

Registration number: 04691779

Rolls-Royce Solutions UK Limited

Annual Report and Financial Statements

for the Year Ended 31 December 2022

Rolls-Royce Solutions UK Limited

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Company Information

Directors	Kevin Daffey Tobias Ostermaier Bruce Phillips Samuel Weckel
Company Secretary	Emma Greenfield
Registered number	04691779
Registered office	Rolls-Royce plc Moor Lane Derby Derbyshire England DE24 8BJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Temple Quay Bristol BS2 0FR United Kingdom

Strategic Report for the year ended 31 December 2022

The Directors present their Strategic Report on Rolls-Royce Solutions UK Limited (the Company) together with the Directors' Report and the audited Financial Statements for the year ended 31 December 2022.

Principal activities

Rolls-Royce Power Systems (RRPS) provides world-class power solutions and complete life-cycle support under the product and solution brand *mtu*. Rolls-Royce Solutions UK Limited is a wholly-owned subsidiary of RRPS, who in turn is a wholly owned subsidiary of Rolls-Royce Holdings Plc (the Group) and is responsible for selling and servicing the comprehensive portfolio of *mtu* branded products and systems, based on both gas and diesel engines, as well as electrified hybrid systems to our customers in the UK and Ireland serving our core markets: Power Generation, Marine, Rail and Defence.

Business review

The results for the year and the financial position of the Company are as shown in the annexed financial statements. The Company had revenue in 2022 of £111,097,000 (2021: £90,984,000) and pre-tax profit of £14,200,000 (2021: 11,056,000). Revenues increased in 2022 by 22% (2021: 61%).

The Company has witnessed an increase in revenues in each of its' core markets. Power Generation remains the largest sector and the Company has had continued growth in 2022 with an increase in revenue of 21.4% (2021: 224%). This growth has predominantly been driven by an increase in demand for backup diesel generators for the datacentre market.

The company's Marine revenues are derived primarily from the sale of original equipment to production yacht builders. Increased activity in this sector during the year has driven an overall increase in revenues of 39% (2021: 18%). The third core market for the Company is Rail. In the UK the Rail market is almost exclusively a service market whereby revenues are generated from ongoing maintenance activities to support the large installed base of *mtu* engines and powerpacks in operation across the rail networks in the UK and Ireland.

The overall service revenue within the Company grew by 24% in 2022 (2021: 14% increase).

The Kinetic Power revenue fell by 56% (2021: 100% (new market)) in 2022 due to a large project completing in early 2022 and no other large projects being undertaken in 2022.

The Company had net current assets £18,097,000 (2021: 1,954,000). This increase is driven by higher cash balance because of increased customer advance payments in the year. The Company continues to actively manage its net asset value by managing control of inventory, keeping overdue customer debts to a minimum and actively paying suppliers to terms. The Company, through its departments and staff, continues to work to maximise its opportunities.

Strategic Report for the year ended 31 December 2022

Key performance indicators (KPI)

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

	2022	2021
Revenue increase (%)	22%	61%
Gross profit margin (%)	18.6%	18.6%
Revenue per FTE (£'000)	£500	£599
ROS (return on sales) (%)	12.8%	12.1%
ROCE (return on capital employed) (Operating Profit/Net Assets) (%)	61%	116%

The revenue increase in 2022 has been seen in the Marine and Power generation original equipment sales area and in after sales. There is no change in the gross profit margin in 2022 as the mix of original equipment sales and service activities is similar to the previous year.

The average revenue per FTE decreased in 2022 due to a higher average headcount compared to 2021. The slight change in ROS reflects higher finance income in 2022. ROCE decreased in 2022 due to significant increase in net assets – trade receivables relating to amounts owed by group undertakings (Cash Pooling).

Non-financial indicators include number of sickness days which was an average of 0.94 days per staff in 2022 (2021: 2.28 days). This low level of sickness has minimal impact on the business.

With the ongoing awareness and reinforced processes, the Company continues to look at ways of managing its business through the effective implementation of KPI reviews.

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.

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 21. The Company acts in accordance with the policies as set out in the Group accounts to manage and mitigate the risks identified. The Directors of the Company's ultimate parent have approved policies for the management of the foreign currency exchange rate risk and these are managed across the Rolls-Royce Holdings plc group.

The principal financial risks to which the Company is exposed are detailed in the Directors Report. The Directors do not consider there to be any additional principal risks for the Company.

Strategic Report for the year ended 31 December 2022 (continued)

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.

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

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

The Directors believe that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2022.

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

Climate-related corporate reporting

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 30. The Company is aligned to the objectives of the Group. The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment.

Streamlined Energy & Carbon Reporting (SECR)

The Company is a subsidiary within 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 pages 31 to 35. The Rolls-Royce Holdings plc Annual Report has been prepared for the same financial year as the Company.

Approved by the Board on 12th June 2023 and signed on its behalf by:


.....
Bruce Phillips
Director

Directors' Report

for the year ended 31 December 2022

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 2022.

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:

Kevin Daffey (Appointed 1 October 2022)

Andreas Görtz (Resigned 21 September 2022)

Tobias Ostermaier (Appointed 1 October 2022)

Bruce Phillips

Samuel Weckel

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 after taxation for the year ended 31 December 2022 amounted to £11,633,000 (2021: £9,070,000). The Company paid no dividend in 2022 (2021: £Nil) at £nil per share (2021: £Nil per share). The Directors have not yet proposed the payment of a final dividend for 2022 (2021: £nil).

Future developments

The future strategy of the Company in each of its core markets is closely aligned to the overarching strategy of the parent RRPS group in the corresponding market sectors. Fundamentally, the Company aims to leverage the increasing portfolio of *mtu* branded products and systems to increase sales of original equipment and to secure and, if possible, increase market share in each of its core markets. The company is also increasing its focus on the sale of solutions, with an increased scope of supply, and on emerging markets for sustainable solutions such as microgrids and battery energy storage systems (BESS).

Through the sale of original equipment, the Company aims to increase the installed base of products being operated by customers in the UK and Ireland from which it can then generate additional parts and service revenues. Wherever possible the Company seeks to secure long term ValueCare service agreements (VCA) with its' customers. The VCA agreements are tailored to meet the needs of individual customers and include the provision of parts and preventative/corrective service activities. Furthermore, the Company offers remote digital services to connect customer assets and then analyse their performance and optimise the ongoing maintenance activities.

The long-term outlook for the company remains positive. The Company is witnessing sustained levels of high demand in key industry sectors such as the datacentre market and is developing a promising pipeline of opportunities for some of the new sustainable products, e.g. BESS, which are being developed. Nevertheless, many of the markets are changing, some rapidly, as customers strive to reduce both greenhouse gas (GHG) emissions and cost. It is, therefore, important that the Company regularly reviews its strategy to ensure it maintains/increases market share in its traditional core markets and is well positioned to take advantage of emerging opportunities.

The increasing installed base of products and the focus on securing new long-term VCA agreements has contributed to the increase in after sales revenues, which now represent 50% of overall revenues, and provide the Company with a strong and stable foundation on which it can continue to build.

Directors' Report **for the year ended 31 December 2022 (continued)**

Future developments (continued)

Collectively, the Board possess an extensive and diverse competence that not only helps maintain the current business but also ensures the appropriate future direction and continued profitable growth.

Financial risk management

The following financial risks are considered key by the Directors:

Foreign exchange risks

These include forward foreign exchange deals made by RRP's head office in Germany on the Company's behalf who hold them with Rolls-Royce Plc, who mirror the deals with external banks. Group treasury guidelines require that, where appropriate, hedges are used to minimise risk. Regular communications of funds to exchange from euros to sterling are made to facilitate risk reduction.

Price risks

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

Credit risks

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

Liquidity risk

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

Interest rate cash flow risk

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

Cash pooling

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

Going concern

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

Rolls-Royce Power Systems AG, the parent undertaking of the smallest group to consolidate the Company's financial statements, has provided written confirmation of its intention to continue to provide financial support to the Company such that the Company is able to operate as a going

Directors' Report for the year ended 31 December 2022 (continued)

Going concern (continued)

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

Engagement with suppliers, customers, and others

The Company aims to foster enduring relationships with its stakeholders as identified in the Section 172 statement in the Strategic Report (see pages 2 to 4).

The Company's activities affect a wide range of stakeholders and the Company engages with these stakeholders and listens to their differing inputs and priorities as an everyday part of its business and uses the input and feedback to inform its decision-making process. The Company utilises various engagement methods with its customers which include regular customer reviews. The outcome of these meetings is presented in the Company's monthly management meeting, and to the Directors at quarterly board meetings. These reviews are documented in the minutes of those Board meetings.

Engagement with all stakeholders takes place on a regular basis. Quarterly company meetings are held with all staff invited to attend, where updates on topics such as health and safety, business performance and people.

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

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

The Rolls-Royce Holdings plc group, of which the Company is a part, is committed to continuing communication and dialogue with employees. The existence of a group-wide intranet enables engagement and communication with employees throughout the Group on a single platform. The Company and employee representatives continue to work closely together to improve the quality of employee engagement and participation in the development of the business.

The Company's investment in training and development programmes ensures that all employees have the opportunity to attain the highest level of skill and employees are encouraged to take responsibility for their personal development. Opportunities are available to extend their competency levels using a range of the latest education and training techniques. The use of appraisal systems and personal development planning enabled managers to support employees in their careers.

The Group policy on diversity and equality continues to develop in consultation with employee representatives and the Company continues to be committed to equal opportunities and developing a diverse and inclusive workforce.

Directors' Report for the year ended 31 December 2022 (continued)

Engagement with suppliers, customers, and others (continued)

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

Branches

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

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.

Directors' confirmations

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Approved by the Board on 12th June 2023 and signed on its behalf by:


.....
Bruce Phillips
Director

Independent Auditors' Report to the members of Rolls-Royce Solutions UK Limited

Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce Solutions UK Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2022 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, including 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 2022; the income statement, the statement of comprehensive income and statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Independent Auditors' Report to the members of Rolls-Royce Solutions UK Limited (continued)

Reporting on other information

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

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

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

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2022 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the Financial Statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Independent Auditors' Report to the members of Rolls-Royce Solutions UK Limited (continued)

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 the Companies Act 2006, 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 tax regulation.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting of inappropriate journal entries to manipulate financial results; management bias in accounting estimates; and inappropriate treatment of significant transactions outside of the normal course of business.. Audit procedures performed by the engagement team included:

- Enquiring with management regarding any known or suspected instances of non-compliance with laws and regulation and whether there was any alleged or suspected fraud matters;
- Reviewing minutes of management and board meetings during the year and up to the date of approval of the Annual Report and Financial Statements;
- Reviewing the disclosures within the Annual Report and Financial Statements against the specific legal and accounting frameworks and assessing the compliance of disclosures against relevant legislation.
- Auditing the risk of management override of controls, through testing journal entries and other adjustments for appropriateness and challenging the assumptions used by management in the determination of accounting estimates and one off transactions; and

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

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

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other

Independent Auditors' Report to the members of Rolls-Royce Solutions UK Limited (continued)

Use of this report (continued)

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.

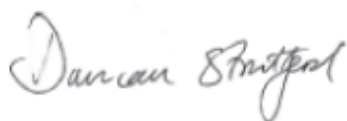
Other required reporting

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.



Duncan Stratford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
12th June 2023

Rolls-Royce Solutions UK Limited

Income Statement for the year ended 31 December 2022

	Note	2022 £ 000	2021 £ 000
Revenue	3	111,097	90,984
Cost of sales		<u>(90,453)</u>	<u>(74,022)</u>
Gross profit		20,644	16,962
Administrative expenses		(7,766)	(6,006)
Other operating income		<u>-</u>	<u>24</u>
Operating profit	4	12,878	10,980
Finance income	8	1,467	230
Finance costs	9	<u>(145)</u>	<u>(154)</u>
Profit before taxation		14,200	11,056
Tax on profit	10	<u>(2,567)</u>	<u>(1,986)</u>
Profit for the financial year		<u>11,633</u>	<u>9,070</u>

The above result were derived from continuing operations.

The notes on pages 17 to 38 form an integral part of these Financial Statements.

Rolls-Royce Solutions UK Limited

Statement of Comprehensive Income for the year ended 31 December 2022

	2022 £ 000	2021 £ 000
Profit for the financial year	<u>11,633</u>	<u>9,070</u>
Total comprehensive income for the year	<u>11,633</u>	<u>9,070</u>

The notes on pages 17 to 38 form an integral part of these Financial Statements.

Rolls-Royce Solutions UK Limited

Balance Sheet as at 31 December 2022 (Registration number: 04691779)

	Note	2022 £ 000	2021 £ 000
Non-current assets			
Property, plant and equipment	11	2,680	2,003
Right-of-use assets	12	3,760	4,029
Investments	13	–	5,268
Deferred tax assets	10	121	–
		6,561	11,300
Current assets			
Inventories	14	9,533	7,407
Trade and other receivables	15	59,828	19,356
Contract assets	16	182	3,572
		69,543	30,335
Current liabilities			
Borrowings and lease liabilities	17	(415)	(442)
Trade and other payables	18	(37,514)	(21,936)
Contract liabilities	16	(13,517)	(6,003)
		18,097	1,954
Net current assets		24,658	13,254
Total assets less current liabilities		24,658	13,254
Non-current liabilities			
Borrowings and lease liabilities	17	(3,576)	(3,762)
Deferred tax liabilities	10	–	(43)
		21,082	9,449
Net assets		21,082	9,449
Equity			
Called up share capital	19	400	400
Other reserves		(11,250)	(11,250)
Retained earnings		31,932	20,299
Total equity		21,082	9,449

The Financial Statements on pages 13 to 38 were approved and authorised for issue by the Board of Directors on 12th June 2023 and were signed on its behalf by:



Bruce Phillips

Director

The notes on pages 17 to 38 form an integral part of these Financial Statements.

Rolls-Royce Solutions UK Limited

Statement of Changes in Equity For the year ended 31 December 2022

	Called up share capital £ 000	Retained earnings £ 000	Other reserves £ 000	Total Equity £ 000
At 1 January 2022	400	20,299	(11,250)	9,449
Profit for the financial year	–	11,633	–	11,633
Total comprehensive income	–	11,633	–	11,633
At 31 December 2022	400	31,932	(11,250)	21,082

	Called up share capital £ 000	Retained earnings £ 000	Other reserves £ 000	Total Equity £ 000
At 1 January 2021	400	14,664	–	15,064
Profit for the financial year	–	9,070	–	9,070
Total comprehensive income	–	9,070	–	9,070
Transactions with owners in their capacity as owners				
Loss on business combination under common control	–	–	(11,250)	(11,250)
Dividends paid	–	(3,435)	–	(3,435)
At 31 December 2021	400	20,299	(11,250)	9,449

On 7 September 2021, the Company paid a dividend of £3,434,800 (£8.59 per share) to its shareholders relating to the 2020 annual accounts.

The notes on pages 17 to 38 form an integral part of these Financial Statements.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022

1 General information

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

The principal activity of the Company is the sales and service of off highway diesel engines primarily in our core markets: Rail, Marine, Power generation and Kinetic power.

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

2 Significant accounting policies

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

Basis of preparation

The Financial Statements of the Company have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Financial Statements have been prepared under the historical cost convention and in accordance with the Companies Act 2006.

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);
- 38A-38B (detail in respect of minimum comparative information);
- 38C-38D (additional comparative information);
- 111 (statement of cash flows information); and
- 134-136 (capital management disclosures).

- IAS 7, *Statement of cash flows*;

- 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 79(a)(iv) of IAS 1.

- 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);

- Paragraph 18A of IAS 24, *Related party disclosures* (disclosure of amounts incurred by the entity for the provision of key management personnel services that are provided by a separate management entity);

- IFRS 16 *Leases*:

- Lessees – Exemption from the requirements of paragraph 52 is available when IFRS 16 applies. Also, exemption from the requirements of paragraph 58, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to SI 2008/410 is presented separately for lease liabilities and other liabilities, and in total.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022

2 Significant accounting policies (continued)

Basis of preparation (continued)

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 2022 that have a material impact on the Company's Financial Statements.

Going concern

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

Rolls-Royce Power Systems AG, the parent undertaking of the smallest group to consolidate the Company's financial statements, has provided written confirmation of its intention to continue to provide financial support to the Company such that the Company is able to operate as a going concern and to settle their liabilities as they fall due for a period of at least 12 months from the date of signing these Financial Statements. After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of Financial Statements requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies. The Financial Statements are not considered to contain any area involving a higher degree of judgement or complexity and therefore no further considerations are required.

Exemption from preparing group financial statements

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

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of a group parent, Rolls-Royce plc, a company incorporated in United Kingdom, which are publicly available. The address of the parent company's registered office is set out in note 21.

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 net financing in the Income Statement.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022

2 Significant accounting policies (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the goods or services supplied stated net of value added taxes. The Company's sales relate to the import and distribution of *mtu* engines and the associated sale of parts and labour services to maintain and repair those engines.

Revenue is recognised when performance obligations have been satisfied. A five-step recognition model is used to apply the standard as follows: (1) identify the contract(s) with the customer; (2) identify the separate performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to separate performance obligations; and (5) recognise revenue when (or as) each performance obligation is satisfied.

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

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

Revenue from aftermarket services, such as the supply of spare parts, servicing and maintenance represents amounts billed to customers and other Group companies for services performed by the Company's employees. This revenue is recognised at the point when the company has fulfilled its performance obligations in relation to the supply of those goods as the right to the revenue has been earned and revenue and costs can easily be measured.

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

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.

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

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

Finance income and costs

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

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Tax on profit/(loss)

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.

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.

Property, plant and equipment

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

Depreciation

Land is not depreciated. Depreciation on other assets 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

Leasehold property improvements

Plant and equipment

Fixtures and fittings

Assets under construction are not depreciated.

Depreciation method and rate

10 years

10% - 33% per annum on cost

25% per annum on cost

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

Investments

Investments held as non-current assets are shown at cost less accumulated impairment losses.

Impairment of non-financial assets

Impairment of non-current assets is considered in accordance with IAS 36 *Impairment of Assets*. 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. 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.

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 Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (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 weighted average 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) and derivatives (foreign exchange contracts). These financial assets are calculated as follows:

- Trade receivables and contract assets are classified as held to collect and measured at amortised cost;
- Cash and cash equivalents are subject to low market risk. Cash balances are measured at fair value through profit and loss (FVPL); and
- Derivative financial instruments are recognised at fair value. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Financial liabilities

Financial liabilities primarily consist of trade payables, borrowings and derivatives. These financial liabilities are calculated as follows:

- Trade payables are recognised initially at fair value, and then subsequently at amortised cost using the effective interest method;
- Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs, and then subsequently at amortised cost using the effective interest method, less any impairment losses; and
- Derivative financial instruments are recognised at fair value, with the gain or loss on re-measurement to fair value recognised in profit or loss.

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. 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 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.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

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 any expected credit losses.

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.

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.

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.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

2 Significant accounting policies (continued)

Defined benefit contribution plan

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

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.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

3 Revenue

An activity analysis of revenue is presented as follows:

	2022 £ 000	2021 £ 000
Rail engines	–	187
Marine (Naval, Commercial and Yacht engines)	6,845	4,935
Power generation (diesel engine and gas CHP)	47,056	38,761
Defence (Military vehicles engines)	1,900	845
Kinetic power	728	1,637
After sales	54,568	44,619
	<u>111,097</u>	<u>90,984</u>

A geographical analysis of revenue is presented as follows:

	2022 £ 000	2021 £ 000
United Kingdom	82,598	74,309
Rest of Europe	28,436	16,627
Rest of World	63	48
	<u>111,097</u>	<u>90,984</u>

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

	2022 £ 000	2021 £ 000
Point in Time Original Equipment (OE)	56,406	45,758
Over time – Original Equipment (OE)	124	419
Point in time - Aftermarket services (AMS)	43,423	37,445
Over time – Aftermarket services (AMS)	11,144	7,362
Total	<u>111,097</u>	<u>90,984</u>

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

4 Operating profit

Arrived at after charging/(crediting):

	2022 £ 000	2021 £ 000
Depreciation charge on property, plant and equipment	402	383
Depreciation charge of right-of-use assets	442	483
Charge for impairment of Investments	5,268	-
Waiving of intercompany loan	(5,268)	-
Audit fees payable to the Company's auditors	125	135
Indirect staff costs	<u>4,460</u>	<u>3,207</u>

5 Staff costs

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

	2022 £ 000	2021 £ 000
Wages and salaries	10,042	7,416
Social security costs	1,145	748
Other pension costs	<u>692</u>	<u>545</u>
	<u>11,879</u>	<u>8,709</u>

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

	2022 No.	2021 No.
Administration	99	44
Sales	18	13
Product support	<u>105</u>	<u>95</u>
	<u>222</u>	<u>152</u>

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

6 Directors' remuneration

The Directors' remuneration for the year was as follows:

	2022 £ 000	2021 £ 000
Remuneration	<u>193</u>	<u>146</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 (2021: £Nil) and contributions to defined contribution pension schemes during the year were £15,654 (2021: £14,423). Aggregate amounts receivable under long-term incentive schemes were £0 (2021: £7,439).

Three Directors are employed by another group company and receive no payment for their services to Rolls-Royce Solutions UK Limited as they have performed no qualifying services for Rolls-Royce Solutions UK Limited in the last year to 31 December 2022 (2021: Nil).

In respect of the highest paid Director:

	2022 £ 000	2021 £ 000
Aggregate of remuneration	<u>193</u>	<u>146</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 £15,654 (2021: £14,423). There were no (2021: no) contributions to the defined benefit schemes.

During the current year, the highest paid Director did not exercise share options (2021: did exercise share options) and during the current year did not receive shares (2021: did receive shares) in respect of qualifying services under a long-term incentive scheme.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

7 Auditors' remuneration

The fees for the audit of the Company Financial Statements for the year ended 31 December 2022 were £125,000 (2021: £135,000). 2022 audit fees costs include variations of £10,000 from the 2021 audit (2021: £32,000 for 2019 and 2020).

No (2021: none) amounts were paid to the Company's auditors for non-audit services.

8 Finance income

	2022 £ 000	2021 £ 000
Foreign exchange gain	217	139
Total interest income on financial Assets measured at amortised cost	113	-
Net gain on financial instruments	1,137	86
Other interest receivable	-	5
	<u>1,467</u>	<u>230</u>

Total interest income on financial liabilities measured at amortised cost include interest receivable on bank balances, received from group undertakings of £113,000 (2021: £nil).

9 Finance costs

	2022 £ 000	2021 £ 000
Interest expense on financial liabilities measured at amortised cost	5	5
Interest expense on leases	140	149
	<u>145</u>	<u>154</u>

Total interest expense on financial liabilities measured at amortised cost include interest payable on overdrawn bank balances, paid to group undertakings of £1,000 (2021: £5,000).

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

10 Tax on profit

Tax charged in the Income Statement:

	2022 £ 000	2021 £ 000
Current tax		
UK corporation tax charge on profit for the year (Group relief payable)	2,766	2,116
UK corporation tax adjustments in respect of prior years	(35)	(131)
	<u>2,731</u>	<u>1,985</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(77)	(11)
Adjustments in respect of prior years	(87)	12
Total deferred taxation	<u>(164)</u>	<u>1</u>
Tax expense in the income statement	<u>2,567</u>	<u>1,986</u>

The tax on profit before tax for the year is lower than (2021: lower than) the standard rate of corporation tax in the UK of 19% (2021: 19%).

The differences are reconciled below:

	2022 £ 000	2021 £ 000
Profit before taxation	<u>14,200</u>	<u>11,056</u>
Corporation tax at standard rate of 19% (2021: 19%)	2,698	2,101
Adjustments in respect of prior years	(122)	(131)
Expenses not deductible for tax	9	7
Adjustments in respect of an increase in the tax rate	-	12
Tax rate differential on temporary differences	(18)	(3)
Total tax charge	<u>2,567</u>	<u>1,986</u>

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

10 Tax on profit (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 January 2022 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2022 £ 000	Recognised as DTA	Recognised as DTL
Accelerated capital allowances	(56)	177	–	121	121	–
Other temporary differences	13	(13)	–	–	–	–
Net tax assets	(43)	164	–	121	121	–

Deferred tax movement during the prior year:

	At 1 January 2021 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2021 £ 000	Recognised as DTA	Recognised as DTL
Accelerated capital allowances	(44)	(6)	(6)	(56)	–	(56)
Other temporary differences	7	6	–	13	13	–
Net tax assets	(37)	–	(6)	(43)	13	(56)

Other items relate wholly to pension contributions £nil (2021: £13,000).

The deferred tax asset has been recognised to the extent that the Company expects to make sufficient taxable profits against which it could be offset in future years.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

11 Property, plant and equipment

Depreciation of £350,000 (2021: £330,000) is included in cost of sales, £13,000 (2021: £13,000) is included in selling costs and £39,000 (2021: £40,000) in admin costs in the Income Statement.

During the year, no assets were impaired.

	Leasehold property improvements £ 000	Plant and equipment £ 000	Fixtures and fittings £ 000	Assets under construction £ 000	Total £ 000
Cost					
At 1 January 2022	934	4,636	93	–	5,663
Additions	53	285	6	886	1,230
Disposals	(3)	(185)	–	–	(188)
At 31 December 2022	984	4,736	99	886	6,705
Accumulated depreciation					
At 1 January 2022	762	2,839	60	–	3,661
Charge for the year	27	360	15	–	402
Eliminated on disposals	(3)	(35)	–	–	(38)
At 31 December 2022	786	3,164	75	–	4,025
Net book value					
At 31 December 2022	198	1,572	24	886	2,680
At 31 December 2021	172	1,798	33	–	2,003

At 31 December 2022 the Company was committed to capital expenditure of £154,000 (2021: £nil).

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

12 Right-of-use assets

	Land and buildings £ 000	Plant and equipment £ 000	Total £ 000
Cost			
At 1 January 2022	4,956	462	5,418
Additions	-	183	183
Disposals	-	(162)	(162)
At 31 December 2022	4,956	483	5,439
Accumulated depreciation			
At 1 January 2022	1,064	325	1,389
Charge for the year	355	87	442
Eliminated on disposals	-	(152)	(152)
At 31 December 2022	1,419	260	1,679
Net book value			
At 31 December 2022	3,537	223	3,760
At 31 December 2021	3,892	137	4,029

Depreciation of £85,000(2021: £126,000) is included in cost of sales and £357,000 (2021: £357,000) in admin costs in the income statement.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

13 Investments

	Total £ 000
Subsidiaries	
Cost	
At 1 January 2022	16,518
Additions	–
At 31 December 2022	16,518
Provision for impairment	
At 1 January 2022	(11,250)
Provision in year	(5,268)
At 31 December 2022	(16,518)
Carrying amount	
At 31 December 2022	–
At 31 December 2021	5,268

During the year, the loan of £5,268,000 owed by the Company to Kinolt Uk Limited was waived down to £1. Subsequently the Directors assessed the carrying value of the Company's investments in subsidiary undertakings and an impairment charge of £5,268,000 (2021: £11,250,000) has been recognised directly in the P&L.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

13 Investments (continued)

The following were subsidiary undertakings / participating interest of the Company as at 31 December 2022:

**indicates a direct shareholding by the Company.

Company name	Share class	Address	% Holding 2022
Kinolt UK Limited	Ordinary	Unit 29 The Birches Industrial Estate, East Grinstead, West Sussex, RH19 1XZ	100%

14 Inventories

	2022 £ 000	2021 £ 000
Work in progress	471	742
Finished goods for resale	9,062	6,665
	<u>9,533</u>	<u>7,407</u>

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

Changes in finished goods, consumables and work in progress recognised as cost of sales in the year amounted to £90,453,000 (2021: £74,022,000).

Inventories are stated after provisions for impairment of £345,000 (2021: £441,000).

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

15 Trade and other receivables

	2022 £ 000	2021 £ 000
Trade receivables	11,355	13,661
Amounts due from group undertakings	4,161	3,794
Prepayments and accrued income	129	209
Amounts owed by group undertakings relating to cash pool	40,802	51
Core charge balance held by group companies	1,024	1,149
Other receivables	2,357	492
Total trade and other receivables	<u>59,828</u>	<u>19,356</u>

Trade receivables of £nil (2021: £nil) fall due after more than one year.

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

Trade and other receivables are stated after provisions for impairment of £nil (2021: £nil). Amounts due from group undertakings for impairment of £nil (2021: £nil) for ECLs in accordance are stated after provisions with IFRS 9.

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

Other receivables includes an expected gain of £1.3m (2021: £nil) from foreign currency derivatives with a gross value of £44.4m. These are due for settlement during 2023.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

16 Contract assets and liabilities

	Current		Non-current		Total	
	2022 £ 000	2021 £ 000	2022 £ 000	2021 £ 000	2022 £ 000	2021 £ 000
Contract assets	<u>182</u>	<u>3,572</u>	<u>-</u>	<u>-</u>	<u>182</u>	<u>3,572</u>

No impairment losses of contract assets (2021: none) have arisen during the year to 31 December 2022.

	Current		Non-current		Total	
	2022 £ 000	2021 £ 000	2022 £ 000	2021 £ 000	2022 £ 000	2021 £ 000
Contract liabilities	<u>13,517</u>	<u>6,003</u>	<u>-</u>	<u>-</u>	<u>13,517</u>	<u>6,003</u>

£3,200,000 of the opening contract liability has been recognised in income during the year to 31 December 2022 (2021: £958,000).

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

17 Leases

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

The Company has lease contracts for offices, warehouses, equipment and vehicles which are used in their 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:

	2022 £ 000	2021 £ 000
Right-of-use assets		
Land and buildings	3,537	3,892
Plant and machinery	223	137
	<u>3,760</u>	<u>4,029</u>
Lease liabilities		
Current lease liabilities	415	442
Non-current lease liabilities	3,576	3,762
	<u>3,991</u>	<u>4,204</u>
	2022 £ 000	2021 £ 000
Future minimum lease payments on leases at 31 December:		
Within one year	559	526
In one to five years	1,935	1,852
After five years	2,189	2,632
Total gross payments	<u>4,683</u>	<u>5,010</u>
Impact of finance expenses	(692)	(806)
Carrying amount of liability	<u>3,991</u>	<u>4,204</u>
Of which: Current liabilities	415	442
Non-current liabilities	3,576	3,762

The total cash outflow for leases was £541,000 (2021: £577,000). The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 31 December 2022 was 3.63% (2021: 3.44%).

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

17 Leases (continued)

Amounts recognised in the Income Statement

The Income Statement shows the following amounts relating to leases:

	2022 £ 000	2021 £ 000
Land and buildings	(355)	(355)
Plant and machinery	(87)	(128)
Depreciation charge on right-of-use assets	(442)	(483)
Interest expense (included in finance cost)	(140)	(149)
Expense relating to short-term leases of 12 months or less recognised as an expense	(156)	(47)
Expense relating to low value leases recognised as an expense	(5)	(2)

The leases primarily relate to land and buildings leased for 15 years. The remaining leases relate to plant and machinery including vehicles leased over two to four years.

18 Trade and other payables

Current:

	2022 £ 000	2021 £ 000
Trade payables	1,473	1,271
Accruals and deferred income	18,473	2,936
Amounts due to group undertakings	13,091	8,371
Social security and other taxes	1,711	1,781
Group relief payable	2,766	2,309
Intercompany loan from Kinolt UK Limited	-	5,268
	37,514	21,936

Trade payables of £nil (2022: £nil) fall due after more than one year.

Amounts due to Rolls-Royce Power Systems AG are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

Rolls-Royce Solutions UK Limited

Notes to the Financial Statements for the year ended 31 December 2022 (continued)

19 Called up share capital

	2022		2021	
	No. 000	£ 000	No. 000	£ 000
Authorised				
Ordinary shares of £1 each	1,000	1,000	1,000	1,000
Allotted, called up and fully paid				
Ordinary shares of £1 each	<u>400</u>	<u>400</u>	<u>400</u>	<u>400</u>

Rights, preferences and restrictions

All shares are classified in shareholders' funds.

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

No dividend has yet been proposed in relation to the 2022 financial statements. The value per qualifying ordinary share is £nil (2021 dividend: £nil per qualifying ordinary share). The aggregate amount of the dividend paid in relation to the 2022 statements is £nil. (2021: £nil)

20 Contingent liabilities

Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Company or individuals. In addition, the Group could still be affected by actions from customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Company. 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 consequence.

21 Parent and ultimate parent undertaking

The Company's immediate parent is Rolls-Royce Power Systems AG, a company incorporated in Germany.

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, a company incorporated in the UK. The largest group of undertakings for which consolidated financial statements are prepared is that headed by Rolls-Royce Holdings plc and can be obtained from Kings Place, 90 York Way, London N1 9FX.

The smallest group of undertakings for which consolidated financial statements are prepared is that headed by Rolls-Royce Power Systems AG which can be obtained from Maybachplatz 1, 88045, Friedrichshafen, Germany.