

**ROLLS-ROYCE SOLUTIONS UK LIMITED**  
ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2021

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## COMPANY INFORMATION

### **Registered Office**

Rolls-Royce plc  
Moor Lane  
Derby  
Derbyshire  
England  
DE24 8BJ

### **Independent Auditors**

PricewaterhouseCoopers LLP  
2 Glass Wharf  
Temple Quay  
Bristol  
BS2 0FR  
United Kingdom

## STRATEGIC REPORT

The Directors present their Strategic Report on Rolls-Royce Solutions UK Limited (the Company) together with the audited Financial Statements for the year ended 31 December 2021.

### Strategy and objectives

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The Company's main objective is to be a leading supplier to its customers and achieve profitable and sustainable growth in accordance with the Rolls-Royce 'Trusted to Deliver Excellence' values.

The health and safety of all those working at Rolls-Royce Solutions UK Limited and those connected with our products and services is considered of paramount importance in all of our business activities.

The main foundations of the strategy to achieve this are:

I. Offering all markets a range of class leading products.

- Having a range of products that are specifically designed and developed to meet the precise requirements of the individual markets and applications.
- Anticipating changes in legislation along with market trends as well as developing products and solutions on time.
- By offering a broad portfolio of products as well as services that fully meet the customer's needs with clear technical, quality and performance benefits.

II. Investing in facilities, people and processes to ensure the highest customer satisfaction.

- Establishing local processes and performance that contribute to highest level support of the business and ensure maximum customer satisfaction.
- By engaging and retaining highly competent staff and ensuring continuous high standards of training, development and motivation.
- Deploying that resource in the most efficient manner for the local and Rolls-Royce Power Systems Group business.

III. Ensuring that our business partners share the same ethic.

- Working with our expanded UK dealer network in order that they meet the set objectives.
- Management and execution of the business strictly in accordance with Rolls-Royce Power Systems Integrity Code and all local codes and legislation.
- Cultivation of long-term working relationships with other partners and suppliers for the common good.

IV. Scouting for new opportunities.

- Encouraging staff and business partners to seek new opportunities for both the current range of products and services and also where new products and services may be developed for the benefit of the business.

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### Business review and principal activities

The principal activity of the Company in the year under review was that of the sales and service of off highway diesel engines primarily in our core markets: rail, marine (Naval, Commercial and Yacht) and power generation (diesel engine, Gas CHP and Kinetic power) market sectors. Kinetic Power is a new area for us as a result of the acquisition of Kinolt UK Limited.

The Company operates as a wholly-owned subsidiary of Rolls-Royce Power Systems AG, the German group of companies with Rolls-Royce Solutions GmbH as its principal business unit.

## STRATEGIC REPORT (CONTINUED)

During the year, the Company acquired a 100% shareholding in Kinolt UK Limited for a consideration of £17.6m, of which £12.4m was paid in cash and £5.2m from settlement of existing liabilities held by Kinolt UK Limited to the Company. The Company subsequently acquired the trade and assets of the business on 1 July 2021 with a value of £1.1m which is included in the £17.6m consideration.

The results for the year and the financial position of the Company are as shown in the annexed financial statements. The Company had revenue in 2021 of £91.0m (2020: £56.5m) and pre-tax profit of £11.1m (2020: profit of £5.0m). Revenue showed an increase in 2021 of 61% (2020: 44% decrease). The Company has experienced a return of OE sales activities in 2021 to levels of customer demand which the Company had experienced prior to the impact of COVID 19 lockdowns. While the Marine engine sales market continues to be a small market in the UK for the Company, sales have increased this year by 18% (2020: 72% decrease) with a small demand for new vessels and as boatyards and shipbuilders have restarted their activities during 2021.

In the Power Generation business, the Company has seen a return to growth in 2021 of 224% (2020: 75% decline). Projects which were delayed due to lockdown in 2020 have restarted which has contributed to the significant growth in this sector in 2021.

Since the integration of the Kinolt UK Limited business into the Company from the 1 July 2021, revenue of £1.7m has been generated from these activities as the business begins to contribute to the overall business growth.

For the service business within the Company, the revenue for 2021 has grown by 14% (2020: 12.5% increase). This increase continues to reflect the population of new equipment coming into the UK market which requires servicing activities to be carried out and helps to continue to grow and support the development of the service revenue.

The Company finished the year with a net current asset value of £2.0m a decrease compared to 2020 of 85%. The Company continues to actively manage its net asset value by managing control of inventory, keeping overdue customer debts to a minimum and actively paying suppliers to terms. The Company, through its departments and staff, continues to work to maximise its opportunities.

### Key Performance Indicators

KPI	2021	2020
Revenue increase/(decrease) vs PY	61%	-44%
Gross Profit %	18.6%	20.7%
Revenue per FTE	£598,591	£448,568
ROS (return on sales) %	12.1%	9.0%
ROCE (return on capital employed) (Operating Profit/Net Assets)	116%	44%

Key Performance Indicators (KPIs) that are used within the business are detailed in the table above. The revenue increase in 2021 has been seen in the Marine and Powergen original equipment sales area. The slight decrease in gross profit % reflects the higher mix of original equipment sales for 2021, where these have a lower average gross profit % than service activities. The average revenue per FTE reflects the increase in the value of original equipment sales seen in 2021 compared to 2020.

## STRATEGIC REPORT (CONTINUED)

The change in ROS% reflects better margins being achieved in 2021. Continued improvements in service activity margins have driven this change. Non-financial indicators include number of sickness days which was an average of 2.28 days per staff in 2021 (2020: 4.46 days per staff). This decreased due to no longer having one employee on long term sick leave. The other contributor to this decrease is the ability of people to work from home when they might have previously taken a sick day. With the ongoing awareness and reinforced processes, the Company continues to look at ways of managing its business through the effective implementation of KPI reviews.

### Principal risks and uncertainties

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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 19. The Company acts in accordance with this policy.

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

### Section 172(1) statement

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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 customers suppliers 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.

The Company's key stakeholders are its employees, its shareholder Rolls Royce Power Systems AG, its suppliers and customers. The Directors of the company work closely with Rolls Royce Power Systems AG. This engagement with its shareholder occurs at a formal annual review by the board of Rolls Royce Power Systems AG.

Key customer reviews are held on a regular basis. Supplier meetings are held during the year as part of the Company's quality review process. The outcome of these meetings are presented in the Company's monthly management meeting, and to the Directors at quarterly board meetings. These reviews are documented in the minutes of those Board 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.

## **STRATEGIC REPORT (CONTINUED)**

There is regular engagement with employees with a town hall business review where health and safety, operations and HR topics are presented and the meeting finishes with a question-and-answer session. The Company fully recognises the responsibilities for the health and safety of all its employees, visitors, contractors and of the community by adopting the health and safety policies of the Rolls-Royce Holdings plc group. The Company engages employees when health and safety matters are considered, and new policies formulated. Engagement with employees occurs quarterly with Company update meetings.

### **Climate-related corporate reporting**

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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 from page 34. 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.

### **Streamlined Energy & Carbon Reporting (SECR)**

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

Strategic Report approved by the Board on 22<sup>nd</sup> July 2022 and signed on its behalf by:



Bruce Phillips

Director

## **DIRECTORS' REPORT**

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

### **Directors**

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

Bruce Phillips

Thomas Schuler (Resigned 4 May 2021)

Andreas Görtz

Samuel Weckel (Appointed 25 May 2021)

### **Qualifying third-party indemnity provisions**

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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.

### **Dividends**

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During 2021, a dividend of £3,434,800 was paid in respect of 2020. No dividend has been declared for the year ended 31 December 2021.

### **Future developments**

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The future strategy of the Company is to continue to proactively market the existing and newly developed products from the parent company, concentrating on meeting or exceeding the high service levels demanded, as well as capturing new opportunities in market sectors where the opportunity has not yet been developed. Customer satisfaction is key to the success of the business and the Company will continue to seek best practice in these respects. Whilst there remains significant uncertainty in some of the Company's core markets, the longer-term outlook for the Company remains very positive. This is a consequence of several large naval and rail contracts for which MTU engines/propulsion systems have been selected. These projects will ultimately result in a significant increase in the population of MTU engines in the UK and consequently the Company is set to benefit from the revenues that will be generated from the servicing and support of these products over the mid-to-long-term. The acquisition of Kinolt UK Limited during the year will also support the growth of the Power Generation business in the UK. The Company will continue to provide service contracts to those Kinolt customers on an ongoing basis. This experience and technical knowledge on the service side of the business will also help to provide additional resources to develop Power Generation service business in the Company's markets, provide project management experience and to develop systems solutions adding in Kinolt products to the existing portfolio.

Bruce Phillips continues in his role as Managing Director of the Company. Andreas Görtz continues to act as a director. Thomas Schuler resigned in May 2021 and has been replaced by Samuel Weckel. Collectively, the Board possess an extensive and diverse competence that not only helps maintain the current business but also ensures the appropriate future direction and continued profitable growth.

### **Financial risk management**

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The main financial risks that the Company faces in its operations are foreign exchange rate risk, price risk, credit risk, liquidity risk, interest rate movements, cash flow risk and cash pooling. The Company has policies in place to minimise these risks.



## **DIRECTORS' REPORT (CONTINUED)**

### *Foreign exchange risks*

These include forward foreign exchange deals made on our behalf by our parent company in Germany. Group treasury guidelines require that, where appropriate, hedges are used to minimise risk. Regular communications of funds to exchange from euros to sterling are made to facilitate risk reduction.

### *Price risks*

The Company has no exposure to equity securities price risk as it holds no listed or other equity investments. There is some exposure to the risk of our materials purchase prices rising due to the possibility of the cost of raw materials rising from our factory. As a general rule, these price rises only occur yearly (from 1 January for that year) and our customers are notified of our price increases at the same time.

### *Credit risks*

The Company's exposure to credit risk takes the form of a loss that would be recognised if counterparties failed to, or were unable to, meet their payment obligations. To counter this, the Company has a credit insurance policy with Coface which covers a number of its customers.

### *Liquidity risk*

The Company is exposed to liquidity risks, including the risk that borrowing facilities are not available to meet cash requirements and the risk that financial assets cannot readily be converted to cash without loss of value. Although the Company is not in an overdraft position on any of its bank accounts, it could request an intercompany loan if needed from group. The Company's largest creditor is a related party and so the likelihood of the Company being asked to repay the balance immediately is minimal and Rolls-Royce Power Systems AG have indicated their continued support.

### *Interest rate cash flow risk*

Small amounts of interest are received from the Company's bank accounts and from the Company's cash pooling arrangements with Rolls-Royce Power Systems AG.

### *Cash pooling*

There is a system in place whereby all excess cash is pooled centrally within Rolls-Royce Power Systems AG. All surplus cash is sent via this method but can be requested back at any time.

## **Going concern**

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The Directors of the Company have prepared the financial statements on a going concern basis which assumes the Company will be able to meet its future obligations as they fall due and the Company will settle all payments within the agreed terms.

The Directors have received written confirmation from Rolls-Royce Power Systems AG, the parent undertaking of the smallest group to consolidate the Company's financial statements of its intention to support the Company with financial and other resources as necessary such that the Company can meet its financial obligations as they fall due. Furthermore, the parent undertaking has confirmed that; it will not seek the repayment of amounts advanced to the Company by the parent and/or other members of the parent's group unless adequate financing has been secured by the Company and it will repay cash deposited by the Company as part of the parent's cash pool sweeping arrangements. This written support is available for at least the next twelve months from the date of approval of these Financial Statements.

## **Engagement with employees, suppliers, customers, and others**

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

## **DIRECTORS' REPORT (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 reviews. The outcome of these meetings are presented in the Company's monthly management meeting, and to the Directors at quarterly board meetings. These reviews are documented in the minutes of those Board meetings.

Engagement with all stakeholders takes place on a regular basis. Quarterly company meetings are held with all staff invited to attend, where updates on topics such as Health and Safety, Business Performance, Human

Resources and any other relevant employee engagement topics are presented in an open forum where questions and feedback are encouraged. Each month internal department business review meetings are held between department heads and the directors and each quarter a board meeting is held where information from these meetings is presented and recorded in the minutes. Further information on how the Company engages with its suppliers and customers can be found in the Section 172 statement in the Strategic Report (see page 4).

Engagement with key suppliers takes place, in the form of some suppliers attending monthly or quarterly meetings to discuss supplier performance and issues from the business which impact on this supplier. As part of the quality process supplier audits are conducted on certain suppliers during the year to review performance and to ensure the products and services they offer to the company meet the required standards.

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 group 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.

In relation to the conflict situation in Ukraine few challenges and economic effects are expected for the Company itself, although effects might be greater for other areas of the RRPS group. We stand with the people of Ukraine and the Rolls-Royce group has taken the decision to stop all business with Russia. The Company was not trading in Russia or Ukraine so has seen no loss of business.

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### **Branches**

The Company has a branch registered in Ireland under the name MTU UK Limited and registered number 908662.

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### **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.

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## **DIRECTORS' REPORT (CONTINUED)**

### **Responsibility statements**

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#### **Statement of Directors' responsibilities in respect of the Financial Statements**

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

Under company law, 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.

Directors' Report approved by the Board on 22<sup>nd</sup> July 2022 and signed on its behalf by:



Bruce Phillips

Director

## **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROLLS-ROYCE SOLUTIONS UK LIMITED**

### **Report on the audit of the Financial Statements**

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#### **Opinion**

In our opinion, Rolls-Royce Solutions UK Limited'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 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: statement of financial position as at 31 December 2021; statement of comprehensive income and 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.

## INDEPENDENT AUDITORS REPORT (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 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 of 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.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to Generally Accepted Accounting Practices and UK tax 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

## INDEPENDENT AUDITORS REPORT (CONTINUED)

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 of inappropriate journal entries to manipulate financial results; management bias in accounting estimates; and inappropriate treatment of significant transactions outside of the normal course of business.

Audit procedures performed by the engagement team included:

- Discussions with management in respect of any known or suspected instances of non-compliance with laws and regulation and any fraud matters;
- Review of Board meeting minutes;
- Challenging assumptions and judgements made by management in their significant accounting estimates; and
- Identifying and testing journal entries based on our risk assessment and evaluating whether there was evidence of management bias that represents a risk of material misstatement due to fraud.

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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### *Use of this report*

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

### **Other required reporting**

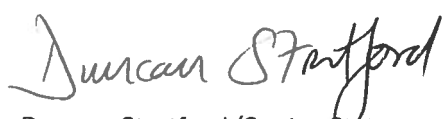
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#### **Companies Act 2006 exception reporting**

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

22<sup>nd</sup> July 2022

## FINANCIAL STATEMENTS

Company Number 04691779

### Statement of Comprehensive Income

for the year ended 31 December 2021

	Note	2021	2020
		£	£
<b>Revenue</b>	2	<b>90,984,368</b>	56,519,608
Cost of sales		<b>(74,022,002)</b>	(44,840,488)
<b>Gross profit</b>		<b>16,962,366</b>	11,679,120
Administrative expenses	3	<b>(6,005,945)</b>	(5,039,515)
Other operating income		<b>23,810</b>	-
<b>Operating profit</b>	3	<b>10,980,231</b>	6,639,605
Finance income	6	<b>229,823</b>	7,119
Finance costs	7	<b>(154,551)</b>	(1,686,173)
<b>Profit before taxation</b>		<b>11,055,503</b>	4,960,551
Taxation	8	<b>(1,985,665)</b>	(951,995)
<b>Profit and total comprehensive income for the financial year</b>		<b>9,069,838</b>	4,008,556

The operating profits for the years shown above are derived entirely from continuing activities. The notes on pages 16 to 35 form part of the financial statements.

## Statement of Financial Position

as at 31 December 2021

	Note	2021	2020
		£	£
<b>Fixed assets</b>			
Property, plant and equipment	9	2,002,319	2,105,061
Right-of-Use Assets	10	4,029,269	4,424,987
Investments in subsidiaries	11	5,268,477	-
<b>Current assets</b>			
Inventories	12	7,406,971	8,856,564
Trade and other receivables	13	22,928,720	24,636,497
		30,335,691	33,493,061
<b>Amounts falling due within one year</b>			
Trade and other payables	14	(27,939,847)	(20,377,829)
Lease Liabilities	15	(441,752)	(409,056)
<b>Net current assets</b>		1,954,092	12,706,176
<b>Total assets less current liabilities</b>		13,254,157	19,236,224
<b>Amounts falling due after more than one year</b>			
Deferred tax liabilities	16	(42,961)	(37,090)
Lease Liabilities	15	(3,762,436)	(4,135,090)
<b>Net assets</b>		9,448,760	15,064,044
<b>Equity</b>			
Called up share capital	17	400,000	400,000
Retained earnings		20,299,082	14,664,044
Other Reserves		(11,250,322)	-
<b>Total shareholders' funds</b>		9,448,760	15,064,044

The notes on pages 16 to 35 are an integral part of these Financial Statements.

The Financial Statements on pages 13 to 35 approved by the Board on 22<sup>nd</sup> July 2022 and signed on its behalf by:

  
Bruce Phillips  
Director



## Statement of Changes in Equity

for the year ended 31 December 2021

	Called up Share capital £	Retained Earnings £	Other Reserves £	Total equity £
Balance at 1 January 2020	400,000	10,655,488	-	11,055,488
<b>Total comprehensive income for the year</b>				
Profit for the year	-	4,008,556	-	4,008,556
Total comprehensive income for the year	-	4,008,556	-	4,008,556
<b>Transactions with owners, recorded directly in equity</b>				
Dividends Paid	-	-	-	-
Transactions with owners, recorded directly in equity	-	-	-	-
<b>Balance at 31 December 2020</b>	<b>400,000</b>	<b>14,664,044</b>	<b>-</b>	<b>15,064,044</b>
Balance at 1 January 2021	400,000	14,664,044	-	15,064,044
<b>Total comprehensive income for the year</b>				
Profit for the year	-	9,069,838	-	9,069,838
Total comprehensive income for the year	-	9,069,838	-	9,069,838
<b>Transactions with owners, recorded directly in equity</b>				
Loss on business combination under common control	-	-	(11,250,322)	(11,250,322)
Dividends Paid	-	(3,434,800)	-	(3,434,800)
Transactions with owners, recorded directly in equity	-	(3,434,800)	(11,250,322)	(14,685,122)
<b>Balance at 31 December 2021</b>	<b>400,000</b>	<b>20,299,082</b>	<b>(11,250,322)</b>	<b>9,448,760</b>

A new reserve has been created for the impairment of our investment in Kinolt UK Limited. This was an acquisition from another Company under Group control. See note 11.

## Notes to the Financial Statements

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### 1 Accounting policies

Rolls-Royce Solutions UK Limited (the “Company”) is a private limited company incorporated and domiciled in the UK and is limited by shares.

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (“FRS 101”).

In accordance with the Companies Act 2006, the Company financial statements have been prepared in accordance with UK-adopted international accounting standards. Where necessary, amendments are made in these financial statements in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

The Company’s ultimate parent undertaking, Rolls-Royce Holdings plc includes the Company in its consolidated financial statements. The consolidated financial statements of Rolls-Royce Holdings plc are prepared in accordance with International Financial Reporting Standards, as adopted by the European Union, are available to the public and may be obtained from Kings Place, 90 York Way, London N1 9FX.

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);
  - 38B-D (additional comparative information);
  - 111 (statement of cash flows information); and
  - 134-136 (capital management disclosures)
- IAS 7, ‘Statement of cash flows’
- IFRS 3 ‘Business Combinations’
- Paragraph 38 of IAS 1, ‘Presentation of financial statements’ – comparative information requirements in respect of:
  - paragraph 79(a)(iv) of IAS 1; and
  - paragraph 73(e) of IAS 16, ‘Property, plant and equipment’;
- The requirements in IAS 24 ‘Related party disclosures’, to disclose related party transactions entered into between two or more members of a group;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Paragraph 17 of IAS 24, ‘Related party disclosures’ (key management compensation).
- The requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;

As the consolidated financial statements of Rolls-Royce Holdings plc include the equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

## Notes to the Financial Statements (*continued*)

### **1.1 Measurement convention**

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments.

### **1.2 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.

### **1.3 Exemption from preparing group accounts**

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 a group parent, Rolls-Royce Holdings 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 19.

### **1.4 Going concern**

The Directors of the Company have prepared the financial statements on a going concern basis which assumes the Company will be able to meet its future obligations as they fall due and the Company will settle all payments within the agreed terms.

The Directors have received written confirmation from Rolls-Royce Power Systems AG, the parent undertaking of the smallest group to consolidate the Company's financial statements of its intention to support the Company with financial and other resources as necessary such that the Company can meet its financial obligations as they fall due. Furthermore, the parent undertaking has confirmed that; it will not seek the repayment of amounts advanced to the Company by the parent and/or other members of the parent's group unless adequate financing has been secured by the Company and it will repay cash deposited by the Company as part of the parent's cash pool sweeping arrangements. This written support is available for at least the next twelve months from the date of approval of these financial statements.

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### **1.5 Foreign currency**

Transactions in foreign currencies are translated into the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated into the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the income statement.

## Notes to the Financial Statements (*continued*)

### 1.6 Revenue

Revenue represents net invoiced sales of goods, excluding value added tax. The Company's sales relate to the import and distribution of MTU engines and the associated sale of parts and labour services to maintain and repair those engines.

Revenue from the sale of original equipment products such as engines is recognised at the point in time when the company has fulfilled its performance obligations in relation to the supply of those goods. It is then that the right to the revenue has been earned and revenue and costs can be reliably measured.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

For some original equipment (OE) products, such as extended warranty policies, the revenue is recognised over time, in line with the time that the policy is in place and covers the equipment for.

Revenue on the sale of systems project solutions such as Power generation integrated systems is measured by reference to the costs to complete of the project transaction at the end of the reporting period.

Revenue from aftermarket services such as the supply of spare parts, servicing and maintenance represents amounts billed to customers and other group companies for services performed by Rolls-Royce Solutions UK Limited employees. This revenue is recognised at the point when the company has fulfilled its performance obligations in relation to the supply of those goods. It is then that the right to the revenue has been earned and revenue and costs can easily be measured.

For some aftermarket services the revenue is recognised over a time period that reflects the length of those contracts when the performance of those servicing and maintenance obligations are met and it is at this point the revenue will be recognised.

In case of fixed price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the company exceeds the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

### 1.7 Expenses

#### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable and net foreign exchange losses that are recognised in the income statement (see 1.5 foreign currency accounting policy). Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

### 1.8 Dividends

The Company makes a proposal to Rolls-Royce Power Systems AG for any dividends payable. The amount is based on net income, taking into account the Company's equity and planned investments.

A formal decision on whether to accept the proposal is made in a board meeting of Rolls-Royce Solutions AG.

## Notes to the Financial Statements (*continued*)

### **1.9 Classification of financial instruments issued by the Company**

#### *Financial assets*

Financial assets primarily include trade receivables, cash and cash equivalents (comprising cash at bank and short term deposits) and derivatives (foreign exchange contracts).

#### *Trade and other receivables*

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

#### *Cash and cash equivalents*

Cash and cash equivalents are subject to low market risk. They are measured at fair value through profit and loss.

#### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

#### *Financial Liabilities*

Financial liabilities primarily consist of trade payables, borrowings and derivatives.

#### *Trade and other payables*

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

#### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

### **1.10 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses.

Where property, plant and equipment are split into parts which have different useful lives, they are accounted for as separate assets.

Lease payments are accounted for as described in note 1.13.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- leasehold property improvements Over 10 years on a straight-line basis
- plant and equipment 10% - 33% per annum on cost
- fixtures and fittings 25% per annum on cost

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

## Notes to the Financial Statements (*continued*)

### **1.11 Inventories**

Inventories are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Cost is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition.

### **1.12 Impairment excluding inventories and deferred tax assets**

#### *Financial assets (including trade and other receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments, impairments are calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, it is reversed through profit or loss.

A provision for expected credit losses is based on the default information from the past 3 years. This calculates a weighted average default rate for the current year which is applied to current credit balances, whether they are due or not.

### **1.13 Leases**

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments less any lease incentive receivable;
- Variable lease payments that are based on an index or a rate;
- Amounts expected to be payable by the Company under residual value guarantees;
- The exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- Payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

Where leases commence after the initial transaction date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Lease liabilities are revalued at each reporting date using the spot exchange rate.

## Notes to the Financial Statements (*continued*)

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability or a revaluation of the liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Company, in which case the asset is depreciated to the end of the useful life of the asset.

Payments associated with the short-term leases are recognised on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less.

### **1.14 Post-retirement benefits**

#### *Defined contribution plans*

A defined contribution plan is a post-retirement benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

### **1.15 Deferred income**

Deposits received in advance are recorded as deferred income in the balance sheet and the sale is recognised in the month of delivery of goods.

### **1.16 Taxation**

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised.

## Notes to the Financial Statements (*continued*)

### **1.17 Investments**

Fixed asset investments are shown at cost less provision for impairment

Guidance for business combinations under common control states that the difference between the cost of investment and book value of assets acquired is posted directly to equity. The Company has followed this guidance inline with Group policy and posted the excess paid on the acquisition of Kinolt UK Limited to equity.

### **1.18 Critical accounting estimates and judgements**

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 Company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition not equal the related actual results.

The Company is not making any estimates and assumptions that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.



## Notes to the Financial Statements (*continued*)

### 2 Revenue

<i>By activity</i>	<b>2021</b>	2020
	£	£
Rail engines	187,353	1,081,669
Marine (Naval, Commercial and Yacht engines)	4,934,782	4,178,887
Power generation (diesel engine and gas CHP)	38,761,623	11,980,656
Defence (Military vehicles engines)	844,722	-
Kinetic Power	1,636,838	-
After Sales	44,619,050	39,278,396
	<u>90,984,368</u>	<u>56,519,608</u>
	<u><u>90,984,368</u></u>	<u><u>56,519,608</u></u>

<i>By geography</i>	<b>2021</b>	2020
	£	£
UK	74,309,003	36,969,053
Europe	16,627,347	19,437,019
Rest of the world	48,018	113,536
	<u>90,984,368</u>	<u>56,519,608</u>
	<u><u>90,984,368</u></u>	<u><u>56,519,608</u></u>

	<b>2021</b>	2020
	£	£
Point in Time Original Equipment (OE)	45,758,624	16,014,158
Over time – Original Equipment (OE)	419,341	145,385
Point in time - Aftermarket services (AMS)	37,444,725	34,958,688
Over time – Aftermarket services (AMS)	7,361,678	5,401,377
	<u>90,984,368</u>	<u>56,519,608</u>
	<u><u>90,984,368</u></u>	<u><u>56,519,608</u></u>

## Notes to the Financial Statements (*continued*)

### 2 Revenue (*continued*)

The Company has recognised the following assets and liabilities related to contracts with customers:

	2021	2020
	£	£
Contract Assets with customers	<b>3,572,498</b>	-
Contract Liabilities with customers	<b>6,003,298</b>	1,451,299
	<b>=====</b>	<b>=====</b>

In 2021 we now have contract assets for some of our larger contracts where revenue has been recognised in excess of payments received. Contract liabilities have increased as the Company has started more long running projects which include milestone payments from customers.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities

	2021	2020
	£	£
Customer contracts	<b>996,739</b>	857,974
	<b>=====</b>	<b>=====</b>

### 3 Operating profit

*Operating profit is stated after charging:*

	2021	2020
	£	£
Right-of-use depreciation	<b>482,866</b>	494,548
Depreciation of property, plant and equipment – owned assets	<b>383,200</b>	296,003
Audit fees payable to the company's auditors	<b>135,174</b>	54,106
Indirect staff costs	<b>3,207,367</b>	2,293,837
	<b>=====</b>	<b>=====</b>

2021 audit fees costs include variations of £31,500 from 2019 and 2020 audits.

## Notes to the Financial Statements (*continued*)

### 4 Staff numbers and costs

The average monthly number of persons (including directors) employed by the Company during the year was:

	Number of employees	
	2021	2020
Administration	44	38
Sales	13	12
Product support	95	76
	<u>152</u>	<u>126</u>

The aggregate payroll costs of these persons were as follows:

	2021	2020
	£	£
Wages and salaries	7,416,104	5,270,455
Social security costs	748,126	609,949
Other pension costs	544,653	446,771
	<u>8,708,883</u>	<u>6,327,175</u>

## Notes to the Financial Statements (*continued*)

### 5 Directors' remuneration

	2021 £	2020 £
Directors' emoluments	<b>145,948</b>	181,656

Highest Paid Director

The highest paid directors' emoluments were as follows:

	2021 £	2020 £
Total amount of emoluments and amounts receivable under long term incentive schemes	<b>145,948</b>	181,656

Two Directors are employed by another group company and receive no payment for their services to Rolls-Royce Solutions UK Limited as they have performed no qualifying services for Rolls-Royce Solutions UK Limited in the last year to 31 December 2021 (2020: nil)

There are no retirement benefits accruing for any of the Directors (2020: nil).

### 6 Finance income

	2021 £	2020 £
Foreign exchange gains	<b>139,303</b>	-
Total interest income on financial liabilities measured at amortised cost	-	7,119
Net gain on financial instruments	<b>85,719</b>	-
Other interest receivable	<b>4,801</b>	-
Total interest receivable and similar income	<b>229,823</b>	7,119

Total interest income on financial liabilities measured at amortised cost include interest receivable on bank balances, received from group undertakings of £nil (2020: £7,119).

### 7 Finance costs

	2021 £	2020 £
Foreign exchange losses	-	1,195,654
Total interest expense on financial liabilities measured at amortised cost	<b>154,551</b>	214,296
Net loss on financial instruments	-	276,223
Total other interest payable and similar charges	<b>154,551</b>	1,686,173

Total interest expense on financial liabilities measured at amortised cost include interest payable on overdrawn bank balances, paid to group undertakings of £5,304 (2020: £54,639).

## Notes to the Financial Statements (continued)

### 8 Taxation

#### Recognised in the income statement

	2021 £	2021 £	2020 £	2020 £
<i>UK corporation tax</i>				
Group relief payable	2,116,082		933,731	
Adjustments in respect of prior periods	(130,654)		(107)	
Total current tax		1,985,428		933,624
<i>Deferred tax (see note 16)</i>				
Origination and reversal of temporary differences	(11,476)		13,851	
Adjustment in respect of an increase in the tax rate	-		2,202	
Adjustments in respect of prior periods	11,713		2,318	
Total deferred tax		237		18,371
Total taxation		1,985,665		951,995

#### Reconciliation of standard tax rate

The tax assessed for the year is lower than (2020: higher than) the standard rate of corporation tax in the UK of 19.0% (2020: 19.0%). The differences are explained below:

	2021 £	2020 £
Profit for the year	9,069,838	4,008,556
Total taxation	1,985,665	951,995
Profit excluding taxation	11,055,503	4,960,551
Tax using the UK corporation tax rate of 19.0% (2020: 19.0%)	2,100,546	942,505
Effects of:		
Non-deductible expenses	7,242	5,077
Adjustments in respect of prior periods	(130,654)	2,211
Tax rate differential on temporary differences	(3,182)	-
Adjustments in respect of an increase in the tax rate	11,713	2,202
Total taxation	1,985,665	951,995

The Spring Budget 2021 announced that the UK corporation tax rate will increase to 25% from 1 April 2023. The new law was substantively enacted on 24 May 2021. The prior year deferred tax liability was calculated at 19%, as this was the enacted rate at the 2020 balance sheet date. As the 25% rate has been substantively enacted before 31 December 2021, the deferred tax liability has been re-measured at 25%. The resulting charge of £11,713 has been recognised in the income statement.

## Notes to the Financial Statements (continued)

### 9 Property, plant and equipment

	Leasehold property improvements	Plant and equipment	Fixtures & fittings	Total
	£	£	£	£
<b>Cost</b>				
Balance at 1 January 2021	905,709	4,420,995	93,173	5,419,877
Additions	28,090	238,419	-	266,509
Additions from purchase of assets from Kinolt UK Limited NBV	-	13,949	-	13,949
Disposals	-	(37,151)	-	(37,151)
Balance at 31 December 2021	933,799	4,636,212	93,173	5,663,184
<b>Accumulated Depreciation</b>				
Balance at 1 January 2021	736,770	2,534,644	43,402	3,314,816
Depreciation charge for the year	24,849	341,559	16,792	383,200
Depreciation on Disposals	-	(37,151)	-	(37,151)
Balance at 31 December 2021	761,619	2,839,052	60,194	3,660,865
<b>Net book value</b>				
At 31 December 2020	168,939	1,886,351	49,771	2,105,061
<b>At 31 December 2021</b>	<b>172,180</b>	<b>1,797,160</b>	<b>32,979</b>	<b>2,002,319</b>

On the 1 July 2021, the Company purchased trade and assets from Kinolt UK Limited at the book value.

## Notes to the Financial Statements (*continued*)

### 10 Right-of-use Assets

	Leased Property	Leased Plant and equipment	Total
	£	£	£
<b>Cost</b>			
Balance at 1 January 2021	4,956,298	464,621	5,420,919
Additions	-	66,559	66,559
Disposals	-	(107,447)	(107,447)
Additions from purchase of assets from Kinolt UK Limited	-	38,701	38,701
Balance at 31 December 2021	4,956,298	462,434	5,418,732
<b>Accumulated Depreciation</b>			
Balance at 1 January 2021	709,541	286,391	995,932
Depreciation charge for the year	354,770	128,096	482,866
Disposals	-	(101,260)	(101,260)
Additions from purchase of assets from Kinolt UK Limited	-	11,925	11,925
Balance at 31 December 2021	1,064,311	325,152	1,389,463
<b>Net book value</b>			
At 31 December 2020	4,246,757	178,230	4,424,987
<b>At 31 December 2021</b>	<b>3,891,987</b>	<b>137,282</b>	<b>4,029,269</b>

Expenses in relation to short term leases were £47,552 (2020: £20,848)

## Notes to the Financial Statements (*continued*)

### 11 Investments in Subsidiaries

	£
Cost	-
Balance at 1 January 2021	16,518,799
Additions	
Balance at 31 December 2021	16,518,799
Provision for impairment	-
Balance at 1 January 2021	(11,250,322)
Provision in year	
Balance at 31 December 2021	(11,250,322)
Net book value at 31 December 2021	5,268,477
Net book value at 31 December 2020	-

During the year, the Company acquired a 100% shareholding in Kinolt UK Limited from Kinolt Liège SA for a consideration of £17.6m, of which, £1.1m was the net value of the assets purchased. £12.4m was paid in cash and £5.2m was offset, being a loan owed by Kinolt Liège SA to Kinolt UK Limited. This loan is now owed by the Company to Kinolt UK Limited. The Directors assessed the carrying value of the Company's new investments in subsidiary undertakings at the time of the transaction and an impairment charge of £11.2m has been recognised directly in equity. No further impairment was required for the year ended 31 December 2021.

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

Company name	Share Class	Address	Principal Activity	% Holding 2021
Kinolt UK Limited	Ordinary	Unit 29 The Birches Industrial Estate, East Grinstead, West Sussex, RH19 1XZ	Supplier of Kinetic Power solutions	100



## Notes to the Financial Statements (*continued*)

### 12 Inventories

	2021	2020
	£	£
Work in progress	<b>741,594</b>	826,779
Finished goods	<b>6,665,377</b>	8,029,785
	<b>7,406,971</b>	8,856,564

Changes in finished goods, consumables and work in progress recognised as cost of sales in the year amounted to £74.0m (2020: £44.8m). Inventories are stated after provisions for impairment of £0.4m (2020: £0.4m)

### 13 Trade and other receivables

	2021	2020
	£	£
Trade receivables	<b>13,661,278</b>	9,471,486
Amounts owed by group undertakings	<b>3,794,325</b>	5,554,793
Amounts owed by group undertakings relating to cash pool	<b>50,772</b>	7,730,269
Other receivables	<b>491,783</b>	427,642
Prepayments and accrued income	<b>209,131</b>	232,080
Core charge balance held by group companies	<b>1,148,933</b>	1,220,227
Contract Assets	<b>3,572,498</b>	-
	<b>22,928,720</b>	24,636,497

Amounts owed by group undertakings are unsecured, interest free and repayable on demand. The core charge balance is unsecured, interest free and repayable on receipt of certain products by Rolls-Royce Solutions GmbH from Rolls-Royce Solutions UK Limited all amounts fall due within 1 year. A core charge is the value given to an exchange component used in the companies remanufacturing process.

No credit loss provision was required for 2021 (2020: £7,010)

## Notes to the Financial Statements (*continued*)

### 14 Trade and other payables

	2021	2020
	£	£
Trade payables	<b>1,271,169</b>	612,473
Amounts owed to group undertakings	<b>8,371,343</b>	11,577,617
Taxation and social security	<b>1,781,229</b>	594,214
Group relief	<b>2,308,758</b>	933,731
Contract liabilities	<b>6,003,298</b>	1,451,299
Other payables	-	13,294
Accruals and deferred income	<b>2,935,573</b>	5,195,201
Intercompany Loan from Kinolt UK Limited	<b>5,268,477</b>	-
	<b>27,939,847</b>	20,377,829

Amounts owed to Rolls-Royce Power Systems AG are unsecured, liable to interest and repayable on demand.

Amounts owed to Kinolt UK Limited are unsecured with no interest liable and are repayable on demand.

## Notes to the Financial Statements (*continued*)

### 15 Lease Liabilities

Leases are fixed term and do not have the right to extend or purchase the leased assets. The leases are fixed rate leases. The use of the assets enables the support of the parent company's obligations.

The weighted average borrowing rate applied to the leases is 3.44% (2020: 3.40%)

Future minimum lease payments as at 31 December 2021 are as follows:

	2021 £	2020 £
Not later than one year	526,346	556,071
Later than one year and not latest than five years	1,851,826	1,852,305
Later than five years	2,632,045	3,085,548
<b>Total gross payments</b>	<b>5,010,217</b>	<b>5,493,924</b>
Impact of finance expenses	(806,029)	(949,778)
Carrying value of liability	4,204,188	4,544,146
Of which:		
Current liabilities	441,752	409,056
Non-current liabilities	3,762,436	4,135,090
Interest expense for lease liabilities (included in finance cost)	(149,247)	(159,657)

The total cash outflow for leases in 2021 was £577,338 (2020: £604,729).

## Notes to the Financial Statements (*continued*)

### 16 Deferred Tax liabilities

*Recognised deferred tax assets and liabilities*

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2021	2020	2021	2020	2021	2020
	£	£	£	£	£	£
Property, plant and equipment	-	-	(55,588)	(44,298)	(55,588)	(44,298)
Other	12,627	7,208	-	-	12,627	7,208
	<u>12,627</u>	<u>7,208</u>	<u>(55,588)</u>	<u>(44,298)</u>	<u>(42,961)</u>	<u>(37,090)</u>
Tax assets / (liabilities)	<u>12,627</u>	<u>7,208</u>	<u>(55,588)</u>	<u>(44,298)</u>	<u>(42,961)</u>	<u>(37,090)</u>

*Movement in deferred tax during the year*

	1 January 2021	Recognised in income	Acquired Kinolt UK Limited	from 31 December 2021
	£	£		£
Property, plant and equipment	(44,298)	(5,656)	(5,634)	(55,588)
Other	7,208	5,419	-	12,627
	<u>(37,090)</u>	<u>(237)</u>	<u>(5,634)</u>	<u>(42,961)</u>

*Movement in deferred tax during the prior year*

	1 January 2020	Recognised in income	Recognised in equity	31 December 2020
	£	£	£	£
Property, plant and equipment	(24,228)	(20,070)	-	(44,298)
Other	5,509	1,699	-	7,208
	<u>(18,719)</u>	<u>(18,371)</u>	<u>-</u>	<u>(37,090)</u>

## Notes to the Financial Statements (*continued*)

### 17 Called up share capital

	2021 £	2020 £
<b>Share capital</b>		
<b>Authorised</b>		
1,000,000 (2020: 1,000,000) ordinary shares of £1 each	<b>1,000,000</b>	1,000,000
<b>Allotted, called up and fully paid</b>		
400,000 (2020: 400,000) ordinary shares of £1 each	400,000	400,000

All shares are classified in shareholders' funds.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

#### *Dividends*

No dividend has been proposed in relation to the 2021 financial statements. The value per qualifying ordinary share is £nil (2020 dividend: £8.59 per qualifying ordinary share). The aggregate amount of the dividend paid in relation to the 2021 statements is £nil. (2020: £3,434,800)

### 18 Commitments

#### *Capital commitments*

At the year ended 31 December 2021, the Company had no capital commitments (2020: £nil).

### 19 Ultimate parent company and parent company of larger group

The Company's immediate parent undertaking is Rolls-Royce Power Systems AG, a company incorporated in Germany. The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, a company incorporated in the UK.

The largest group of undertakings for which consolidated financial statements are prepared is that headed by Rolls-Royce Holdings plc and can be obtained from Kings Place, 90 York Way, London N1 9FX. The smallest group of undertakings for which consolidated financial statements are prepared is that headed by Rolls-Royce Power Systems AG which can be obtained from Maybachplatz 1, 88045, Friedrichshafen, Germany.

### 20 Contingent liabilities

In January 2017, after full cooperation, the Company 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 Company 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.