

Registration number: 01305027

Rolls-Royce Power Engineering Limited

Annual Report and Financial Statements

for the year ended 31 December 2025

Rolls-Royce Power Engineering Limited
Contents

	Page
Company Information	1
Strategic Report	2
Directors' Report	4
Independent Auditors' Report to the members of Rolls-Royce Power Engineering Limited	7
Income Statement	10
Statement of Comprehensive Income	11
Statement of Financial Position	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14

Rolls-Royce Power Engineering Limited
Company Information

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

Rolls-Royce Power Engineering Limited

Strategic Report

for the year ended 31 December 2025

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 2025.

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.

Business review

During the year, revenue increased by £38,241,000 to £145,417,000 (2024: £107,176,000), this is predominantly due a higher volume of engine deliveries on existing long-term contracts and spare engine sales as well as an increase in aftermarket services provided. Cost of sales increased by £48,390,000 to £145,994,000 (2024: £97,604,000) due to an increase in supplier spend across contracts as well as provisions created during the year for bad debt, warranties and customer claims. As a result, the Company had a gross loss of £577,000 (2024: gross profit of £9,572,000).

During the year, the Company made profit before tax of £931,000 (2024: £13,402,000), this was a result of the reduction in gross profit and finance income. During the year, the company made a foreign exchange loss of £842,000 (2024: gain of £3,675,000)

Net assets remained stable at £335,189,000 (2024: £334,036,000).

Key performance indicators

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

Principal risks and uncertainties

The Rolls-Royce Holdings plc group (the Group) has an established and structured approach to risk management which is detailed in the Rolls-Royce Holdings plc 2025 Annual Report which is publicly available from the address in note 22. 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 the Climate Related Sustainability Targets published in the 2025 Rolls-Royce Holdings plc Annual Report, which is publicly available from the address in note 22.. The principal risk to meeting these commitments is the need to transition products and services to a lower carbon economy.

Section 172(1) statement

Section 172(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;
- 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.

Further details on how the Directors' duties are discharged, and the oversight of these duties in making the principal decisions taken by the Company are included below.

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.

Rolls-Royce Power Engineering Limited

Strategic Report

for the year ended 31 December 2025 (continued)

Section 172(1) statement (continued)

There is regular engagement within the Group on employee-related matters, which is taken into account in the Company's decision making. Where the Directors do not engage directly with the Company's stakeholders, they are kept up to date to enable them to maintain an effective understanding of what matters to those stakeholders and can draw on these perspectives in Board decision-making. For further information on how the Company engages with employees please see section 'Employees' in the Directors' Report on page 5.

The 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 2025 Annual Report.

No political donations were made by the Company during the year ended 31 December 2025.

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 2025.

Non-financial and sustainability information statement

The Company is a wholly owned subsidiary of the Group and therefore the non-financial and sustainability information disclosures required in relation to both Rolls-Royce Holdings plc and the Company have been included in the Rolls-Royce Holdings plc 2025 Annual Report 2025 on page 38.

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 2025 Annual Report on pages 38 to 47 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.

Streamlined Energy & Carbon Reporting (SECR)

The Company is a wholly owned 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 2025 Annual Report on page 204. The Rolls-Royce Holdings plc 2025 Annual Report has been prepared for the same financial year as the Company.

Approved by the Board and signed on its behalf on 30 June 2026 by:

Signed by:

3C7CB878224D4D2.....
 Sarah Dunn
 Director

Rolls-Royce Power Engineering Limited

Directors' Report

for the year ended 31 December 2025

The Directors present their Directors' Report on the Company together with the Strategic Report and audited Financial Statements for the year ended 31 December 2025.

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

Richard Palmer

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 £1,134,000 profit after taxation for the year (2024: £10,429,000). The net assets of the Company are £335,189,000 (2024: £334,036,000).

The Directors did not declare or pay a dividend for the year (2024: payment of £3,000,000).

Future developments

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

Research and development

During the year, the Company had no research and development expenditure (2024: £215,000) as the engine development programme was completed in 2024.

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.

Going concern

The Directors of the Company have prepared the Financial Statements on a going concern basis which assumes the Company will continue in operation for at least 12 months from the date of approval of the Financial Statements and be able to meet its obligations as they fall due. In forming this judgement, the Directors have taken account of the forecast trading performance of the business which indicate that the Company is expected to be profitable for at least 12 months from the date of signing these Financial Statements.

Rolls-Royce Power Engineering Limited

Directors' Report

for the year ended 31 December 2025 (continued)

Going concern (continued)

As part of the going concern assessment management have forecast severe but plausible downside scenarios including cost increases due to supply chain challenges as detailed in the Rolls-Royce Holdings plc 2025 Annual Report which is publicly available from the address in note 22, as well as the risk of contracts becoming onerous. The directors consider that these severe but plausible downside scenarios would not give rise to any going concern implications for the company.

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

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

Political donations

No political donations were made by the Company during the year ended 31 December 2025.

Post balance sheet events

There are no post balance sheet events identified in the accounts.

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 2).

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.

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 of the Financial Statements

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

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

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

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

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

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

Rolls-Royce Power Engineering Limited
Directors' Report
for the year ended 31 December 2025 (continued)

Directors' confirmations

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

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

Approved by the Board and signed on its behalf on 30 June 2026 by:

Signed by:

.....3C7CB678224D4D2.....

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 2025 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 Statement of Financial Position as at 31 December 2025;
- the Income Statement for the year then ended;
- the Statement of Comprehensive Income for the year then ended;
- 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 on 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 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 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

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

Responsibilities for the Financial Statements and the audit

Responsibilities of the Directors for the Financial Statements

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

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

Auditors' responsibilities for the audit of the Financial Statements

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

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

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 regulations 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; 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
- the company's financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors's remuneration specified by law are not made.

We have no exceptions to report arising from this responsibility.



Matthew Walker (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol
30 June 2026

Rolls-Royce Power Engineering Limited
Income Statement
for the year ended 31 December 2025

	Note	2025 £ 000	2024 £ 000
Revenue	3	145,417	107,176
Cost of sales		<u>(145,994)</u>	<u>(97,604)</u>
Gross (loss)/profit		(577)	9,572
Administrative expense reversal/(expense)		<u>2,765</u>	<u>(735)</u>
Operating profit	4	<u>2,188</u>	<u>8,837</u>
Profit before interest and taxation		2,188	8,837
Finance income	7	70	4,565
Finance costs	8	<u>(1,327)</u>	<u>–</u>
Profit before taxation		931	13,402
Tax on profit	9	<u>203</u>	<u>(2,973)</u>
Profit for the financial year		<u>1,134</u>	<u>10,429</u>

The notes on pages 14 to 30 form an integral part of these Financial Statements

Rolls-Royce Power Engineering Limited
Statement of Comprehensive Income
for the year ended 31 December 2025

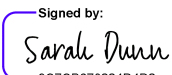
	2025 £ 000	2024 £ 000
Profit for the financial year	<u>1,134</u>	<u>10,429</u>
Total comprehensive income for the year	<u>1,134</u>	<u>10,429</u>

The notes on pages 14 to 30 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited
Statement of Financial Position
as at 31 December 2025
(Registration number: 01305027)

	Note	2025 £ 000	2024 £ 000
Non-current assets			
Property, plant and equipment	10	2,873	3,779
Investments	11	15,605	15,605
Deferred tax asset	9	909	2,323
		<u>19,387</u>	<u>21,707</u>
Current assets			
Inventories	12	50,558	57,062
Trade and other receivables	13	538,165	505,042
Contract assets	14	7,742	5,038
Other financial assets		173	1,721
Cash and cash equivalents		193	109
		<u>596,831</u>	<u>568,972</u>
Current liabilities			
Trade and other payables	15	(55,005)	(63,371)
Contract liabilities	14	(133,927)	(136,152)
Other financial liabilities		(738)	(1,444)
Provisions for liabilities	18	(15,516)	(13,289)
Net current assets		<u>391,645</u>	<u>354,716</u>
Total assets less current liabilities		<u>411,032</u>	<u>376,423</u>
Non-current liabilities			
Provisions for liabilities	18	(19,321)	(18,691)
Contract liabilities	14	(56,522)	(23,696)
Net assets		<u>335,189</u>	<u>334,036</u>
Equity			
Called up share capital	20	–	–
Retained earnings		335,189	334,036
Total equity		<u>335,189</u>	<u>334,036</u>

The Financial Statements on pages 10 to 30 were approved and authorised for issue by the Board of Directors on 30 June 2026 and were signed on its behalf by:

Signed by:

 3C7CB678224D4D2...
 Sarah Dunn

Director

The notes on pages 14 to 30 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited
Statement of Changes in Equity
for the year ended 31 December 2025

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2025	–	–	–	334,036	334,036
Profit for the financial year	–	–	–	1,134	1,134
Share based payments – direct to equity	–	–	–	4	4
Related tax movements	–	–	–	–	–
Other movements	–	–	–	15	15
At 31 December 2025	–	–	–	335,189	335,189

	Called up share capital	Share premium account	Capital redemption reserve	Retained earnings	Total Equity
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2024	–	–	–	326,771	326,771
Profit for the financial year	–	–	–	10,429	10,429
Share based payments – direct to equity	–	–	–	78	78
Related tax movements	–	–	–	(242)	(242)
Dividends paid	–	–	–	(3,000)	(3,000)
At 31 December 2024	–	–	–	334,036	334,036

The notes on pages 14 to 30 form an integral part of these Financial Statements.

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2025

1 General information

The Company is a private Company limited by shares and incorporated, registered and domiciled in the, United Kingdom. The address of its registered office is Moor Lane, Derby, Derbyshire, DE24 8BJ.

The principal activity of the Company is that of the construction and sale of power and propulsion systems and provision of after-market services across the Defence sector. The company also provides nuclear reactor technology solutions across the Nuclear sector.

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 in respect of:
 - paragraph 73(e) of IAS 16 *Property, plant and equipment*; and
- 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;
- 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 2025 that have a material impact on the Company's Financial Statements.

Going concern

The Directors of the Company have prepared the Financial Statements on a going concern basis which assumes the Company will continue in operation for at least 12 months from the date of approval of the Financial Statements and be able to meet its obligations as they fall due.

In forming this judgement, the Directors have taken account of the forecast trading performance of the business. Management's forecasts indicate that the Company is expected to be profitable for at least 12 months from the date of signing these Financial Statements.

As part of the going concern assessment management have forecast severe but plausible downside scenarios including cost increases due to supply chain challenges as detailed in the Rolls-Royce Holdings plc 2025 Annual Report which is publicly available from the address in note 22, as well as the risk of contracts becoming onerous. These forecasts indicate the Company will continue to be profitable throughout the forecast period. The directors consider that these severe but plausible downside scenarios would not give rise to any going concern implications for the company.

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2025 (continued)

2 Significant accounting policies (continued)

Going concern (continued)

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

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

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 an annual basis and make provisions against the carrying value of inventory where they consider the net realisable value to be lower than cost. A provision is applied when excess inventory is identified based on future demand.

Key source of estimation uncertainty - Employee 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 18).

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 challenging to forecast 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.

Exemption from preparing consolidated Financial Statements

The Financial Statements contain information about Rolls-Royce Power Engineering Limited 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 22.

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2025 (continued)

2 Significant accounting policies (continued)

Foreign currency transactions and balances

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

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into the respective functional currency of the Company at the rates prevailing on the reporting period date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the 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 comes 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.

Finance income and costs

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

Tax on profit

The tax expense for the financial year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in shareholders' funds. In this case, the tax is also recognised in other comprehensive income or directly in shareholders' funds, respectively.

The current tax charge/credit is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company operates and generates taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

2 Significant accounting policies (continued)

Tax on profit (continued)

Deferred tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; or arise from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the transaction, affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled.

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

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	Not depreciated
Building	15 to 45 years.
Plant & machinery	5 to 25 years.
Assets under construction	Not depreciated .

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 and foreign exchange derivatives which are revalued to the exchange rate prevailing at the balance sheet date, with movements in fair value recognised in the income statement as a profit or loss (FVPL).

Rolls-Royce Power Engineering Limited

Notes to the Financial Statements

for the year ended 31 December 2025 (continued)

2 Significant accounting policies (continued)

Financial assets and liabilities(continued)

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 *Revenue from Contracts with Customers*. 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 *Revenue from Contracts with Customers*. 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. The company does not hold any short-term deposits or other cash equivalents at the reporting date.

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. The scheme closed to future accrual on 31 December 2020 and as such, no further contributions are expected. In August 2025, the fund completed a Buy-in with the purchase of a bulk insurance annuity policy that covers the majority of scheme liabilities and therefore the potential risks.

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 25 in these Financial Statements.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

2 Significant accounting policies (continued)

Called up share capital

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

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 a pricing model that assumes that participants will exercise their options at the beginning of the six-month window if the share price is greater than the exercise price. Otherwise, it assumes that options are held until the expiration of their contractual term;
- ii) Long term incentive plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition.
- iii) Free shares – The fair value of shares awarded under the free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).
- iv) Matching shares - The fair value of the free matching shares awarded under these plans is calculated using the share price on the date of the award. Non-vesting conditions are taken into consideration with a percentage discount applied based on the assumption of the expected forfeiture rates of the matching shares.

Rounding of amounts

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

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

3 Revenue

A geographical analysis of revenue is presented as follows:

	2025	2024
	£ 000	£ 000
United Kingdom	60,739	49,579
Middle East & Asia	72,096	52,152
Rest of Europe	232	5,097
North America	12,350	348
	<u>145,417</u>	<u>107,176</u>

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

	2025	2024
	£ 000	£ 000
Original equipment (sale of goods)	99,456	66,167
Aftermarket sales (services)	45,961	41,009
	<u>145,417</u>	<u>107,176</u>

4 Operating profit

Arrived at after charging/(crediting):

	2025	2024
	£ 000	£ 000
Depreciation charge on property, plant and equipment	171	124
Amortisation charge on intangible assets	–	297
Charge/(release) of industrial diseases provision	677	(603)
Charge for impairment of inventory to net realisable value ¹	–	473
Research and development expenditure	–	215
Inventory recognised as an expense	128,497	85,649

¹ In 2025, the Company wrote off £15m of obsolete inventory during the year following the termination of its Canadian distribution arrangement. As this inventory was fully provided for in prior periods, there is no charge to the current year income statement.

5 Staff and Directors' costs

The aggregate payroll costs were as follows:

	2025	2024
	£ 000	£ 000
Wages and salaries	5,893	5,390
Social security costs	733	611
Other pension costs	614	558
Share-based payment expenses	4	78
	<u>7,244</u>	<u>6,637</u>

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

5 Staff and Directors' costs (continued)

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

	2025 No.	2024 No.
Nuclear	50	53
Defence	31	34
	<u>81</u>	<u>87</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.

6 Auditors' remuneration

The fees for the audit of the Company Financial Statements for the year ended 31 December 2025 were £188,000 (2024: £181,000) and were paid by Rolls-Royce plc and not recharged. No (2024: no) amounts were paid to the Company's auditors for non-audit services.

7 Finance income

	2025 £ 000	2024 £ 000
Foreign exchange gain	–	3,678
Other finance income	–	555
Interest receivable and similar income	69	116
Fair value gains on foreign currency contracts	–	213
Intercompany interest receivable	1	3
	<u>70</u>	<u>4,565</u>

8 Finance costs

	2025 £ 000	2024 £ 000
Fair value losses on foreign currency contracts	(842)	–
Foreign exchange losses	(485)	–
	<u>(1,327)</u>	<u>–</u>

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

9 Tax on profit

	2025 £ 000	2024 £ 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 at 25.0% (2024: 25.0%)	234	3,536
UK corporation tax adjustments to prior periods	(1,851)	18
	(1,617)	3,554
Deferred taxation		
Origination and reversal of timing differences	(37)	(173)
Adjustments to tax charge in respect of prior periods	1,451	(408)
Total deferred taxation	1,414	(581)
Tax (credit)/charge in the income statement	(203)	2,973

The tax assessed for the year is lower than (2024: lower than) the standard rate of corporation tax in the UK of 25.0% (2024: 25.0%). The differences are explained and reconciled below:

	2025 £ 000	2024 £ 000
Profit before taxation	931	13,402
Profit before tax multiplied by the standard rate of corporation tax in the UK 25.0% (2024: 25.0%)	233	3,351
Adjustments to tax charge in respect of prior periods	(400)	(390)
(Expenses)/Income not (deductable)/taxable for tax purpose	(36)	11
Tax rate differential on temporary differences	–	1
Total taxation	(203)	2,973

Deferred tax

Deferred tax movement during the year:

	At 1 January 2025 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2025 £ 000	Recognised as DTA £ 000	Recognised as DTL £ 000
Accelerated tax depreciation	1,130	(362)	–	768	768	–
Withholding tax on RDEC	1,119	(1,119)	–	–	–	–
Other items	74	67	–	141	141	–
Net tax assets	2,323	(1,414)	–	909	909	–

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

9 Tax on profit (continued)

Deferred tax

Deferred tax movement during the prior year:

	At 1 January 2024 £ 000	Recognised in income statement £ 000	Recognised in equity £ 000	At 31 December 2024 £ 000	Recognised as DTA £ 000	Recognised as DTL £ 000
Accelerated tax depreciation	1,689	(559)	–	1,130	1,130	–
Withholding tax on RDEC	–	1,119	–	1,119	1,119	–
Other items	295	21	(242)	74	74	–
Net tax assets	<u>1,984</u>	<u>581</u>	<u>(242)</u>	<u>2,323</u>	<u>2,323</u>	<u>–</u>

The Company is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 31 December 2025, the Company has no related current tax exposure and has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Prior to 1999, Advance Corporation Tax (“ACT”) was paid to the UK Tax Authority when cash dividends were paid by the Company. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 could be carried forward indefinitely and utilised against future UK corporation tax liabilities. In 2024, the surplus ACT balance of £19,000,000 was derecognised following the Group’s announcement to reinstate shareholder distributions via cash dividends, which would have prevented utilisation of the surplus ACT balance. The surplus ACT balance of £19,000,000 (2024: £19,000,000) remains unrecognised at the balance sheet date. The UK Government has substantively enacted a statutory instrument to repeal Shadow ACT provisions with effect from 1 April 2026. It is anticipated that this will result in the re-recognition of the Company’s £19,000,000 surplus ACT balance from that date. The Company will closely monitor future developments in the ACT regime.

A deferred tax asset of £767,000 (2024: £nil) has not been recognised on unused gross tax capital losses carried forward of £3,068,000 (2024: £nil) as it is not probable that these losses can be utilised against chargeable gains in the foreseeable future. The losses can be carried forward indefinitely and have no expiry date.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

10 Property, plant and equipment

	Land and buildings Freehold £ 000	Plant & machinery £ 000	Assets under construction £ 000	Total £ 000
Cost				
At 1 January 2025	936	10,354	2,882	14,172
Additions	–	–	94	94
Reclassifications	722	430	(1,152)	–
Disposals	(12)	(446)	(829)	(1,287)
At 31 December 2025	1646	10,338	995	12,979
Accumulated depreciation				
At 1 January 2025	180	10,213	–	10,393
Charge for the year	100	71	–	171
Eliminated on disposal	(12)	(446)	–	(458)
At 31 December 2025	268	9,838	–	10,106
Net book value				
At 31 December 2025	1,378	500	995	2,873
At 31 December 2024	756	141	2,882	3,779

Depreciation of £171,000 (2024: £124,000) 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 (2024: £226,000).

At 31 December 2025 the Company was committed to capital expenditure of £63,464 (2024: £232,000).

11 Investments

Subsidiaries

	£ 000
Cost	
At 31 December 2024 and 31 December 2025	142,580
Accumulated impairment	
At 31 December 2024 and 31 December 2025	126,975
Carrying amount	
At 31 December 2024 and 31 December 2025	15,605

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 assessment of indicators of impairment by comparing the value in use against net book value at 31 December 2025, no impairment charge was required during the year (2024: £nil).

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

11 Investments(continued)

As at 31 December 2025, the companies listed below and on the following pages were directly held by the Company. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Share class	Address	% Holding
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	Inchinnan Drive, Inchinnan, United Kingdom, PA4 9AF	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 ³	Ordinary	London ²	100%
Rolls-Royce Industrial & Marine Power Limited	Ordinary	London ²	100%
Rolls-Royce Industrial Power (India) Limited ^{1, 4}	Ordinary	Derby ⁵	100%
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited	Ordinary	Derby ⁵	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 ⁶	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 Entity in liquidation.

⁴ Reporting year end is 31 March.

⁵ Moor Lane, Derby, Derbyshire, DE24 8BJ, United Kingdom.

⁶ 95% holding directly and 5% holding indirectly

Joint ventures

Details as at 31 December 2025 are as follows:

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

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

12 Inventories

	2025	2024
	£ 000	£ 000
Finished goods for resale	41,322	45,354
Work in progress	9,236	11,708
	<u>50,558</u>	<u>57,062</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 £17,692,000 (2024: £32,737,000).

13 Trade and other receivables

	2025	2024
	£ 000	£ 000
Amounts due from group undertakings	520,141	496,346
Trade receivables	18,024	8,696
	<u>538,165</u>	<u>505,042</u>

Trade receivables are stated after provisions for impairment of £7,468,000 (2024: £157,000).

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 £287,000 (2024: £342,000) for expected credit losses in accordance with IFRS 9 *Financial Instruments*.

14 Contract assets and liabilities

	Current		Non-current		Total	
	2025	2024	2025	2024	2025	2024
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Contract assets	<u>7,742</u>	<u>5,038</u>	<u>–</u>	<u>–</u>	<u>7,742</u>	<u>5,038</u>

No impairment losses of contract assets (2024: none) have arisen during the year to 31 December 2025.

	Current		Non-current		Total	
	2025	2024	2025	2024	2025	2024
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Contract liabilities	<u>133,927</u>	<u>136,152</u>	<u>56,522</u>	<u>23,696</u>	<u>190,449</u>	<u>159,848</u>

£94,493,000 of the opening contract liability has been recognised in income during the year to 31 December 2025 (2024: £96,817,000).

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

15 Trade and other payables

Amounts due within one year:

	2025	2024
	£ 000	£ 000
Amounts due to group undertakings	22,336	35,208
Trade payables	19,130	16,354
Other payables	7,815	8,015
Accruals	2,629	2,652
Social security and other taxes	3,095	1,142
	<u>55,005</u>	<u>63,371</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 £5,466,000 (2024: £5,762,000) 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 £1,675,000 (2024: £617,000) is expected to be realised in the next 12 months.

16 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 2025 the Rolls-Royce UK Pension Fund is £284,000,000 in surplus (2024: £779,000,000 surplus). In August 2025 the fund completed a Buy-in. See note 2 for further details.

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 (2024: £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 £614,000 (2024: £558,000) and there were no outstanding or prepaid contributions at 31 December 2025 (2024: £nil).

The IAS 19 Employee Benefits 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 22.

17 Share-based payments

Share-based payment charges incurred by the Company in the year to 31 December 2025 were £4,000 (2024: 78,000). The weighted average share price at the date shares were exercised was 728p (2024: 420p) and the closing price at 31 December 2025 was 1150p (2024: 569p).

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.

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

17 Shared-based payments (continued)

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.

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

Share options outstanding:

Scheme name	Exercise price in pence per share option	ShareSave share options	
		2025	2024
2019 UK 5 year scheme	232	362	147,240
2021 UK 3 year scheme	97	575	544,686
		<u>937</u>	<u>691,926</u>

The weighted average remaining contractual life is 0.6 years (2024: 0.1 years).

Free shares

In 2024, every Rolls-Royce employee was gifted 150 shares. The awards were granted under the 'Rolls-Royce Share Purchase Plan' for UK employees and it is an equity-settled scheme. The fair value of shares awarded under the Free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Matching shares

The 'Your Shares: Matched' plan was launched during the year. Every participant receives the free matching shares with a value of up to £50 each month based on the number of investment shares they purchase. There are no performance conditions attached to the shares. The fair value of the free matching shares awarded under these plans is calculated using the share price on the date of the award. Non-vesting conditions are taken into consideration with a percentage discount applied based on the assumption of the expected forfeiture rates of the matching shares.

18 Provisions for liabilities

	Warranties and guarantees	Contract loss	Claims and litigation	Industrial diseases liability	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2025	2,452	25,359	–	4,169	31,980
Additional provisions	3,376	3,005	7,352	677	14,410
Decrease in existing provisions	(411)	–	–	–	(411)
Amounts utilised	–	(10,241)	–	(901)	(11,142)
At 31 December 2025	5,417	18,123	7,352	3,945	34,837
Current liabilities	473	6,295	7,352	1,396	15,516
Non-current liabilities	4,944	11,828	–	2,549	19,321

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

18 Provisions for liabilities(continued)

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.

Claims and litigation

A provision has been recognised in respect of a legal claim made against the Company by a counterparty. The provision represents management's best estimate of the obligation at the reporting date, based on legal advice received. The outcome of the matter is uncertain, and the amount ultimately payable, if any, may differ materially from the amount provided. The timing of resolution is dependent on the progress of legal proceedings.

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 2025 (2024: Bank of England risk-free variable rate as at 30 September 2024).

19 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, and the Company, 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.

20 Called up share capital

	2025		2024	
	No. (000)	£	No. (000)	£
Ordinary shares of £0.000000001 each, authorised, called up and fully paid	1,516,398	2	1,516,398	2

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.

The Directors did not recommend a dividend for the year (2024: £nil).

21 Related party transactions

Summary of transactions with joint ventures

Sales to Rolls-Royce Holdings plc group joint ventures in the year were £344,000 (2024: £635,000) and purchases in the year were £nil (2024: £ nil). Amounts due from related parties at the 31 December 2025 were £nil (2024: £nil). Amounts due to related parties at the 31 December 2025 were £2,000 (2024: £7,000).

Rolls-Royce Power Engineering Limited
Notes to the Financial Statements
for the year ended 31 December 2025 (continued)

22 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.