

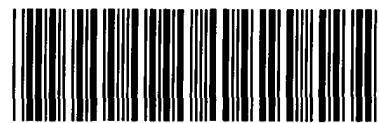
Registration number: 00769666

Rolls-Royce International Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2019

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Rolls-Royce International Limited

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Rolls-Royce International 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 International Limited

Strategic Report for the Year Ended 31 December 2019

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

Principal activities

The Company provides administration services for employees who work in its branch network and for certain employees employed by the Rolls-Royce Holdings plc group who are required to work on overseas assignments. The Company recharges multiple entities within the Rolls-Royce Holdings plc group for the costs in relation to the assignees. The Company also provides local representation, in-country expertise, market research and commercial information and strategies for the development of business opportunities.

Business review

The Company has continued to support its global network of branches throughout the year. The Company operates branches in the following geographical locations: Spain, Germany, Belgium, South Korea, Sri Lanka, Hong Kong, Ethiopia, Colombia, Qatar, Dubai, Bahrain, France and Abu-Dhabi. The Company also has representative offices in Italy, Vietnam and Taiwan.

Revenue in the Company is generated through charges made to entities within the Rolls-Royce Holdings plc group for the provision of services provided by the Company. Revenue has increased by £4,965 thousand from £12,887 thousand in 2018 to £17,852 thousand in 2019 due to the transfer of employees from the Abu-Dhabi branch of Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited to the Abu-Dhabi branch of the Company. The main drivers of the revenue increases are as a result of the increase in the number of employees employed by the Abu-Dhabi branch over the course of the year, this has resulted in increased sales of £3,000 thousand for the year ended 31 December 2019. There has also been an increase in the number of employees in the South Korea branch of the Company as a result of the sale of the commercial marine business during the course of the year. This resulted in increased sales of £1,182 thousand for the year ended 31 December 2019.

Gross profit margin has decreased slightly from 7% in 2018 to 6% in 2019 largely as a result of the growth in the Abu-Dhabi branch where costs are incurred in local currency but recharged in Sterling at a fixed foreign exchange rate which was less favourable than the prevailing exchange rate on the transaction date.

In 2019, the End of Service Benefit (EOSB) provision which was transferred to the Company as part of the transfer of the Abu-Dhabi branch during 2018 has been recharged as part of the service agreements between the Company and other Companies within the Rolls-Royce Holdings plc group and costs of £181,000 has been recognised in cost of sales (2018: £147,000 recognised in administrative expenses).

During the year, the Company adopted IFRS 16 *Leases* using the modified retrospective approach. This had the effect of introducing Right of Use assets and lease liabilities to the Balance Sheet with a year end balance of £871 thousand (2018: £nil) and £840 thousand (2018: £nil) respectively, as well as changing the nature of costs associated with leasing to the Income Statement. The effect of this is shown in notes 10, 14 and 21.

A payment of £35,000 thousand was received during the year from the Company's immediate parent, Rolls Royce plc, in respect of a short term loan provided to them in the year ended 31 December 2018. The impact of this is shown in note 12.

Profit after taxation for the year is £1,743 thousand (2018: £1,626 thousand).

Rolls-Royce International Limited

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

Future developments

The Directors do not expect any change to the level of activity for the foreseeable future. The Company will continue to consider where the Rolls-Royce Holdings plc group customers require the services of the Company. This may necessitate the opening of additional branches in new locations or closure of branches if customer service and footprint is reduced. The Directors do not anticipate that there will be any long-term change to the outlook of the Company following COVID-19. However, there will be a short-term impact on the Company's financial and liquidity position if the pandemic causes a loss or reduction in contracts which would reduce the size of the customer service base for the Company. The Directors will continue to monitor the Company's performance during 2020 and take any mitigating actions if required to reduce the cash outflow requirements on the Company.

Principal risks and uncertainties

The Company is subject to a range of legislation or other regulatory requirements in the locations in which it operates (for example: export controls; offset; and anti-bribery and corruption legislation) compromising the Company's 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 Company is supported by a variety of Rolls-Royce Holdings plc group risk management procedures. In addition, the group has an extensive compliance programme which is reinforced by a legal and compliance team.

Brexit

Following the United Kingdoms ("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. Further disclosures are given in the Rolls-Royce Holdings plc Annual Report (note 23).

COVID-19

In terms of the Company's financial and liquidity position in relation to COVID-19, the pandemic could cause a loss or reduction in contracts with the Company's customers which would reduce the size of the customer contract service base for the Company. The Company will continue to monitor the Company's performance during 2020 and take any mitigating actions if required to reduce the cash outflow requirements on the Company.

Financial risk management

The following financial risks are considered key by the Directors:

Interest risk

Cash balances are held at floating rates and the Company is therefore exposed to movements in interest rates. The risk is mitigated by the Rolls-Royce Holdings plc group managing the overall interest rate risk at a group level by transacting interest rate swaps to fix interest rates.

Foreign exchange risk

Cash balances are held in both Sterling and in local currency and therefore these balances are exposed to movements in foreign exchange rates. To mitigate this risk at the Company level, both sales and purchases are made in local currencies.

Rolls-Royce International Limited

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

Financial risk management (continued)

Credit risk

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of provisions for impairment. The main customers of the Company are other subsidiary undertakings of the Rolls-Royce Holdings plc group, who will be supported by Rolls-Royce plc if required, and therefore the overall credit risk to the Company is low.

On adoption of IFRS 9, the Company made an impairment for a receivable due from a group undertaking relating to the legacy Energy business, which is located in a country where there are local currency restrictions in place. This is deemed to be an isolated case and does not impact on other receivables from group undertakings.

The Company's is also exposed to credit risk attributable to the credit rating of overseas financial institutions who hold the Company's cash balances. The Company operates under the Rolls-Royce Holdings plc's credit policy which ordinarily requires counterparties to have a public long-term senior unsecured rating of 'BBB' or higher. Where this is not possible an alternative counterparty is chosen based upon either its reputation or whether the Rolls-Royce Holdings plc group has an existing relationship. On a quarterly basis, all counterparties that have both cash deposits and a credit rating below 'BBB' are reported to the Treasury Review Meeting. Action is taken to transfer cash to other counterparties with a better credit rating if the amounts are considered to be material to the Company.

Key performance indicators

The key performance indicators monitored by the Company during the year were as follows:

Revenue - 2019: £17,852 thousand (2018: £12,887 thousand)
Profit after taxation - 2019: £1,743 thousand (2018: £1,626 thousand)
Net assets - 2019: £26,064 thousand (2018: £24,161 thousand)

Given the nature of the Company's activities, the Directors believe that no further key performance indicators are necessary or appropriate in understanding 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.

Rolls-Royce International Limited

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

Section 172(1) statement (continued)

The Company's key stakeholders are its parent company Rolls-Royce plc, the employees who work in the branch offices and other employees who are employed by the Rolls-Royce Holdings plc group who are required to work on overseas assignments. Further information on how the Company engages with the employees is outlined in the Directors Report on pages 8 and 9. The Company engages with its parent Company, Rolls-Royce plc, through a variety of channels including face to face consultations, regular board updates and regular communication between teams on joint projects. 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.

When the Company makes principal decisions it engages with its parent to ensure the interests of the wider stakeholders, which include the Rolls-Royce Holdings plc group, are taken into account. For example, the Company engages with its' parent in the event that a business unit is required to set up operations in a country where Rolls-Royce plc has a limited presence; based on advice and guidance from external advisers, the Company assesses whether an entity should be registered in the form of a branch, or representative office or commercial registration office of the Company (subject to local laws, regulations and statutory requirements). This reduces the number of the Company's subsidiary undertakings. For example, the Abu-Dhabi branch was set up as a branch of the Company as opposed to a separate subsidiary of Rolls-Royce Plc.

Where the Directors do not engage directly with the Company's stakeholders, they are kept updated 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 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 23.

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.

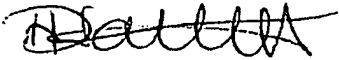
The Directors ensure that when making principal decisions they factor in the principal risks of the Company and the interests of all stakeholders. When any principal decisions are made and discussed, the Directors ensure that the consequences of the decisions over the long term to other stakeholders including employees' interests and relationships with other suppliers and customers are considered. An example of this is during strategic decision making can be evidenced through a Director of the Company being part of the Rolls-Royce Holdings plc group Incident Support Team that has been responsible for the formulation of the group's strategy and management of activities in relation to the COVID-19 pandemic.

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 (see note 23).

Rolls-Royce International Limited

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

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

A handwritten signature in black ink, appearing to read 'H Walker', written over a horizontal line.

H Walker
Director

Rolls-Royce International Limited

Directors' Report for the Year Ended 31 December 2019

The Directors present their report on 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:

H Walker (appointed 25 February 2020)
A G Bowden (resigned 25 February 2020)
P A Knight

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 approval of these financial statements.

Results

The Company made £1,743 thousand profit after taxation for the year (2018: £1,626 thousand) and had net assets of £26,064 thousand (2018: £24,161 thousand). Further details on the Company's results are given in the Strategic Report on page 2.

Dividends

The Directors do not recommend the payment of a dividend (2018: £nil). No dividends were paid during the year (2018: £nil).

Principal risks and uncertainties

The details of the Company's principal risks and uncertainties are set out in more detail on page 3.

Financial risk management

The details of the Company's financial risk management are set out in more detail on pages 3-4.

Future developments

The details of the future developments of the Company are set out in more detail on page 2.

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 the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

Rolls-Royce International Limited

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

Going concern (continued)

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

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

Post balance sheet events

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and the Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

In terms of the Company's financial and liquidity position in relation to COVID-19, the pandemic could cause a loss or reduction in contracts with the Company's customers which would reduce the size of the customer contract service base for the Company. The short-term impact has been employees adjusting to new ways of working, and working remotely. This caused some disruption at the outset, whilst the Company put improved IT infrastructure in place. The Company will continue to monitor the Company's performance during 2020 and take any mitigating actions if required to reduce the cash outflow requirements on the Company. The Directors have assessed the conditions on the balance sheet as at 31 December 2019 and have determined that there is no material financial impact resulting in the impairment of assets.

Employees

The Company is committed to continuing communication and dialogue with employees. The existence of a group wide intranet enables engagement and communication with employees throughout the group on a single platform. The Company and employee representatives continue to work closely together to improve the quality of employee engagement and participation in the development of the business.

The Company's investment in training and a development programmes ensures that all employees have the opportunity to attain the highest level of skill and employees are encouraged to take responsibility for their personal development. Opportunities are available to extend their competency levels using a range of the latest education and training techniques. The use of Appraisal Systems and Personal Development Planning enables managers to support employees in their careers.

Rolls-Royce International Limited

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

Employees (continued)

The Company's policy on diversity and equality continues to develop in consultation with employee representatives and the Company continues to be committed to equal opportunities and developing a diverse and inclusive workforce. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

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.

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:



H Walker
Director

Rolls-Royce International Limited

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

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

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

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

Rolls-Royce International Limited

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

Independent Auditors' Report to the members of Rolls-Royce International 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.



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

10 September 2020

Rolls-Royce International Limited

Income Statement for the Year Ended 31 December 2019

	Note	2019 £ 000	2018 £ 000
Revenue		17,852	12,887
Cost of sales		<u>(16,841)</u>	<u>(11,980)</u>
Gross profit		1,011	907
Administrative expenses		<u>-</u>	<u>(147)</u>
Operating profit	3	1,011	760
Finance income	4	762	1,307
Finance costs	5	<u>(16)</u>	<u>-</u>
Profit before taxation		1,757	2,067
Taxation	9	<u>(14)</u>	<u>(441)</u>
Profit for the financial year		<u>1,743</u>	<u>1,626</u>

The above results were derived from continuing operations.

Rolls-Royce International Limited

Statement of Comprehensive Income for the Year Ended 31 December 2019

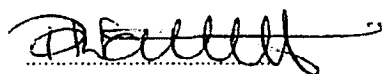
	2019 £ 000	2018 £ 000
Profit for the financial year	<u>1,743</u>	<u>1,626</u>
Total comprehensive income for the year	<u><u>1,743</u></u>	<u><u>1,626</u></u>

Rolls-Royce International Limited

(Registration number: 00769666)
Balance Sheet as at 31 December 2019

	Note	2019 £ 000	2018 £ 000
Non-current assets			
Right of use assets	10	871	-
Investments	11	22	22
Deferred tax assets	9	238	210
		1,131	232
Current assets			
Trade and other receivables	12	48,522	60,800
Cash at bank and in hand	13	5,232	13,568
		53,754	74,368
Current liabilities			
Trade and other payables	16	(27,471)	(50,154)
Lease liabilities	14	(480)	-
		(27,951)	(50,154)
Net current assets		25,803	24,214
Total assets less current liabilities		26,934	24,446
Creditors: Amounts falling due after more than one year			
Lease liabilities	14	(360)	-
Provisions	17	(510)	(285)
Net assets		26,064	24,161
Equity			
Called up share capital	19	200	200
Other reserves		(196)	(196)
Retained earnings		26,060	24,157
Total equity		26,064	24,161

The Company has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach (see notes 2 and 21). The financial statements on pages 13 to 40 were approved and authorised for issue by the Directors on 9 September 2020 and signed on its behalf by:



H Walker
Director

Rolls-Royce International Limited

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

	Called up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	200	(196)	24,157	24,161
Profit for the financial year	-	-	1,743	1,743
Total comprehensive income	-	-	1,743	1,743
Share based payment transactions	-	-	135	135
Related tax movements	-	-	25	25
At 31 December 2019	<u>200</u>	<u>(196)</u>	<u>26,060</u>	<u>26,064</u>

	Called up share capital £ 000	Other reserves £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018 as previously reported	200	-	22,919	23,119
Impact of adopting IFRS 9	-	-	(601)	(601)
Deferred tax on adoption of IFRS 9	-	-	102	102
At 1 January 2018 as restated	<u>200</u>	<u>-</u>	<u>22,420</u>	<u>22,620</u>
Profit for the financial year	-	-	1,626	1,626
Total comprehensive income	-	-	1,626	1,626
Other capital redemption reserve movements	-	(196)	-	(196)
Share based payment transactions	-	-	111	111
At 31 December 2018	<u>200</u>	<u>(196)</u>	<u>24,157</u>	<u>24,161</u>

An End of Services Benefit provision of £196,000 was transferred from Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited to the Company and treated as a capital distribution. This is reflected in other reserves for the year ended 31 December 2018.

The Company has adopted IFRS 16 Leases from 1 January 2019 using the modified retrospective approach (see notes 2 and 21).

Rolls-Royce International Limited

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

1 General information

Rolls-Royce International Limited is a private company limited by shares, incorporated and domiciled in East Midlands, UK.

The Company provides administration services for employees who work in its branch network and for certain employees employed by the Rolls-Royce Holdings plc group who are required to work on overseas assignments. The Company recharges multiple entities within the Rolls-Royce Holdings plc group for the costs in relation to the assignees. The Company also provides local representation, in-country expertise, market research and commercial information and strategies for the development of business opportunities.

The address of its registered office is:

Moor Lane
Derby
Derbyshire
DE24 8BJ

2 Significant accounting policies

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

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.

Summary of disclosure exemptions

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;
- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Comparative period reconciliations for share capital;
- The requirements of IAS 24 Related Party Transactions and has, therefore, not disclosed transactions or balances with entities which form part of the Group;
- The requirements of IFRS 7 Financial Instruments Disclosures;
- Disclosures in respect of the compensation of Key Management Personnel;
- The requirements of paragraphs 10(d), 10(f), 40A, 40B, 40C, 40D, 111 of IAS 1 *Presentation of Financial Statements*.

Rolls-Royce International 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 21. 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.

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.

Key accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are as follows:

Critical accounting estimates and judgements

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Impairment of trade receivables

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing the impairment of trade and other receivables, management considers factors including the credit rating of the receivables, 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. See note 12 for the net carrying amount of the receivables and associated impairment provision.

Critical judgements in applying the Company's accounting policies

The financial statements are not considered to contain any area involving a higher degree of judgement in applying the Company's accounting policies and therefore no further consideration is required.

Rolls-Royce International Limited

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

2 Significant accounting policies (continued)

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 the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

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

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

Exemption from preparing group financial statements

The financial statements contain information about Rolls-Royce International Limited as an individual company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Rolls-Royce plc, a company incorporated in United Kingdom, which are publicly available. The address of the parent company's registered office is set out in note 23.

Rolls-Royce International Limited

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

2 Significant accounting policies (continued)

Revenue recognition

Revenue represents the amounts (excluding value added tax) derived from the provision of services to entities within the Rolls-Royce Holdings plc group ('the Group') during the year. The Company recognises revenue when performance obligations have been satisfied, which is when services have been rendered, or costs incurred, where the Company is entitled to be reimbursed, by the network of branches. This is considered to be at a point in time.

Management consider there to be two revenue streams, as follows:

1. Revenue relating to recharges for activities undertaken by Rolls-Royce International Limited's employees and is derived from costs incurred plus an agreed mark-up.
2. Revenue where the Company acts as an agent in relation to costs incurred by other Group employees (not employed by Rolls-Royce International Limited) who are on international assignment. The Company does not have exposure to significant risk and rewards associated with the rendering of the services provided by employees on assignment. Therefore, the revenue is just the commission charged on costs relating to these employees, which is predetermined based on agreements with Group entities and is often a percentage of the costs incurred.

Revenue is recognised when services have been provided to the 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 provision of services that are recognised at a point in time. Revenue in the income statement is recognised in the accounting period in which the service is rendered.

Finance income

Interest receivable is credited to the income statement using the effective interest method.

Foreign currency transactions and balances

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the entity at the rates prevailing on the reporting period date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the initial transaction dates.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Functional and presentational currency

The functional and presentational currency of the Company is Pound Sterling.

Rounding of amounts

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

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.

Rolls-Royce International Limited

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

2 Significant accounting policies (continued)

Taxation (continued)

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates taxable income.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Investments

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

Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank or in hand.

Trade receivables

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

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

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.

Financial assets

Financial assets primarily include trade and other receivables and cash and cash equivalents. Trade and other receivables are generally classified as 'held to collect' and measured at amortised cost.

Cash and cash equivalents (consisting of balances with banks) are measured at fair value through profit and loss (FVTPL).

Rolls-Royce International Limited

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

2 Significant accounting policies (continued)

Financial liabilities

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

Trade payables

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

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

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.

Rolls-Royce International Limited

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

2 Significant accounting policies (continued)

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.

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.

Defined contribution pension obligation

Payments to defined contribution schemes are charged as an expense as they fall due.

Rolls-Royce International Limited

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

2 Significant accounting policies (continued)

Share based payments

The ultimate parent company on behalf of the Company provides share-based payment arrangements to certain employees. These are principally equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant.

The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest, except where additional shares vest as a result of the Total Shareholder Return (TSR) performance condition in the Performance Share Plan.

The costs of these share-based payments are treated as a capital contribution from the parent company. Any payments made by the Company to its parent company, in respect of these arrangements, are treated as a return of this capital contribution.

Cash-settled share options (grants in the International ShareSave plan) are measured at fair value at the balance sheet date. The Company recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that will actually vest and the relative completion of the vesting period. Changes in the value of this liability are recognised as an expense for the year.

The fair values of the share-based payment arrangements are measured as follows:

- i) ShareSave plans - using the binomial pricing model;
- ii) Performance Share Plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition;
- iii) Annual Performance Related Award plan deferred shares and free shares under the Share Incentive Plan - share price on the date of the award.

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

3 Operating profit

Arrived at after charging

	2019 £ 000	2018 £ 000
Lease expense - property	-	573
Lease expense - plant and machinery	-	48
Impairment of trade receivables	-	12
Depreciation of right-of-use assets	<u>859</u>	<u>-</u>

Rolls-Royce International Limited

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

4 Finance income

	2019 £ 000	2018 £ 000
Bank interest receivable	501	111
Foreign exchange gains	261	1,196
	762	1,307

5 Finance costs

	2019 £ 000	2018 £ 000
Interest on right-of-use liabilities	16	-

6 Staff costs

The aggregate payroll costs including directors were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	6,745	5,016
Social security costs	1,346	1,112
Other pension costs	148	80
Share-based payment expenses	135	111
	8,374	6,319

Staff costs and number of employees disclosed in these financial statements relate to employees of the Company only. Employees on international assignment from other Rolls-Royce Holdings plc group companies are excluded from these financial statements.

The average number of persons employed by the Company including directors during the year, analysed by category was as follows:

	2019 No.	2018 No.
Engineering	50	33
Administration and support	37	34
	87	67

Rolls-Royce International Limited

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

7 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.

8 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	44	18

The audit fees of the Company's financial statements were paid by Rolls-Royce plc on behalf of the Company and not recharged. Nil (2018: nil) amounts were paid to the auditors for non-audit services.

9 Taxation

Tax charged in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
Group relief payable	385	409
Adjustments in respect of prior periods	(552)	(73)
	(167)	336
Foreign tax	184	108
Total current income tax	17	444
Deferred taxation		
Arising from origination and reversal of temporary differences	19	(5)
Arising from reversal of previously recognised temporary differences	(22)	2
Total deferred taxation	(3)	(3)
Tax expense in the income statement	14	441

Rolls-Royce International Limited

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

9 Taxation (continued)

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - higher than the standard rate of corporation tax in the UK) of 19.00% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	<u>1,757</u>	<u>2,067</u>
Corporation tax at standard rate 19% (2018 - 19%)	334	393
Decrease in current tax from adjustment for prior periods	(574)	(71)
Increase from effect of expenses not deductible in determining taxable profit	72	11
Increase from effect of unrelieved foreign tax	184	108
Tax (credit)/expense relating to adjustments in respect of reduction in tax rate	<u>(2)</u>	<u>-</u>
Total tax charge	<u>14</u>	<u>441</u>

The 2020 Budget announced that the UK corporation tax rate will no longer reduce to 17% from 1 April 2020 and will remain at 19%. The deferred tax asset has been calculated at 17% as this rate has been substantively enacted at the Balance Sheet date. Had the 19% been substantively enacted on or before 31 December 2019 it would have had the effect of increasing the deferred tax asset by £28,000.

Deferred tax

Deferred tax assets

	Asset £ 000
2019	
Accelerated tax depreciation	39
Other items	<u>199</u>
	<u>238</u>
2018	
Accelerated tax depreciation	48
Other items	<u>162</u>
	<u>210</u>

Rolls-Royce International Limited

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

9 Taxation (continued)

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	48	(9)	-	39
Other items	162	12	25	199
Net tax assets/(liabilities)	<u>210</u>	<u>3</u>	<u>25</u>	<u>238</u>

Other items above relate to adjustments in respect of prior periods

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	59	5	(16)	48
Other items	46	(2)	118	162
Net tax assets/(liabilities)	<u>105</u>	<u>3</u>	<u>102</u>	<u>210</u>

Rolls-Royce International Limited

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

10 Right of use assets

	Land & Buildings £ 000
Cost	
At 31 December 2018	
Impact of adopting IFRS16 (see note 21)	<u>1,620</u>
At 1 January 2019	1,620
Additions	110
Disposals	<u>(232)</u>
At 31 December 2019	<u>1,498</u>
Depreciation	
At 1 January 2019	-
Depreciation charge	859
Eliminated on disposal	<u>(232)</u>
At 31 December 2019	<u>627</u>
Carrying amount	
At 31 December 2019	<u>871</u>
At 31 December 2018	<u>-</u>

Rolls-Royce International Limited

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

11 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2019	<u>32</u>
At 31 December 2019	<u>32</u>
Accumulated impairment	
At 1 January 2018	<u>10</u>
At 31 December 2019	<u>10</u>
Carrying amount	
At 31 December 2019	<u>22</u>
At 31 December 2018	<u>22</u>

Rolls-Royce International Limited

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

11 Investments (continued)

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

All are direct shareholdings of the Company.

Company name	Share class	Address	% Holding 2019
Rolls-Royce India Limited	Ordinary	Moor Lane, Derby, DE24 8BJ	100%
Rolls-Royce (Thailand) Limited	Ordinary	900, 11th floor, Tonson Tower, Ploenchit Rd, Bangkok, Thailand	100%

Rolls-Royce International Limited

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

12 Trade and other receivables

	2019 £ 000	2018 £ 000
Amounts due from group undertakings	36,930	50,122
Amounts due from related party undertakings	330	646
Other receivables	659	745
Prepayments and accrued income	<u>10,603</u>	<u>9,287</u>
	<u>48,522</u>	<u>60,800</u>

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

Amounts due from group undertakings at 31 December 2019 include £nil thousand (2018: £35,000 thousand) short term loan made to Rolls-Royce plc. The loan is unsecured, interest-free and repayable on demand.

Amounts due from group undertakings are stated after provisions for impairment of £613 thousand (2018: £613 thousand).

13 Cash at bank and in hand

	2019 £ 000	2018 £ 000
Cash at bank	<u>5,232</u>	<u>13,568</u>

As at 31 December 2019, £76,000 (2018: £78,000) of cash was held at banks who had a credit rating below the recommended level as set by Rolls-Royce Holdings plc. Following an assessment by the Company, no provision for impairment (2018: none) has been recognised for expected credit losses in accordance with IFRS 9 *Financial Instruments*.

14 Lease liabilities

Finance leases

	2019 £ 000	2018 £ 000
Current		
Lease liabilities	<u>480</u>	<u>-</u>
Non-current		
Finance lease liabilities	<u>360</u>	<u>-</u>

Rolls-Royce International Limited

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

14 Lease liabilities (continued)

Future minimum lease payments on leases at 31 December:

	2019 £ 000	2018 £ 000
Depreciation of right-of-use assets	859	-
Interest expense (included in finance cost note 5)	16	-
Future minimum lease payments on finance leases at 31 December:		
Within one year	480	-
In one to two years	250	-
In two to five years	120	-
Total gross payments	850	-
Impact of finance expense	(10)	-
Carrying amount of liability	840	-

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.

Operating leases

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

	2019 £ 000	2018 £ 000
Within one year	-	698
In two to five years	-	996
	-	1,694

The amount of non-cancellable operating lease payments recognised as an expense during the year was £nil thousand (2018: £573 thousand).

Following transition to IFRS 16 Leases the Company no longer accounts for operating lease payments, see note 2 for further details.

Rolls-Royce International Limited

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

15 Share-based payments

During the year, the Company participated in the following share-based payment plans operated by Rolls-Royce Holdings plc:

Performance Share Plan (PSP)

Scheme description

This plan involves the award of shares to participants subject to performance conditions. Vesting of the performance shares is based on the achievement of both non-market based conditions (EPS and cash flow per share) and a market based performance condition (Total Shareholder Return – TSR) over a three-year period.

ShareSave share option plan

Scheme description

Based on a three or five year monthly savings contract, eligible employees are granted share options with an exercise price of up to 20% below the share price when the contract is entered into. Vesting of the options is not subject to the achievement of a performance target.

The plan is HM Revenue & Customs approved.

Annual Performance Related Award (APRA) plan deferred shares

Scheme description

A proportion of the APRA annual incentive scheme is delivered in the form of a deferred share award. The release of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain employed by the Company for two years from the date of the award in order to retain the full number of shares. During the two year deferral period, participants are entitled to receive dividends, or equivalent, on the deferred shares.

As share options are exercised throughout the year, the weighted average share price during the year of 906p (2018: 883p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2019 was 683p (2018: 830p). There were no exercisable options as at 31 December 2019 (2018: Nil).

16 Trade and other payables

	2019 £ 000	2018 £ 000
Trade payables	1,560	562
Accrued expenses	577	322
Amounts due to group undertakings	23,949	48,496
Amounts due to related party undertakings	1	66
Other payables	1,384	708
	<u>27,471</u>	<u>50,154</u>

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Other payables comprise of corporation tax payable, bonus and other accruals.

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

17 Provisions

	Employee benefits £ 000	Other provisions £ 000	Total £000
At 1 January 2019	285	-	285
Provisions utilised	(48)	-	(48)
Increase due to foreign exchange differences	62	-	62
Provisions added in year	181	30	211
At 31 December 2019	<u>480</u>	<u>30</u>	<u>510</u>
Non-current liabilities	<u>480</u>	<u>30</u>	<u>510</u>

The employee benefit provision relates to an employee End of Service Benefit provision associated with employees in the Abu-Dhabi branch. The benefit is paid to employees when their contract of employment comes to an end.

Included within other provisions is an interest and penalties provision made in respect of potential tax liabilities in India.

18 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 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 International Limited

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

19 Called up share capital

Allotted and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>

20 Related party transactions

Related party undertakings are joint ventures and joint operations of the Rolls-Royce Holdings plc group. EPI Europrop International GmbH is a 44% joint venture; Hong Kong Aero Engine Services Limited is a 50% joint venture; N3 Engine Overhaul Services GmbH & Co KG is a 50% joint venture; and Aero Gearbox International SAS is a 50% joint operation of the group. Related party undertakings also include a subsidiary of the group, where the group controls the entity and as a result consolidates the entity and records a non-controlling interest: Aerospace Transmission Technologies GmbH (50% ownership). The following transactions occurred between the above related parties and the Company:

Income from related party undertakings for the year ended 31 December

	2019	2018
	£ 000	£ 000
EPI Europrop International GmbH	994	965
Hong Kong Aero Engine Services Limited	137	137
Aero Gearbox International SAS	1,327	1,147
N3 Engine Overhaul Services GmbH & Co KG	(13)	-
Aerospace Transmission Technologies GmbH	173	294
Total	<u><u>2,618</u></u>	<u><u>2,543</u></u>

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

20 Related party transactions (continued)

Receivables from related party undertakings at 31 December

	2019	2018
	£ 000	£ 000
EPI Europrop International GmbH	-	361
Hong Kong Aero Engine Services Limited	12	10
Aero Gearbox International SAS	301	264
N3 Engine Overhaul Services GmbH & Co KG	-	11
Aerospace Transmission Technologies GmbH	17	-
Total	330	646

Payables to related party undertakings at 31 December

	2019	2018
	£ 000	£ 000
Aerospace Transmission Technologies GmbH	-	66
N3 Engine Overhaul Services GmbH & Co KG	1	-
Total	1	66

Rolls-Royce International Limited

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

21 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 IFRS16 on transition:

	£ 000
Operating lease commitments as reported at 31 December 2018	(1,694)
Discounted using the incremental borrowing rate at the date of initial application	74
Impact of adopting IFRS 16	(1,620)
At 1 January 2019	(1,620)
Finance lease liabilities recognised as at 31 December 2018	-
Lease liability recognised as at 1 January 2019	(1,620)
of which are:	
Current lease liabilities	(782)
Non-current lease liabilities	(838)

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

	1 January 2019
	£ 000
Land and Buildings	1,620
Total right-of-use assets	1,620

Rolls-Royce International Limited

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

21 Impact of adopting IFRS 16 Leases (continued)

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

Condensed balance sheet

	Previous accounting as at 31 December 2018	IFRS16 Impact	As at 1 January 2019
	£ 000	£ 000	£ 000
Non-current assets			
Right-of-use assets	-	1,620	1,620
Investments	22	-	22
Deferred tax assets	210	-	210
	232	1,620	1,852
Current assets			
Trade and other receivables	60,800	-	60,800
Cash at bank and in hand	13,568	-	13,568
	74,368	-	74,368
Current liabilities			
Trade and other payables	(50,154)	-	(50,154)
Borrowings and lease liabilities	-	(782)	(782)
Net current assets	24,214	(782)	23,432
Total assets less current liabilities	24,446	838	25,284
Borrowings and lease liabilities	-	(838)	(838)
Provisions for liabilities and charges	(285)	-	(285)
Net assets	24,161	-	24,161
Equity			
Called up share capital	200	-	200
Other reserves	(196)	-	(196)
Retained earnings	24,157	-	24,157
Total equity	24,161	-	24,161

Rolls-Royce International Limited

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

22 Post balance sheet events

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and the Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

In terms of the Company's financial and liquidity position in relation to COVID-19, the pandemic could cause a loss or reduction in contracts with the Company's customers which would reduce the size of the customer contract service base for the Company. The Company will continue to monitor the Company's performance during 2020 and take any mitigating actions if required to reduce the cash outflow requirements on the Company.

The Directors have assessed the conditions on the balance sheet as at 31 December 2019 and have determined that there is no material financial impact resulting in the impairment of assets.

23 Parent and ultimate parent undertaking

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

Rolls-Royce Holdings 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, N1 9FX, United Kingdom.