Registration number: 01305027

Rolls-Royce Power Engineering plc

Annual Report and Financial Statements

for the year ended 31 December 2021

Rolls-Royce Power Engineering plc

Contents

Rolls-Royce Power Engineering plc

Company Information

Directors	Fiona Dolan David Smith
Secretary	Nicola Carroll
Registered number	01305027
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 2021

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 2021.

Principal activities

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

The Company devotes 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.

Business review

The financial position of the Company at 31 December 2021 is shown in the Balance Sheet on page 13, with the results shown in the Income Statement on page 11 and Statement of Comprehensive Income on page 12.

In 2021 the Company's overall revenue increased by £5,865,000 to £159,816,000 (2020: £153,951,000). The increase is largely as a result of an increased volume of engines on a particular contract in the defence sector compared to 2020 offset by a reduction in Civil Nuclear revenue due to changes in estimated on long-term contracts. In 2021 the Company received funding for research and development amounting to £3,684,000 (2020: £4,056,000) from Innovate UK. Loss before tax of £4,783,000 (2020: profit before tax of £21,639,000) is as a result of changes in estimates on long-term contracts which has resulted in the recognition of a contract loss provision, a reversal in the amount of cumulative revenue recognised and impacted the margin on the contract. See note 2 for further detail.

During the year, research and development activities relating to small modular reactors (SMR) were transferred to Rolls-Royce SMR Limited. Approximately 160 employees associated with these activities and property, plant and equipment at a net book value of £76,000 were transferred in November 2021. As a result, the level of research and development expenditure, and associated government grants, is expected to decrease in the future.

Net assets decreased to £577,675,000 (2020: £580,856,000) as a result of losses in the year.

Key performance indicators

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

Principal risks and uncertainties

The Rolls-Royce Holdings plc group (the Group) has an established, structured approach to risk management which is detailed in the consolidated Financial Statements of Rolls-Royce Holdings plc which are publicly 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 Group.

Climate Change

The Directors have considered the potential impact of climate change when preparing the Financial Statements and whether climate change should be considered to be a principal risk to the Company. The Company operates as part of the Group, which recognises the urgency of the climate challenge and has committed to net zero carbon by 2050. The principal risk to meeting these commitments is the need to transition products and services to a lower carbon economy.

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

Section 172(1) statement (continued)

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 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 2021.

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 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 page 5.

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 Group company, the Company complies and acts in accordance with the Group 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 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 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.

Climate-related corporate reporting

The Company adopts the policies and frameworks set by the 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 Group. The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment.

Streamlined Energy & Carbon Reporting (SECR)

The Company is a subsidiary of the 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 page 212. The Rolls-Royce Holdings plc Annual Report has been prepared for the same financial year as the Company.

Approved by the Board on 26 September 2022 and signed on its behalf by:

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Fi Dolan

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Fiona Dolan
Director

Rolls-Royce Power Engineering plc

Directors' Report
for the year ended 31 December 2021

The Directors present their Directors' Report on the Company together with the audited Financial Statements for the year ended 31 December 2021.

Directors
The Directors who held office during the year and up to the date of signing the Annual Report and Financial Statements were as follows:

Fiona Dolan

Robert Fletcher (resigned 30 June 2021)

David Smith (appointed 4 August 2021)

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 the approval of the Annual Report and Financial Statements.

Results and dividends
The Company made £3,136,000 loss after taxation for the year (2020: £17,830,000 profit after taxation). The net assets of the Company are £577,675,000 (2020: £580,856,000).

During the year the Directors did not recommended payment of a dividend (2020: £4,000,000).

Future developments
The Company will continue to provide power and propulsion systems and nuclear reactor support systems across the Nuclear and Defence sectors.

Research and Development
During the year the Company had net expenditure of £13,022,000 on research and development (2020: £10,218,000).

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.

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 Group's risk management activities. The 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 Group credit policy. The objective of the policy is to diversify and minimise the Group's exposure to credit risk from its treasury activities by ensuring the 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.

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 to the Company such that the Company is able to operate as a going concern and to settle their liabilities as they fall due for a period of at least 12 months from the date of signing these Financial Statements. After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company Financial Statements on a going concern basis.

Post balance sheet events

The Directors have considered the impact of Russia's invasion of Ukraine on the financial statements and do not consider there to be any material impact to the Company.

The Company continues to monitor escalating inflation across the UK and broader worldwide markets. The Directors remain confident that there are plans in place to mitigate and recover these incremental costs and will continue to work with the direct and indirect supply base to minimise the impact and to source alternatives where appropriate.

Subsidiary Distributions

During 2018 and in prior years, as part of a Group-wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off in 2018 and in preceding years. 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 relevant subsidiary undertakings (the Subsidiaries) were restored to the Register of Companies in 2021. Following restoration, the Subsidiaries intend to complete capital reductions to create additional distributable reserves, with the intention of relying on such reserves to make new distributions to remedy this position during 2022. Having received external legal advice, the directors of the Company consider that having taken these necessary steps the risk of any liability materialising is remote, and therefore no liability has been recognised as at 31 December 2021 and 31 December 2020.

Employees

Employee engagement is a priority for the Group, of which the Company is a part. The Group approach is a mix of locally driven and Group-wide global engagement. The Group provides a variety of channels to communicate and engage employees and their representatives including employee newsletters, magazines, team briefings, and our digital communication channels, such as Yammer. The Group also works closely with elected representative through well-established frameworks, including the European Works Council. Group incentive schemes and share programmes are available to the Company's employees.

Learning and technology sit at the core of the Group's culture. In May, the Group launched a new learning brand, Leatro. The Group has focussed on enabling learning in different ways and via different means; employees are now engaging with on-demand informal learning content far more than formal (face-to-face) learning. Group investment in learning during the year focussed on new online resources, content, and enhanced digital tools.

The Group maintained focus on creating an inclusive and more representative employee population. The Group has matured the diversity and inclusion strategy through four key pillars: leadership and governance; attracting and recruiting; retention; and development.

The Company gives full and fair consideration to all employment applications from people with disabilities. If an employee becomes disabled whilst working for the Company we take steps to support their continued working including, wherever possible, making adjustments to ways of working. All employees can take advantage of our learning programmes, often available online, and promotion opportunities are open to all employees regardless of any disabilities.

Engagement with suppliers, customers, and others

The Company aims to foster enduring relationships with its stakeholders as identified in the Section 172 Statement in the Strategic Report (see pages 2 and 3).

Rolls-Royce Power Engineering plc

Directors' Report

for the year ended 31 December 2021 (continued)

Engagement with suppliers, customers, and others (continued)
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.

During the year, the Company engaged with UK Government officials to support the design and development of Small Modular Reactors (SMRs) as a low carbon option for the UK electricity supply market, prior to the incorporation of Rolls-Royce SMR Limited. 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.

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 26 September 2022 and signed on its behalf by:

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Fi Dolan
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Fiona Dolan
Director

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 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; 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.

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

Reporting on other information

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

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

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

Based on 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 2021 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.

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 UK tax compliance legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. 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.

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.

26 September 2022

Duncan Stratford (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Bristol

Rolls-Royce Power Engineering plc

Income Statement
for the year ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Revenue	3	159,816	153,951
Cost of sales		(147,209)	(114,486)
Gross profit		**12,607**	**39,465**
Administrative expenses		(6,290)	(7,811)
Other income		3,684	4,056
Research and development		(16,706)	(14,274)
Total administrative expenses		(19,312)	(18,029)
Operating (loss)/profit	4	**(6,705)**	**21,436**
Loss on disposal of tangible fixed assets		(513)	(16)
(Loss)/profit before interest and taxation		**(7,218)**	**21,420**
Finance income	8	2,640	926
Finance costs	9	(205)	(707)
(Loss)/profit before taxation		**(4,783)**	**21,639**
Taxation	10	1,647	(3,809)
(Loss)/profit for the financial year		**(3,136)**	**17,830**

The above results were derived from continuing operations.

The notes on pages 15 to 33 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering plc

Statement of Comprehensive Income
for the year ended 31 December 2021

	2021 £ 000	2020 £ 000
(Loss)/profit for the financial year	(3,136)	17,830
Total comprehensive (expense)/income for the year	**(3,136)**	**17,830**

The notes on pages 15 to 33 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering plc

Balance Sheet
as at 31 December 2021

(Registration number: 01305027)

	Note	2021 £ 000	(Restated) 2020 £ 000
Non-current assets			
Intangible assets	11	9,192	13,191
Property, plant and equipment	12	5,839	6,445
Investments	13	73,219	73,219
Deferred tax asset	21	2,882	2,216
		91,132	95,071
Current assets			
Inventories	14	41,350	54,289
Trade and other receivables	15	686,901	697,641
Contract assets	19	6,028	17,341
Cash at bank and in hand		2,211	487
		736,490	769,758
Current liabilities			
Trade and other payables	18	(131,772)	(210,771)
Contract liabilities	19	(83,250)	(60,261)
Other financial liabilities		(144)	-
Provisions for liabilities	20	(7,178)	(5,888)
Net current assets		**514,146**	**492,838**
Total assets less current liabilities		**605,278**	**587,909**
Non-current liabilities			
Provisions for liabilities	20	(26,963)	(7,053)
Contract liabilities	19	(640)	-
Net assets		**577,675**	**580,856**
Equity			
Called up share capital	23	379,100	379,100
Share premium account		24,055	24,055
Capital redemption reserve		4,015	4,015
Retained earnings		170,505	173,686
Total equity		**577,675**	**580,856**

The comparative financial information for the year ended 31 December 2020 has been restated. See note 2 for further detail.

The Financial Statements on pages 11 to 33 were approved and authorised for issue by the Directors on 26 September 2022 and signed on its behalf by:

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Fiona Dolan

Director

The notes on pages 15 to 33 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering plc

Statement of Changes in Equity
for the year ended 31 December 2021

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2021	379,100	24,055	4,015	173,686	580,856
Loss for the financial year	–	–	–	(3,136)	(3,136)
Total comprehensive expense	–	–	–	(3,136)	(3,136)
Share based payment transactions	–	–	–	(41)	(41)
Related tax movements	–	–	–	(4)	(4)
At 31 December 2021	379,100	24,055	4,015	170,505	577,675

	Called up share capital	Share premium account	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 financial 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.

The notes on pages 15 to 33 form an integral part of these Financial Statements.

Notes to the Financial Statements for the year ended 31 December 2021

1 General information

The Company is an unlisted public company incorporated in the East Midlands, England.

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

The address of its registered office is Moor Lane, Derby, Derbyshire, DE24 8BJ.

2 Significant accounting policies

The significant accounting policies set out below have, unless otherwise stated, been applied consistently to all years presented in these Financial Statements.

Basis of preparation

The Financial Statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Financial Statements have been prepared under the historical cost convention 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;
  - 40A-40D (detail in respect of third balance sheet presented on a retrospective restatement);
  - 111 (statement of cash flows information); and
  - 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);
- Paragraphs 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)

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 2021 that have a material impact on the Company's Financial Statements.

Prior period adjustment

During the year, a prior period adjustment has been identified to reclassify amounts recognised as a provision in previous financial periods to amounts due to group undertakings. This is to reflect the amount that the Company reimburses its subsidiary companies for industrial disease claims that are settled by the Company on behalf of its subsidiary. The provision was historically accounted for in the Company reflecting the current process for managing and settling the claims.

The prior period has been restated for the following:

- decrease in current provisions of £120,000 and non-current provisions of £14,047,000; and
- trade and other payables has increased by £14,167,000.

There are no opening reserves, profit and loss or tax adjustments required as a result of the prior period adjustments.

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 in 2018 and in preceding years. 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 relevant subsidiary undertakings (the Subsidiaries) were restored to the Register of Companies in 2021. Following restoration, the Subsidiaries intend to complete capital reductions to create additional distributable reserves, with the intention of relying on such reserves to make new distributions to remedy this position during 2022. Having received external legal advice, the directors of the Company consider that having taken these necessary steps the risk of any liability materialising is remote, and therefore no liability has been recognised as at 31 December 2021 and 31 December 2020.

Critical accounting judgements and key sources of estimation uncertainty

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

Key source of estimation uncertainty - 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 2021, the provision for impairment against the inventory value was £33,769,000 (2020: £33,996,000). (See note 14).

Key source of estimation uncertainty - 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 20).

Key source of estimation uncertainty - Long term contracts and contract loss provisions

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 based on forecasts 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 Company recognises contract loss provisions based on the assessment of whether the direct costs to fulfil a contract are greater than the expected revenue. The estimates take account of the inherent uncertainties, constraining the expected level of revenue as appropriate. During the year, the Company recognised a contract loss provision of £18,400,000 and reduced revenue of £10,544,000 as a result of changes in these estimates.

Critical accounting judgement - 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.

Critical accounting judgement - 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.

2 Significant accounting policies (continued)

Exemption from preparing consolidated Financial Statements

The Financial Statements contain information about Rolls-Royce Power Engineering plc 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.

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 to the Company such that the Company is able to operate as a going concern and to settle their liabilities as they fall due for a period of at least 12 months from the date of signing these Financial Statements. After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis.

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.

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.

2 Significant accounting policies (continued)

Government grants

Government grants received are recognised in the Income Statement so as to match the other income with the recognition of 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.

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.

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. Foreign currency differences are recognised in net financing.

Taxation

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.

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.

2 Significant accounting policies (continued)

Property, plant and equipment

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

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	Depreciation method and rate
Freehold Land and buildings	15 to 45 years. No depreciation is provided on freehold land.
Short term Leasehold Property	Lower of advisors' estimates or period of lease.
Plant & machinery	5 to 25 years.
Assets under construction	No depreciation is provided on assets in the course of construction.

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

Financial assets - 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.

Financial liabilities - Classification

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.

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.

2 Significant accounting policies (continued)

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.

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.

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) Long-term incentive plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition;

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.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the year ended 31 December 2021 (continued)

3 Revenue

A geographical analysis of revenue is presented as follows:

	2021 £ 000	2020 £ 000
United Kingdom	124,881	108,900
Rest of Europe	844	142
Middle East & Africa	33,941	43,937
Australasia & Pacific	150	972
	159,816	153,951

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

	2021 £ 000	2020 £ 000
Original equipment (sales)	101,099	100,213
Aftermarket sales (services)	58,717	53,738
	159,816	153,951

4 Operating (loss)/profit

Arrived at after charging/(crediting)

	2021 £ 000	2020 £ 000
Depreciation expense	579	567
Amortisation of intangibles	3,999	4,008
Research and development cost	16,706	14,274
Charge for/(reversal) of impairment of trade receivables	2	(1,720)
Reversal of impairment of inventory	(227)	(3,504)
Inventory recognised as an expense	109,689	87,785

Other income relates to funding from a Government body of £3,684,000 (2020: £4,056,000).

5 Staff costs

The aggregate payroll costs were as follows:

	2021 £ 000	2020 £ 000
Wages and salaries	18,230	18,790
Social security costs	2,070	2,394
Pension and other post-employment benefit costs	1,844	2,788
Share-based payment expenses	(41)	497
	22,103	24,469

Rolls-Royce Power Engineering plc

Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

5 Staff costs (continued)

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

	2021 No.	2020 No.
Nuclear	165	170
Defence	150	161
	315	331

6 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.

7 Auditors' remuneration

	2021 £ 000	2020 £ 000
Audit of the Financial Statements	148	115

The fee for the audit of these Financial Statements are shown above and were borne by the parent company. £nil (2020: £nil) was paid to the Company's auditors for non-audit services.

8 Finance income

	2021 £ 000	2020 £ 000
Interest receivable and similar income	–	27
Foreign exchange gains	596	868
Fair value gains on foreign currency contracts	–	31
Reversal of impairment of amounts due from group undertakings	2,044	–
	2,640	926

9 Finance costs

	2021 £ 000	2020 £ 000
Fair value losses on foreign currency contracts	154	–
Impairment of loans due from group undertakings	–	641
Other finance costs	51	66
	205	707

10 Taxation

Tax (credited)/charged in the income statement:

	2021 £ 000	2020 £ 000
Current tax		
UK corporation tax adjustments to prior periods	152	229
Foreign tax	34	4
	186	233
Group relief		
Group relief (receivable)/payable	(1,163)	3,998
Deferred taxation		
Origination and reversal of timing differences	(283)	(4)
Adjustments in respect of prior periods	(31)	(335)
Adjustments in respect of an increase in the tax rate	(356)	(83)
Total deferred taxation	(670)	(422)
Tax (credit)/charge in the income statement	(1,647)	3,809

The tax assessed for the year is lower than (2020: lower than) the standard rate of corporation tax in the UK of 19.00% (2020: 19.00%). The differences are explained below:

The differences are reconciled below:

	2021 £ 000	2020 £ 000
(Loss)/profit before taxation	(4,783)	21,639
Corporation tax at standard rate	(909)	4,112
Adjustments to tax charge in respect of prior periods	121	(106)
Income non taxable for tax purpose	(470)	(118)
Increase arising from overseas tax suffered	34	4
Adjustments in respect of an increase in the tax rate	(356)	(83)
Tax rate differential on temporary differences	(67)	–
Total taxation	(1,647)	3,809

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the year ended 31 December 2021 (continued)

10 Taxation (continued)

The Spring Budget 2021 announced that the UK corporation tax rate would increase from 19% to 25% from 1 April 2023. The new law was substantively enacted on 24 May 2021. The prior year deferred tax asset was calculated at 19%, as this was the enacted rate at the 2020 balance sheet date. As the 25% has been substantively enacted before 31 December 2021, the deferred tax asset has been re-measured at 25%.

The resulting credit has been recognised in the income statement except to the extent that they relate to items previously credited or charged to equity. Accordingly, in 2021, £356k has been credited to the income statement and £4k has been charged to equity.

11 Intangible assets

	Development expenditure £ 000	Software £ 000	Total £ 000
Cost			
At 1 January 2021	59,991	1,080	61,071
Disposals	–	(36)	(36)
At 31 December 2021	59,991	1,044	61,035
Accumulated amortisation			
At 1 January 2021	47,798	82	47,880
Charge for the year	3,999	–	3,999
Disposals	–	(36)	(36)
At 31 December 2021	51,797	46	51,843
Net book value			
At 31 December 2021	8,194	998	9,192
At 31 December 2020	12,193	998	13,191

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 and has been fully amortised. Amortisation is recognised in general and administrative expenses in the Income Statement. Software includes software under course of construction which is not amortised

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 2 years left. Amortisation is recognised in research and development expenses in the Income Statement.

12 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 2021	1,290	594	20,057	1,580	23,521
Additions	–	–	–	554	554
Disposals	(678)	–	(10,927)	–	(11,605)
At 31 December 2021	612	594	9,130	2,134	12,470
Depreciation					
At 1 January 2021	164	117	16,795	–	17,076
Charge for the year	30	29	520	–	579
Eliminated on disposal	(179)	–	(10,845)	–	(11,024)
At 31 December 2021	15	146	6,470	–	6,631
Carrying amount					
At 31 December 2021	597	448	2,660	2,134	5,839
At 31 December 2020	1,126	477	3,262	1,580	6,445

13 Investments

Subsidiaries

	£ 000
Cost	
At 1 January and 31 December 2021	142,319
Impairment	
At 1 January and 31 December 2021	69,100
Carrying amount	
At 1 January and 31 December 2021	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 2021, no impairment charge was required during the year (2020: £Nil).

During prior years, as part of a 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 2021 (continued)

13 Investments (continued)

The following were subsidiary undertakings / participating interests of the Company as at 31 December 2021:

Company name	Share class	Address	% Holding 2021
Amalgamated Power Engineering Limited [1, 2]	Ordinary and Deferred	London [3]	100%
CA Parsons & Company Limited [1]	Ordinary	London [3]	100%
Derby Specialists Fabrications Limited [1, 2]	Ordinary	London [3]	100%
Heaton Power Limited [1, 2]	Ordinary	London [3]	100%
John Thompson Cochran Limited [1, 2]	Ordinary and 6% Cumulative Preference	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, KY11 9JT, Scotland	100%
NEI International Combustion Limited [1, 2]	Ordinary	London [3]	100%
NEI Mining Equipment Limited [1, 2]	Ordinary	London [3]	100%
NEI Nuclear Systems Limited [1, 2]	Ordinary	London [3]	100%
NEI Parsons Limited [1, 2]	Ordinary	London [3]	100%
NEI Peebles Limited [1, 2]	Ordinary	London [3]	100%
NEI Power Projects Limited [1, 2]	Ordinary	London [3]	100%
Rolls-Royce Industrial & Marine Power Limited [1]	Ordinary	London [3]	100%
Rolls-Royce Industrial Power (India) Limited [1, 2, 4]	Ordinary	Derby [5]	100%
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited [1]	Ordinary	Derby [5]	100%
Spare IPG 20 Limited [1]	Ordinary	London [3]	100%
Spare IPG 21 Limited [1, 2]	Ordinary	London [3]	100%
Spare IPG 24 Limited [1]	Ordinary	London [3]	100%
Spare IPG 32 Limited [1]	Ordinary and 7.25% Cumulative Preference	London [3]	100%
Spare IPG 4 Limited [1, 2]	Ordinary	London [3]	100%
The Bushing Company Limited [1]	Ordinary	London [3]	100%

[1] Indicates a direct shareholding by the Company.
[2] Dormant entity.
[3] Kings Place, 90 York Way, London, N1 9FX, England.
[4] Reporting year end is 31 March.
[5] Moor Lane, Derbyshire, DE24 8BJ, England.

13 Investments (continued)

Joint ventures

Details as at 31 December 2021 are as follows:

Company name	Share class	Address	% Holding 2021
Clarke Chapman Portia Port Services Ltd [1]	A Ordinary	Maritime centre, Port of Liverpool, Liverpool L211LA	50%

[1] Indicates a direct shareholding by the Company.

14 Inventories

	2021 £ 000	2020 £ 000
Work in progress	27,812	23,366
Finished goods and goods for resale	13,538	30,923
	41,350	54,289

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 £33,769,000 (2020: £33,996,000).

15 Trade and other receivables

	2021 £ 000	2020 £ 000
Trade receivables	12,439	12,479
Amounts owed from group undertakings	674,278	685,033
Other receivables	184	129
	686,901	697,641

Trade receivables are stated after provisions for impairment of £37,000 (2020: £35,000).

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 £3,070,000 (2020: £5,114,000).

16 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 2021 the Rolls-Royce UK Pension Fund is £1,118m in surplus (2020: £883m 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. On 31 December 2020, the scheme was closed to future accrual. This Company has recognised no cost (2020: £1,704,000) representing its contributions paid to the Group for the period.

The Company also operates a defined contribution scheme for employees. The pension cost for the year was £1,844,000 (2020: £1,084,000) and there were no outstanding or prepaid contributions at 31 December 2021 (2020: £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.

17 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)

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

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.

As share options are exercised throughout the year, the weighted average share price during the year of 119p (2020: 203p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2021 was 123p (2020: 111p). There were no exercisable options as at 31 December 2021 (2020: Nil).

Rolls-Royce Power Engineering plc

Notes to the Financial Statements
for the year ended 31 December 2021 (continued)

17 Shared-based payments (continued)

Share options outstanding:

Grant - vest	Expiry date 31 January	Exercise price in pence per share option	ShareSave share options (000) 2021	2020
2015-2021	2021	212	–	390
2017-2021	2021	260	–	271
2017-2023	2023	260	137	346
2017-2023	2023	232	216	621
2019-2025	2025	232	192	513
2021 -2025	2025	97	657	–
			1,202	**2,141**

The weighted average remaining contractual life is 2.5 (2020: 3.5) years.

18 Trade and other payables

Amounts due within one year:

	2021 £ 000	(Restated) 2020 £ 000
Trade payables	16,919	26,971
Accruals	5,092	11,462
Amounts owed to group undertakings	103,781	162,036
Social security and other taxes	–	1,573
Other payables	5,980	8,729
	131,772	210,771

Amounts owed to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Amounts owed to group undertakings includes £13,813,000 (2020 restated: £14,167,000) for amounts to be used to settle healthcare liability claims on behalf of wholly owned subsidiaries. This amount will be realised in line with the utilisation of the provision, of which £117,000 (2020 restated: £120,000) is expected to be realised in the next 12 months.

19 Contract Assets and Contract Liabilities

	2021 £ 000	2020 £ 000
Contract Assets	6,028	17,341
Contract Liabilities due within one year	83,250	60,261
Contract Liabilities due after one year	640	–

20 Provisions for liabilities

	Warranties and guarantees £ 000	Contract Loss £ 000	Restructuring £ 000	Other provisions £ 000	Total £ 000
At 31 December 2020 as previously reported	2,636	3,048	124	21,300	27,108
Restatement (see note 2)	–	–	–	(14,167)	(14,167)
At 1 January 2021 restated	2,636	3,048	124	7,133	12,941
Additional provisions	198	19,296	–	2,514	22,008
Decrease in existing provisions	(306)	(245)	–	–	(551)
Amounts utilised	–	–	(124)	(133)	(257)
At 31 December 2021	2,528	22,099	–	9,514	34,141
Current liabilities	2,528	4,569	–	81	7,178
Non-current liabilities	–	17,530	–	9,433	26,963

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.

The comparative financial information for the year ended 31 December 2020 has been restated to reclassify the amounts relating to employer healthcare liability claims that are settled on behalf of subsidiary companies to amounts owed to group undertakings in trade and other payables. See note 2 for further detail.

21 Deferred Tax Asset

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2021			
Accelerated tax depreciation	1,933	–	1,933
Amortisation	–	(205)	(205)
Other items	1,154	–	1,154
	3,087	(205)	2,882

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

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income £ 000	Recognised in equity £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	1,326	607	–	1,933
Amortisation	(233)	28	–	(205)
Other items	1,123	35	(4)	1,154
Net tax assets/(liabilities)	2,216	670	(4)	2,882

Deferred tax movement during the prior 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)	1,807	422	(13)	2,216

22 Contingent liabilities

In January 2017, after full cooperation, 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. The terms of both DPAs have now expired; the DPA with the DoJ was dismissed by the US District Court on 19 May 2020 and the SFO filed notice of discontinuance of proceedings with the UK Court on 18 January 2022. 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.

23 Called up share capital

	2021		2020	
	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 themself 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.

24 Capital commitments

There were £58,000 of contracted capital commitments at 31 December 2021 (2020: none).

25 Related party transactions

Summary of transactions with joint ventures

There were no balances payable or receivable as at 31 December 2021 and 31 December 2020.

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.

27 Post balance sheet events

The Directors have considered the impact of Russia's invasion of Ukraine on the financial statements and do not consider there to be any material impact to the Company.

The Company continues to monitor escalating inflation across the UK and broader worldwide markets. The Directors remain confident that there are plans in place to mitigate and recover these incremental costs and will continue to work with the direct and indirect supply base to minimise the impact and to source alternatives where appropriate.