

Registration number: 00620485

# **Rolls-Royce Submarines Limited**

Annual Report and Financial Statements

for the Year Ended 31 December 2021

# **Rolls-Royce Submarines Limited**

## **Contents**

	<b>Page</b>
Company Information	1
Strategic Report	2
Directors' Report	6
Independent Auditors' Report to the members of Rolls-Royce Submarines Limited	13
Income Statement	17
Statement of Comprehensive Income	18
Balance Sheet	19
Statement of Changes in Equity	20
Notes to the Financial Statements	21

# **Rolls-Royce Submarines Limited**

## **Company Information**

<b>Directors</b>	Simon Bowen Steven Carlier Richard Carrick Steven Dearden Paul Graham Mark Gregory David Orr Rosalind Owens Lee Warren
<b>Registered number</b>	00620485
<b>Registered office</b>	Atlantic House Raynesway Derby Derbyshire DE21 7BE
<b>Independent auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors One Chamberlain Square Birmingham B3 3AX

# **Rolls-Royce Submarines Limited**

## **Strategic Report for the year ended 31 December 2021**

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

### **Principal activities**

The principal activity of the Company is that of the provision of naval reactor systems. In addition, a small range of technical and support services have been developed, based on core skills.

The Company is the technical authority for the UK Nuclear Steam Raising Plant which powers the Royal Navy's nuclear submarine fleet, managing plant design, safety, manufacture and service support.

### **Business review**

The Company uses labour and material from in-house, managed service agreements and subcontract support that are charged directly to customer contracts. Operating costs are charged to the customer at an agreed recovery rate or direct to a customer contract for the recovery of most fixed overheads.

### **Key performance indicators**

The key financial performance indicators monitored by the business were as follows:

Revenue has increased compared to the prior year by 5% to £641,590,000 (2020: £613,763,000). The increase is due to the increased site regeneration activity and fuel management work.

The profit for the financial year, after taxation, increased to £62,272,000 (2020: £57,088,000) for the year ended 31 December 2021 principally due to the changes in volume.

As at 31 December 2021 net assets were £96,238,000 (2020: £90,056,000).

Given the nature of the Company's activities, the Directors believe that no further key performance indicators are necessary or appropriate for an understanding of the Company's specific development, performance or the position of its business. However, key performance indicators relevant to the Rolls-Royce Holdings plc group (the Group) and which may be relevant to the Company, are disclosed in the Strategic Report in the Rolls-Royce Holdings plc Annual Report, which is publicly available from the address in note 23 and does not form part of this report.

### **Principal risks and uncertainties**

The Group has an established and structured approach to risk management which is detailed in the Rolls-Royce Holdings plc Annual Report, which is publicly available from the address in note 23. The Company acts in accordance with this policy to manage and mitigate the risks identified below.

The Directors have determined that the principal risks and uncertainties facing the Company are as follows:

#### **Safety**

Failure to provide safe products or create a workplace which minimises the risk of harm to our people, those who work with us, and the environment, could adversely affect our reputation and long-term sustainability. This risk is managed and mitigated through controls such as the product safety and HSE management systems, mandatory training and insurance.

# Rolls-Royce Submarines Limited

## Strategic Report for the year ended 31 December 2021 (continued)

### Principal risks and uncertainties (continued)

#### *Operating*

The Company is exposed to risks from the supply chain driven by the length between boat programmes and the relatively low volume of deliverables. The Company has a business continuity programme to reduce the risk of a loss of a significant supplier and other major disruption, and is supported by the Group.

Future geopolitical factors that lead to an unfavourable business climate and significant tensions between major trading parties or blocs could impact the Company's operations. The Company also recognises the need to identify, attract, retain and apply the critical capabilities and skills needed in appropriate numbers to effectively organise, deploy and incentivise our people to allow delivery of our strategies.

#### *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 reflecting the Company operating in a regulated industry with existing customer obligations and commitments. During the year, the Company has created its sustainability principles and framework, developed a policy including a roadmap and engaged with the supply chain.

#### *Compliance*

Non-compliance by the Company with legislation, the terms of Deferred Prosecution Agreements (DPAs) or other requirements in the regulated environment in which we operate (for example, in relation to tax compliance legislation and applicable laws and regulations arising from the Company's position as the technical authority for the UK Nuclear Steam Raising Plant) could affect our ability to conduct business in certain jurisdictions and would potentially expose the Company to: reputational damage; financial penalties; and debarment from government contracts for a period of time, each of which could have a material adverse effect. The risk is managed and mitigated through controls such as continuously developing and communicating a comprehensive suite of policies and processes, undertaking due diligence and encouraging, facilitating and investigating speak up cases.

#### *Cyber threat*

An attempt to cause harm to the Company, its customers, suppliers and partners through the unauthorised access, manipulation, corruption, or destruction of data, systems or products through cyberspace. This risk is managed and mitigated through deployment of mitigating software and programmes, provision of employee training on cyber threats and testing of software.

### Section 172(1) statement

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. In doing this, Section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- the interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct; and
- need to act fairly between members of the company.

To discharge their Section 172 duties, the Company's Directors had regard to the factors set out above in making the principal decisions taken by the Company.

# **Rolls-Royce Submarines Limited**

## **Strategic Report for the year ended 31 December 2021 (continued)**

### **Section 172(1) statement (continued)**

The Company has a range of key stakeholders including its employees, external suppliers and the UK Ministry of Defence. The Directors engage with suppliers through formal two-way board to board meetings, management level review boards and regular performance and compliance meetings. Throughout the meetings with suppliers, a wide range of performance and behavioural measures are discussed and considered, including: financial performance and stability, delivery performance and schedule adherence, safety performance and progress against targets/improvements, quality performance and people measures including employee engagement.

Following these supplier meetings, the output of the various tiered reviews within the organisation and with its stakeholders is shared with the Directors at the quarterly board meetings with all actions or recommendations documented in board meeting minutes. The Directors receive information on engagement through board papers which outline the impact of decisions on key stakeholders, they then use skills learnt during their director training to consider the impact decisions have on stakeholders and the wider community. The Directors then consider the stakeholder impacts against long-term strategy and principal risks. The Directors ensure principal risks are mitigated by adopting the Group Global Code of Conduct.

The Company Directors believe that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the financial year. Where the Directors do not engage directly with the Company's stakeholders, they are kept up to date to enable them to maintain an effective understanding of what matters to those stakeholders and can draw on these perspectives in Board decision-making. The Directors utilise their director training which highlights the S171-77 duties, including the importance of taking stakeholders into account during long-term decision making.

The Company regularly engages with the UK Ministry of Defence, as the Company is the technical authority for the UK Nuclear Steam Raising Plant which powers the Royal Navy's nuclear submarine fleet, managing plant design, safety, manufacture and service support. Engagement is regular and occurs through a variety of channels.

Throughout the COVID-19 pandemic the Directors have engaged closely with the UK government following the designation of the Group as a critical supplier and, therefore, Defence submarines' facilities remain operational whilst observing all health and safety guidance. Engagement with the UK government will continue as the Company supplies and supports the customer as required.

There is regular engagement within the Group on employee-related matters, which is taken into account during 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. Further details on how the Company specifically engages with employees can be found in the Directors' Report under the section 'Employees' (see page 10).

The Directors consider business relationships with the Company's wider stakeholders. The impact of Company operations on the environment and the communities in which it operates is embedded in all Company decision-making and risk assessment throughout the year.

The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment. We regularly engage with local community stakeholders through a Licensee Liaison Committee that includes local residents, businesses, emergency services, councillors and regulators. These provide an excellent environment to raise any concerns and quickly resolve any issues.

# **Rolls-Royce Submarines Limited**

## **Strategic Report for the year ended 31 December 2021 (continued)**

### **Section 172(1) statement (continued)**

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, which is publicly available from the address in note 23.

The Directors ensure that when making principal decisions they factor in the principal risks of the Company and the interests of all stakeholders. When any principal financial decisions are made and discussed, the Directors ensure that the consequences of the decisions over the long term to other stakeholders including employees' interests and relationships with other suppliers and customers are considered. An example of this is during dividend payments whereby the Directors must consider how the payment of a dividend impacts the Company's ability to pay suppliers, fulfil contract obligations and any employee's remuneration.

Culture is a combination of the values, attitudes and behaviours demonstrated by the Company in its activities and relations with stakeholders. The Company embodies and demonstrates the desired culture of the Group to maintain a reputation for high standards of business conduct through the adoption of the Group Policy manual which ensures that the Company embodies the philosophy to act with integrity and is trusted to deliver excellence. Further details on the Group Policy manual and the policies the Company adopts can be found in the Rolls-Royce Holdings plc Annual Report which is publicly available from the address in note 23.

### **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, including Raynesway site (flood risk and building height) and other transitional commitments.

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

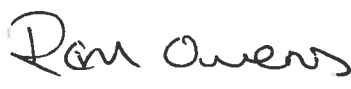
The Company is a subsidiary of the Group and therefore the SECR disclosures required in relation to both Rolls-Royce Holdings plc and the Company have been included in the Rolls-Royce Holdings plc Annual Report on page 212. The Rolls-Royce Holdings plc Annual Report has been prepared for the same financial year as the Company.

### **Impact of Ukraine and inflation**

The Company acknowledges the current conflict and stands with the people of Ukraine, as a business, our priority is to take care of our people affected by the situation and minimise any impact to our operations and to our customers.

The company continues to monitor escalating inflation across the UK and broader worldwide markets, we remain confident that we have plans in place to mitigate and recover these incremental costs and we continue to work with our direct and indirect supply base to minimise the impact and to source alternatives where appropriate.

Approved by the Board on 13 July 2022 and signed on its behalf by:



.....  
Rosalind Owens  
Director

# **Rolls-Royce Submarines Limited**

## **Directors' Report for the year ended 31 December 2021**

The Directors present their Directors Report on the Company together with the Strategic Report and 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:

Simon Bowen (appointed 13 December 2021)  
Steven Carlier  
Richard Carrick  
Steven Dearden  
Christopher Goulty (resigned 24 November 2021)  
Paul Graham  
Mark Gregory (appointed 1 January 2022)  
Harry Holt (resigned 31 December 2021)  
David Orr  
Rosalind Owens  
Lee Warren (appointed 13 December 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 this Annual Report and Financial Statements.

### **Results and dividends**

The profit for the year, after taxation for the year ended 31 December 2021 amounted to £62,272,000 (2020: £57,088,000).

The Company paid a dividend of £57,000,000 (2020: £100,000,000) on 2 September 2021 at £162.86 per share (2020: £285.71 per share). This dividend was an interim dividend with respect to the 2021 financial year. The Directors do not propose the payment of a final dividend (2020: £nil).

### **Corporate Governance arrangements**

The Company adheres to the Group governance arrangements, more information can be found in the Rolls-Royce Holding plc Annual Report on pages 68 to 107. The Company's Directors are ultimately responsible for the Company's management, general affairs, direction, performance, and the long-term success. The Board reflects the correct balance of skills required for effective decision making with representation from Legal, Finance, IT, Engineering and Assurance, and during the year, an independent non-executive director was appointed to the Board. The skills ensure that effective communication occurs during all decision making, differing insights from departments allows the interests of all stakeholders to be taken into account along with the long-term success of the Company.

The financial input ensures principal risks are considered and the impact of decisions against the long-term financial success of the Company and wider Group. To support and facilitate decision making, Directors receive training on all statutory and fiduciary duties, including the section 172 duty which is outlined in more detail in the Strategic Report. The Group also has several policies which supports decision making, namely the Decision Rights which provide context and direction on how decisions should be made in line with the Group strategy.

The Company has not applied the UK Corporate Governance Code as the Rolls-Royce Holdings plc introduced the Governance Framework which is applied by all Group UK subsidiaries.



# **Rolls-Royce Submarines Limited**

## **Directors' Report for the year ended 31 December 2021 (continued)**

### **Corporate Governance arrangements (continued)**

The Company is the technical authority for the UK Nuclear Steam Raising Plant which powers the Royal Navy's nuclear submarine fleet, managing plant design, safety, manufacture and service support. The Target Operating Model (TOM) was established as part of a formulation of new ways of working within the new legal entity from August 2018. The data below has been extracted from the model and provides some specific examples of control, regulation and framework as to how the Directors discharge their responsibilities.

The application of the Governance Framework and TOM contributes to the long-term success of the Company through the Submarines Operating Model governance structure providing a clear and simple framework of strategy, performance and assurance reviews that ensure robust compliance and control across the Company. The underlying principles are: Plan, Do and Check. The governance structure ensures delivery of key business activities that drive overall business performance. Appropriate assurance and risk management forms a fundamental part of the structure. Equally, the structure also provides and facilitates upward flow of management information along with clear escalation routes for issues and decision-making. This aligns with the fundamental principle that decisions are taken at the lowest authorised level and are based on robust data.

The structure aligns with both the Group review cycle and consists of a cycle of quarterly strategy, performance and assurance board meetings that are each underpinned by a complementary suite of quarterly and monthly review meetings. Strategic and operational matters need to be dealt with separately because each requires a different mind-set and approach. The above approach ensures the Company clearly adheres to its strategy whilst establishing a robust approach to risk management and corporate governance.

The Company has quarterly board meetings which are attended by the Directors. Formal secretarial duties are undertaken by the Governance Team. The quarterly Strategy, Performance and Assurance Committee meetings are attended by the Directors as mandated by the President - Submarines. Accurate and timely information is provided as an output of the monthly review meetings to support high quality, fast-paced decision making in the quarterly board meetings. Any decisions are explicitly agreed and communicated, as appropriate. The Directors' first lines are trusted to deliver. The Directors delegate to their first line through the quarterly and monthly review cycles and hold them accountable for delivering business activities. The overall result is an executive team that has the time to focus on growing the business, building relationships and exploring opportunities.

In addition to quarterly board meetings, the Company has quarterly and monthly review meetings. Each quarterly and monthly review meeting has a high-level Terms of Reference ('ToR') kept by the meeting chair. The ToRs define the objective of the meeting, the required attendees, the frequency and duration of meetings, the key decisions that are to be made and the inputs/outputs from other meetings, both within the governance structure and those that underpin it at a departmental/functional level. Minutes and actions are formally recorded and cascaded. The quarterly board meetings and the quarterly/monthly review meetings are integral to, and underpinned by, the monthly business reporting cycle. A brief purpose and frequency of each of the meetings in the governance structure is shown below. The board ultimately has oversight of each committee and manages the delegation of responsibilities to each committee through regular communication channels which include regular quarterly board updates from each committee.

## Rolls-Royce Submarines Limited

### Directors' Report for the year ended 31 December 2021 (continued)

#### Corporate Governance arrangements (continued)

*Rolls-Royce Submarines Limited Board:* To ensure the continued success and viability of the Submarines business and to ensure the correct discharge of the legal obligations of Rolls-Royce Submarines Limited. Frequency: Quarterly.

*Strategy Committee:* To assist the Directors by delivering customer, commercial, product and services strategy, maintaining excellence in customer relationships, delivering strategic campaigns and managing business-wide risk and opportunity. Frequency: Quarterly.

*Business Risk Review:* To assist the Strategy Committee by pro-actively seeking information from internal or external sources to inform changes in the risk profile and provide an overall view of the significant risks in the business. Frequency: Quarterly.

*Product and Services Strategy Review:* To assist the Strategy Committee by reviewing and endorsing the direction set by the product and services strategy, ensuring it aligns to business and customer objectives. Frequency: Quarterly.

*Performance Committee:* To assist the Submarines Board of Directors and the Submarines Executive Team by reviewing overall contract performance, operational efficiency and reviewing and approving the Annual Target Setting (ATS). Frequency: Monthly.

*People and Development Review:* The review includes the top level people meeting for the business which reviews the overall people capability, including talent management and succession plans from the leadership, people, ethics and culture review. Frequency: Monthly.

#### Future developments

The Company expects to continue to operate its long-term contracts for design, safety, manufacture and support associated with the Nuclear Steam Raising Plant which powers the Royal Navy's nuclear submarine fleet.

The Company provides the support, advice and material required to ensure the continued build programmes and safety and availability of nuclear powerplant systems on board the current and future fleet of Dreadnought, Vanguard, Trafalgar and Astute class submarines. This forms part of a wider suite of contracts that the Company provides on naval plant design, support, advice and components to the Royal Navy's build programme and providing enabling services such as infrastructure and IT. These suites of contracts are vital to enable the continued safety and readiness of the Royal Navy's programmes.

The Company continues to develop its capabilities to ensure that it is able to react and take advantage of any future market adjacencies.

The Company continues to engage with its customers to secure a new contract arrangement beyond 2022 at which point many of the existing contractual commitments mature. The Company expects these discussions to result in new orders to ensure that the Company's vital enduring relationship with the Royal Navy is maintained.

# **Rolls-Royce Submarines Limited**

## **Directors' Report for the year ended 31 December 2021 (continued)**

### **Financial risk management**

The Company's operations expose it to a number of financial risks. The Company does not use derivative financial instruments to manage interest rate costs and no hedge accounting is applied. Given the size of the Company, the Directors have delegated the responsibility of monitoring financial risk management to the Finance Director. The policies are implemented by the Company's finance department.

#### *Price risk*

The Company is exposed to the inflationary risks which are being experienced in the economy presently, for example, commodity price risk as a result of its operations, in particular to movements in metal prices, which are mainly purchased locally within the UK. However, given the size of the Company's operations, the costs of further managing exposure to commodity price risk exceed their potential benefits. The inflationary pressures being experienced currently are managed through our procurement processes with support from RR Group and other Senior Management action with the resultant risk being deemed acceptable. The Directors will revisit the appropriateness of this policy should the Company's operations change in size or nature. The Company's only exposure to equity securities price risk is within its pension scheme which is managed by Rolls-Royce Holdings plc.

#### *Credit risk*

The Company's credit risk is primarily attributable to non-payment by either its customers or the counterparties of its financial instruments. The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of each financial asset. The main customer of the business is the Ministry of Defence and as a result the overall credit risk to the Company is deemed to be low.

#### *Liquidity risk*

The Company considers liquidity risk is low as it has no external debt and has strong liquidity through its cash holdings and amounts due from group undertakings. This is designed to ensure the company has sufficient available funds for operations and planned expansions.

#### *Interest rate cash flow risk*

Cash and overdrafts are held at floating rates and the Company is therefore exposed to movements in interest rates. All material cash balances are held in sterling and therefore these balances are not exposed to movements in foreign exchange rates.

### **Going concern**

The Directors of the Company have prepared the Financial Statements on a going concern basis which assumes the Company will continue in operation and be able to meet its obligations as they fall due.

In forming this judgement the Directors have taken account of the current and forecast trading performance of the business for the period to 31 December 2023, including taking account of reasonably possible changes in trading performance. The nature of the Company's contracts enables it to be consistently cash generative. Management's forecasts indicate that this is expected to continue throughout the forecast period.

The Company is part of the Group banking arrangements and the Company's main bank account is subject to offset and pooling arrangements with cash and overdraft balances held by other Group entities. As a result of these arrangements the balances are presented as intercompany receivables. In making their assessment, the Directors have also considered the ability of the counterparties to settle their obligations as they fall due.

After considering the factors as set out above, the Directors have a reasonable expectation that the Company has access to sufficient financial and other resources to continue in operational existence for the foreseeable future that is at least twelve months from the date of approval of these Financial Statements. Accordingly, the Directors believe that it is appropriate that these Financial Statements are prepared on a going concern basis.

## **Rolls-Royce Submarines Limited**

### **Directors' Report for the year ended 31 December 2021 (continued)**

#### **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 3 to 5).

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 model and uses the input and feedback to inform its decision-making process. The Company utilises various engagement methods with customers, including the UK Ministry of Defence, which include regular customer engagement meetings with both the Directors and management. Engagement with all stakeholders takes place on a regular basis with discussion being fed back to the Directors during board meetings. Any follow up actions and decisions are minuted and communicated at formal two-way board to board meetings, management level review boards and regular performance and compliance meetings in a feedback loop. 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 pages 3 to 5).

# **Rolls-Royce Submarines Limited**

## **Directors' Report for the year ended 31 December 2021 (continued)**

### **Engagement with suppliers, customers and others statement (continued)**

As a result of the Group governance structure, the Rolls-Royce Holdings plc board of directors have taken the lead in carrying out the duties in respect of engaging with the Company's employees and having regard to their interests, taking into account the principal decisions taken by the Directors during the financial year and the impact of those decisions on the Company's employees. The Directors have also considered relevant matters where appropriate.

An explanation of how the Directors have carried out these responsibilities is set out above in the Directors' Report (see 'Employees').

As outlined in the Section 172 Statement in the Strategic Report (see pages 3 to 5), the Rolls-Royce Holdings plc board of directors have taken the lead in carrying out the duties in respect of some of the Company's other stakeholders. The Directors have also considered relevant matters where appropriate. An explanation of how the Rolls-Royce Holdings plc board of directors have had regard to the need to foster the Company's business relationships with suppliers, customers and others, taking into account the principal decisions taken by the Directors during the financial year, is set out in the Rolls-Royce Holdings plc Annual Report, which is publicly available from the address in note 23 and does not form part of this report.

### **Independent auditors**

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and are deemed to be reappointed under section 487(2) of the Companies Act 2006.

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

The Directors are responsible for preparing the Annual Report and 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 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 also 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.

## **Rolls-Royce Submarines Limited**

### **Directors' Report for the Year Ended 31 December 2021 (continued)**

#### **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.

The Financial Statements were signed on behalf of the board on 13 July 2022.



Rosalind Owens  
Director

## **Independent Auditors' Report to the members of Rolls-Royce Submarines Limited**

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

#### **Opinion**

In our opinion, Rolls-Royce Submarines 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 and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2021; the Income Statement, the Statement of Comprehensive Income and the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

#### **Basis for opinion**

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

#### **Independence**

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

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

We have provided no non-audit services to the Company in the period under audit.

#### **Conclusions relating to going concern**

Our evaluation of the Directors' assessment of the Company's ability to continue to adopt the going concern basis of accounting included:

- Testing the reasonableness of the forecast and assessing the assumptions used in management's going concern assessment which covers the period to December 2023.
- Management's forecasts are based on its normal budget and forecasting process. We understood and assessed this process, including the assumptions used, for 2022 and 2023 and assessed whether there was adequate support for these assumptions. We also considered the reasonableness of the monthly phasing of cash flows.

## **Independent Auditors' Report to the members of Rolls-Royce Submarines Limited (continued)**

- We assessed the adequacy of disclosures in the Going Concern statement on page 9 and the statements in note 2 of the Annual Report and found these appropriately reflect the key areas of uncertainty identified.

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.

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 the 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 the Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and the 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 the Directors' Report.



## **Independent Auditors' Report to the members of Rolls-Royce Submarines Limited (continued)**

### **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 regulations arising from the Company's position as the Technical Authority for the UK Nuclear Steam Raising Plant, 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 and tax compliance legislation. 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 such as long-term contract accounting. Audit procedures performed by the engagement team included:

- Discussions throughout the audit with management, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reviewing minutes of meetings of those charged with governance;
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias) in particular in relation to long-term contract accounting; and
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.

## **Independent Auditors' Report to the members of Rolls-Royce Submarines Limited (continued)**

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**

### **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.



Andrew Hammond (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Birmingham  
13 July 2022

# Rolls-Royce Submarines Limited

## Income Statement for the year ended 31 December 2021

	Note	2021 £ 000	2020 £ 000
Revenue	3	641,590	613,763
Cost of sales		<u>(538,318)</u>	<u>(516,927)</u>
<b>Gross profit</b>		<b>103,272</b>	<b>96,836</b>
Administrative expenses		<u>(26,937)</u>	<u>(26,414)</u>
<b>Operating profit</b>	4	<b>76,335</b>	<b>70,422</b>
Finance income	8	595	1,838
Finance costs	9	<u>(19)</u>	<u>(32)</u>
<b>Profit before taxation</b>		<b>76,911</b>	<b>72,228</b>
Tax on profit	10	<u>(14,639)</u>	<u>(15,140)</u>
<b>Profit for the financial year</b>		<b><u>62,272</u></b>	<b><u>57,088</u></b>

The above results were derived from continuing operations.

The notes on pages 21 to 40 form an integral part of these Financial Statements.

## Rolls-Royce Submarines Limited

### Statement of Comprehensive Income for the year ended 31 December 2021

	2021 £ 000	2020 £ 000
Profit for the financial year	<u>62,272</u>	<u>57,088</u>
<b>Total comprehensive income for the year</b>	<u><b>62,272</b></u>	<u><b>57,088</b></u>

The notes on pages 21 to 40 form an integral part of these Financial Statements.

# Rolls-Royce Submarines Limited

## Balance Sheet as at 31 December 2021 (Registration number: 00620485)

	Note	2021 £ 000	2020 £ 000
<b>Non-current assets</b>			
Intangible assets	11	8,485	7,355
Property, plant and equipment	12	103,605	99,727
Right-of-use assets	13	733	1,241
Deferred tax assets	10	6,446	2,520
		<b>119,269</b>	<b>110,843</b>
<b>Current assets</b>			
Inventories	14	3,404	4,856
Trade and other receivables	15	328,608	141,794
Cash and cash equivalents		40,394	103,458
		<b>372,406</b>	<b>250,108</b>
<b>Current liabilities</b>			
Trade and other payables	19	(378,989)	(250,865)
Provisions for liabilities	20	(265)	(604)
<b>Net current liabilities</b>		<b>(6,848)</b>	<b>(1,361)</b>
<b>Total assets less current liabilities</b>		<b>112,421</b>	<b>109,482</b>
<b>Non-current liabilities</b>			
Trade and other payables	19	(16,183)	(19,426)
<b>Net assets</b>		<b>96,238</b>	<b>90,056</b>
<b>Equity</b>			
Called up share capital	21	350	350
Retained earnings		95,888	89,706
<b>Total equity</b>		<b>96,238</b>	<b>90,056</b>

The Financial Statements on pages 17 to 40 were approved and authorised for issue by the Directors on 13 July 2022 and signed on its behalf by:



Rosalind Owens

Director

The notes on pages 21 to 40 form an integral part of these Financial Statements.

## Rolls-Royce Submarines Limited

### Statement of Changes in Equity For the year ended 31 December 2021

	Called up share capital £ 000	Retained earnings £ 000	Total Equity £ 000
At 1 January 2021	350	89,706	90,056
Profit for the financial year	–	62,272	62,272
Total comprehensive income	–	62,272	62,272
<b>Transactions with owners in their capacity as owners</b>			
Share-based payments - direct to equity	–	913	913
Related tax movements	–	(3)	(3)
Dividends paid	–	(57,000)	(57,000)
At 31 December 2021	350	95,888	96,238

On 2 September 2021 the Company paid a dividend of £57,000,000 (£162.86 per share) to its shareholders.

	Called up share capital £ 000	Retained earnings £ 000	Total Equity £ 000
At 1 January 2020	350	129,606	129,956
Profit for the financial year	–	57,088	57,088
Total comprehensive income	–	57,088	57,088
<b>Transactions with owners in their capacity as owners</b>			
Share-based payments - direct to equity	–	3,040	3,040
Related tax movements	–	(28)	(28)
Dividends paid	–	(100,000)	(100,000)
At 31 December 2020	350	89,706	90,056

On 26 June 2020 the Company paid a dividend of £100,000,000 (£285.71 per share) to its shareholders.

The notes on pages 21 to 40 form an integral part of these Financial Statements.

# Rolls-Royce Submarines Limited

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

### 1 General information

The Company is a private company, limited by shares and incorporated, registered and domiciled in the East Midlands, in the United Kingdom.

The principal activity of the Company is that of the provision of naval reactor systems. In addition, a small range of technical and support services have been developed, based on core skills.

The address of its registered office is Atlantic House, Raynesway, Derby, Derbyshire, DE21 7BE.

### 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.

Certain disclosures are not included where these are considered possibly sensitive given the principal activities of the Company. The Directors do not believe the omission of these disclosures materially impacts the reading of the Financial Statements.

#### Basis of preparation

The Financial Statements of Rolls-Royce Submarines Limited 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 and in accordance with the Companies Act 2006 as applicable to companies using FRS 101.

In these Financial Statements the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- The following paragraphs of IAS 1, *Presentation of Financial Statements*:
  - 10(d) (statement of cash flows);
  - 16 (statement of compliance with all IFRS);
  - 111 (statement of cash flows information); 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);
- IFRS 7 *Financial Instruments: Disclosures*;
- 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*;
- 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 in IAS 24, *Related party disclosures*, to disclose related party transactions entered into between two or more members of a 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)

## Rolls-Royce Submarines Limited

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

#### 2 Significant accounting policies (continued)

##### **Critical accounting judgements and key sources of estimation uncertainty**

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumption that has a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Statements, are as follows:

##### *Critical accounting estimate - Estimates of future revenue and costs on long-term contractual arrangements*

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

##### *Critical accounting judgement - Multi-employer defined benefit pension scheme*

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the 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 (see note 17).

##### **Going concern**

The Directors of the Company have prepared the Financial Statements on a going concern basis which assumes the Company will continue in operation and be able to meet its obligations as they fall due.

In forming this judgement the Directors have taken account of the current and forecast trading performance of the business for the period to 31 December 2023, including taking account of reasonably possible changes in trading performance. The nature of the Company's contracts enables it to be consistently cash generative. Management's forecasts indicate that this is expected to continue throughout the forecast period.

The Company is part of the Rolls-Royce group banking arrangements and the Company's main bank account is subject to offset and pooling arrangements with cash and overdraft balances held by other group entities. As a result of these arrangements the balances are presented as intercompany receivables. In making their assessment, the Directors have also considered the ability of the counterparties to settle their obligations as they fall due.

After considering the factors as set out above, the Directors have a reasonable expectation that the Company has access to sufficient financial and other resources to continue in operational existence for the foreseeable future that is at least twelve months from the date of approval of these Financial Statements. Accordingly the directors believe that it is appropriate that these Financial Statements are prepared on a going concern basis.

##### **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.



# **Rolls-Royce Submarines Limited**

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

### **2 Significant accounting policies (continued)**

#### **Foreign currency transactions and balances**

Items included in the Financial Statements of the Company are measured using the currency of the primary economic environment in which the Company operates ('the functional currency'). The Financial Statements are presented in 'Pounds Sterling' (£), which is also the Company's functional currency.

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 date the fair value was determined. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated. Foreign exchange differences arising on translation are recorded in the income statement.

#### **Revenue recognition**

Revenues comprise sales to external and internal customers, excluding value added taxes, in respect of deliveries made, or work completed, during the year. In the case of long-term contracts, revenue is based on the estimated sale value of the work completed during the year.

##### *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.

Contract work in progress is stated at costs incurred, less those transferred to the Income Statement, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in receivables and represent revenue recognised in excess of payments on account.

#### **Service concession arrangements**

The Company holds a number of contracts to regenerate and sustain capability, which meets the conditions of IFRIC 12 *Service Concession Arrangements*. Accordingly, the Company does not recognise that infrastructure as property, plant and equipment because the contractual service arrangement does not convey to it the right to control the infrastructure.

#### **Finance income and costs**

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

#### **Taxation**

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except that a change attributable to an item of income or expense recognised in equity or other comprehensive income is also recognised directly in equity or other comprehensive income.

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

## Rolls-Royce Submarines Limited

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

#### 2 Significant accounting policies (continued)

##### Taxation (continued)

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

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

##### 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 on a straight-line basis over its useful economic life, up to a maximum of five years.

##### 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 and right-of-use assets over their estimated useful lives.

##### Asset class

Freehold property

Short term leasehold property

Plant and machinery

Assets under construction are not depreciated.

##### Depreciation method and rate

5 to 40 years

Over the period of the lease

3 to 25 years

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

##### Impairment of non-financial assets

Impairment of non-current assets is considered in accordance with IAS 36 *Impairment of Assets*. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit to which the asset belongs. Intangible assets that are not yet available for use are tested for impairment annually. Other intangible assets and property, plant and equipment are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs to sell, if this is readily available. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset.

# Rolls-Royce Submarines Limited

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

### 2 Significant accounting policies (continued)

#### **Inventories**

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

#### **Financial assets and liabilities**

##### **Classification**

##### **Financial assets**

Financial assets primarily include trade receivables and cash and cash equivalents (comprising cash at bank).

- Trade receivables and contract assets are classified as held to collect and measured at amortised cost; and
- Cash and cash equivalents (consisting of balances with banks and other financial institutions) are subject to low market risk. Cash balances are measured at fair value through profit and loss (FVPL).

##### **Financial liabilities**

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

##### **Impairment**

IFRS 9 *Financial Instruments* sets out the basis for the accounting of expected credit losses (ECLs) on financial assets and contract assets resulting from transactions within the scope of IFRS 15. The Company has adopted the simplified approach to provide for ECLs, measuring the lifetime loss allowance at a probability weighted amount that considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions of customers. These are incorporated in the simplified model adopted by using credit ratings which are publicly available or through internal risk assessments derived using customer's latest available financial information. The ECLs are updated at each reporting date to reflect changes in credit risk since initial recognition. ECLs are calculated for all financial assets in scope, regardless of whether or not they are overdue.

##### **Trade and other receivables**

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less, or in the normal operating cycle of the business if longer, they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The Company makes an estimate of the recoverable value of trade and other receivables. When assessing the impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets (see impairment of financial assets).

# **Rolls-Royce Submarines Limited**

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

### **2 Significant accounting policies (continued)**

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash on hand and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

#### **Trade and other payables**

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less, or in the normal operating cycle of the business if longer. If not, they are presented as non-current liabilities. Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

#### **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. The Company has chosen not to present contract liabilities and contract assets as a separate line item on the balance sheet but to include within the trade and other payables note (note 19) and trade and other receivables (note 15).

#### **Leases**

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Company.

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

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or a rate; and
- payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

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

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.

## **Rolls-Royce Submarines Limited**

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

#### **2 Significant accounting policies (continued)**

##### **Defined benefit 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. The scheme closed to future accrual on 31 December 2020 and as such, no further contributions are expected.

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 in note 23 of 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; and
- 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.

##### **Provisions for liabilities**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date and are discounted to present value where the effect is material.

## Rolls-Royce Submarines Limited

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

#### 2 Significant accounting policies (continued)

##### Called-up share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

##### Dividends

Final dividend distributions to the Company's shareholders are recognised as a liability in the Company's Financial Statements in the period in which the dividends are approved by the Company's shareholders.

Interim dividend distributions to the Company's shareholders are recognised as a liability in the Company's Financial Statements in the period in which the dividends are paid by the Company's shareholders.

##### Rounding of amounts

All amounts in the Financial Statements have been rounded to the nearest thousand Pound Sterling unless otherwise stated.

#### 3 Revenue

The analysis of the Company's revenue for the year is as follows:

	2021	2020
	£ 000	£ 000
Internal to other Rolls-Royce Holdings plc group undertakings	3,307	4,152
External to the Rolls-Royce Holdings plc group	638,283	609,611
<b>Total</b>	<b>641,590</b>	<b>613,763</b>

The whole of the revenue is attributable to the provision of naval reactor systems and a small range of technical and support services.

All revenue arose within the United Kingdom.

#### 4 Operating profit

Arrived at after charging/(crediting):

	2021	2020
	£ 000	£ 000
Depreciation charge on property, plant and equipment	9,323	6,540
Amortisation charge on intangible assets	1,943	1,869
Depreciation charge of right-of-use assets	508	518
(Reversal of impairment)/impairment losses on trade receivables	(103)	204

The total cash outflow for leases in the financial year was £539,000 (2020: £531,000).

# Rolls-Royce Submarines Limited

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

### 5 Staff costs

The aggregate payroll costs (including Directors' remuneration) were as follows:

	2021 £ 000	2020 £ 000
Wages and salaries	191,117	174,147
Social security costs	21,749	19,962
Share-based payment expenses	913	3,040
Other pension costs	18,300	22,755
	<u>232,079</u>	<u>219,904</u>

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

	2021 No.	2020 No.
Employees	<u>3,329</u>	<u>3,032</u>

### 6 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2021 £ 000	2020 £ 000
Remuneration	<u>1,439</u>	<u>1,362</u>

Remuneration does not include contributions to pensions or amounts receivable under long-term incentive schemes.

Contributions to defined benefit pension schemes during the year were £nil (2020: £59,000) and contributions to defined contribution pension schemes during the year were £57,000 (2020: £10,000). Aggregate amounts receivable under long-term incentive schemes were £105,000 (2020: £58,000).

During the year the number of Directors who were receiving benefits and share incentives was as follows:

	2021 No.	2020 No.
Exercised share options	–	7
Received shares under the long-term incentive schemes	7	7
Accruing benefits under defined benefit pension scheme	–	3
Accruing benefits under money purchase pension scheme	<u>5</u>	<u>2</u>

## Rolls-Royce Submarines Limited

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

#### 6 Directors' remuneration (continued)

In respect of the highest paid Director:

	2021 £ 000	2020 £ 000
Aggregate of remuneration	<u>573</u>	<u>335</u>

Aggregate of remuneration does not include contributions to pensions but does include amounts receivable under long-term incentive schemes.

Contributions to defined contribution pension schemes were £10,000 (2020: £10,000). There were no (2020: no) contributions to the defined benefit schemes.

During the current year, the highest paid Director did not exercise share options (2020: did exercise share options) and during the current and prior years received shares in respect of qualifying services under a long-term incentive scheme.

#### 7 Auditors' remuneration

The fees for the audit of the Company Financial Statements for the year ended 31 December 2021 were £160,000 (2020: £146,000) and were paid by Rolls-Royce plc and not recharged.

No (2020: no) amounts were paid to the Company's auditors for non-audit services.

#### 8 Finance income

	2021 £ 000	2020 £ 000
Foreign exchange gain	593	1,451
Interest receivable	<u>2</u>	<u>387</u>
	<u>595</u>	<u>1,838</u>

#### 9 Finance costs

	2021 £ 000	2020 £ 000
Interest charge on lease liabilities	19	28
Other interest payable	<u>-</u>	<u>4</u>



# Rolls-Royce Submarines Limited

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

### 10 Tax on profit

Tax charged in the income statement:

	2021 £ 000	2020 £ 000
<b>Current tax</b>		
Group relief payable at 19% (2020: 19%)	16,571	15,966
Adjustments in respect of prior years	303	(72)
UK corporation tax charge on profit for the year	1,694	1,367
	<u>18,568</u>	<u>17,261</u>
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(4,000)	(2,528)
Adjustments in respect of an increase in the tax rate	500	287
Adjustments in respect of prior years	(429)	120
Total deferred taxation	<u>(3,929)</u>	<u>(2,121)</u>
<b>Tax expense in the income statement</b>	<u>14,639</u>	<u>15,140</u>

The tax on profit before tax for the year is higher than (2020: higher than) the standard rate of corporation tax in the UK of 19% (2020: 19%).

The differences are reconciled below:

	2021 £ 000	2020 £ 000
<b>Profit before taxation</b>	<u>76,911</u>	<u>72,228</u>
Corporation tax at standard rate	14,613	13,723
Adjustments in respect of prior years	(126)	48
Expenses not deductible for tax	206	1,082
Adjustments in respect of an increase in the tax rate	500	287
Tax rate differential on temporary differences	(554)	-
<b>Total tax charge</b>	<u>14,639</u>	<u>15,140</u>

# Rolls-Royce Submarines Limited

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

### 10 Tax on profit (continued)

#### Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
<b>2021</b>			
Accelerated tax depreciation	294	-	294
Other items	6,152	-	6,152
	<u>6,446</u>	<u>-</u>	<u>6,446</u>
<b>2020</b>			
Accelerated tax depreciation	-	(1,607)	(1,607)
Other items	4,127	-	4,127
	<u>4,127</u>	<u>(1,607)</u>	<u>2,520</u>

Deferred tax movement during the year:

	At 1 January 2021 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2021 £ 000
Accelerated tax depreciation	(1,607)	1,901	-	294
Other items	4,127	2,028	(3)	6,152
Net tax assets	<u>2,520</u>	<u>3,929</u>	<u>(3)</u>	<u>6,446</u>

Deferred tax movement during the prior year:

	At 1 January 2020 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2020 £ 000
Accelerated tax depreciation	(2,525)	918	-	(1,607)
Other items	2,952	1,203	(28)	4,127
Net tax assets	<u>427</u>	<u>2,121</u>	<u>(28)</u>	<u>2,520</u>

# Rolls-Royce Submarines Limited

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

### 10 Tax on profit (continued)

Other items include £5,847,000 (2020: £3,806,000) in respect of R&D tax credits, £293,000 (2020: £293,000) in respect of advance corporation tax and £12,000 (2020: £28,000) other temporary differences.

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 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 relevant deferred tax assets and liabilities have been re-measured at 25%.

The resulting charge 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, £500,000 (2020: £287,000) has been charged to the income statement and £1,000 (2020: £2,000) has been credited to equity.

### 11 Intangible assets

	Assets under construction £ 000	Software £ 000	Total £ 000
<b>Cost</b>			
At 1 January 2021	3,181	6,941	10,122
Additions	2,283	791	3,074
Disposals	–	(2,441)	(2,441)
Transfer between classes	(1,347)	1,347	–
At 31 December 2021	4,117	6,638	10,755
<b>Accumulated amortisation</b>			
At 1 January 2021	–	2,767	2,767
Amortisation charge	–	1,943	1,943
Amortisation eliminated on disposals	–	(2,440)	(2,440)
At 31 December 2021	–	2,270	2,270
<b>Net book value</b>			
At 31 December 2021	4,117	4,368	8,485
At 31 December 2020	3,181	4,174	7,355

Amortisation of £1,943,000 (2020: £1,869,000) is included in cost of sales in the income statement.

# Rolls-Royce Submarines Limited

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

### 12 Property, plant and equipment

	Freehold property £ 000	S/Term leasehold property £ 000	Plant and machinery £ 000	Assets under construction £ 000	Total £ 000
<b>Cost</b>					
At 1 January 2021	24,551	51,344	29,380	21,462	126,737
Additions	-	-	3,849	9,750	13,599
Transfer between classes	450	-	11,675	(12,125)	-
Disposals	(342)	(462)	(981)	-	(1,785)
At 31 December 2021	24,659	50,882	43,923	19,087	138,551
<b>Accumulated depreciation</b>					
At 1 January 2021	1,864	14,460	10,686	-	27,010
Charge for the year	423	2,483	6,417	-	9,323
Eliminated on disposals	(168)	(329)	(890)	-	(1,387)
At 31 December 2021	2,119	16,614	16,213	-	34,946
<b>Net book value</b>					
At 31 December 2021	22,540	34,268	27,710	19,087	103,605
At 31 December 2020	22,687	36,884	18,694	21,462	99,727

Depreciation of £9,323,000 (2020: £6,540,000) is included in cost of sales in the income statement.

At 31 December 2021 the Company was committed to capital expenditure of £10,970,000 (2020: £5,677,000).

### 13 Right-of-use assets

	Land and buildings £ 000	Plant and equipment £ 000	Total £ 000
<b>Cost</b>			
At 1 January 2021	2,175	95	2,270
At 31 December 2021	2,175	95	2,270
<b>Accumulated depreciation</b>			
At 1 January 2021	978	51	1,029
Charge for the year	485	23	508
At 31 December 2021	1,463	74	1,537
<b>Net book value</b>			
At 31 December 2021	712	21	733
At 31 December 2020	1,197	44	1,241

Depreciation of £508,000 (2020: £518,000) is included in cost of sales in the income statement.

## Rolls-Royce Submarines Limited

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

#### 14 Inventories

	2021 £ 000	2020 £ 000
Raw materials and consumables	2,105	1,410
Work in progress	1,299	3,446
	<u>3,404</u>	<u>4,856</u>

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

Inventories are stated after provisions for impairment of £nil (2020: £nil).

#### 15 Trade and other receivables

	2021 £ 000	2020 £ 000
Trade receivables	35,704	27,590
Amounts owed by group undertakings	245,335	63,185
Prepayments and accrued income	2,247	3,064
Contract assets	31,570	34,046
Other receivables	13,752	13,909
Total trade and other receivables	<u>328,608</u>	<u>141,794</u>

Amounts owed by group undertakings are unsecured, interest-free, have no fixed date of repayment and are repayable on demand. Amounts owed to group undertakings are stated after a loss allowance of £205,000 (2020: £330,000).

Trade and other receivables are stated after a loss allowance of £28,000 (2020: £6,000).

# Rolls-Royce Submarines Limited

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

### 16 Leases

The Company has lease contracts for various offices, warehouses, equipment and tools used in the operations. The amounts recognised in the Financial Statements in relation to the leases are as follows:

#### Amounts recognised in the Balance Sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2021 £ 000	31 December 2020 £ 000
<b>Right-of-use assets</b>		
Land and buildings	712	1,197
Plant and machinery	21	44
	<u>733</u>	<u>1,241</u>
<b>Lease liabilities</b>		
Current liabilities	523	520
Non-current liabilities	233	751
	<u>756</u>	<u>1,271</u>

Additions to right-of-use assets during the 2021 financial year were £nil (2020: £6,000).

	2021 £ 000	2020 £ 000
Future minimum lease payments on leases at 31 December:		
Within one year	532	539
In one to five years	229	761
<b>Total gross payments</b>	<u>761</u>	<u>1,300</u>
Impact of finance expenses	(5)	(29)
<b>Carrying amount of liability</b>	<u>756</u>	<u>1,271</u>

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 31 December 2021 was 1.8% (2020: 1.8%).

#### Amounts recognised in the Income Statement

The Income Statement shows the following amounts relating to leases:

	2021 £ 000	2020 £ 000
Depreciation charge of right-of-use assets		
Land and buildings	485	489
Plant and machinery	23	29
	<u>508</u>	<u>518</u>
Interest expense (included in finance cost)	<u>19</u>	<u>28</u>

The leases primarily relate to land and buildings leased for between one and five years. The remaining leases relate to plant and machinery leased over one to two years.

## **Rolls-Royce Submarines Limited**

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

#### **17 Pension arrangements**

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: £11,958,000) representing its contributions paid to the Group for the year.

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 23.

The Company also operates a defined contribution scheme for employees. The pension cost for the year was £18,477,000 (2020: £10,797,000) and there were no outstanding or prepaid contributions at 31 December 2021 (2020: £nil).

#### **18 Share-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.

# Rolls-Royce Submarines Limited

## Notes to the Financial Statements for the Year Ended 31 December 2021 (continued)

### 18 Share-based payments (continued)

The weighted average share price at the date share options were exercised was 119p (2020: 203p).  
The closing price at 31 December 2021 was 123p (2020: 111p).

#### Share options outstanding:

Grant - vest	Expiry date 31 January	Exercise price in pence per share option	ShareSave share options (No. 000)	
			2021	2020
2015-2021	2021	212	-	210
2017-2021	2021	260	-	202
2017-2023	2023	260	104	262
2017-2023	2023	232	185	533
2019-2025	2025	232	165	440
2021 -2025	2025	97	6,017	-
			<b>6,471</b>	<b>1,647</b>

The weighted average remaining contractual life for the cash-settled options at 31 December 2021 was 3.0 years (2020: 3.1 years).

### 19 Trade and other payables

#### Current:

	2021 £ 000	2020 £ 000
Trade payables	21,744	26,637
Accruals	40,485	25,055
Amounts due to group undertakings	137,373	19,406
Social security and other taxes	5,834	14,324
Other payables	33,166	22,547
Contract liabilities	139,864	142,376
Lease liabilities	523	520
	<b>378,989</b>	<b>250,865</b>

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

#### Non-current:

	2021 £ 000	2020 £ 000
Contract liabilities	15,950	18,675
Lease liabilities	233	751
	<b>16,183</b>	<b>19,426</b>



# Rolls-Royce Submarines Limited

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

### 20 Provisions for liabilities

	Other provisions £ 000
At 1 January 2021	604
Additional provisions	544
Provisions utilised	(883)
At 31 December 2021	<u>265</u>

#### *Other provisions*

Other provisions comprised a number of liabilities which are expected to be utilised within the next 12 months.

### 21 Called up share capital

#### Allotted and fully paid

	2021		2020	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	<u>350</u>	<u>350</u>	<u>350</u>	<u>350</u>

### 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.

## **Rolls-Royce Submarines Limited**

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

#### **23 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 the registered office of these companies: Kings Place, 90 York Way, London, United Kingdom, N1 9FX.

#### **24 Related party transactions**

Transactions with Directors also included consultancy services. Payments amounting to £68,000 (2020: £nil) were made in respect of services rendered through a third-party supplier.