

Registration number: 01305027

Rolls-Royce Power Engineering Limited

Annual Report and Financial Statements

for the year ended 31 December 2023

Rolls-Royce Power Engineering Limited
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Rolls-Royce Power Engineering Limited
Company Information

Directors	Sarah Dunn Richard Palmer
Secretary	Nicola Carroll
Registered number	01305027
Registered office	Moor Lane Derby Derbyshire DE24 8BJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 2 Glass Wharf Bristol BS2 0FR

Rolls-Royce Power Engineering Limited

Strategic Report

for the year ended 31 December 2023

The Directors present their Strategic Report on Rolls-Royce Power Engineering Limited (the Company) together with the audited Financial Statements for the year ended 31 December 2023.

Principal activities

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

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

On 4 January 2023, the Company was re-registered from a public company, formerly Rolls-Royce Power Engineering plc, to a private limited company, Rolls-Royce Power Engineering Limited.

Business review

The financial position of the Company at 31 December 2023 is shown in the Balance Sheet on page 13, with the results shown in the Income Statement on page 11 and Statement of Comprehensive Income on page 12.

In 2023 the Company's overall revenue increased by £30,950,000 to £136,197,000 (2022: £105,247,000). The increase is largely as a result of more engines being delivered in 2023 compared to 2022 alongside engine overhaul activity and a margin uplift. Profit before tax of £21,145,000 (2022: profit before tax of £4,701,000) is as a result of better cost efficiency as well as an increase in finance income of £637,000 due to upside in foreign exchange revaluations.

Net assets decreased to £318,948,000 (2022: £577,194,000). During the year, the Company waived an outstanding loan balance of £280,589,000 which was due from their parent company (Rolls-Royce plc). This has been presented as a dividend, however there was no physical transfer of cash as part of this transaction.

On the 30 June 2023 the Company sold the entire legal and beneficial ownership, including all assets, of the Electrical and Automation Naval Marine business to Rolls-Royce Solutions UK Limited, within the Rolls-Royce Group. The disposal was for a consideration of £11,600,000 which was equal to the carrying value of the assets sold, therefore no profit/loss on disposal was recognised in respect of this disposal.

Key performance indicators

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

Principal risks and uncertainties

The 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 24. The Company acts in accordance with this policy to manage and mitigate the risks identified below.

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.

Rolls-Royce Power Engineering Limited

Strategic Report

for the year ended 31 December 2023 (continued)

Section 172(1) statement

Section 172(1) 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(1) 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(1) duties the 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, external suppliers, customers, the UK Government and its shareholder, Rolls-Royce plc. Company management engage with suppliers and customers through formal meetings, management level review boards and regular performance and compliance meetings. Following these supplier meetings, an output of the various tiered reviews within the organisation and with its stakeholders is shared with the Directors at the board meetings with all actions or recommendations documented in board meeting minutes.

There is regular engagement within the Group on employee-related matters, which is taken into account in the Company's decision making. Where the Directors do not engage directly with the Company's stakeholders, they are kept up to date to enable them to maintain an effective understanding of what matters to those stakeholders and can draw on these perspectives in Board decision-making. For further information on how the Company engages with employees please see section 'Employees' in the Directors Report on page 6.

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

Business relationships with the Company's wider stakeholders and the impact of Company operations on the environment and communities in which it operates is embedded in all Company decision-making and risk assessment throughout the year. As a Group company, the Company complies and acts in accordance with the Group policies in relation to the safeguarding of human rights and community relationships as outlined in the Rolls-Royce Holdings plc Annual Report.

The 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 2023.

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 32 to 43 and the Climate Review. 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.

Rolls-Royce Power Engineering Limited
Strategic Report
for the year ended 31 December 2023 (continued)

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

Approved by the Board and signed on its behalf on 12 August 2024 by:

Signed by:

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Sarah Dunn
Director

Rolls-Royce Power Engineering Limited

Directors' Report

for the year ended 31 December 2023

The Directors present their Directors' Report on the Company together with the Strategic Report and audited Financial Statements for the year ended 31 December 2023.

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:

Sarah Dunn (appointed 27 July 2023)

Fiona Dolan (resigned 27 July 2023)

Richard Palmer (appointed 27 October 2022)

Qualifying third-party indemnity provisions

There were qualifying third-party indemnity provisions for the benefit of the Directors in place during the year and they remain in force at the date of the approval of the Annual Report and Financial Statements.

Results and dividends

The Company made £16,985,000 profit after taxation for the year (2022: loss after taxation £712,000). The net assets of the Company are £318,948,000 (2022: £577,194,000).

During the year the Directors declared an interim dividend of £3,000,000 (£1.98 per share), this was paid during 2024 (2022: £nil).

During the year, the Company waived an outstanding loan balance of £280,589,000 which was due from their parent company (Rolls-Royce plc). As a result this has been presented as a dividend, however there was no physical transfer of cash as part of this transaction.

Future developments

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

Research and development

During the year the Company had expenditure of £4,260,000 on research and development (2022: £4,140,000).

Financial risk management

The following financial risks are considered key by the Directors:

Foreign currency exchange rate risk

The Company has cash flows (most significantly US dollars, followed by the euro) denominated in currencies other than the functional currency. To manage its exposures to changes in values of future foreign currency cash flows, so as to maintain relatively stable long-term foreign exchange rates on settled transactions, the Company uses the Group Treasury function to enter into foreign currency transactions. For accounting purposes, these instruments are held at a Group level and are not pushed down to the Company.

Credit risk

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

Rolls-Royce Power Engineering Limited

Directors' Report

for the year ended 31 December 2023 (continued)

Going concern

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

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

Subsidiary distributions

As part of a Group-wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off in 2018 and in preceding years. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £83,000,000. Subsequently, it has been determined that the distributions made to the Company were not strictly permissible by law as there were insufficient distributable reserves available in the dormant subsidiaries at the point the transactions occurred. In this situation, the Company is liable to repay the distributions not strictly permissible by law due to there being insufficient distributable reserves in the dormant subsidiaries of £76,000,000.

The relevant subsidiary undertakings (the Subsidiaries) were restored to the Register of Companies in 2021. During 2022, the Subsidiaries completed capital reductions to create additional distributable reserves and relied on those reserves to approve the distributions. Having received external legal advice, the Directors of the Company consider that, having taken these necessary steps, the risk of any liability materialising was remote, and as the position has now been regularised, no liability exists at 31 December 2022 or 31 December 2023.

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. The Group focusses on enabling learning in different ways and via different means; employees engage with on-demand informal learning content through Leatro, far more than formal (face-to-face) learning.

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(1) Statement in the Strategic Report (see page 3).

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

Rolls-Royce Power Engineering Limited
Directors' Report
for the year ended 31 December 2023 (continued)

Independent auditors

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

Statement of Directors' Responsibilities in respect to the Financial Statements

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

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

Under company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101 have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

Directors' confirmations

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

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

Approved by the Board and signed on its behalf on **12 August 2024**

by:

Signed by:

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Sarah Dunn
Director

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

Report on the audit of the Financial Statements

Opinion

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

- give a true and fair view of the state of the company's affairs as at 31 December 2023 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 2023; 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, comprising material accounting policy information and other explanatory information.

Basis for opinion

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

Independence

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

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

Rolls-Royce Power Engineering Limited

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2023 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the Financial Statements and the audit

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' responsibilities for the audit of the Financial Statements

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

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

Rolls-Royce Power Engineering Limited

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

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

- Discussions with management in respect of any known or suspected instances of non-compliance with laws and regulation and any fraud matters;
- Challenging assumptions and judgements made by management for evidence of bias in determining significant account estimates including those related to long-term contract accounting;
- Identifying and testing unusual journal entries, in particular those posted with unusual account combinations such as those increasing revenue or cash, or those reducing expenditure; and
- Reviewing minutes of meetings of those charged with governance.

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

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

Use of this report

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

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.



Paul Nott (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
Date: 12 August 2024

Rolls-Royce Power Engineering Limited
Income Statement
for the year ended 31 December 2023

	Note	2023 £ 000	2022 £ 000
Revenue	3	136,197	105,247
Cost of sales		<u>(118,766)</u>	<u>(104,080)</u>
Gross profit		17,431	1,167
Administrative income		5,163	6,268
Other income ¹		-	84
Research and development		<u>(4,260)</u>	<u>(4,140)</u>
Total administrative income		<u>903</u>	<u>2,212</u>
Operating profit	4	18,334	3,379
Profit on disposal of business	20	<u>938</u>	<u>-</u>
Profit before interest and taxation		19,272	3,379
Finance income	7	1,959	1,322
Finance costs	8	<u>(86)</u>	<u>-</u>
Profit before taxation		21,145	4,701
Tax on profit	9	<u>(4,160)</u>	<u>(5,413)</u>
Profit/(loss) for the financial year		<u>16,985</u>	<u>(712)</u>

The above results were derived from continuing operations.

¹ Other income relates to funding from a Government body of £nil (2022: £84,000).

The notes on pages 15 to 34 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited
Statement of Comprehensive Income
for the year ended 31 December 2023

	2023 £ 000	2022 £ 000
Profit/(loss) for the financial year	<u>16,985</u>	<u>(712)</u>
Total comprehensive income/(expense) for the year	<u>16,985</u>	<u>(712)</u>

The notes on pages 15 to 34 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited
Balance Sheet
as at 31 December 2023
(Registration number: 01305027)

	Note	2023 £ 000	2022 £ 000
Non-current assets			
Intangible assets	10	1,193	5,193
Property, plant and equipment	11	5,158	5,980
Investments	12	15,605	15,344
Deferred tax asset	9	1,984	3,130
		<u>23,940</u>	<u>29,647</u>
Current assets			
Inventories	13	43,070	46,096
Trade and other receivables	14	500,582	747,280
Contract assets	15	9,663	9,496
Other financial assets		64	-
Cash and cash equivalents		20	3,871
		<u>553,399</u>	<u>806,743</u>
Current liabilities			
Trade and other payables	16	(62,777)	(74,732)
Contract liabilities	15	(152,627)	(94,102)
Provisions for liabilities	19	(7,308)	(8,670)
Net current assets		<u>330,687</u>	<u>629,239</u>
Total assets less current liabilities		<u>354,627</u>	<u>658,886</u>
Non-current liabilities			
Provisions for liabilities	19	(28,382)	(26,945)
Contract liabilities	15	(7,297)	(54,747)
Net assets		<u>318,948</u>	<u>577,194</u>
Equity			
Called up share capital ¹	22	-	379,100
Share premium account		-	24,055
Capital redemption reserve		-	4,015
Retained earnings		318,948	170,024
Total equity		<u>318,948</u>	<u>577,194</u>

¹ During the year the Directors approved a capital reduction (see note 21 for further information). As a result the called up share capital balance now has a total value of £1.52.

The Financial Statements were approved and authorised for issue by the Board and were signed on its behalf on **12 August 2024** by:

Signed by:

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Sarah Dunn

Director

The notes on pages 15 to 34 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited

Statement of Changes in Equity for the year ended 31 December 2023

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2023	379,100	24,055	4,015	170,024	577,194
Profit for the financial year	–	–	–	16,985	16,985
Total comprehensive income	–	–	–	16,985	16,985
Capital reduction ¹	(379,100)	(24,055)	(4,015)	407,170	–
Intercompany loan waiver ²	–	–	–	(280,589)	(280,589)
Other movements	–	–	–	5,358	5,358
At 31 December 2023	–	–	–	318,948	318,948

¹ During the year the Directors approved a capital reduction (see note 22 for further information). As a result the called up share capital balance now has a total value of £1.52.

² During the year, the Company waived an outstanding loan balance of £280,589,000 which was due from their parent company (Rolls-Royce plc).

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2022	379,100	24,055	4,015	170,505	577,675
Loss for the financial year	–	–	–	(712)	(712)
Total comprehensive expense	–	–	–	(712)	(712)
Share based payment transactions (Note 18)	–	–	–	231	231
At 31 December 2022	379,100	24,055	4,015	170,024	577,194

The notes on pages 15 to 34 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023

1 General information

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

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

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

2 Significant accounting policies

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

Basis of preparation

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

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

- The following paragraphs of IAS 1 *Presentation of financial statements*:
 - 10(d) (statement of cash flows);
 - 16 (statement of compliance with all IFRS);
 - 40A-40D (detail in respect of third balance sheet presented on a retrospective restatement);
 - 111 (statement of cash flows information); and
 - 134-136 (capital management disclosures);
- IAS 7 *Statement of cash flows*;
- Paragraphs 45(b) and 46 to 52 of IFRS 2 *Share-based payment* (details of the number and weighted average exercise prices of share options, and how the fair value of goods or services received was determined);
- Paragraph 38 of IAS 1 *Presentation of financial statements* – comparative information requirements in respect of:
 - paragraph 73(e) of IAS 16 *Property, plant and equipment*; and
 - paragraph 118(e) of IAS 38 *Intangible assets* (reconciliations between the carrying amount at the beginning and end of the period);
- The requirements of IAS 24 *Related Party Transactions* and has, therefore, not disclosed transactions between the Company and other entities part of a wholly owned group;
- Paragraph 17 of IAS 24 *Related party disclosures* (key management compensation);
- IFRS 7, *Financial Instruments: Disclosures*;
- 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).
- 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*.

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 2023 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 plc, a parent undertaking, has provided written confirmation of its intention to continue to provide financial support to the Company such that the Company is able to operate as a going concern and to settle their liabilities as they fall due for a period of at least 12 months from the date of signing these Financial Statements. After considering the above, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis.

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023 (continued)

2 Significant accounting policies (continued)

Subsidiary distributions

As part of a Group-wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off in 2018 and in preceding years. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £83,000,000. Subsequently, it has been determined that the distributions made to the Company were not strictly permissible by law as there were insufficient distributable reserves available in the dormant subsidiaries at the point the transactions occurred. In this situation, the Company is liable to repay the distributions not strictly permissible by law due to there being insufficient distributable reserves in the dormant subsidiaries of £76,000,000.

The relevant subsidiary undertakings (the Subsidiaries) were restored to the Register of Companies in 2021. During 2022, the Subsidiaries completed capital reductions to create additional distributable reserves and relied on those reserves to approve the distributions. Having received external legal advice, the Directors of the Company consider that, having taken these necessary steps, the risk of any liability materialising was remote, and as the position has now been regularised, no liability exists at 31 December 2022 or 31 December 2023.

Critical accounting judgements and key sources of estimation uncertainty

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

Key source of estimation uncertainty - Inventory valuation and provisioning

Inventory valuation is based upon all costs of production contained within the inventory management system. The Directors review the carrying value of inventory on a periodic basis and make provisions against the carrying value of inventory where they consider the realisable value to be lower than cost. A provision is applied when excess inventory is identified based on future demand. As at 31 December 2023, the provision for impairment against the inventory value was £32,264,000 (2022: £32,109,000). (See note 13).

Key source of estimation uncertainty - Healthcare liability provision

This provision relies on assumptions and estimates used by the external actuaries in calculating the likely provision required for industrial diseases liabilities. These assumptions include discount rates, assessment of inflation and the number of future claims (See note 19).

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

The Company has long-term contracts that fall into different accounting periods and which can extend over longer periods. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess the pattern of activity and the costs to be incurred over the term of the contracts and escalation of revenue and costs. The Company recognises contract loss provisions based on the assessment of whether the direct costs to fulfil a contract are greater than the expected revenue. The estimates take account of the inherent uncertainties, constraining the expected level of revenue as appropriate.

Critical accounting judgement - Multi-employer defined benefit pension scheme

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

Critical accounting judgement - Provisions

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

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023 (continued)

2 Significant accounting policies (continued)

Exemption from preparing consolidated Financial Statements

The Financial Statements contain information about Rolls-Royce Power Engineering Limited (formerly Rolls-Royce Power Engineering plc) as an individual Company and do not contain consolidated financial information as the parent of a group.

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated Financial Statements as it and its subsidiary undertakings are included by full consolidation in the consolidated Financial Statements of its parent, Rolls-Royce plc, a company incorporated in United Kingdom, which are publicly available. The address of the parent Company's registered office is set out in note 24.

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 initial transaction dates. Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated. Foreign currency differences are recognised in net financing.

Revenue recognition

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

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

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

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

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

Long term contracts

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

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023 (continued)

2 Significant accounting policies (continued)

Government grants

Government grants received are recognised in the Income Statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within other liabilities and released to match the related expenditure. Amounts recognised in the prior year are disclosed in note 4, there have been no government grants recognised in the current year.

Research and development

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

Finance income and costs

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

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.

Intangible assets

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

Property, plant and equipment

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

Depreciation

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

Asset class

Depreciation method and rate

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

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023 (continued)

2 Significant accounting policies (continued)

Investments

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

Inventories

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

Financial assets and liabilities

Classification

Financial assets:

Financial assets primarily include trade receivables and cash and cash equivalents (comprising cash at bank). These financial assets are calculated as follows:

- Trade receivables are classified as held to collect and measured at amortised cost; and
- Cash and cash equivalents 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 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. 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.

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.

Contract assets and liabilities

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

Cash and cash equivalents

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

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023 (continued)

2 Significant accounting policies (continued)

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.

Provisions

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

Defined 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.

Further disclosure relating to the scheme is given in the consolidated Financial Statements of Rolls-Royce Holdings plc, which can be obtained from the address included in note 24 in these Financial Statements.

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.

Share-based payments

The parent company on behalf of the Company provides share-based payment arrangements to certain employees. These are equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant.

The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest, except where additional shares vest as a result of the Total Shareholder Return (TSR) performance condition in the Performance Share Plan.

The costs of these share-based payments are treated as a capital contribution from the parent company. Any payments made by the Company to its parent company, in respect of these arrangements, are treated as a return of this capital contribution.

The fair values of the share-based payment arrangements are measured as follows:

- i) ShareSave plans - using the binomial pricing model;
- ii) Long-term incentive plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and market-based performance conditions where applicable.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

2 Significant accounting policies (continued)

Dividends

Final dividends paid are recognised through equity on the earlier of their approval by the Company's Directors or payment. Interim dividends are recognised through equity when paid.

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

Rounding of amounts

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

3 Revenue

A geographical analysis of revenue is presented as follows:

	2023	2022
	£ 000	£ 000
United Kingdom	72,589	42,451
Middle East & Asia	53,006	25,300
Rest of Europe	9,505	–
North America	1,097	37,496
	136,197	105,247

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

	2023	2022
	£ 000	£ 000
Original equipment (sales)	78,864	66,536
Aftermarket sales (services)	57,333	38,711
	136,197	105,247

4 Operating profit

Arrived at after charging/(crediting):

	2023	2022
	£ 000	£ 000
Depreciation charge on property, plant and equipment	234	597
Amortisation charge on intangible assets	3,999	3,999
Research and development costs *	4,260	4,140
(Reversal of)/charge for impairment of trade receivables	(2,546)	901
Release of Industrial Diseases provision	(2,625)	(8,151)
Release/(reversal) of impairment of inventory to net realisable value	155	(1,660)
Inventory recognised as an expense	86,438	88,773

* Research and development costs include the amortisation charge of £3,999,000 shown above.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

5 Staff and Directors' costs

The aggregate payroll costs were as follows:

	2023 £ 000	2022 £ 000
Wages and salaries	7,238	10,744
Social security costs	825	1,254
Other pension costs	697	1,033
Share-based payment expenses	108	231
	<u>8,868</u>	<u>13,262</u>

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

	2023 No.	2022 No.
Nuclear	39	30
Defence	68	146
	<u>107</u>	<u>176</u>

All Directors fees or emoluments were paid by Rolls-Royce plc and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated. No charge has been made in the current or prior year for the services of the Directors.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

6 Auditors' remuneration

The fees for the audit of the Company Financial Statements for the year ended 31 December 2023 were £203,000 (2022: £166,000) and were paid by Rolls-Royce plc and not recharged. No (2022: no) amounts were paid to the Company's auditors for non-audit services.

7 Finance income

	2023 £ 000	2022 £ 000
Foreign exchange gain	1,778	998
Interest receivable and similar income	179	30
Fair value gains on foreign currency contracts	–	294
Intercompany interest receivable	2	–
	<u>1,959</u>	<u>1,322</u>

8 Finance costs

	2023 £ 000	2022 £ 000
Fair value losses on foreign currency contracts	86	–
	<u>86</u>	<u>–</u>

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

9 Tax on profit

	2023 £ 000	2022 £ 000
Statement of changes in equity		
Deferred tax on share-based payments	(242)	-
	(242)	-
Tax charged in the income statement		
Current tax		
Group relief payable/(receivable) at 23.5% (2022: 19%)	2,772	(69)
UK corporation tax adjustments to prior periods	-	5,730
	2,772	5,661
Deferred taxation		
Origination and reversal of timing differences	1,335	(167)
Adjustments to tax charge in respect of prior periods	53	(81)
Total deferred taxation	1,388	(248)
Tax charge in the income statement	4,160	5,413

The tax assessed for the year is lower than (2022: higher than) the standard rate of corporation tax in the UK of 23.50% (2022: 19.00%). The differences are explained below:

The differences are reconciled below:

	2023 £ 000	2022 £ 000
Profit before taxation	21,145	4,701
Profit before tax multiplied by the standard rate of corporation tax in the UK 23.50% (2022: 19.00%)	4,969	893
Adjustments to tax charge in respect of prior periods	53	5,649
Income non taxable for tax purpose	(876)	(1,088)
Tax rate differential on temporary differences	14	(41)
Total taxation	4,160	5,413

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

9 Tax on profit (continued)

Deferred tax

Deferred tax movement during the year:

	At 1 January 2023 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2023 £ 000	Recognised as DTA	Recognised as DTL
Accelerated tax depreciation	2,120	(431)	–	1,689	1,689	–
Amortisation	(102)	102	–	–	–	–
Other items	1,112	(1,059)	242	295	295	–
Net tax assets	<u>3,130</u>	<u>(1,388)</u>	<u>242</u>	<u>1,984</u>	<u>1,984</u>	<u>–</u>

Deferred tax

Deferred tax movement during the prior 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 tax depreciation	1,933	187	–	2,120	2,120	–
Amortisation	(205)	103	–	(102)	(102)	–
Other items	1,154	(42)	–	1,112	1,112	–
Net tax assets	<u>2,882</u>	<u>248</u>	<u>–</u>	<u>3,130</u>	<u>3,130</u>	<u>–</u>

The deferred tax asset primarily relates to deductible temporary differences which have accumulated whilst the UK group has been loss making.

A deferred tax asset of £19m relating to advance corporation tax has not been recognised as suitable taxable profits against which the asset can be utilised are not expected in the near future.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

10 Intangible assets

	Development expenditure £ 000	Software £ 000	Total £ 000
Cost			
At 1 January 2023	59,991	1,044	61,035
Disposals	–	(148)	(148)
At 31 December 2023	<u>59,991</u>	<u>896</u>	<u>60,887</u>
Accumulated amortisation			
At 1 January 2023	55,796	46	55,842
Charge for the year	3,999	–	3,999
Disposals	–	(147)	(147)
At 31 December 2023	<u>59,795</u>	<u>(101)</u>	<u>59,694</u>
Net book value			
At 31 December 2023	<u>196</u>	<u>997</u>	<u>1,193</u>
At 31 December 2022	<u>4,195</u>	<u>998</u>	<u>5,193</u>

The retained software comprises software specific to marine military installations now in use in the defence sector. Amortisation is on a straight-line basis over 5 years and has been fully amortised. Amortisation is recognised in general and administrative expenses in the Income Statement. Software includes software under course of construction which is not amortised

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

On the 30 June 2023 the ME&A business previously held by the Company was transferred to Power Systems, within the Rolls-Royce Group. As part of this transfer certain assets were transferred at net book value, see note 19 for further details.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

11 Property, plant and equipment

	Land and buildings Freehold £ 000	Short term Leasehold Property £ 000	Plant & machinery £ 000	Assets under construction £ 000	Total £ 000
Cost					
At 1 January 2023	612	594	7,830	2,814	11,850
Additions	–	–	–	1,665	1,665
Reclassifications	663	–	148	(811)	–
Disposals	(210)	–	(2,038)	(7)	(2,255)
At 31 December 2023	1,065	594	5,940	3,661	11,260
Accumulated depreciation					
At 1 January 2023	23	155	5,692	–	5,870
Charge for the year	25	25	184	–	234
Eliminated on disposal	(2)	–	–	–	(2)
At 31 December 2023	46	180	5,876	–	6,102
Carrying amount					
At 31 December 2023	1,019	414	64	3,661	5,158
At 31 December 2022	589	439	2,138	2,814	5,980

Depreciation of £234,000 (2022: £597,000) is included in cost of sales in the income statement.

Included within freehold land and buildings is non-depreciable land with a cost of £226,000 (2022: £226,000).

At 31 December 2023 the Company was committed to capital expenditure of £nil (2022: £nil).

On the 30 June 2023 the ME&A business previously held by the Company was transferred to Power Systems, within the Rolls-Royce Group. As part of this transfer certain assets were transferred at net book value, see note 19 for further details.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

12 Investments

Subsidiaries

	£ 000
Cost	
At 1 January and 31 December 2023	142,319
Adjustment to cost	261
	<u>142,580</u>
Accumulated impairment	
At 1 January 2023	126,975
Impairment	–
At 31 December 2023	<u>126,975</u>
Carrying amount	
At 31 December 2022	<u>15,344</u>
At 31 December 2023	<u>15,605</u>

In accordance with the requirements of IAS 36 *Impairment of Assets*, the carrying value of the Company's investments has been assessed. After having performed an impairment test comparing against net book value at 31 December 2023, no impairment charge was required during the year (2022: £nil).

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

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

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

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

12 Investments (continued)

As at 31 December 2023, the companies listed below and on the following pages were directly held by Rolls-Royce Power Engineering Limited (formerly Rolls-Royce Power Engineering plc). The financial year end of each company is 31 December unless otherwise indicated.

Company name	Share class	Address	% Holding 2023
Amalgamated Power Engineering Limited ¹	Ordinary and Deferred	London ²	100%
C. A. Parsons & Company Limited	Ordinary	London ²	100%
Derby Specialist Fabrications Limited ¹	Ordinary	London ²	100%
Heaton Power Limited ¹	Ordinary	London ²	100%
John Thompson Cochran Limited ¹	Ordinary, 6% Cumulative Preference	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, KY11 9JT, Scotland	100%
NEI International Combustion Limited ¹	Ordinary	London ²	100%
NEI Mining Equipment Limited ¹	Ordinary	London ²	100%
NEI Nuclear Systems Limited ¹	Ordinary	London ²	100%
NEI Parsons Limited ¹	Ordinary	London ²	100%
NEI Peebles Limited ¹	Ordinary	London ²	100%
NEI Power Projects Limited ¹	Ordinary	London ²	100%
Rolls-Royce Industrial & Marine Power Limited	Ordinary	London ²	100%
Rolls-Royce Industrial Power (India) Limited ^{1,3}	Ordinary	Derby ⁴	100%
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited	Ordinary	Derby ⁴	100%
Spare IPG 20 Limited	Ordinary	London ²	100%
Spare IPG 21 Limited ¹	Ordinary	London ²	100%
Spare IPG 24 Limited	Ordinary	London ²	100%
Spare IPG 32 Limited	Ordinary	London ²	100%
Spare IPG 4 Limited ¹	Ordinary	London ²	100%
The Bushing Company Limited	Ordinary	London ²	100%

¹ Dormant entity.

² Kings Place, 90 York Way, London, United Kingdom, N1 9FX.

³ Reporting year end is 31 March.

⁴ Moor Lane, Derby, Derbyshire, DE24 8BJ, United Kingdom.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

12 Investments (continued)

Joint ventures*

Details as at 31 December 2023 are as follows:

Company name	Share class	Address	% Holding 2023
Clarke Chapman Portia Port Services Ltd	A Ordinary	Maritime Centre, Port of Liverpool, Liverpool L21 1LA	50%

13 Inventories

	2023 £ 000	2022 £ 000
Finished goods for resale	38,537	28,999
Work in progress	4,533	17,097
	<u>43,070</u>	<u>46,096</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 £32,264,000 (2022: £32,109,000).

14 Trade and other receivables

	2023 £ 000	2022 £ 000
Amounts due from group undertakings	498,235	728,469
Trade receivables	2,299	18,811
Prepayments	48	-
	<u>500,582</u>	<u>747,280</u>

Trade receivables are stated after provisions for impairment of £869,000 (2022: £938,000).

Amounts due from group undertakings are unsecured, interest free and are repayable on demand. Amounts due from group undertakings are stated after provisions for impairment of £556,000 (2022: £3,070,000) for expected credit losses in accordance with IFRS 9.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

15 Contract assets and liabilities

	Current		Non-current		Total	
	2023	2022	2023	2022	2023	2022
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Contract assets	<u>9,663</u>	<u>9,496</u>	<u>-</u>	<u>-</u>	<u>9,663</u>	<u>9,496</u>
No impairment losses of contract assets (2022: none) have arisen during the year to 31 December 2023.						
	Current		Non-current		Total	
	2023	2022	2023	2022	2023	2022
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Contract liabilities	<u>152,627</u>	<u>94,102</u>	<u>7,297</u>	<u>54,747</u>	<u>159,924</u>	<u>148,849</u>

£87,255,000 of the opening contract liability has been recognised in income during the year to 31 December 2023 (2022: release of £48,487,000).

16 Trade and other payables

Amounts due within one year:

	2023	2022
	£ 000	£ 000
Amounts due to group undertakings	34,096	37,075
Trade payables	15,020	18,082
Other payables	7,137	8,147
Accruals	6,216	6,960
Social security and other taxes	<u>308</u>	<u>4,468</u>
	<u>62,777</u>	<u>74,732</u>

Amounts due to group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Amounts due to group undertakings includes £6,993,000 (2022: £6,881,000) for amounts to be used to settle healthcare liability claims on behalf of wholly owned subsidiaries. This amount will be realised in line with the utilisation of the provision, of which £316,000 (2022: £133,000) is expected to be realised in the next 12 months.

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2023 (continued)

17 Post-retirement benefits

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 2023 the Rolls-Royce UK Pension Fund is £767,000,000 in surplus (2022: £594,000,000 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 2021, the scheme was closed to future accrual. This Company has recognised no cost (2022: £nil) representing its contributions paid to the Group for the year.

The Company also operates a defined contribution scheme for employees. The pension cost for the year was £697,000 (2022: £1,033,000) and there were no outstanding or prepaid contributions at 31 December 2023 (2022: £nil).

The IAS 19 disclosure relating to the schemes is given in the Group Financial Statements of Rolls-Royce Holdings plc which are publicly available from the address disclosed in note 24.

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.

As share options are exercised throughout the year, the weighted average share price during the year of 159p (2022: 95p) is representative of the weighted average share price at the date of exercise. The closing price as at 31 December 2023 was 300p (2022: 93p). There were no exercisable options as at 31 December 2023 (2022: nil).

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

18 Shared-based payments (continued)

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Share options outstanding:

Grant - vest	Expiry date 31 January	Exercise price in pence per share option	ShareSave share options (000)	
			2023	2022
2017-2023	2023	260	-	121
2017-2023	2023	232	-	170
2019-2025	2025	232	155	168
2023 -2025	2025	97	562	590
			717	1,049

The weighted average remaining contractual life is 1.1 years (2022: 1.5) years.

19 Provisions for liabilities

	Warranties and guarantees £ 000	Contract Loss £ 000	Industrial diseases liability £ 000	Total £ 000
At 1 January 2023	2,628	26,106	6,881	35,615
Additional provisions	-	12,494	-	12,494
Decrease in existing provisions	-	-	(1,684)	(1,684)
Disposal of business	(223)	(3,332)	-	(3,555)
Amounts utilised	(508)	(6,330)	(342)	(7,180)
At 31 December 2023	1,897	28,938	4,855	35,690
Current liabilities	397	6,690	221	7,308
Non-current liabilities	1,500	22,248	4,634	28,382

Warranties and guarantees

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

Contract loss

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

Industrial diseases liability

The industrial diseases provision relates to businesses previously owned by the Group. The provision is expected to be utilised over the next 30-40 years. The discount rate used in the actuarial valuation is the Bank of England risk-free variable rate as at 30 September 2023 (2022: 2.93% which aligned to the yield on a UK 30-year gilt).

20 Disposals

On the 30 June 2023 the Company sold the entire legal and beneficial ownership, including all assets, of the Electrical and Automation Naval Marine business to Rolls-Royce Solutions UK Limited, within the Rolls-Royce Group, for a consideration of £11,600,000 which was equal to the carrying value of the assets sold, therefore no profit/loss on disposal was recognised.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2023 (continued)

20 Disposals (continued)

Assets with a carrying value of £24,500,000 were transferred, this included inventory balances and trade receivables. Liabilities with a carrying value of £(12,900,000) were transferred, this included trade payables and accruals, deferred income and warranty and contract loss provisions.

In 2019, the Company sold the Commerical Marine business to KONGSBERG. During 2023, the Company received funds relating to a variable deferred consideration of £938,000 (2022: £nil). This has been recognised as a profit on disposal of business in the current year. At the point of sale this deferred consideration was given a fair value of £nil by both parties. It is expected that the Company will receive further funds in 2027.

21 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 Group or individuals. In addition, the Group could still be affected by actions from customers, customers' financiers and the Group'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 Group. 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.

22 Called up share capital

	2023		2022	
	Ordinary shares of £0.000000001 each		Ordinary shares of £0.25 each	
	No. (000)	£	No. (000)	£
Ordinary shares – called up and fully paid	<u>1,516,398</u>	<u>2</u>	<u>1,516,398</u>	<u>379,100,000</u>

Rights, preferences and restrictions

Ordinary shares have the following rights, preferences and restrictions:

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

On the 18 December 2023 a Special Resolution was signed to reduce the share capital balance by reducing the nominal value of each Ordinary share from £0.25 each to £0.000000001 each.

During the year the Directors declared an interim dividend to their parent company of £3,000,000 (£1.98 per share), this was paid during 2024 (2022: £nil).

23 Related party transactions

Summary of transactions with joint ventures

There were no balances payable or receivable as at 31 December 2023 and 31 December 2022.

24 Parent and ultimate parent undertaking

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

The ultimate parent undertaking and controlling party is Rolls-Royce Holdings plc, which is the parent undertaking of the largest group to consolidate these Financial Statements. Rolls-Royce plc is the parent undertaking of the smallest group to consolidate these Financial Statements.

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