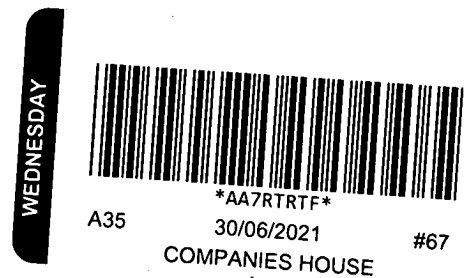


Registration number: 01305027

Rolls-Royce Power Engineering Plc

Annual Report and Financial Statements

for the year ended 31 December 2020



Rolls-Royce Power Engineering Plc

Contents

	Page(s)
Company Information	1
Strategic Report	2 - 4
Directors' Report	5 - 7
Independent Auditors' Report to the members of Rolls-Royce Power Engineering Plc	8 - 11
Income Statement	12
Statement of Comprehensive Income	13
Balance Sheet	14
Statement of Changes in Equity	15
Notes to the Financial Statements	16 - 37

Rolls-Royce Power Engineering Plc

Company Information

Company Secretary N Carroll

Registered office Moor Lane
Derby
Derbyshire
DE24 8BJ

**Independent
auditors** PricewaterhouseCoopers LLP
Chartered Accountants and Statutory
Auditors
2 Glass Wharf
Bristol
BS2 0FR

Rolls-Royce Power Engineering Plc

Strategic Report

for the year ended 31 December 2020

The Directors present their Strategic Report on Rolls-Royce Power Engineering Plc (the Company) together with the audited financial statements for the year ended 31 December 2020.

Principal activities

The principal activities of the Company are the provision of power and propulsion systems and nuclear reactor technology solutions across the Nuclear and Defence sectors.

The Company devotes a substantial amount of time and effort to research and development activities.

The Company continues to invest in technologies, products, people and capabilities with the objective of broadening and strengthening the Company's product portfolio, improving efficiency and enhancing the environmental performance of products.

Review of the year ended 31 December 2020

The financial position of the Company at 31 December 2020 is shown in the Balance Sheet on page 14, with the results shown in the Income Statement on page 12 and Statement of Comprehensive Income on page 13.

In 2020 the Company's overall revenue increased by £4,775,000 to £153,951,000 (2019: £149,176,000). In the prior year, revenue relating to discontinued operations totalled £6,879,000, revenue from continuing operations therefore increased by £11,654,000 and by 8.2%. The increase is largely as a result of an increased volume of engines on a particular contract in the defence sector compared to 2019. Offsetting the defence sector increase in revenue was a reduction in the civil nuclear sector relating to timing of contract milestones. In 2020 the Company received funding for research and development amounting to £4,056,000 (2019: £nil) from Innovate UK.

Net assets increased to £580,856,000 (2019: £566,542,000) due to profits in the year, offset by dividends paid.

Principal risks and uncertainties

The Rolls-Royce Holdings plc group has an established, structured approach to risk management which is detailed in the consolidated financial statements of Rolls-Royce Holdings plc which are available from the address in note 26. The Company acts in accordance with this policy.

The principal financial risks to which the Company is exposed are foreign currency exchange rate risk and credit risk. The Directors of the Company's ultimate parent has approved policies for the management of the foreign currency exchange rate risk and these are managed across the Rolls-Royce Holdings plc group.

Financial risk management

The following financial risks are considered key by the Directors:

Foreign currency exchange rate risk

The Company has cash flows (most significantly US dollars, followed by the euro) denominated in currencies other than the functional currency. To manage its exposures to changes in values of future foreign currency cash flows, so as to maintain relatively stable long-term foreign exchange rates on settled transactions, the Company enters into derivative forward foreign currency transactions. For accounting purposes, these derivative contracts are not designated as hedging instruments.

The Company also has exposure to the fair values of non-derivative financial instruments denominated in foreign currencies. To manage the risk of changes in these fair values, the Company enters into derivative forward foreign exchange contracts, which are designated as fair value hedges for accounting purposes.

The Company regards its interests in overseas subsidiary companies as long-term investments. The Company aims to match its translational exposures by matching the currencies of assets and liabilities.

Rolls-Royce Power Engineering Plc
Strategic Report
for the year ended 31 December 2020 (continued)

Financial risk management (continued)

Credit risk

The Company is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The effective monitoring and controlling of credit risk are key components of the Rolls-Royce Holdings plc group's risk management activities. The Rolls-Royce Holdings plc group has credit policies covering both trading and financial exposures. Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Rolls-Royce Holdings plc group credit policy. The objective of the policy is to diversify and minimise the Rolls-Royce Holdings plc group's exposure to credit risk from its treasury activities by ensuring the Rolls-Royce Holdings plc group transacts strictly with 'BBB+' or higher rated financial institutions based on pre-established limits per financial institution. At the Balance Sheet date, there were no significant concentrations of credit risk to individual customers or counterparties. The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of each financial asset, including derivative financial instruments.

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.

Business relationships:

The Company's key stakeholders are its employees, external suppliers, investors, customers and the UK Government. With regards to the nuclear division of the business, the Directors engage with suppliers and customers through formal two-way board to board meetings, management level review boards and regular performance and compliance meetings. Following these supplier meetings, an output of the various tiered reviews within the organisation and with its stakeholders is shared with the Directors at the board meetings with all actions or recommendations documented in board meeting minutes.

In addition to regular contact meetings, there are also regular performance review meetings for contracts, Board-level meetings which include top 15 key suppliers to EDF Hinckley Point C and ad hoc senior meetings. 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 2020.

The Company invests in technologies, products, people and capabilities with the objective of broadening and strengthening the Company's product portfolio, improving efficiency and enhancing the environmental performance of products. There is regular engagement within the Rolls-Royce Holdings plc group on employee-related matters, which is taken into account in the Company's decision making. 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. For further information on how the Company engages with employees please see section 'Employees' in the Directors Report on pages 6 and 7.

Rolls-Royce Power Engineering Plc
Strategic Report
for the year ended 31 December 2020 (continued)

Section 172(1) statement (continued)

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.

The Company adopts the policies and frameworks set by the Rolls-Royce Holdings plc group which include the sustainability measures set out in the Rolls-Royce Holdings plc Annual Report on pages 34 to 45. The Company is aligned to the objectives of the Rolls-Royce Holdings plc group. The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment. The end product that the nuclear business supports is a civil nuclear generating plant which contributes to carbon reduction. The Company continues to invest in technologies, products, people and capabilities with the objective of broadening and strengthening the Company's product portfolio, improving efficiency and enhancing the environmental performance of products.

Approved by the Board on 29 June 2021 and signed on its behalf by:



R A Fletcher
Director

Rolls-Royce Power Engineering Plc

Directors' Report

for the year ended 31 December 2020

The Directors present their report together with the audited financial statements for the year ended 31 December 2020.

Directors

The Directors who held office during the year were as follows:

R Fletcher

P Coles (resigned 21 July 2020)

F Dolan (appointed 21 July 2020)

Qualifying third party indemnity provisions

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

Results

The Company made £17,830,000 profit after taxation for the year (2019: £3,376,000).

Dividends

During the year the Directors recommended and paid a dividend of £4,000,000 (2019: £nil).

During the year, the Company received dividends in the sum of £nil from its subsidiary undertakings (2019: £6.1 million).

Future developments

The Company will continue to provide power and propulsion systems and nuclear reactor technology solutions across the Nuclear and Defence sectors.

Financial risk management

The details of the Company's risk management are set out in more detail on pages 2 and 3.

Going Concern

The financial statements have been prepared on a going concern basis. The directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future that is for at least 12 months from the date of approval of these financial statements.

Rolls-Royce plc, a parent undertaking, has provided written confirmation of its intention to continue to provide financial support, as necessary, for a period of at least 12 months from the date of signing these financial statements, to ensure the Company has adequate resources to maintain its operational existence and to meet its financial demands for the foreseeable future.

Research and Development

During the year the Company spent £10,218,000 on research and development (2019: £8,043,000).

COVID-19

The Company's activity remains in line with the Directors' expectations, with no material operational or financial disruption as a result of COVID-19 in the year to date. The UK government designated Rolls-Royce Holdings plc group as a critical supplier and the Company facilities remain operational, while observing all health and safety guidance.

To help keep employees safe and minimise operational disruption, the Directors have implemented a number of proactive measures which are aligned with local and national guidelines.

Rolls-Royce Power Engineering Plc
Directors' Report
for the year ended 31 December 2020 (continued)

Subsidiary Distributions

During 2018 and in prior years, as part of a Rolls-Royce Holdings plc group wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £83m. Subsequently, it has been determined that the distributions made to the Company were not strictly permissible by law as there were insufficient distributable reserves available in the dormant subsidiaries at the point the transactions occurred. In this situation, the Company is liable to repay the distributions not strictly permissible by law due to there being insufficient distributable reserves in the dormant subsidiaries of £76m.

The Company is currently in the process of reinstating the respective subsidiary undertakings to take the necessary steps to remedy this position. These subsidiaries intend to complete capital reductions during 2021 to create additional distributable reserves with the intention of relying on such reserves in making new distributions. Having received external legal advice, the Directors consider that having taken these necessary steps the risk of any liability materialising is remote.

Streamlined Energy & Carbon Reporting (SECR)

The Company is a subsidiary of the Rolls-Royce Holdings plc group and therefore the SECR disclosures required in relation to both Rolls-Royce Holdings plc and the Company have been included in the Rolls-Royce Holdings plc Annual Report on pages 38 and 39. The Rolls-Royce Holdings plc Annual Report has been prepared for the same financial year as the Company.

Customers, Suppliers and Others Statement

The Company aims to foster enduring relationships with its stakeholders as identified in the Section 172 Statement in the Strategic Report (see pages 3 and 4).

The Company's activities affect a wide range of stakeholders and the Company engages with these stakeholders and listens to their differing inputs and priorities as an everyday part of its business and uses the input and feedback to form its decision-making process. The Company utilises various engagement methods with its customers which include regular customer engagement meetings at both Director and management level.

The Company engages with UK Government officials to support the design and development of SMRs as a low carbon option for the UK electricity supply market. An example of close engagement with UK Government officials and EDF can be demonstrated during the COVID-19 pandemic. Engagement with key stakeholders such as the UK Government intensified and the Company liaised regularly with EDF to support their plans to build two new nuclear generation plants at Sizewell C as well as ensuring the maintenance of services to their operational fleet during the COVID-19 pandemic.

Employee engagement

The Rolls-Royce Holdings plc group, of which the Company is a part, 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 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 enabled managers to support employees in their careers.

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.

Rolls-Royce Power Engineering Plc

Directors' Report for the year ended 31 December 2020 (continued)

Employee engagement (continued)

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 to 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, 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 29 June 2021 and signed on its behalf by:



R A Fletcher
Director

Rolls-Royce Power Engineering Plc

Independent Auditors' Report to the members of Rolls-Royce Power Engineering Plc

Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce Power Engineering plc's financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 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, which comprise: the Balance Sheet as at 31 December 2020; the Income Statement, Statement of Comprehensive income & Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

Rolls-Royce Power Engineering Plc

Independent Auditors' Report to the members of Rolls-Royce Power Engineering Plc (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires 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 2020 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 to the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Rolls-Royce Power Engineering Plc

Independent Auditors' Report to the members of Rolls-Royce Power Engineering Plc (continued)

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to applicable Generally Accepted Accounting Practices and tax compliance legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to manipulate financial results and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions held with management and those charged with governance including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Challenging assumptions and judgements made by management for evidence of bias in determining significant accounting estimates including those related to long-term contract accounting;
- Reviewing minutes of meetings of those charged with governance;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations; and
- Identifying and testing journal entries that have unusual account combinations based on our expectations of journal postings made by the client.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

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

Use of this report

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

Rolls-Royce Power Engineering Plc

Independent Auditors' Report to the members of Rolls-Royce Power Engineering Plc (continued)

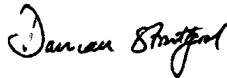
Other required reporting

Companies Act 2006 exception reporting

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

- we have not obtained 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.



Duncan Stratford (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

Date: 29 June 2021

Rolls-Royce Power Engineering Plc

Income Statement

for the year ended 31 December 2020

		2020	Continuing	Discontinued	Total
	Note	£ 000	operations	operations	2019
			2019	2019	2019
		£ 000	£ 000	£ 000	£ 000
Revenue	3	153,951	142,297	6,879	149,176
Cost of sales		<u>(114,486)</u>	<u>(110,917)</u>	<u>(4,887)</u>	<u>(115,804)</u>
Gross profit		39,465	31,380	1,992	33,372
General and administrative expenses		(7,811)	(15,883)	(1,611)	(17,494)
Research and development (net)		<u>(10,218)</u>	<u>(7,997)</u>	<u>(46)</u>	<u>(8,043)</u>
Total administrative expenses		<u>(18,029)</u>	<u>(23,880)</u>	<u>(1,657)</u>	<u>(25,537)</u>
Operating profit	4	21,436	7,500	335	7,835
Loss on disposal of tangible fixed assets		(16)	-	-	-
Dividend Income	5	-	6,053	-	6,053
Impairment of investments		<u>-</u>	<u>(5,000)</u>	<u>-</u>	<u>(5,000)</u>
Profit before interest and taxation		21,420	8,553	335	8,888
Finance income	6	926	209	52	261
Finance costs	7	<u>(707)</u>	<u>(4,658)</u>	<u>(984)</u>	<u>(5,642)</u>
Profit before taxation		21,639	4,104	(597)	3,507
Tax on profit	11	<u>(3,809)</u>	<u>(131)</u>	<u>-</u>	<u>(131)</u>
Profit for the financial year		<u>17,830</u>	<u>3,973</u>	<u>(597)</u>	<u>3,376</u>

The 2020 results were derived from continuing operations.

The notes on pages 16 to 37 form an integral part of these financial statements.

Rolls-Royce Power Engineering Plc

Statement of Comprehensive Income
for the year ended 31 December 2020

	2020 £ 000	2019 £ 000
Profit for the financial year	<u>17,830</u>	<u>3,376</u>
Total comprehensive income for the year	<u>17,830</u>	<u>3,376</u>

The notes on pages 16 to 37 form an integral part of these financial statements.

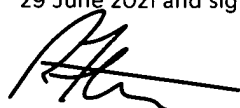
Rolls-Royce Power Engineering Plc

(Registration number: 01305027)

Balance Sheet as at 31 December 2020

	Note	2020 £ 000	2019 £ 000
Non-current assets			
Intangible assets	12	13,191	17,283
Property, plant and equipment	13	6,445	5,493
Investments	14	73,219	73,219
Deferred tax asset	22	2,216	1,807
		<u>95,071</u>	<u>97,802</u>
Current assets			
Inventories	15	54,289	39,961
Trade and other receivables	16	697,641	674,111
Contract Assets	20	17,341	13,927
Cash at bank and in hand		<u>487</u>	<u>244</u>
		769,758	728,243
Current liabilities			
Trade and other payables	19	(196,604)	(170,196)
Contract liabilities	20	(60,261)	(64,980)
Provisions for liabilities and charges	21	(6,008)	(4,327)
Net current assets		<u>506,885</u>	<u>488,740</u>
Total assets less current liabilities		<u>601,956</u>	<u>586,542</u>
Non-current liabilities			
Provisions for liabilities and charges	21	<u>(21,100)</u>	<u>(20,000)</u>
Net assets		<u>580,856</u>	<u>566,542</u>
Equity			
Called up share capital	24	379,100	379,100
Share premium reserve		24,055	24,055
Capital redemption reserve		4,015	4,015
Retained earnings		<u>173,686</u>	<u>159,372</u>
Total equity		<u>580,856</u>	<u>566,542</u>

The financial statements on pages 12 to 37 were approved and authorised for issue by the Directors on 29 June 2021 and signed on its behalf by:



R A Fletcher
Director

The notes on pages 16 to 37 form an integral part of these financial statements.

Rolls-Royce Power Engineering Plc

Statement of Changes in Equity for the year ended 31 December 2020

	Called up share capital	Share premium reserve	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2020	379,100	24,055	4,015	159,372	566,542
Profit for the year	-	-	-	17,830	17,830
Total comprehensive income	-	-	-	17,830	17,830
Share based payment transactions	-	-	-	497	497
Related tax movements	-	-	-	(13)	(13)
Dividends paid *	-	-	-	(4,000)	(4,000)
At 31 December 2020	379,100	24,055	4,015	173,686	580,856

* On 26 June 2020 the Company paid a dividend of £4,000,000 (0.26p per share) to its shareholders.

	Called up share capital	Share premium reserve	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2019	379,100	24,055	4,015	155,551	562,721
Profit for the year	-	-	-	3,376	3,376
Total comprehensive income	-	-	-	3,376	3,376
Share based payment transactions	-	-	-	535	535
Related tax movements	-	-	-	(90)	(90)
At 31 December 2019	379,100	24,055	4,015	159,372	566,542

The notes on pages 16 to 37 form an integral part of these financial statements.

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020

1 General information

The Company is an unlisted public company incorporated in England.

The principal activity of the Company is the provision of power and propulsion systems and nuclear reactor technology solutions across the Nuclear and Defence sectors.

The address of its registered office is:

Moor Lane
Derby
Derbyshire
DE24 8BJ

2 Significant accounting policies

Basis of preparation

The financial statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The financial statements have been prepared under the historical cost convention as amended by the revaluation of certain property plant and equipment and derivative financial instruments, in accordance with the Companies Act 2006.

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

- The following paragraphs of IAS 1 *Presentation of financial statements*:
 - 10(d) (statement of cash flows)
 - 16 (statement of compliance with all IFRS)
 - 111 (statement of cash flows information)
 - 134-136 (capital management disclosures);
- IAS 7 *Statement of cash flows*;
- Paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- Paragraph 38 of IAS 1 *Presentation of financial statements* – comparative information requirements in respect of:
 - paragraph 73(e) of IAS 16 *Property, plant and equipment*; and
 - paragraph 118(e) of IAS 38 *Intangible assets* (reconciliations between the carrying amount at the beginning and end of the period);
- The requirements of IAS 24 *Related Party Transactions* and has, therefore, not disclosed transactions between the Company and other entities part of a wholly owned group;
- Paragraph 17 of IAS 24 *Related party disclosures* (key management compensation);;
- The effects of new but not yet effective IFRSs.

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

Amounts presented have been rounded to the nearest thousand pounds.

New standards, amendments and IFRIC interpretations

There are no amendments to accounting standards, no new standards or IFRIC interpretations that are effective for the year ended 31 December 2020 that have a material impact on the Company's financial statements.

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Subsidiary distributions

During 2018 and in prior years, as part of a Rolls-Royce Holdings plc group wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £83m. Subsequently, it has been determined that the distributions made to the Company were not strictly permissible by law as there were insufficient distributable reserves available in the dormant subsidiaries at the point the transactions occurred. In this situation, the Company is liable to repay the distributions not strictly permissible by law due to there being insufficient distributable reserves in the dormant subsidiaries of £76m.

The Company is currently in the process of reinstating the respective subsidiary undertakings to take the necessary steps to remedy this position. These subsidiaries intend to complete capital reductions during 2021 to create additional distributable reserves with the intention of relying on such reserves in making new distributions. Having received external legal advice, the Directors consider that having taken these necessary steps the risk of any liability materialising is remote.

Going concern

The financial statements have been prepared on a going concern basis. The directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future that is for at least 12 months from the date of approval of these financial statements.

Rolls-Royce plc, a parent undertaking, has provided written confirmation of its intention to continue to provide financial support, as necessary, for a period of at least 12 months from the date of signing these financial statements, to ensure the Company has adequate resources to maintain its operational existence and to meet its financial demands for the foreseeable future.

Exemption from preparing consolidated financial statements

The financial statements contain information about the Company as an individual Company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of 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 26.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements require the use of certain critical estimates. It also requires the Directors to exercise their judgements 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:

Key accounting estimates and assumptions

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 addressed below.

Inventory valuation and provisioning

Inventory valuation is based upon all costs of production contained within the inventory management system. The Directors review the carrying value of inventory on a periodic basis and make provisions against the carrying value of inventory where they consider the realisable value to be lower than cost. Where inventory is identified as being obsolete a full provision is applied, where inventory is identified as slow moving based upon a review of the level of future demand, a provision for 50% of its carrying value is applied. As at 31 December 2020, the provision for impairment against the inventory value was £33,996,000. (See note 15).

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Key accounting estimates and assumptions (continued)

Healthcare liability provision

This provision relies on assumptions and estimates used by the external actuaries in calculating the likely provision required for industrial diseases liabilities. These assumptions include discount rates, assessment of inflation and the number of future claims (See note 21).

Long term contracts

The Company has long-term contracts that fall into different accounting periods and which can extend over longer periods. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess the pattern of activity and the costs to be incurred over the term of the contracts and escalation of revenue and costs. The estimates take account of the inherent uncertainties, constraining the expected level of revenue as appropriate.

Critical accounting judgements in applying the entities accounting policies

Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined pension scheme with other companies in the Rolls-Royce Holdings plc group. In the judgement of the Directors, the Company does not have sufficient information on the plan assets and liabilities to be able to reliably account for its share of the defined benefit obligations and plan assets and therefore the scheme is accounted for as a defined contribution scheme.

Provisions

The Company holds provisions in respect of certain obligating events that have created a legal or constructive obligation as a result of past activity, the settlement of which is expected to result in an outflow of resources embodying economic benefits. The Directors make judgments as necessary relating to the likelihood of realisation and timing of outflow.

Principal accounting policies

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represent amounts receivable for goods and services supplied, stated net of value added taxes.

Revenue is recognised when control of goods and services is transferred to a customer. A five-step recognition model is used to apply the standard as follows: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenue when (or as) each performance obligation is satisfied. The revenue of the Company come from the sale of goods that are recognised at a point in time and also over time. Sales of standard original equipment (OE) in the Income Statement are recognised by the Company when control of the goods has been transferred, being when the customer takes possession of the goods and that all performance obligations have been fulfilled. In the case of long term contracts, revenue is recognised based upon the level of costs incurred compared to the overall costs of the contracts.

The Company has elected to use the practical expedient not to adjust revenue for the effect of financing components where the expectation is that the period between the transfer of goods and services to customers and the receipt of payment is less than a year.

Sales of services and OE specifically designed for the contract are recognised by reference to the completion of the performance obligations provided the outcome of contracts can be assessed with reasonable certainty.

Where sales are made with a right of return, revenue is recognised only to the extent that the Company does not expect to refund the sale. Revenue received in excess of this is recognised as a refund liability, included in other payables.

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Revenue (continued)

Long term contracts

The amount of profit attributable to the stage of completion of a long term contract is recognised when the outcome of the contract can be foreseen with reasonable certainty. Revenue for such contracts is stated at the cost appropriate to their stage of completion plus attributable profits, less amounts recognised in previous years. Provision is made for any losses as soon as they are foreseen.

Discontinued Operations

Results relating to businesses that have been disposed during the current and prior year are disclosed as discontinued operations with the remaining elements being disclosed as continuing operations.

Finance income and costs

Interest receivable/payable is credited/charged 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 Company 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.

Tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

Property, plant and equipment

Property, plant and equipment assets are stated at cost less accumulated depreciation and any provision for impairment in value.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Depreciation

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives.

Asset class

Freehold Land and buildings

Assets under construction

Short term Leasehold Property

Plant & machinery

Depreciation method and rate

15 to 45 years. No depreciation is provided on freehold land.

No depreciation is provided on assets in the course of construction.

Lower of advisors' estimates or period of lease.

5 to 25 years.

Intangible assets

The cost of acquiring software that is not specific to an item of property, plant and equipment is classified as an intangible asset and amortised over its useful economic life, up to a maximum of 20 years.

Research and development

The charge to the income statement consists of research and development expenditure incurred in the year, excluding known recoverable costs on contracts, contributions to shared engineering programmes and application engineering. Application engineering expenditure, incurred in the adaptation of existing technology to new products, is capitalised as internally generated intangible asset only if it meets strict criteria, and amortised over the programme life, up to a maximum of ten years, where both the technical and commercial risks are considered to be sufficiently low.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Inventories

Inventory and work in progress are valued at the lower of cost and net realisable value on a first-in, first-out basis. Cost comprises direct materials and, where applicable, direct labour costs and those overheads, including depreciation of property, plant and equipment, that have been incurred in bringing the inventory to their present location and condition. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Financial assets and liabilities

Classification

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. Financial assets primarily comprise of trade and other receivables.

Impairment of financial assets

In accordance with IFRS 9, the Company has adopted the simplified approach to provide for ECLs, measuring the lifetime expected credit loss at a probability weighted amount utilising credit ratings or internal risk assessments. 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. It is not necessary for a credit event to have occurred before credit losses are recognised.

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Financial assets and liabilities (continued)

Financial liabilities

Financial liabilities primarily consist of trade and other payables and borrowings.

- Derivatives are classified and measured at fair value through the Income Statement;
- All other financial liabilities are classified and measured at amortised cost.

Contract assets and liabilities

Contract assets, mainly comprising of accrued income, primarily relate to the Company's right to consideration for work completed but not yet invoiced at the reporting date in accordance with IFRS 15. Contract liabilities, mainly comprising of deferred income, primarily relate to the consideration received from customers in advance of transferring goods or services.

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.

Cash and cash equivalents

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

Dividends

Dividends paid are recognised through equity on the earlier of their approval by the Company's Directors or payment.

Dividends received are recognised in the Income Statement on the date payment of such is received.

Defined contribution pension obligation

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay.

The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 Employee Benefits, accounts for the scheme as if it were a defined contribution scheme.

As a result the amount charged to the Income Statement represents the contributions payable to the scheme in respect of the accounting period.

Further disclosure relating to the scheme is given in the consolidated financial statements of Rolls-Royce Holdings plc, which can be obtained from the address included in note 26 in these financial statements.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

2 Significant accounting policies (continued)

Share based payments

The parent company on behalf of the Company provides share-based payment arrangements to certain employees. These are 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.

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 excluding expected dividends.

Government grants

Government grants received are recognised in the Income Statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within other liabilities and released to match the related expenditure. Amounts recognised in the current year are disclosed in note 4.

3 Revenue

A geographical analysis of revenue is presented as follows:

	2020 Total	2019 Continuing	2019 Discontinued	2019 Total
	£ 000	£ 000	£ 000	£ 000
United Kingdom	108,900	100,143	4,663	104,806
Rest of Europe	142	394	1,829	2,223
North America	-	-	387	387
Middle East & Africa	43,937	41,255	-	41,255
Central & South America	-	505	-	505
Australasia & Pacific	972	-	-	-
	153,951	142,297	6,879	149,176

Revenue is split by sale of goods and sale of services below:

	2020 Total	2019 Continuing	2019 Discontinued	2019 Total
	£ 000	£ 000	£ 000	£ 000
Original equipment (sales)	100,213	88,106	4,392	92,498
Aftermarket sales (services)	53,738	54,191	2,487	56,678
	153,951	142,297	6,879	149,176

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

4 Operating profit

Arrived at after charging/(crediting)

	2020 £ 000	2019 £ 000
Depreciation expense	567	741
Amortisation of intangibles	4,008	4,491
Research and development cost	10,218	8,043
Reversal of impairment of trade receivables	(1,720)	(682)
Reversal of impairment of inventory	(3,504)	(1,685)
Inventory recognised as an expense	87,785	75,063

During the year the Company recognised funding from Innovate UK, a Government body, of £4,056,000 (2019: £nil) offsetting the research and development cost.

5 Dividend Income

	2020 £ 000	2019 £ 000
Dividend income from group undertakings	–	6,053

6 Finance income

	2020 £ 000	2019 £ 000
Interest receivable and similar income	27	261
Foreign exchange gains	868	–
Fair value gains on foreign currency contracts	31	–
	926	261

7 Finance costs

	2020 £ 000	2019 £ 000
Foreign exchange losses	–	1,435
Impairment of loans due to group undertakings	641	4,207
Other finance costs	66	–
	707	5,642

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

8 Staff costs

The aggregate payroll costs were as follows:

	2020 £ 000	2019 £ 000
Wages and salaries	18,790	24,330
Social security costs	2,394	3,409
Pension and other post-employment benefit costs	2,788	3,540
Share-based payment expenses	497	535
	<u>24,469</u>	<u>31,814</u>

The monthly average number of persons employed (including Directors) by the Company during the year, analysed by category was as follows:

	2020 No.	2019 No.
Nuclear	170	191
Defence	161	221
	<u>331</u>	<u>412</u>

9 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.

10 Auditors' remuneration

	2020 £ 000	2019 £ 000
Audit of the financial statements	<u>115</u>	<u>106</u>

The fee for the audit of these financial statements are shown above and were borne by the parent company. £nil (2019: £nil) was paid to the Company's auditors for non-audit services.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

11 Tax on profit

Tax charged in the income statement:

	2020 £ 000	2019 £ 000
Current tax		
UK corporation tax	-	-
UK corporation tax adjustments to prior periods	229	65
Foreign tax	4	8
	<u>233</u>	<u>73</u>
Group relief payable		
Group relief	3,998	1,257
Deferred taxation		
Origination and reversal of timing differences	(4)	(69)
Adjustments in respect of prior periods	(335)	(1,130)
Adjustments in respect of an increase in the tax rate	(83)	-
Total deferred taxation	<u>(422)</u>	<u>(1,199)</u>
Tax expense in the income statement	<u>3,809</u>	<u>131</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2019 - lower than the standard rate of corporation tax in the UK) of 19% (2019 - 19%).

The differences are reconciled below:

	2020 £ 000	2019 £ 000
Profit before tax	<u>21,639</u>	<u>3,507</u>
Corporation tax at standard rate	4,112	666
Adjustments to tax charge in respect of prior periods	(106)	(1,065)
Expenses not deductible for tax purpose	(118)	515
Increase arising from overseas tax suffered	4	8
Adjustments in respect of an increase in the tax rate	(83)	-
Deferred tax expense from unrecognised temporary difference from a prior period	<u>-</u>	<u>7</u>
Total tax charge	<u>3,809</u>	<u>131</u>

The Spring Budget 2020 announced that the UK corporation tax rate would remain at 19% rather than reducing to 17% from 1 April 2020. The new law was substantively enacted on 17 March 2020. The prior year deferred tax asset was calculated at 17%, as this was the enacted rate at the 2019 balance sheet date as the 19% rate has been substantively enacted before 31 December 2020, the deferred tax asset has been re-measured at 19%. The resulting credit of £83k has been recognised in the income statement.

The Spring 2021 Budget announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The deferred tax liability has been calculated at 19% as this rate has been substantively enacted at the Balance Sheet date. Had the 25% been substantively enacted on or before 31 December 2020 it would have had the effect of increasing the deferred tax asset by £352k.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

12 Intangible assets

	Development expenditure £ 000	Software £ 000	Total £ 000
Cost			
At 1 January 2020	59,991	1,164	61,155
Additions	-	398	398
Disposals	-	(482)	(482)
At 31 December 2020	59,991	1,080	61,071
Accumulated amortisation			
At 1 January 2020	43,798	74	43,872
Charge for the year	4,000	8	4,008
At 31 December 2020	47,798	82	47,880
Net book value			
At 31 December 2020	12,193	998	13,191
At 31 December 2019	16,193	1,090	17,283

Software disposal relates to a naval software application no longer being pursued by the Company.

The retained software comprises software specific to marine military installations now in use in the defence sector. Amortisation is on a straight line basis over 5 years with 1.5 years to run and is recognised in general and administrative expenses in the Income Statement.

Development expenditure mainly comprises the adaptation of certain gas turbines for marine use in the defence sector. The assets are being amortised over 15 years on a straight line basis with 3 years left. Amortisation is recognised in general and administrative expenses in the Income Statement.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

13 Property, plant and equipment

	Land and buildings Freehold £ 000	Short term Leasehold Property £ 000	Plant & machinery £ 000	Assets under construction £ 000	Total £ 000
Cost					
At 1 January 2020	719	594	19,770	921	22,004
Additions	571	-	310	659	1,540
Disposals	-	-	(23)	-	(23)
At 31 December 2020	1,290	594	20,057	1,580	23,521
Depreciation					
At 1 January 2020	128	88	16,295	-	16,511
Charge for the year	28	29	510	-	567
Eliminated on disposal	8	-	(10)	-	(2)
At 31 December 2020	164	117	16,795	-	17,076
Carrying amount					
At 31 December 2020	1,126	477	3,262	1,580	6,445
At 31 December 2019	591	506	3,475	921	5,493

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

14 Investments

Subsidiaries

	£ 000
Cost	
At 1 January 2020	142,319
At 31 December 2020	142,319
Impairment	
At 1 January 2020	69,100
At 31 December 2020	69,100
Carrying amount	
At 31 December 2020	73,219
At 31 December 2019	73,219

In accordance with the requirements of IAS 36 Impairment of Assets, the carrying value of the Company's investments has been assessed. After having performed an impairment test comparing against net book value at 31 December 2020, an impairment charge of £Nil was required during the year (2019: £5 million).

During prior years, as part of a Rolls-Royce Group wide corporate simplification exercise, the following entities, which were wholly subsidiaries of the Company, were struck off (See Note 2 'Subsidiary distributions' for more information):

A.P.E. - Allen Gears Limited
 Allen Power Engineering Limited
 John Thompson Limited
 NEI Overseas Holdings Limited
 NEI Services Limited
 Reyrolle Belmos Limited
 Rolls-Royce Industrial Power Investments Limited
 Spare IPG (18) Limited
 Spare IPG 27 Limited

Prior to strike off, the investment values of £46m held by the Company in the above subsidiaries were fully impaired, and the corresponding intercompany payables were waived.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

14 Investments (continued)

***indicates a direct shareholding by the Company

The following were subsidiary undertakings / participating interests of the Company as at 31 December 2020:

Company name	Share class	Address	% Holding 2020
Amalgamated Power Engineering Ltd***	Ordinary Deferred	Derby*	100%
CA Parsons & Company Ltd***	Ordinary	Derby*	100%
Derby Specialists Fabrications Ltd***	Ordinary	Derby*	100%
Heaton Power Ltd***	Ordinary	Derby*	100%
John Thompson Cochran Ltd***	Ordinary and 6% Cumulative Preference	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, KY11 9JT	100%
NEI International Combustion Ltd	Ordinary	Derby*	100%
NEI Mining Equipment Ltd*	Ordinary	Derby*	100%
NEI Nuclear Systems Ltd*	Ordinary	Derby*	100%
NEI Parsons Ltd*	Ordinary	Derby*	100%
NEI Peebles Ltd*	Ordinary	Derby*	100%
NEI Power Projects Ltd*	Ordinary	Derby*	100%
Rolls-Royce Industrial & Marine Power Ltd***	Ordinary	Derby*	100%
Rolls-Royce Industrial Power (India) Ltd***	Ordinary	Derby*	100%
Rolls-Royce Industrial Power Engineering (Overseas Projects) Ltd***	Ordinary	Derby*	100%
Spare IPG20 Ltd***	Ordinary	Derby*	100%
Spare IPG21 Ltd***	Ordinary	Derby*	100%
Spare IPG24 Ltd***	Ordinary	Derby*	100%
Spare IPG32 Ltd***	Ordinary and 7.25% Cumulative Preference	Derby*	100%
Spare IPG4 Ltd*	Ordinary	Derby*	100%
The Bushing Company Ltd*	Ordinary	Derby*	100%

*Derby refers to Moor Lane, Derbyshire, England, DE24 8BJ

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

14 Investments (continued)

*** indicates a direct shareholding by the Company

Joint ventures

Details as at 31 December 2020 are as follows:

Company name	Share class	Address	% Holding 2020
Clarke Chapman Portia Port Services Ltd***	A Ordinary	Maritime centre, Port of Liverpool, Liverpool L211LA	50%
UK Nuclear Restoration Ltd***	Ordinary	Booths Park, Chelford rd, Knutsford, WA16 8QZ	20%

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

15 Inventories

	2020 £ 000	2019 £ 000
Work in progress	23,366	4,320
Finished goods and goods for resale	30,923	35,641
	<u>54,289</u>	<u>39,961</u>

There is no significant difference between replacement cost of work in progress and finished goods for resale and their carrying amounts.

Inventories are stated after provisions for impairment of £33,996,000 (2019: £37,500,000). During the year there was a reversal of impairment of £3,504,000, mostly relating to increased forecasted parts usage following additional orders, coupled with a reduction in certain standard naval part costs leading to a reduction in the provision required.

16 Trade and other receivables

	2020 £ 000	2019 £ 000
Trade receivables	12,479	18,491
Amounts owed by group undertakings	685,033	651,854
Other receivables	129	3,766
	<u>697,641</u>	<u>674,111</u>

Trade receivables are stated after provisions for impairment of £35,000 (2019: £1,755,000). During the year there was a reversal of £1,720,000 provision, mainly relating to receipt of amounts due previously provided for and as a result of the reduction in amounts owed.

Contract assets relate to amounts recoverable on long term contracts, mainly in the Defence sector.

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand. Amounts owed by group undertakings are stated after provisions for expected credit loss of £5,114,000 (2019: £4,300,000).

Rolls-Royce Power Engineering Plc
Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

17 Pension and other schemes

The Company is a participating employer in the Rolls-Royce UK Pension Fund which is a multi-employer defined benefit scheme. The assets of the scheme are held in multiple separate funds administered by trustees and invested independently of the finances of the Group. The scheme is funded by annual contributions from the Company and scheme members.

As at 31 December 2020 the Rolls-Royce UK Pension Fund is £883m in surplus (2019: £1,141m surplus).

In accordance with IAS 19 Employee Benefits, the net defined benefit cost is recognised in the financial statements of Rolls-Royce plc, the Group entity that is legally the sponsoring employer for the plan. This Company has recognised a cost of £1,704,000 (2019: £2,526,000) representing its contributions paid to the Group for the period. On the 29 July 2020, the Group announced a consultation with the active members of the UK scheme on a proposal to close the scheme to future accrual on 31 December 2020. This consultation was concluded and the closure of the scheme was confirmed. As such, the Company expects to have a material reduction in contributions in 2021.

The Company also operates a defined contribution scheme for employees. The pension cost for the year was £1,084,000 (2019: £1,114,000) and there were no outstanding or prepaid contributions at 31 December 2020 (2019: £nil).

The IAS 19 disclosure relating to the schemes is given in the Group financial statements of Rolls-Royce Holdings plc which are publicly available from the address disclosed in note 26.

18 Shared-based payments

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

Long Term Incentive Plan (LTIP)

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 203p (2019 adjusted: 311p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2020 was 111p (2019 adjusted: 234p). There were no exercisable options as at 31 December 2020 (2019: Nil).

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements

for the year ended 31 December 2020 (continued)

18 Shared-based payments (continued)

Share options outstanding:

	ShareSave	ShareSave
	No. (Thousand)	Weighted average remaining contractual life Years
At 31 December 2020		
200p - 299p	2,141	3.5
300p - 399p	-	-
	<u>2,141</u>	<u>3.5</u>
	ShareSave	ShareSave
	No. (Thousand)	Weighted average remaining contractual life Years
At 31 December 2019		
600p - 699p	1,064	3.60
700p - 799p	149	2.20
900p - 999p	1	-
	<u>1,214</u>	<u>3.40</u>

The range of exercise prices of options outstanding at 31 December 2020 was between 212p and 332p (2019 - 617p and 962p). The weighted average exercise price of shares in 2020 has been re-based following a rights issue by the Company's ultimate parent entity Rolls-Royce Holdings plc in November 2020.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements
for the year ended 31 December 2020 (continued)

19 Trade and other payables

Amounts due within one year:

	2020 £ 000	2019 £ 000
Trade payables	26,971	9,271
Accruals and deferred income	11,462	18,255
Amounts owed to group undertakings	147,869	121,494
Social security and other taxes	1,573	711
Other payables	8,729	20,465
	<u>196,604</u>	<u>170,196</u>

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

20 Contract Assets and Contract Liabilities

	2020 £ 000	2019 £ 000
Contract Assets	<u>17,341</u>	<u>13,927</u>
Contract Liabilities	<u>60,261</u>	<u>64,980</u>

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

21 Provisions for liabilities

	Warranties and guarantees	Contract Loss	Restructuring	Other provisions	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2020	722	2,281	124	21,200	24,327
Additional provisions	2,066	2,824	–	298	5,188
Decrease in existing provisions	(152)	(2,057)	–	–	(2,209)
Amounts utilized	–	–	–	(198)	(198)
At 31 December 2020	2,636	3,048	124	21,300	27,108
Non-Current liabilities	–	–	–	21,100	21,100
Current liabilities	2,636	3,048	124	200	6,008

Warranties and guarantees

Warranty and guarantee provisions are made with respect to replacing parts primarily relating to products sold and generally cover a period of up to three years.

Contract loss

Provisions for contract losses are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected revenue and are generally expected to be utilised over the term of the customer contracts, typically within one to five years.

Other

Other provisions primarily relates to employer healthcare liability claims as a result of an historic insolvency of the previous provider and also includes numerous liabilities with varying expected utilisation rates.

Restructuring

Restructuring provisions are made for Rolls-Royce group approved, formal restructuring programmes where the restructuring has either commenced or has been publicly announced. Included is the group-wide restructuring programme announced on 14 June 2018, which is an on-going multi-year restructuring programme across the business and reflects the severance costs as well as the consultancy costs that will help deliver the planned reductions. This provision is expected to be utilised over the next year.

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

22 Deferred Tax Asset

Deferred tax

Deferred tax assets and liabilities

	Asset	Liability	Net deferred tax
	£ 000	£ 000	£ 000
2020			
Accelerated tax depreciation	1,326	–	1,326
Amortisation	–	(233)	(233)
Other items	1,123	–	1,123
	<u>2,449</u>	<u>(233)</u>	<u>2,216</u>

	Asset	Liability	Net deferred tax
	£ 000	£ 000	£ 000
2019			
Accelerated tax depreciation	788	–	788
Amortisation	–	(278)	(278)
Other items	1,297	–	1,297
	<u>2,085</u>	<u>(278)</u>	<u>1,807</u>

Deferred tax movement during the year:

	At 1 January 2020 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	788	538	–	1,326
Amortisation	(278)	45	–	(233)
Other items	1,297	(161)	(13)	1,123
Net tax assets/(liabilities)	<u>1,807</u>	<u>422</u>	<u>(13)</u>	<u>2,216</u>

Deferred tax movement during the prior year:

	At 1 January 2019 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	(253)	1,041	–	788
Amortisation	(348)	70	–	(278)
Other items	1,299	88	(90)	1,297
Net tax assets/(liabilities)	<u>698</u>	<u>1,199</u>	<u>(90)</u>	<u>1,807</u>

Rolls-Royce Power Engineering Plc

Notes to the Financial Statements for the year ended 31 December 2020 (continued)

23 Contingent liabilities

In January 2017, after full cooperation, the Rolls-Royce Holdings plc Group ('the 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 DoJ was dismissed by the US District Court on 19 May 2020. Certain 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 against the Group or individuals. In addition, the Group could still be affected by actions from customers and customers' financiers. The Directors are not currently aware of any matters 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.

24 Called up share capital

	2020		2019	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £0.25 each	1,516,398	379,100	1,516,398	379,100

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

Subject to any rights or restrictions attached to any shares, on a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being themselves a member entitled to vote, shall have one vote and on a poll every member shall have one vote for every share of which they are the holder. The Company may declare dividends by ordinary resolution in accordance with the respective rights of members, but no dividend should exceed the amount recommended by the Directors.

25 Related party transactions

Summary of transactions with joint ventures

There were no balances payable or receivable as at 31 December 2020 and 31 December 2019.

26 Parent and ultimate parent undertaking

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

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. Rolls-Royce plc is the parent undertaking of the smallest group to consolidate these financial statements.

Both sets of financial statements are available upon request from Kings Place, 90 York Way, London, United Kingdom, N1 9FX.



Rolls-Royce Power Engineering plc
Moor Lane
Derby DE24 8BJ
United Kingdom

Registrar of Companies
Companies House
Crown Way
Cardiff
CF14 3UZ

29 June 2021

Dear Sirs,

Rolls-Royce Power Engineering plc
Company No. 01305027

Please find enclosed a signed copy of the Rolls-Royce Power Engineering plc financial statements for the year ended 31 December 2020 (Financial Statements) for filing at Companies House.

I would be grateful if you could acknowledge receipt of the Financial Statements by stamping the enclosed copy of this covering letter and returning in the stamped addressed envelope provided.

Yours faithfully,

Jessica Haynes
Corporate Governance Manager