

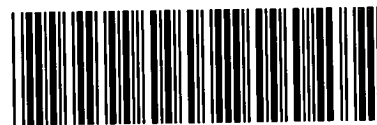
Registration number: 01305027

# Rolls-Royce Power Engineering plc

Annual Report and Financial Statements

for the Year Ended 31 December 2018

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## **Rolls-Royce Power Engineering plc**

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## **Rolls-Royce Power Engineering plc**

### **Company Information**

<b>Company secretary</b>	G Chatzopoulos
<b>Registered office</b>	Moor Lane Derby DE24 8BJ
<b>Independent Auditors</b>	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors Donington Court Pegasus Business Park Castle Donington East Midlands DE74 2UZ

## **Rolls-Royce Power Engineering plc**

### **Strategic Report for the Year Ended 31 December 2018**

The Director presents their Strategic Report on Rolls-Royce Power Engineering plc (the Company) for the year ended 31 December 2018.

#### **Principal activities and business review**

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

The results of the Company, which are considered by the Directors to be its financial and non-financial key performance indicators, are as follows:

	2018	2017
	£ 000	£ 000
Revenue	525,500	785,200
Profit for the year	27,200	30,500
Cash	26,500	39,500
Net assets	562,800	534,600
Order book	227,900	1,867,300

During the year, the Company restructured its operations into two sectors, Nuclear and Defence. In August 2018 the Company disposed of its submarine business at the book value of its assets and liabilities, disposing of liabilities of £26 million thus not making any profit or loss on disposal. The residual marine business has been restructured and incorporated within the Nuclear and Defence sectors.

In 2018 the Company had a £259 million decrease in revenue to £526 million (2017: £785 million) and made a profit of £27 million (2017: £31 million profit). This was primarily as a result of the sale of the submarine business which was sold to a fellow group subsidiary in August 2018. As a result of this only 7 months of trading for the submarine business has been included within these results.

Taking this into account, revenue levels remained broadly in line with 2017 with the continued work to support the next generation Dreadnought class submarines. The absolute drop in order book and revenue reflects the reduction in activity following the sale of the submarine business.

Investments in subsidiaries were impaired by £45.9 million (2017: £18.2 million) as a result of several subsidiaries being dissolved in the year.

Dividends of £54 million (2017: £29.1 million) were received from subsidiary undertakings.

The cash balance decreased to £27 million (2017: £40 million).

Net assets increased to £563 million (2017: £535 million).

## **Rolls-Royce Power Engineering plc**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Research and development**

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.

#### **Future Developments**

The long-term outlook for Nuclear remains positive, with a growing demand for low carbon sources of power underpinned by a UK Government commitment to net zero carbon by 2050.

Globally, China and Russia are continuing to develop strong positions in many international markets creating opportunities for western partners. The SMR market is emerging at pace driven by affordability and suitability for certain grid infrastructures. Our small modular reactor team is pursuing the development of this incredibly versatile new technology that could transform the way the world meets its growing low-carbon energy needs.

In our Civil Nuclear markets, the Company expects to further consolidate a significant position in the mature European and US markets based on current operations and plant life extensions. Growth is being increasingly driven by the advancement of digital technologies enabling a step-change in operational performances and therefore helping to address cost pressures in many western markets.

Following the disposal of the submarine business, operations are smaller but no less exciting with the naval business being retained and integrated within the Defence sector. The outlook for the naval business is positive with expected sales growth of the MT30 gas turbine into a number of new build ship programmes, including Type 26 for the UK Navy, FFX for the South Korean Navy and 30FFM for the Japanese Navy.

On 6 July 2018, the Rolls-Royce Holdings plc group announced the sale of its commercial marine business to KONGSBERG. The Company holds related operations of the commercial marine business which are included within the disposal. Accordingly, the operations were reclassified as assets held for sale.

#### **Assets held for sale**

The carrying value of the total assets held for sale have been assessed against the relative proportion of the Rolls-Royce Holdings plc group's total proceeds that relate to each commercial marine company. Consideration received for the sale of the Company's investments were at net asset value at the date of disposal, therefore there was no change to the values held at 31 December 2018.

Assets of £3,800 thousand relating to the commercial marine business were transferred as part of this transaction. The Company received £3,800 thousand in respect of the assets transferred and therefore no impairment was identified. See note 4 for further details of the transaction.

## **Rolls-Royce Power Engineering plc**

### **Strategic Report for the Year Ended 31 December 2018 (continued)**

#### **Vision**

Pioneering the power that matters - Rolls-Royce pioneers cutting-edge technologies that deliver the cleanest, safest and most competitive solutions to meet our planet's vital power needs.

#### **Strategy**

- Champion electrification
- Vitalise existing capabilities
- Reinvent with digital
- Transform our business
- Build a balanced portfolio

The Company's priorities are:

- Customers - mitigate impact to rectify in-service issues, ramp up large engine production, grow service capabilities;
- Technology - focus through product digitalisation, electrification and revitalisation;
- Resilience - through adaptability with a spotlight on safety, diversity & inclusion, and the highest ethical standards; and
- Financial progress - delivering improving free cash flow, strengthening balance sheet, more disciplined capital allocation.

#### **Investing in people and skills**

The Company seeks to attract the best and brightest engineers by providing them with world-class projects, tools and processes. The Company has a culture of developing people within the Rolls-Royce group through opportunities such as the Specialist Academy and the Rolls-Royce Fellowship programmes. We value professional development and work closely with a number of institutes and external organisations to encourage our engineers to earn professional recognition.

#### **Employee engagement**

This is measured through our employee opinion survey which produces a composite sustainable engagement score. The targets are based on absolute scores for six key questions within the overall survey.

The Group provides a variety of channels to communicate with employees and encourage participation and engagement.

The Group encourages the involvement of employees in the Group's performance through employee share schemes.

#### **Diversity and inclusion**

We give full and fair consideration to all employment applications from people with disabilities, and support disabled employees, helping them to make the best use of their skills and potential. The Group's high performance culture training continues to be rolled out across the globe to help employees increase their personal effectiveness.

## Rolls-Royce Power Engineering plc

### Strategic Report for the Year Ended 31 December 2018 (continued)

#### Principal risks and uncertainties

The Rolls-Royce Holdings plc group has an established, structured approach to risk management which is detailed in the consolidated financial statements of Rolls-Royce Holdings plc. The Company acts in accordance with this policy.

The following risks are considered by the Director:

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

**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 of the relevant trading entity. 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 exposures 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.

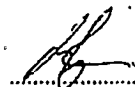
The Company regards its interests in overseas subsidiary companies as long-term investments. The Company aims to match its translational exposures by matching the currencies of assets and liabilities.

**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 is a key component 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.

#### Brexit

The Directors are monitoring the impact of the Brexit vote on the Company and the terms on which the United Kingdom may withdraw from the European Union. It is difficult to evaluate all of the potential implications on the Company's operations and the wider economy. The Directors have assessed the potential impact of sales and purchases from European Union countries to be minimal due to the relatively limited trading activity with companies from those countries. The Directors will continue to monitor any adverse impact of a withdrawal from this market, and will seek to exploit opportunities in other jurisdictions if necessary.

Approved by the Board on 17/12/19 and signed on its behalf by:



R A Fletcher  
Director

## **Rolls-Royce Power Engineering plc**

### **Directors' Report for the Year Ended 31 December 2018**

The directors present their report and the audited financial statements for the year ended 31 December 2018.

#### **Directors of the Company**

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

W Mansfield (resigned 5 April 2019)

R P Curtis (resigned 14 March 2019)

D Guerin (resigned 8 March 2018)

The following directors were appointed after the year end:

R A Fletcher (appointed 14 March 2019)

P Coles (appointed 7 August 2019)

#### **Results and dividends**

The results of the Company are detailed in the Strategic Report on pages 2 to 5.

#### **Future developments**

The future developments of the Company are detailed in the Strategic Report on pages 2 to 5.

#### **Principal activity**

The principal activity of the Company is the provision of power and propulsion systems and the provision of nuclear reactor technology solutions across the Marine, Nuclear and Defence sectors. It provides integrated power solutions for customers primarily in the defence market. Our products work in mission-critical environments where safety is paramount.



## **Rolls-Royce Power Engineering plc**

### **Directors' Report for the Year Ended 31 December 2018 (continued)**

#### **Principal risks and uncertainties**

The Rolls-Royce Holdings plc group has an established, structured approach to risk management which is detailed in the consolidated financial statements of Rolls-Royce Holdings plc. The Company acts in accordance with this policy.

The following risks are considered by the Director:

The principal financial risks to which the company is exposed are: foreign currency exchange rate risk; and credit risk. The company's ultimate parent company's Board has approved policies for the management of these risks and are managed across the Rolls-Royce group (Group). These policies are referenced in the Groups financial statements.

**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 of the relevant trading entity. 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 exposures 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.

**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 is a key component 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.

#### **Events after the end of the financial reporting period**

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 thousand. Consideration received for the sale of the Company's investments were at net asset value at the date of disposal, therefore there was no change to the values held at 31 December 2018.

In accordance with section 414C(11) of the Companies Act 2006 certain matters otherwise required to be disclosed in the Directors' Report have instead been included in the Strategic Report.

## **Rolls-Royce Power Engineering plc**

### **Directors' Report for the Year Ended 31 December 2018 (continued)**

#### **Subsidiary Distributions**

During the year ended 31 December 2018 and in prior years, as part of a Rolls-Royce 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 of the Company 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 2018 and 31 December 2017.

#### **Going Concern**

These financial statements have been prepared on a going concern basis.

Rolls-Royce plc, a parent undertaking has stated that its current policy is to provide such financial support as is required to ensure that the Company is managed so that it maintains adequate financial resources and is in a position to meet its financial obligations arising from its normal trading activities. Based on the Directors' assessment of the Company's future financial requirements, the ability of Rolls-Royce plc to support the Company, if necessary, and the statement referred to above, the Directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is, for at least 12 months from the date of approval of these financial statements.

#### **Qualifying third party indemnity provisions**

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

## **Rolls-Royce Power Engineering plc**

### **Directors' Report for the Year Ended 31 December 2018 (continued)**

#### **Disclosure of information to the auditors**

Each Director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information. The directors confirm that there is no relevant information that they know of and of which they know the auditors are unaware.

#### **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.

Approved by the Board on 17/12/19 and signed on its behalf by:



.....  
R A Fletcher  
Director

## **Rolls-Royce Power Engineering plc**

### **Statement of Directors' Responsibilities**

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.

## **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 2018 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 2018; 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.

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

ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the Company's trade, customers, suppliers and the wider economy.

##### **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.

## **Rolls-Royce Power Engineering plc**

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

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

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

Based on 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 2018 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 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](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

##### **Use of this report**

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

**Rolls-Royce Power Engineering plc**

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

**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.



Nicholas Stevenson (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
East Midlands

Date: 17 December 2019

**Rolls-Royce Power Engineering plc**

**Income Statement for the Year Ended 31 December 2018**

		Continuing operations 2018 £ 000	Discontinued operations 2018 £ 000	Total 2018 £ 000	Continuing operations 2017 £ 000	Discontinued operations 2017 £ 000	Total 2017 £ 000
	Note						
Revenue	5	158,600	366,900	525,500	148,600	636,600	785,200
Cost of sales		(130,400)	(322,000)	(452,400)	(122,300)	(558,300)	(680,600)
Gross profit		28,200	44,900	73,100	26,300	78,300	104,600
Administrative expenses		(21,100)	(17,700)	(38,800)	(32,300)	(25,200)	(57,500)
Research and development		(7,700)	(1,300)	(9,000)	(17,600)	(3,000)	(20,600)
Operating (loss)/profit	6	(600)	25,900	25,300	(23,600)	50,100	26,500
Loss on disposal of tangible fixed assets		(100)	-	(100)	(200)	-	(200)
Impairment of intercompany loan		-	-	-	(1,300)	-	(1,300)
Dividends received	8	54,000	-	54,000	29,100	-	29,100
Impairment of investments		(45,900)	-	(45,900)	(18,200)	-	(18,200)
Profit/(loss) before interest and taxation		7,400	25,900	33,300	(14,200)	50,100	35,900
Finance income	7	-	400	400	(200)	1,100	900
Finance expense	9	(300)	-	(300)	-	-	-
Profit/(loss) before tax		7,100	26,300	33,400	(14,400)	51,200	36,800
Tax on profit/(loss)	13	(900)	(5,300)	(6,200)	(6,300)	-	(6,300)
Profit/(loss) for the year		6,200	21,000	27,200	(20,700)	51,200	30,500

The notes on pages 18 to 47 form an integral part of these financial statements.



## **Rolls-Royce Power Engineering plc**

### **Statement of Comprehensive Income for the Year Ended 31 December 2018**

	<b>Note</b>	<b>2018 £ 000</b>	<b>2017 £ 000</b>
Profit for the year		27,200	30,500
<b>Items that will not be reclassified subsequently to profit or loss</b>			
Surplus/(deficit) on property, plant and equipment revaluation			800
Total comprehensive income for the year		<u>27,200</u>	<u>31,300</u>

The notes on pages 18 to 47 form an integral part of these financial statements.


# Rolls-Royce Power Engineering plc

(Registration number: 01305027)  
Balance Sheet as at 31 December 2018

	Note	2018 Continuing operations £ 000	2018 Held For Sale (see note 4) £ 000	2018 Total £ 000	(Restated) 2017 £ 000
<b>Non-current assets</b>					
Intangible assets	14	20,500	-	20,500	36,800
Property, plant and equipment	15	5,800	-	5,800	21,500
Investments	16	78,200	-	78,200	124,100
		<u>104,500</u>	<u>-</u>	<u>104,500</u>	<u>182,400</u>
<b>Current assets</b>					
Inventories	17	25,000	8,400	33,400	37,000
Trade and other receivables	18	663,700	17,000	680,700	697,900
Contract assets	18	8,100	-	8,100	49,000
Intangible assets	14	-	3,600	3,600	-
Property, plant and equipment	15	-	2,800	2,800	-
Cash at bank and in hand		26,500	-	26,500	39,500
		<u>723,300</u>	<u>31,800</u>	<u>755,100</u>	<u>823,400</u>
<b>Current liabilities</b>					
Trade and other payables	21	(230,000)	(28,000)	(258,000)	(359,600)
Contract liabilities	21	(14,700)	-	(14,700)	(53,000)
		<u>(244,700)</u>	<u>(28,000)</u>	<u>(272,700)</u>	<u>(412,600)</u>
<b>Current liabilities</b>					
Net current assets		<u>478,600</u>	<u>3,800</u>	<u>482,400</u>	<u>410,800</u>
<b>Total assets less current liabilities</b>					
		<u>583,100</u>	<u>3,800</u>	<u>586,900</u>	<u>593,200</u>
<b>Non-current liabilities</b>					
Trade and other payables	22	(200)	-	(200)	(18,300)
Contract liabilities	22	-	-	-	(8,300)
Provisions for liabilities and charges	23, 13	(23,900)	-	(23,900)	(32,000)
Net assets		<u>559,000</u>	<u>3,800</u>	<u>562,800</u>	<u>534,600</u>
<b>Equity</b>					
Called up share capital	25	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		<u>151,800</u>	<u>3,800</u>	<u>155,600</u>	<u>127,400</u>
Total equity		<u>559,000</u>	<u>3,800</u>	<u>562,800</u>	<u>534,600</u>

The comparative financial information has been restated (see note 2).

The financial statements on pages 14 to 47 were approved and authorised by the Board on 17/12/19 and signed on its behalf by:



R A Fletcher  
Director

The notes on pages 18 to 47 form an integral part of these financial statements.

**Rolls-Royce Power Engineering plc**

**Statement of Changes in Equity for the Year Ended 31 December 2018**

	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

	Called up share capital £ 000	Share premium reserve £ 000	Capital redemption reserve £ 000	Revaluation reserve £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	379,100	24,100	4,000	800	95,100	503,100
Profit for the year	-	-	-	-	30,500	30,500
Other comprehensive income	-	-	-	-	800	800
Total comprehensive income	-	-	-	-	31,300	31,300
Share based payment transactions	-	-	-	-	1,000	1,000
Disposal of property, plant and equipment	-	-	-	(800)	-	(800)
At 31 December 2017	379,100	24,100	4,000	-	127,400	534,600

The notes on pages 18 to 47 form an integral part of these financial statements.

## **Rolls-Royce Power Engineering plc**

### **Notes to the Financial Statements for the Year Ended 31 December 2018**

#### **1 General information**

Rolls-Royce Power Engineering plc (the Company) is a public company incorporated and domiciled in the East Midlands in the United Kingdom.

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

The address of its registered office is:

Moor Lane  
Derby  
Derbyshire  
DE24 8BJ  
England

#### **2 Accounting policies**

##### **Basis of preparation**

The financial statements of Rolls-Royce Power Engineering plc 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 2018 (continued)

#### 2 Accounting policies (continued)

##### New Standards, amendments and IFRIC interpretations

The Company adopted IFRS 15 *Revenue from Contracts with Customers* on 1 January 2018 using the 'modified' retrospective approach. The adoption of this new standard had an immaterial impact, accordingly there has been no restatement of opening retained earnings as at 1 January 2018.

The Company adopted IFRS 9 Financial Instruments on 1 January 2018 using the 'modified' retrospective approach. In accordance with the transitional provisions in IFRS 9, the Company has not restated its 2017 comparative information. The adoption of this new standard had an immaterial impact, accordingly there has been no restatement of opening retained earnings as at 1 January 2018.

##### Subsidiary distributions

During the year ended 31 December 2018 and in prior years, as part of a Rolls-Royce 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 of the Company 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 2018 and 31 December 2017.

##### Prior year adjustment

As part of a Rolls-Royce Group wide corporate simplification exercise, it has been found that the Company held an investment in, and had an intercompany payable to Rolls-Royce Industrial Power Investments Limited. Both the investment and intercompany payable were held incorrectly in the underlying records of the Company. The investment and intercompany payable were initially recorded at a carrying value of £17,094 for the financial year ended 31 December 2017 and prior periods. The investment and intercompany payable should have been recorded and held at a carrying value of £17,094,000. As a result, investments held at 1 January 2017 have increased by £17,076,906 and intercompany payables have increased by £17,076,906. There is no impact on the income statement or the net asset position of Rolls-Royce Power Engineering plc as a result of this adjustment.

##### Going concern

These financial statements have been prepared on the historical cost basis and on a going concern basis.

Rolls-Royce plc, a parent undertaking has stated that it will provide such financial support as is required to ensure that the Company is managed so that it maintains adequate financial resources and is in a position to meet its financial obligations arising from its normal trading activities. Based on the Directors' assessment of the Company's future financial requirements, the ability of Rolls-Royce plc to support the Company, if necessary, and the statement referred to above, the Directors consider that the Company will have sufficient financial resources to meet its obligations for the foreseeable future, that is, for at least 12 months from the date of approval of these financial statements.

## **Rolls-Royce Power Engineering plc**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **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 28.

##### **Discontinued Operations**

Results relating to businesses that have been disposed partway through the financial reporting period are disclosed as discontinued operations with the remaining element being disclosed as continuing operations.

Balances relating to businesses classified as held for sale in accordance with IFRS 5 are disclosed as held for sale on a line by line basis on the Balance Sheet (see note 4).

##### **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, a provision for 50% of its carrying value is applied. (See note 17).

###### **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 15).

###### **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.

## **Rolls-Royce Power Engineering plc**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **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 Director makes 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 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **Other accounting policies**

###### **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.

For the year ended 31 December 2018, following the adoption of IFRS 15, 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) recognize 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 it. 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.



## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 2 Accounting policies (continued)

##### 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.

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 2018 (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***

The date of initial application (i.e. the date on which the Company has assessed its classification of existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 January 2018. Accordingly, the Company has applied the requirements of IFRS 9 to instruments that continue to be recognised as at 1 January 2018 and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018.

The Company was required to revise its impairment methodology under IFRS 9 for its financial assets.

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, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. 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. In other words, it is no longer 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.

The classification of financial liabilities under IFRS 9 is unchanged with respect to the previous requirements under IAS 32.

- 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.

## **Rolls-Royce Power Engineering plc**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **2 Accounting policies (continued)**

##### **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 shareholders or payment.

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

##### **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 28 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 2018 (continued)

#### 3 Discontinued operations

##### Disposal of Nuclear submarines

As part of Rolls-Royce group restructuring on 5 August 2018, the Company sold the submarines business trade and assets/ liabilities to Rolls-Royce Submarines Limited, another group company. The sale was transacted through an intra group trade and assets sale at book values.

The Nuclear submarines business has therefore been disclosed as discontinued for the year ended 31 December 2018 in accordance with IFRS5 *Non-current assets held for sale and Discontinued Operations*.

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

	£'000
<b>Non current assets</b>	
Intangible assets	9,000
Property, plant and equipment	14,100
<b>Current assets</b>	
Inventories	4,000
Trade and other receivables	87,500
<b>Current liabilities</b>	
Trade and other payables	(121,000)
<b>Non current liabilities</b>	
Trade and other payables	(20,000)
<b>Net liabilities disposed</b>	<u>(26,400)</u>

## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 4 Assets classified as held for sale

##### Commercial Marine - held for sale

On 6 July 2018, the Rolls-Royce group announced the sale of the Commercial Marine business (part of which trades through this Company) to KONGSBERG. The disposal completed on 1 April 2019.

The transaction meets 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 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 has been assessed against the anticipated proceeds which are based on the net assets to be disposed and any associated disposal costs, therefore no impairment has been recognised.

The table below summarises the categories of assets and liabilities classified as held for sale:

	2018 £ 000
Intangible assets	3,600
Property, plant and equipment	2,800
Inventories	8,400
Trade and other receivables	<u>17,000</u>
Total assets classified as held for sale	31,800
Trade and other payables	<u>(28,000)</u>
Net assets of disposal group	<u>3,800</u>

## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 5 Segment information

A geographical analysis of revenue is presented as follows:

	2018 Continuing	2018 Discontinued	2018 Total	2017
	£ 000	£ 000	£ 000	£ 000
United Kingdom	90,200	366,900	457,100	720,200
Rest of Europe	9,300	-	9,300	11,100
North America	10,400	-	10,400	22,500
Middle East and Asia	47,100	-	47,100	17,800
Central and South America	1,200	-	1,200	6,400
Australasia and Pacific	400	-	400	7,200
	<u>158,600</u>	<u>366,900</u>	<u>525,500</u>	<u>785,200</u>

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

	2018 Continuing	2018 Discontinued	2018 Total	2017
	£ 000	£ 000	£ 000	£ 000
Original equipment (sales)	95,600	245,900	341,500	367,200
After market sales (services)	63,000	121,000	184,000	418,000
	<u>158,600</u>	<u>366,900</u>	<u>525,500</u>	<u>785,200</u>

The analysis by business segment is presented below - definitions of the segments being:  
 Nuclear - development, manufacture, marketing and sales of nuclear systems for civil power generation.  
 Defence - development, manufacture, marketing and sales of marine propulsion systems.

# Rolls-Royce Power Engineering plc

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

	Revenue	Revenue	(Loss)/Profit on ordinary activities before finance income	(Loss)/Profit on ordinary activities before finance income	Net assets/(liabilities) *	Net assets/(liabilities) *
	2018	2017	2018	2017	2018	2017
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000
Energy	-	-	-	-	119,000	134,000
Nuclear	25,200	21,800	(18,800)	(33,200)	(101,300)	(152,100)
Defence	500,300	763,400	15,100	40,000	518,600	513,200
	525,500	785,200	(3,700)	6,800	536,300	495,100

\* Net assets exclude net cash of £26.5m (2017: £39.5m).

In prior years the Company has reported its results under three sectors being Energy, Marine and Nuclear.

During the year, following a re-structuring of the business, the submarine business has been sold to a fellow group entity, the results of which were previously contained within the Nuclear sector which has now been transferred to the Defence sector. Also as a result of the restructure, a new Defence sector was established during the year which also incorporates the remaining Marine businesses.

The Energy business was sold to Siemens on 1 December 2014. The above Energy numbers relate to retained legacy components of the business.

# Rolls-Royce Power Engineering plc

## Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

### 6 Operating profit

Arrived at after charging/(crediting)

	2018 £ 000	2017 £ 000
Depreciation expense	2,500	3,300
Amortisation of intangibles	6,400	6,900
Research and development cost	9,000	20,600
Loss on disposal of non-current assets	100	200
Impairment of trade receivables	1,300	(200)
Impairment of inventory	2,500	3,500
Inventory recognised as an expense	<u>336,100</u>	<u>516,200</u>

### 7 Finance income

	2018 £ 000	2017 £ 000
Interest receivable and similar income	200	400
Fair value gains on foreign currency contracts	<u>200</u>	<u>500</u>
	<u>400</u>	<u>900</u>

### 8 Dividend income

	2018 £ 000	2017 £ 000
Dividend income from group undertakings	<u>54,000</u>	<u>29,100</u>

### 9 Finance expense

	2018 £ 000	2017 £ 000
Foreign exchange losses	<u>300</u>	<u>-</u>



## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 10 Staff costs

The aggregate payroll costs were as follows:

	2018 £ 000	2017 £ 000
Wages and salaries	101,800	146,700
Social security costs	12,200	17,200
Pension and other post-employment benefit costs	14,100	17,000
Share-based payment expenses	1,000	1,000
	<u>129,100</u>	<u>181,900</u>

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

	2018 No.	2017 No.
Nuclear	244	266
Defence	1,590	2,348
	<u>1,834</u>	<u>2,614</u>

#### 11 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.

#### 12 Auditors' remuneration

	2018 £ 000	2017 £ 000
Audit of the financial statements	<u>195</u>	<u>200</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 (2017: £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 2018 (continued)

### 13 Tax on profit

Tax charged in the income statement

	2018 £ 000	2017 £ 000
<b>Current taxation</b>		
UK corporation tax	900	-
UK corporation tax adjustment to prior periods	1,958	-
Foreign tax	42	-
	<u>2,900</u>	<u>-</u>
<b>Group relief payable</b>		
Group relief	4,300	5,000
<b>Deferred taxation</b>		
Arising from origination and reversal of temporary differences	(100)	(100)
Adjustments in respect of prior periods	(900)	1,400
Total deferred taxation	<u>(1,000)</u>	<u>1,300</u>
Tax expense in the income statement	<u>6,200</u>	<u>6,300</u>

The tax on profit before tax for the year is lower than the standard rate of corporation tax in the UK (2017 - lower than the standard rate of corporation tax in the UK) of 19% (2017 - 19.25%).

The differences are reconciled below:

	2018 £ 000	2017 £ 000
Profit before tax	<u>33,400</u>	<u>36,800</u>
Corporation tax at standard rate	6,346	7,084
Increase in current tax from adjustment for prior periods	1,166	1,420
(Decrease) from effect of expenses not deductible in determining taxable profit (tax loss)	(1,260)	(2,223)
Increase arising from overseas tax suffered (expensed)	42	-
Deferred tax (credit)/expense from unrecognised temporary difference from a prior period	(94)	19
Total tax charge	<u>6,200</u>	<u>6,300</u>

The Budget 2016 announced that the UK tax rate will reduce to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020. The rate reduction to 17% has been substantively enacted on 6 September 2016. The deferred tax assets and liabilities of UK companies within the group have therefore been calculated at 17%.

## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 14 Intangible assets

	Development expenditure £ 000	Software £ 000	Total £ 000
<b>Cost</b>			
At 1 January 2018	60,000	23,500	83,500
Additions	-	3,000	3,000
Disposals through sale of trade and assets	-	(19,600)	(19,600)
At 31 December 2018	<u>60,000</u>	<u>6,900</u>	<u>66,900</u>
<b>Accumulated Amortisation</b>			
At 1 January 2018	35,800	10,900	46,700
Amortisation charge	4,000	2,400	6,400
Amortisation eliminated on disposals through sale of trade and assets	-	(10,300)	(10,300)
At 31 December 2018	<u>39,800</u>	<u>3,000</u>	<u>42,800</u>
<b>Net book value</b>			
At 31 December 2018	<u>20,200</u>	<u>3,900</u>	<u>24,100</u>
At 31 December 2017	<u>24,200</u>	<u>12,600</u>	<u>36,800</u>

The retained software comprises Baan software specific to marine military installations now in use in the defence sector. Amortisation is on a straight line basis over 5 years with 3.5 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 asset is being amortised over 15 years on a straight line basis with 5 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 2018 (continued)**

**15 Property, plant and equipment**

	<b>Land and buildings Freehold £ 000</b>	<b>Short term Leasehold Property £ 000</b>	<b>Plant &amp; machinery £ 000</b>	<b>Assets under construction £ 000</b>	<b>Total £ 000</b>
<b>Cost or valuation</b>					
At 1 January 2018	4,000	300	51,100	7,800	63,200
Additions	100	-	1,833	1,757	3,690
Disposals through sale of trade and assets	-	-	(29,733)	(3,157)	(32,890)
Transfers	100	300	5,300	(5,700)	-
At 31 December 2018	4,200	600	28,500	700	34,000
<b>Accumulated Depreciation</b>					
At 1 January 2018	1,700	100	39,900	-	41,700
Charge for the year	100	-	2,400	-	2,500
Eliminated on disposal through sale of trade and assets	-	-	(18,800)	-	(18,800)
At 31 December 2018	1,800	100	23,500	-	25,400
<b>Carrying amount</b>					
At 31 December 2018	2,400	500	5,000	700	8,600
At 31 December 2017	2,300	200	11,200	7,800	21,500

## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 16 Investments

Subsidiaries	(As Restated) £ 000
<b>Cost</b>	
At 1 January 2018	142,300
At 31 December 2018	<u>142,300</u>
<b>Impairment</b>	
At 1 January 2018	18,200
Provision	<u>45,900</u>
At 31 December 2018	<u>64,100</u>
<b>Carrying amount</b>	
At 31 December 2018	<u>78,200</u>
At 31 December 2017	<u>124,100</u>

In accordance with the requirements of IAS 36 Impairment of Assets, the carrying value of the Company's investments has been assessed. During the year a number of entities were liquidated which resulted in an impairment charge during the year of £45.9 million (2017: £18.2 million).

During the year ended 31 December 2018, 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.

#### Prior year adjustment

As part of a Rolls-Royce Group wide corporate simplification exercise, it has been found that the Company held an investment in, and had an intercompany payable to Rolls-Royce Industrial Power Investments Limited. Both the investment and intercompany payable were held incorrectly in the underlying records of the Company. The investment and intercompany payable were initially recorded at a carrying value of £17,094 for the financial year ended 31 December 2017 and prior periods. The investment and intercompany payable should have been recorded and held at a carrying value of £17,094,000. As a result, investments held at 1 January 2017 have increased by £17,076,906 and intercompany payables have increased by £17,076,906. There is no impact on the income statement or the net asset position of Rolls-Royce Power Engineering plc as a result of this adjustment.

**Rolls-Royce Power Engineering plc**

**Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

**16 Investments (continued)**

\*\*\* indicates a direct shareholding by the company.

The following were subsidiary undertakings / participating interest of the company as at 31 December 2018:

Company name	Share class	Address	% Holding 2018
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 2018 (continued)**

**16 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%
Rolls-Royce Marine Electrical Systems 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 and 7.25% Cumulative Preference	Derby*	100%
Spare IPG4 Ltd***	Ordinary	Derby*	100%
The Bushing Company Ltd***	Ordinary	Derby*	100%

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

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**Rolls-Royce Power Engineering plc**

**Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

**16 Investments (continued)**

\*\*\* indicates a direct shareholding by the company

**Joint ventures**

Details as at 31 December 2018 are as follows:

Company name	Class of shares	Address	Proportion of ownership interest and voting rights held 2018
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 2018 (continued)

#### 17 Inventories

	2018 £ 000	2017 £ 000
Raw materials and consumables	800	800
Work in progress	9,000	11,800
Finished goods and goods for resale	<u>23,600</u>	<u>24,400</u>
	<u>33,400</u>	<u>37,000</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 £40,200,000 (2017: £37,700,000).

#### 18 Trade and other receivables

	2018 £ 000	2017 £ 000
Trade receivables	41,400	44,500
Amounts owed by group undertakings	633,200	643,600
Prepayments and accrued income	500	700
Other receivables	5,400	8,500
Contract assets	8,100	49,000
Derivative financial instruments	<u>200</u>	<u>600</u>
Current trade and other receivables	688,700	746,800
Other non current financial assets	100	100
Total trade and other receivables	<u>688,800</u>	<u>746,900</u>

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

Trade receivables are stated after provisions for impairment of £2,900,000 (2017: £600,000).

After having adopted IFRS15, contract assets of £8,100,000 (2017: £49,000,000) are disclosed above, having previously been disclosed as Amounts recoverable on contracts.

## **Rolls-Royce Power Engineering plc**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **19 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 9 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 2018 the Rolls-Royce UK Pension Fund is £1,926m in surplus (2017: £2,105m 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 £10,000,000 (2017: £12,000,000) 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 (see note 28).

#### **20 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 2018 (continued)

### 20 Share-based payments (continued)

As share options are exercised throughout the year, the weighted average share price during the year of 883p (2017: 756p) is representative of the weighted average share price at the date of exercise. The closing price at 31 December 2018 was 830p (2017: 847p). There were no exercisable options as at 31 December 2018 (2017: Nil).

Share options outstanding

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

	ShareSave	ShareSave Weighted average remaining contractual life
	Number Thousand	Years
At 31 December 2017		
600p – 699p	1,072	2.20
700p – 799p	1,155	4.10
900p – 999p	158	1.10
	<u>2,385</u>	<u>3.00</u>

The range of exercise prices of options outstanding at 31 December 2018 was between 617p and 962p (2017 - 617p and 962p).

## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 21 Trade and other payables (current)

	2018 £ 000	(As restated) 2017 £ 000
Trade payables	12,100	31,400
Accruals and deferred income	93,900	94,600
Amounts owed to group undertakings	126,900	188,600
Social security and other taxes	1,000	7,300
Other payables	24,000	37,200
Contract liabilities	14,700	53,000
Derivative financial instruments	100	500
	<u>272,700</u>	<u>412,600</u>

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

After having adopted IFRS15, contract liabilities of £14,700,000 (2017: £53,000,000) are disclosed above, having previously been disclosed as Payments received on account.

As part of a Rolls-Royce Group wide corporate simplification exercise, it has been found that the Company held an investment in, and had an intercompany payable to Rolls-Royce Industrial Power Investments Limited. Both the investment and intercompany payable were held incorrectly in the underlying records of the Company. The investment and intercompany payable were initially recorded at a carrying value of £17,094 for the financial year ended 31 December 2017 and prior periods. The investment and intercompany payable should have been recorded and held at a carrying value of £17,094,000. As a result, investments held at 1 January 2017 have increased by £17,076,906 and intercompany payables have increased by £17,076,906. There is no impact on the income statement or the net asset position of Rolls-Royce Power Engineering plc as a result of this adjustment.

#### 22 Trade and other payables (non-current)

	2018 £ 000	2017 £ 000
Contract liabilities	-	8,300
Trade payables	-	400
Derivative financial instruments	200	200
Accruals and deferred income	-	16,300
Other payables	-	1,400
	<u>200</u>	<u>26,600</u>

**Rolls-Royce Power Engineering plc**

**Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

**23 Provisions for liabilities**

	<b>Warranties and guarantees £ 000</b>	<b>Contract Loss £ 000</b>	<b>Deferred Taxation £ 000</b>	<b>Restructuring £ 000</b>	<b>Other provisions £ 000</b>	<b>Total £ 000</b>
At 1 January 2018	2,000	8,100	400	-	21,500	32,000
Additional provisions	200	500	-	1,600	200	2,500
Increase / (decrease) in existing provisions	(300)	(1,100)	(1,000)	-	(1,700)	(4,100)
Disposals through transfer of trade and assets	-	(3,700)	-	-	-	(3,700)
Amounts utilised	(500)	(800)	-	-	(1,500)	(2,800)
At 31 December 2018	1,400	3,000	(600)	1,600	18,500	23,900
Non-Current liabilities	1,400	3,000	(600)	-	17,000	16,400
Current liabilities	-	-	-	1,600	1,500	7,500

## **Rolls-Royce Power Engineering plc**

### **Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)**

#### **23 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 2018 (continued)

### 23 Provisions for liabilities (continued)

#### Deferred tax Deferred tax assets and liabilities

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

	Asset £ 000	Liability £ 000	Net deferred tax £ 000
<b>2017</b>			
Accelerated tax depreciation	-	(400)	(400)
Amortisation	-	(400)	(400)
Other items	400	-	400
	<u>400</u>	<u>(800)</u>	<u>(400)</u>

#### Deferred tax movement during the 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>

#### Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in Income Statement £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	(500)	100	(400)
Amortisation	(500)	100	(400)
Other items	1,900	(1,500)	400
Net tax assets/(liabilities)	<u>900</u>	<u>(1,300)</u>	<u>(400)</u>

## Rolls-Royce Power Engineering plc

### Notes to the Financial Statements for the Year Ended 31 December 2018 (continued)

#### 24 Contingent liabilities

In January 2017, after full cooperation, companies within the Rolls-Royce 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 ("the agreements"). The Central Bureau of Investigation (CBI) in India has opened a formal investigation naming Rolls-Royce plc, Rolls-Royce India Private Limited and others alleging bribery in relation to historical matters. The companies named will respond appropriately. Action may be taken by other authorities against these or other entities or individuals. In addition, we could still be affected by actions from customers and customers' financiers. The Directors of those companies that are party to the agreements or named in the CBI investigation are not currently aware of any matters that are likely to lead to a material financial loss, but cannot anticipate all the possible actions that may be taken or their potential consequences. There are no financial consequences of the agreements or the CBI investigation on the Company.

#### 25 Called up share capital

##### Allotted, called up and fully paid shares

	2018		2017	
	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 himself 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 2018 (continued)**

#### **26 Related party transactions**

##### **Summary of transactions with joint ventures**

Trading with a Rolls-Royce group joint ventures, Industria de Turbo Propulsores SA is disclosed below for the prior year, but in 2018 this entity became a wholly owned subsidiary and hence trading is not disclosed in 2018.

##### **Purchases from related parties**

	Joint ventures £ 000
<b>2018</b>	
Purchase of goods	-
<b>2017 (restated)</b>	Joint ventures £ 000
Purchase of goods	11

There were no balances payable as at 31 December 2017 and 31 December 2018.

#### **27 Events after the end of the financial reporting period**

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 thousand. The carrying value of the assets held for sale have been assessed against the relative proportion of the Rolls-Royce Holdings plc Group's total proceeds that relate to each Commercial Marine company. The assets held in Rolls-Royce Power Engineering plc were disposed at net book value and therefore held on a net assets basis with no changes to their value.

Assets of £3,800 thousand relating to the Commercial Marine business were transferred as part of this transaction. The Company received £3,800 thousand in respect of assets transferred, no impairment was identified.

#### **28 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.

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