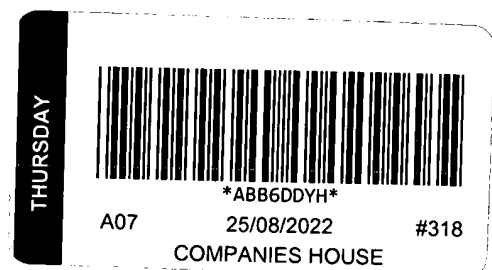


Registration number: 02159897

Rolls-Royce & Partners Finance Limited

Annual Report and Consolidated Financial Statements

For the Year Ended 31 December 2021



Rolls-Royce & Partners Finance Limited

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Rolls-Royce & Partners Finance Limited

Company Information

Directors

M Dix
T A Ellman
B P Fidler
K J Hillesland
P W E Keywood
R C Lyons

Company secretary

M Urtseva

Registered office

1 Brewer's Green
London
SW1H 0RH
England

Independent Auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Rolls-Royce & Partners Finance Limited

Strategic Report for the Year Ended 31 December 2021

The Directors present their strategic report for the year ended 31 December 2021. The comparative results for the prior year refer to the year ended 31 December 2020.

Principal activity

The principal activity of the Group is leasing of commercial aero engines.

Fair review of the business

The Group opened the year with an engine operating lease portfolio of 250 engines (2020: 246 engines), and closed with 224 engines (2020: 250 engines). During the year the Group acquired 5 engines (2020: 18 engines) and disposed 32 engines and transferred 1 engine from finance lease (2020: disposed 14 engines and transferred nil engines to finance lease).

The Group also had an engine finance lease portfolio of 17 engines (2020: 26 engines).

Both the level of business and the year-end financial position were satisfactory based on the performance indicators below.

The Group's key financial and other performance indicators during the year were as follows:

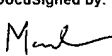
	Unit	2021	2020
Number of engines in operating lease portfolio		224	250
Number of engines in finance lease portfolio		17	26
Net Book Value of assets held for use in operating leases at year end	\$ 000	2,514,401	2,804,293
Revenue	\$ 000	262,000	299,752
Profit on disposal of fixed assets	\$ 000	12,834	28,254
Profit before taxation	\$ 000	58,067	79,326

During the year, the Group recognised impairments against assets held for operating leases (see note 15).

Principal risks and financial risks

The principal risks and financial risks facing the Group are the risk of engines being off lease for extended periods, the risk of customer bankruptcy and resultant bad debts, and the risk of funding availability and interest rate risk. The directors review these risks on an annual basis and take management decisions accordingly.

Approved by the Board on 17 June 2022 and signed on its behalf by:

DocuSigned by:

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M Dix

Director

Rolls-Royce & Partners Finance Limited

Directors' Report For the Year Ended 31 December 2021

The Directors present their report and the audited consolidated financial statements for the year ended 31 December 2021. The comparative results for the prior year refer to the year ended 31 December 2020.

Directors of the Group

The Directors who held office during the year and up to the date of signing the financial statements were as follows:

P S Inman (resigned 9 July 2021)

M Dix (appointed 29 March 2021)

T A Ellman

B P Fidler (appointed 17 August 2021)

J E Harvey (resigned 19 March 2021)

K J Hillesland

P W E Keywood

R C Lyons

Dividends

The Directors declared interim dividends for the year totalling \$0.24 per ordinary share (2020: \$nil per ordinary share). They do not recommend payment of any further dividend.

Future developments

In the near term, the Group's financial performance and position will continue to be affected by the COVID-19 pandemic and more recently, the Russia-Ukraine conflict. While the Group's going concern should not be at risk (discussed further in the going concern section below and note 2), the impact of these on the Group's financial performance will depend on how quickly the global economy and the airline industry can recover.

Going concern

The Directors have considered the application of the going concern basis of accounting and believe that, for the foreseeable future, the Group will have adequate resources to meet its liabilities as they fall due. In making this assessment the Directors have considered the cash generation arising from future lease income receivable against the creditors and loan repayments necessary within one year.

In addition, consideration has also been given to the ongoing impact of the COVID-19 virus and the Russia-Ukraine conflict across the Group's operations and different cash flow and performance scenarios have been modelled.

Based on these assessments, the Directors are satisfied that the impact of COVID-19 and the Russia-Ukraine conflict can be managed within the Group's current liquidity position and covenant arrangements. In the most severe scenario the Group continues to benefit from significant headroom. The Directors have reasonable expectations that the Group is well placed to manage business risks and to continue in operational existence for the foreseeable future (which accounting standards require to be at least a year from the date of these Financial Statements) and have not identified any material uncertainties to the Group's ability to do so.

Directors' liabilities

A qualifying third party indemnity provision was in place for all of the directors during the year and up to the date of approval of the Financial Statements.

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 of and of which they know the auditors are unaware.

Rolls-Royce & Partners Finance Limited

Directors' Report for the Year Ended 31 December 2021

Directors' Duties

The Directors of the Company, as those of all UK Companies, must act in accordance with a set of general duties. These duties are detailed in section 172 of the UK Companies Act 2006 which is summarised as follows: 'A director of the company must act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its shareholders as a whole and, in doing so have regard (amongst other matters) to:

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

Each year the Board undertakes an in-depth review of the Company's strategy, including the business plan. Once approved by the Directors, the plan and strategy form the basis for financial budgets, resource plans and investment decisions.

The Directors have a high level of visibility of the relatively small team and their interests and the Company aims to be a responsible employer at all times.

The Directors recognise the importance of strong relationships with the Company's suppliers, customers and other stakeholders and take these into account when considering relevant decisions.

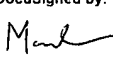
The intention is to nurture the business's reputation to ensure it accurately reflects the high standards the shareholders expect.

The Company recognises the importance of the community and environment in which it operates. During the year the Company supported several charities which align with its values and the Directors intend to continue this going forward.

The Company is required to adhere to the Corporate Governance Codes of both of its Ultimate Parent Undertakings, Rolls-Royce Holdings plc and GATX Corporation. Details of which can be found in their consolidated Financial Statements, which can be obtained from the addresses listed in note 32 to these Financial Statements.

As the Board of Directors, our intention is to behave responsibly towards our shareholders, to act fairly and treat them equally.

Approved by the Board on 17 June 2022 and signed on its behalf by:

DocuSigned by:

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M Dix
Director

Rolls-Royce & Partners Finance Limited

Statement of Directors' Responsibilities in respect of the Financial Statements

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

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors have prepared the Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 Group and of the income statements of the Group for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 102, 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 Group and Company will continue in business.

The Directors are also responsible for safeguarding the assets of the Group 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 Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006.

Independent auditors' report to the members of Rolls-Royce & Partners Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce & Partners Finance Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2021 and of the group's loss and the group's cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland", 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 Consolidated Financial Statements (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2021; the Consolidated Income Statement and Consolidated Statement of Comprehensive Income, the Consolidated Statement of Cash Flows, and the Consolidated and Company Statements 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 group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

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

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

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

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

Reporting on other information

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

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

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

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

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 December 2021 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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

In preparing the financial statements, the directors are responsible for assessing the group's and 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 group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to fraud, corruption, bribery, global economic sanctions and data protection, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006 and UK tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the current environment giving rise to additional pressures to inflate performance. Audit procedures performed by the engagement team included:

- inquiries with management and the in-house legal counsel around any actual and potential litigation and claims, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessed the susceptibility of the entity's financial statements to material misstatement, including critical judgements and estimates and how fraud might occur;
- identified and tested journal entries, in particular any journal entries posted with unusual combinations or those posted by unexpected users.

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

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.



Christopher Richmond (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
17 June 2022

Rolls-Royce & Partners Finance Limited**Consolidated Income Statement for the Year Ended 31 December 2021**

	Note	2021 \$ 000	2020 \$ 000
Revenue	5	262,000	299,752
Cost of sales		(214,178)	(197,445)
Gross profit		47,822	102,307
Administrative expenses		(8,294)	(6,574)
Other operating income	6	61,671	25,052
Profit on sale of property, plant and equipment		12,834	28,254
Operating profit		114,033	149,039
Interest receivable and similar income		391	302
Interest payable and similar expenses	11	(56,357)	(70,015)
Profit before taxation		58,067	79,326
Taxation	12	(87,382)	(39,346)
(Loss)/profit for the financial year		(29,315)	39,980

The above results were derived from continuing operations.

Rolls-Royce & Partners Finance Limited**Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2021**

	Note	2021 \$ 000	2020 \$ 000
(Loss)/profit for the year		(29,315)	39,980
Unrealised gain/(loss) on cash flow hedges before tax		981	(1,317)
Income tax effect	12	(156)	246
		825	(1,071)
Total comprehensive (expense)/income for the year		(28,490)	38,909

Rolls-Royce & Partners Finance Limited
(Registration number: 02159897)
Consolidated Balance Sheet as at 31 December 2021

	Note	2021 \$ 000	2020 \$ 000
Non-current assets			
Intangible assets	14	4,570	2,733
Property, plant and equipment	15	2,515,202	2,805,159
Other financial assets	16	181,826	255,518
		<u>2,701,598</u>	<u>3,063,410</u>
Current assets			
Inventories	18	30,680	28,553
Receivables	19	91,959	82,489
Cash at bank and in hand		206,546	34,617
		<u>329,185</u>	<u>145,659</u>
Payables: Amounts falling due within one year	20	(230,036)	(90,263)
Net current assets		<u>99,149</u>	<u>55,396</u>
Total assets less current liabilities		<u>2,800,747</u>	<u>3,118,806</u>
Payables: Amounts falling due after more than one year	21	(1,963,459)	(2,330,391)
Provisions for liabilities	24	(309,637)	(222,224)
Net assets		<u>527,651</u>	<u>566,191</u>
Equity			
Called up share capital	26	42,708	42,708
Cash flow hedging reserve		(54)	(879)
Retained earnings		484,997	524,362
Total shareholders' funds		<u>527,651</u>	<u>566,191</u>

The financial statements were approved and authorised by the Board of Directors on 17 June 2022 and signed on its behalf by:

DocuSigned by:



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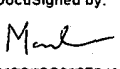
M Dix
Director

Rolls-Royce & Partners Finance Limited
(Registration number: 02159897)
Company Balance Sheet as at 31 December 2021

	Note	2021 \$ 000	2020 \$ 000
Non-current assets			
Investments	17	300	300
Intangible assets	14	4,570	2,733
Property, plant and equipment	15	801	866
		<u>5,671</u>	<u>3,899</u>
Current assets			
Receivables	19	9,317	50,234
Cash at bank		85,797	2,939
		<u>95,114</u>	<u>53,173</u>
Payables: Amounts falling due within one year	20	(48,896)	(5,355)
Net current assets		<u>46,218</u>	<u>47,818</u>
Net assets		<u>51,889</u>	<u>51,717</u>
Equity			
Called up share capital	26	42,708	42,708
Retained earnings		9,181	9,009
Total shareholders' funds		<u>51,889</u>	<u>51,717</u>

The Company made a profit after tax for the financial year of \$10,222,000 (2020: loss of \$399,000).

The financial statements were approved and authorised by the Board of Directors on 17 June 2022 and signed on its behalf by:

DocuSigned by:

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 M Dix
 Director

Rolls-Royce & Partners Finance Limited**Consolidated Statements of Changes in Equity for the Year Ended 31 December 2021**
Equity attributable to the parent company

	Share capital \$ 000	Cash flow hedging reserves \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2021	42,708	(879)	524,362	566,191
Loss for the year	-	-	(29,315)	(29,315)
Other comprehensive income	-	825	-	825
Total comprehensive (expense) / income	-	825	(29,315)	(28,490)
Dividends	-	-	(10,050)	(10,050)
At 31 December 2021	42,708	(54)	484,997	527,651
	Share capital \$ 000	Cash flow hedging reserves \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2020	42,708	192	484,382	527,282
Profit for the year	-	-	39,980	39,980
Other comprehensive expense	-	(1,071)	-	(1,071)
Total comprehensive income / (expense)	-	(1,071)	39,980	38,909
At 31 December 2020	42,708	(879)	524,362	566,191

The notes on pages 16 to 41 form an integral part of these financial statements.

Rolls-Royce & Partners Finance Limited**Company Statement of Changes in Equity for the Year Ended 31 December 2021**

	Share capital \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2021	42,708	9,009	51,717
Profit for the financial year	-	10,222	10,222
Total comprehensive income	-	10,222	10,222
Dividends	-	(10,050)	(10,050)
At 31 December 2021	42,708	9,181	51,889
	Share capital \$ 000	Retained earnings \$ 000	Total \$ 000
At 1 January 2020	42,708	9,408	52,116
Loss for the financial year	-	(399)	(399)
Total comprehensive expense	-	(399)	(399)
At 31 December 2020	42,708	9,009	51,717

Rolls-Royce & Partners Finance Limited**Consolidated Statement of Cash Flows for the Year Ended 31 December 2021**

	2021	2020
	\$ 000	\$ 000
Cash flows from operating activities		
(Loss)/profit for the year	(29,315)	39,980
<i>Adjustments to cash flows from non-cash items</i>		
Depreciation and amortisation	166,888	152,200
Profit on disposal of property, plant & equipment	(12,834)	(28,254)
Interest receivable and similar income	(391)	(302)
Interest payable and similar expense	56,357	70,015
Income tax expense	87,382	39,346
	<u>268,087</u>	<u>272,985</u>
<i>Working capital adjustments</i>		
Decrease/(increase) in inventories	10,858	(3,044)
Decrease in trade and other receivables	42,968	10,207
Increase in trade and other payables	42,046	74,671
	<u>363,959</u>	<u>354,819</u>
Cash from operations	363,959	354,819
Income taxes paid	(152)	-
	<u>363,807</u>	<u>354,819</u>
Net cash inflow from operating activities	<u>363,807</u>	<u>354,819</u>
Cash flows from/(used in) investing activities		
Interest received	391	302
Acquisitions of property, plant & equipment	(118,592)	(313,420)
Proceeds from sale of property, plant & equipment	225,270	146,444
Acquisition of intangible assets	(1,952)	(1,501)
Investment in new finance lease assets	-	(45,037)
	<u>105,117</u>	<u>(213,212)</u>
Net cash inflow/(outflow) from/(used in) investing activities	<u>105,117</u>	<u>(213,212)</u>
Cash flows used in financing activities		
Interest paid	(52,202)	(73,773)
Repayment of bank and other borrowings	(256,000)	(527,850)
Proceeds from bank and other borrowing draw downs (net of issue costs)	21,257	486,321
Dividends paid	(10,050)	-
	<u>(296,995)</u>	<u>(115,302)</u>
Net cash outflow used in financing activities	<u>(296,995)</u>	<u>(115,302)</u>
Net increase in cash and cash equivalents	171,929	26,305
Cash and cash equivalents at 1 January	34,617	8,312
	<u>206,546</u>	<u>34,617</u>
Cash and cash equivalents at 31 December	<u>206,546</u>	<u>34,617</u>

The notes on pages 16 to 41 form an integral part of these financial statements.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

1 General information

The Company is a private company limited by shares incorporated and domiciled in England and Wales under the Companies Act. The address of its registered office is:

1 Brewer's Green
London
SW1H 0RH
England

2 Accounting policies

Basis of preparation

These financial statements were prepared in accordance with Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland' ("FRS102") and under the Companies Act 2006. The presentation currency of these financial statements is U.S Dollars (\$). All amounts in the financial statements have been rounded to the nearest thousand.

The preparation of financial statements in conformity with FRS 102 requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Company's 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 disclosed in note 4.

These financial statements have been prepared using the historical cost convention except that, as disclosed in the accounting policies, certain items are shown at fair value.

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.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company has also taken advantage of the disclosure exemption provided under Section 1.12(b) of FRS102 to not prepare a Statement of Cash Flows.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the Company and its subsidiary undertakings ("Group") drawn up to 31 December 2021.

A subsidiary is an entity controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Inter-company transactions, balances and unrealised gains on transactions between the Company and its subsidiaries, which are related parties, are eliminated in full.

Intra-group losses are also eliminated but may indicate an impairment that requires recognition in the consolidated financial statements.

Use of estimates

The preparation of financial statements in conformity with FRS102 requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Going concern

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

The Directors have considered the application of the going concern basis of accounting and believe that, for the foreseeable future, the Group will have adequate resources to meet its liabilities as they fall due. In making this assessment, the Directors have considered the cash generation arising from current and future lease income receivables against the payables and loan repayments necessary within one year.

In addition, consideration has also been given to the ongoing impact of the COVID-19 virus and the Russia-Ukraine conflict across the Group's operations and different cash flow and performance scenarios have been modelled.

Based on these assessments, the Directors are satisfied that the impact of COVID-19 and the Russia-Ukraine conflict can be managed within the Group's current liquidity position and covenant arrangements. In the most severe scenario the Group continues to benefit from significant headroom. The Directors have reasonable expectations that the Group is well placed to manage business risks and to continue in operational existence for the foreseeable future (which accounting standards require to be at least a year from the date of these Financial Statements) and have not identified any material uncertainties to the Group's ability to do so.

Foreign currency transactions and balances

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date at which they occurred. Monetary assets and liabilities denominated in foreign currencies are translated into US dollars at the rate ruling at the year-end. Exchange differences, including those arising from currency conversions in the usual course of trading, are taken into account in determining profit on ordinary activities before taxation.

Financial instruments

Basis

The Group has chosen to adopt the Sections 11 and 12 of FRS 102 in respect of financial instruments.

Classification

In accordance with FRS 102.22, financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the entity's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the entity's own equity instruments or is a derivative that will be settled by the entity exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the entity's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Basic financial instruments

Cash and cash equivalents

Cash and cash equivalents comprise of cash balances, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of change in value.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect any amounts due according to the original terms of the debts.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payable are classified as current liabilities the Group does not have an unconditional right, at the end of the reporting year, to defer settlement of the creditor for at least twelve months after the reporting date. If there is an unconditional right to defer settlement for at least twelve months after the reporting date, they are presented as non-current liabilities.

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Borrowings

Bank and other borrowings are initially recorded at fair value, net of transaction costs. Bank and other borrowings are subsequently carried at amortised cost, with the difference between the proceeds, net of transaction costs, and the amount due on redemption being recognised as a charge to the income statement over the year of the relevant borrowing.

Interest expense is recognised on the basis of the effective interest method and is included in interest payable and similar expense.

Borrowings are classified as payables due within one year unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

Other financial instruments

Derivatives

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

Hedging

Fair value hedges

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the income statement. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the income statement (even if those gains would normally be recognised directly in reserves). If hedge accounting is discontinued and the hedged financial asset or liability has not been derecognised, any adjustments to the carrying amount of the hedged item are amortised into the income statement using the effective interest method over the remaining life of the hedged item.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Other financial instruments (continued)

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in other comprehensive income. Any ineffective portion of the hedge is recognised immediately in the income statement. For cash flow hedges, where the forecast transactions resulted in the recognition of a non-financial asset or non-financial liability, the hedging gain or loss recognised in OCI is included in the initial cost or other carrying amount of the asset or liability. Alternatively when the hedged item is recognised in the income statement the hedging gain or loss is reclassified to the income statement. When a hedging instrument expires or is sold, terminated or exercised, or the entity discontinues designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Investments

Investments in equity shares which are not publicly traded and where fair value cannot be measured reliably are measured at cost less impairment.

Investments in associates, which are unconsolidated and which the Group has significant influence over, are accounted for using the equity method, and initially recognised at cost. The Group's interest in the net assets of associates is included in investments accounted for using the equity method in the balance sheet and its interest in their results is included in the income statement.

Intangible assets

Intangible assets are recognised at acquisition cost and amortised on a straight-line basis.

The cost of internally developed software includes direct labour and an appropriate proportion of overheads.

Amortisation

Intangible assets are amortised on a straight line basis from the time they were first brought into use so as to write off the cost, less any estimated residual value, over the lesser of:

- i) a period of 10 years; and
- ii) the anticipated useful life of the asset.

Property, plant and equipment

Property, plant and equipment is stated in the balance sheet at cost, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

The cost of property, plant and equipment includes directly attributable incremental costs incurred in their acquisition and installation.

Depreciation

Assets held for use in operating leases

Assets held for operating leases are depreciated on a straight line basis from the time that they are first brought into use so as to write off their cost, less estimated residual value, over the lesser of:

- i) the period up to the 25th anniversary of the engine's build date; and
- ii) the anticipated remaining useful economic life of the engine type or the airframe for which the engine is designed.

However, if a used engine is acquired with a lease attached that goes beyond the 25th anniversary of the engine's build date, then the useful economic life is re-evaluated and is used as the basis to amortise the cost to an estimated residual value. This is typically an additional 5 to 10 years beyond the engine's 25th anniversary.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Depreciation (continued)

Furniture, fittings and equipment

Furniture, fittings and equipment are depreciated on a straight line basis from the time that they are first brought into use so as to write off their cost, less estimated residual value, over the lesser of:

- i) a period of 15 years
- ii) the anticipated useful life of the asset.

Finance lease receivables

The Group leases engines to customers. At the start of each lease, the Group reviews all necessary terms and criteria to determine the appropriate lease classification. If a lease meets specific classification criteria, the lease will be recognised as net investment in finance lease on the Balance Sheet while the engine will be derecognised from assets held for operating leases. The amounts recognised for finance leases consist of lease receivables and the estimated unguaranteed residual value of the engine on the lease termination date, less the unearned income. Expected unguaranteed residual values are based on the Group's assessment of the values of the engine and, if applicable, the estimated end of lease payments expected at the expiration of the lease.

Inventories

Inventories are stated at the lower of cost and estimated selling price less costs to complete and sell.

The method by which amounts are removed from inventory is by the average estimated cost per unit. The cost of finished goods and work in progress comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. At each reporting date, inventories are assessed for impairment. If inventories are impaired, the carrying amount is reduced to its selling price less costs to complete and sell. The impairment loss is recognised immediately in the income statement.

Impairment

Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. Impairment losses are recognised in the income statement. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Non-financial assets

The carrying amounts of the entity's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. The Group considers the valuation appraisals carried out by industry experts for the fair value of its engine portfolio and other material assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, the "cash-generating unit" (CGUs). The Group considers each engine to be an individual CGU. There were no assets grouped as CGUs during the year.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

2 Accounting policies (continued)

Maintenance reserves

Maintenance reserves represent amounts receivable from certain customers. The purpose of the monies received is to cover essential maintenance obligations of the lessee and the risk of an engine not being returned in redelivery conditions. Maintenance reserves are initially recognised as a payable to the customer and is generally returned to the customer when qualifying shop visits have been carried out on an engine. Depending on the contractual terms with a customer, any remaining maintenance reserve at the conclusion of the lease is retained by the Group as a reflection of the engine redelivery condition. Maintenance reserves are de-recognised when they no longer meet the definition of a liability, which is typically at the end of the lease. At this point the maintenance reserves are released to the income statement to offset any related adjustment to the carrying amount of the engine, with any remaining excess reserves recognised as other income in the income statement. In the event that the engine is disposed of at the end of the lease, any remaining maintenance reserve is recognised as part of the net profit on sale of property, plant and equipment in the income statement.

Dividends

Final dividends to the Company's shareholders are recognised as a liability in the financial statements in the year in which the final dividends are approved by the shareholders. Interim dividends are recognised when paid to the Company's shareholders. These amounts are recognised in the statement of changes in equity.

Share capital

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

Revenue recognition

Revenue comprises the fair value of the consideration due from customers in relation to engines provided on lease or for aircraft engines or aircraft engine parts sold in the ordinary course of the Group's activities. Revenue is shown net of sales/value added tax, returns, rebates and discounts and after eliminating sales within the Group.

Leases (as lessor)

The Group leases engines to customers. At the start of each lease, the Group reviews all necessary terms and criteria to determine the appropriate lease classification. If a lease meets specific classification criteria, the lease will be treated as a finance lease. Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases.

For operating leases, rental income is recognised on a straight line basis over the term of the lease. The amount of the difference between rental revenue recognised and cash received is included in other assets, or in the event it is a liability, in accounts payable, accrued expenses and other liabilities.

Lease agreements where rent is based on floating interest rates are included in minimum lease payments based on the floating interest rate that existed at the commencement of the lease. Increases or decreases in lease payments that result from subsequent changes in the floating interest rate are recorded as increases or decreases in lease revenue in the year of the interest rate change.

Most of the Group's operating lease contracts require rental payments in advance. Rental payments received but unearned are recorded as deferred income in our Consolidated Balance Sheet.

Revenue from net investment in finance leases is recognised using the interest method to produce a constant yield over the life of the lease and is included in lease revenue as finance lease interest.

Sales of inventory

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity, and specific criteria have been met. Revenue from sales of inventory (spare parts sales) is recognised on despatch or, where it is the customer's responsibility to collect the item, when the item for sale is made ready for collection.

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****2 Accounting policies (continued)****Net gain on sales of engines**

The Group may sell engines that are on lease to customers as well as those that are not on lease. When disposing an engine, the Group will consider whether control of the engine has been transferred to the buyer, and whether the Group no longer has significant ownership risk in the engine, both of which are required for a sale and resulting gain or loss to be recognised as other operating income. Where the Group sells an engine to an associate entity, it will defer the profit or loss on disposal of that engine based on the Group's shareholding in that associate and unwind the profit or loss on a straight line basis over the life of that engine or in full where the engine is subsequently sold to a third party.

Leases (as lessee)

Leases in which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

Interest income and expense

Interest income comprises interest receivable from the bank. Interest expense comprises interest payable and amortisation of financing costs.

Tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except that a change attributable to an item of income or expense recognised as other comprehensive income is also recognised directly in other comprehensive income.

Current Tax

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Group operates and generates taxable income.

Deferred Tax

Deferred tax is provided in full on timing differences that arise from differences between taxable profits and total comprehensive expense, resulting in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on tax rates and law that have been enacted or substantively enacted by the reporting date.

The carrying amount of deferred tax assets are reviewed at each reporting date and a valuation allowance is set up against deferred tax assets so that the net carrying amount equals the highest amount that is more likely than not to be recovered based on current or future taxable profit.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

3 Recent accounting standards adopted during the year ended 31 December 2021

Interest Benchmark Reform

Interest rate benchmarks such as the London Interbank Offered Rate (LIBOR) are being reformed, and it is anticipated that USD 3-month and 6-month LIBOR will be phased out on 30 June 2023. There is increasing uncertainty about the long-term viability of some interest rate benchmarks and this gives rise to issues affecting financial reporting in the period before the reform, particularly in relation to hedge accounting. FRC issued 'Amendments to FRS102 - Interest rate benchmark reform', referred to as Phase 1 amendments to FRS102, in December 2019, which has a mandatory effective date of 1 January 2020.

FRC also issued 'Amendments to FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland - Interest rate benchmark reform (Phase 2) (2020)' in December 2020, which has a mandatory effective date of 1 January 2021.

Amendments to Section 11 Basic Financial Instruments provide a practical expedient for the accounting for financial assets and financial liabilities when contractual cash flows change because interest rate benchmarks are being replaced. A consequential amendment has been made to Section 20 Leases resulting from the changes made to Section 11. Amendments to Section 12 Other Financial Instruments give more flexibility regarding the redocumentation of hedging relationships and provide other reliefs that avoid disruption to hedge accounting. The Group currently relies on USD 3-month and 6-month LIBOR. So far there has been no impact on the Group's financial statements on adoption of these standards and the Group is still assessing the future impact of these changes.

4 Critical accounting estimates and judgements

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Useful economic lives of property, plant and equipment

The annual depreciation charge for property, plant and equipment is sensitive to changes in the estimated useful economic lives and residual values of the assets. The useful economic lives and residual values are re-assessed annually. They are amended when necessary to reflect current estimates, based on technological advancement, future investments, economic utilisation and the physical condition of the assets. See note 15 for the carrying amount of the property, plant and equipment, and note 2 for the useful economic lives for each class of assets.

Impairment of property, plant and equipment

In reviewing the Group's property, plant and equipment for indications of impairment, the Group considers the valuation of its engine portfolio against its carrying amount. Valuation appraisals are carried out by industry experts but inherently include judgements and estimates and will be sensitive to similar factors as that for the useful economic lives of property, plant and equipment.

Maintenance reserve

Judgement is applied in assessing the allocation of current and non current maintenance reserve balances at the year end. The allocation is based on planned disposals and expected shop visits in the 12 months following the year end. There is also judgement in the release of maintenance reserve balances for engines still on lease, which is based on management's expectation of shop visits at the end of lease terms based on customer interaction and future demand for engines. See notes 20 and 21 for the maintenance reserve balances.

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

5 Revenue

The analysis of the Group's revenue for the year from continuing operations is as follows:

	2021 \$ 000	2020 \$ 000
Operating lease rentals	229,239	279,727
Finance lease rentals	10,848	12,540
Spare parts sales	21,913	7,485
	<u>262,000</u>	<u>299,752</u>

An analysis of Group's revenue by destination is as follows:

	2021 \$ 000	2020 \$ 000
United Kingdom	89,801	98,043
Rest of Europe	46,869	53,730
Americas	36,709	26,022
Asia, Oceania and Africa	88,621	121,957
	<u>262,000</u>	<u>299,752</u>

6 Other operating income

The analysis of the Group's other operating income for the year is as follows:

	2021 \$ 000	2020 \$ 000
Other operating income	61,671	25,052

Other operating income relates to the release of amounts previously held in the maintenance reserve for which the Group no longer has a liability.

7 Operating profit

Arrived at after charging

	2021 \$ 000	2020 \$ 000
Depreciation expense	149,290	152,059
Amortisation expense	115	38
Impairment loss	17,483	103
Operating lease expense - property	571	516

During the year ended 31 December 2021, the Group recognised impairments of \$17,483,000 (2020: \$103,000) against assets held for operating leases. In addition, an adjustment to the carrying amount of property, plant and equipment of \$37,502,000 (2020: \$30,467,000) has been recorded which has been offset by a release from the maintenance reserve resulting in a net nil impact in the income statement.

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****8 Staff number and costs**

The aggregate payroll costs were as follows:

	2021	2020
	\$ 000	\$ 000
Wages and salaries	4,276	2,622
Social security costs	387	368
Other pension costs	321	312
	<u>4,984</u>	<u>3,302</u>

The average number of persons employed by the group during the year, analysed by category was as follows:

	2021	2020
	No.	No.
Full-time equivalent employees	<u>33</u>	<u>30</u>

For the purposes of this note, employees are taken as being those people with contracts of employment with a related party but whose time is dedicated to the business of the Company and Group and whose costs of employment are therefore charged to the Group.

9 Directors' remuneration

The Group and Company paid no emoluments to the Directors in respect of their services during the year (2020: \$nil). The Directors were remunerated by related parties and any allocation for their services to this Group and Company would be notional.

10 Auditors' remuneration

	2021	2020
	\$ 000	\$ 000
Audit of these financial statements	28	26
Amounts receivable by the Company's auditors and their associates in respect of:		
Audit of financial statements of subsidiaries of the Company	<u>159</u>	<u>152</u>
	<u>187</u>	<u>178</u>

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****11 Interest payable and similar expense**

	2021	2020
	\$ 000	\$ 000
Interest on bank borrowings	1,096	3,763
Other borrowings	55,261	66,252
	<u>56,357</u>	<u>70,015</u>

12 Taxation

Tax charged in the income statement

	2021	2020
	\$ 000	\$ 000
Current taxation		
Group tax relief receivable	-	(1,106)
Foreign tax	152	-
Total current income tax	<u>152</u>	<u>(1,106)</u>
Deferred taxation		
Arising from origination and reversal of timing differences	16,780	18,249
Arising from adjustments in respect of prior period	182	793
Arising from changes in tax rates and laws	70,268	21,410
Total deferred taxation	<u>87,230</u>	<u>40,452</u>
Tax expense in the income statement	<u>87,382</u>	<u>39,346</u>

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****12 Taxation (continued)**

The tax on profit before tax for the year is higher than the standard rate of corporation tax in the UK of 19% (2020: higher than the standard rate of corporation tax in the UK of 19%).

The differences are reconciled below:

	2021	2020
	\$ 000	\$ 000
Profit before taxation	58,067	79,326
Profit on ordinary activities before tax multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	11,033	15,072
Expenses not deductible in determining taxable profit	1,886	2,048
Adjustments in respect of changes in tax rate	70,268	21,410
Movement in unrecognised deferred tax	(67)	23
Overseas tax in excess of standard UK rate	36	-
Adjustments in respect of prior periods	182	793
Tax rate differential on temporary differences	4,044	-
Total tax charge	87,382	39,346

In the UK Budget 2021, it was announced that the main rate of UK corporation tax would increase from 19% to 25% with effect from 1 April 2023 and this was enacted in June 2021. As the 25% rate was substantively enacted by the balance sheet date, deferred tax balances have been calculated and recorded using this rate. No net reversal of the deferred tax liability is expected to occur in the next reporting period.

Tax relating to items recognised in other comprehensive income

	2021	2020
	\$ 000	\$ 000
Deferred tax related to items recognised as items of equity	156	(246)

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****13 Dividends**

	2021	2020
	\$ 000	\$ 000
Interim dividend of \$0.24 (2020: \$nil) per ordinary share	10,050	-

14 Intangible assets**Group and Company**

	Internally generated software development cost \$ 000
Cost or valuation	
At 1 January 2021	2,771
Additions internally developed	1,952
	<hr/>
At 31 December 2021	4,723
	<hr/>
Amortisation	
At 1 January 2021	38
Charge for the year	115
	<hr/>
At 31 December 2021	153
	<hr/>
Carrying amount	
At 31 December 2021	4,570
At 31 December 2020	2,733
	<hr/>

Included within the carrying amount of intangible assets is \$3,575,000 (2020: \$1,623,000) relating to assets that are not yet available for use.

The aggregate amount of research and development expenditure recognised as an expense during the year is \$nil (2020: \$nil).

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****15 Property, plant and equipment****Group**

	Furniture, fittings and equipment	Assets held for use in operating leases	Total
	\$ 000	\$ 000	\$ 000
Cost or valuation			
At 1 January 2021	967	3,608,714	3,609,681
Additions	-	137,290	137,290
Disposals	-	(360,936)	(360,936)
At 31 December 2021	967	3,385,068	3,386,035
Accumulated depreciation and impairment			
At 1 January 2021	101	804,421	804,522
Charge for the year	65	149,225	149,290
Eliminated on disposal	-	(137,964)	(137,964)
Impairment charge	-	17,483	17,483
Other	-	37,502	37,502
At 31 December 2021	166	870,667	870,833
Carrying amount			
At 31 December 2021	801	2,514,401	2,515,202
At 31 December 2020	866	2,804,293	2,805,159

During the year, no assets (2020: \$45,037,000) were acquired for the purpose of letting under finance leases and shown under finance lease receivables (notes 16 and 19).

During the year, no operating lease agreements of assets (2020: cost \$14,000,000, accumulated depreciation \$7,692,000) were converted into finance leases agreements. The carrying amount of these assets are shown under finance lease receivables (notes 16 and 19).

Other relates to an adjustment to carrying amount of \$37,502,000 (2020: \$30,467,000) which has been offset by a release from the maintenance reserve resulting in a net nil impact in the income statement.

Impairment charges of \$17,483,000 were recognised during the year against assets held for operating leases. An increase in the discount rate by 1% would have increased the impairment charge by \$8,497,000.

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****15 Property, plant and equipment (continued)****Company**

	Furniture, fittings and equipment \$ 000
Cost or valuation	
At 1 January 2021	967
Additions	-
	<hr/>
At 31 December 2021	967
	<hr/>
Accumulated depreciation and impairment	
At 1 January 2021	101
Charge for the year	65
	<hr/>
At 31 December 2021	166
	<hr/>
Carrying amount	
At 31 December 2021	801
	<hr/>
At 31 December 2020	866
	<hr/>

16 Other financial assets

	2021 \$ 000	2020 \$ 000
Derivatives used for hedging	4,285	7,722
Finance lease receivables	171,649	241,862
Other non-current receivables	5,892	5,934
	<hr/>	<hr/>
	181,826	255,518
	<hr/>	<hr/>

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

17 Investments

Composition of the Group

Details of investments in which the Group holds more than 20% of the nominal value of any class of share capital are as follows:

Subsidiary undertakings	Country of incorporation	Holding	Proportion of voting rights and shares held	
			2021	2020
Rolls-Royce Engine Leasing (Labuan) Limited	Malaysia	Ordinary shares	100%	100%
Rolls-Royce Engine Leasing (Labuan) (No. 2) Limited	Malaysia	Ordinary shares	100%	100%
RRPF Engine Leasing Limited	England	Ordinary shares	100%	100%
RRPF Aviation Leasing (Tianjin) Limited	China	Ordinary shares	100%	100%
Aether Asset Management Services Limited*	England	Ordinary shares	100%	0%

Principal activities

Rolls-Royce Engine Leasing (Labuan) Limited - Leasing of aero engines

Rolls-Royce Engine Leasing (Labuan) (No. 2) Limited - Leasing of aero engines

RRPF Engine Leasing Limited - Leasing of aero engines

RRPF Aviation Leasing (Tianjin) Limited - Leasing of aero engines

Aether Asset Management Services Limited* - Aero engine lease management services

Registered office

The registered address for Rolls-Royce Engine Leasing (Labuan) Limited and Rolls-Royce Engine Leasing (Labuan) (No. 2) Limited is Unit Level 13(A), Main Office Tower, Financial Park Labuan, Jalan Merdeka, 87000, Federal Territory of Labuan, Malaysia.

The registered address for RRPF Aviation Leasing (Tianjin) Limited is No. 45, Room 202, Office Area of Inspection Warehouse, No.6262 Aozhou Road, Dongjiang Free Trade Port Zone, Tianjin Pilot Free Trade Zone, the People's Republic of China.

The registered office of all other subsidiary undertakings is 1 Brewer's Green, London, SW1H 0RH, England.

Company

	2021	2020
	\$ 000	\$ 000
Investments in subsidiaries	300	300

18 Inventories

	2021	2020
	\$ 000	\$ 000
Aero engine spare parts	30,680	28,553

Inventories are stated after provisions for impairment of \$8,421,000 (2020: \$5,926,000).

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****19 Receivables**

	Note	2021 \$ 000	Group 2020 \$ 000	2021 \$ 000	Company 2020 \$ 000
Trade receivables		16,096	36,812	69	69
Amounts owed by related parties		10	1,777	10	-
Amounts owed by other group undertakings		121	-	121	42,059
Accrued income		8,206	1,313	8,206	5,797
Group relief receivable		6,017	6,017	81	81
Other receivables		7,700	4,448	-	1,275
Prepayments		22,692	8,559	597	762
Finance lease receivables		31,117	23,563	-	-
Deferred tax assets	24	-	-	233	191
Due within one year		<u>91,959</u>	<u>82,489</u>	<u>9,317</u>	<u>50,234</u>

Trade receivables are stated after provisions for impairment of \$48,218,000 (2020: \$33,429,000).

20 Payables: Amounts falling due within one year

	Note	2021 \$ 000	Group 2020 \$ 000	2021 \$ 000	Company 2020 \$ 000
Loans and borrowings	22	98,892	-	-	-
Trade payables		5,127	4,697	1,116	1,138
Amounts owed to related parties		40,492	6,941	1,302	1,189
Amounts owed to group undertakings		5,847	4	37,936	30
Other payables		7,169	6,073	3,801	-
Accruals and deferred income		41,568	41,060	4,741	2,998
Maintenance reserves		30,941	31,488	-	-
		<u>230,036</u>	<u>90,263</u>	<u>48,896</u>	<u>5,355</u>

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****21 Payables: Amounts falling due after more than one year**

	Note	2021 \$ 000	Group 2020 \$ 000
Loans and borrowings	22	1,848,690	2,184,233
Maintenance reserves		98,316	125,313
Other non-current liabilities		15,941	19,352
Derivatives used for hedging		512	1,493
		<u>1,963,459</u>	<u>2,330,391</u>

Maintenance reserves included in payables falling due within one year and after one year above comprise:

	2021 \$ 000	2020 \$ 000
At the beginning of the year	156,801	135,334
Provided during the year	71,629	76,986
Released during the year	(61,671)	(25,052)
Released to offset adjustments to PPE	(37,502)	(30,467)
At the end of the year	<u>129,257</u>	<u>156,801</u>

22 Loans and borrowings

	2021 \$ 000	Group 2020 \$ 000
Loans and borrowings due within one year		
Current loans and borrowings		
Other borrowings	98,892	-
	<u>98,892</u>	<u>-</u>
Loans and borrowings due after more than one year		
Bank borrowings	-	232,698
Other borrowings	1,848,690	1,951,535
	<u>1,848,690</u>	<u>2,184,233</u>

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

22 Loans and borrowings(continued)

Included in the loans and borrowings are the following amounts due after more than five years:

	2021 \$ 000	2020 \$ 000
After more than five years not by instalments	1,158,000	1,400,000

All borrowings contain affirmative covenants customary for secured borrowings of this type. The Group has fulfilled all its covenant reporting and was not in breach of any of its borrowings covenants during the year ended 31 December 2021 and 2020.

Bank borrowings

The above bank borrowings relate to a revolving credit facility. Under the facility agreement the Group and its affiliates can make eligible drawings up to \$450,000,000. Borrowings are secured by the assets of the Group and its affiliates. As at 31 December 2021, the Group utilised \$nil (2020: \$233,000,000) of this facility.

The original termination date of the facility was 7 April 2019, however the Group and its affiliates had the option to extend to 7 April 2021. On 11 May, 2018, an Amendment Deed was agreed between the lenders, the Group and its affiliates allowing the termination date to be extended to 11 May 2023, with two 1 year extension options. In March 2020, the Group and its affiliates exercised the final option to extend the termination date to 11 May 2025. The facility includes an accordion option which makes additional funds available upon request. The total amount of funds available per the terms of the accordion option is US\$150,000,000. As of 31 December 2021 the Group had not exercised this option.

Other borrowings

Other borrowings relates to loan notes issued in conjunction with an affiliated company totalling US\$1,950,000,000. The loan notes comprised of:

- US\$909,000,000 fixed loan notes with maturity dates between April 2022 and June 2033
- US\$1,041,000,000 of variable interest loan notes with maturity dates between October 2023 and June 2033.

These borrowings were obtained in order to acquire plant, property and equipment for the Group. The loans are secured against those assets.

These borrowings are net of non-current private placement loan fees of \$4,616,000 (2020: non-current loan fees of \$5,570,000), current private placement loan fees of \$1,108,000 (2020: private placement loan fees of \$1,394,000 included in prepayments within receivables) and current interest rate swap fees of \$140,000 included in prepayments within receivables (2020: current interest swap fees of \$140,000 included in prepayments within receivables).

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****23 Analysis of changes in net debt**

	As at 1 January 2021 \$ 000	Cash flows \$ 000	Fair value movements \$ 000	Non cash changes \$ 000	As at 31 December 2021 \$ 000
Cash	34,617	171,929	-	-	206,546
Bank and other borrowings	(2,177,429)	234,746	-	825	(1,941,858)
Interest rate swap	(6,803)	-	3,497	-	(3,306)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net debt	<u>(2,149,615)</u>	<u>406,675</u>	<u>3,497</u>	<u>825</u>	<u>(1,738,618)</u>

24 Provisions for liabilities**Group****Deferred tax (assets) and liabilities**

	Liability \$ 000
2021	
Accelerated capital allowances	309,998
Accumulated losses carried forward	(233)
Other temporary differences	(128)
	<u>309,637</u>
	<u> </u>
2020	
Accelerated capital allowances	222,703
Accumulated losses carried forward	(195)
Other temporary differences	(284)
	<u>222,224</u>
	<u> </u>

No net reversal of the deferred tax liability is expected to occur in the next reporting period.

Company**Deferred tax assets**

	Asset \$ 000
2021	
Accumulated losses carried forward	233
	<u> </u>
	<u> </u>
2020	
Accumulated losses carried forward	191
	<u> </u>
	<u> </u>

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

25 Pension and other schemes

Defined benefit pension schemes

The Company's employees are members of one of two multi-employer defined benefits pension schemes. The Rolls-Royce Pension Fund or the Rolls-Royce Group Pension Scheme. The assets of the schemes are held in separate funds administered by trustees and invested in them independently of the finances of the Group. The schemes are funded by annual contributions from:

- a) the Company
- b) scheme members.

As it is not possible to identify the share of underlying assets and liabilities relating to Rolls-Royce & Partners Finance Limited, in accordance with FRS102 paragraph 28.11 Retirement Benefits, the scheme has been accounted for as a defined contribution scheme in these financial statements.

On this basis, the total employer contributions for 2021 were \$321,000 (2020: \$312,000). The required disclosures related to the schemes are given in the Group financial statements of Rolls-Royce Holdings plc.

26 Called up share capital

Allotted, called up and fully paid shares

	No.	2021 \$	No.	2020 \$
Ordinary shares of \$1 each	42,708,000	42,708,000	42,708,000	42,708,000

27 Commitments

Group

Capital commitments

The total amount contracted for but not provided in the financial statements was \$40,647,000 (2020: \$nil). Subsequent to the year end, these contracts were terminated as a result of the Russia-Ukraine conflict.

28 Financial guarantee contracts

Group

The Group, Company and certain affiliates are party to a loan facility. The Company provides guarantees in respect of the obligations of its subsidiary undertakings of \$nil (2020: \$233,000,000). The Company and Group did not provide any guarantee in respect of related parties during the year (2020: \$nil).

The Group, Company and certain affiliates are also party to private placement loan note funding. The Company provides guarantees in respect of the obligations of its subsidiary undertakings of \$1,950,000,000 (2020: \$1,950,000,000). The Company and Group did not provide any guarantee in respect of related parties during the year (2020: \$nil).

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****29 Leases****Group****Operating leases - lessee**

The total of future minimum lease payments is as follows:

	2021 \$ 000	2020 \$ 000
Not later than one year	563	567
Later than one year and not later than five years	2,251	2,271
Later than five years	4,100	4,668
	<u>6,914</u>	<u>7,506</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was \$571,000 (2020: \$135,000).

Finance leases - lessor

The amount of the net investment in a finance lease is determined as shown in the following table:

	2021 \$ 000	2020 \$ 000
Minimum lease payments	241,020	315,964
Gross investment	241,020	315,964
Unearned finance income	(38,254)	(50,539)
Net investment (present value of minimum lease payments)	<u>202,766</u>	<u>265,425</u>

The gross investment amount and the present value of payable minimum lease payments are shown in the following table:

	2021 \$ 000		2020 \$ 000
	Gross investment in lease	Present value of minimum lease payments	Gross investment in lease
			Present value of minimum lease payments
Maturity			
Not later than one year	31,580	31,117	34,359
Later than one year and not later than five years	138,748	119,339	155,638
Later than five years	70,692	52,310	125,967
	<u>241,020</u>	<u>202,766</u>	<u>315,964</u>
			<u>265,425</u>

Contingent rents recognised as income in the year are \$nil (2020: \$nil).

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****29 Leases (continued)****Operating leases - lessor**

The total of future minimum lease payments is as follows:

	2021	2020
	\$ 000	\$ 000
Not later than one year	202,041	247,282
Later than one year and not later than five years	634,295	780,005
Later than five years	415,109	616,251
	<u>1,251,445</u>	<u>1,643,538</u>

Contingent rents recognised as income in the year are \$nil (2020: \$nil).

30 Related party transactions**Group****Summary of transactions with other related parties**

In the course of normal operations, the Group has contracted on an arm's length basis with subsidiary undertakings of Rolls-Royce Holdings plc and associates of Alpha Partners Leasing Limited. The aggregated transactions which are considered to be material and which have not been disclosed elsewhere in the financial statements are summarised below:

Income from related parties

	\$ 000
2021	
Rental income and sale of fixed assets*	233,695
Management fee income	1,550
	<u>235,245</u>
Total income	<u>235,245</u>
Amounts receivable from related party	<u>131</u>
2020	\$ 000
Rental income and sale of fixed assets*	210,636
Management fee income	1,251
	<u>211,887</u>
Total income	<u>211,887</u>
Amounts receivable from related party	<u>1,777</u>

*includes proceeds from sale of plant, property and equipment to the associates of Alpha Partner Leasing Limited of \$nil (2020: \$122,149,000).

Rolls-Royce & Partners Finance Limited**Notes to the Financial Statements for the Year Ended 31 December 2021****30 Related party transactions (continued)****Expenditure with related parties****2021****\$ 000**

Purchase of goods, services and fixed assets

120,817

Recharged expenditure made on behalf of the Group

4,525

Total purchases

125,342

Amounts payable to related party

46,339

2020**\$ 000**

Purchase of goods, services and fixed assets

258,501

Recharged expenditure made on behalf of the Group

4,711

Total purchases

263,212

Amounts payable to related party

6,945

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

31 Financial instruments

Group

Categorisation of financial instruments

	2021 \$ 000	2020 \$ 000
Financial assets measured at fair value through profit or loss	4,285	7,722
Financial liabilities measured at fair value through profit or loss	(512)	(1,493)

Financial assets measured at fair value

Interest rate swap

The financial assets relate to the fair value of interest rate swaps used as fair value hedges and is estimated by discounting expected future contractual cash flows using prevailing interest rate curves.

The fair value is \$4,285,000 (2020: \$7,722,000) and the change in value included in the profit or loss is \$3,437,000 (2020: \$3,773,000).

Financial liabilities measured at fair value

Interest rate swap

These financial liabilities relate to fair value of interest rate swaps used as cash flow hedges and is estimated by discounting expected future contractual cash flows using prevailing interest rate curves.

The fair value is \$(512,000) (2020: \$(1,493,000)) and the change in value included in profit or loss is \$nil (2020: \$nil).

Fair value hedges

Interest rate swap

\$95,000,000 of fixed rate borrowing has been swapped to variable rate using interest rate swaps maturing in 2023. The swaps receive interest at a fixed rate of 3.99% and require payment of interest at a variable rate equal to 6-month USD LIBOR plus 1.1625%.

The fair value of the financial instruments designated as hedging instruments at 31 December 2021 is \$4,285,000 (2020: \$7,722,000). The amount of the change in fair value of the hedging instrument recognised in the income statement for the year is \$(3,437,000) (2020: \$3,773,000). The amount of the change in fair value of the hedged item recognised in the income statement for the year is \$3,437,000 (2020: \$(3,773,000)).

Cash flow hedges

Interest rate swap

An amortising profile of floating interest rate borrowings, starting at \$399,000,000, has been swapped to fixed rate using interest rate swaps maturing in 2022. These swaps are designated instruments in the cash flow hedge and receive interest at a variable rate equal to 6-month USD LIBOR and require payment of interest at a fixed rate of 1.613125%. Cash flows relating to these cash flow hedging instruments are expected to occur bi-annually.

The fair value of the financial instruments designated as hedging instruments at 31 December 2021 is \$(512,000) (2020: \$(1,493,000)). The amount of the change in fair value of the hedging instrument that was recognised in other comprehensive income during the year is \$(1,989,000) (2020: \$1,533,000). The amount reclassified from equity to the income statement for the year is \$1,008,000 (2020: \$(216,000)). The amount of any excess of the fair value of the hedging instrument over the change in the fair value of the expected cash flows that was recognised in the income statement for the year is \$nil (2020: \$nil).

Rolls-Royce & Partners Finance Limited

Notes to the Financial Statements for the Year Ended 31 December 2021

32 Parent and ultimate parent undertaking

Rolls-Royce Holdings plc, a company registered in England and Wales, and GATX Corporation, a company registered in the United States, are the joint ultimate holding companies. Copies of Rolls-Royce Holdings plc's consolidated Financial Statements can be obtained from 1 Brewer's Green, London, SW1H 0RH and those of GATX Corporation from 233 South Wacker Drive, Chicago IL 60606-7147, Illinois, USA.

Alpha Partners Leasing Limited, a company registered in England and Wales, is the immediate holding company and heads the largest group in which the results of the Company are consolidated. Copies of its consolidated Financial Statements can be obtained from 1 Brewer's Green, London SW1H 0RH.

33 Subsequent events

In March 2022, International sanctions were imposed against the Russian aviation industry by banning sale or purchase of aircraft and parts, financing and technical assistance, as part of wider measures in response to the Russian military invasion of Ukraine. The Group has limited direct exposure to Russian airlines. As a result, on 31 March 2022, the Group recognised an impairment against these engines of \$33,248,000.

The Group has evaluated other subsequent events from the balance sheet date through the date at which these financial statements were available to be issued, and determined there were no additional items requiring disclosure.