

Registration number: 0620485

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Annual Report and Financial Statements

for the Year Ended 31 December 2018

WEDNESDAY



A89FGVOW

A12

10/07/2019

#151

COMPANIES HOUSE

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Contents

Company Information	1
Strategic Report	2 to 3
Directors' Report	4 to 5
Statement of Directors' Responsibilities	6
Independent Auditors' Report	7 to 9
Income Statement	10
Statement of Other Comprehensive Income	11
Balance Sheet	12
Statement of Changes in Equity	13
Notes to the Financial Statements	14 to 33

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Company Information

Directors	S R Dearden D L Orr H Holt S Carlier R E M Owens C Gouly
Registered office	Atlantic House Raynesway Derby DE21 7BE
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors East Midlands

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Strategic Report for the Year Ended 31 December 2018

The directors present their strategic report for the year ended 31 December 2018.

Principal activities

Rolls-Royce Holdings plc is, within its Defence sector, the technical authority for the UK Nuclear Steam Raising Plant which powers the Royal Navy's nuclear submarine fleet, managing plant design, safety, manufacture and service support. This was previously discharged through its submarines business division within Rolls-Royce Power Engineering plc, this Company (previously known as Rolls-Royce Marine Power Operations Limited) and Rolls-Royce plc.

Fair review of the business

From 5 August 2018, following a restructuring of the group's business and legal entities, these activities will be carried out through this Company. The financial statements for the Company, therefore, represent the full year of operations as previously completed and the five months of incremental activities previously discharged by Rolls-Royce Power Engineering plc and Rolls-Royce plc.

This has resulted in:

- A name change of this legal entity from Rolls-Royce Marine Power Operations Limited to Rolls-Royce Submarines Limited; and
- A purchase of the trade and assets/liabilities of the submarine interests from the Rolls-Royce companies of: Rolls-Royce Power Engineering Limited and Rolls-Royce Plc – this was transacted through an intra-group trade and assets sale at their previous book values.

The Company uses labour and material from in-house, managed service agreements and subcontract support that are charged directly to customer contracts. Operating costs are charged through to the customer at an agreed recovery rate or direct to a customer contract for the recovery of most fixed overheads.

Financial Key Performance Indicators

The profit for the financial year, after taxation, amounted to £32,044,000 (2017: £2,131,000).

As at 31 December 2018 net assets were £66,094,000 (2017: £33,149,000).

Revenue increased by 237% to £345,531,000 (2017: £102,580,000), mainly due to the incremental activities now discharged through this entity.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

Principal risks and uncertainties

The Rolls-Royce Group has an established, structured approach to risk management, which is detailed in the consolidated accounts of Rolls-Royce Holdings plc. The Company acts in accordance with this policy. The following risks are considered key by the Directors:

Financial

Cash and overdrafts are held at floating rates and the Company is therefore exposed to movements in interest rates.

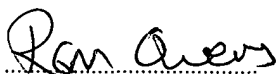
All material cash balances are held in sterling and therefore these balances are not exposed to movements in foreign exchange rates.

The Company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The main customer of the business is the UK Ministry of Defence and therefore overall credit risk to the Company is low.

Operating

The business is exposed to risks from the supply chain driven by the length between boat programmes and the relatively low volume of deliverables. The Company has a business continuity programme to reduce the risk of loss of a significant supplier.

The accounts were signed on behalf of the board on 1st July 2019



R E M Owens
Director

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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. The Company's principal risks and uncertainties are set out in the Strategic Report.

Directors of the Company

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

S R Dearden

A J Gordon (resigned 3 July 2018)

D L Orr

H Holt

S Carlier

R E M Owens (appointed 7 March 2018)

C Gouly (appointed 7 March 2018)

Results and Dividends

The profit for the year, after taxation, amounted to £32,044,000 (2017: £2,131,000).

The directors do not recommend the payment of a dividend (2017: £nil).

Principal activity

The principal activity of the Company is the provision of naval reactor systems. In addition a small range of technical and support services have been developed, based on core skills.

Employee involvement

The Company and employee representatives continue to work closely together to improve the quality of employee engagement and participation in the development of the business.

The Company consults widely over changes to the Rolls-Royce Group pension scheme for UK employees. The company's policy on diversity and equality continues to develop in consultation with employee representatives. The Company is committed to equal opportunities and to developing a diverse and inclusive workforce.

The Company's policy is to provide, wherever possible, employment and training and development opportunities for disabled people. It is also committed to supporting employees who become disabled and to helping disabled employees make the best possible use of their skills and potential.

The Company actively encourages employee share ownership in the ultimate parent company, Rolls-Royce Holdings plc.

The Company continues to invest in training and development programmes to ensure that employees have the opportunity to attain the highest level of skills.

Employees are encouraged to take responsibility for their personal development. Opportunities are available to extend their competency levels using a range of the latest education and training techniques. The use of Appraisal Systems and Personal Development Planning enables managers to support employees in their careers.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

Future developments

Following the signing of new contracts in 2019, the Company expects to continue to operate its long term contracts for design, safety, manufacture and service support.

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. However, the Directors believe the business has limited exposure to any Brexit implications given the nature of the Company and will continue to manage business activities. Further disclosures are given in the Rolls-Royce Holdings plc consolidated financial statements.

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.

Directors liabilities

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.

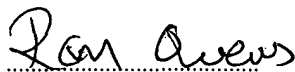
Disclosure of information to the auditors

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.

Reappointment of 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.

The accounts were signed on behalf of the board on15th July 2019.....



R E M Owens
Director

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Statement of Directors' Responsibilities

The directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 Reduced Disclosure Framework.

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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

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. They are 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, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**Independent Auditors' Report to the members of
Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations
Limited)**

Report on the audit of the financial statements

Opinion

In our opinion, Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)'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 Other 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 or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

**Independent Auditors' Report to the members of
Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations
Limited) (continued)**

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

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

Based on 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 6, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' responsibilities for the audit of the financial statements

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

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

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.

**Independent Auditors' Report to the members of
Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations
Limited) (continued)**

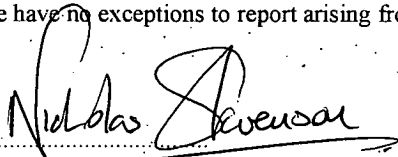
Other required reporting

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: 1 July 2019.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Income Statement for the Year Ended 31 December 2018

	Note	2018 £ 000	2017 £ 000
Revenue	3	345,531	102,580
Cost of sales		<u>(288,791)</u>	<u>(100,665)</u>
Gross profit		56,740	1,915
Administrative (expense)/ income		<u>(14,724)</u>	<u>287</u>
Operating profit		42,016	2,202
Finance income	4	<u>691</u>	<u>297</u>
Profit before tax		42,707	2,499
Tax on profit	8	<u>(10,663)</u>	<u>(368)</u>
Profit for the financial year		<u><u>32,044</u></u>	<u><u>2,131</u></u>

The above results were derived from continuing operations.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

Statement of Other Comprehensive Income for the Year Ended 31 December 2018

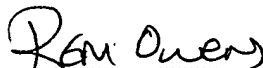
	Note	2018 £ 000	2017 £ 000
Profit for the financial year		<u>32,044</u>	<u>2,131</u>
Total comprehensive income for the year		<u><u>32,044</u></u>	<u><u>2,131</u></u>

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

**(Registration number: 0620485)
Balance Sheet as at 31 December 2018**

	Note	2018 £ 000	2017 £ 000
Non-current assets			
Intangible assets	9	8,680	39
Property, plant and equipment	10	90,456	45,671
Investment properties	11	-	11,654
		<u>99,136</u>	<u>57,364</u>
Current assets			
Inventories	13	6,767	4,154
Trade and other receivables: amounts falling due within one year	14	184,989	28,378
Cash at bank and in hand		3,423	-
		<u>195,179</u>	<u>32,532</u>
Current liabilities			
Trade and other payables	18	<u>(179,131)</u>	<u>(39,136)</u>
Net current assets/(liabilities)		<u>16,048</u>	<u>(6,604)</u>
Total assets less current liabilities		115,184	50,760
Non-current liabilities			
Trade and other payables	18	(40,306)	(12,939)
Deferred tax liabilities	8	(2,979)	(1,428)
Provisions for liabilities and charges	19	<u>(5,805)</u>	<u>(3,244)</u>
Net assets		<u>66,094</u>	<u>33,149</u>
Equity			
Called up share capital	20	350	350
Retained earnings		<u>65,744</u>	<u>32,799</u>
Total equity		<u>66,094</u>	<u>33,149</u>

The accounts were signed on behalf of the Board on^{15th} July 2019



R E M Owens
Director

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2018	350	32,799	33,149
Profit for the financial year	-	32,044	32,044
Total comprehensive income	-	32,044	32,044
Share based payment transactions	-	901	901
At 31 December 2018	<u>350</u>	<u>65,744</u>	<u>66,094</u>
	Share capital £ 000	Retained earnings £ 000	Total £ 000
At 1 January 2017	350	30,479	30,829
Profit for the financial year	-	2,131	2,131
Total comprehensive income	-	2,131	2,131
Share based payment transactions	-	189	189
At 31 December 2017	<u>350</u>	<u>32,799</u>	<u>33,149</u>

The notes on pages 14 to 33 form an integral part of these financial statements.
Page 13

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

1 General information

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

The principal activity of the Company is the provision of naval reactor systems. In addition a small range of technical and support services have been developed, based on core skills.

The address of its registered office is:

Atlantic House
Raynesway
Derby
DE21 7BE

2 Significant accounting policies

Key accounting estimates

Key estimates in the business relate to the contract trading positions. Profit traded on long term contracts is based upon the contract forecast at completion and stage of completion. Forecast cost at completion is based upon contract reviews and the process that underpins this.

Critical accounting judgement - Multi-employer defined benefit pension scheme

Certain employees participate in a multi-employer defined benefit pension scheme with other companies in the Rolls-Royce Holdings plc group. In the judgement, 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, see note 16 for details.

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements of Rolls-Royce Submarines Limited 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 and in accordance with the Companies Act 2006.

The Company is a wholly owned subsidiary of Rolls-Royce Holdings plc, which includes the Company in its own published consolidated financial statements. In these financial statements the Company has taken 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, intangible assets and investment property
- Certain requirements of IAS 24 Related Party Transactions and has, therefore not disclosed transactions between the Company and other wholly owned subsidiaries of Rolls-Royce Holdings plc
- Disclosures in respect of the compensation of key management personnel
- Disclosures in respect of capital management
- 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.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

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.

New standards, amendments and IFRIC interpretations

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* are new accounting standards that are effective for the year ended 31 December 2018. On transitioning to the new accounting standards, the directors evaluated the impact on the financial statements and considered that there is not a material impact.

Service concession arrangements

The Company holds a number of contracts to regenerate and sustain capability, which meet the conditions of IFRIC 12 *Service concession arrangements*. Accordingly, the Company does not recognise that infrastructure as property, plant and equipment because the contractual service arrangement does not convey to it the right to control the infrastructure.

Revenue recognition

Revenues comprise sales to external customers, excluding value added taxes, in respect of deliveries made, or work completed, during the year. In the case of long-term contracts, revenue is based on the estimated sale value of the work completed during the year.

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.

Contract work in progress is stated at costs incurred, less those transferred to the income statement, after deducting foreseeable losses and payments on account not matched with turnover.

Amounts recoverable on contracts are included in receivables and represent revenue recognised in excess of payments on account.

Finance income and costs

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

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

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 entity 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 date the fair value was determined.

Non-monetary items measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange differences arising on translation are recorded in the profit and loss account.

Tax

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

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

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and on unused tax losses or tax credits in the Company. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

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

Property, plant and equipment

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

Investment properties

Certain of the Company's properties were held as investment properties and occupied by another Rolls-Royce group company until August 2018. Investment properties are properties which are held to earn rental income or for capital appreciation or both.

After initial recognition the Company has chosen the cost model method to measure its investment properties.

Investment property is carried at cost less accumulated depreciation.

Depreciation

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

Asset class	Depreciation method and rate
Freehold property	5 to 40 years
Short term leasehold property	Over the period of the lease
Long term leasehold property	Lower of advisors' estimates or period of lease
Plant & machinery	3 to 25 years

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

Assets under construction are not depreciated.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

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 five years.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and call deposits, 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 changes in value.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at the transaction price. They are subsequently measured at amortised cost using the effective interest method, less provision for impairment. The company makes an estimate of the recoverable value of trade and other receivables. When assessing the impairment of trade and other receivables, management considers factors including the credit rating of the receivable, the ageing profile of receivables and historical experience. The company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

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.

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 payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

Provisions for liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured 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.

Leases

Payments made and rentals received under operating lease arrangements are charged/credited to the income statement on a straight-line basis over the lease term.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

Impairment of non-financial assets

Impairment of non-current assets is considered in accordance with IAS 36 Impairment of Assets. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit to which the asset belongs. Goodwill and intangible assets not yet available for use are tested for impairment annually. Other intangible assets, property, plant and equipment and investments are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs to sell, if this is readily available. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset.

Defined benefit pension obligation

The Company participates in a group wide pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the Company. The Company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by IAS 19 Employee Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged to the income statement represents the contributions payable to the scheme in respect of the accounting period.

Further disclosure relating to the scheme is given in the consolidated financial statements of Rolls-Royce Holdings plc, which can be obtained from the address in note 21 of 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.

Common control transactions

The Company acquired the trade and assets from two fellow group undertakings in the year. These were transacted at their predecessor carrying values with no goodwill being created. The consideration paid by the Company was payable via an inter-company account. The acquired trade and assets/liabilities have been incorporated prospectively in the Company from the date on which the transaction between entities under common control occurred.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

3 Revenue

	2018	2017
	£'000	£'000
Internally to fellow group undertakings	69,285	102,580
External to the group	276,246	-
Total	<u>345,531</u>	<u>102,580</u>

The whole of the revenue is attributable to the provision of naval reactor systems and a small range of technical and support services.

All revenue arose within the United Kingdom.

4 Finance income

	2018	2017
	£ 000	£ 000
Foreign exchange gain	645	297
Interest	46	-
	<u>691</u>	<u>297</u>

5 Staff costs

The aggregate payroll costs (including directors' remuneration) were as follows:

	2018	2017
	£ 000	£ 000
Wages and salaries	87,942	26,441
Social security costs	10,197	2,881
Share-based payment expenses	901	189
Other pension costs	10,977	2,720
	<u>110,017</u>	<u>32,231</u>

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

	2018	2017
	No.	No.
Employees	1,574	508

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

6 Directors' remuneration

The directors' remuneration for the year was as follows:

	2018	(As restated)
	£ 000	2017
		£ 000
Remuneration	971	445

Directors' remuneration for 2017 has been restated to exclude employer's National Insurance contributions.

Contributions to defined benefit pension schemes during the year were £95,000 (2017: £30,000) and contributions to money purchase pension schemes were £11,000 (2017: £6,000).

Aggregate amounts receivable under long-term incentive schemes were £46,000 (2017: £33,000).

During the year the number of directors who were receiving benefits and share incentives was as follows:

	2018	2017
	No.	No.
Exercised share options	1	4
Accruing benefits under defined benefit pension scheme	5	3
Accruing benefits under money purchase pension scheme	2	2

In respect of the highest paid director:

	2018	(As restated)
	£ 000	2017
		£ 000
Aggregate of remuneration	354	165

Contributions to money purchase pension schemes were £10,000 (2017: £5,000).

The aggregate of remuneration in respect of the highest paid director in 2017 has been restated to exclude employer's National Insurance contributions.

7 Auditors' remuneration

The fees for the audit of the company financial statements were £100,000 (2017: £50,000) and were paid by Rolls-Royce plc and not recharged.

No (2017: no) amounts were paid to the auditors for non-audit services.

8 Taxation

Tax charged in the income statement

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

	2018	2017
	£ 000	£ 000
Current tax		
Group relief payable at 19.00% (2017: 19.25%)	8,208	451
UK corporation tax charge on profit for the year	<u>666</u>	<u>-</u>
	<u>8,874</u>	<u>451</u>
Deferred taxation		
Arising from origination and reversal of temporary differences	(74)	(36)
Arising from previously unrecognised tax loss, tax credit or temporary difference of prior periods	<u>1,863</u>	<u>(47)</u>
Total deferred taxation	<u>1,789</u>	<u>(83)</u>
Tax expense in the income statement	<u>10,663</u>	<u>368</u>

The tax on profit before tax for the year is higher 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	2017
	£ 000	£ 000
Profit before tax	<u>42,707</u>	<u>2,499</u>
Corporation tax at standard rate	8,114	481
Increase (decrease) in tax from adjustment for prior periods	1,863	(47)
Increase (decrease) from effect of expenses not deductible in determining taxable profit	755	(72)
Deferred tax expense (credit) from unrecognised temporary difference from a prior period	<u>(69)</u>	<u>6</u>
Total tax charge	<u>10,663</u>	<u>368</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 Company have therefore been measured at 17%.

Deferred tax

Deferred tax assets and liabilities

	Asset	Liability	Net deferred
2018	£ 000	£ 000	tax
			£ 000
Accelerated tax depreciation	-	(4,311)	(4,311)
Other items	<u>1,332</u>	<u>-</u>	<u>1,332</u>
	<u>1,332</u>	<u>(4,311)</u>	<u>(2,979)</u>

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

2017	Asset £ 000	Liability £ 000	Net deferred tax £ 000
Accelerated tax depreciation	-	(1,793)	(1,793)
Other items	365	-	365
	<u>365</u>	<u>(1,793)</u>	<u>(1,428)</u>

Deferred tax movement during the year:

	At 1 January 2018 £ 000	Recognised in income £ 000	Recognised in other comprehensive income £ 000	At 31 December 2018 £ 000
Accelerated tax depreciation	(1,793)	(2,518)	-	(4,311)
Other items	365	729	238	1,332
Net tax assets/(liabilities)	<u>(1,428)</u>	<u>(1,789)</u>	<u>238</u>	<u>(2,979)</u>

Deferred tax movement during the prior year:

	At 1 January 2017 £ 000	Recognised in income £ 000	At 31 December 2017 £ 000
Accelerated tax depreciation	(1,834)	41	(1,793)
Other items	323	42	365
Net tax assets/(liabilities)	<u>(1,511)</u>	<u>83</u>	<u>(1,428)</u>

9 Intangible assets

	Internally generated software development costs £ 000	Software £ 000	Total £ 000
Cost or valuation			
At 1 January 2018	-	478	478
Additions	-	890	890
Acquisition of trade and assets	6,474	2,576	9,050
At 31 December 2018	<u>6,474</u>	<u>3,944</u>	<u>10,418</u>
Amortisation			
At 1 January 2018	-	439	439
Amortisation charge	-	1,299	1,299
At 31 December 2018	<u>-</u>	<u>1,738</u>	<u>1,738</u>

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

	Internally generated software development costs £ 000	Software £ 000	Total £ 000
Net book value			
At 31 December 2018	<u>6,474</u>	<u>2,206</u>	<u>8,680</u>
At 31 December 2017	<u>-</u>	<u>39</u>	<u>39</u>

In August 2018 the trade and assets of the Submarine interests from Rolls Royce Power Engineering, a fellow group undertaking, were transferred to the Company. These included intangible assets with a net book value of £9,049,000. This comprised cost of £19,240,000 and accumulated depreciation of £10,191,000.

Amortisation of £1,299,000 (2017: £47,000) is included in cost of sales in the income statement.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

10 Property, plant and equipment

	Freehold property £ 000	L/Term leasehold property £ 000	S/Term leasehold property £ 000	Plant & machinery £ 000	Assets under construction £ 000	Total £ 000
Cost or valuation						
At 1 January 2018	7,985	16,868	76	32,489	12,346	69,764
Additions	939	-	-	-	23,753	24,692
Acquisition of trade and assets	-	31	-	8,758	6,319	15,108
Transfers from investment property	3,242	8,188	-	-	-	11,430
Transfer between classes	882	2,940	-	1,034	(4,856)	-
At 31 December 2018	<u>13,048</u>	<u>28,027</u>	<u>76</u>	<u>42,281</u>	<u>37,562</u>	<u>120,994</u>
Depreciation						
At 1 January 2018	1,223	3,655	46	19,169	-	24,093
Charge for the year	395	827	15	5,208	-	6,445
At 31 December 2018	<u>1,618</u>	<u>4,482</u>	<u>61</u>	<u>24,377</u>	<u>-</u>	<u>30,538</u>
Net book value						
At 31 December 2018	<u>11,430</u>	<u>23,545</u>	<u>15</u>	<u>17,904</u>	<u>37,562</u>	<u>90,456</u>
At 31 December 2017	<u>6,762</u>	<u>13,213</u>	<u>30</u>	<u>13,320</u>	<u>12,346</u>	<u>45,671</u>

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

In August 2018 the trade and assets of the submarines interests from Rolls-Royce Power Engineering plc, a fellow group undertaking, were transferred to the Company. These included property, plant and equipment with a net book value of £14,102,000. This comprised cost of £32,680,000 and accumulated depreciation of £18,578,000.

In August 2018 the trade and assets of the submarines interests from Rolls-Royce plc, a fellow group undertaking, were transferred to the Company. These included property, plant and equipment with a net book value of £1,006,000. This comprised cost of £22,423,000 and accumulated depreciation of £21,417,000.

Following the restructuring of the Company, the investment properties have been transferred to property, plant and equipment at a net book value of £11,430,000. This comprised cost of £17,719,000 and accumulated depreciation of £6,289,000.

Depreciation of £6,445,000 (2017: £2,643,000) is included in cost of sales in the income statement.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

11 Investment properties

	Freehold property £ 000	L/Term leasehold property £ 000	Total £ 000
Cost			
At 1 January 2018	3,892	13,827	17,719
Transfers to property, plant and equipment	<u>(3,892)</u>	<u>(13,827)</u>	<u>(17,719)</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>
Depreciation			
At 1 January 2018	584	5,481	6,065
Depreciation charge	66	158	224
Transfers to property, plant and equipment	<u>(650)</u>	<u>(5,639)</u>	<u>(6,289)</u>
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>
Net book value			
At 31 December 2018	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2017	<u>3,308</u>	<u>8,346</u>	<u>11,654</u>

The Company has chosen to apply the cost model to its investment properties.

The property classified as investment property represents office buildings and associated services which were utilised by the Rolls-Royce group's submarines employees who were not employed by this Company. Costs were charged to the relevant group company. The investment property is located on the business campus and is intertwined with the rest of the Submarines business.

The site is subject to security and nuclear licence restrictions which make it unsuitable to market on the open market therefore a fair value cannot be ascertained.

Following the restructuring of this Company and the transfer of the trade and assets of the Submarines business to this Company on 5 August 2018, the property previously classified as investment property has been disclosed as owner-occupied and transferred to property, plant and equipment (see note 12 for further details). The transfer value represents the previous net book value at the point of transfer.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

12 Acquisition of trade and assets

Following a restructuring, the group's business and financial entities with effect from 5 August 2018, this is completed, and will in future continue to be discharged, through this company. The financial statements for the company therefore represent the full year of operations as previously completed and the five months of incremental activities previously discharged by Rolls-Royce Power Engineering plc and Rolls-Royce plc.

This resulted in:

- A name change of this legal entity from Rolls-Royce Marine Power Operations Limited to Rolls-Royce Submarines Limited; and
- A purchase of the trade and assets/liabilities of the submarine interests from the internal Rolls-Royce companies of: Rolls-Royce Power Engineering Limited (RRPE) and Rolls-Royce Plc (RRPLC) - this was transacted through an intra-group trade and assets sale at their previous book values.

The amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	RRPE plc	RR plc	Total
	£'000	£'000	£'000
Intangible assets	9,049	-	9,049
Property, plant and equipment	14,102	1,006	15,108
Current assets			
Inventories	3,940	4	3,944
Trade and other receivables	87,518	3,204	90,722
Current liabilities			
Trade and other payables	(140,995)	(17,129)	(158,124)
Net liabilities	<u>(26,386)</u>	<u>(12,915)</u>	<u>(39,301)</u>

13 Inventories

	2018	(As restated)
	£ 000	2017
		£ 000
Raw materials and consumables	1,526	2,479
Work in progress	5,241	1,675
	<u>6,767</u>	<u>4,154</u>

Prior year inventories have been restated to better represent the composition of inventories held. There is no impact on the total inventories balance of £4,154,000.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

14 Trade and other receivables

	2018	2017
	£ 000	£ 000
Trade receivables	17,267	-
Amounts owed by group undertakings	120,488	11,523
Amounts recoverable on long term contracts	42,442	15,056
Prepayments and accrued income	4,792	207
Social security and other taxes	-	1,592
	<hr/>	<hr/>
Total trade and other receivables	<u>184,989</u>	<u>28,378</u>

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

15 Obligations under leases and hire purchase contracts

Operating leases

The total future value of minimum lease payments is as follows:

	2018	2017
	£ 000	£ 000
Within one year	642	944
In one to five years	1,742	226
In over five years	-	51
	<hr/>	<hr/>
	<u>2,384</u>	<u>1,221</u>

The amount of non-cancellable operating lease payments recognised as an expense during the year was £431,000 (2017 - £1,066,000). The leases primarily relate to land and buildings leased for a further five years. The remaining leases relate to plant and machinery leased over one to two years.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

16 Pension arrangements

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 separate fund 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: £2,108m).

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 £6,861,000 (2017: £1,631,000) representing its contributions paid to the Group for the period. The Company expects to contribute at a materially similar level for 2019.

The IAS 19 disclosure relating to the schemes is given in the Group financial statements of Rolls-Royce Holdings plc.

The Company also operates a defined contribution scheme for employees. The pension cost for the year was £4,116,000 (2017: £1,089,000) and there were no outstanding or prepaid contributions at 31 December 2018 (2017: £nil).

17 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 Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

The weighted average share price at the date share options were exercised was 883p (2017: 756p). The closing price at 31 December 2018 was 830p (2017: 847p).

Share options outstanding:

	ShareSave	ShareSave
	Number Thousand	Weighted average remaining contractual life
		Years
At 31 December 2017		
600p – 699p	143	2.20
700p – 799p	208	4.10
900p – 999p	19	1.10
	<hr/> 370	<hr/> 3.20
	ShareSave	ShareSave
	Number Thousand	Weighted average remaining contractual life
		Years
At 31 December 2018		
600p – 699p	962	1.20
700p – 799p	1,084	3.10
900p – 999p	17	0.10
	<hr/> 2,063	<hr/> 2.20

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

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

18 Trade and other payables

Amounts due within one year

	2018	2017
	£ 000	£ 000
Trade payables	26,576	8,977
Accruals and deferred income	68,313	7,236
Amounts due to group undertakings	10,764	15,124
Social security and other taxes	8,895	-
Other payables	-	1,531
Payments on account	64,583	6,268
	<u>179,131</u>	<u>39,136</u>

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

Amounts falling due after more than one year

	2018	2017
	£ 000	£ 000
Accruals and deferred income	<u>40,306</u>	<u>12,939</u>

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

19 Provisions for liabilities and charges

	Contract loss £ 000
At 1 January 2018	3,244
Additional provisions	5,304
Increase (decrease) through acquisition of trade and assets	4,425
Unused provision reversed	<u>(7,168)</u>
At 31 December 2018	<u><u>5,805</u></u>

Contract loss

Provisions for contract loss are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected revenue and are generally expected to be utilised within two years.

20 Called-up share capital

Allotted, called up and fully paid shares

	2018		2017	
	No. 000	£ 000	No. 000	£ 000
266,000 A shares of £1 each	-	-	-	-
84,000 B shares of £1 each	-	-	-	-
350,000 ordinary shares of £1 each	<u>350</u>	<u>350</u>	<u>350</u>	<u>350</u>
	<u><u>350</u></u>	<u><u>350</u></u>	<u><u>350</u></u>	<u><u>350</u></u>

During the prior year the A and B shares were redesignated into ordinary shares.

21 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. Prosecutions of individuals may follow and other investigations or enforcement action may be taken by other authorities. In addition, we could still be affected by actions from customers and customers' financiers. The Directors of those companies 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 these agreements on the Company.

Rolls-Royce Submarines Limited (formerly Rolls-Royce Marine Power Operations Limited)

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

22 Parent and ultimate parent undertaking

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

The ultimate parent 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 62 Buckingham Gate, London, SW1E 6AT.

The smallest group in which these financial statements are consolidated is Rolls-Royce plc. These financial statements are available upon request from 62 Buckingham Gate, London, SW1E 6AT.

The ultimate controlling party is Rolls-Royce Holdings plc.