plc.

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ROLLS-ROYCE GROUP PLC

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

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**10 SHARE CAPITAL (continued)**

The rights and obligations attaching to the different classes of shares are set out in the company's Articles of Association

Ordinary shares - Holders of ordinary shares are entitled to receive the company's Annual report. They are also entitled to attend and speak at general meetings of the company, and to exercise voting rights

Ordinary A shares - Holders of ordinary A shares are not entitled to voting or dividend rights

C shares - The company, as the previous holding company of the Rolls-Royce group, issued non-cumulative redeemable preference shares (C Shares) as an alternative to paying a cash dividend. Shareholders can choose to

- redeem all C Shares for cash,
- redeem all C Shares for cash and reinvest the proceeds in additional ordinary shares using the C Share Reinvestment Plan operated by the Registrar, or
- keep the C Shares

Any C Shares retained attract a dividend of 75 per cent of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis, and have limited voting rights. In certain circumstances the company has the option to compulsorily redeem the C Shares, at any time, if the aggregate number of C Shares in issue is less than ten per cent of the aggregate number of C Shares issued, or on the acquisition or capital restructuring of the company. As part of the scheme of arrangement all outstanding C Shares were compulsorily redeemed on 6 April 2011.

Special share - Certain rights attach to the special rights non-voting share (Special Share) issued to HM Government (Special Shareholder). Subject to the provisions of the Companies Act 2006, the Treasury Solicitor may redeem the Special Share at par at any time. The Special Share confers no rights to dividends but in the event of a winding-up it shall be repaid at its nominal value in priority to any other shares. Certain Articles (in particular those relating to the foreign shareholding limit, disposals and the nationality of directors) that relate to the rights attached to the Special Share may only be altered with the consent of the Special Shareholder. The Special Shareholder is not entitled to vote at any general meeting or any other meeting of any class of shareholders.

**C Shares**

In accordance with FRS 25 Financial Instruments Presentation, the company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly movements in C Shares are shown below:

	<b>C Shares of 0.1p Millions</b>	<b>Nominal Value £000</b>
At 1 January 2011	23,380	23,380
Shares issued	119,792	119,792
Shares redeemed	(143,172)	(143,172)
At 31 December 2011	-	-



ROLLS-ROYCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011

11 MOVEMENTS IN CAPITAL AND RESERVES

	Share capital £000	Share premium account £000	Capital redemption reserve £000	Own shares reserve £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2011	374,356	132,963	987,169	(125,689)	-	1,066,352
Loss for the year	-	-	-	-	-	(917)
Revaluation of available for sale assets	-	-	-	-	52,649	-
Transfer between revaluation reserve and P/L account	-	-	-	-	(795)	-
Proceeds from shares issued for share options schemes	178	2,857	-	-	-	-
Issue of C Shares	-	(119,792)	-	-	-	4,040
Redemptions of C Shares	-	-	143,172	-	-	(143,172)
Ordinary shares purchased	-	-	-	(57,022)	-	-
Ordinary shares vesting in share-based payment plans	-	-	-	63,270	-	(63,270)
Share-based payments - direct to equity	-	-	-	-	-	35,852
Reclassification of own shares held under trust to listed investment	-	-	-	119,441	-	-
At 31 December 2011	374,534	16,028	1,130,341	-	51,854	898,885

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**ROLLS-ROYCE GROUP PLC**

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**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2011**

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Upon formation of the new holding company, own shares previously held at cost were replaced with shares in the new holding company and reclassified as available for sale assets which are measured at fair value. Subsequent revaluation gains recognised were £52,649 thousand (2010 £nil). At 31 December 2011, Nil shares (2010 28,320,962 shares) with a net book value of £Nil (2010 £125,689 thousand) were held within the own shares reserve.

The value of share-based payments in respect of employees of subsidiary undertakings for which payment has not been received is £6,520 thousand (2010 £36,024 thousand). The cumulative position as at 31 December 2011 is £150,958 thousand (2010 £144,438 thousand).

**12. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	2011 £000	2010 £000
Opening shareholders' funds	2,435,151	2,179,128
(Loss)/profit for the year	(917)	549,464
Revaluation of available for sale assets	52,649	-
Transfer between revaluation reserve and profit and loss account	(795)	-
Proceeds from shares issued for share option schemes	3,035	67,040
Issue of C Shares	(115,752)	(277,525)
Ordinary shares purchased	(57,022)	(124,186)
Share based payments - direct to equity	35,852	41,230
Reclassification of own shares held under trust to listed investments	119,441	-
Closing shareholders' funds	<u>2,471,642</u>	<u>2,435,151</u>

**13. CONTINGENT LIABILITIES**

Where the company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the company considers these to be insurance arrangements, and accounts for them as such. In this respect, the company treats the guarantee contract as a contingent liability until such time as it becomes probable that the company will be required to make a payment under the guarantee.

At 31 December 2011 these guarantees amounted to £901 million (2010 £1,809 million).

**14. CONTROLLING PARTY**

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, which is the parent undertaking of the largest and smallest group to consolidate these financial statements. Rolls-Royce Holdings plc became the parent undertaking on 23 May 2011 under a scheme of arrangement between the company, the former ultimate parent undertaking of the Rolls-Royce group, and its shareholders.

The consolidated financial statements are available to the public and may be obtained from 65 Buckingham Gate, London, SW1E 6AT.