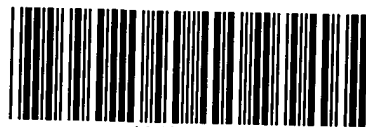

ROLLS-ROYCE GROUP PLC

**DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

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ROLLS-ROYCE GROUP PLC

COMPANY INFORMATION

DIRECTORS

James Guyette
Mark Morris (resigned 4 November 2014)
John Rishton
Colin Smith
David Smith (appointed 4 November 2014)

COMPANY SECRETARY

Pamela Coles

REGISTERED NUMBER

04706930

REGISTERED OFFICE

62 Buckingham Gate
London
SW1E 6AT

ROLLS-ROYCE GROUP PLC

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ROLLS-ROYCE GROUP PLC

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

BUSINESS REVIEW

The share price of Rolls-Royce Holdings plc has decreased by 405p during the year to 870p (2013 - 1275p) which led to a revaluation loss of £48,161 thousand (2013 - gain £59,796 thousand).

The company sold 7,770,113 (2013 - 16,714,484) Rolls-Royce Holdings plc shares, valued at £79,502 thousand (2013 - £169,810 thousand), to its parent company to satisfy share-based payments obligations. 10,370,675 (2013 - 8,195,588) Rolls-Royce Holdings plc shares valued at £101,847 thousand (2013 - £83,649 thousand) were acquired to fund its parent company's commitment to satisfying share-based payments obligations.

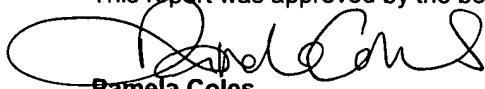
A revaluation gain of £15,879 thousand was recognised as income in the year (2013 - £51,621 thousand) upon the sale of Rolls-Royce Holdings plc shares.

Dividend income from shares in the company's parent company was £1,989 thousand (2013 - £3,040 thousand).

Dividend income from the company's subsidiary, Rolls-Royce plc, was £nil (2013 - £900,000 thousand).

This report was approved by the board on *12 February 2015*

and signed on its behalf.


Pamela Coles
Secretary

ROLLS-ROYCE GROUP PLC

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2014

The directors present their report and the financial statements for the year ended 31 December 2014.

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.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £17,805 thousand (2013 - £954,500 thousand).

A dividend of £1,500,000 thousand was paid during the year (2013 - £nil).

DIRECTORS

The directors who served during the year were:

James Guyette

Mark Morris (resigned 4 November 2014)

John Rishton

Colin Smith

David Smith (appointed 4 November 2014)

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.

DISCLOSURE OF INFORMATION TO AUDITOR

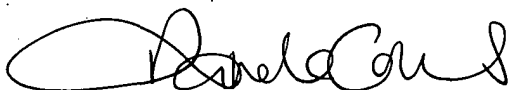
Each of the persons who are directors at the time when this Directors' report is approved has confirmed that:

- so far as that director is aware, there is no relevant audit information of which the company's auditor is 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 relevant audit information and to establish that the company's auditor is aware of that information.

AUDITOR

The auditor, KPMG LLP - Statutory Auditor, will be proposed for reappointment in accordance with section 489 of the Companies Act 2006.

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



Pamela Coles

Secretary

Date: 12 February 2015

ROLLS-ROYCE GROUP PLC

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

The directors are responsible for preparing the Strategic report, 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 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 accounting 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. 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.

INDEPENDENT AUDITOR'S 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 2014, set out on pages 5 to 14. 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 Auditor's 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 AUDITOR

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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2014 and of its profit 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 Strategic report and 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.

Jimmy Daboo (Senior statutory auditor)
for and on behalf of

KPMG LLP - Statutory Auditor

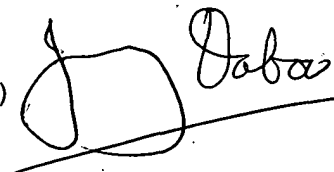
Chartered Accountants

15 Canada Square

London

E14 5GL

Date: 12 February 2015



ROLLS-ROYCE GROUP PLC

**PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £000	2013 £000
Administrative expenses		(67)	(169)
OPERATING LOSS		(67)	(169)
Transfer of revaluation of parent company shares held under trust		15,879	51,621
PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		15,812	51,452
Income from shares in group undertakings		1,989	903,040
Interest receivable and similar income		4	8
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		17,805	954,500
Tax on profit on ordinary activities	4	-	-
PROFIT FOR THE FINANCIAL YEAR		17,805	954,500

All amounts relate to continuing operations.

The notes on pages 8 to 14 form part of these financial statements.

ROLLS-ROYCE GROUP PLC

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 DECEMBER 2014**

	Note	2014 £000	2013 £000
PROFIT FOR THE FINANCIAL YEAR		17,805	954,500
Revaluation of fixed asset investments	10	<u>(48,161)</u>	<u>59,796</u>
TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR		<u>(30,356)</u>	<u>1,014,296</u>

The notes on pages 8 to 14 form part of these financial statements.

ROLLS-ROYCE GROUP PLC
REGISTERED NUMBER: 04706930

BALANCE SHEET
AS AT 31 DECEMBER 2014

	Note	£000	2014 £000	£000	2013 £000
FIXED ASSETS					
Investments	5		2,402,060		2,427,876
CURRENT ASSETS					
Debtors	6	1,230,620		1,151,149	
Cash at bank		230		295	
		<u>1,230,850</u>		<u>1,151,444</u>	
CREDITORS: amounts falling due within one year	7	<u>(1,712,703)</u>		<u>(112,878)</u>	
NET CURRENT (LIABILITIES)/ASSETS			<u>(481,853)</u>		<u>1,038,566</u>
NET ASSETS			<u><u>1,920,207</u></u>		<u><u>3,466,442</u></u>
CAPITAL AND RESERVES					
Called up share capital	8		374,534		374,534
Share premium account	9		16,028		16,028
Revaluation reserve	9		(3,713)		60,327
Capital redemption reserve	9		1,130,341		1,130,341
Profit and loss account	9		<u>403,017</u>		<u>1,885,212</u>
SHAREHOLDERS' FUNDS	10		<u><u>1,920,207</u></u>		<u><u>3,466,442</u></u>

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



David Smith
Director

Date: 12 February 2015

The notes on pages 8 to 14 form part of these financial statements.

ROLLS-ROYCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

The financial statements have been prepared on a going concern basis, 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 Going concern

The financial statements have been prepared on the going concern basis, notwithstanding the company's net current liabilities of £481,853 thousand (2013 - £1,038,566 thousand net current assets) and so is dependent for its working capital on funds provided to it by Rolls-Royce Holdings plc, the parent undertaking of the company.

Rolls-Royce Holdings plc has stated that its current policy is to ensure that the company is managed so that it maintains adequate financial resources and is in a position to meet its financial obligations arising from its normal trading activities. Based on the directors' assessment of the company's future financial retirements, the ability of Rolls-Royce Holdings plc to support the company if necessary and the statement referred to above, the directors consider that the company will have sufficient financial resources to meet its obligations for the foreseeable future, that is for at least 12 months from the date of approval of these financial statements.

1.6 Investments

Investments included in fixed assets are:

- Investments in subsidiary companies - these are held at cost less provision for impairment
- Listed investments - these are held at fair value

ROLLS-ROYCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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.

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.

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 by the company's parent company. Any payments received from subsidiary undertakings in respect of these arrangements are treated as a reduction in the investment.

2. AUDITOR'S REMUNERATION

The fees for the audit of the company financial statements were £5,000 (2013 - £5,000) and were paid by Rolls-Royce plc.

3. STAFF COSTS

The company has no employees. Directors are not employed by this company. Directors received £nil remuneration (2013 - £nil) from this company.

ROLLS-ROYCE GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

4. TAXATION

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2013 - lower than) the standard rate of corporation tax in the UK of 21.50% (2013 - 23.25%). The differences are explained below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	17,805	954,500
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.50% (2013 - 23.25%)	3,828	221,921
Effects of:		
Expenses not deductible for tax purposes	-	40
Non-taxable income	(3,842)	(221,959)
Group relief not paid for	14	(2)
Current tax charge for the year (see note above)	-	-

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

ROLLS-ROYCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

5. FIXED ASSET INVESTMENTS

The following movements occurred in the year:

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.

Revaluation losses recognised were £48,161 thousand (2013 - gain £59,796 thousand).

Disposal of listed investments to satisfy share-based payment obligations were £79,502 thousand (2013 - £169,810 thousand).

Additions of £101,847 thousand Rolls-Royce Holdings plc shares were acquired to satisfy share-based payment obligations (2013 - £83,649 thousand).

	Investments in subsidiary companies £000	Listed investments £000	Total £000
Cost or valuation			
At 1 January 2014	2,275,380	152,496	2,427,876
Additions	-	101,847	101,847
Disposals	-	(79,502)	(79,502)
Revaluations	-	(48,161)	(48,161)
At 31 December 2014	2,275,380	126,680	2,402,060
Net book value			
At 31 December 2014	2,275,380	126,680	2,402,060
At 31 December 2013	2,275,380	152,496	2,427,876

Subsidiary undertakings

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

Listed investments

The market value of the listed investments at 31 December 2014 was £126,680 thousand (2013 - £152,496 thousand).

6. DEBTORS

	2014 £000	2013 £000
Amounts owed by group undertakings	1,230,620	1,151,149

ROLLS-ROYCE GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

7. CREDITORS:

Amounts falling due within one year

	2014 £000	2013 £000
Amounts owed to group undertakings	1,712,703	112,878

8. SHARE CAPITAL

	2014 £000	2013 £000
Allotted, called up and fully paid		
1,872,669,328 (2013 - 1,872,669,328) Ordinary shares of £0.20 each	374,534	374,534
1 Ordinary A share of £0.20	-	-
	374,534	374,534

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.

Special share - the HM Government (Special Shareholder) redeemed its special share on 23rd May 2011 and was issued a special share in the company's parent company, Rolls-Royce Holdings plc.

ROLLS-ROYCE GROUP PLC

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014**

9. 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 2014	374,534	16,028	1,130,341	-	60,327	1,885,212
Profit for the year	-	-	-	-	-	17,805
Revaluation of available for sale assets	-	-	-	-	(48,161)	-
Dividend paid	-	-	-	-	-	(1,500,000)
Transfer between revaluation reserve and P/L account	-	-	-	-	(15,879)	-
At 31 December 2014	<u>374,534</u>	<u>16,028</u>	<u>1,130,341</u>	<u>-</u>	<u>(3,713)</u>	<u>403,017</u>

Revaluation losses recognised were £48,161 thousand (2013 - gain £59,796 thousand).

10. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2014 £000	2013 £000
Opening shareholders' funds	3,466,442	2,503,767
Profit for the year	17,805	954,500
Revaluation of fixed asset investments	(48,161)	59,796
Transfer between revaluation reserve and profit and loss account	(15,879)	(51,621)
Dividend paid	(1,500,000)	-
Closing shareholders' funds	<u>1,920,207</u>	<u>3,466,442</u>

11. DIVIDENDS

	2014 £000	2013 £000
Dividends paid on equity capital	<u>1,500,000</u>	<u>-</u>

ROLLS-ROYCE GROUP PLC

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

12. CONTINGENT LIABILITIES

On 6 December 2012, Rolls-Royce Holdings plc (the ultimate parent company of the company) announced that it had passed information to the Serious Fraud Office (SFO), an independent United Kingdom government department, following a request from the SFO for information about allegations of malpractice in overseas markets. On 23 December 2013, Rolls-Royce Holdings plc (RRHPLC) announced that it had been informed by the SFO that it had commenced a formal investigation. Since the initial announcement, RRHPLC has continued its investigations and is engaging with the SFO and other authorities in the UK, the USA and elsewhere in relation to the matters of concern.

The consequence of these disclosures will be decided by the regulatory authorities. It is too early to predict the outcomes, but these could include the prosecution of individuals and of the RRHPLC Group, the potential for fines, penalties or other consequences cannot currently be assessed. As the investigation is ongoing, it is not yet possible to identify the timescale in which these issues might be resolved.

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 2014 these guarantees amounted to £753,000 thousand (2013 - £750,000 thousand).

13. CONTROLLING PARTY

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

The consolidated financial statements are available to the public and may be obtained from 62 Buckingham Gate, London, SW1E 6AT.