

Registration number: 01305027

Rolls-Royce Power Engineering plc

Annual Report and Financial Statements

for the Year Ended 31 December 2019

THURSDAY



A9DSQN1K

A20

17/09/2020

#310

COMPANIES HOUSE

Rolls-Royce Power Engineering plc

Contents

	Page(s)
Company Information	1
Strategic Report	2 to 5
Directors' Report	6 to 10
Independent Auditors' Report to the members of Rolls-Royce Power Engineering plc	11 to 13
Income Statement	14
Statement of Comprehensive Income	15
Balance Sheet	16
Statement of Changes in Equity	17
Notes to the Financial Statements	18 to 45

Rolls-Royce Power Engineering plc

Company Information

Company secretary J Gentles

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 plc

Strategic Report for the Year Ended 31 December 2019

The Directors present their Strategic Report on Rolls-Royce Power Engineering plc (the 'Company') together with the audited financial statements of the Company for the year ended 31 December 2019.

Principal activities

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

The Company devotes a substantial amount of time and effort to research and development activities.

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.

Key performance indicators

The key performance indicators monitored by the Company are as follows:

	2019	2018
	£ 000	£ 000
Revenue	149,200	525,500
Profit for the year	3,400	27,200
Cash *	200	26,500
Net assets	566,600	562,800
Order book	275,600	227,900

* The Company is party to the Rolls-Royce plc group treasury arrangements meaning cash can fluctuate according to group requirements.

Discontinued operations included in the revenue for the year ended 31 December 2019 amounted to £6,900,000 (2018: £366,900,000) and profit for the year for discontinued operations was £600,000 (loss) (2018: £21,000,000).

Given the nature of the Company's activities, the Directors believe that no further key performance indicators are necessary or appropriate in understanding the Company's specific development, performance or the position of its business. The Business Review below contains details about changes to the entity regarding discontinued operations that are contained within the total figures above. Other key performance indicators relevant to the Rolls-Royce Holdings plc group, and which may be relevant to the Company, are disclosed in the Strategic Report in the Rolls-Royce Holdings plc Annual Report which is publicly available from the address in note 27 and do not form part of this report.

Business review

The financial position of the Company at 31 December 2019 is shown in the Statement of Financial Position on page 16, with the results shown in the Income Statement on page 14 and Statement of Comprehensive Income on page 15.

On 1 April 2019, the Rolls-Royce Holdings plc group disposed of all its commercial marine business to KONGSBERG for a cash consideration of £547,500,000 which partly relate to entities which were previously owned by the Company. The results of the business held for sale as at 31 December 2018 up to the point of sale have been classified as discontinued operations in 2019. Consideration received for the sale of the Company's investments were at net asset value at the date of disposal. Further details may be found at note 3.

In 2019 the Company's revenue decreased by £376,300,000 (72%) to £149,200,000 (2018: £525,500,000) largely as a result of the disposal of the Company's submarine business part way through the year ended 31 December 2018 to another Rolls-Royce group entity. The submarine business is classified as a discontinued operation in 2018, reflecting revenue of £366,900,000 (70%) and profit of £21,000,000 (77%) from a total of £525,500,000 and £27,200,000 respectively in 2018.

Rolls-Royce Power Engineering plc

Strategic Report for the Year Ended 31 December 2019 (continued)

Business review (continued)

Revenue and profit on continuing operations have decreased in the year when comparing against the continuing operations from 2018, revenue decreased by £18,500,000 (12%) and profit decreased by £2,200,000 (35%), mainly due to timing of contracts.

Net assets increased to £566,600,000 (2018: £562,800,000) due to trading profits in the year and dividends received in respect of the dissolution of Rolls-Royce Marine Electrical Systems Limited, which were partially offset by the impairment of the investment held in this entity. Further details may be found at note 15.

Principal risks and uncertainties

The Company acts in accordance with the policies set by Rolls-Royce Holdings plc. The Rolls-Royce Holdings plc group has an established, structured approach to risk management which is detailed in the Annual Report of Rolls-Royce Holdings plc, which is publicly available from the address in note 27.

Brexit

Following the United Kingdom's ('UK') exit from the European Union ('EU') on 31 January 2020, the Directors continue to monitor the potential outcomes for the UK's future relationship with the EU through the Rolls-Royce steering group which has remained active during 2019 and will remain active until the outcome is clear and any necessary mitigation plans are in place. It is difficult to evaluate all of the potential implications on the Company and the wider economy. However, the Directors believe the Company has limited exposure to any Brexit implications. Further disclosures are given in the Rolls-Royce Holdings plc Annual Report which is publicly available from the address in note 27.

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak. See the Directors' Report on page 8 for further discussion on the Company's response and risk and uncertainties.

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

Financial risk management

The following financial risks are considered key by the Directors:

Foreign currency exchange rate risk

The Company has cash flows (US dollars and 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 enters into derivative forward foreign currency transactions. For accounting purposes, these derivative contracts are not designated as hedging instruments.

The Company also has exposure to the fair values of non-derivative financial instruments denominated in foreign currencies. To manage the risk of changes in these fair values, the Company enters into derivative forward foreign exchange contracts, which are designated as fair value hedges for accounting purposes.

The Company regards its interests in overseas subsidiary companies as long-term investments. The Company aims to match its translational exposures by matching the currencies of assets and liabilities.

Rolls-Royce Power Engineering plc

Strategic Report for the Year Ended 31 December 2019 (continued)

Financial risk management (continued)

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 Rolls-Royce Holdings plc group's risk management activities. The Rolls-Royce Holdings plc 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 Rolls-Royce Holdings plc group's exposure to credit risk policy. The objective of the policy is to diversify and minimise the Rolls-Royce Holdings plc group's exposure to credit risk from its treasury activities by ensuring the Rolls-Royce Holdings plc 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.

Section 172(1) statement

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

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

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

Business relationships:

The Company's key stakeholders are its employees, external suppliers, investors, customers and the UK government. The Directors engage with suppliers and customers through formal two-way board to board 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. In addition to regular contact meetings, there are also regular performance review meetings for contracts, board-level meetings which include top 15 key suppliers to EDF Hinckley Point C and ad hoc senior meetings. The Directors believe that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2019.

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. There is regular engagement within the Rolls-Royce Holdings plc group on employee-related matters, which is taken into account in the Company's decision making. For further information on how the Company engages with employees please see section 'Employees' in the Directors Report on page 9.

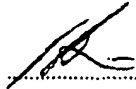
Rolls-Royce Power Engineering plc

Strategic Report for the Year Ended 31 December 2019 (continued)

Section 172(1) statement (continued)

The Directors consider business relationships with the Company's wider stakeholders, 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 Rolls-Royce Holdings plc group company, the Company complies and acts in accordance with the Rolls-Royce Holdings plc policies in relation to the safeguarding of human rights and community relationships as outlined in the Rolls-Royce Holdings plc Annual Report which is publicly available from the address in note 27.

Approved by the Board on 9 September 2020 and signed on its behalf by:


.....

R A Fletcher

Rolls-Royce Power Engineering plc

Directors' Report for the Year Ended 31 December 2019

The Directors present their Directors' report and the audited financial statements of the Company for the year ended 31 December 2019.

Directors

The Directors who held office during the year were as follows:

W Mansfield (resigned 5 April 2019)

R P Curtis (resigned 14 March 2019)

R A Fletcher (appointed 14 March 2019)

P Coles (appointed 7 August 2019 and resigned 21 July 2020)

The following director was appointed after the year end:

F Dolan (appointed 21 July 2020)

Qualifying third party indemnity provisions

The Company has made qualifying third-party indemnity provisions for the benefit of its Directors which were in place during the year and remain in force at the date of this report.

Results

The Company made £3,400,000 profit after taxation for the year (2018: £27,200,000).

Dividends

The Directors do not recommend the payment of a dividend in 2019 (2018: £nil). During 2020, the Directors recommended and paid a dividend of £4,000,000.

During the year, the Company received dividends in the sum of £6.1 million from its subsidiary undertakings (2018: £54 million).

Future developments

The Company will continue to provide power and propulsion systems and nuclear reactor technology solutions across the Nuclear and Defence sectors. The Company will increase its support of the UK Small Modular Reactors (SMRs) Programme.

Rolls-Royce Power Engineering plc

Directors' Report for the Year Ended 31 December 2019 (continued)

Financial risk management

The details of the Company's risk management are set out in more detail on pages 3-4.

Going Concern

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

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

Rolls-Royce Holdings plc, the ultimate parent company of Rolls-Royce plc and the ultimate parent undertaking to consolidate the Company's financial statements, in its published results for the six-month period ended 30 June 2020 included a material uncertainty on going concern in relation to severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

The Rolls-Royce Holdings plc group has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to 28 February 2022 when assessing their going concern. Particular attention has been paid to the impact of the COVID-19 outbreak on the Rolls-Royce Holdings plc group's Civil Aerospace and ITP Aero businesses. An assessment was performed on both a base case scenario (which reflects the Rolls-Royce Holdings plc group current expectations of future trading) and a severe but plausible downside scenario (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce Holdings plc group future financial performance and cash flows. Further details of the base case and downside scenarios modelled by the Rolls-Royce Holdings plc group are included in Note 1 to the published results which are publicly available (www.rolls-royce.com).

After considering the basis of preparation of the Rolls-Royce Holdings plc group interim financial statements, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis. However, the inherent uncertainties outlined in the Rolls-Royce Holdings plc group financial statements represent material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis.

Research and Development

During the year the Company spent £8,000,000 on research and development (2018: £9,000,000).

Rolls-Royce Power Engineering plc

Directors' Report for the Year Ended 31 December 2019 (continued)

Subsidiary Distributions

During 2018 and in prior years, as part of a Rolls-Royce Holdings plc group wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £83m. 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 £76m.

The Company is currently in the process of reinstating the respective subsidiary undertakings to take the necessary steps to remedy this position. These subsidiaries intend to complete capital reductions during 2020 to create additional distributable reserves with the intention of relying on such reserves in making new distributions. Having received external legal advice, the Directors consider that having taken these necessary steps the risk of any liability materialising is remote, and therefore no liability has been recognised as at 31 December 2019 and 31 December 2018.

Post balance sheet events

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

The Directors believe that there will be no long-term change to the outlook of the Company following COVID-19 as orders supporting both internal and external customers remain along with the prospect of increasing the Company's support for the UK Small Modular Reactors ('SMRs') programme.

In terms of the Company's financial and liquidity position in relation to COVID-19, there will be a near term impact, as there has been disruption in our international supply chain and therefore delays to some contract deliverables. The impact has been minimised through the implementation of cost reduction measures, including moving some staff to part-time working and utilisation of the UK government's furlough scheme. Any near-term impact is fully expected to be recovered in 2021.

Interim dividend

The Directors recommended and approved a cash dividend in the sum of £4m which was paid to its shareholders on 26 June 2020.

Rolls-Royce Power Engineering plc

Directors' Report for the Year Ended 31 December 2019 (continued)

Customers, Suppliers and Others Statement

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

The Company's activities affect a wide range of stakeholders and the Company engages with these stakeholders and listens to their differing inputs and priorities as an everyday part of its business and uses the input and feedback to 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.

The Company engages with UK Government officials to support the design and development of SMRs as a low carbon option for the UK electricity supply market. An example of close engagement with UK government officials and EDF can be demonstrated during the COVID-19 pandemic. Engagement with key stakeholders such as the UK government intensified and the Company liaised regularly with EDF to support their plans to build two new nuclear generation plants at Sizewell C as well as ensuring the maintenance of services to their operational fleet during the COVID-19 pandemic.

Employee engagement

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

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

The Company's policy on diversity and equality continues to develop in consultation with employee representatives and the Company continues to be committed to equal opportunities and developing a diverse and inclusive workforce. Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the Company continues and the appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of a disabled person should, as far as possible, be identical to that of a person who does not suffer from a disability.

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.

Rolls-Royce Power Engineering plc

Directors' Report for the Year Ended 31 December 2019 (continued)

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 the 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 on 9 September 2020 and signed on its behalf by:



R A Fletcher
Director

Rolls-Royce Power Engineering plc

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

Report on the audit of the financial statements

Opinion

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

- give a true and fair view of the state of the Company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006..

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the Balance Sheet as at 31 December 2019; the Income Statement, the Statement of Comprehensive Income, the Statement of Changes in Equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

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

Independence

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

Material uncertainty related to going concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Going Concern section included within the "Significant accounting policies" to the financial statements concerning the Company's ability to continue as a going concern.

The Company is reliant on its parent company for ongoing support, including not seeking repayment of existing intercompany loans and to repay any amounts deposited by the Company as part of the parent company's cash pool sweeping arrangements. Rolls-Royce Holdings plc, the ultimate parent company, in its published results for the six-month period ended 30 June 2020, included material uncertainties on going concern in relation to the severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. Accordingly, there can be no certainty that the support required by the Company will in fact be made available.

These conditions, along with the other matters explained in the Going Concern section included within the "Significant accounting policies" note to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the Company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Company was unable to continue as a going concern.

Rolls-Royce Power Engineering plc

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

Reporting on other information

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

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

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

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require 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 2019 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 set out on page 10, 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.

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.

Rolls-Royce Power Engineering plc

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

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.

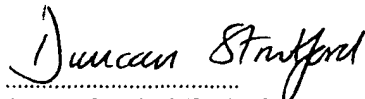
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



.....
Duncan Stratford (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Bristol

Date: 10 September 2020

Rolls-Royce Power Engineering plc

Income Statement for the Year Ended 31 December 2019

	Note	Continuing operations 2019 £ 000	Discontinued operations 2019 £ 000	Total 2019 £ 000	Continuing operations 2018 £ 000	Discontinued operations 2018 £ 000	Total 2018 £ 000
Revenue	4	142,300	6,900	149,200	158,600	366,900	525,500
Cost of sales		(110,900)	(4,900)	(115,800)	(130,400)	(322,000)	(452,400)
Gross profit		31,400	2,000	33,400	28,200	44,900	73,100
Administrative expenses		(15,900)	(1,700)	(17,600)	(21,100)	(17,700)	(38,800)
Research and development		(8,000)	-	(8,000)	(7,700)	(1,300)	(9,000)
Operating profit/(loss)	5	7,500	300	7,800	(600)	25,900	25,300
Loss on disposal of tangible fixed assets		-	-	-	(100)	-	(100)
Dividend income	6	6,100	-	6,100	54,000	-	54,000
Impairment of investments	15	(5,000)	-	(5,000)	(45,900)	-	(45,900)
Profit before interest and taxation		8,600	300	8,900	7,400	25,900	33,300
Finance income	7	200	100	300	-	400	400
Finance expense	8	(4,700)	(1,000)	(5,700)	(300)	-	(300)
Profit/(loss) before tax		4,100	(600)	3,500	7,100	26,300	33,400
Tax on profit	12	(100)	-	(100)	(900)	(5,300)	(6,200)
Profit/(loss) for the year		4,000	(600)	3,400	6,200	21,000	27,200

The notes on pages 18 to 45 form an integral part of these financial statements.

Rolls-Royce Power Engineering plc

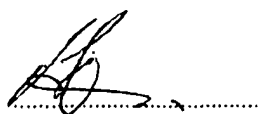
Statement of Comprehensive Income for the Year Ended 31 December 2019

	2019 £ 000	2018 £ 000
Profit for the year	<u>3,400</u>	<u>27,200</u>
Total comprehensive income for the year	<u><u>3,400</u></u>	<u><u>27,200</u></u>

Rolls-Royce Power Engineering plc
(Registration number: 01305027)
Balance Sheet as at 31 December 2019

	Note	2019 £ 000	2018 Continuing operations £ 000	2018 Held For Sale £ 000	2018 Total £ 000
Non-current assets					
Intangible assets	13	17,200	20,500	-	20,500
Property, plant and equipment	14	5,500	5,800	-	5,800
Investments	15	73,200	78,200	-	78,200
Deferred tax asset	22	1,800	-	-	-
		<u>97,700</u>	<u>104,500</u>	<u>-</u>	<u>104,500</u>
Current assets					
Inventories	16	39,900	25,000	8,400	33,400
Trade and other receivables	17	674,300	663,700	17,000	680,700
Contract assets	17	13,900	8,100	-	8,100
Intangible assets	13	-	-	3,600	3,600
Property, plant and equipment	14	-	-	2,800	2,800
Cash at bank and in hand		200	26,500	-	26,500
		<u>728,300</u>	<u>723,300</u>	<u>31,800</u>	<u>755,100</u>
Current liabilities					
Trade and other payables	20	(228,800)	(230,000)	(28,000)	(258,000)
Contract liabilities	20	(6,300)	(14,700)	-	(14,700)
		<u>(235,100)</u>	<u>(244,700)</u>	<u>(28,000)</u>	<u>(272,700)</u>
Net current assets		<u>493,200</u>	<u>478,600</u>	<u>3,800</u>	<u>482,400</u>
Total assets less current liabilities		<u>590,900</u>	<u>583,100</u>	<u>3,800</u>	<u>586,900</u>
Non-current liabilities					
Trade and other payables	21	-	(200)	-	(200)
Provisions for liabilities and charges	22	(24,300)	(23,900)	-	(23,900)
Net assets		<u>566,600</u>	<u>559,000</u>	<u>3,800</u>	<u>562,800</u>
Equity					
Called up share capital	24	379,100	379,100	-	379,100
Share premium reserve		24,100	24,100	-	24,100
Capital redemption reserve		4,000	4,000	-	4,000
Retained earnings		159,400	151,800	3,800	155,600
Total equity		<u>566,600</u>	<u>559,000</u>	<u>3,800</u>	<u>562,800</u>

The financial statements on pages 14 to 45 were approved and authorised by the Board on 9 September 2020 and signed on its behalf by:



R A Fletcher
Director

The notes on pages 18 to 45 form an integral part of these financial statements.

Rolls-Royce Power Engineering plc

Statement of Changes in Equity for the Year Ended 31 December 2019

	Called up share capital £ 000	Share premium reserve £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2019	379,100	24,100	4,000	155,600	562,800
Profit for the year	-	-	-	3,400	3,400
Total comprehensive income	-	-	-	3,400	3,400
Share based payment transactions	-	-	-	500	500
Related tax movements	-	-	-	(100)	(100)
At 31 December 2019	379,100	24,100	4,000	159,400	566,600

	Called up share capital £ 000	Share premium reserve £ 000	Capital redemption reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	379,100	24,100	4,000	127,400	534,600
Profit for the year	-	-	-	27,200	27,200
Total comprehensive income	-	-	-	27,200	27,200
Share based payment transactions	-	-	-	1,000	1,000
At 31 December 2018	379,100	24,100	4,000	155,600	562,800

The notes on pages 18 to 45 form an integral part of these financial statements.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019

1 General information

The Company is an unlisted public company incorporated in England.

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

The address of its registered office is:

Moor Lane
Derby
Derbyshire
DE24 8BJ

2 Accounting policies

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 as amended by the revaluation of certain property plant and equipment and derivative financial instruments, 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:

- A Cash Flow Statement and related notes;
- IFRS 2 Share Based Payments in respect of group settled share based payments;
- Comparative period reconciliations for tangible fixed assets;
- 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;
- Disclosures in respect of the compensation of Key Management Personnel;
- Disclosures in respect of capital management; and
- The effects of new but not yet effective IFRSs.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Amounts presented have been rounded to the nearest one hundred thousand pounds.

Summary of significant accounting policies and key accounting estimates

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

New Standards, amendments and IFRIC interpretations

IFRS 16 Leases is a new accounting standard that is effective for the year ended 31 December 2019. On transitioning to the new accounting standard, the Directors have evaluated the impact on the financial statements and considered that there is no impact on adoption of the standard. There are no other amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2019 that have had a material impact on the Company's financial statements.

Subsidiary distributions

During 2018 and in prior years, as part of a Rolls-Royce Holdings plc group wide corporate simplification exercise, intercompany loan waivers were undertaken by dormant subsidiaries of the Company prior to their strike off. The Company received dividends in specie resulting from the waiver of amounts owed by the Company to these dormant subsidiaries in respect of £83m. 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 £76m.

The Company is currently in the process of reinstating the respective subsidiary undertakings to take the necessary steps to remedy this position. These subsidiaries intend to complete capital reductions during 2020 to create additional distributable reserves with the intention of relying on such reserves in making new distributions. Having received external legal advice, the Directors consider that having taken these necessary steps the risk of any liability materialising is remote, and therefore no liability has been recognised as at 31 December 2019 and 31 December 2018.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Going concern

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

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

Rolls-Royce Holdings plc, the ultimate parent company of Rolls-Royce plc and the ultimate parent undertaking to consolidate the Company's financial statements, in its published results for the six-month period ended 30 June 2020 included a material uncertainty on going concern in relation to severity, extent and duration of the disruption caused by the COVID-19 pandemic and the timing of recovery of commercial aviation to pre-crisis levels, along with the availability of sufficient funding. As the Company is reliant on the support of the parent undertaking as stated above, the material uncertainty also applies to the Company's assessment of the going concern basis for the preparation of its financial statements.

The Rolls-Royce Holdings plc group has considered the forecast cash flows of the Group and the liquidity available over an eighteen-month period to 28 February 2022 when assessing their going concern. Particular attention has been paid to the impact of the COVID-19 outbreak on the Rolls-Royce Holdings plc group's Civil Aerospace and ITP Aero businesses. An assessment was performed on both a base case scenario (which reflects the Rolls-Royce Holdings plc group current expectations of future trading) and a severe but plausible downside scenario (which envisages a "stress" or "downside") to evaluate the potential impact of COVID-19 on the Rolls-Royce Holdings plc group future financial performance and cash flows. Further details of the base case and downside scenarios modelled by the Rolls-Royce Holdings plc group are included in Note 1 to the published results which are publicly available (www.rolls-royce.com).

After considering the basis of preparation of the Rolls-Royce Holdings plc group interim financial statements, the Directors are satisfied that it remains appropriate to prepare the Company financial statements on a going concern basis. However, the inherent uncertainties outlined in the Rolls-Royce Holdings plc group financial statements represent material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising their assets and discharging their liabilities in the normal course of business. These financial statements do not contain any adjustments that would arise if the financial statements were not drawn up on a going concern basis.

Exemption from preparing group accounts

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

The Company is exempt under section 400 of the Companies Act 2006 from the requirement to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of 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 26.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Discontinued Operations

Results relating to businesses that have been disposed during the current and prior year are disclosed as discontinued operations with the remaining elements being disclosed as continuing operations.

Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements require the use of certain critical estimates. It also requires management to exercise its judgements 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 accounting estimates and assumptions

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. Where inventory is identified as being obsolete a full provision is applied, where inventory is identified as slow moving based upon a review of the level of future demand, a provision for 50% of its carrying value is applied. (See note 16).

Depreciation

Property, plant and equipment are depreciated over the useful lives for which the Company expects to derive benefit from those assets. The useful economic lives and residual values are reassessed annually. They are amended when necessary to reflect current estimates, based on technological advancements, future investments, economic utilisation and physical condition of the assets (See note 14).

Industrial diseases 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 22).

Long term contracts

Profit traded on long term contracts is based upon the contract forecast at completion and stage of completion. Forecast cost at completion is based upon contract reviews and the process that underpins this.

Critical accounting judgements in applying the entities accounting policies

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.

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 judgments as necessary relating to the likelihood of realisation and timing of outflow.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Revenue

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.

Finance income and costs

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

Foreign currency transactions and balances

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.

Tax

The tax expense for the period 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.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

The current tax charge 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.

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.

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

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.

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.

Investments

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

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Inventories

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

Financial assets and liabilities

Classification

All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Impairment of financial assets

In relation to the impairment of financial assets, the expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. It is not necessary for a credit event to have occurred before credit losses are recognised.

Financial liabilities

Financial liabilities primarily consist of trade and other payables and borrowings.

- Derivatives are classified and measured at Fair Value through the Income Statement;
- All other financial liabilities are classified and measured at amortised cost.

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.

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.

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.

Dividends

Dividends paid are recognised through equity on the earlier of their approval by the Company's Directors or payment.

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

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

2 Accounting policies (continued)

Defined contribution 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 26 in these accounts.

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) Performance Share Plan - using a pricing model adjusted to reflect non-entitlement to dividends (or equivalent) and the TSR market-based performance condition;
- iii) Annual Performance Related Award plan deferred shares and free shares under the Share Incentive Plan - share price on the date of the award.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

3 Assets held for sale and discontinued operations

Disposal of Commercial Marine businesses

On 1 April 2019 the Rolls-Royce group sold its Commercial Marine business (part of which traded through this Company) to KONGSBERG.

The transaction met the criteria of IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* that where the carrying value of a disposal group is expected to be recovered through a sale transaction, the disposal group should be treated as held for sale, with assets and liabilities presented separately on the balance sheet for the prior year, measured at the lower of carrying value or fair value less costs to dispose.

As a result of the decision to classify the Commercial Marine business as held for sale, its carrying value was assessed against the anticipated proceeds which are based on the net assets to be disposed and any associated disposal costs, therefore no impairment was recognised in the prior year and no profit on disposal has been recognised.

The results of the discontinued operations up to the date of sale during 2019 have been disclosed separately in the Income Statement.

The amounts recognised in respect of the identifiable assets disposed and liabilities discharged as at 31 December 2018 are as follows:

	£'000
Non-current assets	
Intangible assets	3,200
Property, plant and equipment	2,600
Current assets	
Inventories	8,400
Trade and other receivables	17,000
Current liabilities	
Trade and other payables	(27,400)
Net assets disposed	<u>3,800</u>

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

4 Revenue

A geographical analysis of revenue is presented as follows:

	2019 Continuing	2019 Discontinued	2019 Total	2018 Continuing	2018 Discontinued	2018 Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
United Kingdom	100,100	4,700	104,800	90,200	366,900	457,100
Rest of Europe	400	1,800	2,200	9,300	-	9,300
North America	-	400	400	10,400	-	10,400
Middle East & Asia	41,300	-	41,300	47,100	-	47,100
Central & South America	500	-	500	1,200	-	1,200
Australasia & Pacific	-	-	-	400	-	400
	142,300	6,900	149,200	158,600	366,900	525,500

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

	2019 Continuing	2019 Discontinued	2019 Total	2018 Continuing	2018 Discontinued	2018 Total
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Original equipment (sales)	88,100	4,400	92,500	95,600	245,900	341,500
After market sales (services)	54,200	2,500	56,700	63,000	121,000	184,000
	142,300	6,900	149,200	158,600	366,900	525,500

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

5 Operating profit/(loss)

Arrived at after charging/(crediting)

	2019 £ 000	2018 £ 000
Depreciation expense	800	2,500
Amortisation of intangibles	4,500	6,400
Research and development cost	8,000	9,000
Loss on disposal of non-current assets	-	100
Impairment of trade receivables	(700)	1,300
Impairment of inventory	(2,700)	2,500
Inventory recognised as an expense	<u>75,100</u>	<u>336,100</u>

6 Dividend income

	2019 £ 000	2018 £ 000
Dividend income from group undertakings	<u>6,100</u>	<u>54,000</u>

7 Finance income

	2019 £ 000	2018 £ 000
Interest receivable and similar income	300	200
Fair value gains on foreign currency contracts	<u>-</u>	<u>200</u>
	<u>300</u>	<u>400</u>

8 Finance expense

	2019 £ 000	2018 £ 000
Foreign exchange losses	1,400	300
Other finance costs	<u>4,300</u>	<u>-</u>
	<u>5,700</u>	<u>300</u>

Other finance costs mainly comprise IFRS 9 movements, the comparative figure is not shown here due to adoption of the modified retrospective approach in the prior year, when the cost was not material to disclose.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

9 Staff costs

The aggregate payroll costs were as follows:

	2019 £ 000	2018 £ 000
Wages and salaries	24,300	101,800
Social security costs	3,400	12,200
Pension and other post-employment benefit costs	3,500	14,100
Share-based payment expenses	500	1,000
	<u>31,700</u>	<u>129,100</u>

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

	2019 No.	2018 No.
Nuclear	191	244
Defence	221	1,590
	<u>412</u>	<u>1,834</u>

10 Directors' remuneration

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.

11 Auditors' remuneration

	2019 £ 000	2018 £ 000
Audit of the financial statements	<u>106</u>	<u>195</u>

The fees for the audit of the Company financial statements are show above and were paid on its behalf by Rolls-Royce plc. £Nil (2018: £Nil) was paid to the Company's auditors for non audit services.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

12 Tax on profit

Tax charged in the income statement

	2019 £ 000	2018 £ 000
Current taxation		
UK corporation tax	-	900
UK corporation tax adjustment to prior periods	92	1,958
Foreign tax	8	42
	100	2,900
Group relief payable		
Group relief	1,200	4,300
Deferred taxation		
Arising from origination and reversal of temporary differences	(100)	(100)
Adjustments in respect of prior periods	(1,100)	(900)
Total deferred taxation	(1,200)	(1,000)
Tax expense in the income statement	100	6,200

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2018 - lower than the standard rate of corporation tax in the UK) of 19% (2018 - 19%).

The differences are reconciled below:

	2019 £ 000	2018 £ 000
Profit before tax	3,500	33,400
Corporation tax at standard rate	665	6,346
(Decrease)/Increase in current tax from adjustment for prior periods	(1,065)	1,166
Increase/(Decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	485	(1,260)
Increase arising from overseas tax suffered	8	42
Deferred tax expense/(credit) from unrecognised temporary difference from a prior period	7	(94)
Total tax charge	100	6,200

The 2020 Budget announced that the UK corporation tax rate will no longer reduce to 17% from 1 April 2020 and will remain at 19%. The deferred tax asset has been calculated at 17% as this rate has been substantively enacted at the Balance Sheet date. Had the 19% been substantively enacted on or before 31 December 2019 it would have had the effect of increasing the deferred tax asset by £213,000.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

13 Intangible assets

	Development expenditure £ 000	Software £ 000	Total £ 000
Cost			
At 1 January 2019	60,000	6,900	66,900
Additions	-	800	800
Disposals through sale of trade and assets	-	(6,600)	(6,600)
At 31 December 2019	<u>60,000</u>	<u>1,100</u>	<u>61,100</u>
Accumulated Amortisation			
At 1 January 2019	39,800	3,000	42,800
Amortisation charge	4,000	500	4,500
Amortisation eliminated on disposals through sale of trade and assets	-	(3,400)	(3,400)
At 31 December 2019	<u>43,800</u>	<u>100</u>	<u>43,900</u>
Net book value			
At 31 December 2019	<u>16,200</u>	<u>1,000</u>	<u>17,200</u>
At 31 December 2018	<u>20,200</u>	<u>3,900</u>	<u>24,100</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 with 2.5 years to run and is recognised in administrative costs in the Income Statement.

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 with 4 years left. Amortisation is recognised in administrative costs in the Income Statement

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

14 Property, plant and equipment

	Land and buildings Freehold £ 000	Short term Leasehold Property £ 000	Plant & machinery £ 000	Assets under construction £ 000	Total £ 000
Cost or valuation					
At 1 January 2019	4,200	600	28,500	700	34,000
Additions	-	-	-	300	300
Disposals through sale of trade and assets	<u>(3,500)</u>	<u>-</u>	<u>(8,700)</u>	<u>-</u>	<u>(12,200)</u>
At 31 December 2019	<u>700</u>	<u>600</u>	<u>19,800</u>	<u>1,000</u>	<u>22,100</u>
Accumulated Depreciation					
At 1 January 2019	1,800	100	23,500	-	25,400
Charge for the year	100	-	700	-	800
Eliminated on disposal through sale of trade and assets	<u>(1,700)</u>	<u>-</u>	<u>(7,900)</u>	<u>-</u>	<u>(9,600)</u>
At 31 December 2019	<u>200</u>	<u>100</u>	<u>16,300</u>	<u>-</u>	<u>16,600</u>
Carrying amount					
At 31 December 2019	<u>500</u>	<u>500</u>	<u>3,500</u>	<u>1,000</u>	<u>5,500</u>
At 31 December 2018	<u>2,400</u>	<u>500</u>	<u>5,000</u>	<u>700</u>	<u>8,600</u>

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Investments

Subsidiaries	£ 000
Cost	
At 1 January 2019	<u>142,300</u>
At 31 December 2019	<u>142,300</u>
Impairment	
At 1 January 2019	64,100
Charge in year	<u>5,000</u>
At 31 December 2019	<u>69,100</u>
Carrying amount	
At 31 December 2019	<u>73,200</u>
At 31 December 2018	<u>78,200</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 2019, an impairment charge of £5m was required during the year (2018: £45.9 million) due to Rolls-Royce Marine Electrical Systems Limited having been dissolved on 17 September 2019.

During the prior year, as part of a Rolls-Royce 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 plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Investments (continued)

*** indicates a direct shareholding by the Company.

The following were subsidiary undertakings / participating interest of the Company as at 31 December 2019:

Company name	Share class	Address	% Holding 2019
Amalgamated Power Engineering Ltd***	Ordinary Deferred	Derby*	100%
CA Parsons & Company Ltd***	Ordinary	Derby*	100%
Derby Specialists Fabrications Ltd***	Ordinary	Derby*	100%
Heaton Power Ltd***	Ordinary	Derby*	100%
John Thompson Cochran Ltd***	Ordinary and 6% Cumulative Preference	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, KY11 9JT	100%
NEI International Combustion Ltd	Ordinary	Derby*	100%
NEI Mining Equipment Ltd***	Ordinary	Derby*	100%
NEI Nuclear Systems Ltd***	Ordinary	Derby*	100%
NEI Parsons Ltd***	Ordinary	Derby*	100%
NEI Peebles Ltd***	Ordinary	Derby*	100%

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Investments (continued)

NEI Power Projects Ltd***	Ordinary	Derby*	100%
Rolls-Royce Industrial & Marine Power Ltd***	Ordinary	Derby*	100%
Rolls-Royce Industrial Power (India) Ltd***	Ordinary	Derby*	100%
Rolls-Royce Industrial Power Engineering (Overseas Projects) Ltd***	Ordinary	Derby*	100%
Spare IPG20 Ltd***	Ordinary	Derby*	100%
Spare IPG21 Ltd***	Ordinary	Derby*	100%
Spare IPG24 Ltd***	Ordinary	Derby*	100%
Spare IPG32 Ltd***	Ordinary	Derby*	100%
	and 7.25% Cumulative Preference		
Spare IPG4 Ltd***	Ordinary	Derby*	100%
The Bushing Company Ltd***	Ordinary	Derby*	100%

* Derby refers to Moor Lane, Derbyshire, England DE24 8BJ

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

15 Investments (continued)

*** indicates a direct shareholding by the Company

Joint ventures

Details as at 31 December 2019 are as follows:

Company name	Class of shares	Address	Proportion of ownership interest and voting rights held 2019
Clarke Chapman Portia Port Services Ltd***	A Ordinary	Maritime centre, Port of Liverpool, Liverpool L211LA	50%
UK Nuclear Restoration Ltd***	Ordinary	Booths Park, Chelford rd, Knutsford, WA16 8QZ	20%

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

16 Inventories

	2019 £ 000	2018 £ 000
Raw materials and consumables	-	800
Work in progress	4,300	9,000
Finished goods and goods for resale	35,600	23,600
	39,900	33,400

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 £37,500,000 (2018: £40,200,000). During the year there was a reversal of impairment of £2,700,000, mostly relating to the sale of goods previously agreed to be provided free of charge as part of a liability settlement deal, that were subsequently sold.

17 Trade and other receivables

	2019 £ 000	2018 £ 000
Trade receivables	18,500	41,400
Amounts owed by group undertakings	651,800	633,200
Prepayments and accrued income	-	500
Other receivables	4,000	5,400
Contract assets	13,900	8,100
Derivative financial instruments	-	200
Current trade and other receivables	688,200	688,700

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. These are stated after provisions for expected credit losses of £4,300,000 (2018: £nil).

Trade receivables are stated after provisions for impairment of £2,200,000 (2018: £2,900,000). During the year there was a reversal of £700,000 provision relating to a disputed invoice with a partner company which was recovered during the year.

Contract assets relate to amounts recoverable on long term contracts, mainly in the Defence sector.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

18 Pension and other schemes

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 2019 the Rolls-Royce UK Pension Fund is £1,141m in surplus (2018: £1,926m 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. This Company has recognised a cost of £2,500,000 (2018: £10,000,000) representing its contributions paid to the Group for the period.

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 26.

19 Share-based payments

During the year, the Company participated in the following share-based payment plans operated by Rolls-Royce Holdings plc:

Performance Share Plan (PSP) / Long Term Incentive Plan (LTIP)

Scheme description

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

Scheme description

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.

Annual Performance Related Award (APRA) plan deferred shares

Scheme description

A proportion of the APRA annual incentive scheme is delivered in the form of a deferred share award. The release of deferred share awards is not dependent on the achievement of any further performance conditions other than that participants remain employed by the Company for two years from the date of the award in order to retain the full number of shares. During the two year deferral period, participants are entitled to receive dividends, or equivalent, on the deferred shares.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

19 Share-based payments (continued)

As share options are exercised throughout the year, the weighted average share price during the year of 906p (2018: 883p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2019 was 683p (2018: 830p). There were no exercisable options as at 31 December 2019 (2018: Nil).

Share options outstanding

	ShareSave Number Thousand	ShareSave Weighted average remaining contractual life Years
At 31 December 2019		
600p – 699p	1,064	3.60
700p – 799p	149	2.20
900p – 999p	1	Nil
	1,214	3.40

	ShareSave Number Thousand	ShareSave Weighted average remaining contractual life Years
At 31 December 2018		
600p – 699p	200	1.20
700p – 799p	193	3.20
900p – 999p	147	0.10
	540	1.60

The range of exercise prices of options outstanding at 31 December 2019 was between 617p and 962p (2018 - 617p and 962p).

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

20 Trade and other payables (current)

	2019 £ 000	2018 £ 000
Trade payables	9,300	12,100
Accruals and deferred income	76,900	93,900
Amounts owed to group undertakings	121,200	126,900
Social security and other taxes	700	1,000
Other payables	20,600	24,000
Contract liabilities	6,300	14,700
Derivative financial instruments	100	100
	<u>235,100</u>	<u>272,700</u>

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

21 Trade and other payables (non-current)

	2019 £ 000	2018 £ 000
Derivative financial instruments	<u>-</u>	<u>200</u>

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Provisions for liabilities

	Warranties and guarantees £ 000	Contract Loss £ 000	Deferred Taxation £ 000	Restructuring £ 000	Other provisions £ 000	Total £ 000
At 1 January 2019	1,400	3,000	(600)	1,600	18,500	23,900
Additional provisions	300	-	-	-	4,000	4,300
Decrease in existing provisions	(400)	(600)	-	(100)	-	(1,100)
Discount unwind	(100)	-	-	-	-	(100)
Disposals through transfer of trade and assets	(400)	-	-	-	-	(400)
Reclassification*	-	-	600	-	-	600
Amounts utilised	(100)	(100)	-	(1,400)	(1,300)	(2,900)
At 31 December 2019	<u>700</u>	<u>2,300</u>	<u>-</u>	<u>100</u>	<u>21,200</u>	<u>24,300</u>
Non-Current liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,000</u>	<u>20,000</u>
Current liabilities	<u>700</u>	<u>2,300</u>	<u>-</u>	<u>100</u>	<u>1,200</u>	<u>4,300</u>

*The deferred taxation balance has been reclassified to non-current assets.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 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 made in respect of costs in excess of agreed contract amounts and are generally expected to be utilised within one to five years.

Other

Other provisions primarily relates to employer healthcare liability claims as a result of an historic insolvency of the previous provider and also includes numerous liabilities with varying expected utilisation rates.

Restructuring

Restructuring provisions are made for Rolls-Royce group approved, formal restructuring programmes where the restructuring has either commenced or has been publicly announced. Included is the group-wide restructuring programme announced on 14 June 2018, which is an on-going multi-year restructuring programme across the business and reflects the severance costs as well as the consultancy costs that will help deliver the planned reductions. The majority of the provision is expected to be utilised over the next year.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

22 Provisions for liabilities (continued)

Deferred tax

Deferred tax assets and liabilities

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2019			
Accelerated tax depreciation	800	-	800
Amortisation	-	(300)	(300)
Other items	1,300	-	1,300
	<u>2,100</u>	<u>(300)</u>	<u>1,800</u>

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
2018			
Accelerated tax depreciation	-	(400)	(400)
Amortisation	-	(400)	(400)
Other items	1,400	-	1,400
	<u>1,400</u>	<u>(800)</u>	<u>600</u>

Deferred tax movement during the year:

	At 1 January 2019 £ 000	Recognised in Income Statement £ 000	Recognised in other comprehensive income £ 000	At 31 December 2019 £ 000
Accelerated tax depreciation	(400)	1,200	-	800
Amortisation	(400)	100	-	(300)
Other items	1,400	-	(100)	1,300
Net tax assets/(liabilities)	<u>600</u>	<u>1,300</u>	<u>(100)</u>	<u>-1,800</u>

Deferred tax movement during the prior year:

	At 1 January 2018 £ 000	Recognised in Income Statement £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	(400)	-	(400)
Amortisation	(400)	-	(400)
Other items	400	1,000	1,400
Net tax assets/(liabilities)	<u>(400)</u>	<u>1,000</u>	<u>600</u>

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

23 Contingent liabilities

In January 2017, after full cooperation, other companies within the Rolls-Royce plc group concluded deferred prosecution agreements with the SFO and the US Department of Justice and a leniency agreement with the MPF, the Brazilian federal prosecutors. Other 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 relating against those other companies within the Rolls-Royce plc group or individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors are not currently aware of any matter that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

24 Called up share capital

Allotted, called up and fully paid shares

	2019		2018	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £0.25 each	<u>1,516,398</u>	<u>379,100</u>	<u>1,516,398</u>	<u>379,100</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.

Rolls-Royce Power Engineering plc

Notes to the Financial Statements for the Year Ended 31 December 2019 (continued)

25 Related party transactions

Summary of transactions with joint ventures

There were no balances payable or receivable as at 31 December 2019 and 31 December 2018.

26 Post balance sheet events

COVID-19

In March 2020, COVID-19 began causing significant financial market downturn and social dislocation. The situation is dynamic and the UK government continues to implement measures to address the outbreak.

Subsequently, Rolls-Royce Holdings plc has released Trading Updates and Half Year results for 2020. These outline the measures taken by the Rolls-Royce Holdings plc group including how people, business and communities have been safeguarded, the liquidity and financial position of the Rolls-Royce Holdings plc group and the year to date trading impact of COVID-19. The Directors of the Company are monitoring the impact of COVID-19 measures that the Rolls-Royce Holdings plc group is taking.

The Directors believe that there will be no long-term change to the outlook of the Company following COVID-19 as orders supporting both internal and external customers remain along with the prospect of increasing the Company's support for the UK Small Modular Reactors ('SMRs') programme.

In terms of the Company's financial and liquidity position in relation to COVID-19, there will be a near term impact, as there has been disruption in our international supply chain and therefore delays to some contract deliverables. The impact has been minimised through the implementation of cost reduction measures, including moving some staff to part-time working and utilisation of the UK government's furlough scheme. Any near-term impact is fully expected to be recovered in 2021.

Interim dividend

The Directors recommended and approved a cash dividend in the sum of £4m which was paid to its shareholders on 26 June 2020.

27 Parent and ultimate parent undertaking

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

The ultimate parent and controlling party is Rolls-Royce Holdings plc.

The most senior parent entity producing publicly available financial statements is Rolls-Royce Holdings plc.

This is the largest group in which these financial statements are consolidated. These financial statements are available upon request from Kings Place, 90 York Way, London, United Kingdom, N1 9FX.

The smallest group in which these financial statements are consolidated is Rolls-Royce plc. These financial statements are available upon request from Kings Place, 90 York Way, London, United Kingdom, N1 9FX.