COMPANY NUMBER 01003142

ROLLS-ROYCE PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2024

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CONTENTS

Use of underlying performance measures in the Annual Report

All figures in the narrative of the Strategic Report are underlying unless otherwise stated. We believe this is the most appropriate basis to measure our in-year performance as this reflects the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which lock in transactions at predetermined exchange rates. In addition, underlying results exclude the accounting impact of business acquisitions and disposals, certain impairment charges and exceptional items. A full definition of underlying and the reconciliation to the statutory figures can be found on pages 161 to 164. All references to organic change are at constant translational currency.

Forward-looking statements

This Annual Report contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and guidance may be updated from time to time. This report is intended to provide information to shareholders and is not designed to be relied upon by any other party or for any other purpose. The Company and its Directors accept no liability to any other person other than that required under English law. Latest information will be made available on the Group's website. By their nature, these statements involve risk and uncertainty and a number of factors could cause material differences to the actual results or developments.

COMPANY INFORMATION

Registered office	Kings Place 90 York Way London N1 9FX
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

STRATEGIC REPORT

The Directors present their Strategic Report on the Rolls-Royce plc Group (the Group), together with the audited Financial Statements for the year ended 31 December 2024. Rolls-Royce plc (the Company) is, indirectly, a wholly-owned subsidiary of Rolls-Royce Holdings plc (RRH).

Rolls-Royce plc is a public company limited by shares and incorporated under the Companies Act 2006. It holds the Group's listed debt facilities and is one of the main trading companies of the Group.

Group at a glance

UNDERLYING REVENUE [1] **£17,848m** 2023: £15,409m	**STATUTORY REVENUE [1]** **£18,909m** 2023: £16,486m	**FREE CASH FLOW [1]** **£2,423m** 2023: £1,286m	**STATUTORY CASH FLOWS FROM OPERATING ACTIVITIES** **£3,780m** 2023: £2,486m
UNDERLYING OPERATING PROFIT [1] **£2,464m** 2023: £1,590m	**STATUTORY OPERATING PROFIT [1]** **£2,906m** 2023: £1,944m	**UNDERLYING OPERATING MARGIN** **13.8%** 2023: 10.3%	**STATUTORY OPERATING MARGIN** **15.4%** 2023: 11.8%
UNDERLYING PROFIT BEFORE TAX [1] **£2,293m** 2023: £1,262m	**STATUTORY PROFIT BEFORE TAX [1]** **£2,234m** 2023: £2,427m	**NET CASH/(DEBT)** **£474m** 2023: £(1,952)m	**LIQUIDITY [2]** **£8.1bn** 2023: £7.2bn
ORDER BACKLOG [3] **£82.1bn** 2023: £68.5bn	**GROSS R&D EXPENDITURE [1,4]** **£1.5bn** 2023: £1.4bn	**COUNTRIES WITH ROLLS-ROYCE PRESENCE** **48** 2023: 48	**PEOPLE (MONTHLY AVERAGE) [5]** **42,400** 2023: 41,400

[1] A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 161 to 164
[2] Liquidity is defined as cash and cash equivalents plus any undrawn facilities, as listed on page 40
[3] See note 2 on page 75
[4] See note 3 on page 78 for a reconciliation of gross R&D expenditure to total R&D expenditure
[5] See note 7 on page 83

See note 2 on page 73 for a reconciliation between underlying and statutory results.

Group at a glance *continued*

OUR DIVISIONS IN 2024

CIVIL AEROSPACE	DEFENCE	POWER SYSTEMS	NEW MARKETS
Civil Aerospace is a major manufacturer of aero engines for the large commercial aircraft, regional jets and business aviation markets. The division uses its engineering expertise, in-depth knowledge and capabilities to provide through-life service solutions for its customers.	Defence is a market leader in aero engines for military transport and patrol aircraft with strong positions in combat applications. It has significant scale in naval and also designs, supplies and supports the nuclear propulsion plant for all of the UK Royal Navy's nuclear submarines.	Power Systems, with its product and solutions brand *mtu*, is a world-leading provider of integrated solutions for onsite power and propulsion, developing sustainable solutions to meet the needs of its customers.	New Markets are early-stage businesses. They leverage our existing, in-depth engineering expertise and capabilities to develop sustainable products for new markets, focused on the transition to net zero.
UNDERLYING REVENUE	**UNDERLYING REVENUE**	**UNDERLYING REVENUE**	**R&D EXPENDITURE [1]**
Large engines – 72% Business aviation – 22% Regional – 2% V2500 – 4%	Transport – 28% Combat – 31% Submarines – 30% Naval [2] – 7% Helicopters – 4%	Power generation – 49% Governmental – 26% Marine – 10% Industrial – 14% BESS – 1%	Rolls-Royce SMR – 63% Rolls-Royce Electrical [3] – 37%
UNDERLYING REVENUE	**UNDERLYING REVENUE**	**UNDERLYING REVENUE**	**UNDERLYING REVENUE**
£9,040m 2023: £7,348m	**£4,522m** 2023: £4,077m	**£4,271m** 2023: £3,968m	**£3m** 2023: £4m
UNDERLYING OPERATING PROFIT	**UNDERLYING OPERATING PROFIT**	**UNDERLYING OPERATING PROFIT**	**UNDERLYING OPERATING LOSS**
£1,505m 2023: £850m	**£644m** 2023: £562m	**£560m** 2023: £413m	**£(177)m** 2023: £(160)m
UNDERLYING OPERATING MARGIN	**UNDERLYING OPERATING MARGIN**	**UNDERLYING OPERATING MARGIN**	**UNDERLYING OPERATING MARGIN**
16.6% 2023: 11.6%	**14.2%** 2023: 13.8%	**13.1%** 2023: 10.4%	**n/a** 2023: n/a
See page 22 for the Civil Aerospace divisional review	See page 25 for the Defence divisional review	See page 27 for the Power Systems divisional review	See page 29 for the New Markets divisional review

[1] Total R&D expenditure for New Markets in 2024 was £(133)m (2023: £(137)m)
[2] In September 2024, an agreement to sell the naval propulsors & handling business was announced
[3] In 2023, a decision was taken to exit the electrical business, and in September 2024, we announced the closure of our advanced air mobility activities

Chief Executive’s review

Our delivery in 2024

In 2024, Rolls-Royce delivered another strong year. Operating profit of £2.5bn and free cash flow of £2.4bn is the highest in the history of Rolls-Royce, as was our Group operating margin of 13.8%. This delivery was driven by our transformation programme and the dedication of everyone at Rolls-Royce. I would like to thank all our colleagues for their continued hard work in support of our vision to become a high-performing, competitive, resilient and growing business.

Our progress to date shows that we are expanding the earnings and cash potential of Rolls-Royce. Alongside delivering significantly improved performance, we are creating a sustainably distinctive business in terms of safety, operational effectiveness and customer service, with advantaged technologies and products and a distinctive performance culture. This is the transformation programme we are driving – transforming Rolls-Royce to a place it has never been before and opening up further potential for future profitable growth.

Our financial performance has improved significantly over the last two years. This has been achieved despite a supply chain that remains challenging and understates the true impact of our transformation. Group operating profit has risen by almost four times from £652m in 2022 to £2.5bn in 2024. Our operating margin has increased from 5.1% to 13.8% in 2024. These impacts have been driven by our strategic initiatives. All three divisions have contributed to this performance.

At our Capital Markets Day (CMD) in 2023 we set out the performance delivery required to achieve our vision, measured by four strategic goals. These were; operating profit of between £2.5bn and £2.8bn; operating margin of between 13% and 15%; and free cash flow of between £2.8bn and £3.1bn. We called these our mid-term targets and set a goal of achieving them by 2027. Driven by the accelerated strategic progress made in all our divisions by the end of 2024, cumulative profit and cash performance achieved around 90% and around 80% of these mid-term targets, respectively.

In addition to a step change in profit and cash delivery, we made substantial progress on deleveraging our balance sheet and increasing our resilience. Our efficiency levels are becoming class-leading and this is fundamental to our ability to shape our own agenda, rather than our agenda being set by volatility in the external environment.

The guidance we published for 2025 marks another important milestone on our transformation journey. Our guided operating profit of £2.7bn-£2.9bn and free cash flow of £2.7bn-£2.9bn are within the mid-term target ranges set at our CMD, two years earlier than planned. It shows that we have materially increased the potential of the business and we therefore upgraded our mid-term targets, based on a 2028 timeframe, to operating profit of £3.6bn-£3.9bn and free cash flow of £4.2bn-£4.5bn. These upgraded mid-term targets are a milestone rather than a destination and we see strong growth, earnings expansion and cash flow potential well beyond this timeframe which I will address later in this report.

Our transformation

Our strategic progress is a result of ‘what’ we choose to do and equally importantly ‘how’ we are running the business. Our goal is to create a sustainably distinctive business that benefits all our stakeholders. We are doing this with pace and intensity, taking the business to a place in which it can do things tomorrow that are not possible today. This will enable Rolls-Royce to deliver on its full potential. Our transformation programme is at the heart of how we do this. It is a holistic programme that brings together our strategy, our purpose and our behaviours enabling us to deliver as One Rolls-Royce.

In the 2023 Annual Report, I covered how we created our strategy. We included over 300 of our colleagues in an inclusive and rigorous process which ensured alignment so that we could quickly enter the execution phase in early 2024 with our teams. We led this through our strategic initiatives, a set of detailed programmes owned throughout the business. This process ensures that every employee understands the role they play in delivering the Rolls-Royce strategy. It transforms strategy into an alignment, engagement and a performance management tool.

We complemented this strategic process in 2024 with our new purpose and behaviours. Our purpose, a force for progress, powering, protecting and connecting people everywhere, demonstrates the impact of our products to make a positive contribution to society and our enduring commitment to engineering, technology and innovation. Our new behaviours: put safety first; do the right thing; keep it simple; and make a difference are explained in detail on page 8. As we engaged with our teams through 2024 on the purpose and behaviours, one of the most powerful programmes to evolve was our change makers initiative. These individuals are self-nominated employees throughout the Group who help embed, train, showcase and sustain our purpose and behaviours in their business areas. We had over 1,200 change makers sign up and we look forward to their continued support in 2025.

As our behaviours show, safety is the first and most important priority for every one of us at Rolls-Royce. In 2024, our total reportable injuries rate continued to decline, reaching 0.29 per 100 employees, a decrease from 2023 (see page 16). This is a positive trend, but even one injury at work is one too many and our mindset is always to drive this to zero. We also provide mission critical products that people’s lives depend upon and we continuously strive to make our products even safer. Remaining vigilant and ensuring our culture gives everyone the confidence and tools to speak up about any product safety concern is at the heart of this. No journey to improve safety is ever complete and we must never be complacent. It will remain our first priority.

The combination of purpose, vision, a granular strategy, clear strategic initiatives and behaviours has created an aligned, energised and mobilised team. This is the foundation on which we are building a distinctive performance culture. We have made good progress on this in 2024 and it will be a key focus area for 2025. It is not only about delivering our commitments in 2025, but also changing the way we think and act about our performance. For example, the pace, rigour and intensity with which we operate day-to-day; having the right management information at the right time; how we respond with agility to challenges; and how we make timely interventions to make improvements where needed. This is how we intend to transform Rolls-Royce and deliver our vision of a high-performing, competitive, resilient and growing business.

Chief Executive's review *continued*

Now let's turn to our progress in delivering on our transformation programme.

Progress on our strategic framework

OUR STRATEGIC FRAMEWORK

Portfolio choices and partnerships	Strategic initiatives	Efficiency and simplification	Lower carbon and digitally enabled businesses
The markets we have chosen to operate in, businesses we want to invest in and the partnerships that will help create truly winning positions.	How we will create a competitive business, expand our earnings potential and sustainably improve our performance.	The importance of a Group-wide focus to drive synergies that will enable us to be more competitive and simplify the way we operate.	Our commitment to the energy transition and capturing the benefits of becoming digitally enabled.

Portfolio choices and partnerships

We have increased net investments by approximately £500m over the last two years, focusing on the most profitable projects across the Group. In Civil Aerospace, for example, we successfully tested the UltraFan in 2023. We are now focused on further improving its design and developing demonstrators for both narrow and widebody aircraft. We have invested to grow capacity in Derby, Dahlewitz, and Singapore. This will allow us to deliver more new engines and, by the end of this year, perform an additional 50% more shop visits compared to 2023 to support rising aftermarket volumes. We also received the first Trent 1000 to our MRO facility in Dahlewitz. We will continue to make investments in this important area.

In Power Systems, we successfully completed testing of our next generation engine. This differentiated technology will allow us to enter new market segments and will enter service in 2028. This is the first investment in a new engine architecture in Power Systems for over 20 years.

In 2024, Rolls-Royce SMR was named as the preferred supplier for the construction of small modular reactors by the Government of the Czech Republic and the Czech State utility, ČEZ Group. This is strengthened by a strategic investment by ČEZ in Rolls-Royce SMR, announced in the last quarter of 2024, and an exclusive commitment to deploy up to 3GW of electricity in the Czech Republic.

We continued to make progress on our divestment programme, making clear choices for where we will and will not invest. We announced the disposals of non-core activities of our portfolio including our direct air capture assets, the naval propulsors & handling business in our Defence division, and the lower power range engines business in Power Systems. We also made the decision to exit our advanced air mobility activities, alongside our electrolyser and fuel cell activities.

Strategic initiatives

In Civil Aerospace, one of our most important strategic initiatives is time on wing. At the CMD, we set out our target of delivering a 40% increase in time on wing across our modern engines by 2027. By the end of 2025, we will have already delivered a significant portion of this. We now believe we can achieve double this time on wing improvement, further reducing shop visits over the mid-term.

On Trent 1000, we are in the final stages of certification of our new HPT blade that will more than double the time on wing of this engine. Flight testing was successfully completed and we have switched over original equipment (OE) production to the new blade. We expect certification by mid 2025. This will provide a near-term benefit as we introduce the new blade onto all engines across the fleet over the next two years. We are also on track to complete further improvements to the Trent 1000 and Trent 7000 by the end of this year, adding a further 30% to time on wing.

On the Trent XWB-97, we are doubling the life of the engine in non-benign environments and increasing it by 50% in benign environments. The first phase of improvements, new coatings for the turbine blade and seal segment, has been certified and is performing well. The next phase of improvements is underway and on track to be delivered by the end of 2027.

At the end of 2024, we achieved certification for an enhancement package for the Trent XWB-84. This builds on the engine's proven track record as the world's most efficient large aero engine in service. This unlocks a 1% improvement in fuel efficiency while further advancing its industry-leading reliability and durability. On the Trent XWB-84, a compressor blade modification to the engine combined with improved analysis of millions of hours of operating data will allow us to systematically raise the cyclic limit of critical parts.

These advantaged products are enabling continued sales momentum. We secured an order for 60 Trent XWBs from IndiGo, the first ever agreement for Rolls-Royce with the Indian airline. This was complemented by major orders from EVA Air, Starlux and Delta Air Lines. Orders for our newest engine, the Trent 7000, from Starlux, Vietjet Air, Virgin Atlantic, Cathay Pacific and Flynas, made 2024 the best year for the Trent 7000 since the launch of the A330neo aircraft. On the Trent 1000, we were very pleased to record a repeat order from EL AL Airlines.

Business aviation passed significant milestones on its new product roadmap during the year. Deliveries of the Pearl 700, for the Gulfstream G700 business jet, ramped up following the aircraft's entry into service in April. In October, the Pearl 10X successfully completed its flying test bed campaign. This is an important step in the Falcon 10X flight test programme ahead of the aircraft's entry into service in 2027.

Our Defence division had notable contract wins in 2024 and passed several important development milestones. In the first half of the year, we were selected to form part of the team, led by prime contractor SNC, to modernise and deliver a replacement for the United States Air Force's current fleet of E-4B Nightwatch aircraft as part of the Survivable Airborne Operations Centre contract. This order will have a near-term benefit to earnings. In August, the next phase of testing began on the F130 engine in Indianapolis, US, another step towards delivering the United States Air Force B-52J Stratofortress. Work towards the US Army's Future Long Range Assault Aircraft (FLRAA) continued in 2024, with the programme entering the engineering and manufacturing development phase of the process, the final phase before production commences. Production for all of these programmes will begin towards the end of this decade.

Chief Executive's review *continued*

Work is progressing on the design of the engine demonstrator for the sixth-generation fighter of the Global Combat Air Programme (GCAP) with our partners in Italy and Japan. Work on a combat air demonstrator as part of Team Tempest in the UK ramped up during the year ahead of test flights within two years utilising existing EJ200 engines. During the year, we signed a memorandum of understanding with ITP Aero to explore a partnership to design, develop, manufacture and support a 'wingman engine', a state-of-the-art solution for large remote carriers. This is a great example of One Rolls-Royce in action as the engine concept builds on the core demonstrator which lies at the heart of the Pearl business jet engine family.

In Power Systems, power generation's transformed business model allowed us to capture profitable growth in the data centre market. We have over 85,000 units installed globally providing over 10GW of back-up power for data centres and giving us a market share of around 20%. Data centre operators are increasingly looking for more sustainable solutions and during the year we received an order for our kinetic powerpacks for a facility in Colorado Springs, US, and helped Swedish operator EcoDataCenter switch the fuel for its mtu emergency power generators from fossil-derived diesel to sustainable hydrotreated vegetable oil. Our battery energy storage solutions are now in over 140 projects worldwide.

Our submarines business signed the biggest contract in its history with the UK Ministry of Defence in 2024. This eight-year agreement brings together all elements of research and technology, design, manufacture and in-service support of the nuclear reactors that power the Royal Navy's fleet of submarines.

Following the 2023 announcement of the AUKUS agreement between Australia, US and the UK, for which we provide nuclear reactor plants, we welcomed the announcement in 2024 that the Australian Government would be investing in its ongoing AUKUS preparations. This supplements the expansion funding already committed by the UK Government. Work is now underway to double the size of the Rolls-Royce submarines site in Raynesway, Derby, UK creating over 1,100 skilled roles. Our Nuclear Skills Academy in Derby is also helping to provide a strong pipeline of skilled recruits for Rolls-Royce and the wider supply chain.

Efficiency and simplification

Significantly improving our cost base means that our commercial improvements and therefore gross margin increases, flow directly to our bottom line. At our CMD, we set out a target of delivering £400m-£500m of efficiency and simplification benefits across the Group to make us more competitively advantaged, resilient and fit for the future. This target included annualised benefits of approximately £200m from our organisational design programme, reducing layers, removing duplication and driving synergies across the Group to enable simpler, more agile ways of working. To date, we have delivered efficiency and simplification benefits of more than £350m. By the end of 2025, we expect to deliver benefits of more than £500m, two years earlier than planned.

We have already delivered more than half of our CMD target to deliver £1bn of gross procurement savings over five years to 2027. This significantly helps offset the impact of inflation in a challenging supply chain environment. By the end of 2025, we expect to deliver more than £1bn of gross procurement savings.

We are implementing a new global business service strategy which will improve performance and increase efficiency, effectiveness, and experience. We have a new centre opening in Poland and we are expanding our centre in India. Additionally, we are also rolling out zero-based budgeting across the Group, following successful pilots in Civil Aerospace. These pilots demonstrated savings of 10%-15% in third party costs in identified areas.

Lower carbon and digitally enabled businesses

Our transformation gives us the strength to successfully develop and deliver the products that will support our customers through the energy transition across multiple markets. In Civil Aerospace, sustainable aviation fuels (SAF) present a near-term opportunity to decarbonise flight. Having successfully powered a commercial transatlantic flight in late 2023 on 100% SAF, we have continued to advocate for the take-up of sustainable fuels. In Defence, having supported the UK's Royal Air Force (RAF) in its testing of SAF blends in Typhoon refuelling missions, the RAF this year began using a blend of SAF with normal jet fuel on routine Typhoon operations for the first time.

The introduction of alternative fuels enables our products to be made compatible with the energy transition. Within Power Systems, 80% of our portfolio is now compatible with alternative and more sustainable fuels. We have delivered over 500 HVO-powered mtu generators to the data centre sector. At the start of 2024, we successfully tested our gas variant of the popular mtu Series 4000 engine with 100% hydrogen fuel. Our Battery Energy Storage System (BESS) business, which will become profitable in the near-term, is growing quickly: we expect to deliver BESS contracts with a total of 2,000 megawatts over the next two years.

Our unrivalled end-to-end experience in nuclear technology, is opening up new areas for us. Our SMR technology successfully completed step 2 of the Generic Design Assessment by the UK nuclear industry's independent regulators and we moved immediately into the third and final stage. That move confirmed Rolls-Royce SMR ahead of any other SMR provider in Europe. In addition to the win in the Czech Republic, Rolls-Royce SMR was also down selected by Great British Nuclear as one of the four remaining companies in the UK Government's SMR competition. A final selection is expected in spring 2025. Other countries have already embraced our capability with Vattenfall, the Swedish multinational power company, naming us as one of just two SMR companies competing to potentially deploy a fleet of SMRs in Sweden.

Looking ahead to the mid-term

Our strong delivery in 2023 and 2024 gives us confidence to upgrade our mid-term targets to 2028. These targets are underpinned by our actions, strategic initiatives and investments and they reflect the potential that we see from the business. We have upgraded operating profit to £3.6bn to £3.9bn, an improvement of £1.1bn to £1.4bn compared to 2024. Our mid-term operating margin target is 15% to 17% compared to an operating margin of 13.8% in 2024, as we transform Rolls-Royce into a truly competitive business. Our mid-term target for free cash flow is £4.2bn to £4.5bn which compares to the £2.4bn delivered in 2024.

Chief Executive's review *continued*

The performance improvement and the actions required to deliver these targets are owned across the Group and supported through rigorous performance management. They are also underpinned by the successful continuation of our transformation programme and our differentiated capability in attractive markets that are growing.

For example, we are delivering more than 50% of new widebody deliveries through this period, which means our installed fleet will grow at 7% to 9% compared to 3% to 5% for the market. We are driving a higher EFH rate through commercial optimisation, with a growing cash benefit from onerous contract renegotiations and as new contracts scale up.

In business aviation, our business improvements in both OE and aftermarket drive profitable growth faster than the market. We expect deliveries of large cabin business jets to grow by double digit percentages to the mid-term and significantly higher than the market. In power generation, we expect revenue growth of 15% to 17% per year compared to around 10% for the market. This is driven by our differentiated products and our disproportionate weighting to data centres.

Beyond the mid-term

In Civil Aerospace, we are uniquely positioned to capitalise on our advantaged positions in widebody and business aviation. The benefits of our OE and aftermarket contract renegotiations and commercial optimisation actions on new and renewing contracts are progressively scaling up, with the full benefits to come beyond the mid-term. The same is true for time on wing. We are spending £1bn on improving the time on wing of our modern engines by the end of 2027. Not only will this investment be concluded by that point, but the cash benefits of our time on wing improvements will also start to ramp up beyond the mid-term.

UltraFan, which is 10% more efficient than the Trent XWB-84 – already the most efficient engine on the market – is 100% SAF compatible. This positions us strongly for the growth opportunity ahead on next generation of aircraft, both widebody and narrowbody.

In business aviation, we are strongly positioned on the latest large cabin business jets, including the G700 and G800, and the Dassault Falcon 10X. This will allow us to outgrow the market beyond the mid-term and deliver strong profitable growth thanks to our commercial optimisation and cost efficiency actions.

In Defence, growth beyond the mid-term will be driven by the ramp-up of programmes that are currently in the development phase. On the B-52, we expect to deliver around 600 engines, with production starting in the late 2020s. FLRAA revenues will start to ramp-up in the late 2020s, and as a replacement for the Blackhawk helicopter looks set to be a very large programme with the potential for significant export sales in addition to the US Army. Production for GCAP, a next generation combat aircraft, will see production ramping up in the mid-2030s. Rolls-Royce looks forward to powering the US Navy's MQ-25, the first autonomous refueler in aviation history. This aircraft will use AE 3007N engines and expands our leadership in unmanned propulsion. In submarines, revenues from AUKUS will ramp up by around 50% from today to the late 2020s. All of these are significant programmes for which our investment today will yield significant profitable growth from beyond the mid-term.

In Power Systems, our differentiated products in power generation, governmental, marine and industrial end markets are all expected to grow beyond the mid-term. Power generation, for example, remains highly attractive with significant long-term growth potential in data centres. Having fixed the business model in power generation, we are now able to profitably capture this growth. Additional profitable growth will come from our next generation engine in Power Systems, offering significantly improved power-density and efficiency. This differentiated product will create commercial opportunities and new market segment access from 2028 onwards.

Our unique nuclear capability means that we are well placed to capture growing demand for both SMRs and micro reactors. We see a significant market opportunity for micro reactors, in defence, space and commercial end markets. This is a multi-decade business opportunity for which we already have the right technology.

This is an exciting time for Rolls-Royce. Our teams are energised and aligned. We have made substantial progress on our transformation and are delivering strategic progress ahead of plan. I would like to thank again the whole of the Rolls-Royce team for making this possible. They are passionate, dedicated and committed, which enables us to look forward to 2025 and beyond with confidence.

Tufan Erginbilgic

Chief Executive

Our purpose, vision and behaviours

We launched our new purpose and behaviours in September 2024. We are proud to be a business that has truly helped to shape the modern world and our ambition is to continue in this role for the long term. Our new purpose statement encapsulates that commitment to the future and reflects why we exist as a business.

OUR PURPOSE

A force for progress; powering, protecting and connecting people everywhere

OUR VISION

Transforming Rolls-Royce into a high-performing, competitive, resilient and growing business

OUR STRATEGY

A strategic framework to build a sustainably distinctive and leading business

1 Portfolio choices and partnerships

2 Strategic initiatives

3 Efficiency and simplification

4 Lower carbon and digitally enabled businesses

OUR BEHAVIOURS

Put safety first
Prioritising the safety of our people and products and supporting each other to speak up

Do the right thing
Supporting a culture of caring and belonging where we listen first, embrace feedback and act with integrity

Keep it simple
Working together to share and execute ideas and staying adaptable to new ideas and solutions

Make a difference
Thinking about the business impact of our choices and the business outcomes of our decisions and challenging ourselves to deliver excellence and efficiency every day on the things that matter

For more information, see the Chief Executive’s review on pages 4 to 7.

For more information, see people and culture on pages 46 to 50 of the RRH Annual Report 2024.

Strategy

In 2024, significant progress was made by delivering on a clear strategy. Execution towards building a high-performing, competitive, resilient and growing business is underpinned by our transformation and a differentiated performance culture.

Rolls-Royce has been at the forefront of innovation for over a century. We set the standard for engineering excellence, providing mission-critical products and services to customers around the globe.

We have built a world-class product portfolio and deep customer relationships in attractive markets. Our focus now is to translate our technical and market success into strong financial results. This is reflected in our upgraded mid-term targets (see page 19).

The strong progress made in 2024 gives us the confidence in the delivery of our strategy. We are accelerating financial delivery and are moving at pace to achieve our mid-term targets, a key milestone towards unlocking our growth potential.

The Rolls-Royce proposition

1. Become a high-performing, competitive and resilient business.
2. Grow sustainable free cash flow.
3. Build a strong balance sheet and grow shareholder returns.

Delivering the proposition is making us a stronger partner, to the benefit of all our stakeholders, as they face future challenges and opportunities. We are unlocking our full potential by turning engineering excellence into strong financial performance.

To implement our strategy, we are being disciplined, agile and systematic. We will continue to have a tight focus on priorities, improve commercial discipline and seek efficiency in every step, whilst never compromising on integrity or safety. We have put the business on a stronger financial footing with sustainable improvements in working capital, higher operating margins and improved operational performance.

Improving profitability will give us more options to grow the business and enhance shareholder returns. This performance shift is also crucial to creating more opportunities for our people to be part of an energising, rewarding and world-leading company.

Strategy *continued*

OUR STRATEGIC FRAMEWORK: DELIVERING SUSTAINABLE GROWTH THROUGH TRANSFORMATION

1. Portfolio choices and partnerships	We have made choices about the markets in which to operate, where to invest and the partnerships that will help create winning positions, based on clear criteria. We only invest where the market is attractive and growing, where we can build an advantaged position, differentiated through strong customer relationships and competitive technology, and where there are high barriers to entry. This allows us to allocate resources more effectively and drive profitable growth. In Civil Aerospace, we successfully tested our UltraFan demonstrator and continue development to position us as a strong partner for the next generation of narrowbody aircraft. In SMR, we have reached an agreement with the ČEZ Group to deploy up to 3GW of capacity in the Czech Republic and work together to develop projects across Europe. We agreed to sell our US-based naval propulsors & handling business to Fairbanks Morse Defense; completed the sale of Power Systems' lower power range engines business to Deutz; and completed the sale of our direct air capture assets. We also took the decision to close our advanced air mobility activities.	B C D E F G H I K M 1 3 4 5 6 7 8 9 10 11
2. Strategic initiatives	Enhancing our competitiveness, expanding our earnings potential and sustainably improving our performance relies on the successful implementation of our strategic initiatives. The initiatives are owned by our teams and the process we have put in place ensures that every employee knows their role in delivering against the targets, creating complete alignment with the Rolls-Royce strategy. We are making good progress against our strategic initiatives. Delivery against these is helping to drive change across the Group, increasing value through top- and bottom-line actions. In Civil Aerospace, we have made significant technical progress in improving time on wing, strengthening our position in large engine aircraft. We further solidified our leadership in business aviation with the G700 entry into service and first flight of the Pearl 10X for our new customer Dassault. In Defence, we made progress on our strategy to grow our combat business, as well as commencing work to double the size of the Rolls-Royce Submarines site in Raynesway, Derby, UK. In Power Systems, actions on pricing and cost control have enhanced margins, allowing for profitable growth. We are particularly well-positioned to benefit from the rapidly growing data centre and governmental markets.	A B C D E F G H I K L M 1 3 4 5 6 7 8 9 10 11
3. Efficiency and simplification	Our Group-wide focus to drive synergies is making us more competitive by delivering significant and recurring operating cost reductions. Key levers include a more efficient and simplified operating model, a refreshed organisational design, changed ways of working, improved investment discipline, as well as more focused management of third-party costs. We now expect to achieve cumulative savings of over £500m in 2025. By the end of 2024, we had delivered more than £350m of cumulative benefits, well on track to deliver our target. Clear priorities on capital allocation, driven through a rigorous centralised process, have allowed us to be more focused and enabled investment in key initiatives. We have introduced a new purpose and behaviours, the foundations on which we are building a performance management culture. This is complemented by our new organisational design, which came into effect in the middle of 2024, creating an organisation that is leaner, more focused and with fewer layers.	A B C D E F G H I J K L M 1 2 3 4 5 6 7 8 9 10 11
4. Lower carbon and digitally enabled businesses	We are committed to reaching net zero by the end of 2050, with an interim target of reducing Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline. We support our customers in achieving their ambitions by improving the efficiency of our products, which serve some of the hardest to decarbonise sectors. Digital technology will play an increasingly important role throughout our value chain. We already use data from products in service to create value for ourselves and for our customers. We focus on four areas: enhancing the customer experience; accelerating product design; improving manufacturing; and empowering our people. Through our UltraFan demonstrator, we are advancing our technologies to improve fuel efficiency. In Defence, having supported the RAF in its testing of SAF blends in Typhoon refuelling missions, the RAF this year began using a blend of SAF with normal jet fuel on routine Typhoon operations for the first time. We have successfully tested our gas variant of the popular *mtu* Series 4000 engine with 100% hydrogen fuel; and by the end of the year we had been awarded hydrogen-readiness certification by international technical inspection specialists TÜV Süd for our current *mtu* Series 4000 gas engines. The Rolls-Royce SMR design also entered the final stage of the regulatory licencing process, having completed step 2 in August 2024, which we believe gives us a significant advantage to our competitors.	B C D E F G H I J K L M 2 3 4 5 6 7 8 10 11

Link to KPIs

- A Order backlog
- B Underlying revenue
- C Underlying operating profit/(loss)
- D Underlying operating margin
- E Free cash flow
- F TCC/GM
- G Return on capital
- H Gross R&D expenditure
- I Gross capital expenditure
- J Safety index
- K Total reportable injuries rate
- L Employee engagement
- M Sustainability

Link to risk

- 1 Safety
- 2 Compliance
- 3 Strategy
- 4 Execution
- 5 Business interruption
- 6 Energy transition
- 7 Information & data
- 8 Market & financial shock
- 9 Political
- 10 Talent & capability
- 11 Technology

External environment

Geopolitical and policy uncertainty

Geopolitical dynamics such as intensifying US-China competition and rising protectionism pose challenges and may open up the requirement for strategic reassessment. Potentially impactful policies, such as tariffs deployment amongst key trade partners, could lead to increased costs and consequentially realign the global supply chain. Regional conflicts, particularly in the Middle East and Europe, add further complexity to the energy and commodity backdrop through uncertainty and risk of escalation. Evolving defence commitments, notably within NATO, are translating into increased demand for a variety of platforms, creating growth opportunities.

Rolls-Royce response

We are proactively anticipating issues, mitigating risks and advocating potential impacts in key sectors. Market exposures are being monitored, and we are adapting supply chain strategies to ensure resilience amid potential protectionist measures and evolving trade dynamics. Rolls-Royce is a global company with a strong US footprint and we are conducting additional feasibility assessments regarding increasing utilisation of our current US footprint, such as in Aiken and Indianapolis. We believe that we are evolving towards a multipolar world, which shapes our business strategy and capital allocation.

Economic outlook

World GDP is projected to grow steadily over the next three years and, encouragingly, inflationary pressures are easing in key markets, with consumer price inflation showing a consistent downward trend since 2022. However, the pace of central bank interest rate cuts may be slower than market expectations, reflecting cautious monetary policy adjustments amid evolving global dynamics. There is sustained capital spending from multinationals and governments to establish hyper-scaling data centres leading to strong demand for back-up power. Consumer behaviour has shifted markedly toward experience-driven spending, led by high-income households, which remain less affected by inflationary spikes. Large international air traffic markets, such as China, are on a gradual recovery path and are expected to eventually regain their pre-pandemic growth contribution. Strong corporate earnings and an increased number of high-net-worth individuals are leading to strong demand in business aviation and the yacht market.

Rolls-Royce response

We are well placed to benefit from these long-term macro trends and are strategically aligning our capabilities to ensure we capture the opportunities presented by these shifting economic dynamics. Our focus is on expanding our offering to segments that demonstrate robust growth potential, such as commercial aviation, business aviation and premium maritime segments, such as sport fishing and yachts. Furthermore, the surging demand for reliable power solutions, especially to support the increasing computing power requirements, means we are well placed to serve the growing data centre market both today with our back-up power solutions and in the future through nuclear solutions like small modular reactors and advanced modular reactors.

Supply chain challenge

Global supply chains are increasingly shaped by geopolitical risks, natural disasters and cyber security concerns. Invisible costs in supply chains are rising, complicating business operations, such as the disruptions to traffic in the Red Sea. Geopolitical economic relationships are redefining established trade flows, while new players, such as India and Mexico, are rising as critical nations in the supply chain realignment. The purchasing manager indices of surveys conducted through 2024 indicate stagnant growth in the manufacturing and services sectors in key economies, such as China, the UK and Germany. This does point to a fragile recovery but one which is poised to benefit from stimulus measures. Supply chain challenges are also influencing the aerospace market, affecting the industry's ability to reach pre-pandemic aircraft delivery levels.

Rolls-Royce response

We are continuously working in partnership with our suppliers, including supporting them with Rolls-Royce expertise, to identify supply chain improvements. We are investing in advanced digital tools to help enhance supply chain visibility and resilience. We constantly monitor global risks to our supply chain and use dual sourcing where appropriate, in addition to building new and existing supply chain capacity to reduce our exposure to potential issues. We are also developing our assembly, test and MRO capability and capacity for civil large engines. This enhances our ability to deliver value while reducing vulnerabilities, ensuring we remain competitive in an evolving trade environment. We maintain steadfast commitment to our core priorities, particularly the production ramp-up of commercial engines.

Long-term trends

Two key megatrends continue to shape the environment we operate in:

- The global energy transition and decarbonisation efforts are accelerating demand for sustainable, efficient and technologically advanced power solutions. Fundamental trends, such as forecasted peak coal demand, demographic shifts and income disparities, represent both challenges and opportunities. Additionally, the energy transition and global decarbonisation efforts are setting the scene for long-term demand for power solutions.
- Digital transformation and AI has the potential to further transform how society operates. For example, data science and AI can increase productivity in research, development and manufacturing more quickly. For knowledge workers, AI can improve decision making and reduce both errors and costs.

Rolls-Royce response

The transition to a lower carbon economy presents opportunities across the portfolio which we continue to proactively review. Our focus remains on positioning ourselves favourably to benefit from key trends to enhance shareholder value whilst embracing long-term sustainability goals. We are constantly developing and invest in new technologies to ensure that we deliver the most efficient solution to our customers.

We are actively embedding AI and digital tools throughout our business. Examples include augmented decision making through real-time data driven insights and accelerated generation of component designs, optimised for production and operation. We are focusing on four key areas in our digital transformation: enhancing the customer experience; accelerating product design; improving manufacturing; and empowering our people. We are supporting the digital transformation today by supplying backup power for data centres as well as developing SMR to meet the increasing demand for clean electricity in the future.

Business Model

OUR COMMON DRIVERS FOR SUCCESS

Advantaged businesses with strong positions in attractive and growing markets

OUR CORE DIVISIONS

CIVIL AEROSPACE

OUR ROLE IN SOCIETY

Link to risk
1 3 4 6 9 11

Connect

We make it possible for people to move safely, efficiently and affordably across the globe.

We provide social and economic value through enabling unique experiences and in-person relationships; connecting people and cultures, businesses and families.

PASSENGERS WHO FLEW ON A ROLLS-ROYCE POWERED AIRCRAFT IN 2024

>350m

OUR BUSINESS MODEL DRIVERS

Link to risk
1 2 3 4 5 6
7 8 9 10 11

Differentiated services

We design, develop, manufacture and support high performance gas turbines for commercial aviation.

We pioneered the industry's adoption of long-term service agreements, a model that aligns our interests with those of our customers and rewards us for improving reliability, availability and reducing costs.

We provide value to airlines through data driven insights and we set the standard for customer service in business aviation.

CUSTOMERS ON LONG-TERM SERVICE AGREEMENTS

3 out of 5

OUR UNIQUENESS

Link to risk
1 3 5 6 7 10 11

Trusted partner

We partner with customers to develop a close understanding of their needs, co-creating solutions and capabilities. We have partnered for decades with aircraft manufacturers and airlines, including joint MRO facilities.

We partner with our supply chain to access capability and capacity, to maximise market cover, minimise collective investment and share risk and reward.

NEW GENERATION WIDEBODY AIRCRAFT POWERED BY ROLLS-ROYCE

4 out of 5

WHAT WE WILL ACHIEVE

A HIGH-PERFORMING, COMPETITIVE, RESILIENT AND GROWING BUSINESS

Link to risk

1 Safety
2 Compliance
3 Strategy
4 Execution
5 Business interruption
6 Energy transition
7 Information & data
8 Market & financial shock
9 Political
10 Talent & capability
11 Technology

Business Model *continued*

ONE ROLLS-ROYCE

Differentiated by deep customer relationships; market leading products and technology; engineering and commercial excellence

DEFENCE

Protect

We provide mission critical power and propulsion in the air, at sea and on land.

We enable operational independence and strategic and tactical advantage, helping nation states keep their citizens safe at home and protect their interests overseas and provide rapid emergency response in the case of humanitarian disaster.

YEARS OF PROVIDING GAS TURBINE POWER FOR DEFENCE CUSTOMERS

>80

Customer-funded growth

We design, develop, manufacture and support high performance aero and naval gas turbines and nuclear power and propulsion systems.

We turn technology into differentiated products that provide customers with unique capabilities and stay in-service for decades.

We create broader economic value for the Group by balancing the volatility seen in commercial markets and by enabling synergies across technology, infrastructure, supply chain and product families.

DIFFERENT APPLICATIONS OF THE AE ENGINE FAMILY ACROSS DEFENCE AND CIVIL MARKETS

>15

Global access, local presence

We support over 160 customers in over 100 countries.

We provide whole engine design, development and manufacturing capability and operational independence in the US, UK and Germany and we work closely with partners in Japan, Italy, Kingdom of Saudi Arabia, India, Republic of Korea, Australia, Spain, and France.

HOME NATIONS WITH WHOLE ENGINE CAPABILITY

3

POWER SYSTEMS

Power

We provide answers to the challenges posed by the rapidly growing societal demands for energy and mobility.

We deliver high performance, dependable and sustainable power, enabling economic growth and development.

EXPECTED ANNUAL GROWTH RATE ACROSS OUR POWER GENERATION MARKETS

>10%

One core solution addressing multiple markets

We design, develop, manufacture and support high-performance reciprocating engines and broader system solutions for use at sea and on land.

We invent once and use many times, developing products and product families that can be used in different applications across multiple markets, delivering proven solutions for our customers and maximising the returns on investment to us.

NUMBER OF S4000 ENGINES SOLD ACROSS DIVERSE MARKETS

60k

Structural advantage

We deliver unmatched power, reliability and efficiency in return for premium value.

We are recognised as the engine provider of choice where the mission matters: high integrity back-up power for critical infrastructure such as hospitals, airports and data centres; and high performance propulsion for yachts, military vehicles and naval vessels.

MARKET SHARE IN GOVERNMENTAL BUSINESS

>30%

DRIVEN BY COMMITTED EMPOWERED PEOPLE OPERATING IN A PERFORMANCE CULTURE

UNDERPINNED BY OUR PURPOSE AND BEHAVIOURS

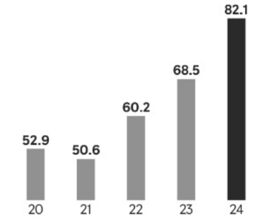
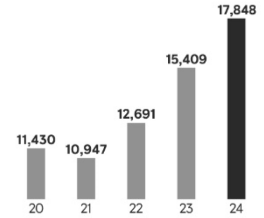
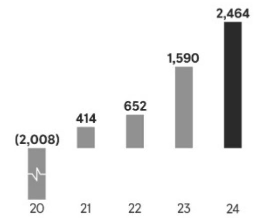
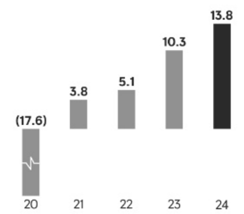
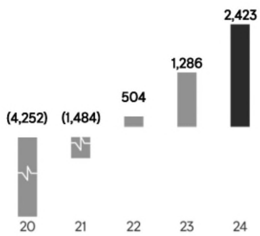
Read more about our strategy on pages 9 to 11.

Read more about our KPIs on pages 14 to 16.

Read more about our principal risks on pages 30 to 39.

Key Performance Indicators

Financial Performance Indicators [1]

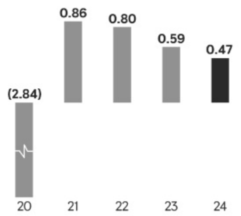
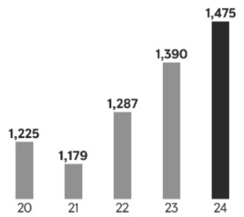
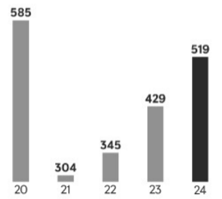
Order Backlog (£bn)	HOW WE DEFINE IT	WHY IT IS IMPORTANT	LINK TO REMUNERATION
	Total value of firm orders placed by customers for delivery of products and services where there is no right to cancel. This KPI is the same as the statutory measure for order backlog. See note 2 on page 75 for more information.	Order backlog provides visibility of future business activity.	Customer orders drive future revenue growth which, in turn, enables profit and cash flow growth. Profit and free cash flow performance are key financial metrics in the annual Incentive Plan.
Underlying Revenue (£m)			
	Revenue generated from operations at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. See note 2 on page 74 for more information.	Underlying revenue provides a measure of business growth and activity.	Underlying revenue growth enables profit and cash flow growth, both of which are key financial metrics in the annual Incentive Plan.
Underlying operating profit/(loss) (£m)			
	Operating profit generated from operations at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. It excludes M&A, exceptional items and certain other items outside of normal operating activities. See note 2 on page 72 for more information.	Underlying operating profit indicates how the effect of growing revenue and control of our costs delivers value for our shareholders.	Profit is a key financial performance measure for our annual Incentive Plan.
Underlying operating margin (%)			
	Underlying operating profit (as defined above) as a percentage of underlying revenue (as defined above). It indicates how much profit the business makes for every one pound sterling of revenue generated.	Underlying operating margin indicates how effective the business is at converting revenue to profit. A higher margin is an indicator of increased value for our shareholders, as it demonstrates a higher conversion of revenue to profit.	Profit is a key financial performance measure for our annual Incentive Plan and LTIP.
Free cash flow from continuing operations (£m)			
	Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid and to exclude amounts spent or received on business acquisitions or disposals, and exceptional restructuring payments. Cash flow from operating activities is our statutory equivalent. See note 27 on page 114.	Free cash flow is a key metric used to measure the performance of our business and how effectively we are creating value for our shareholders. It enables the business to fund growth, reduce debt and make shareholder payments.	Free cash flow is a key financial metric in the annual Incentive Plan and LTIP.

[1] 2023, 2022 and 2021 figures represent the results of continuing operations. 2020 figures have been restated, where relevant, to show ITP Aero as a discontinued operation in line with 2021 reporting

A reconciliation from the alternative performance measure to its statutory equivalent can be found on pages 161 to 164.

Key Performance Indicators *continued*

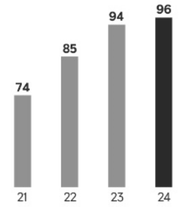
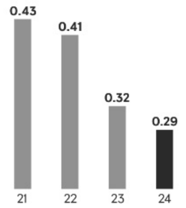
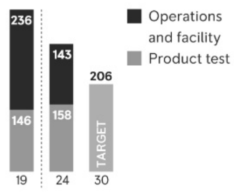
Financial Performance Indicators continued

TCC/GM (ratio)			
	TCC is defined as total underlying cash costs during the year (represented by underlying R&D and underlying C&A) as a proportion of underlying gross profit.	This measure provides an indicator of total cash costs relative to gross profit (the percentage of the Group's overheads that are covered by gross profit). A reduction in total cash costs relative to gross profit indicates how effective the business is at managing and/or reducing its costs.	Profit is a key financial performance measure for our annual Incentive Plan.
Gross R&D expenditure (£m)			
	In-year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year.	This measure demonstrates the balance between long-term strategic investments and delivering short-term shareholder returns.	Disciplined control and allocation of R&D expenditure optimises in-year profit and cash flow performance without compromising long-term growth through innovation. There is a balance of long-term metrics which reward strong financial performance and also relative returns to our shareholders through total shareholder return (TSR) in the LTIP.
Gross capital expenditure (£m)			
	In-year gross cash expenditure on capital excluding capital expenditure from discontinued operations.	This measure demonstrates the balance between long-term strategic investments and delivering short-term shareholder returns.	Disciplined control and allocation of capital expenditure optimises in-year profit and cash flow performance without compromising long-term capital requirements. There is a balance of long-term metrics which reward strong financial performance and also relative returns to our shareholders through total shareholder return (TSR) in the LTIP.

A reconciliation from the alternative performance measure to its statutory equivalent can be found on pages 161 to 164.

Key Performance Indicators *continued*

Non-financial Performance Indicators

Safety index (%)	**HOW WE DEFINE IT**	**WHY IT IS IMPORTANT**	**LINK TO REMUNERATION**
	The safety index is the leading measure of our safety culture, which was introduced across the Group in 2021. The index consists of a composite score of five leading indicators with each indicator measuring a key element of our safety culture. See pages 46 to 47 in the RRH Annual Report 2024 for more information.	The measure is strongly aligned to our strategy of safety being the number one priority with an emphasis on proactive measures.	This metric accounts for 2.5% of the annual Incentive Plan.
Total reportable injuries rate			
	This is a measure of total reportable injuries rate per 100 employees.	This is a standard measure of actual safety experience which allows us to benchmark our performance against external peers and to measure progress against our ambition to zero harm.	This metric accounts for 2.5% of the annual Incentive Plan.
Employee engagement (%) [3]			
	We measured engagement using the Gallup Q12 survey until 2023. During 2024 we transitioned to a new employee survey, Our Voices, powered by Qualtrics, that provides insights on engagement, inclusion and employee experience relative to our targeted behaviours. As this is the first year for Our Voices, we have benchmarked ourselves against the global manufacturing index, the mean average being 75 and the 75th percentile being 81 for 2024.	Our people are crucial to delivering our strategy. The Our Voices survey is now the cornerstone of our listening strategy, providing insights into employee engagement, culture and alignment with our strategic objectives. This is an objective measure of how engaged our employees are with the business and the leadership.	This metric accounts for 5% of the annual Incentive Plan.
Sustainability			
	Total Scope 1 + 2 greenhouse gas emissions from facilities, operations and testing, measured in kilotonnes of carbon dioxide equivalent ($ktCO_2e$). During 2024, we completed the first phase of a review of our sustainability strategy and have committed to reduce these emissions by 46% by the end of 2030, against a 2019 baseline.	The Group is committed to achieving net zero by 2050 and we support our customers to do the same. Playing our part in the energy transition means reducing energy consumption and decarbonising operations and product testing. This will help ensure our facilities and internal supply chains remain resilient in a changing external environment.	This metric will account for 10% of the LTIP for awards granted from 2025, with performance measured against three-year cumulative targets.

[3] External assurance over the employee engagement score is provided by Bureau Veritas

For more information on our strategic framework, see page 9.

Financial review

Our transformation into a high-performing, competitive, resilient and growing business continues with pace and intensity and everyone in Rolls-Royce should be proud of all that we have achieved. None of this would have been possible without the hard work and dedication of our people.

Building on the achievements of 2023, 2024 has been another year of strong strategic and financial delivery. Significant progress was made across each of our key financial metrics. This was underpinned by our transformation programme. We remained clear on our priorities, executed with discipline and agility, and drove for simplification and efficiency. Results demonstrate that our strategy is working. We are not complacent. There is more we want and need to do, and there is more to come.

At our Capital Markets Day in 2023, four key priorities were set out as part of our transformation journey. We have made good progress across each of these.

1. Integrated performance management

During the year, we made significant changes to our processes and embedded a stronger culture of integrated financial performance management across the Group.

Five-year plans are now linked to strategic initiatives which are now linked to annual budgets which in turn are linked to in-year performance management. We rigorously track performance and make interventions proactively. Targets are underpinned and owned across the whole organisation. We drive for everyone to understand the role they play in achieving in-year and strategic performance delivery.

These improvements have been enabled by better tools and processes with, for example, standardised management information that more timely and accurately tracks our performance against key financial and strategic metrics.

2. Commercial and cost optimisation

We have embraced a more cost-conscious culture and brought sharper commercial acumen into our ways of working.

New ways of working, reporting tools and processes have been introduced to build operational robustness and help support our people at multiple levels of the organisation. Our new strategy for our Group Business Services, our internal shared services function, and the roll out of zero-based budgeting across the Group in 2024, are prime examples of this.

Our efficiency and simplification programme delivered £350m of savings by the end of 2024. We now expect to deliver benefits of over £500m in 2025, above our CMD target of £0.4bn-£0.5bn. This includes the benefits of our new organisational design, which came into effect in June. The new design is creating a leaner, more focused organisation with fewer layers. All of which supported our total cash costs to gross margin, or TCC/GM ratio, now a best in class ratio.

3. Working capital optimisation

Working capital has continued to be a key focus for Rolls-Royce in 2024, as we navigated a challenging supply chain environment across all our divisions and looked to build resilience and strengthen our balance sheet.

We have worked hard to ensure that we have the right parts available in the right place and at the right time to mitigate these industry-wide supply chain challenges. Since the end of 2022, we have improved inventory days by more than 45 days while also ensuring our end-to-end processes operate more efficiently.

We have also focused on receivables and payables performance. Payment terms have been simplified and end-to-end process fragmentation is being addressed. We have introduced a new dashboard that tracks overdue debts, leading to more timely and accurate invoicing. As a result of these initiatives, overdue debt has fallen by more than 40% since the end of 2022. All these activities have supported our strong free cash flow delivery and improved resilience.

4. Capital framework

We ended 2024 with a net cash position and reduced gross leverage through the repayment of a €550m bond. Over the past two years we have cancelled £3bn of undrawn facilities. Our efforts have been acknowledged by all three ratings agencies, Fitch Ratings, Moody's and S&P, who now hold us at an investment grade rating, with a positive outlook.

As a key priority of our capital framework, we also continued to make strategic, disciplined investments in 2024, focusing on those that drive the greatest strategic and shareholder value, while always prioritising and never compromising on safety. They included, for example, the £1bn time on wing multi-year investment, investing to create additional capacity in maintenance, repair and overhaul (MRO) for major shop visits, and the development of a new reciprocating engine in Power Systems.

We are still in the early stages of our transformation journey. There is more we need and want to do. These four priorities will remain in 2025 as we continue to build a high-performing, competitive, resilient and growing business.

2024 financial performance

2024 has been another year of strong strategic and financial delivery, building on our 2023 performance. Across these two years we have driven significantly improved performance: underlying operating profit has increased by £1.8bn to £2.5bn, operating margin by 8.7pts to 13.8% and free cash flow by £1.9bn to £2.4bn.

— Significantly growing operating margins: Underlying operating profit rose from £1.6bn in 2023 to £2.5bn in 2024, a 57% increase compared to the prior year, driven by our strategic initiatives including commercial optimisation and cost efficiency benefits across the Group. This was achieved despite ongoing supply chain challenges. Civil Aerospace's operating margin rose to 16.6% (2023: 11.6%), driven by higher widebody aftermarket profit, stronger performance in business aviation and net contractual margin improvements. Defence delivered an operating margin of 14.2% (2023: 13.8%), with higher operating profit driven by stronger aftermarket performance alongside submarines growth. Power Systems delivered an operating margin of 13.1% (2023: 10.4%), primarily driven by stronger performance in power generation, supported by our business interventions. Delivery across all divisions has been supported by our cost efficiency actions.

Financial review *continued*

— Growing and sustainable cash flows: Strong free cash flow of £2.4bn (2023: £1.3bn) was achieved despite a challenging supply chain environment. This was driven by strong operating profit and continued net long-term service agreement (LTSA) balance growth, alongside a working capital release and higher net investments in the year. Civil Aerospace LTSA balance growth net of risk and revenue sharing arrangements (RRSAs) of £0.7bn (2023: £1.1bn) was supported by higher large engine flying hours (EFH) at 103% of 2019 levels (2023: 88%) and an improved EFH rate, partly offset by higher shop visits. Working capital was an inflow of £280m, compared to an outflow of £356m in the prior year. Since 2022, we have increased our net investments by £0.5bn and our working capital programme has helped to drive more than a 45 day improvement in inventory days and a 14 day improvement in days sales outstanding with more than a 40% decrease in overdue debt.

— Strengthening our balance sheet and building resilience: Net cash stood at £475m at the end of 2024. This compares to a £2.0bn net debt position at the end of 2023. Gross debt was reduced by repaying a €550 million bond, and the remaining £1bn UK Export Finance (UKEF) supported undrawn loan facility was cancelled, both enabled by our growing and more resilient cash delivery. Liquidity remained robust at £8.1bn on 31 December 2024 (2023: £7.2bn). Our efforts to strengthen the balance sheet were recognised by all three credit ratings agencies, who rate us at investment grade with a positive outlook. In addition, the operating resilience of the Group has been improved. Total underlying cash costs as a proportion of underlying gross margin (TCC/GM) at year end was a best in class ratio of 0.47x (2023: 0.59x). We are creating a more robust and less volatile free cash flow delivery that is more resilient to the external environment.

2025 outlook

Our guidance for underlying operating profit and free cash flow for the full year 2025 demonstrates continued strong strategic progress. Our 2025 guidance sees us delivering the Capital Markets Day targets for 2027 two years earlier than planned. Our forecast for 2025 underlying operating profit is £2.7bn-£2.9bn and free cash flow between £2.7bn-£2.9bn.

Upgraded mid-term targets

Our strong delivery in 2023 and 2024 gives us confidence to upgrade our mid-term targets to 2028. Underlying operating profit is expected to increase from £2.5bn in 2024 to £3.6bn-£3.9bn in the mid-term and underlying operating margin to increase from 13.8% to 15%-17%. These targets are significantly underpinned by our actions, investments and strategic initiatives, including the benefits of efficiency and simplification across the Group.

— Civil Aerospace: We target an 18%-20% margin in the mid-term (2024: 16.6%). Higher operating profit will be driven by improved large engine LTSA aftermarket performance, with higher LTSA margins reflecting the benefits of our six levers (extending time on wing, lowering shop visit costs, reducing product costs, keeping engines earning, implementing value-driven pricing, and continuing to drive rigour on contractual terms and conditions). We expect improved large engine OE profitability, both in installed and spare engines, alongside further improvements in business aviation performance. These benefits will be partly offset by a reduced contribution from contractual margin improvements, as we anticipate completing the majority of our remaining onerous contract renegotiations in 2025 and 2026.

— Defence: We target a 14%-16% margin in the mid-term (2024: 14.2%). Higher operating profit will be driven by stronger OE and aftermarket performance, reflecting commercial optimisation benefits supported by our actions taken over the past two years. These benefits will be partly offset by the impact of divestments.

— Power Systems: We target a 14%-16% margin in the mid-term (2024: 13.1%). Higher operating profit will be driven principally by power generation, as we continue to capture profitable growth in the data centre market, alongside governmental, and BESS which we aim to be profitable in the near-term. We also expect continued growth in our marine and industrial businesses.

Free cash flow of £4.2bn-£4.5bn in the mid-term compares to £2.4bn in 2024. The improvement will be driven by higher operating profit alongside a continued benefit in Civil Aerospace net LTSA balance growth at the upper end of the £0.8bn to £1.2bn guided range. LTSA balance growth reflects growing large EFH to 130%-140% of 2019 levels, and our deliberate actions including driving a higher EFH rate, the benefits of our time on wing initiatives with total shop visits of 1,250-1,350 by the mid-term, alongside continued business aviation growth. Our mid-term targets assume a forecast achieved foreign exchange rate of $1.31/£ in 2028. Our profit growth will lead to a higher cash tax cost.

We continue to expect a progressive, but not necessarily linear, improvement year-on-year in underlying operating profit and free cash flow to 2028. The performance improvements that underpin these targets and the actions required to deliver them are owned across the Group and supported through rigorous performance management.

Helen McCabe

Chief Financial Officer

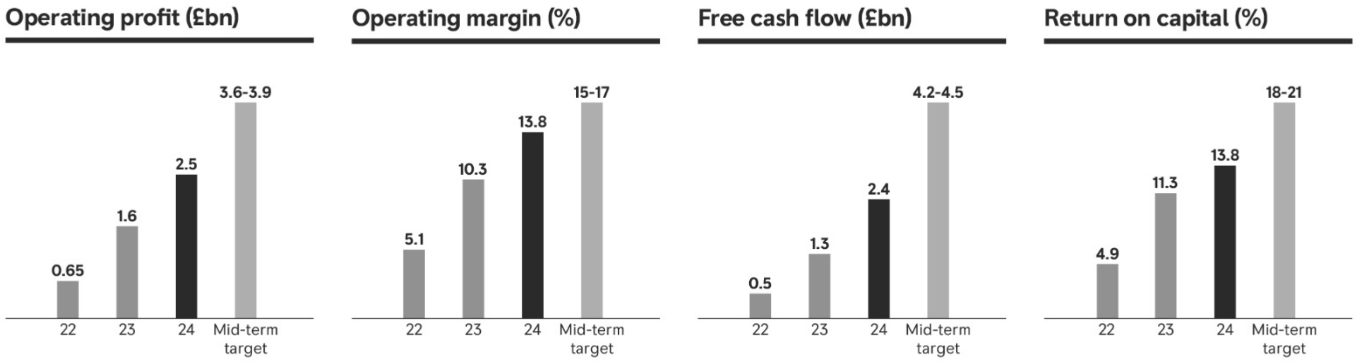
Financial review *continued*

Group Mid-Term Targets

Our mid-term targets shared at our Capital Markets Day (CMD) in 2023 represented a step change in ambition. We continue to build on our world-class engineering heritage to deliver a winning investment proposition.

We defined the mid-term as a 2027 timeframe and our guided 2025 operating profit and free cash flow are within the CMD mid-term target ranges two years earlier than planned. This shows that we have materially increased the potential of the business. We have, therefore, upgraded our mid-term targets, as shown below, based on a 2028 timeframe.

The upgraded mid-term targets are a milestone rather than a destination and we see strong growth, earnings expansion and cash flow potential beyond this timeframe. This is discussed in detail in the Chief Executive's review on pages 4 to 7.



Statutory and underlying Group financial performance

	2024					2023
£ million	Statutory	Impact of hedge book [1]	Impact of acquisition accounting	Impact of other non-underlying items	Underlying	Underlying
Revenue	**18,909**	**(1,061)**	–	–	**17,848**	15,409
Gross profit	**4,221**	**(186)**	**43**	**13**	**4,091**	3,231
Operating profit	**2,906**	**(191)**	**45**	**(296)**	**2,464**	1,590
Gain arising on disposal of businesses	**16**	–	–	**(16)**	–	–
Profit before financing and taxation	**2,922**	**(191)**	**45**	**(312)**	**2,464**	1,590
Net financing (costs)/income	**(688)**	**419**	–	**98**	**(171)**	(328)
Profit before taxation	**2,234**	**228**	**45**	**(214)**	**2,293**	1,262
Taxation [2]	**250**	**(57)**	**(11)**	**(464)**	**(282)**	(120)
Profit for the year	**2,484**	**171**	**34**	**(678)**	**2,011**	1,142

[1] *Reflecting the impact of measuring revenue and costs at the average exchange rate during the year and the valuation of assets and liabilities using the year end exchange rate rather than the rate achieved on settled foreign exchange contracts in the year or the rate expected to be achieved by the use of the hedge book*

[2] *Statutory taxation includes the recognition of a deferred tax asset on UK tax losses of £1,033m (of which £508m is included in underlying) and the de-recognition of the deferred tax asset relating to advance corporation tax of £(162)m (of which £(162)m is included in underlying), see note 5, page 82 for further details)*

All underlying income statement commentary is provided on an organic basis unless otherwise stated.

Revenue: Underlying revenue of £17.8bn was up 17%, with double-digit growth in all three core divisions, notably Civil Aerospace. Statutory revenue of £18.9bn was 15% higher compared with 2023. The difference between statutory and underlying revenue is driven by statutory revenue being measured at average prevailing exchange rates (2024: GBP:USD 1.28; 2023: GBP:USD 1.24) and underlying revenue being measured at the hedge book achieved rate during the year (2024 GBP:USD 1.48; 2023:GBP:USD 1.50).

Operating profit: Underlying operating profit of £2.5bn (13.8% margin) versus £1.6bn (10.3% margin) in the prior year. Underlying operating profit was higher in all three core divisions, driven by strategic initiatives including commercial optimisation and cost efficiency benefits across the Group. The largest year on year improvement in margins was in Civil Aerospace, driven by higher large engine aftermarket, net contractual improvements, and business aviation profits. Defence and Power Systems margins also rose materially. Statutory operating profit was £2.9bn, higher than the £2.5bn underlying operating profit largely due to a £545m impairment reversal related to a Civil Aerospace programme asset impairment that was recognised in 2020 and £191m negative impact from currency hedges in the underlying results. Charges of £294m were excluded from the underlying results as these related to non-underlying items comprising net transformation and restructuring charges of £234m; £45m relating to the amortisation of intangible assets arising on previous acquisitions; £14m pension past service credit; and £1m of other credits.

Profit before taxation: Underlying profit before taxation of £2.3bn included £(171)m net financing costs comprising £266m interest receivable, £(273)m interest payable and £(164)m of other financing charges and costs of undrawn facilities. Statutory profit before tax of £2.2bn included £(609)m net fair value losses on derivative contracts, £(93)m net interest payable, net foreign exchange gains of £190m and £(176)m other financing charges and costs of undrawn facilities.

Financial review *continued*

Taxation: Underlying tax charge of £(282)m (2023: £(120)m) reflects an overall tax charge on profits of Group companies as well as a tax charge of £(102)m on a de-grouping gain in the UK, a tax charge of £(162)m on de-recognition of the deferred tax asset relating to advance corporation tax and a tax credit of £508m relating to the recognition of some of the deferred tax asset on UK tax losses. These are reflected in the statutory tax credit of £250m (2023: tax charge £(23)m) which also includes an additional tax credit on the recognition of a £525m deferred tax asset relating to UK tax losses, a £10m tax credit related to the reduction in the UK tax rate on authorised pension surpluses, a tax credit of £57m related to unrealised foreign exchange derivatives and a £(60)m tax charge related to other non-underlying items.

Free cash flow

	2024					2023
£ million	**Cash flow**	**Impact of hedge book**	**Impact of acquisition accounting**	**Impact of other non-underlying items**	**Funds flow**	**Funds flow**
Operating profit	**2,906**	**(191)**	**45**	**(296)**	**2,464**	1,590
Depreciation, amortisation and impairment	**543**	–	**(45)**	**355**	**853**	978
Movement in provisions	**(56)**	**(56)**	–	**(55)**	**(167)**	(258)
Movement in Civil Aerospace LTSA balance	**1,193**	**(283)**	–	–	**910**	1,331
Movement in RRSA prepayments for LTSA parts	**(348)**	**129**	–	–	**(219)**	(252)
Movement in cost to obtain contracts	**(19)**	**1**	–	–	**(18)**	(40)
Settlement of excess derivatives	**(146)**	–	–	–	**(146)**	(389)
Interest received	**269**	–	–	–	**269**	159
Other operating cash flows [1]	**61**	**(5)**	–	**(13)**	**43**	(68)
Operating cash flow before working capital and income tax	**4,403**	**(405)**	–	**(9)**	**3,989**	3,051
Working capital [2]	**434**	**(271)**	–	**115**	**278**	(356)
Cash flows on other financial assets and liabilities held for operating purposes	**(676)**	**652**	–	–	**(24)**	8
Income tax	**(381)**	–	–	–	**(381)**	(172)
Cash from operating activities	**3,780**	**(24)**	–	**106**	**3,862**	2,531
Capital element of lease payments	**(299)**	**24**	–	–	**(275)**	(270)
Capital expenditure	**(876)**	–	–	–	**(876)**	(695)
Investments	**16**	–	–	–	**16**	69
Interest paid	**(298)**	–	–	–	**(298)**	(333)
Other	**100**	–	–	**(106)**	**(6)**	(17)
Free cash flow	**2,423**	–	–	–	**2,423**	1,285

1 *Other operating cash flows includes profit/(loss) on disposal, share of results and dividends received from joint ventures and associates, flows relating to our defined benefit post-retirement schemes, and share based payments*

2 *Working capital includes inventory, trade and other receivables and payables, and contract assets and liabilities (excluding Civil Aerospace LTSA balances, prepayment to RRSAs and costs to obtain contracts). Working capital was previously defined as inventory, trade and other receivables and payables, and contract assets and liabilities, excluding Civil Aerospace LTSA balances*

Free cash flow in the year was £2.4bn, an improvement of £1.1bn compared with the prior year driven by:

Underlying operating profit of £2.5bn, £874m higher than the prior year. This reflects improved underlying operating profit and margins in all three core divisions, notably Civil Aerospace.

Movement in provisions of £(167)m driven by movements across several provisions, including contract losses, warranty and guarantees, Trent 1000 and transformation and restructuring.

Movement in Civil Aerospace LTSA balance was £910m, lower than the prior year £1,331m, due to higher invoiced revenue driven by higher EFH, offset by higher traded revenue as a result of volume and mix of shop visits, and catch-ups of £(311)m in 2024 compared with £104m in prior year.

Movement in RRSA prepayments for LTSA parts of £(219)m (2023: £(252) m). The movement corresponds to the movement seen in the Civil Aerospace LTSA balance above. RRSA prepayments typically move in line with the Civil Aerospace LTSA balance as the RRSA prepayment represents amounts that we have paid to Risk and Revenue Share Partners for the parts that they will ultimately provide in support of our contracts.

Working capital inflow of £280m, compared to an outflow of £356m in the prior year. A net £603m inflow from receivables, payables and contract liabilities, reflecting the benefits from our working capital initiatives was partly offset by a £(323)m increase in inventory to meet growing demand.

Income tax of £(381)m, net cash tax payments for 2024 were higher than the prior year (£(172)m) due to timing of payments.

Capital expenditure of £(876)m, includes £(519)m of property, plant and equipment additions and £(367)m of intangibles additions. The combined additions were higher than the prior year as a result of investment across the Group to support strategic growth and safety.

Interest paid of £(298)m, including lease interest payments and fees on undrawn facilities, reduced by £35m primarily as a result of the termination of a £1bn UKEF-supported loan facility and £1bn term loan in 2023.

Financial review *continued*

Balance Sheet

£ million	2024	2023	Change
Intangible assets	**4,402**	4,009	393
Property, plant and equipment	**3,724**	3,728	(4)
Right-of-use assets	**761**	905	(144)
Joint ventures and associates	**592**	479	113
Civil Aerospace LTSA [1]	**(10,184)**	(9,080)	(1,104)
RRSA prepayments for LTSA parts [1]	**1,668**	1,320	348
Costs to obtain contracts [1]	**135**	116	19
Working capital [1]	**(1,393)**	(1,165)	(228)
Provisions	**(1,994)**	(2,029)	35
Net cash/(debt) [2]	**474**	(1,952)	2,426
Net financial assets and liabilities [2]	**(1,957)**	(2,037)	80
Net post-retirement scheme deficits	**(191)**	(253)	62
Taxation	**3,383**	2,605	778
Assets and liabilities held for sale [3]	**53**	54	(1)
Other net assets and liabilities	**6**	31	(25)
Net liabilities	**(521)**	**(3,269)**	**2,748**
Other items			
US$ hedge book (US$bn)	**19**	15	

[1] The total of these lines represent inventory, trade receivables and payables, contract assets and liabilities and other assets and liabilities in the statutory balance sheet
[2] Net cash includes £33m (2023: £23m) of the fair value of derivatives included in fair value hedges and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges
[3] Assets and liabilities held for sale relate to the sale of the naval propulsors & handling business. During the year, the Group disposed of part of Power Systems' lower power range engines business that was held for sale in 2023

Key drivers of balance sheet movements were:

Intangible assets: The £393m increase is largely the result of an impairment reversal related to a Civil Aerospace programme asset impairment that was recognised in 2020.

Civil Aerospace LTSA: The £(1.1)bn movement in the net liability balance was mainly driven by an increase in invoiced LTSA receipts exceeding revenue recognised in the year. This is especially prevalent on new contracts where shop visits are not immediately scheduled.

RRSA prepayments for LTSA parts: The £348m increase corresponds to the increase seen in the Civil Aerospace LTSA balance above. RRSA prepayments typically move in line with the Civil Aerospace LTSA balance as the RRSA prepayment represents amounts that we have paid to Risk and Revenue Share Partners for the parts that they will ultimately provide in support of our contracts.

Working capital: The £(1.7)bn net working capital position increased by £(229)m compared to the prior year. This £(229)m movement reflected higher sales volumes and supply chain disruption, along with changes in operational volumes and timing of supplier payments.

Net cash/(debt): Increased to £474m from £(2.0)bn driven by a free cash inflow of £2.4bn. Our liquidity position is strong with £8.1bn of liquidity including cash and cash equivalents of £5.6bn and undrawn facilities of £2.5bn. During the year, the Group repaid a €550m bond in line with its maturity date. Net cash included £(1.6)bn of lease liabilities (2023: £(1.7)bn).

Taxation: The net tax asset increased by £778m. The increase largely relates to the recognition of a deferred tax asset relating to UK tax losses of £1,033m, this is partially offset by a reduction in UK deferred tax assets of £(171)m due to the utilisation of UK tax losses and reliefs and the de-recognition of the deferred tax asset relating to UK advance corporation tax of £(162)m. Non-UK deferred tax assets have reduced by £(38)m. Deferred tax liabilities have decreased by £99m, mainly due to a reduction in the UK tax rate applied to authorised pension surpluses and net current tax liabilities have also decreased by £17m.

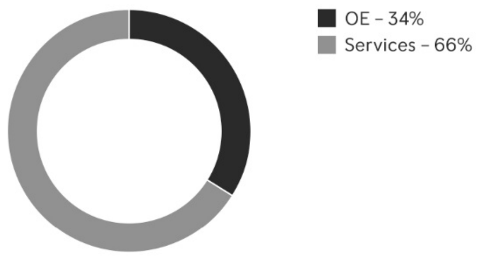
Business review

Our divisions

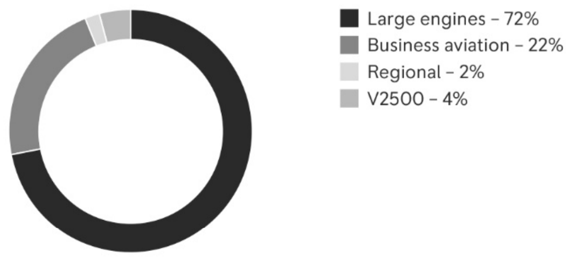
CIVIL AEROSPACE

Civil Aerospace is a major manufacturer of aero engines for the large commercial aircraft, regional jets and business aviation markets. The division uses its engineering expertise, in-depth knowledge and capabilities to provide through-life service solutions for its customers.

Underlying revenue mix



Underlying revenue mix by sector



UNDERLYING REVENUE	UNDERLYING OPERATING PROFIT	UNDERLYING OPERATING MARGIN	ORDER BACKLOG
£9,040m	**£1,505m**	**16.6%**	**£59.9bn**
2023: £7,348m	2023: £850m	2023: 11.6%	2023: £55.2bn

Market overview

Civil Aerospace has two main areas of focus – large engine production, based in Derby, UK and business aviation, headquartered in Dahlewitz, Germany. We have 13,800 in-service engines and power four out of five of the new generation widebody engine aircraft.

In 2024, we saw a strong intake of orders and as such our large engine order book increased by 13% to 1,843 engines at the end of the year. A total of 494 large engines were ordered with a gross book-to-bill of 1.8x. Significant new orders included IndiGo, Cathay Pacific, Korean Air and Delta, alongside an order for Trent-1000 engines from El Al. We also made 278 total large engine deliveries during 2024, an increase on the previous year (2023: 262). 57 of these deliveries were large spare engines (2023: 53), helping to support fleet health and resilience.

Our market share of the widebody installed base has grown from 32% at the end of 2022 to 36% at the end of 2024, supported by our market share of more than 50% of new engine deliveries over the past two years.

Business aviation engine deliveries also increased in 2024 to 251 (2023: 196). At present there are over 7,300 in-service Rolls-Royce business aviation engines across our Pearl, Tay, BR710, BR725 and AE 3007 families which provide power to a range of platforms, including Gulfstream and Bombardier aircraft. There are over 1,400 BR725 and Pearl engines in service which power the Gulfstream G650/G650ER/G700 and Bombardier Global 5500/6500. In October, the Pearl 10X successfully completed its flying test bed campaign, an important milestone in the Falcon 10X flight test programme ahead of its entry into service. In 2024, Gulfstream delivered the first G700 aircraft powered by our Pearl 700 engines.

Large engine flying hours rose by 17% compared to the prior year to 103% of 2019 levels, driven by continued strong demand for travel and our growing installed widebody engine fleet. Business aviation and regional engine flying hours were unchanged compared to 2023.

Our Trent XWB family of engines passed the 20 million flying hours mark in October, after entering into service in 2015. In a further milestone, the Trent 1000 also celebrated 20 million flying hours in December. Providing power for the Boeing 787 Dreamliner, this engine is also on track for further improvements to engine performance which will more than double the time on wing of this engine.

In 2024, we saw higher shop visit volumes, as expected. These are required to maintain and repair our growing installed engine fleet.

The supply chain environment remains challenging. Reflecting this, we have booked additional charges in 2024. However, we continue to work with focus and intensity across our supply chain to support growing OE and aftermarket volumes.

We have invested to grow capacity in Derby, UK, Dahlewitz, Germany, and Singapore. This will allow us to deliver more new engines, and by the end of this year, perform an additional 50% shop visits compared to 2023 to support rising aftermarket volumes.

Business review continued

Financial performance

£ million	2024	Organic change[1]	FX	2023	Change	Organic change[1]
Underlying revenue	9,040	1,753	(61)	7,348	1,692	24%
Underlying OE revenue	3,105	431	(29)	2,703	402	16%
Underlying services revenue	5,935	1,322	(32)	4,645	1,290	28%
Underlying gross profit	1,990	617	(21)	1,394	596	44%
Gross margin %	22.0%			19.0%		+3.1pt
Commercial and administrative costs	(396)	(44)	2	(354)	(42)	12%
Research and development costs	(252)	88	3	(343)	91	(26)%
Joint ventures and associates	163	11	(1)	153	10	7%
Underlying operating profit	1,505	672	(17)	850	655	79%
Underlying operating margin %	16.6%			11.6%		+5.1pt

	2024	2023	Change
Trading cash flow	2,030	626	1,404

Key operational metrics

	2024	2023	Change
Large engine deliveries	278	262	6%
Business aviation engine deliveries	251	196	28%
Total engine deliveries	529	458	16%
Large engine LTSA flying hours (million)	15.8	13.5	17%
Large engine LTSA major refurbs	430	368	17%
Large engine LTSA check & repair	473	471	0%
Total large engine LTSA shop visits	903	839	8%

1 Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2024. All underlying income statement commentary is provided on an organic basis unless otherwise stated

Underlying revenue of £9.0bn increased by 24%, driven by higher shop visit volumes and mix, OE engine deliveries and commercial optimisation. Underlying OE revenue grew by 16% in the year to £3.1bn and services revenue grew by 28% to £5.9bn. LTSA revenue catch-ups were £311m (2023: £(104)m).

Underlying operating profit was £1.5bn (16.6% margin) versus £850m in 2023 (11.6% margin). Higher underlying operating profit reflected improved large engine aftermarket performance. This was primarily driven by improved LTSA profit, higher shop visit volumes, and increased time and materials profit. In addition, business aviation performance improved with higher OE and aftermarket profit. Higher underlying operating profit across large engines and business aviation also reflected the benefits of net contractual margin improvements as well as cost efficiency benefits.

Our efforts to improve the commercial terms and reduce costs across our large engine and business aviation contracts supported total contractual margin improvements of £617m in the year. These benefits were partially offset by £382m of additional charges largely associated with the impact of prolonged supply chain challenges, which were booked across onerous provisions and contract catch-ups. As a result, net contractual margin improvements were £235m (2023: £(54)m), comprising contract catch-ups of £290m (2023: £(29)m) and net onerous provision charges of £(55)m (2023: £(25)m).

Trading cash flow of £2.0bn (2023: £626m) reflected strong operating profit, continued LTSA balance growth, and a working capital release, partly offset by higher net investments in the year. Civil Aerospace net LTSA balance growth net of RRSAs of £0.7bn in the year (2023: £1.1bn) was supported by higher large engine flying hours (EFH), and an improved EFH rate, with LTSA invoiced flying hour receipts of £5.5bn (2023: £4.6bn). This was partly offset by a higher number of shop visits, including a significant increase in Trent 1000 major refurbishments.

Operational and strategic progress

We continue to focus on six key levers to unlock value in Civil Aerospace: extend time on wing; lower shop visit costs; reduce product costs; keep engines earning for longer; implement value-based pricing; and drive contractual rigour. We have made excellent progress against these initiatives with commercial and cost disciplines also being applied to all areas of our business too.

Extending time on wing means our engines stay in service for longer periods between shop visits, reducing the lifetime maintenance cost. At our Capital Markets Day, we set out a mid-term target to improve the time on wing of our in-production engines by an average of 40%. Thanks to further initiatives, we now expect to improve this by an average of more than 80%. A significant proportion will be delivered by the end of 2025.

We believe we are well positioned to re-enter the narrowbody market by choosing a partnership approach for the next engine programme when the time is right. Our UltraFan technology is a vital step towards this. Where appropriate, we will retrofit UltraFan technologies into our existing Trent fleet to increase time on wing, reduce cost and further increase efficiency.

The transition to lower carbon energy and the reduction of emissions in our markets is of paramount importance. Ensuring the maximum efficiency of our current fleet is a vital first step, as many of these engines will remain in service for decades to come. All of our in-production civil aero engines have been proven to be 100% compatible with sustainable aviation fuels. This year we saw another step towards greater efficiency with the certification of our XWB-84 EP variant, which when it enters into service in 2025 will deliver a 1% fuel efficiency improvement, as well as improving its durability and reducing CO_2 emissions.

Business review *continued*

Outlook

We expect 2025 large EFH will grow to 110%-115% of 2019 levels and to 130%-140% by the mid-term. We target an 18%-20% margin in the mid-term (2024: 16.6%). Higher operating profit will be driven by improved large engine LTSA aftermarket performance, with higher LTSA margins reflecting the benefits of our six levers (extending time on wing, lowering shop visit costs, reducing product costs, keeping engines earning, implementing value-driven pricing, and continuing to drive rigour on contractual terms and conditions). We expect improved large engine OE profitability, both in installed and spare engines, alongside further improvements in business aviation performance. These benefits will be partly offset by a reduced contribution from contractual margin improvements, as we anticipate completing the majority of our remaining onerous contract renegotiations in 2025 and 2026.

Beyond the mid-term, we are strategically positioned to continue to outgrow the market in both widebody and business aviation due to our strong positions on leading platforms, with UltraFan uniquely placed for the next generation of narrowbody and widebody aircraft. Rising LTSA margins will be supported by the full benefit of our strategic initiatives, notably contract renegotiations, value-based pricing on new and renewing contracts, lower shop visit costs and our time on wing programme that will drive a lower number of shop visits. We also expect improving OE profitability, reflecting the full benefits of our commercial optimisation and efficiency actions, alongside a further strengthening in business aviation performance.

Business review *continued*

DEFENCE

Defence is a market leader in aero engines for military transport and patrol aircraft with strong positions in combat applications. It has significant scale in naval and also designs, supplies and supports the nuclear propulsion plant for all of the UK Royal Navy's nuclear submarines.

Underlying revenue mix

Underlying revenue mix by sector

UNDERLYING REVENUE

£4,522m

2023: £4,077m

UNDERLYING OPERATING PROFIT

£644m

2023: £562m

UNDERLYING OPERATING MARGIN

14.2%

2023: 13.8%

ORDER BACKLOG

£17.4bn

2023: £9.2bn

Market overview

Our Defence business supports five distinct end markets: transport, where we are the market leader; combat, where we have full engine capability; submarines, where we have unique nuclear propulsion capability; naval, where our high power density engines bring real advantage; and helicopters, where we have accumulated significant experience in military and civil programmes.

Demand across our Defence business remained very strong in 2024, with an order intake of £13.3bn in the year and a book-to-bill ratio of 2.9x, including an eight-year submarines contract worth c.£9bn with the UK Ministry of Defence. This order combines several current and upcoming contracts and underscores our unique nuclear capability. Our order backlog at the end of the year was £17.4bn, with an order cover of 90% for 2025.

In light of ongoing security concerns around the world, governments have increased their commitment to defence budgets. We have been selected as long-term partners in the development, manufacture and maintenance of defence power for critical military missions to deter threats, preserve life and maintain order.

We provide power for our defence customers. We are a trusted and key supplier and are chosen for our unrivalled engineering and technological capabilities as we push the boundaries of what is possible and provide our customers with cutting-edge solutions. Rolls-Royce does not provide or manufacture weapons for our customers.

Our Defence market remains resilient and our customers continue to invest in capability in our core markets. £45bn of new programmes will come online by 2050 within the transport and patrol market, creating substantial opportunities for us, and we are very well positioned to capture a significant portion of these emerging opportunities.

Financial performance

£ million	2024	Organic change[1]	FX	2023	Change	Organic change[1]
Underlying revenue	**4,522**	511	(66)	4,077	445	13%
Underlying OE revenue	**1,943**	201	(24)	1,766	177	11%
Underlying services revenue	**2,579**	310	(42)	2,311	268	13%
Underlying gross profit	**908**	116	(12)	804	104	14%
Gross margin %	**20.1%**			19.7%		+0.4pt
Commercial and administrative costs	**(212)**	(42)	3	(173)	(39)	24%
Research and development costs	**(55)**	17	–	(72)	17	(24)%
Joint ventures and associates	**3**	–	–	3	–	0%
Underlying operating profit	**644**	91	(9)	562	82	16%
Underlying operating margin %	**14.2%**			13.8%		+0.4pt

	2024	2023	Change
Trading cash flow	**591**	511	80

1 Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2024. All underlying income statement commentary is provided on an organic basis unless otherwise stated

Business review *continued*

Revenue increased by 13%[1] to £4.5bn (2023: £4.1bn). Growth was led by submarines which reported growth of 53%[1] while transport and combat were broadly flat, as the supply chain constrained OE volumes. Total OE revenues grew by 11% versus last year to £1.9bn driven by increased submarines volumes, including the ramp up of the AUKUS programme. Services revenues grew by 13% to £2.6bn[1] supported by a more favourable shop visit mix and improved pricing.

Operating profit grew by 16% to £644m (2023: £562m), with an operating margin of 14.2% (2023: 13.8%), despite a challenged supply chain environment which constrained OE deliveries. Profit growth was driven by stronger aftermarket performance, led by transport, reflecting our commercial optimisation efforts and a more favourable mix. Submarines growth was also strong. In addition, higher operating profit was supported by cost efficiency benefits.

Trading cash flow of £591m increased versus £511m last year, driven by higher underlying operating profit alongside the continued tight management of working capital.

Operational and strategic progress

We remain focused on the combat, transport and submarines sectors as areas where we are differentiated and strategically advantaged. We continue to improve our position through strong performance management, commercial optimisation and efficiency savings.

In 2024, we made strong progress on the B-52 Commercial Engine Replacement Program. We completed Rapid Twin Pod Testing to support the platform's unique nacelle configuration and then began sea-level testing for the F130 First Engine to Test (FETT). The programme also successfully completed the F130 Engine Critical Design Review on schedule. With the ramp-up of the B-52 programme, we expect to increase production of our combat portfolio to over 100 engines per year by the early 2030s.

We continue to make progress on our involvement in the Global Combat Air Programme (GCAP), working closely with our international partners to develop a next-generation combat aircraft that will provide critical power to our armed forces customers globally. The opening of our FutureWorks facility in Bristol is an example of how we remain at the forefront of revolutionising aerospace manufacturing and skills.

We were also selected as part of the team to partner with prime contractor SNC, that is supporting the Survivable Airborne Operations Center (SAOC) recapitalisation programme for the United States Air Force. The SAOC aircraft provides top military leaders with a highly survivable command, control and communications platform to direct US forces in the midst of a potential national emergency.

We were selected to partner with Northrop Grumman on the US Navy's E-130J. With four Indianapolis-built AE 2100 engines on each aircraft, Rolls-Royce will provide proven, dependable power to the US nuclear triad and play a key role in protecting US national security.

As referenced previously, we signed an eight-year contract with the UK Ministry of Defence, worth approximately £9bn, which brings together all elements of research and technology, design, manufacture and in-service support of the nuclear reactors that power the Royal Navy's fleet of submarines. This is the largest contract Rolls-Royce has ever signed with UK Ministry of Defence.

Additionally, 2024 saw us commence manufacturing parts for SSN-AUKUS boats, with long-lead components currently being worked on in our manufacturing facility. We successfully opened the 13,000m^2 warehousing facility, named Derwent Park, which sits behind our Raynesway site in Derby, UK. We also opened a satellite site in Glasgow, with an additional site in Cardiff nearing completion. Both sites will generate over 200 new jobs for the regions.

In transport, the Future Long Range Assault Aircraft (FLRAA) programme for the US Army entered the Engineering and Manufacturing Development (EMD) phase of the acquisition process in August. This is the final phase before production commences.

In relation to investment priorities, we take a focused view on where and how to invest and utilise customer funding for product development. We are aligned with the Group investment priorities framework, which ensures that capital is only allocated to the most strategic projects. We have also been clear about where we do not want to further invest. In September, we agreed to sell our naval propulsors & handling business to Fairbanks Morse Defense.

Our financial results demonstrate that we are making progress on cost management as we embrace the Group-wide transformation activities and strive for a sustainably reduced cost base in the mid-term and beyond.

The transition to net zero is a key priority for Defence and we support our customers in their efforts. We believe that decarbonisation via synthetic fuels, which can deliver a reduction in lifecycle carbon emissions compared to fossil fuels, is currently the best solution. Our micro-reactors can also play a big part in helping energy security and resilience as part of the energy transition.

Outlook

We target a 14%-16% margin in the mid-term (2024: 14.2%). Higher operating profit will be driven by stronger OE and aftermarket performance, reflecting commercial optimisation benefits supported by our actions taken over the past two years. These benefits will be partly offset by the impact of divestments.

Beyond the mid-term, growth will be driven by new platforms, which will ramp up from 2029 and remain in service for decades to come. These include AUKUS, B-52, Future Long-Range Assault Aircraft (FLRAA), Global Combat Air Programme (GCAP) and MQ-25. Furthermore, we anticipate extended demand for our existing profitable portfolio of products.

[1] Defence services revenues includes a c.£220m benefit of a one-off capital and lease transaction. Excluding this, Defence revenue growth was 7% and submarines revenue growth was 29%

Business review *continued*

POWER SYSTEMS

Power Systems, with its product and solutions brand *mtu*, is a world-leading provider of integrated solutions for onsite power and propulsion, developing sustainable solutions to meet the needs of its customers.

Underlying revenue mix

Underlying revenue mix by sector

UNDERLYING REVENUE

£4,271m

2023: £3,968m

UNDERLYING OPERATING PROFIT

£560m

2023: £413m

UNDERLYING OPERATING MARGIN

13.1%

2023: 10.4%

ORDER BACKLOG

£4.8bn

2023: £4.1bn

Market overview

Our Power Systems business serves five distinct end markets.

In power generation, we offer dependable diesel and gas power solutions for mission-critical to everyday backup and continuous power needs. We have a growing market share of 20%-25% and our key markets are data centres and industrial manufacturing.

In governmental, we provide peak-performance diesel engines and propulsion systems with outstanding power density and power-to-weight ratios. We have a market share greater than 30% and our key markets are land defence and naval.

In marine, we deliver integrated diesel, gas and hybrid propulsion systems, including automation and control systems, which are renowned for their reliability and performance. We have a market share of 15%-20% and our key markets are commercial marine and yacht.

In industrial, we offer a broad range of highly reliable industrial diesel and hybrid solutions for a diverse range of requirements. We have a market share of 10%-15% and our key markets are rail and mining.

Our fast growing battery energy storage systems business (BESS), which we expect will become profitable in the near-term, provides grid stability to harness renewable power.

In 2024, order intake in Power Systems was £5.1bn, up 19% versus the prior year, with a book-to-bill ratio of 1.2x. OE order coverage for 2025 is 82%. Demand remains particularly strong in power generation, with data centre orders up 42% year on year, and in governmental where order intake increased by 33%.

Financial performance

£ million	2024	Organic change[1]	FX	2023	Change	Organic change[1]
Underlying revenue	**4,271**	421	(118)	3,968	303	11%
Underlying OE revenue	**2,942**	362	(81)	2,661	281	14%
Underlying services revenue	**1,329**	59	(37)	1,307	22	5%
Underlying gross profit	**1,199**	182	(33)	1,050	149	17%
Gross margin %	**28.1%**			26.5%		+1.6pt
Commercial and administrative costs	**(483)**	(39)	12	(456)	(27)	9%
Research and development costs	**(165)**	17	5	(187)	22	(9)%
Joint ventures and associates	**9**	4	(1)	6	3	67%
Underlying operating profit	**560**	164	(17)	413	147	40%
Underlying operating margin %	**13.1%**			10.4%		+2.7pt

	2024	2023	Change
Trading cash flow	**452**	461	(9)

1 Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2024. All underlying income statement commentary is provided on an organic basis unless otherwise stated

Business review *continued*

Underlying revenue was £4.3bn, an increase of 11% versus the prior year, with particularly strong growth in power generation, where revenues grew by 25%, and by 46% for data centres. Revenue growth was also strong in governmental at 17%, reflecting continued demand for land defence and naval products. Industrial revenues were 20% lower, largely as a result of the disposal of the lower power range of off highway engines. Underlying OE revenues grew by 14% to £2.9bn. Underlying services revenue grew by 5% to £1.3bn.

Underlying operating profit grew by 40% to £560m. Underlying operating margin rose by 2.7pts to 13.1% (2023: 10.4%). Higher operating profit reflected significant growth in power generation and benefits from our young and growing BESS business. Power generation growth was driven by data centres, where we have restructured our business model to achieve a double-digit operating margin, with our differentiated offering for

back-up power generators, competing on power density, speed of back-up and service. Higher operating profit was also supported by cost efficiency benefits.

Trading cash flow was £452m with a conversion ratio of 81% versus £461m and 112% last year. The decrease in trading cash flow reflected strong growth in operating profit, offset by investment in working capital to support business growth.

Operational and strategic progress

In power generation we have been capturing the growing demand for data centres and global trends for cloud computing, data processing and AI. Furthermore, we see data centre operators increasingly looking for more sustainable solutions, and as such we are receiving increasing orders for power generation solutions that operate on sustainable fuels.

BESS are a logical complement to our power generation business and expand our markets towards new applications such as utility-scale storage. Here we can leverage existing system capabilities and market access to create a profitable BESS business. Recent contracts include a contract with Latvia to install one of the largest BESS in the EU and our BESS activities remain on track to break even in the near term.

In governmental, we have a leading position today and are well positioned to outgrow the market as our propulsion systems are well placed for the current investment cycle into military vehicles and naval vessels. Rolls-Royce is supplying mtu propulsion and on-board power systems for three new Polish Navy frigates. Furthermore, we will drive additional growth by expanding our offering towards more integrated solutions such as ship automation products. Through disciplined investments in technologies, we are also strengthening our longer-term opportunities and underpinning our leading market position.

In marine, we have a market leading position in the highly profitable yacht market and a strong position in commercial marine. Our target is to strengthen our leading position in yachts and further improve our position in commercial marine through various strategic measures. Part of this is our bridge-to-propeller strategy which creates profitable upsell potential and differentiation by providing our customers with fully integrated solutions from bridge automation to the propulsion system. Recent orders include a bridge to propeller contract with Azimut Benetti Group.

We also continued to invest in renewing our next generation engine product line, which will offer best-in class power density and fuel efficiency. Regionally, we expanded our JV in China with Yuchai to address the fast-growing market.

In August, we completed the sale of the lower power range engines business of Rolls-Royce Power Systems AG to Deutz AG. This deal followed the realignment of our strategy to focus on the supply and maintenance of engines and systems primarily from our own production.

In all the above-mentioned markets, we have already made significant progress towards offering lower carbon solutions. However, the speed of transition and customer demand strongly varies between our sectors. Combustion engines will remain highly relevant for many years, increasingly powered by sustainable fuels. The use of the sustainable diesel substitute, hydrotreated vegetable oil (HVO), can reduce full lifecycle emissions by up to 90%. Nearly all of our major engine platforms are already able to run on HVO and some of our customers are using this fuel to cut their emissions. During the year, we helped Swedish operator EcoDataCenter switch the fuel for their mtu emergency power generators from fossil-derived diesel to sustainable HVO. Rolls-Royce also reached the milestone of delivering over 500 HVO-powered mtu generators to the data centre sector, representing nearly 1.3GW of standby power capacity, through its partner AVK.

In marine, we are developing methanol-based solutions and for power generation we see hydrogen-based engines as a future solution. These developments are based on existing engines and given the progress already made we are well-positioned to deliver this transition.

In addition, we are investing in electrification by offering hybrid solutions, for example, for the commercial marine market, and transitioning our power generation business gradually to complement battery-based solutions. By taking these steps we are participating in the energy transition and supporting our customers in various industries to achieve their growth and sustainability goals at the same time.

In 2024, we continued to progress towards our sustainability and net zero targets with an agreement with Lürssen to collaborate on yacht refits with the latest technologies and we commissioned the first Liberty Lines high-speed ferry with hybrid systems.

Outlook

We target a 14%-16% margin in the mid-term (2024: 13.1%). Higher operating profit will be driven principally by power generation, as we continue to capture profitable growth in the data centre market, alongside governmental, and BESS which we aim to be profitable in the near-term. We also expect continued growth in our marine and industrial businesses.

Beyond the mid-term, we have differentiated positions in power generation, governmental, marine and industrial end markets. Growth will be largely driven by power generation, notably data centres, where our strong market position will be supported by the introduction of our next generation engine that will offer higher power density, lower emissions, and improved fuel consumption compared to its peers. We also see opportunities for profitable growth in our lower carbon products, notably BESS.

Business review *continued*

NEW MARKETS

New Markets are early-stage businesses. They leverage our existing, in-depth engineering expertise and capabilities to develop sustainable products for new markets, focused on the transition to net zero.

Market overview

Momentum for small modular reactors (SMRs) is building as countries explore the use of nuclear as a route to achieving secure sources of low-carbon electricity and powering the needs of AI infrastructure. We continue to see opportunities in the export market as well as in the UK. In addition to being selected as the preferred provider of SMRs in the Czech Republic, Rolls-Royce SMR has been shortlisted in both Sweden and the UK. In the UK we also remain significantly ahead of the competition in the regulatory process.

We made the decision to exit our electrical business in 2023 and in September 2024 we announced the closure of our advanced air mobility activities.

Financial performance

£ million	2024	Organic change[1]	FX	2023	Change	Organic change[1]
Underlying revenue	3	(1)	–	4	(1)	(25)%
Underlying OE revenue	3	1	–	2	1	50%
Underlying services revenue	–	(2)	–	2	(2)	(100)%
Underlying gross (loss)/profit	(4)	(5)	–	1	(5)	nm
Gross margin %	(133.3)%			25.0%		(158.3)pt
Commercial and administrative costs	(40)	(17)	1	(24)	(16)	71%
Research and development costs	(133)	3	1	(137)	4	(2)%
Joint ventures and associates	–	–	–	–	–	–
Underlying operating loss	(177)	(19)	2	(160)	(17)	12%

	2024	2023	Change
Trading cash flow	(181)	(63)	(118)

1 Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2024. All underlying income statement commentary is provided on an organic basis unless otherwise stated

Planned increases in expenditure to meet development milestones in SMR resulted in an increased operating loss for New Markets of £(177)m versus £(160)m in the prior year.

Trading cash flow was an outflow of £(181)m compared to £(63)m in the prior year.

Operational and strategic progress

Our SMRs are designed to produce stable, affordable and emission-free electricity. Each one will power a million homes for at least 60 years.

The modular build approach is the fastest and cheapest way to get nuclear on-grid solutions to help meet global net zero ambitions. Rolls-Royce SMR is controlling the integrated design of the powerplant and enabling a very high level of modularisation. This moves work from on site construction into a standardised, controlled, factory build with modules then assembled on site. It also reduces cost, risk and time to construct and results in a highly competitive cost of electricity.

In 2024, Rolls-Royce SMR was named as the preferred supplier for the construction of SMRs by the Government of the Czech Republic and the Czech State utility, ČEZ Group. This represents an exclusive commitment to deploy up to 3GW of electricity in the Czech Republic. Furthermore, this position is strengthened by a strategic investment by ČEZ Group into Rolls-Royce SMR, which we announced in the last quarter of the year. This partnership also enhances Rolls-Royce SMR's position as Europe's most advanced SMR technology, and puts ČEZ Group, Rolls-Royce SMR, and its existing shareholders, BNF Resources, Constellation, QIA and Rolls-Royce at the forefront of SMR deployment.

In the UK Government's competition to select and contract providers of SMR technology, Rolls-Royce SMR was shortlisted as one of four potential providers, alongside three international vendors. A final selection is expected in 2025. Rolls-Royce SMR remains the only company in the final step of the UK regulatory licensing process.

Rolls-Royce SMR was also selected as one of two potential providers by the Swedish company Vattenfall to deploy a fleet of SMRs in Sweden.

We continue to press for contractual certainty in the UK market and seek to build on the export success that has been achieved in the Czech Republic, with additional export commitments. We remain deeply engaged with governments, regulators, developers and potential industrial customers.

To deliver our SMR solution we are supported by the breadth of expertise brought by our fellow shareholders and a broad set of industrial partners. Collaboration with European regulators will de-risk our deployments outside the UK and support deployment at pace. Furthermore, we are mitigating risk through our commercial arrangements.

We expect our first contracts for units to be finalised in 2025, which we anticipate to be the catalyst for a pipeline of further commitments.

Outlook

Our unique nuclear capabilities and differentiated offering means that we are well-placed to become a market leader in SMRs, where we see a significant value creation opportunity. We also see opportunity in the micro-reactor market.

Principal risks

The Rolls-Royce risk management and internal control framework

Taking risks is an essential part of running a robust, profitable business. Effective risk management helps us to identify anything that could hinder or support the effective implementation of our strategy and business model, then take action to address it. In order to achieve this, we have an established risk management and controls framework, shown in the diagram below.

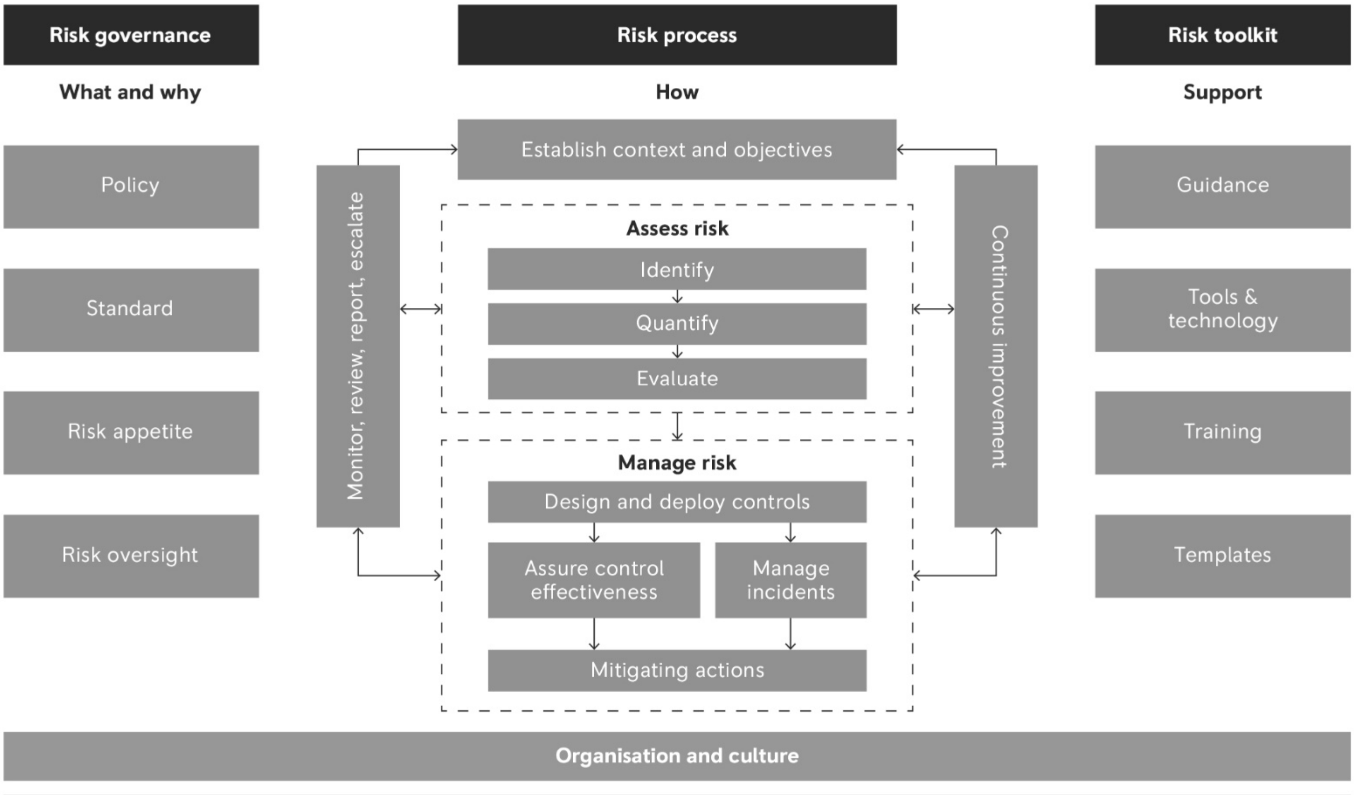
Our framework aligns with international standards for managing risk and sets out requirements across the Group for all risk categories. This includes climate, finance, legal, operations, technical and programmes, as well as providing guidance, training and tools.

The RRH Board is ultimately responsible for our approach to risk management and internal controls. In February 2024, it endorsed the framework in operation for that year, monitoring its effectiveness by assessing:

1. How effective the framework was at managing the principal risks:
    - Individual principal risks with reports throughout the year at the appropriate RRH Board Committee, led by the risk owner (with a focus on controls in place to manage the risk and mitigating actions required to close any gaps). See pages 30 to 39 for a detailed list of these reviews.
2. A report by the Head of Enterprise Risk Management covering the principal risk portfolio to consider the current overall risk levels compared to risk appetite and our own internal targets. The Group's internal financial controls (at the RRH Audit Committee) with financial reporting controls being subject to periodic review by the Group's internal controls team.
3. The effectiveness of the framework more broadly at improving the risk culture and capability of the organisation, including an annual risk maturity assessment.
4. The input from assurance providers, such as the internal audit team, where risk-related findings are taken into account in managing related risks.

See page 31 for more on progress in 2024 and future risk improvement plans.

The risk management framework



Principal risks *continued*

How Rolls-Royce uses the framework to manage risk

Risk governance

Risk governance sets out the roles and responsibilities, as well as the why and the what, of risk management. Clearly outlining our approach to risk oversight enables the RRH Board and Executive Team to receive the risk information it needs to consider: the nature of our principal risks (individually and as a portfolio); their current and target risk levels, including whether or not they are within our risk appetite; the extent to which mitigation is effective; and the status of associated improvement actions. In addition to the RRH Board oversight outlined on pages 74 to 75 of the RRH Annual Report 2024, the Executive Team reviews individual and portfolio principal risk reports, with the latter (with the addition of divisional level risk information), being considered as an input into the five-year planning process. These reports contain the current risks, their status, controls information and action plans to remediate any gaps.

Risk process

We use the framework to set expectations across the Group on the steps to follow when managing and talking about risks:

Identify	Risks can be identified by anyone across the Group, including emerging risks as well as what could stop us achieving our strategic, operational or compliance objectives or impact the sustainability of our business model (described on pages 12 and 13).
Quantify and evaluate	Risk owners quantify the likelihood of a risk materialising and the potential impact if it does, taking into account current effective controls, and then deciding on a plan of action.
Control and assure	Risk owners design, implement and assure the effectiveness of controls to manage the risk, supported by different assurance providers using a three lines of defence approach (detailed in the principal risk section from pages 30 to 39).
Act	Risk owners identify where mitigating actions are needed to bring the risk within appetite, assessing the Group's ability to reduce the impact of risks that materialise and ensuring the costs of operating a control are proportionate to the benefit provided.
Monitor, review and report	Risk owners report their assessment of current and target risk scores to local leadership as well as other review forums (including the RRH Board and its Committees and the Executive Team) as needed depending on the level of the risk, for support, challenge and oversight.

Risk toolkit

The above are underpinned by a toolkit of guidance, templates, tools and training. For some principal risks, such as safety and compliance, there are mandatory training and policies in place, linked to performance management and remuneration, which all our people are required to complete and comply with (see page 47 of the RRH Annual Report 2024 for details).

The framework rests on the appropriate organisation and culture, with individuals at all levels (starting with the Executive Team) demonstrating the principles of good risk management and the capabilities to deliver on these. An independent enterprise risk management team supports the divisions and functions in their effective management of risk.

Risk maturity and continuous improvement

We continually look for ways to improve how we manage risks, such as action planning to bring a risk level down or developing training to support risk owners. We also ensure the framework itself is fit for purpose through regular benchmarking against best practice risk standards as well as active participation in industry groups.

Improvements in 2024

Following the implementation of the new risk framework and oversight approach in February and the implementation of a new organisational design, we have increasing confidence in the assessment of our risks, with a real focus on mitigating actions to get to an agreed target risk level, as well as more transparent reporting. We have also seen a positive shift in the risk culture of the organisation, with strong risk awareness and engagement.

The new framework places even more emphasis on the importance of controls and assurance in managing risks well and our Risk, Controls and Assurance (RCA) programme has continued to support the design and documentation of controls for principal risks, embedding these controls in our management system.

2025 and beyond

The RCA programme is a key foundational activity in relation to principal risks and, as such, will form part of the integrated Group-wide plan, which also incorporates other areas such as financial and non-financial reporting (including sustainability reporting requirements) and compliance.

We will maintain focus on completing agreed actions to continue to mitigate our principal risks within appetite and on assuring the effectiveness of our internal controls.

Emerging risks

Rolls-Royce has processes in place to identify emerging risks, being uncertainties that could become a principal risk of the future. These include horizon scanning for resilience, regulatory and compliance changes (including those relating to ESG) and disruptive new technologies, as well as analysing external data. Outputs are assessed by subject matter experts and, where we identify any potential new impacts on Rolls-Royce, we:

- record a new risk;
- amend an existing risk and manage this in accordance with our risk management framework as described above; or
- add the emerging risks to our watch list for investigation and monitoring.

Principal risks *continued*

The RRH Board considers emerging risks and responses annually and concluded that, currently, many of the external areas of focus, geopolitical tensions, extreme weather events and supply chain disruption are captured as causes in our existing principal risks. New risks added in 2024 relate primarily to fuel and energy sources both threats and opportunities. We have also seen an increase in societal risks, such as social polarisation, as described in the table below.

Principal risks

Principal risks are owned by one or more members of the Executive Team and subject to a review by the Executive Team at least once each year, ahead of a review by the RRH Board or a RRH Board Committee. Risks are managed in relation to achieving target risk appetite or beyond. The actions needed to achieve or maintain these target positions are also monitored.

Changes to the principal risks profile in 2024

We continue to review our principal risks, their dynamic nature and how well they are managed. During 2024, we have redefined two of our previous risks, Technology and Climate Change (now Energy Transition), to reflect our strategy development in these areas.

Principal risks remain categorised as either pillars or drivers, with drivers being those risks that could affect the likelihood or impact of one or more of the risk pillars.

Changes in overall risk levels

The overall risk level within our portfolio has reduced during 2024, as individual risks have reduced and/or we have improved control effectiveness. Details of these changes can be found in the following section, starting on page 30 which detail the current principal risk pillars and drivers together with how we manage them and assure them in addition to internal audit and the oversight provided by the RRH Board and its Committees.

Examples of our new emerging risks

EMERGING RISK TITLE AND DESCRIPTION	POTENTIAL IMPACT TO ROLLS-ROYCE	OUR RESPONSE
Demands on fuel stocks: competing use for feed stocks (for example, food versus fuel), cross-sector demands for feed fuel and the expansion of AI increasing demand on base energy requirements.	Threats: — Reduce our access to fuel sources and supplies — Hinders our ability to achieve decarbonisation across the full portfolio	Investigate and monitor: — Continue to horizon scan and explore alternatives — Monitor demand in the aviation sector as part of strategic planning — Continue to develop our technology portfolio
Alternative fuel sources: development of alternative fuel sources, such as: — Carbon-based liquid fuels — Ammonia (carbon free fuel) — Methanol — Hydrogen	Opportunities (varying according to fuel): — Low cost/high power solutions — Potential for net zero carbon emissions — Improved air quality	Investigate and monitor: — Studies underway — Pilots in development — Technologies being mapped to better understand the threats and opportunities
Societal polarisation from increased access to propaganda (also linked to misinformation and disinformation).	Threats: — Increase in conflict and division in the workplace — Increased shareholder activism — Increased insider threat risks	Manage according to our risk framework: Resources are now required and in place for additional monitoring, such as insider threats and likelihood of action.

Principal risks *continued*

Principal Risks – Pillars

Safety (risk level: decreased)

Principal risk description

People: Failure to create a place to work which minimises the risk of harm to our people, those who work with us and the environment would adversely affect our reputation and long-term sustainability

Product: Failure to provide safe products

Controls and mitigating actions

People:

- Our HSE management system includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant company, legal, regulatory and industry requirements
- Crisis management framework in place

Product:

- Our safety assurance framework includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant company, legal, regulatory and industry requirements
- We verify and approve product design
- We test adherence to quality standards during manufacturing
- We validate conformance to specification for our own products and those of our suppliers
- We mandate safety awareness training
- We use engine health monitoring to provide early warning of product issues
- We take out relevant and appropriate insurance

Assurance activities and providers

People:

- Safety case interventions
- HSE audit team

Product:

- Product safety assurance team
- Technical product lifecycle audits
- Product safety board

Oversight forum(s)

- RRH Safety, Energy Transition & Tech Committee
- Executive Team

Business model

- Our role in society
- Our business model drivers
- Our uniqueness

What has changed in 2024?

This risk has improved during 2024, due to the strengthening of controls around people safety. However, putting safety first is one of our core behaviours (see page 8) and the first priority for all our colleagues. We continue to prioritise action plans to improve people and product safety.

Principal risks *continued*

Compliance (risk level: decreased)

Principal risk description

Non-compliance by the Group with legislation or other regulatory requirements in the heavily regulated environment in which we operate (for example, export controls; data privacy; use of controlled chemicals and substances; antibribery and corruption; human rights; and tax and customs legislation). This could affect our ability to conduct business in certain jurisdictions and would potentially expose us to: reputational damage; financial penalties; debarment from government contracts for a period of time; and suspension of export privileges (including export credit financing), each of which could have a material adverse effect.

Controls and mitigating actions

- Comprehensive suite of Group mandatory policies and processes and controls
- Third-party due diligence
- Investigation of speak up cases
- Investigations into potential regulatory matters
- Our financial control framework is designed to reduce financial reporting and fraud risks
- Data classification to meet internal and external requirements and standards
- Export control framework
- Digital screening and IT compliance tools

Assurance activities and providers

- Compliance teams
- Financial controls team

Oversight forum(s)

- RRH Audit Committee
- RRH Board
- RRH Nominations, Culture & Governance Committee
- Executive audit committee

Business model

- Our business model drivers

What has changed in 2024?

Our compliance risks have reduced in 2024 due to the improved effectiveness of our controls to manage the risks. To be even better, we are now looking at increasing the automation of controls around our export control framework.

Strategy (risk level: static)

Principal risk description

Failure to develop an optimal strategy and continuously evolve it, investing in key areas for performance improvement and growth (taking into account risk reward), making difficult decisions for competitive advantage and the right portfolio and partnership choices, could result in us underperforming against our competitors and significantly reduce our ability to build a high-performing, competitive, resilient and growing business.

Controls and mitigating actions

- Strategic review process
- We benchmark our capabilities and performance against our competitors, the market and other external metrics
- R&D spend aligned to our strategy, with a smaller, more focused portfolio
- Investment in R&D opportunities to support the development of new products or services to protect and sustain our future market
- Investment decision making process to improve the quality, delivery and durability of our existing products and services
- Horizon scanning for competitive threats and opportunities, including patent searches

Assurance activities and providers

- Group Strategy team
- Challenge from external advisers

Oversight forum(s)

- RRH Board
- Executive Team
- Investment committee

Business model

- Our role in society
- Our business model drivers
- Our uniqueness

Principal risks *continued*

What has changed in 2024?

Overall, this risk remained stable in 2024. We continued to iterate detailed strategies, for example, relating to sustainability and technology (see separate principal risk drivers on page 36.

Our effectiveness at managing this risk improved throughout the year, with robust controls operating over our investment decision making processes and integrated performance management which drives strategic priorities (such as through the five-year planning process).

Execution (risk level: static)

Principal risk description

Failure to deliver as One Rolls-Royce on short- to medium-term financial plans, including efficient and effective delivery of quality products, services, and programmes, or falling significantly short of customer expectations, would reduce our resilience and have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

Controls and mitigating actions

- Performance management of our operational execution and monitor performance against plans
- Cost control and rigorous budgeting
- Product lifecycle reviews
- Intellectual property protection (for example, through patents)
- We include inflation clauses in our contracts to manage cost increases
- We work closely with our suppliers, driving tighter management of lead times

Assurance activities and providers

- Executive Team monitoring of execution

Oversight forum(s)

- RRH Board
- Executive Team
- Investment committee

Business model

- Our role in society
- Our business model drivers

What has changed in 2024?

Overall, this risk remained stable in 2024, with the effectiveness of our controls in place to manage this risk improved in 2024, reflected in our financial performance (see pages 17 to 21), with a new operating model being implemented to deliver our strategy.

Business interruption (risk level: static)

Principal risk description

A major disruption of our operations and ability to deliver our products, services and programmes could have an adverse impact on our people, internal facilities or external supply chain which could result in failure to meet agreed customer commitments and damage our prospects of winning future orders.

Disruption could be caused by a range of events, including extreme weather or natural hazards,(for example,, earthquakes or floods), which could increase in severity or frequency given the impact of climate change; political events; financial insolvency of a critical supplier; scarcity of materials; loss of data; fire; pandemic or other infectious disease.

Controls and mitigating actions

- Investment in capacity, equipment and facilities and in researching alternative materials
- Duplication of capabilities across multiple locations
- We hold surplus stock to offset future shortages
- We plan and practice IT disaster recovery, business continuity and crisis management exercises
- Supplier due diligence
- Dual sourcing of critical suppliers
- Identification of alternate suppliers
- Relevant and appropriate insurance in place

Assurance activities and providers

- Investment reviews
- Supplier strategy and sourcing reviews
- Group security and resilience team

Principal risks *continued*

Oversight forum(s)

- RRH Audit Committee
- Executive audit committee

Business model

- Our business model drivers
- Our uniqueness

What has changed in 2024?

No overall change in risk status as it remains high due to the potential for external events, including the impacts of other principal risk drivers materialising, such as cyber, political, or extreme weather events, which could disrupt our supply chain and the ability to deliver our business model and hinder our future performance. We are continuously working in partnership with our suppliers and investing in advanced digital tools to enhance supply chain visibility and resilience.

Read more about how we are managing uncertainty in our supply chain on page 11.

Principal Risks - Drivers

Energy transition (risk level: static)

Principal risk description

Failure to reach net zero by 2050, leveraging technology to transition from carbon intensive products and services at pace could impact our ability to win future business; achieve operating results; attract and retain talent; secure access to funding; realise future growth opportunities; or force government intervention to limit emissions.

Controls and mitigating actions

- Investment in i) reducing carbon impact of existing products; and ii) zero carbon technologies to replace our existing products
- Climate scenario modelling and physical risk impact assessments
- We balance our portfolio of products, customers and revenue streams to reduce our dependence on any one product, customer or carbon emitting fuel source
- Communication of the actions we are taking to manage this risk, to demonstrate our alignment to societal expectations and global climate goals
- Horizon scanning and emerging risk identification processes
- Inclusion of sustainability criteria in our investment committee decision making process

Assurance activities and providers

- Strategy reviews
- Technology reviews
- Investment reviews
- Group sustainability team
- Climate steering committee

Oversight forum(s)

- RRH Audit Committee
- RRH Board
- RRH Safety, Energy Transition & Tech Committee
- Energy transition & technology committee

Business model

- Our role in society
- Our business model drivers
- Our uniqueness

What has changed in 2024?

The need for lower carbon solutions has been identified as a long-term mega trend, and the first phase of our sustainability strategy review took place in 2024, focusing on energy transition (see pages 34 and 35 of the RRH Annual Report 2024).

As a result, the previous climate change risk has been refocused on energy transition, with the impact of extreme weather events now only captured by the business interruption risk.

Principal risks *continued*

Information & data (including cyber) (risk level: decreased)

Principal risk description

Failure to protect the integrity, confidentiality and availability of data, both physical and digital, from attempts to cause us and our customers harm, such as through a cyber-attack. Potential impacts include hindering data driven decision making, disrupting internal business operations and services for customers, or a data breach, all of which could damage our reputation, reduce resilience, and cause financial loss.

Causes include ransomware threats, unauthorised access to property or systems for the extraction, corruption, destruction of data, or availability of access to critical data and intellectual property.

Controls and mitigating actions

- Deployment of multiple layers of controls, such as web and email gateways, intrusion detection, behavioural analytics and data loss prevention
- Extensive testing of software and systems
- Application of our crisis management framework to govern our response to potential cyber security incidents and significant IT disruption
- Restricted access to our systems and locations

Assurance activities and providers

- Group cyber security team
- Group security and resilience team

Oversight forum(s)

- RRH Audit Committee
- RRH Safety, Energy Transition & Tech Committee
- Executive audit committee

Business model

- Our business model drivers
- Our uniqueness

What has changed in 2024?

This risk has reduced in 2024 due to the progress of our mitigation programmes putting in place additional effective controls. However, the risk remains high due to external factors including the ongoing speed of evolution of cyber security threats and increasing compliance requirements.

Market & financial shock (risk level: decreased)

Principal risk description

The Group is exposed to market and financial risks, some of which are of a macro-economic nature, (for example, economic growth rates, foreign currency, oil price, interest rates) and some of which are more specific to us such as cyclical aviation industry, reduction in air travel or defence spending, disruption to other customer operations, liquidity and credit risks. This could affect demand for our products and services.

Significant extraneous market events could also materially damage our competitiveness and/or creditworthiness and our ability to access funding. This would affect operational results or the outcomes of financial transactions.

Controls and mitigating actions

- Diverse and balanced portfolio
- Monitoring of trends, market demand and future market forecasts, adjusting business plans accordingly
- Investment committee to ensure capital investments are in line with our strategy
- Group liquidity policy
- Credit risk policy
- Policies designed to hedge residual risks using financial derivatives (covering foreign exchange, interest rates and commodity price risk)
- Balanced portfolio with the sale of original equipment and aftermarket services, providing a broad product range and addressing diverse markets that have differing business cycles
- We raise finance through debt and equity programmes

Assurance activities and providers

- Five-year and strategic planning processes
- Strategy reviews

Oversight forum(s)

- RRH Audit Committee
- RRH Board
- Financial and operating drivers review

Business model

- Our business model drivers

Principal risks *continued*

What has changed in 2024?

Financial shock risks have reduced in 2024, due to an enhanced approach to capital investments through the investment committee; strong balance sheet liquidity and low leverage; the restoration of investment grade ratings; and hedging of near-team FX.

Market risk remains unchanged, with uncertainty around external market volatility and significant shocks (such as global conflict or the repeat of a pandemic) offset by our ability to withstand these events increasing through our greater business resilience.

Political (risk level: static)

Principal risk description

Geopolitical factors, such as changes in key political relationships, explicit trade protectionism, differing tax or regulatory regimes, potential for conflict or broader political issues and heightened political tensions, could lead to an unfavourable business climate and significant tensions between major trading parties or blocs, which impact our strategy, execution, resilience, safety and compliance.

Controls and mitigating actions

- Development of Group and country strategies and consider associated dependencies
- Horizon scanning process for political implications and dependencies
- Diversification considerations built into our investment and procurement choices

Assurance activities and providers

- Strategy reviews
- Technology reviews
- Supplier sourcing teams
- Government relations teams
- Country Councils

Oversight forum(s)

- RRH Board
- Executive Team

Business model

- Our role in society
- Our business model drivers

What has changed in 2024?

No change in the overall level of risk due to external factors such as the ongoing conflict in the Middle East and Ukraine, as well as the potential for increased geopolitical tensions, such as intensifying US-China competition and rising protectionism posing challenges, as outlined on page 11. This is a fast-moving risk we continually monitor and respond to.

However, our control effectiveness improved in 2024, with the development of country specific strategies, the implementation of a new operating model and the introduction of processes. For example, monitoring market exposures and adapting supply chain strategies to ensure resilience amid potential protectionist measures and evolving trade dynamics.

Talent & capability (risk level: static)

Principal risk description

Inability to identify, attract and grow the critical talent, skills and capabilities required to deliver our strategic priorities could threaten our ability to be a high-performing, competitive, resilient and growing business.

Controls and mitigating actions

- Talent enterprise system to attract and nurture the best and diverse talent and ensure robust bench strength
- Differentiated performance management framework to enable high performance and growth
- People rewarded fairly, based on skill and contribution and reward for high performance and delivery
- Critical skills and capabilities defined and mapped at Group level
- Strategic workforce planning through our enterprise capability committee
- Continuous learning with digital resources aligned to our identified critical capabilities and skills

Assurance activities and providers

- People leadership team
- Leaders across Rolls-Royce
- Employee opinion survey

Oversight forum(s)

- RRH Nominations, Culture & Governance Committee
- People Committee

Principal risks *continued*

Business model

- Our business model drivers
- Our uniqueness

What has changed in 2024?

This risk has remained stable due to the action plans put in place to mitigate this risk while we transform the business. These programme activities continue. People related metrics, including on retention and learning and development, plus more information on people programmes like change makers, can be found on pages 46 to 50 of the RRH Annual Report 2024.

Technology (risk level: decreased)

Principal risk description

Failure to ensure products and services are based on competitive technology, leveraging substantial engineering and scientific challenges, adopting digital tools (such as AI) and new ways of working, could hinder our ability to accelerate product design and deliver a competitive offer that ensures superior performance; enhances the customer experience; drives the transition to lower carbon; improves productivity and reduces costs. This will ultimately negatively impact our competitiveness and market share.

Controls and mitigating actions

- Technology roadmaps
- Investment in R&D opportunities
- Prioritisation of the research and technology portfolio
- Horizon scanning process for emerging technology threats and opportunities
- Uniform project management standards

Assurance activities and providers

- Strategy reviews
- Investment reviews
- Technology reviews

Oversight forum(s)

- RRH Safety, Energy Transition & Tech Committee
- Energy transition & technology committee

Business model

- Our role in society
- Our business model drivers
- Our uniqueness

What has changed in 2024?

The potential of digitalisation and AI to further transform how we operate has been identified as a long-term mega trend (see page 11) and we have continued to expand and evaluate this risk in 2024 as we further developed technology and digital roadmaps which outline what we need to achieve our strategic goals and ensure operational excellence. The level of risk has reduced due to these roadmaps and the integration of our technology strategy in our investment decision making, and the comprehensive, cross-business view of research and technology activities.

See page 11 for more on how we are embedding AI and digital tools throughout our business.

Going concern statement

Overview

The Directors have assessed the prospects of the Group, taking into account its current position, the Group's principal risks which are described on pages 30 to 39, and the Group's mid-term forecasts together with factors that could affect its future development, performance and position, as set out in the Strategic Report on pages 2 to 45.

The Financial Review on pages 17 to 21 sets out the financial position of the Group, its cash flows, liquidity position and the Group's capital framework. The notes to the accounts include the objectives, policies and procedures over financial risk management including financial instruments and hedging activities, exposure to credit risk, liquidity risk, interest rate risk and commodity price risk.

In adopting the going concern basis for preparing the consolidated and Company financial statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of possible risks and uncertainties over an 18-month period from the balance sheet date to June 2026. The Directors have determined that the period to June 2026 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short- to medium-term cash flow forecasts and available liquidity.

Forecasts

Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have considered two forecasts in their assessment of going concern, along with a likelihood assessment of these forecasts. The base case forecast reflects the Directors current expectations of future trading. A downside forecast has also been modelled which envisages severe but plausible downside risks. Both forecasts have been modelled over the going concern period.

Latest forecasts predict large engine flying hours will reach 115% of 2019 levels in 2025, which is reflected in the Group's base case forecast. Macro-economic assumptions have been modelled using externally available data based on the most likely forecasts with general inflation at around 2%-3%, wage inflation at an average of 3%-4%, interest rates at around 2%-4% and GDP growth at around 2%-4%.

The downside forecast assumes Civil Aerospace large engine flying hours remain at average fourth quarter 2024 levels throughout the going concern period, reflecting slower GDP growth in this forecast when compared with the base case. It also assumes a more pessimistic view of general inflation at around 2%-3% higher than the base case covering a broad range of costs, including energy, commodities and jet fuel. Wage inflation in the downside forecast is 1%-2% higher than the base case and interest rates are 1%-2% higher. These macro-economic pressures have been modelled across the whole going concern period. The downside forecast also considers lower demand as a result of slower market growth, and potential output risks associated with increasing volumes and possible ongoing supply chain challenges.

The future impact of climate change on the Group has been considered through climate scenarios. The climate scenarios modelled do not have a material impact on either the base case or downside forecast over the going concern period. Further detail on these climate scenarios is set out on page 39 of the RRH Annual Report 2024.

Liquidity and borrowings

During 2024, the Group cancelled a £1bn undrawn UKEF-supported loan facility that was due to mature in 2027, and in May 2024 the Group repaid a €550m bond at its maturity. A one-year extension option on the £2.5bn undrawn revolving credit facility was exercised in October 2024, extending the RCF maturity to November 2027. A further one-year extension option remains, subject to bank agreement at the time of exercise.

At 31 December 2024, the Group had liquidity of £8.1bn including cash and cash equivalents of £5.6bn and undrawn facilities of £2.5bn. The going concern period includes the maturity of a $1bn bond in October 2025 that the Group intends to repay from cash. Subsequent maturities during the going concern period are a €750m bond in February 2026 and a £375m bond in June 2026. Given the Group's cash and liquidity position over the going concern period, the bond maturities in 2026 could be repaid from cash should the Group decide not to refinance.

Based on borrowing facilities available at the date of this report the Group's committed borrowing facilities at 31 December 2024 and 30 June 2026 are set out below. None of the facilities are subject to any financial covenants or rating triggers which could accelerate repayment.

£ million	31 December 2024	30 June 2026
Issued bond notes [1]	3,511	1,801
Revolving credit facility (undrawn) [2]	2,500	2,500
Total committed borrowing facilities	**6,011**	**4,301**

[1] The value of Issued bond notes reflects the impact of derivatives on repayments of the principal amount of debt. The bonds mature by May 2028
[2] The refinanced £2.5bn revolving credit facility matures in November 2027 with a one-year extension option (currently undrawn)

Taking into account the maturity of these borrowing facilities, the Group has committed facilities of at least £4.3bn available throughout the period to 30 June 2026.

Conclusion

After reviewing the current liquidity position and the cash flows modelled under both the base case and downside forecasts, the Directors consider that the Group has sufficient liquidity to continue in operational existence over the going concern period to 30 June 2026 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Viability statement

Consistent with previous years, we have assessed viability over a five-year period which is in line with the Group's five-year forecasting process. We continue to believe that this is the most appropriate time period to consider as, inevitably, the degree of certainty reduces over any longer period.

The viability assessment considers liquidity over a longer period than the going concern assessment, with the downside forecast using the same assumptions as the going concern assessment and in 2027 to 2029 assuming a slower recovery than in the base case.

We have created severe but plausible scenarios that estimate the potential impact of our principal risks arising over the assessment period (descriptions of our principal risks and the controls in place to mitigate them can be found on pages 30 to 39). We selected those principal risks that could have the most material impact to liquidity over the next five years and confirmed these with relevant subject matter experts. The risks chosen and scenarios used are as shown in the table on page 42.

The cash flow impacts of these scenarios were overlaid on the five-year forecast to assess how the Group's liquidity would be affected.

The scenarios assume an appropriate, effective management response to the specific event and also considered specific activities to improve liquidity such as raising additional funds, reducing expenditure and divesting parts of our business.

Reverse stress testing has also been performed to assess the severity of scenarios that would have to occur to exceed liquidity headroom. The assumptions used in these stress tests were not considered plausible.

On the basis described above, our current liquidity is such that it is unlikely we would exceed liquidity headroom. Therefore, the Directors confirm that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years. In making this statement, the Directors have made the following key assumptions:

1. The Group is able to refinance maturing debt facilities and draw down existing available facilities as required. Debt maturities over the assessment period are as follows:
   a) $1bn bond maturing in 2025
   b) €750m bond maturing in 2026
   c) £375m bond maturing in 2026
   d) £2.5bn revolving credit facility maturing in 2027 (currently undrawn facility, assumed to be refinanced upon maturity)
   e) $1bn bond maturing in 2027
   f) £545m bond maturing in 2027
   g) €550m bond maturing in 2028
   h) New bonds assumed to be issued as planned: £0.2bn in 2026, £1.3bn in 2027 and £0.5bn in 2028
2. The Group has access to global debt markets and expects to be able to refinance these debt facilities on commercially acceptable terms;
3. That implausible scenarios do not occur. Implausible scenarios include either multiple risks impacting at the same time or where management actions do not mitigate an individual risk to the degree assumed; and
4. That in the event of one or more risks occurring (which has a particularly severe effect on the Group) all potential actions (such as but not limited to restricting capital and other expenditure to only committed and essential levels, reducing or eliminating discretionary spend, reinstating pay deferrals, raising additional funds through debt or equity raises, executing disposals, undertaking further restructuring and pausing distributions) would be taken on a timely basis.

The Group believes it has the early warning mechanisms to identify the need for such actions and, as demonstrated by our decisive actions during and following the pandemic, has the ability to implement them on a timely basis if necessary.

Viability statement *continued*

PRINCIPAL RISK	SCENARIO ASSUMPTIONS AND IMPACTS
Safety (product)	Civil Aerospace product safety event resulting in aircraft being grounded, lower engine flying hour (EFH) revenues, commercial penalties and additional costs (for example, unplanned shop visits). The grounding time and number of shop visits required to exceed headroom are considered remote.
Compliance	A compliance breach resulting in fines and loss of new business with governments and state-owned companies. The probability of triggering the size of fine required to exceed headroom is considered remote.
Execution	A programme issue on a major programme of the same (proportionate) scale as Trent 1000. The extent to which engine life would need to be impacted to breach headroom is considered remote.
Business interruption	a) The loss of a key element of our supply chain resulting in an inability to fulfil Civil Aerospace large engine orders for 12 months (whatever is more demanding). Reverse stress testing would require the time over which orders could not be fulfilled to be extended beyond what we consider plausible. b) A test bed event that disrupts US Defence deliveries. c) An event in our Power Systems business that results in no deliveries over a period of time. d) A pandemic with similar impact to the COVID-19 pandemic with significant engine flying hour reduction in Civil Aerospace that require multiple years to recover to pre-pandemic levels and also impact on sales volumes especially in Civil Aerospace and the Power Generation businesses.
Energy transition (previously climate change)	Transition risk from our 1.5°C TCFD scenario where we receive lower revenues from existing Civil Aerospace and Power Systems products coupled with a business interruption at one of our facilities. The extent of time over which orders cannot be fulfilled in order to breach headroom is considered not plausible.
Information & data (cyber)	A cyber-attack resulting in loss and corruption of data and resulting in business disruption, loss of EFHs, compliance concerns due to disclosure of data and potentially trigger debarment from government contracts. The time period over which EFHs would need to be affected to breach headroom is not considered plausible.
Market & financial – market shock	Plausible downside scenario to model lower demand than our base case, with Civil EFHs held at Q4 2024 levels, as well as modelling 'worst case' inflation, interest rate and GDP taken from Bloomberg data.
Political	Sanctions imposed between major trading blocs resulting in supply chain disruption and a loss of sales in impacted markets. Reverse stress testing showed that sanctions would need to persist over a period of time beyond what is considered plausible.

Section 172 and stakeholder engagement

Section 172 statement

All of our Directors are briefed on their duties under the Companies Act 2006 during their induction. Our section 172(1) statement (s172) below sets out how the Directors have discharged their s172 duty. The Board recognises the responsibility to all our different but interrelated stakeholder groups and wider society. We recognise that effective engagement with a broad range of our stakeholders is essential for the long-term success of the business and we aim to create value for our stakeholders every day by maintaining levels of business conduct that are aligned to our values and our purpose.

The likely consequences of any decision in the long term	During the year, the Directors considered the Group's strategic direction and were regularly updated on progress with the divestment programme. This, in turn, creates long-term value for shareholders, recognising that the longer-term success of our business depends on the effects of our business activities on wider society. During 2024, the Company focused on the new organisational design and how we operate to enable a simpler, more efficient and effective organisation. Further information on the launch of our multi-year transformation programme and new organisational design can be found on pages 9 to 10 in the Strategic report.
The interests of the Company's employees	The Directors recognise that the success of our business depends on attracting, retaining and motivating talented people. The Directors consider and assess the implications of decisions on our people, where relevant and feasible. Our focus on our people continued during 2024 and we launched our new purpose and behaviours during the second half of the year. Further information can be found on page 8. Additionally, at the 2024 RRH AGM, a new share plan, the Rolls-Royce Global Employee Share Purchase Plan (GESPP) was approved, enabling the Group to gift all colleagues globally 150 RRH shares (or cash equivalent where share allotment was not permitted). Further information on the GESPP can be found on page 48 of the RRH Annual Report 2024.
The need to foster the Company's business relationships with suppliers, customers and others	Delivering our strategy requires a strong, mutual and beneficial relationship with suppliers, customers, governments and joint venture partners. The Directors receive updates on engagement across the Group and support our Executive Team who work collaboratively with our suppliers and partners to continue to improve operational performance. During 2024, various RRH Board and Executive Team members met with several of our key suppliers and customers. Further information can be found on page 44 of our Stakeholder engagement section.
The impact of the Company's operations on the community and the environment	Recognising the role we play in the global energy transition, the RRH Board approved our refreshed sustainability strategy following an in-depth review by the RRH Safety, Energy Transition & Tech Committee, see page 34 of the RRH Annual Report 2024 for information on our progress in advancing the strategy and progress against our targets in 2024. The RRH Board receives information through reports from the Chief Executive and Group-level reviews on various topics to help the Company make decisions relating to net zero ambitions and proposals to divest or invest. In November, members of the RRH Board attended the Rolls-Royce Schools Prize for Science & Technology 2022-2024 held in Derby, UK. Further information on this event in our community can be found on page 44 of our Stakeholder engagement section.
The desirability of the Company maintaining a reputation for high standards of business conduct	The RRH Board reviews and approves our ethics and compliance frameworks and the General Counsel provides regular updates to the RRH Board on compliance with regulation. This, in conjunction with the RRH Board monitoring compliance with governance standards, helps to ensure that Board-level decisions and the actions of our subsidiaries promote high standards of business conduct. Our Code and Group policies, supplier code and modern slavery statements ensure high standards are approved and can be found on www.rolls-royce.com
The need to act fairly between members of the Company	After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long term, taking into consideration the effect on the Group's stakeholders.

Section 172 and stakeholder engagement *continued*

Stakeholder engagement

Consistent communication with stakeholders is a priority for the Company, RRH Board and Executive Team who maintain regular touchpoints with stakeholders to remain updated on their views and interests. The points identified through this engagement influence both the Directors' decision making and long-term strategy.

Stakeholder	Engagement
People	The Directors recognise that the success of our business depends on attracting, retaining and motivating talented people. The Directors consider and assess the implications of decisions on our people, where relevant and feasible. During 2024, our Employee Champions, Bev Goulet and Wendy Mars, continued to represent the voice of our people in the RRH boardroom. The activities of the Employee Champions during the year and opportunities for further engagement in 2025 were discussed at the RRH Nominations, Culture & Governance Committee. The Employee Champions provide regular feedback on topics of interest and/or concern. This provides a valuable link between our people and the Directors. The Employee Champions continue to meet regularly with the employee stakeholder engagement committee, which provides support for their activities. In 2024, the Employee Champions had a schedule of on-site and hybrid engagement activities which included sessions with the global inclusion network chairs, inclusion champions and the people leadership team. Our Meet the Board event in Derby, UK, in May enabled around 60 of our apprentices to talk to the RRH Board in an informal setting. Questions included what sustainability means to us as individuals and being inclusive, being at our best, being Rolls-Royce. Our Meet the Board event in Indianapolis, US, in September provided around 40 of our employees the opportunity to gain insights from our RRH Board members and share their experiences from Rolls-Royce. We are committed to holding other Meet the Board events in 2025 as the RRH Board understands the value of engaging with employees in more informal settings. In the second half of the year, the Group's new purpose and behaviours were launched. Comprehensive briefing packs were prepared for the Directors ahead of their September site visit to the Defence division in the US to support their discussions with colleagues. In addition, as part of our wider listening strategy, the new employee engagement survey, launched in September 2024, captured quantitative data and the results were shared with the RRH Board. This allowed the RRH Board to assess the impact of the new purpose and behaviours more effectively, ensuring alignment with our strategic goals. Many of our people are also our shareholders and we encourage their participation in a variety of share plans. At the 2024 RRH AGM, a new share plan, the Rolls-Royce Global Employee Share Purchase Plan (GESPP), was approved which enabled the Group to gift all colleagues globally 150 RRH shares or the equivalent where share allotment is not permitted. Your Shares: Gifted was a thank you for their hard work and for the difference our colleagues make both today and for the future and it is one of the ways the Group is investing in our people. In addition, under the GESPP, we are launching Your Shares: Matched in 2025 where colleagues can purchase shares and RRH will match the shares up to a certain amount.
Customers	The Directors recognise that the quality of the Group's customer relationships is based on mutual trust as well as our engineering expertise. We recognise that we must retain and strengthen our focus on the transition to a net zero carbon global economy by creating the sustainable power that our customers require. We continue to focus on helping our customers deliver their own sustainability agendas. During 2024, the Chief Executive and members of the Executive Team engaged with customers at Farnborough, UK, with discussions focused on the potential of UltraFan as a scalable technology. In addition, engagement took place on proposed investment to increase time on wing for our customers. The Directors regularly receive operational updates, including customer metrics and feedback, across all the divisions. This greatly influences the Directors' deliberations and their support for the Executive Team when considering our strategy. The RRH Chair and Chief Executive will continue to meet with key customers during 2025.
Suppliers and partners	The interests of both our suppliers and partners are regularly considered as part of discussions on manufacturing strategy and when reviewing specific projects. The Directors support our Executive Team, who work collaboratively with our suppliers and partners, to continue to improve operational performance through various means. The Directors continued to receive updates from the businesses on supplier performance and supply chain disruption. During 2024, discussions took place on how we are helping our suppliers with the ongoing challenges experienced across the aerospace supply chain.
Communities	The Directors recognise the importance of our communities and understand that everything we do can have an impact on our local and global communities. The Group's charitable contributions and sponsorships committee continued to identify causes for donation and partnership. During 2024, our focus was supporting young people, particularly those disadvantaged in our communities, to overcome barriers to participation, especially through STEM learning opportunities. In November, members of the RRH Board, the Company's Board and the Executive Team attended the Rolls-Royce Schools Prize for Science & Technology 2022-2024 which was held in Derby, UK with approximately 150 attendees. Our Group Director of Engineering, Technology & Safety acknowledged the valuable contribution that school teachers provide to inspire the future generations to participate in STEM learning. As part of the event, five finalist school teaching teams were hosted in Derby, UK, for the day with visits to the Rolls-Royce Heritage Centre and apprentice workshop.
Governing bodies and regulators	The Directors recognise the importance of governments and regulators as stakeholders. Not only are governments across the world customers but they also support the Group's investment in infrastructure and technology. During 2024, the RRH Chair and Chief Executive held meetings with UK Government ministers and senior officials on topics including the Atlantic Declaration, AUKUS and the SMR programme. Following the division of the UK BEIS Department, the RRH Board engaged with and briefed the new post-holders on the Group's strategy and performance. The Directors are updated on engagement with tax authorities and the related regulatory landscape. The General Counsel provides regular updates to the Board on compliance with regulation.

Section 172 and stakeholder engagement *continued*

	During 2024, the RRH Chair and members of the Executive Team met with UK Government ministers and senior officials on topics including investment, defence and energy security. As 2024 was a general election year in the UK, meetings extended to members of the Shadow Cabinet, including the then Leader of the Opposition and Shadow Chancellor at our Civil Aerospace campus in Derby, UK. Following the election, our Chief Executive met the Prime Minister at the Farnborough Airshow, UK, and Rolls-Royce business leaders have met and engaged with other members of the UK cabinet and ministers, including the Chancellor, Business and Trade Secretary and Defence Secretary. In addition, during the year, the RRH Chair was appointed as a member of the industrial strategy advisory council established by the UK Government in December.
Investors	The investor relations team is the key interface between the investment community and the Company, providing frequent dialogue and feedback. The RRH Chair and members of the RRH Board make themselves available to meet with institutional investors and seek to understand and prioritise the issues that matter most. In addition, the Directors, supported by members of the Executive Team and the investor relations team, interact regularly with investors, most notably after our financial results, capital markets events, site visits and at conferences. We set ambitious targets for the mid-term at our Capital Markets Day in November 2023. Our engagement with investors has continued throughout the year, including meeting with investors on post-results roadshows in London, UK and Boston, New York, Miami, San Francisco and Los Angeles, US. Key investor conferences during the year included the Bank of America Global Industrials Conference (UK), BNP Paribas Exane CEO Conference (Paris) and JPMorgan European Capital Goods Conference (UK).

Strategic Report approved by the Board on 27 February 2025 and signed on its behalf by:

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Helen McCabe

Director

DIRECTORS' REPORT

The Directors present their Directors' Report on the Rolls-Royce plc Group (the Group), together with the audited consolidated financial statements for the year ended 31 December 2024.

Directors

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

Tufan Erginbilgic

Mark Gregory

Sarah Armstrong

Helen McCabe

Directors' indemnities

The Directors have the benefit of an indemnity provision contained in the Articles. In addition, the Directors have been granted a qualifying third-party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the year, the Company purchased and maintained directors' and officers' liability insurance in respect of the Company and its subsidiaries and for their Directors and officers.

Dividends

The Directors do not recommend the payment of a dividend (2023: £nil).

Corporate governance

The Directors are ultimately responsible for the direction, management, performance and long-term sustainable success of the Company. The Board of RRH sets the Group's strategy and objectives and oversees and monitors internal controls, risk management, principal risks, governance and viability of the Group. In doing so, the Directors comply with their duties under s172 of the Companies Act 2006.

The RRH Board has established certain principal committees to assist in fulfilling its oversight responsibilities, providing dedicated focus on particular areas. RRH is subject to the principles and provisions of the UK Corporate Governance Code 2018 (the 'Code').

The Company operates in compliance with the Group's policies, procedures and governance framework. Details of RRH's compliance with the Code and the Group's policies, procedures and governance framework are set out in the RRH Annual Report 2024.

Risk management and internal control

The RRH Audit Committee oversees the Group's financial reporting, considering key accounting judgements and estimates; disclosures; compliance with regulations; and whether the Annual Report is fair, balanced and understandable. The RRH Audit Committee also monitors the effectiveness of the Group's risk management and internal control environment.

In addition, the RRH Audit Committee provides oversight in respect of the scope, resources, results, and effectiveness of internal audit. It is responsible for the relationship with, and the effectiveness of, the external auditors as well as approving their terms of engagement and fees.

Financial reporting

The Group has complex long-term contract accounting and every year the RRH Audit Committee spends much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In 2024, it considered the implications of our assumptions and key accounting judgements on the improved financial performance of the Group and the Group-wide transformation programme, as well as changes in the global macro-economic and political environment.

The Directors have ensured that the disclosures in respect of all key areas of judgement are appropriate and balanced. They have continued to assess and consider the sensitivity of the estimates to changes in key assumptions which are summarised in note 1 of the Consolidated Financial Statements on page 59.

A summary of the principal matters considered by the RRH Audit Committee in respect of the 2024 Consolidated Financial Statements is set out below.

Area of focus	**Considerations**
Long-term contract accounting	The RRH Audit Committee considered the assessment of estimates of future revenue and costs on the Group's long-term contractual arrangements. This has continued to be a particular focus for the RRH Audit Committee due to the complex nature of long-term contract accounting, the changing macro-economic conditions with supply chain challenges leading to some disruption in respect of parts availability and the implications of this on forecasting future costs and capacity output. As part of its considerations, it reviewed onerous contracts given their sensitivity to changes in revenue and cost assumptions. The RRH Audit Committee also reviewed catch-ups to understand the changes to revenue and cost assumptions driving them. It reviewed the disclosures and concluded these, together with the assessments, were appropriate. See note 14 in the Consolidated Financial Statements.

Corporate governance *continued*

Tax accounting	The RRH Audit Committee discussed the recoverability of deferred tax assets and the forecasts, assumptions and sensitivities applied in order to ascertain the recognition and recoverability of the deferred tax assets. The RRH Audit Committee discussed the basis for the recognition of the UK deferred tax assets and considered the judgements and estimates necessary to assess the recoverability of those deferred tax assets. This was particularly important during 2024 due to the improving financial performance and the delivery of the Group's mid-term targets. The RRH Audit Committee considered the recognition of the UK deferred tax assets in light of the requirements set out in IAS 12 *Income Taxes* to assess probable profits. It considered the recoverability of advanced corporation tax in light of the Group's plans for shareholder distributions. It confirmed the approach, which remained consistent with that taken in 2023, together with the disclosures set out in note 5 to the Consolidated Financial Statements.
Transformation programme	The RRH Audit Committee considered the impact of the transformation programme, including the organisational design, on the assumptions and accounting judgements and monitored whether the criteria required for a restructuring and transformation provision had been met. The RRH Audit Committee also considered whether excluding these costs from the underlying results was appropriate in light of the Group's definition of underlying results. The RRH Audit Committee concluded that the treatment of these costs as non-underlying was appropriate.
Going concern and viability	As in previous years, the RRH Audit Committee reviewed the information, underlying assumptions and downside risks modelled and presented in support of the going concern and viability assessment. The RRH Audit Committee concluded that the Group has a strong liquidity position over the going concern period and that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years.
Non-financial reporting and assurance requirements, including sustainability	The RRH Audit Committee has received updates on the development of non-financial reporting and assurance requirements in respect of sustainability. This has included updates on climate disclosures under the existing TCFD recommendations and disclosures, our preparedness for new EU reporting requirements set out in the Corporate Sustainability Reporting Directive (CSRD), EU Taxonomy, Corporate Sustainability Due Diligence Directive (CSDDD) and new UK reporting requirements in the International Sustainability Standards Board (ISSB). The RRH Audit Committee also received updates on the improving internal controls in relation to process and data and considered progress made with the Group's reporting. The RRH Audit Committee has ensured it understands and has continued to challenge the assumptions in the climate scenarios used by management in respect of viability, long-term contract accounting, impairment assessments and deferred tax asset recognition. See note 5 in the Consolidated Financial Statements.
Alternative Performance Measures (APMs)	As in previous years, the RRH Audit Committee reviewed the clarity of the definitions and the reconciliation of each APM to its statutory equivalent. The RRH Audit Committee concluded that there was no undue prominence of the APMs in the RRH Annual Report. See page 161 for a reconciliation of APMs to their statutory equivalents.

Risk management and the internal control environment

Our risk management and internal control framework is described in the Principal Risks section on page 30. During 2024, we focused on the effectiveness of risk controls and their assurance, ensuring actions to mitigate where needed and to manage risks in relation to our appetite for taking risk as described on page 31. We will continue to focus on risk mitigation controls and risk appetite in 2025, embedding these more firmly as part of our routine processes and decision making, including in relation to strategic planning.

We also satisfied ourselves that the processes for identifying and managing risks are appropriate and that all principal risks and mitigating actions had been subject, during the year, to a detailed review by the Executive Team and the RRH Board or an appropriate RRH Board Committee. Based on this and on our other activities, including consideration of the work of internal and external audit and attendance at the RRH Board Committee meetings by divisional and functional risk owners, the RRH Board confirmed that a robust assessment of the principal risks and emerging risks facing the Group had been undertaken. Details of our principal risks are set out on pages 30 to 39. The RRH Board has allocated certain principal risks to the RRH Audit Committee which considered these in detail throughout the year, as described below.

From their discussions, they are satisfied that the principal risks that they oversee have received appropriate management attention during 2024:

- Business interruption: the RRH Audit Committee received updates on the status of the Group's continuity risk management, including the risks to internal facilities' resilience.
- Information and data, including cyber: the RRH Audit Committee received updates on the status of cyber security risk, including details of controls and comprehensive mitigation plans, as well as an assessment of risk management effectiveness.

Internal financial control

The RRH Audit Committee specifically reviews the Group's internal controls over financial reporting. During 2024, it received an update on the risk assessment to identify the controls considered to be material and in-scope from a financial reporting perspective. It monitored progress against the 2024 financial controls programme to strengthen the financial reporting and compliance controls. It confirmed completion of identified key activities. It also considered the external auditor's observations on the financial control environment.

Effectiveness of risk management and internal control systems

The RRH Audit Committee conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process. Where opportunities for improvement were identified, action plans have been put in place and progress is monitored by the RRH Audit Committee. In 2024, no significant weaknesses were identified.

Employment of disabled persons

We offer additional support to candidates who declare a disability at the application stage and support our assessors and interviewers to ensure a fair process for all. We are committed to fair and equal consideration for applicants with disabilities and actively support employees who become disabled while working with us by making adjustments to enable their continued employment.

Employee engagement

Engagement is an outcome of our employee experience with a focus driven through our people leadership practices, purpose and behaviours. Our leaders are catalysts for change, engaging their teams on our new purpose and behaviours. By role-modelling these behaviours daily, they make our purpose meaningful in their work, while fostering an environment of learning, growth and alignment.

Engagement is one of our Group KPIs with continued links to leadership incentive plans (see page 16). In 2024, we launched a new colleague survey, Our Voices, which provides insights into the employee experience and increases our leaders' accountability for driving change. As this is our first year for Our Voices, we have benchmarked our 2024 score of 78 against the global manufacturing index, the mean average being 75 and the 75th percentile being 81 for 2024.

In addition to our survey, we provide a variety of channels for colleague engagement and listening, including interactive learning sessions, newsletters and team briefings as well as digital communication channels such as Viva Engage. Through our transformation programme we have introduced new ways to engage with colleagues. In 2024, we have continued to hold regular live town halls with Q&As hosted by our Chief Executive and Executive Team.

In May and September 2024, the Group held Meet the Board events continuing to foster engagement with Directors and colleagues. In 2024, over 1,200 colleagues volunteered to be part of our change makers network, driving cultural transformation as One Rolls-Royce. The change makers help to promote our purpose and behaviours, connect colleagues across the Group and support change from within. By engaging with leaders and inspiring others, they help unlock potential, foster meaningful connections and act as catalysts for change.

In September 2024, we launched the Your Shares: Gifted employee share plan, awarding 150 RRH shares to every employee (or cash equivalent where share allotment is not permitted). With 99% participation, this initiative has transformed our share ownership culture, strengthening alignment with our purpose and strategy.

For more information, see our Stakeholder engagement section on page 44.

Financial instruments and risk management

Details of financial instruments and risk management are set out in note 19 to the Consolidated Financial Statements.

Post balance sheet events

Details of important events affecting the Group which have occurred since the end of the financial year are set out in note 1 to the Consolidated Financial Statements.

Related party transactions

Details of related party transactions are set out in note 25 to the Consolidated Financial Statements.

Disclosures in the Strategic Report

The Directors have taken advantage of section 414C(11) of the Act to include disclosures in the Strategic Report including:

- the future development, performance and position of the Group;
- research and development activities; and
- engagement with suppliers, customers and others.

Disclosures in the Rolls-Royce Holdings plc Annual Report

The following disclosures are provided in the Company's ultimate parent entity annual report:

- greenhouse gas emissions (page 212 of RRH Annual Report 2024); and
- political donations (page 222 of RRH Annual Report 2024); and
- non-financial and sustainability information statement (see page 32 of RRH Annual Report 2024).

Management report

The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the DTRs.

Responsibility statements

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 Group Financial Statements in accordance with UK-adopted international accounting standards and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, 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 responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.
- In the case of each Director in office at the date the Directors' Report is approved:
- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

Independent Auditors

The auditors, PriceWaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution for their re-appointment will be put to the 2025 annual general meeting.

Directors' Report approved by the Board on 27 February 2025 and signed on its behalf by:

…………………………………

Tufan Erginbilgic

Director

Date:

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Primary statements

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Company Financial Statements
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CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Revenue	2	**18,909**	16,486
Cost of sales [1,2]		**(14,688)**	(12,866)
Gross profit	2	**4,221**	3,620
Commercial and administrative costs	2	**(1,284)**	(1,110)
Research and development costs [2]	2, 3	**(203)**	(739)
Share of results of joint ventures and associates	11	**172**	173
Operating profit		**2,906**	1,944
Gain arising on disposal of businesses	26	**16**	1
Profit before financing and taxation		**2,922**	1,945
Financing income	4	**536**	1,163
Financing costs	4	**(1,224)**	(681)
Net financing (costs)/income [3]		**(688)**	482
Profit before taxation		**2,234**	2,427
Taxation	5	**250**	(23)
Profit for the year		**2,484**	2,404

		2024 £m	2023 £m
Attributable to:			
Ordinary shareholders		**2,521**	2,412
Non-controlling interests (NCI)		**(37)**	(8)
Profit for the year		**2,484**	2,404
Other comprehensive income /(expense)		**50**	(171)
Total comprehensive income for the year		**2,534**	2,233

1 Cost of sales includes a net charge for expected credit losses (ECLs) of £14m (2023: release of £48m). Further details can be found in note 13

2 The impact of an exceptional impairment reversal relating to a Civil Aerospace programme impairment that was recognised in 2020 is included within cost of sales, £132m, and research and development, £413m. Further details can be found in notes 2, 3 and 8

3 Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 19

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Profit for the year		**2,484**	2,404
Other comprehensive income/(expense) (OCI)			
Actuarial movements on post-retirement schemes	21	**22**	116
Revaluation to fair value of other investments	11	**(2)**	(4)
Share of OCI of joint ventures and associates	11	**(1)**	1
Related tax movements	5	**61**	(43)
Items that will not be reclassified to profit or loss		**80**	70
Foreign exchange translation differences on foreign operations		**(29)**	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		**–**	1
Movement on fair values charged to cash flow hedge reserve		**(17)**	(82)
Reclassified to income statement from cash flow hedge reserve		**22**	61
Share of OCI of joint ventures and associates	11	**(3)**	1
Related tax movements	5	**(3)**	4
Items that will be reclassified to profit or loss		**(30)**	(241)
Total other comprehensive income/(expense)		**50**	(171)
Total comprehensive income for the year		**2,534**	2,233
Attributable to:			
Ordinary shareholders		**2,571**	2,241
NCI		**(37)**	(8)
Total comprehensive income for the year		**2,534**	2,233

CONSOLIDATED BALANCE SHEET

As at 31 December 2024

	Notes	**2024 £m**	2023 £m
ASSETS			
Intangible assets	8	**4,402**	4,009
Property, plant and equipment	9	**3,724**	3,728
Right-of-use assets	10	**761**	905
Investments – joint ventures and associates	11	**592**	479
Investments – other	11	**5**	31
Other financial assets	19	**126**	360
Deferred tax assets	5	**3,660**	2,998
Post-retirement scheme surpluses	21	**790**	782
Non-current assets		**14,060**	13,292
Inventories	12	**5,092**	4,848
Trade receivables and other assets	13	**9,051**	8,460
Contract assets	14	**1,813**	1,242
Taxation recoverable		**71**	80
Other financial assets	19	**209**	34
Cash and cash equivalents	15	**5,574**	3,784
Current assets		**21,810**	18,448
Assets held for sale	26	**153**	109
TOTAL ASSETS		**36,023**	31,849
LIABILITIES			
Borrowings and lease liabilities	16	**(1,097)**	(809)
Other financial liabilities	19	**(619)**	(425)
Trade payables and other liabilities	18	**(8,009)**	(6,896)
Contract liabilities	14	**(6,309)**	(6,098)
Current tax liabilities		**(117)**	(143)
Provisions for liabilities and charges	20	**(589)**	(532)
Current liabilities		**(16,740)**	(14,903)
Borrowings and lease liabilities	16	**(4,035)**	(4,950)
Other financial liabilities	19	**(1,640)**	(1,983)
Trade payables and other liabilities	18	**(1,965)**	(1,927)
Contract liabilities	14	**(9,447)**	(8,438)
Deferred tax liabilities	5	**(231)**	(330)
Provisions for liabilities and charges	20	**(1,405)**	(1,497)
Post-retirement scheme deficits	21	**(981)**	(1,035)
Non-current liabilities		**(19,704)**	(20,160)
Liabilities associated with assets held for sale	26	**(100)**	(55)
TOTAL LIABILITIES		**(36,544)**	(35,118)
NET LIABILITIES		**(521)**	(3,269)
EQUITY			
Called-up share capital	22	**338**	338
Share premium		**631**	631
Cash flow hedge reserve		**13**	12
Translation reserve		**603**	634
Accumulated losses		**(2,137)**	(4,936)
Equity attributable to ordinary shareholders		**(552)**	(3,321)
Non-controlling interest (NCI)		**31**	52
TOTAL EQUITY		**(521)**	(3,269)

The Financial Statements on pages 51 to 114 were approved by the Board on 27 February 2025 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Reconciliation of cash flows from operating activities			
Operating profit		**2,906**	1,944
Loss on disposal of property, plant and equipment		**32**	18
Loss on disposal of intangible assets		**6**	–
Share of results of joint ventures and associates	11	**(172)**	(173)
Dividends received from joint ventures and associates	11	**77**	54
Amortisation and impairment of intangible assets	8	**(120)**	272
Depreciation and impairment of property, plant and equipment	9	**400**	423
Depreciation and impairment of right-of-use assets	10	**265**	334
Adjustment of amounts payable under residual value guarantees within lease liabilities	17	**(6)**	(10)
Impairment of and other movements on investments	11	**4**	–
Decrease in provisions		**(56)**	(325)
Increase in inventories		**(323)**	(200)
Movement in trade receivables/payables and other assets/liabilities		**831**	(1,346)
Movement in contract assets/liabilities		**752**	2,703
Cash flows on other financial assets and liabilities held for operating purposes [1]		**(676)**	(845)
Cash flows on settlement of excess derivative contracts [2]		**(146)**	(389)
Interest received		**269**	159
Net defined benefit post-retirement cost recognised in profit before financing	21	**56**	41
Cash funding of defined benefit post-retirement schemes	21	**(74)**	(69)
Share-based payments	23	**136**	67
Net cash inflow from operating activities before taxation		**4,161**	2,658
Taxation paid		**(381)**	(172)
Net cash inflow from operating activities		**3,780**	2,486
Cash flows from investing activities			
Movement in other investments	11	**–**	1
Additions of intangible assets	8	**(367)**	(284)
Disposals of intangible assets		**5**	4
Purchases of property, plant and equipment		**(519)**	(429)
Disposals of property, plant and equipment		**5**	10
Acquisition of businesses		**–**	(14)
Disposal of businesses (including cash flows on disposals in prior periods)	26	**62**	(4)
Movement in investments in joint ventures and associates	11	**(17)**	(9)
Movement in short-term investments		**–**	11
Cash flows on other financial assets and liabilities held for non-operating purposes		**–**	(12)
Net cash outflow from investing activities		**(831)**	(726)
Cash flows from financing activities			
Repayment of loans		**(475)**	(1)
Settlement of swaps hedging fixed rate borrowings		**(11)**	–
Proceeds from increase in loans		**7**	2
Capital element of lease payments		**(299)**	(291)
Net cash flow from decrease in borrowings and leases		**(778)**	(290)
Interest paid		**(200)**	(196)
Interest element of lease payments		**(83)**	(85)
Fees paid on undrawn facilities		**(15)**	(52)
Transactions with NCI [3]		**33**	77
Dividends to NCI		**(3)**	(2)
Movement on balances with parent company		**–**	(2)
Net cash outflow from financing activities		**(1,046)**	(550)
Change in cash and cash equivalents		**1,903**	1,210
Cash and cash equivalents at 1 January		**3,731**	2,605
Exchange losses on cash and cash equivalents		**(62)**	(84)
Cash and cash equivalents at 31 December [4]		**5,572**	3,731

1 Predominately relates to cash settled on derivative contracts held for operating purposes

2 In 2020, the Group took action to reduce the size of the USD hedge book by $11.8bn across 2020-2026 to reflect the fact that at that time, future operating cash flows were no longer forecast to materialise. To achieve the necessary reduction in the hedge book, a separate and distinct set of foreign exchange derivative instruments were entered into to buy $11.8bn which had the impact of fixing the fair value of the over-hedged position and provided certainty over when the cash flows to settle the position would occur in future periods. The associated cash outflow of these transactions is £1,674m and occurs over the period 2020-2026. During the year, the Group incurred a cash outflow of £146m (2023: £389m) and estimates that future cash outflows of £148m will be incurred during 2025 and £27m during 2026

3 Relates to NCI investment received in the year, in respect of Rolls-Royce SMR Limited

4 The Group considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement

CONSOLIDATED CASH FLOW STATEMENT *CONTINUED*

For the year ended 31 December 2024

In deriving the consolidated cash flow statement, movement in balance sheet items have been adjusted for non-cash items. The cash flow in the year includes the sale of goods and services to joint ventures and associates – see note 25.

	2024 £m	2023 £m
Reconciliation of movements in cash and cash equivalents to movements in net cash/(debt)		
Change in cash and cash equivalents	**1,903**	1,210
Cash flow from decrease in borrowings and lease liabilities	**778**	290
Less: settlement of related derivates included in fair value of swaps below	**(11)**	–
Cash flow from decrease in short-term investments	**–**	(11)
Change in net cash/(debt) resulting from cash flows	**2,670**	1,489
New leases and other non-cash adjustments on borrowings and lease liabilities	**(193)**	(191)
Exchange (losses)/gains on net cash/(debt)	**(50)**	57
Fair value adjustments	**(11)**	7
Movement in net cash/(debt)	**2,416**	1,362
Net (debt) at 1 January	**(1,975)**	(3,337)
Net cash/(debt) at 31 December excluding the fair value of swaps	**441**	(1,975)
Fair value of swaps hedging fixed rate borrowings	**33**	23
Net cash/(debt) at 31 December	**474**	(1,952)

CONSOLIDATED CASH FLOW STATEMENT *CONTINUED*

For the year ended 31 December 2024

The movement in net debt (defined by the Group as including the items shown below) is as follows:

	At 1 January £m	Funds flow £m	Exchange differences £m	Fair value adjustments £m	Reclassifications £m	Other movements £m	At 31 December £m
2024							
Cash at bank and in hand	**739**	**(16)**	**(10)**	**–**	**–**	**–**	**713**
Money market funds	**1,077**	**841**	**(18)**	**–**	**–**	**–**	**1,900**
Short-term deposits	**1,968**	**1,027**	**(34)**	**–**	**–**	**–**	**2,961**
Cash and cash equivalents (per balance sheet)	**3,784**	**1,852**	**(62)**	**–**	**–**	**–**	**5,574**
Overdrafts	**(53)**	**51**	**–**	**–**	**–**	**–**	**(2)**
Cash and cash equivalents (per cash flow statement)	**3,731**	**1,903**	**(62)**	**–**	**–**	**–**	**5,572**
Other current borrowings	**(478)**	**471**	**–**	**(18)**	**(774)**	**–**	**(799)**
Non-current borrowings	**(3,568)**	**(3)**	**19**	**7**	**774**	**(5)**	**(2,776)**
Lease liabilities	**(1,660)**	**299**	**(7)**	**–**	**1**	**(188)**	**(1,555)**
Lease liabilities included within liabilities held for sale	**–**	**–**	**–**	**–**	**(1)**	**–**	**(1)**
Financial liabilities	**(5,706)**	**767**	**12**	**(11)**	**–**	**(193)**	**(5,131)**
Net cash/(debt) excluding the fair value of swaps	**(1,975)**	**2,670**	**(50)**	**(11)**	**–**	**(193)**	**441**
Fair value swaps hedging fixed rate borrowings [1]	**23**	**11**	**(18)**	**17**	**–**	**–**	**33**
Net cash/(debt)	**(1,952)**	**2,681**	**(68)**	**6**	**–**	**(193)**	**474**
2023							
Cash at bank and in hand	847	(79)	(29)	–	–	–	739
Money market funds	34	1,043	–	–	–	–	1,077
Short-term deposits	1,726	297	(55)	–	–	–	1,968
Cash and cash equivalents (per balance sheet)	2,607	1,261	(84)	–	–	–	3,784
Overdrafts	(2)	(51)	–	–	–	–	(53)
Cash and cash equivalents (per cash flow statement)	2,605	1,210	(84)	–	–	–	3,731
Short-term investments	11	(11)	–	–	–	–	–
Other current borrowings	(1)	(1)	–	(13)	(462)	(1)	(478)
Non-current borrowings	(4,105)	–	59	20	462	(4)	(3,568)
Lease liabilities	(1,847)	291	82	–	–	(186)	(1,660)
Financial liabilities	(5,953)	290	141	7	–	(191)	(5,706)
Net (debt) excluding fair value swaps	(3,337)	1,489	57	7	–	(191)	(1,975)
Fair value swaps hedging fixed rate borrowings [1]	86	–	(59)	(4)	–	–	23
Net (debt)	(3,251)	1,489	(2)	3	–	(191)	(1,952)

1 Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net cash/(debt) therefore includes the fair value of derivatives included in fair value hedges (2024: £62m, 2023: £34m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (2024: £(29)m, 2023: £(11)m)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2024

The following describes the nature and purpose of each reserve within equity:
Share capital – The nominal value of ordinary shares of 20p each in issue.
Share premium – Proceeds received in excess of the nominal value of ordinary shares issued, less the costs of issue.
Hedging reserves – Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges and cost of hedging reserve.
Merger reserve – The premium on issuing shares to acquire a business where merger relief in accordance with the Companies Act 2006 applies.
Translation reserve – Gains and losses arising on retranslating the net assets of overseas operations into sterling.
Accumulated losses – All other net gains and losses and transactions with owners not recognised elsewhere and ordinary shares held for the purpose of share-based payment plans.
Non-controlling interests – The share of net assets or liabilities of subsidiaries held by third parties.

		Attributable to ordinary shareholders							
	Notes	Share capital £m	Share premium £m	Cash flow hedging reserves [1] £m	Translation reserve £m	Accumulated losses £m	Total £m	NCI £m	Total equity £m
At 1 January 2024		**338**	**631**	**12**	**634**	**(4,936)**	**(3,321)**	**52**	**(3,269)**
Profit/(loss) for the year		–	–	–	–	**2,521**	**2,521**	**(37)**	**2,484**
Foreign exchange translation differences on foreign operations		–	–	–	**(29)**	–	**(29)**	–	**(29)**
Actuarial movements on post-retirement schemes	21	–	–	–	–	**22**	**22**	–	**22**
Fair value movement on cash flow hedges		–	–	**(17)**	–	–	**(17)**	–	**(17)**
Reclassified to income statement from cash flow hedge reserve		–	–	**22**	–	–	**22**	–	**22**
Revaluation to fair value of other investments	11	–	–	–	–	**(2)**	**(2)**	–	**(2)**
OCI of joint ventures and associates	11	–	–	**(3)**	–	**(1)**	**(4)**	–	**(4)**
Related tax movements	5	–	–	**(1)**	**(2)**	**61**	**58**	–	**58**
Total comprehensive (expense)/income for the year		–	–	**1**	**(31)**	**2,601**	**2,571**	**(37)**	**2,534**
Share-based payments – direct to equity [2]	23	–	–	–	–	**95**	**95**	–	**95**
Dividends to NCI		–	–	–	–	–	–	**(3)**	**(3)**
Transactions with NCI [3]		–	–	–	–	**32**	**32**	**19**	**51**
Related tax movements	5	–	–	–	–	**71**	**71**	–	**71**
Other changes in equity in the year		–	–	–	–	**198**	**198**	**16**	**214**
At 31 December 2024		**338**	**631**	**13**	**603**	**(2,137)**	**(552)**	**31**	**(521)**
At 1 January 2023		338	631	26	861	(7,547)	(5,691)	34	(5,657)
Profit/(loss) for the year		–	–	–	–	2,412	2,412	(8)	2,404
Foreign exchange translation differences on foreign operations		–	–	–	(226)	–	(226)	–	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		–	–	–	1	–	1	–	1
Actuarial movements on post-retirement schemes	21	–	–	–	–	116	116	–	116
Fair value movement on cash flow hedges		–	–	(82)	–	–	(82)	–	(82)
Reclassified to income statement from cash flow hedge reserve		–	–	61	–	–	61	–	61
Revaluation to fair value of other investments	11	–	–	–	–	(4)	(4)	–	(4)
OCI of joint ventures and associates	11	–	–	2	(1)	1	2	–	2
Related tax movements	5	–	–	5	(1)	(43)	(39)	–	(39)
Total comprehensive (expense)/income for the year		–	–	(14)	(227)	2,482	2,241	(8)	2,233
Share-based payments – direct to equity [2]	23	–	–	–	–	50	50	–	50
Dividends to NCI		–	–	–	–	–	–	(2)	(2)
Transactions with NCI [3]		–	–	–	–	57	57	28	85
Related tax movements	5	–	–	–	–	22	22	–	22
Other changes in equity in the year		–	–	–	–	129	129	26	155
At 31 December 2023		338	631	12	634	(4,936)	(3,321)	52	(3,269)

1 Hedging reserves includes the cash flow hedge reserve of £13m and the cost of the hedging reserve of £nil (31 December 2023: £12m and £nil respectively)

2 Share-based payments - direct to equity is the share-based payment charge for the year less actual cost of vesting excluding those vesting from own shares and cash received on share-based schemes

3 Relates to NCI investment received in the year in respect of Rolls-Royce SMR Limited

1 Accounting policies

The Company and the Group

Rolls-Royce plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in England in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2024 consist of the audited consolidation of the Financial Statements of the Company and its subsidiaries (together referred to as the Group) together with the Group's interest in jointly controlled and associated entities.

Basis of preparation and statement of compliance

The Company has elected to prepare its individual Company Financial Statements under FRS 101 *Reduced Disclosure Framework*. They are set out on pages 115 to 143 with the associated accounting policies from page 117.

The Consolidated Financial Statements have been prepared in accordance with UK adopted International Accounting Standards (IAS) in conformity with the requirements of Companies Act 2006 and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under UK adopted IFRS.

The Consolidated Financial Statements have been prepared on a going concern basis as described on page 40. The historical cost basis has been used except where IFRS require the revaluation of financial instruments to fair value and certain other assets and liabilities on an alternative basis, most significantly post-retirement scheme obligations are valued on the basis required by IAS 19 *Employee Benefits.*

The Consolidated Financial Statements are presented in sterling which is the Company's functional currency.

The preparation of the Consolidated Financial Statements requires management to make judgements and estimates that affect the statutory amounts of assets and liabilities at the date of the Consolidated Financial Statements and the statutory amounts of revenue and expenses during the reporting period. Actual future outcomes could differ from those estimates.

Going concern

The Directors have undertaken a comprehensive going concern review. In adopting the going concern basis for preparing these Consolidated and Company Financial Statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of possible risks and uncertainties over an 18-month period from the balance sheet date to June 2026. The Directors have determined that the period to 30 June 2026 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short- to medium-term cash flow forecasts and available liquidity. Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have considered two forecasts in the assessment of going concern, along with a likelihood assessment of these forecasts, being:

— base case, which reflects the Directors' current expectations of future trading; and

— a downside forecast, which envisages severe but plausible downside risks.

Further details are given in the going concern review on page 40. After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and downside forecast, the Directors consider that the Group has sufficient liquidity to continue in operational existence over the going concern period to 30 June 2026 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Climate change

In preparing the Consolidated Financial Statements the Directors have considered the potential impact of climate change, particularly in the context of the disclosures included in the 2024 Strategic Report that set out climate-related commitments, targets and the four pillars of the Rolls-Royce energy transition strategy which are:

— decarbonising operations, facilities, product testing and business activities. This will be met through a combination of procuring clean energy, reducing overall energy demand, and clean power generation. An estimate of the investment required to meet Scope 1 + 2 emission improvements is included in the forecasts that support these Consolidated Financial Statements;

— enabling customers to operate their products in a way that is compatible with low or net zero carbon emissions. The Group is working with customers to enable them to operate products in a way that is compatible with net zero emissions. This means further advancing the efficiency and environmental performance of the Group's engine and technology portfolio and ensuring compatibility with sustainable fuels. Within Power Systems, 80% of the Group's portfolio is compatible with alternative and sustainable fuels. The Group has demonstrated that all the commercial aero engines it produces are compatible for use with sustainable fuels and is also working with its armed forces customers, such as the RAF, on the use of SAF blends;

— delivering new products and solutions that can accelerate the global energy transition. This includes the development and deployment of small modular reactors (SMRs) and, in Power Systems, battery energy storage solutions is a growth area. In 2024, research and development (R&D) costs of £133m (2023: £137m) within New Markets included investment to successfully complete Step 2 of the Generic Design Assessment (GDA) by the UK nuclear industry's independent regulators and movement into the third and final step. Future investment required to deliver these technologies is included in the forecasts that support the Consolidated Financial Statements; and by

— supporting the necessary enabling environment, with public and policy support, to achieve collective climate goals. This involves actively engaging with policy makers, regulators and others to advocate for the necessary policy and economic support we have identified.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risk have continued to develop over the last year as set out in our Strategic Review. The scenarios are used to help assess the Group's strategic resilience to climate change and the energy transition. Consideration is made of how each of them impacts: the life of assets; future revenue projections; future profitability; and whether additional costs may occur. There remains inherent uncertainty around how the scenarios will impact the Group. The Directors assess the assumptions on a regular basis to ensure that they are consistent with the risk management activities and the commitments made to investors and other stakeholders.

1 Accounting policies *continued*

Climate change (continued)

Based on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, the Group assesses the potential impact of climate-related risks which cover transition and physical risks and opportunities. The Group has identified four key transition risks (relating to changing customer demand, changes in cost due to carbon pricing, changes in cost due to commodity price changes and change in investment requirements) and three key physical risks (relating to facility disruption, supply chain disruption and impact on product performance) which may arise from the energy transition. The transition risks are the most likely to have an impact on the Consolidated Financial Statements, as exposure to physical risks will be greater in the longer term.

The key sources of estimation uncertainty at the balance sheet date are set out on page 61 and the Directors have considered the impact of climate change on those estimates. The key assumptions used in this assessment are consistent with those used in the climate scenarios presented in the Strategic Review. A summary of the assessment is set out below.

Risk	How reflected in the Financial Statements	Impact on Civil Aerospace LTSAs	Impact on impairment of non-financial assets	Impact on UK deferred tax asset recoverability
Changing customer demand	Overall forecast demand is expected to be robust in each scenario, although product mix may change with customer requirements.	Forecast EFH are based on customer and market data and therefore already include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 1% change in EFH forecasts over the remaining term of Civil LTSA contracts is disclosed on page 64.	Given the level of headroom in the programme intangible assets and Power Systems and Rolls-Royce Deutschland goodwill, the potential impact of a change in customer demand does not indicate any potential impact.	Forecast EFH are based on customer and market data and therefore include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 5% change in margin or shop visits is disclosed on page 65.
Changes in costs due to carbon pricing[1] and commodity price changes[2]	The potential impact of carbon pricing has been estimated by applying carbon prices to the forecast emissions generated by the Group and its supply chain. This impact, together with that from estimated commodity prices under each scenario, have been added/deducted to forecast costs in the base forecasts. The analysis reflects that: decarbonisation activities will occur in both the Group and its supply chain; and that some supplier contracts offer protection from cost increases in the short- to medium-term where pricing is fixed or subject to capped escalation clauses.	The increase in the cost base of the current Civil LTSA contracts due to carbon and commodity prices is estimated to be around 1% (2023: 1%) with the incremental cost included in the cost to complete estimates that drive revenue recognition. Changes in estimates have not had a material impact on revenue catch-ups or contract loss provisions in the year (2023: not material). A sensitivity disclosing the impact of a 2% change in shop visit costs over the remaining term of Civil LTSA contracts is disclosed on page 64.	Given the level of headroom in the programme intangible assets and Power Systems and Rolls-Royce Deutschland goodwill, the potential impact of the cost increases in the scenarios does not indicate any potential impact. The assessment has considered each of the Group's climate scenarios.	The forecast of probable future taxable profits reflects the increase in the cost base that could arise from carbon and commodity prices consistent with the methodology applied for Civil Aerospace LTSA. Disclosed on page 65 is the impact of changing the proportion of cost increases that can be passed onto customers following the expiry of existing LTSAs.
Change in investment requirement	Changing investment requirements may arise due to the introduction /acceleration of new technologies. Research is expensed and development costs capitalised as incurred.	No impact to existing LTSAs.	Impairment tests are either: performed on a value in use basis and the investment associated with new products is required to be excluded; or have sufficient headroom such that the estimated investment requirement is not significant.	Given the UK deferred tax asset recoverability is largely dependent on Civil and Defence aerospace markets, the increase in research and development expenditure required under this scenario does not have a material impact.

1 Based on the IEA Net Zero by 2050 scenario ($71 per tonne of carbon in 2024 to $250 in 2050)

2 Commodity prices from the Oxford Economics, Global Climate Service and Databank

1 Accounting policies *continued*

Climate change (continued)
Items that may be impacted by climate-related risks, but which are not considered to be key areas of judgements or sources of estimation uncertainty in the current financial year are outlined below.

Useful lives of assets – The useful lives of property, plant and equipment and right-of-use assets could be reduced by climate-related matters, for example, as a result of physical risks, obsolescence or legal restrictions. The change in useful lives would have a direct impact on the amount of depreciation or amortisation recognised each year from the date of reassessment. The Directors' review of useful lives has taken into consideration the impacts of the Group's decarbonisation strategy and has not had a material impact on the results for the year. The Directors have also considered the remaining useful economics lives of material intangible assets, including the £2,001m and £632m capitalised development spend associated with the Trent and business aviation programmes disclosed in note 8. Given the measures the Group is taking, including demonstration that all the commercial aero-engines and 80% of the portfolio in Power Systems are compatible with alternative and sustainable fuels, the Directors judge that no adjustment is required to the useful economic lives.

Inventory valuation – Climate-related matters may affect the value of inventories as a result of a decline in selling prices or they could become obsolete due to a reduction in demand. After consideration of the typical stock-turns of the inventory in relation to the rate of change in the market the Directors consider that inventory is appropriately valued.

Recoverability of trade receivables and contract assets – The impact of climate-related matters could have an impact on the Group's customers in the future, especially those customers in the Civil Aerospace business. No material climate-related issues have arisen during the year that have impacted the assessment of the recoverability of receivables. The Group's expected credit loss (ECL) provision uses credit ratings which inherently will include the market's assessment of the climate change impact on credit risk of the counter parties. Given the maturity time of trade receivables and the majority of contract assets, climate change is unlikely to cause a material increase on counter party credit risk in that time.

Share-based payments – The Group is committed to achieving net zero by 2050. The first phase of a sustainability strategic review was completed during 2024 and the Group has committed to reduce the total Scope 1 + 2 greenhouse gas emissions from its facilities, operations and testing by 46% by the end of 2030 (against a baseline of 2019). This metric accounts for 10% of the long-term incentive plan for awards granted from 2025, with performance measured against three-year cumulative targets.

Defined benefit pension plans – Climate-related risks could affect the financial position of defined benefit pension plans. As a result, this could have implications on the expected return on plan assets and measurement of defined benefit liabilities in future years. The Trustee of the Rolls-Royce UK Pension Fund meet the climate-related regulatory requirements. When making decisions about the plan, its analysis is carried out in a way consistent with TCFD. The Trustee has set a net zero target for the plan assets by 2050. Having assessed the risks and opportunities of climate change and considered the nature of the assets of the fund, climate change is unlikely to have a material impact on the position in the Consolidated Financial Statements.

Going concern – Given the short-term nature of the Group's going concern assessment, the impact of climate change does not have a significant impact. The Directors have considered the level of liquidity available, and the potential impact of the climate change risks, in making their assessment.

Presentation of underlying results
The Group measures financial performance on an underlying basis and discloses this information as an alternative performance measure (APM). This is consistent with the way that financial performance is measured by the Directors and reported to the Board in accordance with IFRS 8 *Operating Segments*. The Group believes this is the most appropriate basis to measure the in-year performance, as underlying results reflect the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which economically hedge net foreign currency cash flows at predetermined exchange rates. In addition, underlying results exclude the accounting impact of acquisition accounting and business disposals, impairment charges where the reasons are outside of normal operating activities, exceptional items, and certain other items which are market driven and outside of the control of management. Further details are given in note 2. A reconciliation of APMs to the statutory equivalent is provided on pages 161 to 164.

Revisions to IFRS applicable in 2024
Supplier Finance Arrangements
New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk. The Group's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements have necessitated some additional information being disclosed on page 95 in relation to the value of trade payables that were within the scope of the Group offered SCF scheme. This has been presented alongside the value of received payments which suppliers had drawn, this being information which the Group has previously disclosed in its Annual Reports.

Other
There are no other new standards or interpretations issued by the International Accounting Standards Board (IASB) that had a significant impact on these Consolidated Financial Statements.

1 Accounting policies *continued*

Key areas of judgement and sources of estimation uncertainty

The determination of the Group's accounting policies requires judgement. The subsequent application of these policies requires estimates, and the actual outcome may differ from that calculated. The key judgements and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are summarised below. Further details, together with sensitivities for key sources of estimation uncertainty where appropriate and practicable, are included within the significant accounting policies section of this note.

Area	Key judgements	Key sources of estimation uncertainty	Page
Revenue recognition and contract assets and liabilities	— Whether Civil Aerospace OE and aftermarket contracts should be combined. — How performance on long-term aftermarket contracts should be measured. — Whether long-term aftermarket contracts contain a significant financing component. — Whether any costs should be treated as wastage. — Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 *Revenue from Contracts with Customers* — Whether sales of spare engines to joint ventures are at fair value. — When revenue should be recognised in relation to spare engine sales.	— Estimates of future revenue including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change.	63
Risk and revenue sharing arrangements (RRSAs)	— Determination of the nature of entry fees received.		64
Taxation		— Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised.	65
Research and development	— Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation. — Determination of the basis for amortising capitalised development costs.		67
Leases	— Determination of the lease term.		68
Impairment of non-current assets	— Determination of cash-generating units for assessing impairment of goodwill.		68
Provisions	— Whether any costs should be treated as wastage. — Whether the criteria to recognise transformation and restructuring provision has been met.	— Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts. — Estimates of the future revenues and costs to fulfil onerous contracts. — Assumptions implicit within the calculation of discount rate.	69
Post-retirement benefits		— Estimates of the assumptions for valuing the net defined benefit obligation.	70

Material accounting policies

The Group's significant accounting policies are set out on pages 62 to 71. These accounting policies have been applied consistently to all periods presented in these Consolidated Financial Statements.

1 Accounting policies *continued*

Basis of consolidation

The Consolidated Financial Statements include the Company Financial Statements and its subsidiary undertakings together with the Group's share of the results in joint arrangements and associates made up to 31 December.

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over an entity so as to affect the Company's returns. Subsidiaries are consolidated in accordance with IFRS 10 *Consolidated Financial Statements*.

A joint arrangement is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other investors under a contractual arrangement. Joint arrangements may be either joint ventures or joint operations. Joint ventures are accounted for using the equity method of accounting and joint operations are accounted for using proportionate accounting.

An associate is an entity that is neither a subsidiary nor a joint arrangement, in which the Group holds a long-term interest and where the Group has a significant influence. The results of associates are accounted for using the equity method of accounting.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with joint arrangements and associates to the extent of the Group's interest in the entity. Transactions with non-controlling interests are recorded directly in equity.

Any subsidiary undertaking, joint arrangement or associate sold or acquired during the year are included up to, or from, the date of change of control. Details of transactions in the year are set out in note 26.

Revenue recognition and contract assets and liabilities

Revenue recognised comprises sales to the Group's customers after discounts and amounts payable to customers. Revenue excludes value added taxes. The transaction price of a contract is typically clearly stated within the contract, although the absolute amount may be dependent on escalation indices and long-term contracts that require the key estimates highlighted below to be made. Refund liabilities, where sales are made with a right of return, are not typical in the Group's contracts. Where they do exist, and consideration has been received, a portion based on an assessment of the expected refund liability is recognised within other payables. The Group has elected to use the practical expedient not to adjust revenue for the effect of financing components where the expectation is that the period between the transfer of goods and services to customers and the receipt of payment is less than a year. Consideration is received in the form of deposits and payments for completion of milestones or performance obligations. LTSA cash receipts are typically received based on EFHs.

Sales of standard OE, spare parts and time and material (T&M) overhaul services are generally recognised on transfer of control to the customer. This is generally on delivery to the customer, unless the specific contractual terms indicate a different point. The Directors consider whether there is a need to constrain the amount of revenue to be recognised on delivery based on the contractual position and any relevant facts, however, this is not typically required.

Sales of OE and services that are specifically designed for the contract (most significantly in the Defence business) are recognised by reference to the progress towards completion of the performance obligation, using the cost method described in the key judgements, provided the outcome of contracts can be assessed with reasonable certainty.

The Group generates a significant portion of its revenue on aftermarket arrangements arising from the installed OE fleet. As a consequence, in particular in the Civil Aerospace large engine business, the Group will often agree contractual prices for OE deliveries that take into account the anticipated aftermarket arrangements. Sometimes this may result in losses being incurred on OE. As described in the key judgements, these contracts are not combined. The consideration in the OE contract is therefore allocated to OE performance obligations and the consideration in the aftermarket contract to aftermarket performance obligations.

Key areas of the accounting policy are:

- Future variable revenue from long-term contracts is constrained to take account of the risk of non-recovery of resulting contract balances from reduced utilisation e.g. EFHs, based on historical forecasting experience and the risk of aircraft being parked by the customer.
- A significant amount of revenue and cost related to long-term contract accounting is denominated in currencies other than that of the relevant Group undertaking, most significantly USD transactions in sterling and euro denominated undertakings. These are translated at estimated long-term exchange rates.
- The assessment of stage of completion is generally measured for each contract. However, in certain cases, such as for CorporateCare agreements, where there are many contracts covering aftermarket services each for a small number of engines, the Group accounts for a portfolio of contracts together, as the effect on the Consolidated Financial Statements would not differ materially from applying the standard to the individual contracts in the portfolio. When accounting for a portfolio of LTSAs, the Group uses estimates and assumptions that reflect the size and composition of the portfolio.
- A contract asset/liability is recognised where payment is received in arrears/advance of the revenue recognised in meeting performance obligations.
- Contract modifications of LTSAs can be accounted for as separate contracts, termination of the existing contract and the creation of a new contract, or as part of the existing contract. The treatment is dependent on whether the change in scope is because of the addition of promised goods or services that are distinct and whether the price increases by an amount that reflects their standalone selling prices.
- Where material, wastage costs (see key judgements on page 63) are recorded as an expense and excluded from the measure of progress of LTSA contracts.
- The Group recognises a liability for their obligation to repurchase parts it has sold to the maintenance, repair and overhaul bases who overhaul the Group's customers' engines.

If the expected costs to fulfil a contract exceed the expected revenue, a contract loss provision is recognised for the excess costs.

The Group pays participation fees to airframe manufacturers, its customers for OE, on certain programmes. Amounts paid are initially treated as contract assets and subsequently charged as a reduction to the OE revenue when the engines are transferred to the customer.

1 Accounting policies *continued*

Revenue recognition (continued)

The Group has elected to use the practical expedient to expense as incurred any incremental costs of obtaining or fulfilling a contract if the amortisation period of an asset created would have been one year or less. Where costs to obtain a contract are recognised in the balance sheet, they are amortised over the performance of the related contract (ten to 36 years).

Key judgement – Whether Civil Aerospace OE and aftermarket contracts should be combined

In the Civil Aerospace business, OE contracts for the sale of engines to be installed on new aircraft are with the airframers, while the contracts to provide spare engines and aftermarket goods and services are with the aircraft operators, although there may be interdependencies between them. IFRS 15 *Revenue from Contracts with Customers* includes guidance on the combination of contracts, in particular that contracts with unrelated parties should not be combined. Notwithstanding the interdependencies, the Directors consider that the engine contract should be considered separately from the aftermarket contract. In making this judgement, they also took account of industry practice.

Key judgement – How performance on long-term aftermarket contracts should be measured

The Group generates a significant proportion of its revenue from aftermarket arrangements. These aftermarket contracts, such as TotalCare and CorporateCare agreements in the Civil Aerospace business, cover a range of services and generally have contractual terms covering more than one year. Under these contracts, the Group's primary obligation is to maintain customers' engines in an operational condition. This is achieved by undertaking various activities, such as maintenance, repair and overhaul, and engine monitoring over the period of the contract. Revenue on these contracts is recognised over the period of the contract and the basis for measuring progress is a matter of judgement. The Directors consider that the stage of completion of the contract is best measured by using the actual costs incurred to date compared to the estimated costs to complete the performance obligations, as this reflects the extent of completion of the activities to be performed.

Key judgement – Whether long-term aftermarket contracts contain a significant financing component

Long-term aftermarket contracts typically cover a period of eight to 15 years. Their pricing is the subject of negotiation with individual customers under competitive circumstances. It is the Directors' judgement that the consideration received approximates to the cash selling price and any timing difference between consideration being received and the supply of goods and services is typical of the industry and arises for reasons other than to provide financing. The customers typically pay on an 'as used' basis (e.g. USD/EFH) which reflects the wear and tear of the engine as it flies and aligns to the customer's own revenue streams. An adjustment to the transaction price is therefore not required.

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Examples include technical issues that: require resolution to meet regulatory requirements; have a wide-ranging impact across a product type; and cause significant operational disruption to customers. Similarly, in these rare circumstances, significant disruption costs to support customers resulting from the actual performance of a delivered good or service may be treated as a wastage cost. Provision is made for any costs identified as wastage when the obligation to incur them arises – see note 20.

Key judgement – Whether the Civil Aerospace LTSA contracts are warranty style contacts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 Revenue from Contracts with Customers

The Group has considered whether these arrangements are insurance contracts as defined in IFRS 17 *Insurance Contracts*. While they may transfer an element of insurance risk, they relate to warranty and service type agreements that are entered into in connection with the Group's sales of its goods or services and therefore continue to be accounted for under the existing revenue and provisions standards. The Directors have judged that such arrangements entered into after the original equipment sale remain sufficiently related to the sale of the Group's goods and services to allow the contracts to continue to be measured under IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Key judgement – Whether sales of spare engines to joint ventures are at fair value

The Civil Aerospace business maintains a pool of spare engines to support its customers. Some of these engines are sold to, and held by, joint venture companies. The assessment of whether the sales price reflects fair value is a key judgement. The Group considers that based upon the terms and conditions of the sales, and by comparison to the sales price of spare engines to other third parties, the sales made to joint ventures reflect the fair value of the goods sold. See note 25 for the value of sales to joint ventures during the year.

Key judgement – When revenue should be recognised in relation to spare engine sales

Revenue is recognised at the point in time when a customer obtains control of a spare engine. The customer could be a related party, an external operator or a spare engine service provider. Depending on the contractual arrangements, judgement is required on when the Group relinquishes control of spare engines and, therefore, when the revenue is recognised. The point of control passing has been concluded to correspond to the point of legal sale, even for instances where the customer is contracted to provide some future spare engine capacity to the Group to support its installed engine base. In such cases, the customer has responsibility for generating revenue from the engines and exposure to periods of non-utilisation; exposure to risk of damage or loss, risk from residual value movements, and will determine if and when profits will be made from disposal. The spare engine capacity that will be made available to the Group in the future does not consist of identified assets and the provider retains a substantive right to substitute the asset through the Group's period of use. It is, therefore, appropriate to recognise revenue from the sale of the spare engines at the point that title transfers. During 2024, of the total 57 (2023: 53) large spare engine sales delivered, 20 (2023: 27) engines were sold to customers where contractual arrangement allows for some future spare engine capacity to be used by the Group. These sales contributed £399m (2023: £578m) to revenue for the year.

1 Accounting policies *continued*

Revenue recognition (continued)

Key estimate – Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change

The Group has long-term contracts that fall into different accounting periods and which can extend over significant periods. The most significant of these are LTSAs in the Civil Aerospace business, with contacts typically covering a period of eight to 15 years. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess: EFHs, time on wing and other operating parameters; the pattern of future maintenance activity and the costs to be incurred; lifecycle cost improvements over the term of the contracts; and escalation of revenue and costs (that includes the impact of inflation). The impact of climate change on EFHs and costs is also considered when making these estimates. Industry and customer data on expected levels of utilisation is included in the forecasts used. Across the length of the current Civil Aerospace LTSA contracts, allowance has been made for around a 1% (2023: 1%) projected cost increase resulting from carbon pricing and commodity price changes.

The sensitivities below demonstrate how changes in assumptions (including as a result of climate change) could impact the level of revenue recognised were assumptions to change. The Directors believe that the estimates used to prepare the Consolidated Financial Statements take account of the inherent uncertainties, constraining the expected level of revenue as appropriate.

Estimates of future LTSA revenue within Civil Aerospace are based upon future EFH forecasts. Finally, many of the revenues and costs are denominated in currencies other than that of the relevant group undertaking. These are translated at an estimated long-term exchange rate, based on historical trends and economic forecasts.

During the year, changes to the estimate in relation to the Civil Aerospace LTSA contracts resulted in favourable catch-up adjustments to revenue of £311m (2023: adverse catch-up adjustment of £104m).

Based upon the stage of completion of all LTSA contracts within Civil Aerospace as at 31 December 2024, the following reasonably possible changes in estimates would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates):

- A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an in-year impact of around £20m. This would be expected to be seen as a catch-up change in revenue or, to the extent it impacts onerous contracts, within cost of sales.
- A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £340m.
- A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £90m.

Risk and revenue sharing arrangements (RRSAs)

Cash entry fees received are initially deferred on the balance sheet as deferred receipts from RRSA workshare partners within trade payables and other liabilities. The cash entry fee is a transaction with a supplier and is recognised as a reduction in cost of sales incurred. Individual programme amounts are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then recognised on a 15-year straight-line basis.

The payments to suppliers of their shares of the programme cash flows for their production components are charged to cost of sales when OE sales are recognised or as LTSA costs are incurred. These prepayments are initially recognised within trade receivables and other assets.

The Group also has arrangements with third parties who invest in a programme and receive a return based on its performance, but do not undertake development work or supply parts. Such arrangements (financial RRSAs) are financial instruments as defined by IAS 32 Financial Instruments: Presentation and are accounted for using the amortised cost method.

Key judgement – Determination of the nature of entry fees received

RRSAs with key suppliers (workshare partners) are a feature of the civil aviation industry. Under these contractual arrangements, the key commercial objectives are that: (i) during the development phase the workshare partner shares in the risks of developing an engine by performing its own development work, providing development parts, and paying a non-refundable cash entry fee; and (ii) during the production phase the workshare partner supplies components in return for a share of the programme cash flows as a 'life of type' supplier (i.e. as long as the engine remains in service).

The non-refundable cash entry fee is considered to be one element of a long-term supply agreement. These receipts are deferred on the balance sheet and recognised against the cost of sales over the estimated number of units to be delivered on a similar basis to the amortisation of development costs (see page 67).

Government grants

Government grants received are varied in nature and are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure. Non-monetary grants are recognised at fair value.

1 Accounting policies *continued*

Interest

Interest receivable/payable is credited/charged to the income statement using the effective interest method. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Taxation

The tax charge/credit on the profit or loss for the year comprises current and deferred tax:

- Current tax is the expected tax payable for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for tax purposes and is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. In the UK, the deferred tax liability on the pension scheme surplus is recognised consistently with the basis for recognising the surplus i.e. at the rate applicable to refunds from a trust.

Tax is charged or credited to the income statement or OCI as appropriate, except when it relates to items credited or charged directly to equity in which case the tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognised on taxable temporary differences arising on the initial recognition of goodwill or for temporary differences arising from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits, which include the reversal of taxable temporary differences, will be available against which the assets can be utilised. Further details on the Group's tax position can be found on pages 79 to 82.

Key estimate – Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised

Deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilised. On this basis a deferred tax asset of £629m is not recognised in respect of UK tax losses. Further details are included in note 5.

In addition to taking into account a severe but plausible downside forecast (see below), the climate-related estimates and assumptions (set out on pages 58 to 60) have also been considered when assessing the recoverability of the deferred tax assets. Recognising the longer terms over which these assets will be recovered, the Group has considered the risk that regulatory changes could materially impact demand for our products and shifting investment focus towards more sustainable products and solutions. The climate scenarios prepared do not indicate a significant deterioration in demand or profitability for Civil Aerospace programmes given that all commercial aero-engines are compatible for use on sustainable fuels.

While carbon and commodity pricing may put pressure on costs, decarbonisation and new supplier and customer contracts offer the opportunity to receive value for more efficient and sustainable products.

Macro-economic factors continue to result in uncertainty across the civil aviation industry in particular in respect of prolonged supply chain challenges. As explained in note 5, a 25% probability of there being a severe but plausible downside forecast in relation to the civil aviation industry has been taken into account in the assessment of the recovery of the UK deferred tax assets.

The estimates take account of the inherent uncertainties constraining the expected level of profit as appropriate. Changes in these estimates will affect future profits and, therefore, the recoverability of the deferred tax assets. The following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets.

- A 5% change in margin in the main Civil Aerospace large engine programmes.
- A 5% change in the number of shop visits driven by EFHs.
- Assumed future cost increases from climate change expected to pass through to customers at 100% are restricted to 90% pass through.

All of these could be driven by a number of factors, including ongoing supply chain challenges, the impact of climate change as explained on pages 58 to 60 and changes in foreign exchange rates.

A 5% change in margin or shop visits (which could be driven by fewer EFHs as a result of the factors set out above) would result in an increase/ decrease in the deferred tax asset of around £110m.

If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £10m, and if carbon prices were to double, this would be £70m.

Foreign currency translation

Transactions denominated in currencies other than the functional currency of the transacting group undertaking are translated into the functional currency at the average monthly exchange rate when the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rate prevailing at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of monetary assets and liabilities into functional currencies at the rate prevailing at the year end are included in profit/(loss) before taxation.

The trading results of Group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates prevailing at the year end. Exchange adjustments arising from the retranslation of the opening net assets, and from the translation of the profits or losses at average rates, are recognised in OCI.

1 Accounting policies *continued*

Discontinued operations and business disposals
A discontinued operation is defined in IFRS 5 Non-current Assets Held for Sale and Discontinued Operations as a component of an entity that has been disposed of or is classified as held for sale, represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are required to be presented separately in the income statement.

Assets and businesses are classified as held for sale when their carrying amounts will be recovered through sale rather than through continuing use.

Financial instruments – Classification and measurement
Financial assets primarily include trade receivables and other non-derivative financial assets, cash and cash equivalents, short-term investments, derivatives (foreign exchange, commodity and interest rate contracts), and listed and unlisted investments.

- Trade receivables and other assets are classified either as held to collect and measured at amortised cost, or as held to collect and sell and measured at fair value, with movements in fair value recognised through other comprehensive income (FVOCI). The Group may sell trade receivables due from certain customers before the due date. Any trade receivables from such customers that are not sold at the reporting date are classified as 'held to collect and sell'.
- Cash and cash equivalents (consisting of balances with banks and other financial institutions, money-market funds, short-term deposits) and short-term investments are subject to low market risk. Cash balances, short-term deposits (with a maturity of primarily three months or less) and short-term investments are measured at amortised cost. Money market funds are measured at fair value, with movements in fair value recognised in the income statement as a profit or loss (FVPL).
- Derivatives and unlisted investments are measured at FVPL. The Company has elected to measure its listed investments at FVOCI.

Financial liabilities primarily consist of trade payables and other non-derivative financial liabilities, borrowings, derivatives, and financial RRSAs.

- Derivatives are classified and measured at FVPL.
- All other financial liabilities are classified and measured at amortised cost.

Financial instruments – Impairment of financial assets and contract assets
IFRS 9 *Financial Instruments* sets out the basis for the accounting of ECLs on financial assets and contract assets resulting from transactions within the scope of IFRS 15 *Revenue from Contracts with Customers*. The Group has adopted the simplified approach to provide for ECLs, measuring the loss allowance at a probability weighted amount that considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions of customers. These are incorporated in the simplified model adopted by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information. The ECLs are updated at each reporting date to reflect changes in credit risk since initial recognition. ECLs are calculated for all financial assets in scope, regardless of whether or not they are overdue.

Financial instruments – Hedge accounting
Forward foreign exchange contracts and commodity swaps (derivative financial instruments) are held to manage the cash flow exposures of forecast transactions denominated in foreign currencies or in commodities respectively. Derivative financial instruments qualify for hedge accounting when: (i) there is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge at the inception of the hedge; and (ii) the hedge is expected to be effective. In general, the Group has chosen to not apply hedge accounting in respect of these exposures.

The Group economically hedges the fair value and cash flow exposures of its borrowings. Cross-currency interest rate swaps are held to manage the fair value or cash flow exposures of borrowings denominated in foreign currencies and are designated as fair value hedges or cash flow hedges as appropriate. Interest rate swaps are held to manage the interest rate exposures of fixed and floating rate borrowings and may be designated as fair value hedges or cash flow hedges as appropriate. If the swaps are not designated as fair value or cash flow hedges, the economic effect is included in the underlying results – see note 2.

Changes in the fair values of derivatives that are designated as fair value hedges are recognised directly in the income statement. The fair value changes of effective cash flow hedge derivatives are recognised in OCI and subsequently recycled to the income statement in the same period or periods during which the hedged cash flows affect profit or loss. Any ineffectiveness in the hedging relationship is included in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for cash flow hedges and, if the forecast transaction remains probable, any net cumulative gain or loss on the hedging instrument recognised in the Statement of Changes in Equity (SOCIE) is retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss is recycled to the income statement.

Business combinations and goodwill
Goodwill recognised represents the excess of the fair value of the purchase consideration over the fair value to the Group of the net of the identifiable assets acquired and the liabilities assumed. On transition to IFRS on 1 January 2004, business combinations were not retrospectively adjusted to comply with UK-adopted International Accounting Standards and goodwill was recognised based on the carrying value under the previous accounting policies. Goodwill, in respect of the acquisition of a subsidiary, is recognised as an intangible asset. Goodwill arising on the acquisition of joint arrangements and associates is included in the carrying value of the investment.

Customer relationships
The fair value of customer relationships recognised as a result of a business combination relate to the acquired company's established relationships with its existing customers that result in repeat purchases and customer loyalty. Amortisation is charged on a straight-line basis over its useful economic life, up to a maximum of 15 years.

1 Accounting policies *continued*

Certification costs
Costs incurred in respect of meeting regulatory certification requirements for new Civil Aerospace aero-engine/aircraft combinations, including payments made to airframe manufacturers for this, are recognised as intangible assets to the extent that they can be recovered out of future sales. They are charged to the income statement over the programme life. Individual programme assets are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then charged on a 15-year straight-line basis.

Research and development
Expenditure incurred on research and development is distinguished as relating either to a research phase or to a development phase. All research phase expenditure is charged to the income statement. Development expenditure is recognised as an internally generated intangible asset (programme asset) only if it meets strict criteria, relating in particular to technical feasibility and generation of future economic benefits. More specifically, development costs are capitalised from the point at which the following conditions have been met:

– the technical feasibility of completing the programme and the intention and ability (availability of technical, financial and other resources) to complete the programme asset and use or sell it;
– the probability that future economic benefits will flow from the programme asset; and
– the ability to measure reliably the expenditure attributable to the programme asset during its development.

Capitalisation continues until the point at which the programme asset meets its originally contracted technical specification (defined internally as the point at which the asset is capable of operating in the manner intended by the Directors). Subsequent expenditure is capitalised where it enhances the functionality of the programme asset and demonstrably generates an enhanced economic benefit to the Group. All other subsequent expenditure on programme assets is expensed as incurred.

Individual programme assets are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then charged on a 15-year straight-line basis. In accordance with IAS 38 *Intangible Assets*, the basis on which programme assets are amortised is assessed annually.

Key judgement – Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation
The Group incurs significant research and development expenditure in respect of various development programmes. Determining when capitalisation should commence and cease is a key judgement, as is the determination of when subsequent expenditure on the programme assets should be capitalised. During the year, £263m (2023: £192m) of development expenditure was capitalised.

Within the Group there are established processes in place e.g., the Product Introduction and Lifecycle Management process (PILM), to consider technical feasibility, commercial viability and financial assessment of the programme at certain milestones. When these are met, development expenditure is capitalised. Prior to this, expenditure is expensed as incurred.

The Group continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years. During 2024, no development costs incurred within New Markets were capitalised.

Subsequent expenditure after entry into service which enhances the performance of the engine and the economic benefit to the Group is capitalised. This expenditure is referred to as enhanced performance and is governed by the PILM process referred to above. All other development costs are expensed as incurred.

Key judgement – Determination of the basis for amortising capitalised development costs
The economic benefits of the development costs are primarily those cash inflows arising from LTSAs, which are expected to be relatively consistent for each engine within a programme. Amortisation of development costs is recognised on a straight-line basis over the estimated period of operation of the engine by its initial operator.

Software
Software that is not specific to an item of property, plant and equipment is classified as an intangible asset, recognised at its acquisition cost and amortised on a straight-line basis over its useful economic life, up to a maximum of ten years. The amortisation period of software assets is reviewed annually. The cost of internally developed software includes direct labour and an appropriate proportion of overheads.

Other intangible assets
These include intangible assets arising on acquisition of businesses, such as technology which is amortised on a straight-line basis over a maximum of 15 years and trademarks which are not amortised. They also include the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance, which are amortised on a straight-line basis over a maximum of 15 years.

Property, plant and equipment
Property, plant and equipment are stated at acquisition cost less accumulated depreciation and any provision for impairment in value. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of overheads and, where appropriate, interest.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives. No depreciation is recorded on assets in the course of construction. Estimated useful lives are reassessed annually and are as follows:

— Land and buildings, as advised by the Group's professional advisers:
  - Freehold buildings – three to 50 years (average 24 years); and
  - No depreciation is provided on freehold land.
— Plant and equipment – two to 27 years (average 11 years).
— Aircraft and engines – five to 20 years (average 17 years).

1 Accounting policies *continued*

Leases
Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

– fixed payments less any lease incentive receivable;
– variable lease payments that are based on an index or a rate;
– amounts expected to be payable by the Group under residual value guarantees;
– the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
– payments of penalties for termination of the lease, if the lease term reflects the Group exercising that option.

Where leases commenced after the initial IFRS 16 *Leases* transition date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Where appropriate, lease liabilities are revalued at each reporting date using the spot exchange rate.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability or a revaluation of the liability;
– any lease payments made at or before the commencement date less any lease incentives received;
– any initial direct costs; and
– restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Group, in which case the asset is depreciated to the end of the useful life of the asset.

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases and low-value leases are recognised on a straight-line basis as an expense in the income statement.

Key judgement – Determination of lease term
In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Certain land and building leases have renewal options although none due in the next 12 months would have a material impact. Other renewals are evenly spread between 2028 to 2033 and then post 2038. The Group reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities.

Impairment of non-current 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 (CGU) to which the asset belongs. Goodwill, indefinite life intangible assets and intangible assets not yet available for use are tested for impairment annually. Other intangible assets (including programme-related intangible assets), property, plant and equipment, right-of-use assets 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 CGU) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss is recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs of disposal. 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 (or CGU). Fair value less costs of disposal (FVLCOD) reflects market inputs or inputs based on market evidence if readily available. If these inputs are not readily available, the fair value is estimated by discounting future cash flows modified for market participants views. The relevant local statutory tax rates have been applied in calculating post-tax to pre-tax discount rates

Key judgement – Determination of CGUs for assessing impairment of goodwill
The Group conducts impairment reviews at the CGU level. As permitted by IAS 36 *Impairment of Assets*, impairment reviews for goodwill are performed at the groups of CGUs level, representing the lowest level at which the Group monitors goodwill for internal management purposes and no higher than the Group's operating segments. The main CGUs for which goodwill impairment reviews have been performed are Rolls-Royce Deutschland Ltd & Co KG and at an aggregated Rolls-Royce Power Systems AG level.

Inventories
Inventories are valued on a first-in, first-out basis, at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those direct and indirect overheads, including depreciation of property, plant and equipment, that have been incurred in bringing the inventories 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. All inventories are classified as current as it is expected that they will be used in the Group's operating cycle, regardless of whether this is expected to be within 12 months of the balance sheet date.

Cash and cash equivalents
Cash and cash equivalents include cash at bank and in hand, investments in money-market funds and short-term deposits with a maturity of three months or less on inception. The Group considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement. Where the Group operates pooled banking arrangements across multiple accounts, these are presented on a net basis when it has both a legal right and intention to settle the balances on a net basis.

1 Accounting policies *continued*

Cash and cash equivalents (continued)

The Group's suppliers have access to a supply chain financing (SCF) programme through partnership with banks. This is to enable smaller suppliers, including joint ventures (90-day standard payment terms), who are on our standard 75 day or more payment terms to receive their payment sooner. The election to utilise the programme is the sole decision of the supplier. As the Group continues to have a contractual obligation to pay its suppliers under commercial terms, which are unaffected by any utilisation of the programme, and it does not retain any ongoing involvement in the SCF, the related payables are retained on the Group's balance sheet and classified as trade payables. Further details are disclosed in note 18.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are discounted to present value where the effect is material.

The principal provisions are recognised as follows:

- onerous contracts based on an assessment of whether the direct costs to fulfil a contract are greater than the expected revenue;
- warranty and guarantees based on an assessment of future claims with reference to past experience and recognised at the earlier of when the underlying products and services are sold and when the likelihood of a future cost is identified;
- Trent 1000 in-service issues when wastage costs are identified as described on page 63; and
- transformation and restructuring when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has created a valid expectation to those affected.

Key judgement – Whether any costs should be treated as wastage

As described further on page 63, in rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Provision is made for any costs identified as wastage when the obligation to incur them arises.

Specifically for the Trent 1000 wastage costs, provision has been made as the Group is an owner of an engine Type Certificate under which it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Group is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSAs, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. These requirements cannot be met without the Group incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Group in designing and overhauling aero engines it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

Key judgement – Whether the criteria to recognise a restructuring provision have been met

On 17 October 2023, the Group announced plans for a simpler, more streamlined, organisation as part of its multi-year transformation.

IAS 19 *Employee Benefits* requires that a liability and expense for termination benefits should be recognised at the earlier of: (a) when an offer of those benefits can no longer be withdrawn; and (b) when the cost for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that involves the payment of termination benefits is recognised. The Directors have considered whether the Group's communications to employees during 2023 and 2024 have led to an offer of benefits that could no longer be withdrawn. Significant progress has been made on transformation activities with clear and extensive communication to affected employees, many of whom have already left the business. The remaining provision relates to roles where the function, location, expected completion date, and type and amount of benefits is known. It is expected to be utilised by 31 December 2025.

Key estimates – Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts

The Group has provisions for Trent 1000 wastage costs at 31 December 2024 of £36m (2023: £116m). These represent the Directors' best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates take account of information available and different possible outcomes.

The Group considers that at 31 December 2024 the Trent 1000 onerous contract provisions are most sensitive to changes in estimates. Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the second half of 2025 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £30m to £50m charge.

Key estimates – Estimates of the future revenues and costs to fulfil onerous contracts

The Group has provisions for onerous contracts at 31 December 2024 of £1,433m (2023: £1,472m).

An increase in Civil Aerospace large engine estimates of LTSA costs of 1% over the remaining term of the contracts could lead to around a £60m to £80m increase in the onerous contract provisions across all programmes.

Key estimates – Assumptions implicit in the calculation of discount rates

The onerous contract provisions are sensitive to changes in the discount rate used to value the provisions. The rate used for each contract is derived from bond yields (i.e. risk-free rates) with a similar duration and currency to the contract that they are applied to. The rate is adjusted to reflect the specific inflation characteristics of the contracts. The forecast rates are determined from third-party market analysis and average 5%. A 1% change in the discount rates used could lead to around a £40m to £50m change in the provision.

1 Accounting policies *continued*

Customer financing support
In connection with the sale of its products, the Group will, on occasion, provide financing support for its customers. Credit-based guarantees are disclosed as commitments or contingent liabilities dependent on whether aircraft have been delivered or not. As described on page 111, the Directors consider the likelihood of crystallisation in assessing whether provision is required for any contingent liabilities.

The Group's contingent liabilities relating to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio and are reported on a discounted basis.

Post-retirement benefits
Pensions and similar benefits (principally healthcare) are accounted for under IAS 19 *Employee Benefits*.

For defined benefit plans, obligations are measured at discounted present value, using a discount rate derived from high-quality corporate bonds denominated in the currency of the plan, whilst plan assets are recorded at fair value. Surpluses in schemes are recognised as assets only if they represent economic benefits available to the Group in the future. Actuarial gains and losses are recognised immediately in OCI. The service and financing costs of such plans are recognised separately in the income statement:

– current service costs are spread systematically over the lives of employees;
– past-service costs and settlements are recognised immediately; and
– financing costs are recognised in the periods in which they arise.

UK pension obligations include the estimated impact of the obligation to equalise defined benefit pensions and transfer values for men and women.

Payments to defined contribution schemes are charged as an expense as they fall due.

Key estimate – Estimates of the assumptions for valuing the net defined benefit obligation
The Group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19. The valuations, which are based on assumptions determined with independent actuarial advice, resulted in a net deficit of £191m before deferred taxation being recognised on the balance sheet at 31 December 2024 (2023: deficit of £253m). The size of the net surplus/ deficit is sensitive to the actuarial assumptions which include the discount rate, price inflation, pension and salary increases, longevity and, in the UK, the number of plan members who take the option to transfer their pension to a lump sum on retirement or who choose to take the Bridging Pension Option. Following consultation, the UK scheme closed to future accrual on 31 December 2020.

A reduction in the discount rate of 0.25% from 5.50% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £145m. This would be expected to be broadly offset by changes in the value of scheme assets as the scheme's investment policies are designed to mitigate this risk.

An increase in the assumed rate of inflation of 0.25% (RPI of 3.30% and CPI of 2.90%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m.

A one-year increase in life expectancy from 20.8 years (male aged 65) and from 21.5 years (male aged 45) would increase the defined benefit obligations of the RRUKPF by approximately £125m.

Further details and sensitivities are included in note 21.

Share-based payments
The Group provides share-based payment arrangements to certain employees. These are principally 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 based on expected performance, except where additional shares vest as a result market-based performance conditions, such as the total shareholder return (TSR) performance condition in the long-term incentive plan (LTIP), where no adjustment is required as allowance for these performance conditions are included in the initial fair value.

Cash-settled share options (grants in the International ShareSave plan) are measured at fair value at the balance sheet date. The Group recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that are expected to vest and the relative completion of the vesting period. Changes in the value of this liability are recognised in the income statement for the year.

The cost of shares of Rolls-Royce plc held by the Group for the purpose of fulfilling obligations in respect of employee share plans is deducted from equity in the consolidated balance sheet. See note 23 for a further description of the share-based payment plans.

1 Accounting policies *continued*

Revisions to IFRS not applicable in 2024

Standards and interpretations issued by the IASB are only applicable if endorsed by the UK. Other than IFRS 18 *Presentation and Disclosure in Financial Statements* described below, the Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements.

IFRS 18 *Presentation and Disclosure in Financial Statements*
The IASB issued a new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, on 9 April 2024 that will replace IAS 1 *Presentation of Financial Statements*. The purpose of the new standard is to provide more consistent presentation of financial information across preparers as it is acknowledged that existing standards have given flexibility to present information in different ways. IFRS 18 *Presentation and Disclosure in Financial Statements* will not impact the recognition or measurement of items in the financial statements. Many of the existing presentation principles in IAS 1 *Presentation of Financial Statements* are retained, but there are some more specific requirements that will require the Group to make some changes in its future Annual Reports and Interim Financial Statements.

The new Standard is not yet endorsed by the UK Endorsement Board (UKEB) but is expected to be applicable for reporting periods beginning on or after 1 January 2027. Comparative information for 2026 will need to be restated when subsequent financial statements are published. The Group has performed an initial review of the Standard and expects changes to the presentation of the income statement and the Group's reported operating profit (driven by required changes such as the 'Share of results of joint ventures and associates' being required to be presented in a new investing category which will no longer form part of operating profit in the Statutory Consolidated Income Statement). The process of assessing the financial impact on the Consolidated Financial Statements will continue during 2025. The Group does not anticipate early adoption of the new Standard.

Other

IBOR reform transition
A number of the Group's lease liabilities have been based on a USD LIBOR index. The majority of contracts in which the Group is a lessee have been amended. These have been amended to USD Term Secured Overnight Financing Rate (SOFR) plus credit adjustment spread (CAS), and the impact to the Financial Statements is not material. The Group has taken the practical expedient available to account for the lease modification required by the IBOR reform by applying IFRS 16 *Leases* paragraph 42.

Post balance sheet events
The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 2024 results as appropriate.

2 Segmental analysis

The analysis by segment is presented in accordance with IFRS 8 *Operating Segments*, on the basis of those segments whose operating results are regularly reviewed by the Board (who acts as the Chief Operating Decision Maker as defined by IFRS 8 *Operating Segments*). The Group's four divisions are set out below.

Civil Aerospace	development, manufacture, marketing and sales of commercial aero engines and aftermarket services
Defence	development, manufacture, marketing and sales of military aero engines, naval engines, submarine nuclear power plants and aftermarket services
Power Systems	development, manufacture, marketing and sales of integrated solutions for onsite power and propulsion
New Markets	development, manufacture and sales of small modular reactors (SMRs) and new electrical power solutions

Other businesses include the trading results of the UK Civil Nuclear business.

Underlying results

The Group presents the financial performance of the divisions in accordance with IFRS 8 *Operating Segments* and consistently with the basis on which performance is communicated to the Board each month.

Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. The impact of the revaluation of monetary assets and liabilities (other than lease liabilities) using the exchange rate that is expected to be achieved by the use of the effective hedge book is recorded within underlying cost of sales. Underlying financing excludes the impact of revaluing monetary assets and liabilities to period end exchange rates. Lease liabilities are not revalued to reflect the expected exchange rates due to their multi-year remaining term, the Directors believe that doing so would not be the most appropriate basis to measure the in-year performance. Transactions between segments are presented on the same basis as underlying results and eliminated on consolidation. Unrealised fair value gains/(losses) on foreign exchange contracts, which are recognised as they arise in the statutory results, are excluded from underlying results. To the extent that the previously forecast transactions are no longer expected to occur, an appropriate portion of the unrealised fair value gain/(loss) on foreign exchange contracts is recorded immediately in the underlying results.

Amounts receivable/(payable) on interest rate swaps which are not designated as hedge relationships for accounting purposes are reclassified from fair value movement on a statutory basis to interest receivable/(payable) on an underlying basis, as if they were in an effective hedge relationship.

In the year to 31 December 2024, the Group was a net seller of USD at an achieved exchange rate GBP:USD of 1.48 (2023: 1.50) based on the USD hedge book.

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by $11.8bn across 2020-2026 to reflect the fact that, at that time, future operating cash flows were no longer forecast to materialise.

2 Segmental analysis *continued*

An underlying charge of £1.7bn was recognised within the underlying finance costs in 2020 and the associated cash settlement costs occur over the period 2020-2026. The derivatives relating to this underlying charge have been subsequently excluded from the hedge book, and therefore are also excluded from the calculation of the average exchange rate achieved in the current and future periods.

Underlying performance also excludes the following:

- the effect of acquisition accounting and business disposals;
- impairment of goodwill, other non-current and current assets where the reasons for the impairment are outside of normal operating activities;
- exceptional items; and
- certain other items which are market driven and outside of the control of management.

Subsequent changes in items excluded from underlying performance in a prior period will also be excluded from underlying performance. All other changes will be recognised within underlying performance.

Acquisition accounting, business disposals and impairment
The Group exclude these from underlying results so that the current year and comparative results are directly comparable.

Exceptional items
Items are classified as exceptional where the Directors believe that presentation of the results in this way is useful in providing an understanding of the Group's financial performance. Exceptional items are identified by virtue of their size, nature or incidence.

In determining whether an event or transaction is exceptional, the Directors consider quantitative as well as qualitative factors such as the frequency or predictability of occurrence. Examples of exceptional items include one-time costs and charges in respect of aerospace programmes, costs of exceptional restructuring and transformation programmes and one-time past service charges and credits on post-retirement schemes.

Exceptional items are not allocated to segments and may not be comparable to similarly titled measures used by other companies.

Other items

The financing component of the defined benefit pension scheme cost is determined by market conditions and has therefore been included as a reconciling difference between underlying and statutory performance.

The tax effects of adjustments above are excluded from the underlying tax charge. Changes in tax rates are excluded from the underlying tax charge. In addition, changes in the amount of recoverable deferred tax recognised are excluded from the underlying results to the extent that their recognition or derecognition was not originally recorded within the underlying results.

The following analysis sets out the results of the Group's divisions on the basis described above and also includes a reconciliation of the underlying results to those reported in the condensed consolidated income statement.

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter-segment [1] £m	Total Underlying £m
Year ended 31 December 2024							
Underlying revenue from sale of original equipment	**3,105**	**1,943**	**2,942**	**3**	**12**	**–**	**8,005**
Underlying revenue from aftermarket services	**5,935**	**2,579**	**1,329**	**–**	**–**	**–**	**9,843**
Total underlying revenue	**9,040**	**4,522**	**4,271**	**3**	**12**	**–**	**17,848**
Gross profit/(loss)	**1,990**	**908**	**1,199**	**(4)**	**1**	**(3)**	**4,091**
Commercial and administrative costs	**(396)**	**(212)**	**(483)**	**(40)**	**(1)**	**(65)**	**(1,197)**
Research and development costs	**(252)**	**(55)**	**(165)**	**(133)**	**–**	**–**	**(605)**
Share of results of joint ventures and associates	**163**	**3**	**9**	**–**	**–**	**–**	**175**
Underlying operating profit/(loss)	**1,505**	**644**	**560**	**(177)**	**–**	**(68)**	**2,464**
Year ended 31 December 2023							
Underlying revenue from sale of original equipment	2,703	1,766	2,661	2	12	–	7,144
Underlying revenue from aftermarket services	4,645	2,311	1,307	2	–	–	8,265
Total underlying revenue	7,348	4,077	3,968	4	12	–	15,409
Gross profit/(loss)	1,394	804	1,050	1	(15)	(3)	3,231
Commercial and administrative costs	(354)	(173)	(456)	(24)	–	(57)	(1,064)
Research and development costs	(343)	(72)	(187)	(137)	–	–	(739)
Share of results of joint ventures and associates	153	3	6	–	–	–	162
Underlying operating profit/(loss)	850	562	413	(160)	(15)	(60)	1,590

1 Corporate and Inter-segment consists of costs that are not attributable to a specific segment and consolidation adjustments

2 Segmental analysis *continued*

Reconciliation to statutory results

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
Year ended 31 December 2024			
Revenue from sale of original equipment	**8,005**	**384**	**8,389**
Revenue from aftermarket services	**9,843**	**677**	**10,520**
Total revenue	**17,848**	**1,061**	**18,909**
Gross profit	**4,091**	**130**	**4,221**
Commercial and administrative costs	**(1,197)**	**(87)**	**(1,284)**
Research and development costs	**(605)**	**402**	**(203)**
Share of results of joint venture and associates	**175**	**(3)**	**172**
Operating profit	**2,464**	**442**	**2,906**
Gain arising on the acquisition and disposal of businesses	**–**	**16**	**16**
Profit before financing and taxation	**2,464**	**458**	**2,922**
Net financing	**(171)**	**(517)**	**(688)**
Profit/(loss) before taxation	**2,293**	**(59)**	**2,234**
Taxation	**(282)**	**532**	**250**
Profit for the year	**2,011**	**473**	**2,484**
Attributable to:			
Ordinary shareholders	**2,048**	**473**	**2,521**
NCI	**(37)**	**–**	**(37)**
Year ended 31 December 2023			
Revenue from sale of original equipment	7,144	491	7,635
Revenue from aftermarket services	8,265	586	8,851
Total revenue	15,409	1,077	16,486
Gross profit	3,231	389	3,620
Commercial and administrative costs	(1,064)	(46)	(1,110)
Research and development costs	(739)	–	(739)
Share of results of joint venture and associates	162	11	173
Operating profit	1,590	354	1,944
Gain arising on the acquisition and disposal of businesses	–	1	1
Profit before financing and taxation	1,590	355	1,945
Net financing	(328)	810	482
Profit before taxation	1,262	1,165	2,427
Taxation	(120)	97	(23)
Profit for the year	1,142	1,262	2,404
Attributable to:			
Ordinary shareholders	1,150	1,262	2,412
NCI	(8)	–	(8)

2 Segmental analysis *continued*

Disaggregation of revenue from contracts with customers

Analysis by type and basis of recognition

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter-segment £m	Total Underlying £m
Year ended 31 December 2024							
Original equipment recognised at a point in time	**3,105**	**562**	**2,871**	**3**	**–**	**–**	**6,541**
Original equipment recognised over time	**–**	**1,381**	**71**	**–**	**12**	**–**	**1,464**
Aftermarket services recognised at a point in time	**1,258**	**918**	**1,231**	**–**	**–**	**–**	**3,407**
Aftermarket services recognised over time	**4,594**	**1,661**	**98**	**–**	**–**	**–**	**6,353**
Total underlying customer contract revenue	**8,957**	**4,522**	**4,271**	**3**	**12**	**–**	**17,765**
Other underlying revenue [1]	**83**	**–**	**–**	**–**	**–**	**–**	**83**
Total underlying revenue [2]	**9,040**	**4,522**	**4,271**	**3**	**12**	**–**	**17,848**
Year ended 31 December 2023							
Original equipment recognised at a point in time	2,703	632	2,611	2	–	–	5,948
Original equipment recognised over time	–	1,134	50	–	12	–	1,196
Aftermarket services recognised at a point in time	1,227	854	1,206	2	–	–	3,289
Aftermarket services recognised over time	3,335	1,457	101	–	–	–	4,893
Total underlying customer contract revenue	7,265	4,077	3,968	4	12	–	15,326
Other underlying revenue [1]	83	–	–	–	–	–	83
Total underlying revenue [2]	7,348	4,077	3,968	4	12	–	15,409

1 Includes leasing revenue

2 Includes £317m, of which £311m relates to Civil LTSA contracts, (2023: £(136)m, of which £(104)m relates to Civil LTSA contracts) of revenue recognised in the year relating to performance obligations satisfied in previous years

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results [1] £m
Year ended 31 December 2024			
Original equipment recognised at a point in time	**6,541**	**384**	**6,925**
Original equipment recognised over time	**1,464**	**–**	**1,464**
Aftermarket services recognised at a point in time	**3,407**	**163**	**3,570**
Aftermarket services recognised over time	**6,353**	**501**	**6,854**
Total customer contract revenue	**17,765**	**1,048**	**18,813**
Other revenue	**83**	**13**	**96**
Total revenue	**17,848**	**1,061**	**18,909**
Year ended 31 December 2023			
Original equipment recognised at a point in time	5,948	491	6,439
Original equipment recognised over time	1,196	–	1,196
Aftermarket services recognised at a point in time	3,289	186	3,475
Aftermarket services recognised over time	4,893	382	5,275
Total customer contract revenue	15,326	1,059	16,385
Other revenue	83	18	101
Total revenue	15,409	1,077	16,486

1 During the year to 31 December 2024, revenue recognised within Civil Aerospace, Defence and Power Systems of £1,915m (2023: £1,766m) was received from a single customer

2 Segmental analysis *continued*

Analysis by geographical destination

The Group's revenue by destination of the ultimate operator is as follows:

	2024 £m	2023 £m
United Kingdom	2,642	2,230
Germany	1,048	1,035
Switzerland	440	379
France	332	351
Ireland	324	504
Italy	318	282
Turkey	307	399
Spain	282	290
Poland	141	50
Netherlands	130	149
Portugal	121	110
Norway	96	71
Belgium	78	27
Israel	73	51
Rest of Europe	239	180
Europe	6,571	6,108
United States	5,477	4,668
Canada	462	430
North America	5,939	5,098
South America	336	230
Central America	169	106
Saudi Arabia	428	394
United Arab Emirates	255	148
Qatar	196	128
Rest of Middle East	301	200
Middle East	1,180	870
China	1,400	1,263
Japan	634	586
Singapore	506	437
South Korea	359	303
Taiwan	211	113
India	147	221
Thailand	138	132
Philippines	130	121
Indonesia	125	129
Rest of Asia	243	166
Asia	3,893	3,471
Africa	406	313
Australasia	415	290
	18,909	16,486

Order backlog

Contracted consideration, translated at the estimated long-term exchange rates, that is expected to be recognised as revenue when performance obligations are satisfied in the future (referred to as order backlog) is as follows:

	2024			2023		
	Within five years £bn	After five years £bn	Total £bn	Within five years £bn	After five years £bn	Total £bn
Civil Aerospace	29.7	30.2	59.9	28.4	26.8	55.2
Defence	14.0	3.4	17.4	8.3	0.9	9.2
Power Systems	4.7	0.1	4.8	3.9	0.2	4.1
	48.4	33.7	82.1	40.6	27.9	68.5

The parties to these contracts have approved the contract and customers do not have a unilateral enforceable right to terminate the contract without compensation. The Group excludes Civil Aerospace OE orders (for deliveries beyond the next seven to 12 months) that customers have placed where they retain a right to cancel. The Group's expectation based on historical experience is that these orders will be fulfilled. The main reason for the increase in the order backlog within Defence is the signature of a multi-year Submarines contract with the MoD. This contract (Unity) encompasses: research and technology, design, manufacture and in-service support of the nuclear reactors that power the Royal Navy's fleet of submarines. Within the five years category, contracted revenue in Defence will largely be recognised in the next three years and Power Systems will be recognised over the next two years as it is a short cycle business.

2 Segmental analysis *continued*

		2024				2023			
		Revenue £m	**Profit before financing £m**	**Net financing £m**	**Taxation £m**	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance		**17,848**	**2,464**	**(171)**	**(282)**	15,409	1,590	(328)	(120)
Impact of foreign exchange differences as a result of hedging activities on trading transactions [1]	A	**1,061**	**197**	**190**	**(97)**	1,077	469	394	(210)
Unrealised fair value changes on derivative contracts held for trading [2]	A	**–**	**(6)**	**(649)**	**164**	–	6	514	(130)
Unrealised fair value change to derivative contracts held for financing [3]	A	**–**	**–**	**40**	**(10)**	–	–	7	(2)
Exceptional programme credits/(charges) [4]	B	**–**	**–**	**–**	**–**	–	21	–	(5)
Exceptional transformation and restructuring (charges)/credits [5]	B	**–**	**(234)**	**(11)**	**65**	–	(102)		25
Impairment reversals [6]	C	**–**	**547**	**–**	**(157)**	–	8	–	(2)
Effect of acquisition accounting [7]	C	**–**	**(45)**	**–**	**11**	–	(50)	–	12
Other [8]	D	**–**	**(17)**	**(87)**	**27**	–	2	(105)	24
Gains arising on the disposals of businesses	C	**–**	**16**	**–**	**(6)**	–	1	–	–
Impact of tax rate change [9]	D	**–**	**–**	**–**	**10**	–	–	–	–
Recognition of deferred tax assets [10]	D	**–**	**–**	**–**	**525**	–	–	–	385
Total underlying adjustments		**1,061**	**458**	**(517)**	**532**	1,077	355	810	97
Statutory performance per consolidated income statement		**18,909**	**2,922**	**(688)**	**250**	16,486	1,945	482	(23)

A – FX, B – Exceptional, C – M&A and impairment, D – Other

1 The impact of measuring revenues and costs at the average exchange rate during the year and the impact of valuation of assets and liabilities using the year end exchange rate rather than the achieved rate or the exchange rate that is expected to be achieved by the use of the hedge book increased statutory revenues by £1,061m (2023: £1,077m) and increased profit before financing and taxation by £197m (2023: £469m). Underlying financing excludes the impact of revaluing monetary assets and liabilities at the year end exchange rate

2 The underlying results exclude the fair value changes on derivative contracts held for trading. These fair value changes are subsequently recognised in the underlying results when the contracts are settled

3 Includes net fair value gains of £40m (2023: £1m) on any interest rate swaps not designated into hedging relationships for accounting purposes

4 During the year to 31 December 2024, £nil (2023: £21m) of Trent 1000 wastage costs provision previously recognised in respect of estimated costs to settle obligations have been reversed to reflect the current status of claims in respect of the Trent 1000 technical issues which were identified in 2019

5 In 2023, the Group announced a major multi-year transformation programme consisting of seven workstreams (set out in the 2022 Annual Report). During the year to 31 December 2024, the Group incurred charges of £234m related to this programme (2023: £88m). The charges comprise of £68m related to severance costs, £37m for advisory fees and transformation office costs and £129m related to impairments, write-offs and closure costs (including those related to closure of advanced air mobility activities). In the year to 31 December 2024, the Group incurred £nil charge (2023: £14m) related to initiatives to enable restructuring under a previous programme

6 The Group has assessed the carrying value of its assets and reviewed for potential impairment and impairment reversal triggers. As a result, there has been an impairment reversal of an intangible asset of £413m, a contract asset of £132m in relation to Civil Aerospace programme assets and £2m of other impairment reversals during the year. Details on other impairments and impairment reversals are provided in notes 8 and 14

7 The effect of acquisition accounting includes the amortisation of intangible assets arising on previous acquisitions

8 Includes interest received of £78m (2023: £83m) on interest rate swaps which are not designated into hedge relationships for statutory purposes from interest payable on an underlying basis to fair value movement and £14m (2023: £2m) of past-service credit on defined benefit schemes

9 Represents the impact to the income statement of the reduction in the tax rate on authorised surplus pension charges from 35% to 25%

10 The 2024 balance of £525m represents the recognition of a deferred tax asset relating to non-underlying UK tax losses. The 2023 balance represents the recognition of deferred tax assets relating to non-underlying UK tax losses of £328m and foreign exchange derivatives of £57m. Further details are provided in note 5

2 Segmental analysis *continued*

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Total reportable segments £m
Year ended 31 December 2024					
Segment assets	**19,303**	**3,495**	**3,998**	**111**	**26,907**
Interests in joint ventures and associates	**550**	**9**	**33**	**–**	**592**
Segment liabilities	**(26,611)**	**(3,315)**	**(1,964)**	**(134)**	**(32,024)**
Net (liabilities)/assets	**(6,758)**	**189**	**2,067**	**(23)**	**(4,525)**
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	**650**	**164**	**198**	**13**	**1,025**
Depreciation, amortisation and impairment	**210**	**85**	**199**	**55**	**549**
Year ended 31 December 2023					
Segment assets	17,718	3,517	3,814	115	25,164
Interests in joint ventures and associates	444	7	28	–	479
Segment liabilities	(24,437)	(3,369)	(1,760)	(87)	(29,653)
Net (liabilities)/assets	(6,275)	155	2,082	28	(4,010)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	562	176	160	17	915
Depreciation, amortisation and impairment	719	105	194	9	1,027

Reconciliation to the balance sheet

	2024 £m	2023 £m
Total reportable segment assets (excluding held for sale)	**26,907**	25,164
Other businesses	**11**	8
Corporate and Inter-segment	**(1,889)**	(1,673)
Interests in joint ventures and associates	**592**	479
Assets held for sale	**153**	109
Cash and cash equivalents and short-term investments	**5,574**	3,784
Fair value of swaps hedging fixed rate borrowings	**154**	118
Deferred and income tax assets	**3,731**	3,078
Post-retirement scheme surplus	**790**	782
Total assets	**36,023**	31,849
Total reportable segment liabilities (excluding held for sale)	**(32,024)**	(29,653)
Other businesses	**(65)**	(58)
Corporate and Inter-segment	**2,227**	2,010
Liabilities associated with assets held for sale	**(100)**	(55)
Borrowings and lease liabilities	**(5,132)**	(5,759)
Fair value of swaps hedging fixed rate borrowings	**(121)**	(95)
Deferred and income tax liabilities	**(348)**	(473)
Post-retirement scheme deficits	**(981)**	(1,035)
Total liabilities	**(36,544)**	(35,118)
Net liabilities	**(521)**	(3,269)

The carrying amounts of the Group's non-current assets including investments but excluding financial instruments, deferred tax assets and post-retirement scheme surpluses/(deficits), by the geographical area in which the assets are located, are as follows:

	2024 £m	2023 £m
United Kingdom	**4,968**	4,981
Germany	**2,326**	2,052
United States	**1,481**	1,414
Other	**709**	705
	9,484	9,152

3 Research and development

	2024 £m	2023 £m
Gross research and development costs	(1,475)	(1,390)
Contributions and fees [1]	700	548
Net expenditure in the year	(775)	(842)
Capitalised as intangible assets	263	192
Amortisation and impairment of capitalised costs [2, 3]	309	(89)
Net cost recognised in the income statement	(203)	(739)
Underlying adjustments [3]	(402)	–
Net underlying cost recognised in the income statement	(605)	(739)

1 Includes £667m (2023: £531m) of government funding

2 See note 8 for analysis of amortisation and impairment

3 Underlying adjustments include impact of acquisition accounting, foreign exchange and an impairment reversal of £413m (2023: £nil). See note 2 and note 8 for more information

4 Net financing

	2024		2023	
	Statutory £m	**Underlying [1] £m**	Statutory £m	Underlying [1] £m
Interest receivable and similar income [2]	269	266	164	164
Net fair value gains on foreign currency contracts	–	–	574	–
Net fair value gains on non-hedge accounted interest rate swaps [3]	40	–	1	–
Financing on post-retirement scheme surpluses	37	–	30	–
Net foreign exchange gains	190	–	394	–
Financing income	536	266	1,163	164
Interest payable	(362)	(273)	(369)	(275)
Net fair value losses on foreign currency contracts	(631)	–	–	–
Net fair value losses on revaluation of other investments accounted for at FVTPL [4]	(24)	(24)	–	–
Foreign exchange differences and changes in forecast payments relating to financial RRSAs	–	–	(1)	–
Net fair value losses on commodity contracts	(18)	–	(60)	–
Financing on post-retirement scheme deficits	(39)	–	(42)	–
Cost of undrawn facilities	(17)	(17)	(57)	(57)
Other financing charges	(133)	(123)	(152)	(160)
Financing costs	(1,224)	(437)	(681)	(492)
Net financing (costs)/income	(688)	(171)	482	(328)
Analysed as:				
Net interest payable	(93)	(7)	(205)	(111)
Net fair value (losses)/gains on derivative contracts	(609)	–	515	–
Net post-retirement scheme financing	(2)	–	(12)	–
Net foreign exchange gains	190	–	394	–
Net other financing	(174)	(164)	(210)	(217)
Net financing (costs)/income	(688)	(171)	482	(328)

1 See note 2 for definition of underlying results

2 Includes interest income on cash balances and short-term deposits of £188m (2023: £117m) and similar income of £81m (2023: £47m) on money market funds

3 The condensed consolidated income statement shows the net fair value gain on any interest rate swaps not designated into hedging relationships for accounting purposes. Underlying financing reclassifies the fair value movements on these interest rates swaps to net interest payable

4 Included in the financing costs is a £24m (2023: £nil) charge in relation to the fair value write-down of an equity accounted investment record at fair value through profit or loss (FVTPL)

5 Taxation

	UK 2024 £m	UK 2023 £m	Overseas 2024 £m	Overseas 2023 £m	Total 2024 £m	Total 2023 £m
Current tax charge for the year	**30**	19	**379**	256	**409**	275
Current tax charge in respect of Pillar Two income taxes	**2**	–	**–**	–	**2**	–
Adjustments in respect of prior years	**–**	–	**(18)**	2	**(18)**	2
Current tax	**32**	19	**361**	258	**393**	277
Deferred tax charge/(credit) for the year	**265**	224	**3**	(69)	**268**	155
Adjustments in respect of prior years	**17**	(5)	**(47)**	2	**(30)**	(3)
Recognition of deferred tax	**(1,033)**	(406)	**–**	–	**(1,033)**	(406)
Derecognition of advance corporation tax	**162**	–	**–**	–	**162**	–
Deferred tax credit resulting from a decrease in UK tax rate	**(10)**	–	**–**	–	**(10)**	–
Deferred tax	**(599)**	(187)	**(44)**	(67)	**(643)**	(254)
(Credited)/charged in the income statement	**(567)**	(168)	**317**	191	**(250)**	23

Other tax credits/(charges)

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified			
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Deferred tax:						
Movement in post-retirement schemes	**61**	(43)	**–**	–	**–**	–
Cash flow hedge	**–**	–	**(1)**	5	**–**	–
Net investment hedge	**–**	–	**(2)**	(1)	**–**	–
Share-based payments – direct to equity	**–**	–	**–**	–	**71**	22
Other tax credits/(charges)	**61**	(43)	**(3)**	4	**71**	22

Tax reconciliation

	2024 £m	2023 £m
Profit before taxation	**2,234**	2,427
Less: share of results of joint ventures and associates (note 11)	**(137)**	(139)
Profit before taxation excluding joint ventures and associates	**2,097**	2,288
Nominal tax charge at UK corporation tax rate 25% (2023: 23.5%)	**524**	538
UK tax rate differential [1]	**–**	16
Overseas rate differences [2]	**27**	(5)
US state taxes	**23**	14
Tax de-grouping charge [3]	**102**	–
Other permanent differences [4]	**12**	–
Benefit to deferred tax from previously unrecognised tax losses and temporary differences [5]	**–**	(57)
Tax losses and other temporary differences not recognised in deferred tax [6]	**3**	9
Derecognition of deferred tax	**30**	–
Benefit arising from previously unrecognised tax losses [7]	**(42)**	(85)
Recognition of deferred tax [8]	**(1,033)**	(406)
Adjustments in respect of prior years	**(48)**	(1)
Derecognition of advance corporation tax [9]	**162**	–
Decrease in deferred taxes resulting from a change in the UK tax rate [10]	**(10)**	–
	(250)	23
Underlying items (note 2)	**282**	120
Non-underlying items	**(532)**	(97)
	(250)	23

1 The UK tax rate differential in 2023 arises on the difference between the deferred tax rate and the statutory tax rate
2 Overseas rate differences mainly relate to tax on profits or losses in countries such as Germany
3 The tax de-grouping charge arises on the dilution of the shareholding in Rolls-Royce SMR Limited to below 75%
4 Includes £2m relating to Pillar Two income taxes
5 Benefit to deferred tax from previously unrecognised tax losses and temporary differences in 2023 relates to foreign exchange derivatives
6 Relates to tax losses not recognised
7 Relates to foreign exchange derivatives
8 The recognition of deferred tax relates to UK tax losses
9 Advance corporation tax has been de-recognised on the basis that payment of cash s will prevent the utilisation
10 Represents the impact to the income statement of the reduction in the tax rate on authorised surplus pension charges from 35% to 25%

5 Taxation *continued*

Deferred taxation assets and liabilities

	2024 **£m**	2023 £m
At 1 January	**2,668**	2,445
Amount credited to income statement	**643**	254
Amount credited/(charged) to OCI	**59**	(44)
Amount (charged)/credited to hedging reserves	**(1)**	5
Amount credited to equity	**71**	22
On acquisition of businesses [1]	**–**	(1)
Exchange differences	**(11)**	(13)
At 31 December	**3,429**	2,668
Deferred tax assets	**3,660**	2,998
Deferred tax liabilities	**(231)**	(330)
	3,429	2,668

1 The 2023 deferred tax relates to the acquisition of Team Italia Marine S.R.L.

The analysis of the deferred tax position is as follows:

	At 1 January £m	**Recognised in income statement £m**	**Recognised in OCI £m**	**Recognised in equity £m**	**Disposals related activity £m**	**Exchange differences £m**	**At 31 December £m**
2024							
Intangible assets	**(431)**	**(191)**	**–**	**–**	**–**	**9**	**(613)**
Property, plant and equipment	**229**	**(87)**	**–**	**–**	**–**	**–**	**142**
Other temporary differences [1]	**752**	**77**	**(3)**	**62**	**–**	**(14)**	**874**
Net contract liabilities	**60**	**3**	**–**	**–**	**–**	**–**	**63**
Pensions and other post-retirement scheme benefits	**(123)**	**10**	**61**	**–**	**–**	**(2)**	**(54)**
Foreign exchange and commodity financial assets and liabilities	**451**	**40**	**–**	**–**	**–**	**(3)**	**488**
Losses	**1,489**	**984**		**9**	**–**	**(1)**	**2,481**
R&D credit	**79**	**(31)**	**–**	**–**	**–**	**–**	**48**
Advance corporation tax [2]	**162**	**(162)**	**–**	**–**	**–**	**–**	**–**
	2,668	**643**	**58**	**71**	**–**	**(11)**	**3,429**
2023							
Intangible assets	(436)	6	–	–	(1)	–	(431)
Property, plant and equipment	230	(7)	–	–	–	6	229
Other temporary differences [1]	650	88	4	22	–	(12)	752
Net contract liabilities	64	(4)	–	–	–	–	60
Pensions and other post-retirement scheme benefits	(57)	(15)	(43)	–	–	(8)	(123)
Foreign exchange and commodity financial assets and liabilities	693	(243)	–	–	–	1	451
Losses	1,072	417	–	–	–	–	1,489
R&D credit	67	12	–	–	–	–	79
Advance corporation tax [2]	162	–	–	–	–	–	162
	2,445	254	(39)	22	(1)	(13)	2,668

1 Other temporary differences mainly relate to the deferral of relief for interest expenses and share based payments in the UK and revenue recognised earlier under local GAAP compared to IFRS in Germany

2 Prior to 1999, advance corporation tax was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities. The balance has been de-recognised in 2024 following the Group's announcement to reinstate shareholder distributions via cash dividend, which will prevent utilisation of the surplus advance corporation tax balance

5 Taxation *continued*

Unrecognised deferred tax assets

	2024 £m	2023 £m
Advance corporation tax	**181**	19
UK losses	**629**	1,635
Foreign exchange and commodity financial assets and liabilities	**27**	69
Losses and other unrecognised deferred tax assets	**47**	34
Deferred tax not recognised on unused tax losses and other items on the basis that future economic benefit is uncertain	**884**	1,757

Gross amount and expiry of losses and other deductible temporary differences for which no deferred tax asset has been recognised.

2024

	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m
Expiry within five years	**75**	**–**	**–**	**75**
Expiry within six to 30 years	**218**	**–**	**–**	**218**
No expiry	**2,698**	**2,515**	**107**	**76**
	2,991	**2,515**	**107**	**369**

2023

	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m
Expiry within five years	81	–	–	81
Expiry within six to 30 years	216	–	–	216
No expiry	6,891	6,537	275	79
	7,188	6,537	275	376

In addition to the gross balances shown above, advance corporation tax of £181m (2023: £19m) has not been recognised. Advance corporation tax has no expiry.

Of the total deferred tax asset of £3,660m, £3,099m (2023: £2,399m) relates to the UK and is made up as follows:

- £2,472m (2023: £1,476m) relating to tax losses;

- £425m (2023: £412m) arising on unrealised losses on derivative contracts;

- £nil (2023: £162m) of advance corporation tax; and

- £202m (2023: £349m) relating to other deductible temporary differences, in particular tax depreciation and relief for interest expenses.

The UK deferred tax assets primarily arise in Rolls-Royce plc and have been recognised based on the expectation that the business will generate taxable profits and tax liabilities in the future against which the losses and deductible temporary differences can be utilised.

Most of the UK tax losses relate to the Civil Aerospace large engine business which makes initial losses through the investment period of a programme and then makes a profit through its contracts for services. The programme lifecycles are typically in excess of 30 years.

Deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. A recoverability assessment has been undertaken, taking account of deferred tax liabilities against which the reversal can be offset and using latest UK forecasts, which are mainly driven by the Civil Aerospace large engine business, to assess the level of future taxable profits.

The recoverability of deferred tax assets has been assessed on the following basis:

– using the most recent UK profit forecasts, covering the next five years which are consistent with external sources on market conditions;

– the long-term forecast profit profile of existing large engine programmes which are typically in excess of 30 years from initial investment to retirement of the fleet, including the aftermarket revenues earned from airline customers;

– the long-term forecast is adjusted to exclude engine programmes which are in the development stage with no confirmed orders;

– taking into account the risk that regulatory changes could materially impact demand for our products;

– consideration that although all Civil Aerospace large engines are compatible with sustainable fuels, there is a risk that in the longer term demand will shift towards more sustainable products and solutions;

– the long-term forecast profit and cost profile of the other parts of the UK business;

– taking into consideration past performance and experience as well as a 25% probability of a severe but plausible downside forecast materialising in relation to the civil aviation industry; and

– consideration that the UK business returned to profitability in 2023.

5 Taxation *continued*

The assessment takes into account UK tax laws that, in broad terms, restrict the offset of carried forward tax losses to 50% of current year profits. In addition, the amounts and timing of future taxable profits incorporate:

- the impact of significant Civil Aerospace large engine orders in 2024;
- the outcomes of strategic initiatives, including contractual margin improvements and cost reduction;
- the continued growth in Civil Aerospace engine flying hours; and
- management's assumptions on the impact of macro-economic factors and climate change on the UK business.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks have continued to develop over the last year. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Group has demonstrated that all the commercial aero engines it produces are compatible with sustainable fuels. The impact that this could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, the Group has recognised a total UK deferred tax asset of £3,099m, which includes the recognition of a further £1,033m (of which £525m is non-underlying and £508m is underlying) deferred tax asset relating to UK tax losses. This reflects the conclusions that:

- Based on current financial results and an improved outlook it is probable that the UK business will generate taxable income and tax liabilities in the future against which these losses can be utilised.
- Using current forecasts and various scenarios these losses and other deductible temporary differences will be used in full within 30-40 years, which is within the expected programme lifecycles. An explanation of the potential impact of climate change on forecast profits and sensitivity analysis can be found in note 1.

The 2024 announcement of a reinstatement of regular shareholder distributions via cash dividends will prevent utilisation of the Group's £162m advance corporation tax balance. As a result, the associated deferred tax asset has been fully de-recognised.

Any future changes in tax law or the structure of the Group could have a significant effect on the use of losses and other deductible temporary differences, including the period over which they can be used. In view of this and the significant judgement involved, the Board continuously reassesses this area.

The Statutory instrument reducing the tax rate on authorised surplus pension charges from 35% to 25% effective from 6 April 2024 has been enacted on 11 March 2024. The deferred tax liability on the UK pension surplus has therefore been re-measured at 25%. The resulting credit has been recognised in OCI except to the extent that the items were previously charged or credited to the income statement. Accordingly, in 2024, £67m has been credited to OCI and £10m has been credited to the income statement.

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 31 December 2024, the Group has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The temporary differences associated with investments in subsidiaries, joint ventures and associates, for which a deferred tax liability has not been recognised, aggregate to £1,558m (2023: £1,230m). No deferred tax liability has been recognised on the potential withholding tax due on the remittance of undistributed profits as the Group is able to control the timing of such remittances and it is probable that consent will not be given in the foreseeable future.

6 Auditors' remuneration

	2024 £m	2023 £m
Fees payable to the Company's auditors for the audit of the Company's Annual Financial Statements	**7.1**	6.6
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**5.3**	5.5
Total fees payable for audit services	**12.4**	12.1
Fees payable to the Company's auditor and its associates for other services:		
Audit related assurance services [1]	**0.7**	0.7
Other assurance services [2]	**0.1**	0.2
Total fees payable to the Company's auditor and its associates [3]	**13.2**	13.0
Fees payable in respect of the Group's pension schemes:		
Audit	**0.1**	0.1

1 This includes £0.7m (2023: £0.7m) for the review of the half-year report

2 This includes £0.1m (2023: £0.1m) in respect of agreed upon procedures in respect of levies payable and £nil for sustainability assurance work (2023: £0.1m)

3 Audit fees for overseas entities are reported at the average exchange rate for the year

7 Employee information

	2024 Number [1]	2023 Number
United Kingdom	**21,900**	20,900
Germany	**10,000**	10,000
United States	**5,300**	5,300
Italy	**900**	900
Singapore	**700**	700
Canada	**700**	700
India	**600**	600
China	**500**	600
Israel	**300**	200
France	**200**	200
Rest of world	**1,300**	1,300
Monthly average number of employees	**42,400**	41,400

Civil Aerospace	**18,700**	18,300
Defence	**12,500**	12,000
Power Systems	**9,900**	9,800
New Markets	**1,200**	1,200
Corporate [2]	**100**	100
Monthly average number of employees	**42,400**	41,400

	2024	2023
	Total	Total
	£m	£m
Wages, salaries and benefits	**3,056**	2,940
Social security costs	**369**	416
Share-based payments (note 23)	**136**	67
Pensions and other post-retirement scheme benefits (note 21)	**387**	346
Group employment costs [3]	**3,948**	3,769

1 Employee numbers have been rounded to the nearest thousand

2 Corporate consists of employees who do not provide a shared service to the segments. Where corporate functions provide such a service, employees have been allocated to the segments on an appropriate basis

3 Remuneration of key management personnel is shown in note 25

8 Intangible assets

	Goodwill £m	Certification costs £m	Development expenditure £m	Customer relationships £m	Software [1] £m	Other [2] £m	Total £m
Cost:							
At 1 January 2023	1,135	935	3,604	512	978	886	8,050
Additions	–	–	192	–	79	13	284
Acquisition of businesses	8	–	–	2	–	–	10
Transferred to assets held for sale [3]	(10)	–	–	–	–	(185)	(195)
Transferred to current assets [4]	–	–	–	–	(23)	–	(23)
Disposals	–	(4)	–	–	(27)	(2)	(33)
Reclassifications [5]	–	–	(1)	–	3	(1)	1
Exchange differences	(32)	(1)	(32)	(16)	(6)	(12)	(99)
At 31 December 2023	1,101	930	3,763	498	1,004	699	7,995
Additions	**–**	**–**	**263**	**–**	**96**	**8**	**367**
Transferred to assets held for sale [3]	**(25)**	**–**	**(4)**	**(4)**	**(1)**	**–**	**(34)**
Disposals [6]	**–**	**–**	**(3)**	**(13)**	**(77)**	**(2)**	**(95)**
Exchange differences	**(31)**	**(1)**	**(63)**	**(12)**	**(4)**	**(17)**	**(128)**
At 31 December 2024	**1,045**	**929**	**3,956**	**469**	**1,018**	**688**	**8,105**
Accumulated amortisation and impairment:							
At 1 January 2023	36	447	1,912	406	675	476	3,952
Charge for the year [7]	–	24	89	41	84	41	279
Impairment	–	–	–	–	–	(7)	(7)
Transferred to assets held for sale [3]	–	–	–	–	–	(144)	(144)
Transferred to current assets [4]	–	–	–	–	(14)	–	(14)
Disposals	–	(4)	–	–	(23)	(2)	(29)
Reclassifications [5]	–	–	–	–	1	(1)	–
Exchange differences	(1)	–	(25)	(14)	(5)	(6)	(51)
At 31 December 2023	35	467	1,976	433	718	357	3,986
Charge for the year [7]	**–**	**27**	**96**	**35**	**78**	**19**	**255**
Impairment [8]	**13**	**–**	**(405)**	**–**	**–**	**17**	**(375)**
Transferred to assets held for sale [3]	**(12)**	**–**	**(4)**	**(4)**	**(1)**	**–**	**(21)**
Disposals [6]	**–**	**–**	**–**	**(13)**	**(69)**	**(2)**	**(84)**
Exchange differences	**–**	**(1)**	**(37)**	**(10)**	**(3)**	**(7)**	**(58)**
At 31 December 2024	**36**	**493**	**1,626**	**441**	**723**	**384**	**3,703**
Net book value at:							
At 31 December 2024	**1,009**	**436**	**2,330**	**28**	**295**	**304**	**4,402**
At 31 December 2023	1,066	463	1,787	65	286	342	4,009

1 Includes £100m (2023: £97m) of software under course of construction which is not amortised

2 Other intangibles includes trademarks, brands and the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance which will improve reliability and enable the Group to reduce the costs of meeting LTSA obligations

3 At 31 December 2024, the Group held for sale the assets and liabilities of its naval propulsors & handling business. See note 26 for further detail

4 During 2023, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that were to be derecognised have been transferred to trade receivables and other assets to reflect the nature of these assets as current assets

5 Includes reclassifications within intangible assets or from property, plant and equipment when available for use

6 During the year, the Group disposed of its lower power range business based in Power Systems. See note 26 for further detail

7 Charged to cost of sales and commercial and administrative costs except development costs, which are charged to research and development costs

8 Includes £13m of goodwill impairment and £17m of other impairment (related to IP) resulting from the closure of the Group's advanced air mobility activities. Also includes reversal of a Civil Aerospace programme asset impairment recognised in 2020. The impairment reversal of £413m (2023: £nil) has been credited to research and development within the non-underlying income statement. See further details below

At 31 December 2024, the Group had expenditure commitments for software of £28m (2023: £30m).

The carrying amount of goodwill or intangible assets allocated across multiple CGUs is not significant in comparison with the Group's total carrying amount of goodwill or intangible assets with indefinite useful lives.

Goodwill
In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill is allocated to the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as follows:

Cash-generating unit (CGU) or group of CGUs

	Primary operating segment	2024 £m	2023 £m
Rolls-Royce Power Systems AG	Power Systems	**779**	798
Rolls-Royce Deutschland Ltd & Co KG	Civil Aerospace	**226**	237
Other	Various	**4**	31
		1,009	1,066

8 Intangible assets *continued*

Goodwill has been tested for impairment during 2024 on the following basis:

— The carrying values of goodwill have been assessed by reference to the value in use.

— These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions. These forecasts generally cover the next five years. Growth rates for the period not covered by the forecasts are based on growth rates of 2% which reflects the products, industries and countries in which the relevant CGU or group of CGUs operate. Inflation has been included based on contractual commitments where relevant. Where general inflation assumptions have been required, these have been estimated based on externally sourced data. General inflation assumptions of 2% to 3% have been included in the forecasts, depending on the nature and geography of the flows.

— The key forecast assumptions for the impairment tests are the discount rate and the cash flow projections, in particular the programme assumptions (such as sales volumes and product costs), the impact of foreign exchange rates on the relationship between selling prices and costs, and growth rates. Impairment tests are performed using prevailing exchange rates.

— The Group believes there are significant business growth opportunities to come from Rolls-Royce playing a leading role in the transition to net zero as we develop and deliver the products that will support our customers through the energy transition across multiple markets. At the same time climate change poses potentially significant risks. The assumptions used by the Directors are based on past experience and external sources of information. Based on the climate scenarios prepared, the forecasts do not assume a significant deterioration of demand for Civil Aerospace (including Rolls-Royce Deutschland) programmes given that all commercial aero engines are compatible with sustainable fuels. Similarly, 80% of the portfolio in Power Systems is now compatible with alternative and more sustainable fuels. The investment required to ensure our new products will be compatible with net zero operation, and to achieve net zero Scope 1 + 2 emission commitments is reflected in the forecasts used.

A 1.5°C scenario has been prepared using key data points from external sources, including Oxford Economics Global Climate Service and Databank and the International Energy Agency. This scenario has been used as the basis of a sensitivity. It is assumed that governments adopt stricter product and behavioural standards and measures that result in higher carbon pricing. Under these conditions, it is assumed that markets are willing to pay for low carbon solutions and that there is an economic return from strategic investments in low carbon alternatives. The sensitivity has considered the likelihood of demand changes for our products based on their relative fuel efficiency in the marketplace and the probability of alternatives being introduced earlier than currently expected. The sensitivity also reflects the impact of a broad range of potential costs imposed by policy or regulatory interventions (through carbon pricing). This sensitivity does not indicate the need for an impairment charge.

The principal assumptions for the impairment testing of goodwill balances considered to be individually significant are:

Rolls-Royce Power Systems AG

— Trading assumptions (e.g. volume of equipment deliveries, pricing achieved and cost escalation) that are based on current and known future programmes, estimates of market share and long-term economic forecasts;

— Plausible downside scenario in relation to macro-economic factors included with a 25% weighting;

— Cash flows beyond the five-year forecasts are assumed to grow at 2.0% (2023: 2.0%); and

— Nominal pre-tax discount rate 10.2% (2023: 12.0%).

The Directors do not consider that any reasonably possible changes in the key assumptions (including taking consideration of the climate-related risks above) would cause the value in use of the goodwill fall below its carrying value.

Rolls-Royce Deutschland Ltd & Co KG

— Trading assumptions (e.g. volume of engine deliveries, flying hours of installed fleet, including assumptions on the recovery of the aerospace industry, and cost escalation) that are based on current and known future programmes, estimates of market share and long-term economic forecasts;

— Plausible downside scenario in relation to macro-economic factors included with a 25% weighting;

— Cash flows beyond the five-year forecasts are assumed to grow at 2.0% (2023: 2.0%); and

— Nominal pre-tax discount rate 12.6% (2023: 14.4%).

The Directors do not consider that any reasonably possible changes in the key assumptions (including taking consideration of the climate-related risks above) would cause the value in use of the goodwill to fall below its carrying value.

Other CGUs

Goodwill balances across the Group that are not considered to be individually significant were also tested for impairment. Following the Directors decision to close the Group's advanced air mobility activities £13m (2023: £nil) of goodwill, that arose on the acquisition of Siemens' eAircraft, was impaired during the year.

8 Intangible assets *continued*

Material intangible assets (excluding goodwill)

The carrying amounts and the residual life of the material intangible assets (excluding goodwill) for the Group are as follows:

	Residual life [1]	Net book value 2024 £m	2023 £m
Trent programme intangible assets [2]	1-15 years	**2,001**	1,920
Business aviation programme intangible assets [3]	10-15 years	**674**	238
Intangible assets related to Power Systems [4]		**309**	370
		2,984	2,528

1 Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 67, the amortisation period of 15 years will commence on those assets which are not being amortised as the units are delivered

2 Included within the Trent programmes are the Trent 1000, Trent 7000 and Trent XWB

3 Included within business aviation are the Pearl 700, Pearl 15 and Pearl 10X

4 Includes £107m (2023: £112m) in respect of a brand intangible asset which is not amortised. Remaining assets are amortised over a range of three to 15 years

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant programme changes and by analysing latest management forecasts against those prepared in 2023 to identify any change in performance. Where a trigger event has been identified, an impairment test has been carried out. Where an impairment test was required, it was performed on the following basis:

— The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and

— The key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates consistent with the assumptions above.

Impairment reversal triggers were identified for a Civil Aerospace programme asset previously impaired as a result of the impacts of the pandemic in 2020. The triggers for recalculating the recoverable amount were improvements during the period in exchange rates, the discount rate and forecast costs following successful entry-into-service of the engine.

An impairment reversal assessment has been carried out on the following basis:

— The recoverable amount of programme assets has been estimated using a value in use calculation. This has been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past-experience and external sources of information on market conditions over the lives of the respective programmes; and

— The key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share, pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates.

The intangible asset impairment reversal of £413m was recognised in research and development costs together with a participation fee contract asset impairment reversal of £132m (see note 14) being recognised in cost of sales in the period as follows:

	Impairment reversal			
	Intangible Assets £m	**Contract Assets £m**	**Total £m**	**Pre-tax nominal discount rate at 30 June 2024 [1]**
Civil Aerospace – Business Aviation programme assets [2]	**413**	**132**	**545**	**13.9%**

1 The impairment reversal test was performed at 30 June 2024. The equivalent pre-tax nominal discount rate in 2020, when the impairment was recognised, was 11.9%. As at 31 December 2023, the discount rate was 14.4%

2 The actual amount reversed in local currency represents the full impairment recognised in 2020. Any subsequent change in GBP values on consolidation is solely due to exchange rate movements

The recoverable amount calculated now significantly exceeds the carrying value of the assets as a result of the inclusion of passage of time benefits in addition to those from the impairment reversal trigger drivers described above. In making this assessment, the Directors have considered a range of sensitivities in relation to the market, pricing, cost increases, exchange rates and discount rates.

There have been no other individually material impairment charges or reversals recognised during the period (31 December 2023: none).

9 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2023	1,936	5,225	999	400	8,560
Additions	19	147	34	223	423
Transferred to current assets [1]	(90)	(93)	–	(43)	(226)
Disposals/write-offs	(19)	(309)	(33)	(9)	(370)
Reclassifications [2]	69	78	13	(146)	14
Exchange differences	(32)	(86)	(7)	(13)	(138)
At 31 December 2023	1,883	4,962	1,006	412	8,263
Additions	**21**	**129**	**108**	**245**	**503**
Transferred to assets held for sale [3]	**(33)**	**(51)**	**–**	**(2)**	**(86)**
Disposals/write-offs	**(23)**	**(142)**	**(17)**	**(4)**	**(186)**
Reclassifications [2]	**46**	**67**	**3**	**(116)**	**–**
Reclassification from right-of-use assets	**11**	**–**	**–**	**–**	**11**
Exchange differences	**(23)**	**(55)**	**(1)**	**–**	**(79)**
At 31 December 2024	**1,882**	**4,910**	**1,099**	**535**	**8,426**
Accumulated depreciation and impairment:					
At 1 January 2023	695	3,507	413	9	4,624
Charge for the year [4]	70	296	40	–	406
Impairment [5]	4	6	1	6	17
Transferred to current assets [1]	(48)	(61)	–	–	(109)
Disposals/write-offs	(18)	(299)	(25)	–	(342)
Reclassifications [2]	17	(9)	8	(7)	9
Exchange differences	(11)	(56)	(3)	–	(70)
At 31 December 2023	709	3,384	434	8	4,535
Charge for the year [4]	**77**	**249**	**49**	**–**	**375**
Impairment [5]	**2**	**23**	**–**	**–**	**25**
Transferred to assets held for sale [3]	**(11)**	**(24)**	**–**	**–**	**(35)**
Disposals/write-offs	**(16)**	**(123)**	**(10)**	**–**	**(149)**
Reclassifications [2]	**16**	**(16)**	**–**	**–**	**–**
Exchange differences	**(9)**	**(39)**	**(1)**	**–**	**(49)**
At 31 December 2024	**768**	**3,454**	**472**	**8**	**4,702**
Net book value:					
At 31 December 2024	**1,114**	**1,456**	**627**	**527**	**3,724**
At 31 December 2023	1,174	1,578	572	404	3,728

1 During 2023, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that were derecognised were transferred to trade receivables and other assets to reflect the nature of these assets as current assets

2 Primarily includes reclassifications from assets under construction into the other categories of property, plant and equipment when the assets become available for use.

3 At 31 December 2024 the Group held for sale the assets and liabilities of its naval propulsors & handling business. See note 26 for further detail

4 Depreciation is charged to cost of sales and commercial and administrative costs or included in the cost of inventory as appropriate

5 The carrying values of property, plant and equipment have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 8. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. As a result of this assessment, there are no (2023: none) individually material impairment charges or reversals in the year

Property, plant and equipment includes:

	2024 Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	2023 Land and buildings £m	Plant and equipment £m	Aircraft and engines £m
Assets held for use in leases where the Group is the lessor:						
Cost	**6**	**36**	**861**	6	38	760
Depreciation	**(4)**	**(22)**	**(372)**	(4)	(21)	(348)
Net book value	**2**	**14**	**489**	2	17	412

	2024 £m	2023 £m
Capital expenditure commitments	**177**	222
Cost of fully depreciated assets	**2,286**	2,084

The Group's share of equity accounted entities' capital commitments is £69m (2023: £16m).

10 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2023	506	162	1,827	2,495
Additions/modifications of leases	38	56	104	198
Acquisition of businesses	2	–	–	2
Disposals	(6)	(22)	(54)	(82)
Transferred to current assets [1]	(4)	–	–	(4)
Reclassification to PPE	(5)	–	(10)	(15)
Exchange differences	(18)	(2)	(3)	(23)
At 31 December 2023	513	194	1,864	2,571
Additions/modifications of leases	**28**	**73**	**37**	**138**
Transferred to assets held for sale [2]	**(2)**	**(1)**	**–**	**(3)**
Disposals	**(8)**	**(17)**	**–**	**(25)**
Reclassifications to PPE	**(11)**	**–**	**–**	**(11)**
Exchange differences	**(3)**	**(3)**	**(4)**	**(10)**
At 31 December 2024	**517**	**246**	**1,897**	**2,660**
Accumulated depreciation and impairment:				
At 1 January 2023	230	84	1,120	1,434
Charge for the year [3]	42	42	179	263
Impairment [4]	3	6	62	71
Disposals	(6)	(22)	(54)	(82)
Transferred to current assets [1]	–	–	–	–
Reclassifications from PPE	(1)	–	(8)	(9)
Exchange differences	(9)	(1)	(1)	(11)
At 31 December 2023	259	109	1,298	1,666
Charge for the year [3]	**42**	**43**	**172**	**257**
Impairment [4]	**3**	**2**	**3**	**8**
Transferred to assets held for sale [2]	**(2)**	**–**	**–**	**(2)**
Disposals	**(7)**	**(17)**	**–**	**(24)**
Exchange differences	**(1)**	**(2)**	**(3)**	**(6)**
At 31 December 2024	**294**	**135**	**1,470**	**1,899**
Net book value at:				
At 31 December 2024	**223**	**111**	**427**	**761**
At 31 December 2023	254	85	566	905

Right-of-use assets held for use in operating leases where the Group is the lessor:				
Cost	**18**	**–**	**1,897**	**1,915**
Depreciation	**(8)**	**–**	**(1,470)**	**(1,478)**
Net book value at 31 December 2024	**10**	**–**	**427**	**437**
Cost	6	–	1,864	1,870
Depreciation	(3)	–	(1,298)	(1,301)
Net book value at 31 December 2023	3	–	566	569

1 During 2023, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that were derecognised were transferred to trade receivables and other assets to reflect the nature of these assets as current assets

2 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 26 for further detail

3 Depreciation is charged to cost of sales and commercial and administrative costs as appropriate

4 The carrying values of right-of-use assets have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 8. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). As a result of this assessment, the carrying values of assets, where a trigger was identified, have been assessed by reference to value in use considering assumptions such as estimated future cash flows, product performance related estimates and climate-related risks. During the year to 31 December 2024, an immaterial impairment charge of £8m has been recognised (2023: £71m)

11 Investments

Composition of the Group

The entities contributing to the Group's financial results are listed on pages 144 to 149.

Where the Group does not own 100% of the shares of a group undertaking, there are a number of arrangements with the other shareholder(s) that give the Group the option or potential obligation to acquire the third parties' shares. These arrangements have been assessed and are not considered to have a significant value, individually or in aggregate.

The Group does not have any non-wholly owned subsidiaries that have a material non-controlling interest.

Equity accounted and other investments

	Equity accounted	Other [1]
	Joint ventures £m	£m
At 1 January 2023	422	36
Additions	9	–
Disposals	(5)	(1)
Share of retained profit [2]	119	–
Reclassification of deferred profit to deferred income [3]	(18)	–
Revaluation of other investments accounted for at FVOCI	–	(4)
Exchange differences	(50)	–
Share of OCI	2	–
At 1 January 2024	479	31
Additions [4]	**17**	**–**
Impairment	**(4)**	**–**
Share of retained profit [2]	**95**	**–**
Reclassification of deferred profit to deferred income [3]	**(2)**	**–**
Revaluation of other investments accounted for at FVOCI	**–**	**(2)**
Revaluation of other investments accounted for at FVTPL [5]	**–**	**(24)**
Exchange differences	**11**	**–**
Share of OCI	**(4)**	**–**
At 31 December 2024	**592**	**5**

1 Other investments includes unlisted investments of £nil (2023: £24m) and listed investments of £5m (2023: £7m)

2 See table below

3 The Group's share of unrealised profit on sales to joint ventures is eliminated against the carrying value of the investment in the entity. Any excess amount, once the carrying value is reduced to £nil, is recorded as deferred income

4 Additions to investments of £17m (2023: £9m) relate to the third instalment of investment related to the joint venture, Beijing Aero Engine Services Company Limited

5 During the year the Group wrote down the value of an unlisted investment. This charge was recognised within net financing

Reconciliation of share of retained profit to the income statement and cash flow statement:

	2024 £m	2023 £m
Share of results of joint ventures and associates	**137**	139
Adjustments for intercompany trading [1]	**35**	34
Share of results of joint ventures and associates to the Group	**172**	173
Dividends paid by joint ventures and associates to the Group (cash flow statement)	**(77)**	(54)
Share of retained profit above	**95**	119

1 During the year, the Group sold spare engines to Rolls-Royce & Partners Finance, a joint venture and subsidiary of Alpha Partners Leasing Limited. The Group's share of the profit on these sales is deferred and released to match the depreciation of the engines in the joint venture's financial statements. In 2024 and 2023, profit deferred on the sale of engines was lower than the release of that deferred in prior years

11 Investments *continued*

The following joint ventures are considered to be individually material to the Group:

	Principal location	Activity	Ownership interest
Alpha Partners Leasing Limited (APL)	UK	Aero-engine leasing	50.0%
Hong Kong Aero Engine Services Limited (HAESL)	Hong Kong	Aero-engine repair and overhaul	50.0%
Singapore Aero Engine Services Pte Limited (SAESL)	Singapore	Aero-engine repair and overhaul	50.0%

Summarised financial information of the Group's individually material joint ventures is as follows:

	APL		HAESL		SAESL	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Revenue	**400**	371	**4,017**	3,214	**2,469**	2,224
Profit and total comprehensive income for the year	**114**	106	**70**	73	**46**	29
Dividends paid during the year	**(63)**	(5)	**(69)**	(67)	**–**	–
Profit for the year included the following:						
Depreciation and amortisation	**(150)**	(166)	**(11)**	(11)	**(18)**	(20)
Interest income	**12**	15	**–**	–	**8**	7
Interest expense	**(112)**	(122)	**(8)**	(4)	**(1)**	(2)
Income tax expense	**(41)**	(37)	**(17)**	(14)	**(3)**	(2)
Current assets	**345**	336	**1,129**	1,103	**1,154**	954
Non-current assets	**3,506**	3,048	**100**	93	**133**	130
Current liabilities	**(360)**	(261)	**(895)**	(886)	**(950)**	(790)
Non-current liabilities	**(2,662)**	(2,358)	**(95)**	(73)	**(8)**	(8)
Net assets	**829**	765	**239**	237	**329**	286
Included in the above:						
Cash and cash equivalents	**190**	223	**4**	12	**129**	99
Current financial liabilities [1]	**(244)**	(165)	**(10)**	–	**–**	–
Non-current financial liabilities [1]	**(2,134)**	(1,914)	**(86)**	(66)	**(8)**	(8)
Reconciliation to the carrying amount recognised in the Consolidated Financial Statements						
Ownership interest	**50.0%**	50.0%	**50.0%**	50.0%	**50.0%**	50.0%
Group share of net assets above	**415**	383	**120**	119	**165**	143
Goodwill	**–**	–	**37**	36	**11**	11
Adjustments for intercompany trading	**(386)**	(383)	**(7)**	–	**(4)**	(4)
Included in the balance sheet	**29**	–	**150**	155	**172**	150

1 Excluding trade payables and other liabilities

The summarised aggregated results of the Group's share of equity accounted investments is as follows:

	Individually material joint ventures (above)		Other joint ventures		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Profit and total comprehensive incom for the year	**115**	104	**18**	37	**133**	141
Assets:						
Non-current assets	**1,870**	1,637	**245**	159	**2,115**	1,796
Current assets	**1,314**	1,197	**632**	359	**1,946**	1,556
Liabilities: [1]						
Current liabilities	**(1,102)**	(969)	**(536)**	(264)	**(1,638)**	(1,233)
Non-current liabilities	**(1,382)**	(1,220)	**(86)**	(43)	**(1,468)**	(1,263)
Group adjustment for goodwill	**48**	47	**–**	–	**48**	47
Adjustment for intercompany trading	**(397)**	(387)	**(14)**	(37)	**(411)**	(424)
Included in the balance sheet	**351**	305	**241**	174	**592**	479
1 Liabilities include borrowings of:	**(1,241)**	(1,076)	**(113)**	(60)	**(1,354)**	(1,136)

12 Inventories

	2024 £m	2023 £m
Raw materials	**544**	516
Work in progress	**1,715**	1,679
Finished goods	**2,833**	2,653
	5,092	4,848

Inventories stated at net realisable value	**232**	187
Amount of inventory write-down	**56**	79
Reversal of inventory write-down	**15**	21

13 Trade receivables and other assets

	Current		Non-current [1]		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Trade receivables	**2,917**	2,724	**138**	40	**3,055**	2,764
Prepayments	**829**	1,032	**89**	102	**918**	1,134
RRSA prepayment for LTSA parts [2]	**486**	236	**1,182**	1,084	**1,668**	1,320
Receivables due on RRSAs	**1,118**	1,159	**119**	193	**1,237**	1,352
Amounts owed by joint ventures and associates	**894**	731	**2**	10	**896**	741
Amounts due from parent undertakings [3]	**–**	–	**337**	337	**337**	337
Other taxation and social security receivable	**215**	160	**2**	13	**217**	173
Costs to obtain contracts with customers [4]	**11**	7	**124**	109	**135**	116
Other receivables and similar assets [5]	**530**	478	**58**	45	**588**	523
	7,000	6,527	**2,051**	1,933	**9,051**	8,460

Trade receivables and other assets are analysed as follows:		
Financial instruments (note 19):		
Trade receivable and similar items	**5,525**	5,194
Other non-derivative financial assets	**366**	332
Non-financial instruments	**3,160**	2,934
	9,051	8,460

1 Trade receivables and other assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure is included in the table above and relates to amounts not expected to be received in the next 12 months in line with specific customer payment arrangements, including customers on payment plans

2 These amounts reflect the contractual share of EFH flows from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £(262)m (2023: £(211)m) has been recognised in cost of sales in relation to parts supplied and used in the year

3 Amounts due from parent undertakings are interest free and repayable on demand. Whilst the Company could demand repayment, the Directors consider that the intention would be to not call upon this balance for repayment in the next 12 months, but is expected to be settled within the normal operating cycle

4 These are amortised over the term of the related contract in line with engine deliveries, resulting in amortisation of £8m (2023: £9m) in the year. There were no impairment losses

5 Other receivables includes unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

The Group has adopted the simplified approach to provide for expected credit losses (ECLs), measuring the loss allowance at a probability weighted amount incorporated by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information.

The ECLs for trade receivables and other assets has decreased by £3m to £239m (2023: decreased by £104m to £242m).

The assumptions and inputs used for the estimation of the ECLs are shown in the table below:

	2024			2023		
	Trade receivables and other financial assets £m	**Loss allowance £m**	**Average ECL rate %**	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %
Credit rating C and above	**2,179**	**(74)**	**3%**	2,081	(102)	5%
Credit rating below C	**28**	**(4)**	**14%**	80	(6)	8%
Without credit rating	**3,586**	**(161)**	**4%**	3,607	(134)	4%
	5,793	**(239)**	**4%**	5,768	(242)	4%

13 Trade receivables and other assets *continued*

The movements of the Group's ECLs provision are as follows:

	2024 £m	2023 £m
At 1 January	**(242)**	(346)
Increases in loss allowance recognised in the income statement during the year	**(130)**	(80)
Loss allowance utilised	**11**	34
Releases of loss allowance previously provided	**116**	128
Transferred to assets held for sale	**1**	–
Exchange differences	**5**	22
At 31 December	**(239)**	(242)

14 Contract assets and liabilities

	Current		**Non-current [1]**		**Total [2]**	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Contract assets						
Contract assets with customers	**886**	534	**598**	481	**1,484**	1,015
Participation fee contract assets	**38**	26	**291**	201	**329**	227
	924	560	**889**	682	**1,813**	1,242

1 Contract assets and contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities are further split according to when the related performance obligation is expected to be satisfied, and therefore, when revenue is estimated to be recognised in the income statement. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

2 Contract assets are classified as non-financial instruments

The balance includes £955m (2023: £494m) of Civil Aerospace LTSA assets and £381m (2023: £410m) Defence LTSA assets.

The increase in the Civil Aerospace balance is driven by revenue recognised (when performance obligations have been completed during the year) being greater than the amount invoiced on those contracts that have a contract asset balance. Revenue recognised relating to performance obligations satisfied in previous years was £(42)m which reduced the contract asset (2023: £64m increased). No impairment losses in relation to these contract assets (2023: none) have arisen during the year.

Participation fee contract assets have increased by £102m (2023: decreased by £16m) primarily due to the Civil Aerospace programme asset impairment reversal of £132m (2023: £nil) referred to in note 8, offset by amortisation of £23m (2023: £15m) and foreign exchange on consolidation of £7m (2023: £1m).

The absolute value of ECLs for contract assets has increased by £5m to £11m (2023: decreased by £15m to £6m).

	Current		**Non-current**		**Total**	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Contract liabilities	**6,309**	6,098	**9,447**	8,438	**15,756**	14,536

Contract liabilities are analysed as follows:		
Financial instruments (note 19)	**1,280**	1,358
Non-financial instruments	**14,476**	13,178
	15,756	14,536

During the year. £5,048m (31 December 2023: £3,813m) of the opening contract liability was recognised as revenue.

Contract liabilities have increased by £1,220m. The movement in the Group balance is primarily as a result of an increases in Civil Aerospace of £1,179m. This is mainly as a result of growth in LTSA liabilities of £1,565m (2024: £11,139m, 2023: £9,574m) driven almost wholly by large engines, with customer invoicing in 2024 (based on EFH) being in advance of revenue recognised (based on costs incurred completing performance obligations). The contract liability movement includes a decrease of £(354)m (2023: £168m increase) as a result of revenue being recognised in relation to performance obligations satisfied in previous years. An increase in Power Systems of £67m is from the receipt of deposits in advance of performance obligations being completed.

15 Cash and cash equivalents

	2024 £m	2023 £m
Cash at bank and in hand	713	739
Money-market funds	1,900	1,077
Short-term deposits	2,961	1,968
Cash and cash equivalents per the balance sheet	5,574	3,784
Overdrafts (note 16)	(2)	(53)
Cash and cash equivalents per cash flow statement (page 54)	5,572	3,731

Cash and cash equivalents at 31 December 2024 includes £245m (2023: £279m) that is not available for general use by the Group. This balance includes £40m (2023: £40m) which is held in an account that is exclusively for the general use of Rolls-Royce Submarines Limited and £160m (2023: £195m) which is held exclusively for the use of Rolls-Royce Saudi Arabia Limited. This cash is not available for use by other entities within the Group. The remaining balance relates to cash held in non-wholly owned subsidiaries and joint arrangements.

Balances are presented on a net basis when the Group has both a legal right of offset and the intention to either settle on a net basis or realise the asset and settle the liability simultaneously. There is no offsetting of financial instruments in the Group's statement of financial position as at 31 December 2024 and 2023.

16 Borrowings and lease liabilities

	Current		Non-current		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Unsecured						
Overdrafts	2	53	–	–	2	53
Bank loans	4	3	3	–	7	3
0.875% Notes 2024 €550m [1]	–	475	–	–	–	475
3.625% Notes 2025 $1,000m [1]	795	–	–	770	795	770
3.375% Notes 2026 £375m [2]	–	–	364	361	364	361
4.625% Notes 2026 €750m [3]	–	–	620	649	620	649
5.75% Notes 2027 $1,000m [3]	–	–	795	782	795	782
5.75% Notes 2027 £545m	–	–	543	542	543	542
1.625% Notes 2028 €550m [1]	–	–	442	455	442	455
Other loans	–	–	9	9	9	9
Total unsecured	801	531	2,776	3,568	3,577	4,099
Lease liability – Land and buildings	44	42	405	382	449	424
Lease liability – Aircraft and engines	209	203	784	949	993	1,152
Lease liability – Plant and equipment	43	33	70	51	113	84
Total lease liabilities	296	278	1,259	1,382	1,555	1,660
Total borrowings and lease liabilities	1,097	809	4,035	4,950	5,132	5,759

All outstanding items described as loan notes above are listed on the London Stock Exchange

1 These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay floating rates of GBP interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

2 These notes are the subject of interest rate swap agreements under which the Group has undertaken to pay floating rates of interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

3 These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay fixed rates of GBP interest, which form a cash flow hedge

During the year to 31 December 2024, the Group repaid a loan note of €550m in May 2024 in line with its maturity date.

The Group has access to the following undrawn committed borrowing facilities at the end of the year:

	2024 £m	2023 £m
Expiring within one year	–	–
Expiring after one year	2,500	3,500
Total undrawn facilities	2,500	3,500

Further details can be found in the going concern and liquidity statements on page 40.

In May 2024, the Group cancelled its undrawn £1bn UKEF-supported loan facility which was due to expire in 2027. The facility had remained undrawn in the year.

In October 2024, the Group extended the maturity date of its undrawn £2.5bn revolving credit facility by one year to November 2027, with the Group having the option to exercise a further one-year extension option, subject to the bank agreement at the time of exercise.

17 Leases

Leases as lessee

The net book value of right-of-use assets at 31 December 2024 was £761m (2023: £905m), with a lease liability of £1,555m (2023: £1,660m), per notes 10 and 16, respectively. Leases that have not yet commenced to which the Group is committed have a future liability of £2m and consist of mainly plant and equipment and properties. The consolidated income statement shows the following amounts relating to lease:

	2024 £m	2023 £m
Land and buildings depreciation and impairment [1]	**(45)**	(45)
Plant and equipment depreciation and impairment [2]	**(45)**	(48)
Aircraft and engines depreciation and impairment [3]	**(175)**	(241)
Total depreciation and impairment charge for right-of-use assets	**(265)**	(334)
Adjustment of amounts payable under residual value guarantees within lease liabilities [3, 4]	**6**	10
Expense relating to short-term leases of 12 months or less recognised as an expense on a straight-line basis [2]	**(38)**	(49)
Expense relating to variable lease payments not included in lease liabilities [3, 5]	**(8)**	(5)
Total operating costs	**(305)**	(378)
Interest expense [6]	**(83)**	(85)
Total lease expense	**(388)**	(463)
Income from sub-leasing right-of-use assets	**29**	31
Total amount recognised in income statement	**(359)**	(432)

1 Included in cost of sales and commercial and administration costs depending on the nature and the use of the right-of-use asset

2 Included in cost of sales, commercial and administration costs, or research and development depending on the nature and use of the right-of-use asset

3 Included in cost of sales

4 Where the cost of meeting residual value guarantees is less than that previously estimated, as costs have been mitigated or liabilities waived by the lessor, the lease liability has been remeasured. Where the value of this remeasurement exceeds the value of the right-of use asset, the reduction in the lease liability is credited to cost of sales

5 Variable lease payments primarily arise on a small number of contracts where engine lease payments are dependent upon utilisation rather than a periodic charge

6 Included in financing costs

The total cash outflow for leases in 2024 was £421m (2023: £429m). Of this, £375m related to leases reflected in the lease liability, £38m to short-term leases where lease payments are expensed on a straight-line basis and £8m for variable lease payments where obligations are only due when the assets are used. The timing difference between income statement charge and cash flow relates to costs incurred at the end of leases for residual value guarantees and restoration costs that are recognised within depreciation over the term of the lease, the most significant amounts relate to engine leases..

Engine leases in the Civil Aerospace business often include clauses that require the engines to be returned to the lessor with specific levels of usable life remaining or cash payments to the lessor. The costs of meeting these requirements are included in the lease payments. The amounts payable are calculated based upon an estimate of the utilisation of the engines over the lease term, whether the engine is restored to the required condition by performing an overhaul at our own cost or through the payments of amounts specified in the contract and any new contractual arrangements arising when the current lease contracts end. Amounts due can vary depending on the level of utilisation of the engines, overhaul activity prior to the end of the contract, and decisions taken on whether ongoing access to the assets is required at the end of the lease term. During the year, adjustments to return conditions at the end of leases resulted in a credit of £6m to the income statement. The lease liability at 31 December 2024 included £297m relating to the cost of meeting these residual value guarantees in the Civil Aerospace business. Up to £76m is payable in the next 12 months, £125m is due over the following four years and the remaining balance after five years.

Leases as lessor

The Group acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessees provide protection over the assets. Usage in excess of specified limits and damage to the engine while on lease are covered by variable lease payment structures. Lessee bankruptcy risk is managed through ongoing monitoring of airline credit rating and, where applicable, the Cape Town Convention on International Interests in Mobile Equipment (including a specific protocol relating to aircraft equipment); an international treaty that creates common standards for the registration of lease contracts and establishes various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws. Engines are only leased once the Group confirm that appropriate insurance documentation is established that covers the engine assets to pre-agreed amounts. All such contracts are operating leases. The Group also leases out a small number of properties, or parts of properties, where there is excess capacity under operating leases.

	2024 £m	2023 £m
Operating lease income [1, 2]	**99**	104

1 Includes variable lease payments received of £83m (2023: £87m) that do not depend on an index or a rate

2 Items of property, plant and equipment subject to an operating lease are disclosed in note 9

Total non-cancellable future operating lease rentals receivable (undiscounted) are £71m (2023: £91m) with £10m (2023: £12m) due within one year, £38m (2023: £43m) between one to five years and £23m (2023: £36m) after five years.

In a limited number of circumstances, the Group sublets properties that are treated as a finance lease when the arrangement transfers substantially all the risks and rewards of ownership of the asset. At 31 December 2024, the total undiscounted lease payments receivable is £37m (2023: £35m) on annual lease income of £5m (2023: £4m). The discounted finance lease receivable at 31 December 2024 is £29m (2023: £28m). There was £nil (2023: £nil) finance income recognised during the year.

18 Trade payables and other liabilities

	Current		Non-current		Total	
	2024 **£m**	2023 £m	**2024** **£m**	2023 £m	**2024** **£m**	2023 £m
Trade payables	**1,526**	1,608	**–**	–	**1,526**	1,608
Accruals	**2,552**	1,134	**109**	96	**2,661**	1,230
Customer discounts [1]	**1,035**	1,018	**866**	773	**1,901**	1,791
Payables due on RRSAs	**1,529**	1,713	**11**	–	**1,540**	1,713
Deferred receipts from RRSA workshare partners	**55**	56	**757**	774	**812**	830
Amounts owed to joint ventures and associates	**492**	542	**–**	–	**492**	542
Government grants [2]	**26**	30	**24**	54	**50**	84
Other taxation and social security	**54**	92	**–**	–	**54**	92
Other payables [3]	**740**	703	**198**	230	**938**	933
	8,009	6,896	**1,965**	1,927	**9,974**	8,823

Trade payables and other liabilities are analysed as follows:		
Financial instruments (note 19):		
Trade payables and similar items	**6,205**	5,091
Other non-derivative financial liabilities	**2,642**	2,521
Non-financial instruments	**1,127**	1,211
	9,974	8,823

1 Customer discounts include customer concession credits. Revenue recognised comprises sales to the Group's customers after such items. Customer concession credits are discounts given to a customer upon the sale of goods or services. A liability is recognised to correspond with the recognition of revenue when the performance obligation is met, as set out on page 62. The largest element of the balance, approximately £1.4bn (2023: 1.2bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

2 During the year, £102m, (2023: £74m) of government grants were released to the income statement

3 Other payables includes payroll liabilities and HM Government UK levies

The Group's payment terms with suppliers vary based on the products and services being sourced, the competitive global markets the Group operates in and other commercial aspects of suppliers' relationships. Industry average payment terms vary between 90 to 120 days.

The Group offers reduced payment terms to its smaller suppliers, who are typically on 75-day payment terms, so that they are paid in 30 days. In line with civil aviation industry practice, the Group offers a SCF programme in partnership with banks to enable suppliers (including joint ventures who are on 90-day standard payment terms) to receive their payments sooner. This SCF programme is available to suppliers at their discretion and does not change the Group's rights and obligations with the suppliers or the timing of payment by the Group to settle its liabilities arising from transactions with these suppliers.

At 31 December 2024, £594m of trade payables were within the scope of the SCF arrangements of which suppliers had drawn £506m (2023: £418m), with £243m (2023: £154m) drawn by joint ventures. In some cases the Group settles the costs incurred by joint ventures as a result of them utilising SCF arrangements and, during the year to 31 December 2024, the Group incurred costs of £9m (2023: £28m). These were included within the cost of sales.

19 Financial instruments

Carrying values and fair values of financial instruments

	Notes	Basis for determining fair value	Assets FVPL £m	Assets FVOCI £m	Assets Amortised cost £m	Liabilities FVPL £m	Liabilities Other £m	Total £m
2024								
Other non-current asset investments	11	A	**–**	**5**	**–**	**–**	**–**	**5**
Trade receivables and similar items	13	B/C	**–**	**9**	**5,516**	**–**	**–**	**5,525**
Other non-derivative financial assets	13	B	**–**	**–**	**366**	**–**	**–**	**366**
Other assets		D/F	**21**	**–**	**16**	**–**	**–**	**37**
Derivative financial assets [1]		C	**298**	**–**	**–**	**–**	**–**	**298**
Cash and cash equivalents	15	B	**1,900**	**–**	**3,674**	**–**	**–**	**5,574**
Borrowings	16	E/F	**–**	**–**	**–**	**–**	**(3,577)**	**(3,577)**
Lease liabilities	16	G	**–**	**–**	**–**	**–**	**(1,555)**	**(1,555)**
Derivative financial liabilities [1]		C	**–**	**–**	**–**	**(2,054)**	**–**	**(2,054)**
Financial RRSAs		H	**–**	**–**	**–**	**–**	**(7)**	**(7)**
Other liabilities		H	**–**	**–**	**–**	**–**	**(198)**	**(198)**
Trade payables and similar items	18	B	**–**	**–**	**–**	**–**	**(6,205)**	**(6,205)**
Other non-derivative financial liabilities	18	B	**–**	**–**	**–**	**–**	**(2,642)**	**(2,642)**
Contract liabilities	14	B	**–**	**–**	**–**	**–**	**(1,280)**	**(1,280)**
			2,219	**14**	**9,572**	**(2,054)**	**(15,464)**	**(5,713)**
2023								
Other non-current asset investments	11	A	24	7	–	–	–	31
Trade receivables and similar items	13	B/C	–	9	5,185	–	–	5,194
Other non-derivative financial assets	13	B	–	–	332	–	–	332
Other assets		D/F	32	–	12	–	–	44
Derivative financial assets [1]		C	350	–	–	–	–	350
Cash and cash equivalents	15	B	1,077	–	2,707	–	–	3,784
Borrowings	16	E/F	–	–	–	–	(4,099)	(4,099)
Lease liabilities	16	G	–	–	–	–	(1,660)	(1,660)
Derivative financial liabilities [1]		C	–	–	–	(2,228)	–	(2,228)
Financial RRSAs		H	–	–	–	–	(17)	(17)
Other liabilities		H	–	–	–	–	(163)	(163)
Trade payables and similar items	18	B	–	–	–	–	(5,091)	(5,091)
Other non-derivative financial liabilities	18	B	–	–	–	–	(2,521)	(2,521)
Contract liabilities	14	B	–	–	–	–	(1,358)	(1,358)
			1,483	16	8,236	(2,228)	(14,909)	(7,402)

1 In the event of counterparty default relating to derivative financial assets, derivative financial liabilities and £125m of cash and cash equivalents, offsetting would apply and financial assets and liabilities held with the same counterparty would net off. If this occurred with every counterparty, total financial assets would be £26m (2023: £3m) and liabilities £1,657m (2023: £1,881m)

19 Financial instruments *continued*

Fair values equate to book values for both 2024 and 2023, with the following exceptions:

	Basis for determining fair value	2024 Book value £m	2024 Fair value £m	2023 Book value £m	2023 Fair value £m
Other assets	F	**16**	**16**	12	12
Borrowings	E	**(3,559)**	**(3,540)**	(4,034)	(3,977)
Borrowings	F	**(18)**	**(21)**	(65)	(67)
Financial RRSAs	H	**(7)**	**(7)**	(17)	(16)

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. There have been no transfers during the year from or to Level 3 valuation. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below.

A These primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology

B Fair values are assumed to approximate to cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months. Money market funds are valued using Level 1 methodology

C Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves. For commodity derivatives forward, commodity prices are used to determine expected future cash flows. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2)

D Other assets are included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/Level 3). At 31 December 2024, Level 3 assets totalled £14m (2023: £25m)

E Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1)

F Other assets and borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows. (Level 2)

G The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2)

H The fair value of RRSAs and other liabilities are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3)

IFRS 13 Fair Value Measurement defines a three level valuation hierarchy:
Level 1 — quoted prices for similar instruments;
Level 2 — directly observable market inputs other than Level 1 inputs; and
Level 3 — inputs not based on observable market data

Carrying value of other financial assets and liabilities

	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts [1] £m	Total derivatives £m	Financial RRSAs £m	Other £m	Total £m
2024							
Non-current assets	**10**	**1**	**110**	**121**	**–**	**5**	**126**
Current assets	**25**	**4**	**148**	**177**	**–**	**32**	**209**
Assets	**35**	**5**	**258**	**298**	**–**	**37**	**335**
Current liabilities	**(539)**	**(18)**	**–**	**(557)**	**–**	**(62)**	**(619)**
Non-current liabilities	**(1,364)**	**(22)**	**(111)**	**(1,497)**	**(7)**	**(136)**	**(1,640)**
Liabilities	**(1,903)**	**(40)**	**(111)**	**(2,054)**	**(7)**	**(198)**	**(2,259)**
	(1,868)	**(35)**	**147**	**(1,756)**	**(7)**	**(161)**	**(1,924)**
2023							
Non-current assets	72	–	254	326	–	34	360
Current assets	10	6	8	24	–	10	34
Assets	82	6	262	350	–	44	394
Current liabilities	(351)	(10)	(13)	(374)	(10)	(41)	(425)
Non-current liabilities	(1,766)	(15)	(73)	(1,854)	(7)	(122)	(1,983)
Liabilities	(2,117)	(25)	(86)	(2,228)	(17)	(163)	(2,408)
	(2,035)	(19)	176	(1,878)	(17)	(119)	(2,014)

1 Includes the foreign exchange impact of cross-currency interest rate swaps

19 Financial instruments *continued*

Derivative financial instruments

The Group uses various financial instruments to manage its exposure to movements in foreign exchange rates. The Group uses commodity swaps to manage its exposure to movements in the price of commodities (jet fuel, base metals, gas and power). To hedge the currency risk associated with a borrowing denominated in a foreign currency, the Group has currency derivatives designated as part of fair value or cash flow hedges. The Group uses interest rate swaps and forward rate agreements to manage its exposure to movements in interest rates.

Movements in the fair values of derivative financial assets and liabilities were as follows:

	Foreign exchange instruments		Commodity instruments		Interest rate instruments – hedge accounted [1]		Interest rate instruments – non-hedge accounted		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
At 1 January	**(2,035)**	(3,851)	**(19)**	62	**45**	125	**131**	213	**(1,878)**	(3,451)
Movements in fair value hedges	**–**	–	**–**	–	**(32)**	(71)	**–**	–	**(32)**	(71)
Movements in cash flow hedges	**–**	–	**–**	–	**(23)**	(78)	**–**	–	**(23)**	(78)
Movements in other derivative contracts [2]	**(631)**	574	**(18)**	(60)	**–**	–	**40**	1	**(609)**	515
Contracts settled	**798**	1,242	**2**	(21)	**64**	69	**(78)**	(83)	**786**	1,207
At 31 December	**(1,868)**	(2,035)	**(35)**	(19)	**54**	45	**93**	131	**(1,756)**	(1,878)

1 Includes the foreign exchange impact of cross-currency interest rate swaps

2 Included in net financing

Financial risk and RRSAs and other financial assets and liabilities

The Group has financial liabilities arising from financial RRSAs that are valued at each reporting date using the amortised cost method. This involves calculating the present value of the forecast cash flows of the arrangements using the internal rate of return at the inception of the arrangements as an appropriate discount rate. Other liabilities includes royalties payable to airframers where the present value of the liability is calculated using the Group's average borrowing rate as that reflects the nature of the balance in line with the effective interest method. In each case, below the fair value of the assets and liabilities reflect a level 3 valuation.

Movements in the carrying values were as follows:

	Financial RRSAs		Other – assets		Other – liabilities	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
At 1 January	**(17)**	(22)	**25**	25	**(163)**	(101)
Exchange adjustments included in OCI	**1**	1	**–**	–	**(5)**	2
Additions	**–**	–	**–**	–	**(34)**	(80)
Financing charge [1]	**–**	–	**(11)**	–	**(9)**	(8)
Excluded from underlying profit/(loss):						
Changes in forecast payments [1]	**–**	(1)	**–**	–	**–**	–
Cash paid	**9**	5	**–**	–	**12**	11
Other	**–**	–	**–**	–	**1**	13
At 31 December	**(7)**	(17)	**14**	25	**(198)**	(163)

1 Included in net financing

19 Financial instruments *continued*

Effect of hedging instruments on the financial position and performance

To manage the risk of changes in the fair values of fixed rate borrowings (the hedged items), the Group has entered into fixed-to-floating interest rate swaps and cross currency interest rate swaps (the hedging instruments), which, for accounting purposes, are designated as fair value hedges. The impact of fair value hedges on the financial position and performance of the Group is as follows:

	Hedged item [1]				Hedging instrument [2]						
	Nominal £m	FV adjustment in the period £m	FV adjustment since inception £m	Carrying amount £m	Nominal £m	Carrying amount asset £m	Carrying amount liability £m	FV movement in the period £m	Hedge ineffectiveness in the period [3] £m	Weighted average FX rate	Weighted average interest rate
At 31 December 2024											
Sterling	**(375)**	**(3)**	**11**	**(364)**	**375**	**–**	**(12)**	**3**	**–**	**1.00**	**SONIA + 0.89**
USD	**(658)**	**(25)**	**(137)**	**(795)**	**658**	**128**	**–**	**25**	**–**	**1.52**	**SONIA + 1.47**
Euro	**(484)**	**13**	**42**	**(442)**	**484**	**–**	**(54)**	**(11)**	**2**	**1.14**	**SONIA + 1.09**
At 31 December 2023											
Sterling	(375)	(10)	14	(361)	375	–	(14)	10	–	1.00	SONIA + 0.89
USD	(658)	31	(112)	(770)	658	104	–	(30)	1	1.52	SONIA + 1.47
Euro	(968)	(14)	37	(931)	968	–	(56)	16	2	1.14	SONIA + 0.92

1 Hedged items are included in borrowings in the balance sheet

2 Hedging instruments are included in other financial assets or liabilities in the balance sheet

3 Hedge ineffectiveness is included in net financing in the income statement

To manage the foreign exchange rate risk in cash flows on fixed rate non-GBP borrowings (the hedged items), the Group has entered into fixed-to-fixed cross-currency interest rate swaps (the hedging instruments) to hedge the cash flows into GBP, which, for accounting purposes, are designated as cash flow hedges.

The impact of cash flow hedges on the financial position and performance of the Group is as follows:

	Hedged item		Hedging instrument [1]						Hedging reserves		
	Nominal £m	FV movement in the period £m	Nominal £m	Carrying amount asset/ (liability) £m	FV movement in the period £m	Hedge ineffectiveness in the period [2] £m	Weighted average FX rate	Weighted average interest rate	Amount recognised in OCI £m	Recycled to net financing £m	Closing cash flow hedge reserve £m
At 31 December 2024											
USD	**(772)**	**(15)**	**772**	**37**	**9**	**(6)**	**1.29**	**5.33**	**(19)**	**15**	**(9)**
Euro	**(677)**	**28**	**677**	**(45)**	**(28)**	**–**	**1.11**	**5.45**	**36**	**(38)**	**(10)**
At 31 December 2023											
USD	(772)	65	772	28	(62)	3	1.29	5.33	61	(41)	(5)
Euro	(677)	14	677	(17)	(14)	–	1.11	5.45	21	(20)	(8)

1 Hedging instruments are included in other financial assets or liabilities in the balance sheet

2 Hedge ineffectiveness is included in net financing in the income statement

19 Financial instruments *continued*

Risk management policies and hedging activities

The principal financial risks to which the Group is exposed are: foreign currency exchange rate risk; liquidity risk; credit risk; interest rate risk; and commodity price risk. The Board has approved policies for the management of these risks.

Foreign currency exchange rate risk – The Group has significant cash flows (most significantly USD, followed by the euro) denominated in currencies other than the functional currency of the relevant trading entity. To manage its exposures to changes in values of future foreign currency cash flows, so as to maintain relatively stable long-term foreign exchange rates on settled transactions, the Group enters into derivative forward foreign currency transactions. In addition, the Group enters in to fixed-to-floating cross-currency interest rate swaps to manage its exposure to changes in fair value as a result of foreign exchange risk. See below.

The Group economically hedges its GBP/USD exposure by forecasting highly probable net USD receipts up to five years forward. Hedges are taken out within prescribed maximum and minimum hedge positions set out in the Group FX Policy. The maximum and minimum policy bands decline gradually over the five-year horizon and are calculated as a percentage of forecast net income. A similar policy is operated for the Group's EUR/USD exposure. For accounting purposes, these derivative contracts are not designated in hedging relationships.

The Group also has exposures to cash flows on EUR and USD denominated fixed rate borrowings. To manage its exposures to changes in values of future foreign currency cash flows, the Group has entered into fixed-to-fixed cross-currency interest rate swaps, which, for accounting purposes, are designated as cash flow hedges. The swaps have similar critical terms to the hedged items, such as the initial exchange amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the cash flow hedge relationship are changes in the credit risk of either party to the interest rate swap. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example, in the event of a partial repayment of hedged debt prior to its maturity.

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

Liquidity risk – The Group's policy is to hold financial investments and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term capital and funding obligations and to meet any unforeseen obligations and opportunities. The Group holds cash and short-term investments, which, together with the undrawn committed facilities, enable the Group to manage its liquidity risk.

Credit risk – The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The effective monitoring and controlling of credit risk is a key component of the Group's risk management activities. The Group has credit policies covering both trading and financial exposures. Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Group credit policy. The objective of the policy is to diversify and minimise the Group's exposure to credit risk from its treasury activities by ensuring the Group transacts strictly with 'BBB' or higher rated financial institutions based on pre-established limits per financial institution. At the balance sheet date, there were no significant concentrations of credit risk to individual customers or counterparties. The Group's revenue is generated from customers located across multiple geographical locations (see note 2). These customers are typically: airframers and airline operators relating to Civil Aerospace; government defence departments for the UK and US; and multiple smaller entities for Power Systems. Whilst there are a limited number of customers related to Civil Aerospace and Defence, they are spread across various geographical locations. The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of each financial asset, including derivative financial instruments.

Interest rate risk – The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk), floating rate borrowings and cash and cash equivalents (cash flow risk). Interest rate derivatives are used to manage the overall interest rate profile of the Group. The fixed or floating rate interest rate decision on long-term borrowings is determined for each new agreement at the point it is entered into. The aggregate interest rate position of the Group is reviewed regularly and can be revised at any time in order to react to changes in market conditions or circumstances.

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR, GBP and USD fixed rate borrowings. To manage the risk of changes in these fair values, the Group has entered into fixed-to-floating interest rate swaps and cross-currency interest rate swaps, which, for accounting purposes, are designated as fair value hedges. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the fair value hedge relationship are changes in the credit risk of either party to the interest rate swap and, for cross-currency interest rate swaps, the cross-currency basis risk as this risk is present in the hedging instrument only. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example in the event of a partial repayment of hedged debt prior to its maturity.

The Group has exposure to changes in cash flows due to changes in interest rates. To manage this risk, the Group has entered into floating-to-fixed interest rate swaps to hedge a proportion of its floating rate exposure to fixed rates. The swaps have similar critical terms to the floating leg of swaps that form part of the fair value hedges, such as the reference rate, reset dates, notional amounts, payment dates and maturities. For accounting purposes, these derivative contracts are generally not designated as hedging instruments.

Commodity price risk – The Group has exposures to the price of jet fuel, base metals, gas and power arising from business operations. To minimise its cash flow exposures to changes in commodity prices, the Group enters into derivative commodity transactions. The commodity hedging policy is similar to the Group FX policy, in that the Group forecasts highly probable exposures to commodities, and takes out hedges within prescribed maximum and minimum levels as set out in the policy. The maximum and minimum policy bands decline gradually over time. For accounting purposes, these derivative contracts are generally not designated in hedging relationships.

Other price risk – The Group's cash equivalent balances represent investments in money-market instruments, with a term of up to three months. The Group does not consider that these are subject to significant price risk.

19 Financial instruments *continued*

Derivative financial instruments

The nominal amounts, analysed by year of expected maturity, and fair values of derivative financial instruments are as follows:

		Expected maturity			Fair value	
	Nominal amount £m	Within one year £m	Between one and two years £m	Between two and five years £m	Assets £m	Liabilities £m
At 31 December 2024						
Foreign exchange contracts:						
Non-hedge accounted	**20,728**	**8,018**	**5,781**	**6,929**	**35**	**(1,903)**
Interest rate contracts:						
Fair value hedges	**1,517**	**658**	**375**	**484**	**128**	**(66)**
Cash flow hedges	**1,449**	**–**	**677**	**772**	**37**	**(45)**
Non-hedge accounted	**1,517**	**658**	**375**	**484**	**93**	**–**
Commodity contracts:						
Non-hedge accounted	**330**	**137**	**108**	**85**	**5**	**(40)**
	25,541	**9,471**	**7,316**	**8,754**	**298**	**(2,054)**
At 31 December 2023						
Foreign exchange contracts:						
Non-hedge accounted	15,972	6,965	4,341	4,666	82	(2,117)
Interest rate contracts:						
Fair value hedges	2,001	484	658	859	103	(69)
Cash flow hedges	1,449	–	–	1,449	28	(17)
Non-hedge accounted	2,001	484	658	859	131	–
Commodity contracts:						
Non-hedge accounted	257	102	73	82	6	(25)
	21,680	8,035	5,730	7,915	350	(2,228)

As described above, all derivative financial instruments are entered into for risk management purposes, although these may not be designated into hedging relationships for accounting purposes.

Currency analysis

Foreign exchange contracts are denominated in the following currencies:

	Nominal amount of currencies purchased forward				
	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2024					
Currencies sold forward:					
Sterling	**–**	**882**	**41**	**59**	**982**
USD	**14,654**	**–**	**4,419**	**287**	**19,360**
Euro	**35**	**290**	**–**	**26**	**351**
Other	**3**	**1**	**31**	**–**	**35**
At 31 December 2023					
Currencies sold forward:					
Sterling	–	1,573	–	115	1,688
USD	11,389	–	2,316	303	14,008
Euro	53	171	–	21	245
Other	6	3	22	–	31

The nominal value of interest rate and commodity contracts are denominated in the following currencies:

	2024 £m	2023 £m
Sterling	**1,915**	2,376
USD	**1,719**	1,671
Euro	**1,179**	1,661

19 Financial instruments *continued*

Non-derivative financial instruments are denominated in the following currencies:

	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2024					
Other non-current asset investments	**–**	**5**	**–**	**–**	**5**
Trade receivables and similar items	**638**	**4,346**	**460**	**81**	**5,525**
Other non-derivative financial assets	**73**	**242**	**40**	**11**	**366**
Other assets	**–**	**21**	**16**	**–**	**37**
Cash and cash equivalents	**2,250**	**1,283**	**1,867**	**174**	**5,574**
Assets	**2,961**	**5,897**	**2,383**	**266**	**11,507**
Borrowings	**(908)**	**(1,594)**	**(1,072)**	**(3)**	**(3,577)**
Lease liabilities	**(237)**	**(1,074)**	**(49)**	**(195)**	**(1,555)**
Financial RRSAs	**–**	**(6)**	**(1)**	**–**	**(7)**
Other liabilities	**(39)**	**(159)**	**–**	**–**	**(198)**
Trade payables and similar items	**(1,006)**	**(4,701)**	**(423)**	**(75)**	**(6,205)**
Other non-derivative financial liabilities	**(350)**	**(2,084)**	**(158)**	**(50)**	**(2,642)**
Contract liabilities	**–**	**(1,280)**	**–**	**–**	**(1,280)**
Liabilities	**(2,540)**	**(10,898)**	**(1,703)**	**(323)**	**(15,464)**
	421	**(5,001)**	**680**	**(57)**	**(3,957)**
At 31 December 2023					
Other non-current investments	10	21	–	–	31
Trade receivables and similar items	556	4,039	513	86	5,194
Other non-derivative financial assets	94	163	58	17	332
Other assets	–	22	22	–	44
Cash and cash equivalents	1,242	869	1,463	210	3,784
Assets	1,902	5,114	2,056	313	9,385
Borrowings	(904)	(1,605)	(1,590)	–	(4,099)
Lease liabilities	(195)	(1,222)	(45)	(198)	(1,660)
Financial RRSAs	–	(7)	(10)	–	(17)
Other liabilities	(32)	(131)	–	–	(163)
Trade payables and similar items	(976)	(3,561)	(493)	(61)	(5,091)
Other non-derivative financial liabilities	(334)	(2,008)	(134)	(45)	(2,521)
Contract liabilities	–	(1,358)	–	–	(1,358)
Liabilities	(2,441)	(9,892)	(2,272)	(304)	(14,909)
	(539)	(4,778)	(216)	9	(5,524)

Currency exposures

The Group's actual currency exposures on financial instruments after taking account of derivative foreign currency contracts, which are not designated as hedging instruments for accounting purposes are as follows:

Functional currency of Group operations	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2024					
Sterling	**–**	**–**	**–**	**1**	**1**
USD	**(11)**	**–**	**–**	**(2)**	**(13)**
Euro	**–**	**7**	**–**	**15**	**22**
Other	**55**	**37**	**68**	**–**	**160**
At 31 December 2023					
Sterling	–	–	–	5	5
USD	(6)	–	1	–	(5)
Euro	1	4	–	(2)	3
Other	109	38	40	–	187

19 Financial instruments *continued*

Ageing beyond contractual due date of financial assets

	Within terms £m	Up to three months overdue £m	Between three months and one year overdue £m	More than one year overdue £m	Total £m
At 31 December 2024					
Other non-current asset investments	**5**	**–**	**–**	**–**	**5**
Trade receivables and similar items	**5,075**	**324**	**82**	**44**	**5,525**
Other non-derivative financial assets	**331**	**32**	**–**	**3**	**366**
Other assets	**28**	**9**	**–**	**–**	**37**
Derivative financial assets	**298**	**–**	**–**	**–**	**298**
Cash and cash equivalents	**5,574**	**–**	**–**	**–**	**5,574**
	11,311	**365**	**82**	**47**	**11,805**
At 31 December 2023					
Other non-current asset investments	31	–	–	–	31
Trade receivables and similar items	4,391	650	87	66	5,194
Other non-derivative financial assets	328	–	4	–	332
Other assets	44	–	–	–	44
Derivative financial assets	350	–	–	–	350
Cash and cash equivalents	3,784	–	–	–	3,784
	8,928	650	91	66	9,735

Contractual maturity analysis of non-derivative financial liabilities

	Gross values				
	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Carrying value £m
At 31 December 2024					
Borrowings	**(961)**	**(1,109)**	**(1,893)**	**(16)**	**(3,577)**
Lease liabilities	**(365)**	**(324)**	**(533)**	**(1,189)**	**(1,555)**
Financial RRSAs	**(1)**	**–**	**(1)**	**(4)**	**(7)**
Other liabilities	**(61)**	**(11)**	**(25)**	**(101)**	**(198)**
Trade payables and similar items	**(6,054)**	**(21)**	**(67)**	**(63)**	**(6,205)**
Other non-derivative financial liabilities	**(1,700)**	**(316)**	**(297)**	**(329)**	**(2,642)**
Contract liabilities	**(1,280)**	**–**	**–**	**–**	**(1,280)**
	(10,422)	**(1,781)**	**(2,816)**	**(1,702)**	**(15,464)**
At 31 December 2023					
Borrowings	(694)	(943)	(3,042)	(14)	(4,099)
Lease liabilities	(358)	(366)	(697)	(735)	(1,660)
Financial RRSAs	(10)	–	(1)	(4)	(17)
Other liabilities	(42)	(6)	(25)	(90)	(163)
Trade payables and similar items	(4,952)	(15)	(47)	(77)	(5,091)
Other non-derivative financial liabilities	(1,646)	(235)	(267)	(373)	(2,521)
Contract liabilities	(1,358)	–	–	–	(1,358)
	(9,060)	(1,565)	(4,079)	(1,293)	(14,909)

19 Financial instruments *continued*

Expected maturity analysis of derivative financial instruments

	Gross values			
	Within one year £m	**Between one and two years £m**	**Between two and five years £m**	**Carrying value £m**
At 31 December 2024				
Derivative financial assets:				
Cash inflows	**1,940**	**605**	**1,089**	
Cash outflows	**(1,780)**	**(592)**	**(1,054)**	
Other net cash flows [1]	**66**	**25**	**24**	
	226	**38**	**59**	**298**
Derivative financial liabilities:				
Cash inflows	**6,988**	**5,866**	**7,154**	
Cash outflows	**(7,959)**	**(6,524)**	**(7,850)**	
Other net cash flows [1]	**(30)**	**(11)**	**(11)**	
	(1,001)	**(669)**	**(707)**	**(2,054)**
At 31 December 2023				
Derivative financial assets:				
Cash inflows	2,024	1,943	2,333	
Cash outflows	(2,021)	(1,805)	(2,311)	
Other net cash flows [1]	88	43	33	
	91	181	55	350
Derivative financial liabilities:				
Cash inflows	5,535	3,296	4,377	
Cash outflows	(6,418)	(4,027)	(5,189)	
Other net cash flows [1]	(21)	(13)	(3)	
	(904)	(744)	(815)	(2,228)

1 Derivative financial assets and liabilities that are settled on a net cash basis

Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates. The value shown is the carrying amount before taking account of swaps.

	2024			2023		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Cash and cash equivalents [1]	**–**	**5,574**	**5,574**	–	3,784	3,784
Borrowings	**(3,563)**	**(14)**	**(3,577)**	(4,036)	(63)	(4,099)
Lease liabilities	**(1,298)**	**(257)**	**(1,555)**	(1,269)	(391)	(1,660)
	(4,861)	**5,303**	**442**	(5,305)	3,330	(1,975)
Weighted average interest rates						
Borrowings	**4.0%**	**5.0%**		3.7%	5.9%	
Lease liabilities [2]	**4.9%**	**5.8%**		4.6%	6.8%	

1 Cash and cash equivalents comprises bank balances and term deposits and earn interest based on short-term floating market interest rates

2 Interest rates for lease liabilities are considered to be the discount rates at the balance sheet date

None (2023: none) of the Group's borrowings are subject to financial covenants and there are no rating triggers contained in any of the Group's facilities that could require the Group to accelerate or repay any facility for a given movement in the Group's credit rating.

£106m (2023: £105m) of the Group's lease liabilities include a customary loan-to-value covenant. The Group has several contractual cures available in the event the stipulated loan-to-value ratio is exceeded. Failure by the Group to satisfy its contractual obligations under the covenant gives rights to the lessor to terminate its lease and claim termination amounts for the outstanding lease balance. At 31 December 2024, none (2023: none) of these were in breach.

19 Financial instruments *continued*

Sensitivity Analysis

Sensitivities at 31 December (all other variables held constant) – impact on profit after tax and equity	2024 £m	2023 £m
Sterling 10% weaker against the USD	(1,506)	(1,207)
Sterling 10% stronger against the USD	1,232	988
Euro 10% weaker against the USD	(358)	(176)
Euro 10% stronger against the USD	293	144
Sterling 10% weaker against the Euro	(27)	(17)
Sterling 10% stronger against the Euro	22	14
Commodity prices 10% lower	(20)	(17)
Commodity prices 10% higher	20	17
Interest rates 50 basis points lower	(40)	(43)
Interest rates 50 basis points higher	39	42

20 Provisions for liabilities and charges

	At 1 January 2024 £m	Charged to income statement [1] £m	Reversed £m	Utilised £m	Transfers to held for sale £m	Exchange differences £m	At 31 December 2024 £m
Onerous contracts	1,472	558	(374)	(218)	(3)	(2)	1,433
Warranty and guarantees	306	158	(13)	(87)	–	(10)	354
Trent 1000 wastage costs	116	2	–	(82)	–	–	36
Employer liability claims	24	5	(1)	(2)	–	(1)	25
Transformation and restructuring	9	101	(12)	(35)	–	(1)	62
Tax related interest and penalties	22	3	(5)	(4)	–	–	16
Claims and litigation	43	1	(16)	(3)	–	–	25
Other	37	22	(2)	(13)	–	(1)	43
	2,029	850	(423)	(444)	(3)	(15)	1,994
Current liabilities	532						589
Non-current liabilities	1,497						1,405

1 The charge to the income statement within net financing includes £47m (2023: £59m) as a result of the unwinding of the discounting of provisions previously recognised

Onerous contract

Onerous contract provisions are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Onerous contract provisions are measured on a fully costed basis and during the year £218m (2023: £185m) of the provisions have been utilised. Additional contract losses for the Group of £558m (2023: £500m) have been recognised. These are mainly a result of increases in the estimate of future LTSA costs due to prolonged supply chain challenges, inflationary cost increases and implementing required product modifications that could cause some disruption to the throughput of engine overhauls. Contract losses of £374m (2023: £433m) previously recognised have been reversed following improvements to the forecast revenue, cost estimates and time on wing across various engine programmes as a result of operational improvements, contractual renegotiations and extensions. The Group continues to monitor the onerous contract provisions for changes in the market and revises the provision as required. The value of the remaining onerous contract provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 16 years.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires a company to recognise any impairment loss that has occurred on assets used in fulfilling the contract before recognising a separate provision for an onerous contract. No impairments were required for any of the assets solely used in the fulfilment of onerous contracts.

The Trent 1000 intangible assets (certification costs and development costs) and Trent 1000 spare engines (right of use and owned) are tested for impairment as part of the Trent 1000 Cash generating unit (CGU) and no impairment was required.

Warranty and guarantees

Provisions for warranty and guarantees relate to products sold and are calculated based on an assessment of the remediation costs related to future claims based on past experience. The provision generally covers a period of up to three years.

Trent 1000 wastage costs

In November 2019, the Group announced the outcome of testing and a thorough technical and financial review of the Trent 1000 TEN programme, following technical issues which were identified in 2019, resulting in a revised timeline and a more conservative estimate of durability for the improved HP turbine blade for the TEN variant. During the year, the Group has utilised £82m (2023: £79m) of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs. During the year, a net charge to the provision of £2m (2023: £16m) has been recognised reflecting the discount unwind. The value of the remaining provision reflects the single most likely outcome and is expected to be utilised in 2025.

Employer liability claims

The provision relating to employer healthcare liability claims is as a result of an historical insolvency of the previous provider and is expected to be utilised over the next 30 years.

20 Provisions for liabilities and charges *continued*

Transformation and restructuring

In 2023, the Group announced a major multi-year transformation programme consisting of seven workstreams, set out in the 2022 Annual Report. During the year, the Group made progress against those workstreams and as a result of the details communicated, a provision of £101m (2023: £2m) has been recorded and recognised in cost of sales and commercial and administration costs. During the year £35m (2023: £2m) was utilised and £12m reversed (2023: nil) as part of these plans and a further £2m (2023: £4m) has been charged directly to the income statement. The remaining provision is expected to be utilised by 31 December 2025.

Tax related interest and penalties

Provisions for tax related interest and penalties relate to uncertain tax positions in some of the jurisdictions in which the Group operates. Utilisation of the provisions will depend on the timing of resolution of the issues with the relevant tax authorities.

Claims and litigation

Provisions for claims and litigation represent ongoing matters where the outcome for the Group may be unfavourable.

The balance also includes the best estimate of any retained exposure by the Group's captive insurance company for any claims that have been incurred but not yet reported to the Group, as that entity retains a portion of the exposures it insures on behalf of the remainder of the Group. Such exposures include policies for aviation claims, employer liabilities and healthcare claims. Significant delays can occur in the notification and settlement of claims, and judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the balance sheet date. The insurance provisions are based on information currently available, however, it is inherent in the nature of the business that ultimate liabilities may vary if the frequency or severity of claims differs from estimated.

Other

Other items are individually immaterial. The value of any remaining provisions reflects the single most likely outcome in each case.

21 Post-retirement benefits

The Group operates a number of defined benefit and defined contribution schemes:

- The UK defined benefit scheme is funded, with the assets held in a separate UK trust. The scheme closed to future accrual on 31 December 2020 for all active members and there are no new defined benefit accruals in the UK scheme. As at 31 December 2024, the scheme was estimated to be funded at 119% on the Technical Provisions basis.
- The Group also operates a large trust-based defined contribution scheme for current employees in the UK (Rolls-Royce Retirement Savings Trust). Pension contributions are generally paid as a salary sacrifice under which employees agree to a reduction in gross contractual pay in return for the Group making additional pension contributions on their behalf. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £88m (2023: £72m) in the year.
- Overseas defined benefit schemes are a mixture of funded and unfunded plans and provide benefits in line with local practice. Additionally, in the US, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. These healthcare schemes are unfunded.

The valuations of the defined benefit schemes are based on the results of the most recent funding valuation from 31 March 2023, where relevant, updated by the scheme actuaries to 31 December 2024.

Other

Virgin Media

The Group is aware of a UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, which decided that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgment delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, this judgment will need to be reviewed for its relevance to the RRUKPF scheme, and other UK schemes. A high-level review has been undertaken of the UK Schemes which concluded that there is a very low risk of any historic plan amendments being found to be invalid. The Company's pension advisers have not completed detailed numerical analysis and no adjustments have been made to the Consolidated Financial Statements at 31 December 2024. There is a separate legal case which is due to be taken to the High Court in early 2025, this is expected to provide further clarification on several outstanding points of detail relevant to this case.

Barber adjustment

In 2018, an estimated cost of equalising normal retirement ages between men and women arising from the Barber judgement in 1990 was recognised. While the Rolls-Royce schemes were equalised under these principles in the period after the original Barber ruling, further work has been carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments. This work has resulted in a past service charge of £14m being recognised in the income statement of the Consolidated Financial Statements at 31 December 2024.

21 Post-retirement benefits *continued*

Amounts recognised in the income statement

	2024 UK schemes £m	2024 Overseas schemes £m	2024 Total £m	2023 UK schemes £m	2023 Overseas schemes £m	2023 Total £m
Defined benefit schemes:						
Current service cost and administrative expenses	**5**	**37**	**42**	8	35	43
Past-service credit and settlement loss	**14**	**–**	**14**	–	(2)	(2)
	19	**37**	**56**	8	33	41
Defined contribution schemes	**228**	**101**	**329**	195	98	293
Operating cost	**247**	**138**	**385**	203	131	334
Net financing (credit)/charge in respect of defined benefit schemes	**(35)**	**37**	**2**	(29)	41	12
Total income statement charge	**212**	**175**	**387**	174	172	346

The operating cost is charged as follows:

	Defined benefit 2024 £m	Defined benefit 2023 £m	Defined contribution 2024 £m	Defined contribution 2023 £m	Total 2024 £m	Total 2023 £m
Cost of sales	**30**	33	**227**	211	**257**	244
Commercial and administrative costs	**20**	2	**51**	41	**71**	43
Research and development costs	**6**	6	**51**	41	**57**	47
	56	41	**329**	293	**385**	334

Net financing comprises:

	2024 UK schemes £m	2024 Overseas schemes £m	2024 Total £m	2023 UK schemes £m	2023 Overseas schemes £m	2023 Total £m
Financing on scheme obligations	**200**	**61**	**261**	218	66	284
Financing on scheme assets	**(235)**	**(24)**	**(259)**	(247)	(25)	(272)
Net financing (income)/charge in respect of defined benefit schemes	**(35)**	**37**	**2**	(29)	41	12
Financing income on scheme surpluses	**(35)**	**(2)**	**(37)**	(29)	(1)	(30)
Financing cost on scheme deficits	**–**	**39**	**39**	–	42	42

Amounts recognised in OCI in respect of defined benefit schemes

	2024 UK schemes £m	2024 Overseas schemes £m	2024 Total £m	2023 UK schemes £m	2023 Overseas schemes £m	2023 Total £m
Actuarial gains and losses arising from:						
Demographic assumptions [1]	**19**	**(10)**	**9**	180	–	180
Financial assumptions [2]	**617**	**56**	**673**	(132)	(63)	(195)
Experience adjustments [3]	**(8)**	**(14)**	**(22)**	116	1	117
Return on scheme assets excluding financing income [2]	**(633)**	**(5)**	**(638)**	(12)	26	14
	(5)	**27**	**22**	152	(36)	116

1 For the UK Scheme, this reflects latest available CMI mortality projections and an update of the post-retirement mortality assumptions based on an analysis prepared for the 31 March 2023 funding valuation

2 Actuarial gains and losses arising from financial assumptions arise primarily due to changes in discount rate and inflation

3 This reflects an experience gain as a result of allowance for updated membership data following the valuation during the year offset by realised inflation being higher than expected in the period

21 Post-retirement benefits *continued*

Amounts recognised in the balance sheet in respect of defined benefit schemes

	2024			2023		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	**(3,958)**	**(986)**	**(4,944)**	(4,537)	(993)	(5,530)
Fair value of scheme assets	**4,737**	**531**	**5,268**	5,304	520	5,824
Net asset/(liability) on funded schemes	**779**	**(455)**	**324**	767	(473)	294
Present value of unfunded obligations	**–**	**(515)**	**(515)**	–	(547)	(547)
Net asset/(liability) recognised in the balance sheet	**779**	**(970)**	**(191)**	767	(1,020)	(253)
Post-retirement scheme surpluses [1]	**779**	**11**	**790**	767	15	782
Post-retirement scheme deficits	**–**	**(981)**	**(981)**	–	(1,035)	(1,035)

1 The surplus in the UK scheme is recognised as on an ultimate wind-up when there are no longer any remaining members, any surplus would be returned to the Group, which has the power to prevent the surplus being used for other purposes in advance of this event

Overseas schemes are located in the following countries:

	2024			2023		
	Assets £m	**Obligations £m**	**Net £m**	Assets £m	Obligations £m	Net £m
Canada	**193**	**(225)**	**(32)**	199	(239)	(40)
Germany	**56**	**(664)**	**(608)**	31	(679)	(648)
US pensions schemes	**282**	**(297)**	**(15)**	290	(301)	(11)
US healthcare schemes	**–**	**(312)**	**(312)**	–	(318)	(318)
Other	**–**	**(3)**	**(3)**	–	(3)	(3)
Net asset/(liability) recognised in the balance sheet	**531**	**(1,501)**	**(970)**	520	(1,540)	(1,020)

Defined benefit schemes

Assumptions

Significant actuarial assumptions for UK schemes at the balance sheet date were as follows:

	2024	2023
Discount rate	**5.50%**	4.50%
Inflation assumption (RPI)	**3.30%**	3.30%
Inflation assumption (CPI)	**2.90%**	2.85%
Transfer take-up assumption (employed deferred/deferred)	**20%/15%**	35%/25%
Bridging Pension Option (BPO) assumption (employed deferred/deferred)	**40%/25%**	30%/30%
Life expectancy from age 65: current male pensioner	**20.8 years**	20.8 years
future male pensioner currently aged 45	**21.5 years**	21.5 years
current female pensioner	**22.8 years**	22.8 years
future female pensioner currently aged 45	**24.1 years**	24.1 years

Discount rates are determined by reference to the market yields on AA rated corporate bonds. The rate is determined by using the profile of forecast benefit payments to derive a weighted average discount rate from the yield curve.

The inflation assumption is determined by the market-implied assumption based on the yields on long-term index-linked government securities.

The mortality assumptions adopted for the UK pension schemes are derived from the SAPS S3 'All' actuarial tables, with future improvements in line with the CMI 2023 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience and actuarial advice.

Other assumptions have been set on advice from the actuary, having regard to the latest trends in scheme experience and the assumptions used in the most recent funding valuation. The rate of increase of pensions in payment is based on the rules of the scheme, combined with the inflation assumption where the increase is capped.

Assumptions for overseas schemes are less significant and are based on advice from local actuaries. The principal assumptions are:

	2024	2023
Discount rate	**4.50%**	4.20%
Inflation assumption	**2.10%**	1.60%
Long-term healthcare cost trend rate	**4.75%**	4.75%
Male life expectancy from age 65: current pensioner	**20.5 years**	20.5 years
future pensioner currently aged 45	**22.5 years**	22.4 years

21 Post-retirement benefits *continued*

Changes in present value of defined benefit obligations

	2024 UK schemes £m	2024 Overseas schemes £m	2024 Total £m	2023 UK schemes £m	2023 Overseas schemes £m	2023 Total £m
At 1 January	(4,537)	(1,540)	(6,077)	(4,621)	(1,507)	(6,128)
Exchange differences	–	38	38	–	54	54
Current service cost	–	(37)	(37)	(4)	(33)	(37)
Past-service cost	(14)	–	(14)	–	2	2
Finance cost	(200)	(61)	(261)	(218)	(66)	(284)
Contributions by employees	–	(13)	(13)	–	(9)	(9)
Benefits paid out	165	80	245	142	80	222
Actuarial gains/(losses)	628	32	660	164	(61)	103
Transfers	–	–	–	–	(2)	(2)
Transferred to held for sale	–	–	–	–	2	2
At 31 December	(3,958)	(1,501)	(5,459)	(4,537)	(1,540)	(6,077)
Funded schemes	(3,958)	(986)	(4,944)	(4,537)	(993)	(5,530)
Unfunded schemes	–	(515)	(515)	–	(547)	(547)

The defined benefit obligations are in respect of:						
Active plan participants [1]	(1,277)	(731)	(2,008)	(1,584)	(731)	(2,315)
Deferred plan participants	(1,064)	(98)	(1,162)	(1,287)	(100)	(1,387)
Pensioners	(1,617)	(672)	(2,289)	(1,666)	(709)	(2,375)
Weighted average duration of obligations (years)	14	12	13	16	12	15

1 Although the UK scheme closed to future accrual on 31 December 2020, members who became deferred as a result of the closure and remain employed by the Group retain some additional benefits compared to other deferred members. The obligations for these members are shown as active plan participants

Changes in fair value of scheme assets

	2024 UK schemes £m	2024 Overseas schemes £m	2024 Total £m	2023 UK schemes £m	2023 Overseas schemes £m	2023 Total £m
At 1 January	5,304	520	5,824	5,215	493	5,708
Exchange differences	–	(13)	(13)	–	(21)	(21)
Administrative expenses	(5)	(1)	(6)	(4)	(1)	(5)
Financing	235	24	259	247	25	272
Return on plan assets excluding financing	(633)	(5)	(638)	(12)	26	14
Contributions by employer	1	73	74	–	69	69
Contributions by employees	–	13	13	–	9	9
Benefits paid out	(165)	(80)	(245)	(142)	(80)	(222)
At 31 December	4,737	531	5,268	5,304	520	5,824
Total return on scheme assets	(398)	19	(379)	235	51	286

Fair value of scheme assets at 31 December

	2024 UK schemes £m	2024 Overseas schemes £m	2024 Total £m	2023 UK schemes £m	2023 Overseas schemes £m	2023 Total £m
Sovereign debt	3,335	140	3,475	3,259	118	3,377
Corporate debt instruments	1,860	248	2,108	1,996	270	2,266
Interest rate swaps	197	–	197	170	–	170
Inflation swaps	92	–	92	86	–	86
Cash and similar instruments [1]	(1,176)	–	(1,176)	(892)	–	(892)
Liability driven investment (LDI) portfolios [2]	4,308	388	4,696	4,619	388	5,007
Listed equities	–	54	54	–	69	69
Unlisted equities	25	–	25	32	–	32
Synthetic equities [3]	–	–	–	20	–	20
Corporate debt instruments	379	–	379	630	–	630
Cash	25	11	36	–	10	10
Other	–	78	78	3	53	56
At 31 December	4,737	531	5,268	5,304	520	5,824

1 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £(1,203)m (2023: £(993)m). The latest maturity date for these short-term borrowings is June 2025

2 A portfolio of gilt and swap contracts, backed by investment-grade credit instruments and diversified liquidity funds, that is designed to hedge the majority of the interest rate and inflation risks associated with the schemes' obligations

3 Portfolios of swap contracts designed to provide investment returns in line with global equity markets. The maximum exposure (notional value and accrued returns) on the portfolios was £nil (2023: £379m)

21 Post-retirement benefits *continued*

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group (2023: none).

Future contributions

The Group expects to contribute approximately £76m to its overseas defined benefit schemes in 2025 (2024: £73m).

In the UK, any cash funding of RRUKPF is based on a statutory triennial funding valuation process. The Group and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting are set out above. The assumptions used to value Technical Provisions must be prudent rather than a best estimate of the liability. Most notably, the Technical Provisions discount rate is currently based upon UK Government bond yields plus a margin (0.5% at the 31 March 2023 valuation) rather than being based on yields of AA corporate bonds. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis (estimated to be 119% at 31 December 2024). All cash due has been paid in full and the current SoC does not currently require any cash contributions to be made by the Group.

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2024, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

For the most significant funded schemes, the investment strategies hedge the risks from interest rates and inflation measured on a proxy solvency basis.

For the UK scheme, the interest rate and inflation hedging is currently based on UK Government bond yields without any adjustment for any credit spread. The sensitivity analysis set out below has been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

		2024 £m	2023 £m
Reduction in the discount rate of 0.25% [1]	Obligation	**(145)**	(185)
	Plan assets (LDI portfolio)	**179**	204
Increase in inflation of 0.25% [1]	Obligation	**(55)**	(75)
	Plan assets (LDI portfolio)	**73**	77
Increase of 1% in transfer value assumption	Obligations	**(25)**	(30)
One year increase in life expectancy	Obligations	**(125)**	(155)

1 The differences between the sensitivities on obligations and plan assets arise largely due to differences in the methods used to value the obligations for accounting purposes and the adopted proxy solvency basis

22 Share capital

	Equity	
	Ordinary shares of 20p each Millions	**Nominal value £m**
At 1 January and 31 December 2023	1,691	338
At 31 December 2024	**1,691**	**338**

23 Share-based payments

Effect of share-based payment transactions on the Group's results and financial position

	2024 £m	2023 £m
Total expense recognised for equity-settled share-based payment transactions	**95**	50
Total cost recognised for cash-settled share-based payment transactions	**41**	17
Share-based payments recognised in the consolidated income statement	**136**	67
Liability for cash-settled share-based payment transactions	**59**	18

A description of the share-based payment plans is included in the Directors' Remuneration Report on pages 101 to 110 of Rolls-Royce Holdings plc 2024 Annual Report. The equity-settled share based payment plans are operated by Rolls-Royce Holdings plc.

23 Share-based payments *continued*

Movements in the Group's share-based payment plans during the year

	ShareSave		Free Shares	LTIP	Incentive Plan
	Number Millions	Weighted average exercise price Pence	Number Millions	Number Millions	Number Millions
Outstanding at 1 January 2023	65.6	127	–	93.0	12.2
Granted	0.1	115	–	44.7	7.0
Forfeited	(12.3)	203	–	(29.1)	(1.9)
Exercised	–	–	–	(7.6)	(0.1)
Outstanding at 31 December 2023	53.4	107	–	101.0	17.2
Granted	–	–	**6.2**	**22.8**	**5.0**
Forfeited	**(2.3)**	**110**	**(0.2)**	**(5.7)**	**(0.5)**
Exercised	**(0.5)**	**104**	**–**	**(25.4)**	**(5.6)**
Outstanding at 31 December 2024	**50.6**	**107**	**6.0**	**92.7**	**16.1**
Exercisable at 31 December 2024	**0.1**	**–**	**–**	**–**	**–**
Exercisable at 31 December 2023	–	–	–	–	–

The weighted average share price at the date share options were exercised was 420p (2023: 159p). The closing price at 31 December 2024 was 569p (2023: 300p).

The weighted average remaining contractual life for the share options as at 31 December 2024 was one month (2023: one year) as the majority of shares are due to vest in early 2025 and the range of exercise prices for the share options as at 31 December 2024 was 97p to 232p.

Fair values of share-based payment plans
The weighted average fair value per share of equity-settled share-based payment plans granted during the year, estimated at the date of grant, are as follows:

	2024	2023
Free Shares	**494p**	–
Long-term incentive plan	**361p**	216p
Incentive plan	**378p**	157p

Long-term incentive plan

The fair value of shares awarded is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 and S&P Global Industrials Index companies and which incorporates into the valuation the interdependency between share price performance and TSR vesting where market-based conditions are applicable. This adjustment decreases the fair value of the award relative to the share price at the date of grant.

ShareSave

The fair value of the options granted is calculated using a pricing model that assumes that participants will exercise their options at the beginning of the six-month window if the share price is greater than the exercise price. Otherwise, it assumes that options are held until the expiration of their contractual term. This results in an expected life of the mid-point between the start of the exercise window and the date of expiration.

Incentive plan

The fair value of shares awarded is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Free shares

During the year, every Rolls-Royce employee was gifted 150 shares. The awards were granted under two plans; the 'Rolls-Royce Share Purchase Plan' for UK employees and the 'Rolls-Royce Global Employee Share Purchase Plan' for non-UK employees; both being equity-settled schemes. The fair value of shares awarded under the free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

24 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the Serious Fraud Office and the US Department of Justice and a leniency agreement with the Ministério Público Federal, the Brazilian federal prosecutor. The terms of both DPAs have now expired. The Company has also met all of its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitorship. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Group or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Group. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date but cannot anticipate all the possible actions that may be taken or their potential consequences.

24 Contingent liabilities *continued*

The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, grant funding, countertrade obligations and minor miscellaneous items, which could result in potential outflows if the requirements related to those arrangements are not met. Various Group undertakings are party to legal actions and claims (including with tax authorities) which arise in the ordinary course of business, some of which are for substantial amounts.

In connection with the sale of its products, the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of $405m (2023: $857m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately $100m could be called during 2025). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

Customer financing provisions would be made to cover guarantees provided for asset value and/or financing were it probable that a payment would be made. These would be measured on a discounted basis at the Group's borrowing rate to reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 31 December 2024 or 31 December 2023.

The Group has responded appropriately to the Russia-Ukraine conflict to comply with international sanctions and export control regime, and to continue to implement the business decision to exit from Russia. The Group could be subject to action by impacted customers, suppliers and other contract parties.

While the outcome of the above matters cannot precisely be foreseen, the Directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

25 Related party transactions

	2024 £m	2023 £m
Sale of goods and services [1]	**7,702**	6,700
Purchases of goods and services [1]	**(8,725)**	(7,471)
Lease payments to joint ventures and associates	**(241)**	(244)
Guarantees of joint arrangements' and associates' borrowings	**–**	2
Guarantees of non-wholly owned subsidiaries' borrowings	**4**	3
Dividends received from joint ventures and associates	**77**	54
Other income received from joint ventures and associates	**7**	6

1 Sales of goods and services to related parties and purchases of goods and services from related parties, including joint ventures and associates, are included at the average exchange rate, consistent with the statutory income statement

Included in sales of goods and services to related parties are sales of spare engines amounting to £48m (2023: £48m). Profit recognised in the year on such sales amounted to £62m (2023: £88m), including profit on current year sales and recognition of profit deferred on similar sales in previous years. Cash receipts relating to the sale of spare engines amounted to £48m (2023: £73m).

Included in cost of sales in the income statement are interest costs of £9m (2023: £34m) incurred during the year which have been settled by the Group on behalf of joint ventures.

The aggregated balances with joint ventures are shown in notes 13 and 18. Transactions with Group pension schemes are shown in note 21.

Key management personnel are deemed to be the Directors and the members of the Executive Team. Remuneration for key management personnel is shown below:

	2024 £m	2023 £m
Salaries and short-term benefits	**29**	25
Post-retirement schemes	**1**	–
Share-based payments	**13**	15

During the year, no Director (2023: one) received termination benefits. For further detail, see the Remuneration Report.

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the Directors' Remuneration Report on pages 101 to 110 of Rolls-Royce Holdings plc 2024 Annual Report. The charge for share-based payments above is based on when the award is charged to the income statement in accordance with IFRS 2 *Share-Based Payments*, rather than when the shares vest, which is the basis used in the Directors' Remuneration Report.

26 Business disposals and businesses held for sale

Disposals

At 31 December 2023, the Group classified the assets and liabilities related to part of the Power Systems' lower power range engines business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. A disposal agreement was signed with Deutz AG on 28 March 2024 and the disposal completed on 31 July 2024 for cash consideration of £62m. The carrying value of the net assets derecognised was £42m, with a £16m profit on disposal after costs.

	2024 £m
Proceeds	
Net cash consideration at prevailing exchange rate and at effective hedged rate	**62**
Cash flow on disposal of business per cash flow statement	**62**

	2024 £m
Intangible assets	**49**
Inventory	**4**
Provision for liabilities and charges	**(6)**
Contract Liabilities	**(4)**
Post-retirement scheme deficits	**(1)**
Less: Net asses disposed	**42**

	2024 £m
Profit on disposal before disposal costs and accounting adjustments	**20**
Disposal costs	**(4)**
Profit on disposal of business before and after taxation	**16**
Profit on disposal of businesses per income statement	**16**

Businesses held for sale

At 31 December 2024, the Group classified the assets and liabilities related to its naval propulsors & handling business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. On 18 September 2024, the Group and Fairbanks Morse Defense signed a sale and disposal agreement, with completion anticipated during 2025.

At 31 December 2023, assets and liabilities related to part of Power Systems' lower power range off-highway engines business were held for sale, as set out above this sale completed on 31 July 2024.

Assets held for sale are measured at the lower of their carrying value or fair value less costs to sell. Assets and liabilities held for sale are summarised in the table below.

	2024 £m	2023 £m
Intangible assets	**13**	51
Property, plant and equipment	**51**	–
Right-of-use assets	**1**	–
Inventory	**24**	11
Trade receivables and other assets	**64**	47
Assets held for sale	**153**	109
Trade payables and other liabilities	**(96)**	(41)
Contract liabilities	**–**	(4)
Provisions for liabilities and charges	**(3)**	(8)
Borrowings and lease liabilities	**(1)**	–
Post-retirement scheme deficits	**–**	(2)
Liabilities associated with assets held for sale	**(100)**	(55)
Net assets held for sale	**53**	54

27 Derivation of summary funds flow statement

	2024					2023
	Cash flow	Impact of hedge book	Impact of acquisition accounting	Impact of other non-underlying items	Funds flow	Funds flow
	£m	£m	£m	£m	£m	£m
Operating profit/(loss)	2,906	(191)	45	(296)	2,464	1,590
(Profit)/loss on disposal of property, plant and equipment [1]	32	–	–	–	32	18
(Profit)/loss on disposal of intangible assets [1]	6	–	–	–	6	–
Joint venture trading [1]	(95)	–	–	–	(95)	(119)
Depreciation, amortisation and impairment	543	–	(45)	355	853	978
Movement in provisions	(56)	(56)	–	(55)	(167)	(258)
Increase in inventories [2]	(323)	–	–	–	(323)	(200)
Movement in prepayments to RRSAs for LTSA parts	(348)	129	–	–	(219)	(252)
Movement in cost to obtain contracts	(19)	1	–	–	(18)	(40)
Movement in trade receivables/payables and other assets/liabilities [2]	522	(341)	–	(17)	164	(2,251)
Revaluation of trading assets [2]	24	(38)	–	–	(14)	196
Realised derivatives in financing	652	–	–	–	652	853
Movement in Civil LTSA balance	1,193	(283)	–	–	910	1,331
Movement in contract assets/liabilities (excluding Civil LTSA) [2]	(441)	108	–	132	(201)	1,046
Settlement of excess derivatives	(146)	–	–	–	(146)	(389)
Interest received	269	–	–	–	269	159
Contributions to defined benefit schemes in excess of underlying operating profit charge [1]	(18)	–	–	(13)	(31)	(26)
Cash flows on other financial assets and liabilities held for operating purposes	(676)	652	–	–	(24)	8
Share-based payments [1]	136	–	–	–	136	66
Other [1]	–	(5)	–	–	(5)	(7)
Income tax	(381)	–	–	–	(381)	(172)
Cash from operating activities	3,780	(24)	–	106	3,862	2,531
Capital element of lease payments	(299)	24	–	–	(275)	(270)
Capital expenditure	(876)	–	–	–	(876)	(695)
Investments	16	–	–	–	16	69
Interest paid	(298)	–	–	–	(298)	(333)
Other (M&A, restructuring and financial penalties paid)	100	–	–	(106)	(6)	(17)
Free cash flow	2,423	–	–	–	2,423	1,285

1 Included in other operating cash flows in the summarised free cash flow on page 20

2 Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 20

The comparative information to 31 December 2024 has been presented in a different format to align to the current year presentation. In some instances, the groupings of items may have changed.

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows. The Board considers that free cash flow reflects cash generated from the Group's underlying trading.

Cash flow from operating activities is determined to be the nearest statutory measure to free cash flow. The reconciliation between free cash flow and cash flow from operating activities can be found on page 163.

COMPANY BALANCE SHEET
At 31 December 2024

	Notes	2024 £m	2023 £m
ASSETS			
Intangible assets	3	**2,336**	2,233
Property, plant and equipment	4	**1,543**	1,591
Right-of-use assets	5	**130**	146
Investments - subsidiary undertakings	6	**1,461**	1,473
Investments - joint ventures and associates	6	**52**	36
Investments - other	6	**5**	31
Loan receivable from subsidiary undertaking	6,8	**1,552**	1,699
Other financial assets	14	**127**	330
Deferred tax assets	16	**2,949**	2,198
Post-retirement schemes surplus	17	**779**	767
Non-current assets		**10,934**	10,504
Inventories	7	**2,494**	2,326
Trade receivables and other assets	8	**8,194**	7,931
Contract assets	9	**1,134**	749
Taxation recoverable		**2**	2
Other financial assets	14	**291**	84
Cash and cash equivalents	10	**4,981**	3,085
Current assets		**17,096**	14,177
TOTAL ASSETS		**28,030**	24,681
LIABILITIES			
Borrowings and lease liabilities	11	**(848)**	(520)
Other financial liabilities	14	**(621)**	(426)
Trade payables and other liabilities	13	**(11,421)**	(9,908)
Contract liabilities	9	**(4,209)**	(4,227)
Current tax liabilities		**(7)**	(2)
Provisions for liabilities and charges	15	**(285)**	(320)
Current liabilities		**(17,391)**	(15,403)
Borrowings and lease liabilities	11	**(2,895)**	(3,715)
Other financial liabilities	14	**(1,576)**	(1,939)
Trade payables and other liabilities	13	**(1,872)**	(1,770)
Contract liabilities	9	**(7,244)**	(6,084)
Deferred tax liabilities	16	**(195)**	(269)
Provisions for liabilities and charges	15	**(1,165)**	(1,273)
Non-current liabilities		**(14,947)**	(15,050)
TOTAL LIABILITIES		**(32,338)**	(30,453)
NET LIABILITIES		**(4,308)**	(5,772)
EQUITY			
Called-up share capital	18	**338**	338
Share premium		**631**	631
Other reserves		**182**	183
Accumulated losses		**(5,459)**	(6,924)
TOTAL EQUITY		**(4,308)**	(5,772)
Profit for the year		**1,278**	2,185

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company income statement.

The Financial Statements on pages 115 to 143 were approved by the Board on 27 February 2025 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Company's registered number: 01003142

COMPANY STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Profit for the year		**1,278**	2,185
Other comprehensive income/(expense) (OCI)			
Actuarial movement in post-retirement schemes	17	**(5)**	152
Revaluation to fair value of other investments	6	**(2)**	(4)
Related tax movements	16	**68**	(54)
Items that will not be reclassified to profit or loss		**61**	94
Movement on fair values debited to hedging reserves		**(17)**	(82)
Reclassified to income statement from cash flow hedge reserve		**22**	61
Foreign exchange translation differences on foreign operations		**(5)**	–
Related tax movements	16	**(1)**	5
Items that will be reclassified to profit or loss		**(1)**	(16)
Total other comprehensive income		**60**	78
Total comprehensive income for the year		**1,338**	2,263

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2024

	Note	Share capital £m	Share premium £m	Other reserves [1] £m	Accumulated losses £m	Total equity £m
At 1 January 2023		338	631	199	(9,264)	(8,096)
Profit for the year		–	–	–	2,185	2,185
Actuarial movement in post-retirement schemes	17	–	–	–	152	152
Reclassified to income statement from cash flow hedge reserve		–	–	61	–	61
Fair value on movement on cash flow hedges		–	–	(82)	–	(82)
Revaluation to fair value of other investments	6	–	–	–	(4)	(4)
Related tax movements	16	–	–	5	(54)	(49)
Total comprehensive income/(expense) for the year		–	–	(16)	2,279	2,263
Share-based payments – direct to equity [2]	19	–	–	–	39	39
Related tax movements	16	–	–	–	22	22
Other changes in equity in the year		–	–	–	61	61
At 31 December 2023		338	631	183	(6,924)	(5,772)
At 1 January 2024		338	631	183	(6,924)	(5,772)
Profit for the year		**–**	**–**	**–**	**1,278**	**1,278**
Actuarial movement in post-retirement schemes	17	**–**	**–**	**–**	**(5)**	**(5)**
Reclassified to income statement from cash flow hedge reserve		**–**	**–**	**22**	**–**	**22**
Fair value on movement on cash flow hedges		**–**	**–**	**(17)**	**–**	**(17)**
Revaluation to fair value of other investments	6	**–**	**–**	**–**	**(2)**	**(2)**
Foreign exchange translation differences on foreign operations		**–**	**–**	**(5)**	**–**	**(5)**
Related tax movements	16	**–**	**–**	**(1)**	**68**	**67**
Total comprehensive (expense)/income for the year		**–**	**–**	**(1)**	**1,339**	**1,338**
Share-based payments – direct to equity [2]	19	**–**	**–**	**–**	**60**	**60**
Related tax movements	16	**–**	**–**	**–**	**66**	**66**
Other changes in equity in the year		**–**	**–**	**–**	**126**	**126**
At 31 December 2024		**338**	**631**	**182**	**(5,459)**	**(4,308)**

1 Other reserves includes a translational reserve of £(1)m (2023: £4m) and £159m (2023: £159m) relating to the premium which arose on shares issued on a 1989 acquisition. This also includes the cash flow hedge reserve of £18m (2023: £14m)

2 Share-based payments – direct to equity is the share-based payment charge for the year less the actual cost of vesting excluding those vesting own shares and cash received on share-based schemes vesting

1 Accounting policies

The Company
Rolls-Royce plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in England in the United Kingdom. The Company's registered number is 01003142 and its registered address is at Kings Place, 90 York Way, London, N1 9FX, United Kingdom.

Basis of preparation
In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of the following FRS 101 disclosure exemptions:

- IAS 7 *Statement of Cash Flows*;
- IFRS 2 *Share Based Payment* in respect of group settled share-based payments;
- in respect of transactions with wholly owned subsidiaries;
- IFRS 7 *Financial Instruments: Disclosures;*
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors;*
- *IFRS 16 Leases (exemptions from requirement to present leases information in a single note/separate section in the accounts and from disclosing a maturity analysis of lease liabilities);*
- comparative period reconciliations for share capital, investments, property, plant and equipment, intangible assets and additional comparative information as required by IAS 1 *Presentation of Financial Statements*; and
- in respect of the compensation of key management personnel.

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

The Financial Statements are presented in sterling, which is the Company's functional currency.

As permitted by Section 408 of the Companies Act 2006, a separate income statement for the Company has not been included in these Financial Statements. As permitted by the audit fee disclosure regulations, the disclosure of non-audit fees information is not included in respect of the Company. For details of audit fees, see note 6 of the Consolidated Financial Statements.

These Financial Statements have been prepared on a going concern basis. Further details are given in the Going Concern Statement on page 40. After due consideration, the Directors consider that the Company has sufficient liquidity to continue in operational existence for a period of at least 18 months from the date of this report and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

In preparing the Company Financial Statements, the Directors have considered the potential impact of climate change, please see pages 58 to 60 for further details.

Revisions to IFRS applicable in 2024

Supplier Finance Arrangements
New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk. The Company's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements have necessitated some additional information being disclosed on page 95 in relation to the value of trade payables that were within the scope of the Company offered SCF scheme. This has been presented alongside the value of received payments which suppliers had drawn, this being information which the Company has previously disclosed in its Annual Reports.

Other
There are no other new standards or interpretations issued by the International Accounting Standards Board (IASB) that had a significant impact on these Financial Statements.

1 Accounting policies *continued*

Material accounting policies
The Company's material accounting policies are set out below. These accounting policies have been applied consistently to all periods presented in these Financial Statements.

Key areas of judgement and sources of estimation uncertainty are disclosed below and further details, together with sensitivities, are included within the significant accounting policies section where applicable.

Revenue recognition and contract assets and liabilities
Revenue recognised comprises sales to the Company's customers after discounts and amounts payable to customers. Revenue excludes value added taxes. The transaction price of a contract is typically clearly stated within the contract, although the absolute amount may be dependent on escalation indices and long-term contracts rely on the key estimates highlighted below. Refund liabilities where sales are made to customers with a right of return are not typical in the Company's contracts. Where they do exist and consideration has been received a portion, based on an assessment of the expected refund liability, is recognised within other payables. The Company has elected to use the practical expedient not to adjust revenue for the effect of financing components where the expectation is that the period between the transfer of goods and services to customers and the receipt of payment is less than a year. Consideration is received in the form of deposits and payments for completion of milestones or performance obligations. LTSA cash receipts are typically received based on EFHs.

Sales of standard OE, spare parts and time and material (T&M) overhaul services are generally recognised on transfer of control to the customer. This is generally on delivery to the customer unless the specific contractual terms indicate a different point. The Directors consider whether there is a need to constrain the amount of revenue to be recognised on delivery based on the contractual position and any relevant facts, however, this is not typically required.

Sales of OE and services that are specifically designed for the contract (most significantly in the Defence division) are recognised by reference to the progress towards completion of the performance obligation, using the cost method described in the key judgements, provided the outcome of contracts can be assessed with reasonable certainty.

The Company generates a significant portion of its revenue and profit on aftermarket arrangements arising from the installed OE fleet. As a consequence, in particular in the Civil Aerospace large engine business, the Company will often agree contractual prices for OE deliveries that take into account the anticipated aftermarket arrangements. Sometimes this may result in losses being incurred on OE. As described in the key judgements, these contracts are not combined. The consideration in the OE contract is therefore allocated to OE performance obligations and the consideration in the aftermarket contract to aftermarket performance obligations.

Key areas of accounting policy are:

- Future variable revenue from long-term contracts is constrained to take account of the risk of reduced utilisation e.g. EFHs, based on historical forecasting experience and the risk of aircraft being parked by the customer.
- A significant amount of revenue and cost related to long-term contract accounting is denominated in currencies other than that of the Company, most significantly USD transactions. These are translated at estimated long-term exchange rates.
- A contract asset/liability is recognised where payment is received in arrears/advance of the costs incurred to meet performance obligations.
- Contract modifications of LTSAs can be accounted for as separate contracts, termination of the existing contract and the creation of a new contract, or as part of the existing contract. The treatment is dependent on whether the change in scope is because of the addition of promised goods or services that are distinct and whether the price increases by an amount that reflects their standalone selling prices.
- Where material, wastage costs (see key judgements on page 119) are recorded as an expense and excluded from the measure of progress of LTSA contracts.
- The Company recognises a liability for its obligation to repurchase parts it has sold to the maintenance, repair and overhaul bases who overhaul the Company's customers' engines.

If the expected costs to fulfil a contract exceed the expected revenue, a contract loss provision is recognised for the excess costs.

The Company pays participation fees to airframe manufacturers, its customers for OE, on certain programmes. Amounts paid are initially treated as contract assets and subsequently charged as a reduction to the OE revenue when the engines are transferred to the customer.

Key judgement – Whether Civil Aerospace OE and aftermarket contracts should be combined

In the Civil Aerospace division, OE contracts for the sale of engines to be installed on new aircraft are with the airframers, while the contracts to provide spare engines and aftermarket goods and services are with the aircraft operators, although there may be interdependencies between them. IFRS 15 *Revenue from Contracts with Customers* includes guidance on the combination of contracts, in particular that contracts with unrelated parties should not be combined. Notwithstanding the interdependencies, the Directors consider that the engine contract should be considered separately from the aftermarket contract. In making this judgement, they also took account of industry practice.

Key judgement – How performance on long-term aftermarket contracts should be measured

The Company generates a significant proportion of its revenue from aftermarket arrangements. These aftermarket contracts, such as TotalCare agreements in the Civil Aerospace division, cover a range of services and generally have contractual terms covering more than one year. Under these contracts, the Company's primary obligation is to maintain customers' engines in an operational condition. This is achieved by undertaking various activities, such as maintenance, repair and overhaul, and engine monitoring over the period of the contract. Revenue on these contracts is recognised over the period of the contract and the basis for measuring progress is a matter of judgement. The Directors consider that the stage of completion of the contract is best measured by using the actual costs incurred to date compared to the estimated costs to complete the performance obligations, as this reflects the extent of completion of the activities to be performed.

1 Accounting policies *continued*

Revenue recognition (continued)

Key judgement – Whether long-term aftermarket contracts contain a significant financing component

Long-term aftermarket contracts typically cover a period of eight to 15 years. Their pricing is the subject of negotiation with individual customers under competitive circumstances. It is the Directors' judgement that the consideration received approximates to the cash selling price and any timing difference between consideration being received and the supply of goods and services is typical of the industry and arises for reasons other than to provide financing. The customers typically pay on an 'as used' basis (e.g. USD/EFH) which reflects the wear and tear of the engine as it flies and aligns to the customer's own revenue streams. An adjustment to the transaction price is therefore not required.

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Company may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Company would not expect to incur and hence is not reflected in the contract price. Examples include technical issues that: require resolution to meet regulatory requirements; have a wide-ranging impact across a product type; and cause significant operational disruption to customers. Similarly, in these rare circumstances, significant disruption costs to support customers resulting from the actual performance of a delivered good or service may be treated as a wastage cost. Provision is made for any costs identified as wastage when the obligation to incur them arises – see note 15.

Key judgement – Whether the Civil Aerospace LTSA contracts are warranty style contacts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 Revenue from Contracts with Customers

The Company has considered whether these arrangements are insurance contracts as defined in IFRS 17 *Insurance Contracts. While they may transfer an element of insurance risk, they relate to warranty and service type agreements that are entered into in connection with the Company's sales of its goods or services and therefore continue to be accounted for under the existing revenue and provisions standards. The Directors have judged that such arrangements entered into after the original equipment sale remain sufficiently related to the sale of the Company's goods and services to allow the contracts to continue to be measured under* IFRS 15 *Revenue from Contracts with Customers and* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets.*

Key judgement – Whether sales of spare engines to joint ventures are at fair value

The Civil Aerospace business maintains a pool of spare engines to support its customers. Some of these engines are sold to, and held by, joint venture companies. The assessment of whether the sales price reflects fair value is a key judgement. The Group considers that based upon the terms and conditions of the sales, and by comparison to the sales price of spare engines to other third parties, the sales made to joint ventures reflect the fair value of the goods sold. See note 21 for the value of sales to joint ventures during the year.

Key judgement – When revenue should be recognised in relation to spare engine sales

Revenue is recognised at the point in time when a customer obtains control of a spare engine. The customer could be a related party, an external operator or a spare engine service provider. Depending on the contractual arrangements, judgement is required on when the Company relinquishes control of spare engines and, therefore, when the revenue is recognised. The point of control passing has been concluded to correspond to the point of legal sale, even for instances where the customer is contracted to provide some future spare engine capacity to the Company to support its installed engine base. In such cases, the customer has responsibility for generating revenue from the engines and exposure to periods of non-utilisation; exposure to risk of damage or loss, risk from residual value movements, and will determine if and when profits will be made from disposal. The spare engine capacity that will be made available to the Company in the future does not consist of identified assets and the provider retains a substantive right to substitute the asset through the Company's period of use. It is, therefore, appropriate to recognise revenue from the sale of the spare engines at the point that title transfers. During 2024, of the total 57 (2023: 53) large spare engine sales delivered, 20 (2023: 27) engines were sold to customers where contractual arrangement allows for some future spare engine capacity to be used by the Company. These sales contributed £399m (2023: £578m) to revenue for the year.

Key estimate – Estimates of future revenues, including customer pricing, and costs of long-term contractual arrangements including the impact of climate change

The Company has long-term contracts that fall into different accounting periods and which can extend over significant periods. The most significant of these are LTSAs in the Civil Aerospace business, with contracts typically covering a period of eight to 15 years. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess: EFHs, time on wing and other operating parameters; the pattern of future maintenance activity and the costs to be incurred; lifecycle cost improvements over the term of the contracts; and escalation of revenue and costs (that includes the impact of inflation). The impact of climate change on EFHs and costs is also considered when making these estimates. Industry and customer data on expected levels of utilisation is included in the forecasts used. Across the length of the current Civil Aerospace LTSA contracts, allowance has been made for around a 1% (2023: 1%) projected cost increase resulting from carbon pricing and commodity price changes.

The sensitivities below demonstrate how changes in assumptions (including as a result of climate change) could impact the level of revenue recognised were assumptions to change. The Directors believe that the estimates used to prepare the Company Financial Statements take account of the inherent uncertainties, constraining the expected level of revenue as appropriate.

Estimates of future LTSA revenue within Civil Aerospace are based upon future EFH forecasts, influenced by assumptions over the recovery of the civil aviation industry. Finally, many of the revenues and costs are denominated in currencies other than that of the Company. These are translated at an estimated long-term exchange rate, based on historical trends and economic forecasts.

During the year, changes to the estimate in relation to the Civil Aerospace LTSA contracts resulted in favourable catch-up adjustments to revenue of £10m (2023: adverse catch-up adjustment of £188m).

1 Accounting policies *continued*

Revenue recognition (continued)

Based upon the stage of completion of all LTSA contracts within Civil Aerospace as at 31 December 2024, the following reasonably possible changes in estimates would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates):

- A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an in-year impact of around £15m. This would be expected to be seen as a catch-up change in revenue or, to the extent it impacts onerous contracts, within cost of sales.
- A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £295m.
- A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £60m.

Risk and revenue sharing arrangements (RRSAs)

Cash entry fees received are initially deferred on the balance sheet as deferred receipts from RRSA workshare partners within trade payables and other liabilities. The cash entry fee is a transaction with a supplier and is recognised as a reduction in cost of sales incurred. Individual programme amounts are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then recognised on a 15-year straight-line basis.

The payments to suppliers for their shares of the programme cash flows for their production components are charged to cost of sales when OE sales are recognised or as LTSA costs are incurred. These prepayments are initially recognised within trade receivables and other assets.

The Company also has arrangements with third parties who invest in a programme and receive a return based on its performance, but do not undertake development work or supply parts. Such arrangements (financial RRSAs) are financial instruments as defined by IAS 32 *Financial Instruments: Presentation* and are accounted for using the amortised cost method.

Key judgement – Determination of the nature of entry fees received

RRSAs with key suppliers (workshare partners) are a feature of the civil aviation industry business. Under these contractual arrangements, the key commercial objectives are that: (i) during the development phase the workshare partner shares in the risks of developing an engine by performing its own development work, providing development parts and paying a non-refundable cash entry fee; and (ii) during the production phase it supplies components in return for a share of the programme cash flows as a 'life of type' supplier (i.e. as long as the engine remains in service).

The non-refundable cash entry fee is judged by the Company to be a contribution towards the development expenditure incurred. These receipts are deferred on the balance sheet and recognised against the cost of sales over the estimated number of units to be delivered on a similar basis to the amortisation of development costs – see page 122.

Government grants

Government grants received are varied in nature and are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure. Non-monetary grants are recognised at fair value.

Interest

Interest receivable/payable is credited/charged to the income statement using the effective interest method. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Taxation

The tax charge/credit on the profit or loss for the year comprises current and deferred tax:

- Current tax is the expected tax payable for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for tax purposes and is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. The deferred tax liability on the pension scheme surplus is recognised consistently with the basis for recognising the rate applicable to refunds from a trust.

Tax is charged or credited in the income statement or OCI as appropriate, except when it relates to items credited or charged directly to equity in which case the tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint arrangements, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognised on taxable temporary differences arising from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits, which include the reversal of taxable temporary differences, will be available against which the assets can be utilised. Further details on the Company's tax position can be found on pages 137 to 138.

1 Accounting policies *continued*

Taxation recognition (continued)

Key estimate – Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised

Deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilised. On this basis a deferred tax asset of £594m is not recognised in respect of UK tax losses. Further details are included in note 16.

In addition to taking into account a severe but plausible downside forecast (see below), the climate-related estimates and assumptions (set out on pages 58 to 60) have also been considered when assessing the recoverability of the deferred tax assets. Recognising the longer terms over which these assets will be recovered, the Group has considered the risk that regulatory changes could materially impact demand for our products and shifting investment focus towards more sustainable products and solutions. The climate scenarios prepared do not indicate a significant deterioration in demand or profitability for Civil Aerospace programmes given that all commercial aero-engines are compatible with sustainable fuels.

While carbon and commodity pricing may put pressure on costs, decarbonisation and new supplier and customer contracts offer the opportunity to receive value for more efficient and sustainable products.

Macro-economic factors continue to result in uncertainty across the civil aviation industry in particular in respect of prolonged supply chain challenges. As explained in note 16, a 25% probability of there being a severe but plausible downside forecast in relation to the civil aviation industry has been taken into account in the assessment of the recovery of the UK deferred tax assets.

The estimates take account of the inherent uncertainties constraining the expected level of profit as appropriate. Changes in these estimates will affect future profits and, therefore, the recoverability of the deferred tax assets. The following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets.

A 5% change in margin in the main Civil Aerospace large engine programmes.

A 5% change in the number of shop visits driven by EFHs.

Assumed future cost increases from climate change expected to pass through to customers at 100%, are restricted to 90% pass through.

All of these could be driven by a number of factors, including ongoing supply chain challenges, the impact of climate change as explained on pages 58 to 60 and changes in foreign exchange rates.

A 5% change in margin or shop visits (which could be driven by fewer EFHs as a result of the factors set out above) would result in an increase/decrease in the deferred tax asset of around £110m.

If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £10m, and if carbon prices were to double, this would be £70m.

Foreign currency translation

Transactions denominated in currencies other than the functional currency of the Company are translated into the functional currency at the average monthly exchange rate when the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate prevailing at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the rate prevailing at the year-end are included in profit/(loss) before taxation.

The trading results of the Company are translated into sterling at the average exchange rates for the year. The assets and liabilities of foreign operations are translated at the exchange rates prevailing at the year end. Exchange adjustments arising from the retranslation of the opening net assets, and from the translation of the profits or losses at average rates, are recognised in OCI.

Financial instruments – Classification and measurement

Financial assets primarily include trade receivables, cash and cash equivalents, short-term investments, derivatives (foreign exchange, commodity and interest rate contracts), and listed and unlisted investments.

- Trade receivables and amounts due from subsidiary and parent undertakings are classified either as held to collect and measured at amortised cost or as held to collect and sell and measured at fair value, with movements in fair value recognised through other comprehensive income (FVOCI). The Company may sell trade receivables due from certain customers before due date. Any trade receivables from such customers that are not sold at the reporting date are classified as 'held to collect and sell'.
- Cash and cash equivalents (consisting of balances with banks and other financial institutions, money-market funds and short-term deposits) and short-term investments are subject to low market risk. Cash balances, short-term deposits (with a maturity of primarily three month or less) and short-term investments are measured at amortised cost. Money market funds are measured at fair value, with movements in fair value recognised in the income statement as a profit or loss (FVPL).
- Derivatives and other investments are measured at FVPL. The Company elected to measure its listed investment at FVOCI.

Financial liabilities primarily consist of trade payables, amounts due from group undertakings, borrowings, derivatives, and financial RRSAs.

- Derivatives are classified and measured at FVPL.
- All other financial liabilities are classified and measured at amortised cost.

1 Accounting policies *continued*

Financial instruments – Impairment of financial assets and contract assets

IFRS 9 *Financial Instruments* sets out the basis for the accounting of ECLs on financial assets and contract assets resulting from transactions within the scope of IFRS 15 *Revenue from Contracts with Customers*. The Company has adopted the simplified approach to provide for ECLs, measuring the loss allowance at a probability weighted amount that considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions of customers. These are incorporated in the simplified model adopted by using credit ratings which are publicly available or through internal risk assessments derived using customer's latest available financial information. The ECLs are updated at each reporting date to reflect changes in credit risk since initial recognition. ECLs are calculated for all financial assets in scope, regardless of whether or not they are overdue.

Financial instruments – Hedge accounting

Forward foreign exchange contracts and commodity swaps (derivative financial instruments) are held to manage the cash flow exposures of forecast transactions denominated in foreign currencies or in commodities respectively. Derivative financial instruments qualify for hedge accounting when: (i) there is a formal designation and documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge at the inception of the hedge; and (ii) the hedge is expected to be effective. In general, the Company has chosen to not apply hedge accounting in respect of these exposures.

The Company economically hedges the fair value and cash flow exposures of its borrowings. Cross-currency interest rate swaps are held to manage the fair value or cash flow exposures of borrowings denominated in foreign currencies and are designated as fair value hedges or cash flow hedges as appropriate. Interest rate swaps are held to manage the interest rate exposures of fixed and floating rate borrowings and may be designated as fair value hedges or cash flow hedges as appropriate. If the swaps are not designated as fair value or cash flow hedges, the economic effect is included in the underlying results – see note 2 of the Consolidated Financial Statements.

Changes in the fair values of derivatives that are designated as fair value hedges are recognised directly in the income statement. The fair value changes of effective cash flow hedge derivatives are recognised in OCI and subsequently recycled in the income statement in the same period or periods during which the hedged cash flows affect profit or loss. Any ineffectiveness in the hedging relationships is included in the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for cash flow hedges and, if the forecast transaction remains probable, any net cumulative gain or loss on the hedging instrument recognised in the Statement of Changes in Equity (SOCIE) is retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss is recycled to the income statement.

Certification costs

Costs incurred, in respect of meeting regulatory certification requirements for new Civil Aerospace aero-engine/aircraft combinations, including payments made to airframe manufacturers for this, are recognised as intangible assets to the extent that they can be recovered out of future sales. They are charged to the income statement over the programme life. Individual programme assets are allocated pro-rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then charged on a 15-year straight-line basis.

Research and development

Expenditure incurred on research and development is distinguished as relating either to a research phase or to a development phase. All research phase expenditure is charged to the income statement. Development expenditure is recognised as an internally generated intangible asset (programme asset) only if it meets strict criteria, relating in particular to technical feasibility and generation of future economic benefits. More specifically, development costs are capitalised from the point at which the following conditions have been met:

– the technical feasibility of completing the programme and the intention and ability (availability of technical, financial and other resources) to complete the programme asset and use or sell it;
– the probability that future economic benefits will flow from the programme asset; and
– the ability to measure reliably the expenditure attributable to the programme asset during its development.

Capitalisation continues until the point at which the programme asset meets its originally contracted technical specification (defined internally as the point at which the asset is capable of operating in the manner intended by the Directors). Subsequent expenditure is capitalised where it enhances the functionality of the programme asset and demonstrably generates an enhanced economic benefit to the Company. All other subsequent expenditure on programme assets is expensed as incurred.

Individual programme assets are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then charged over a maximum of 15 years. In accordance with IAS 38 *Intangible Assets*, the basis on which programme assets are amortised is assessed annually.

Key judgement – Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation

The Company incurs significant research and development expenditure in respect of various development programmes. Determining when capitalisation should commence and cease is a critical judgement, as is the determination of when subsequent expenditure on the programme assets should be capitalised. During the year, £200m (2023: £186m) of development expenditure was capitalised.

Within the Company, there are established processes in place e.g. the Product Introduction and Lifecycle Management process (PILM). Within these processes, the technical feasibility, the commercial viability and financial assessment of the programme is assessed at certain milestones. When these are met, development expenditure is capitalised. Prior to this, expenditure is expensed as incurred.

The Company continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies, there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years.

1 Accounting policies *continued*

Research and development (continued)

Subsequent expenditure after entry into service, which enhances the performance of the engine and the economic benefits to the Company is capitalised. This expenditure is referred to as enhanced performance and is governed by the PILM process referred to above. All other development costs are expensed as incurred.

Key judgement – Determination of the basis for amortising capitalised development costs

The economic benefits of the development costs are primarily those cash inflows arising from LTSAs, which are expected to be relatively consistent for each engine within a programme. Amortisation of development costs is recognised on a straight-line basis over the period of operation of the engine by its initial operator.

Software

Software that is not specific to an item of property, plant and equipment is classified as an intangible asset, recognised at its acquisition cost and amortised on a straight-line basis over its useful economic life up to a maximum of ten years to reflect the expected useful lives of the assets. The amortisation period of software assets is reviewed annually. The cost of internally developed software includes direct labour and an appropriate proportion of overheads.

Other intangible assets

These include the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance, which are amortised on a straight-line basis over a maximum of 15 years.

Investment in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are held at cost less accumulated depreciation.

Joint arrangements

The Company accounts for joint operations by consolidating their results on a proportional basis.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and any provision for impairment in value. The cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of overheads and, where appropriate, interest.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives. No depreciation is recorded on assets in the course of construction. Estimated useful lives are reassessed annually and are as follows:

– Land and buildings, as advised by the Company's professional advisors:
  - freehold buildings – five to 50 years (average 26 years); and
  - no depreciation is provided on freehold land.
– Plant and equipment – five to 20 years (average 12 years).
– Aircraft and engines – five to 20 years (average 13 years).

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

– fixed payments less any lease incentive receivable;
– variable lease payments that are based on an index or a rate;
– amounts expected to be payable by the Company under residual value guarantees;
– the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
– payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

Where leases commence after the initial IFRS 16 *Leases* transition date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Company's incremental borrowing rate is used, being the rate that the Company would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Where appropriate, lease liabilities are revalued at each reporting date using the spot exchange rate.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability or a revaluation of the liability;
– any lease payments made at or before the commencement date less any lease incentives received;
– any initial direct costs; and
– restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Company, in which case the asset is depreciated to the end of the useful life of the asset.

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases and low value leases are recognised on a straight-line basis as an expense in the income statement.

1 Accounting policies *continued*

Leases (continued)

Key judgement – Determining the lease term

In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Certain land and building leases have renewal options although there are no renewal dates for any of the most significant property leases in the next 12 months. The most significant renewal is in 2038. The Company reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities.

Impairment of non-current 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 (CGU) to which the asset belongs. Intangible assets not yet available for use are tested for impairment annually. Other intangible assets (including programme-related 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 CGU) 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 of disposal, 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 (or CGU). Fair value less costs of disposal (FVLCOD) reflects market inputs or inputs based on market evidence if readily available. If these inputs are not readily available, the fair value is estimated by discounting future cash flows modified for market participants views. The relevant local statutory tax rates have been applied in calculating post-tax to pre-tax discount rates.

Inventories

Inventories are valued on a first-in, first-out basis, at the lower of cost and net realisable value. 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 inventories 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. All inventories are classified as current as it is expected that they will be used in the Company's operating cycle, regardless of whether this is expected to be within 12 months of the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, investments in money-market funds and short-term deposits with a maturity of three months or less on inception. Where the Company operates pooled banking arrangements across multiple accounts, these are presented on a net basis when it has both a legal right and intention to settle the balances on a net basis.

The Company's suppliers have access to a supply chain financing (SCF) programme through partnership with banks. This is to enable smaller suppliers, including joint ventures (90-day standard payment terms), who are on our standard 75 day or more payment terms to receive their payment sooner. The election to utilise the programme is the sole decision of the supplier. As the Company continues to have a contractual obligation to pay its suppliers under commercial terms, which are unaffected by any utilisation of the programme and it does not retain any ongoing involvement in the SCF, the related payables are retained on the Company's balance sheet and classified as trade payables. Further details are disclosed in note 10.

Provisions

Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation and are discounted to present value where the effect is material.

The principal provisions are recognised as follows:

- onerous contracts based on an assessment of whether the direct costs to fulfil a contract are greater than the expected revenue;
- warranty and guarantees based on an assessment of future claims with reference to past experience and recognised at the earlier of when the underlying products and services are sold and when the likelihood of a future cost is identified;
- Trent 1000 in-service issues when wastage costs are identified as described on page 119; and
- transformation and restructuring when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has created a valid expectation to those affected.

Key judgement – Whether any costs should be treated as wastage

As described further on page 119, in rare circumstances, the Company may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Company would not expect to incur and hence is not reflected in the contract price. Provision is made for any costs identified as wastage when the obligation to incur them arises.

Specifically for the Trent 1000 wastage costs, a provision has been made as the Company is an owner of an engine Type Certificate under which it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Company is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSAs, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. These requirements cannot be met without the Company incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Company in designing and overhauling aero engines it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

1 Accounting policies *continued*

Provision (continued)

Key judgement – Whether the criteria to recognise a transformation and restructuring provision have been met

On 17 October 2023, the Company announced plans for a simpler, more streamlined, organisation as part of its multi-year transformation.

IAS 19 *Employee Benefits* requires that a liability and expense for termination benefits should be recognised at the earlier of: (a) when an offer of those benefits can no longer be withdrawn; and (b) when the cost for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that involves the payment of termination benefits is recognised. The Directors have considered whether the Company's communications to employees during 2023 and 2024 have led to an offer of benefits that could no longer be withdrawn. Significant progress has been made on transformation activities with clear and extensive communication to affected employees, many of whom have already left the business. The remaining provision relates to roles where the function, location, expected completion date, and type and amount of benefits is known. It is expected to be utilised by 31 December 2025.

Key estimates – Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts

The Group has provisions for Trent 1000 wastage costs at 31 December 2024 of £36m (2023: £116m). These represent the Directors' best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates take account of information available and different possible outcomes.

The Group considers that at 31 December 2024 the Trent 1000 onerous contract provisions are most sensitive to changes in estimates. Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the second half of 2025 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £30m to £50m charge.

Key estimates – Estimates of the future revenues and costs to fulfil onerous contracts

The Company has provisions for onerous contracts at 31 December 2024 of £1,384m (2023: £1,441m).

An increase in Civil Aerospace large engine estimates of LTSA costs of 1% over the remaining term of the contracts could lead to around a £60m to £80m increase in the onerous contract provisions across all programmes.

Key estimates – Assumptions implicit in the calculation of discount rates

The onerous contract provisions are sensitive to changes in the discount rate used to value the provision. The rate used for each contract is derived from bond yields (i.e. risk-free rates) with a similar duration and currency to the contract that they are applied to. The rate is adjusted to reflect the specific inflation characteristics of the contract. The forecast rates are determined from third-party market analysis and average 5%. A 1% change in the discount rate used could lead to around a £40m to £50m change in the provision.

Insurance contracts and financial guarantees

The Company enters into: financial guarantees where the Company guarantees payment in case of its subsidiary defaulting on a debt; and performance guarantees where the Company guarantees certain subsidiaries or its joint ventures performance to a customer. The Company has reviewed and concluded that its arrangements meet the accounting definition of an insurance contract under IFRS 17 *Insurance Contracts*. The Company has assessed the probability of losses on its financial and performance guarantees and has determined that the probability is remote after consideration of forward-looking triggers and as such the estimated liability is immaterial. As a result, as the estimated liability is immaterial at 31 December 2024, no liability has been recognised in the Company Financial Statements.

At 31 December 2024, financial guarantees amounted to £1,350m (2023: £1,336m) and performance guarantees amounted to £2,208m (2023: £1,722m). Under IFRS 17 *Insurance Contracts* the Company must recognise any obligation at the inception of the contract for the expected fulfilment cash flows under the contract on a best estimate basis (liability for remaining coverage). No amounts (2023: no amounts) are included in the financial statements for contracts within the scope of IFRS 17 *Insurance Contracts* as the probability-weighted estimated fulfilment cash flows are immaterial. The amounts disclosed above are consistent with the information provided to key management personnel to enable consideration of the company's exposure to risk and includes the default cash flows in relation to performance guarantees, guaranteed lease rentals, trade finance balances and the present value of lease related decommissioning costs.

Customer financing support

In connection with the sale of its products, the Company will, on occasion, provide financing support for its customers. Credit-based guarantees are disclosed as commitments or contingent liabilities dependent on whether aircraft have been delivered or not. As described on page 143, the Directors consider the likelihood of crystallisation in assessing whether provision is required for any liabilities.

The Company's contingent liabilities relating to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio and are reported on a discounted basis.

1 Accounting policies *continued*

Post-retirement benefits
Pensions and similar benefits are accounted for under IAS 19 *Employee Benefits*.

For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value. Surpluses in schemes are recognised as assets only if they represent economic benefits available to the Company in the future. Actuarial gains and losses are recognised immediately in OCI. The service and financing costs of such plans are recognised separately in the income statement:

– current service costs are spread systematically over the lives of employees;
– past-service costs and settlements are recognised immediately; and
– financing costs are recognised in the periods in which they arise.

UK pension obligations include the estimated impact of the obligation to equalise defined benefit pensions and transfer values respectively for men and women.

Payments to defined contribution schemes are charged as an expense as they fall due.

Key estimate – Estimates of the assumptions for valuing the defined benefit obligation
The Company's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19 *Employee Benefits*. The valuations, which are based on assumptions determined with independent actuarial advice, resulted in a net surplus of £779m before deferred taxation being recognised on the balance sheet at 31 December 2024 (2023: £767m). The size of the net surplus/deficit is sensitive to the actuarial assumptions, which include the discount rate, price inflation, pension and salary increases, longevity and, in the UK, the number of plan members who take the option to transfer their pension to a lump sum on retirement or who choose to take the Bridging Pension Option. Following consultation, the UK scheme closed to future accrual on 31 December 2020.

A reduction in the discount rate of 0.25% from 5.50% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £145m. This would be expected to be broadly offset by changes in the value of scheme assets, as the scheme's investment policies are designed to mitigate this risk.

An increase in the assumed rate of inflation of 0.25% (RPI of 3.30% and CPI of 2.90%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m.

A one-year increase in life expectancy from 20.8 years (male aged 65) and from 21.5 years (male aged 45) would increase the defined benefit obligations of the RRUKPF by approximately £125m.

Further details and sensitivities are included in note 17.

Share-based payments
The Company provides share-based payment arrangements to certain employees, which are settled in Rolls-Royce Holdings plc shares. These are principally 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 based on expected performance, except where additional shares vest as a result of market-based conditions, such as the total shareholder return (TSR) performance condition in the long-term incentive plan (LTIP), where no adjustment is required as allowance for these performance conditions are included in the initial fair value.

Post balance sheet events
The Company has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 2024 results as appropriate.

2 Employee information and emoluments of Directors

The total amount of remuneration paid to Directors for the year ended 31 December 2024 was £8,822,558 (2023: £11,891,000). £4,078,266 of this was attributed to the highest paid Director (2023: £5,960,000). A cash allowance in lieu of company contributions to a pension scheme was also paid to four Directors (2023: five), which totalled £352,679 (2023: £330,000). No Directors exercised share options during the year (2023: none) and three Directors received vested shares under the long-term incentive plan (2023: none). No Director received payments for loss of office which (2023: £483,000).

No Director accrued any retirement benefits in the year (2023: none).

The aggregate employment costs were as follows:

	2024	2023
	£m	£m
Wages, salaries and benefits	**957**	947
Social security costs	**138**	117
Share-based payments (note 19)	**60**	39
Pensions and other post-retirement scheme benefits	**174**	144
Employment costs	**1,329**	1,247

The monthly average number of persons employed by the Company during the year was 15,700 (2023: 15,600), of which 15,300 (2023: 15,200) were based in the United Kingdom.

3 Intangible assets

	Development costs £m	Certification costs £m	Software and other [1] £m	Total £m
Cost				
At 1 January 2024	**2,247**	**899**	**1,125**	**4,271**
Additions	**200**	**–**	**74**	**274**
Disposals	**–**	**–**	**(57)**	**(57)**
At 31 December 2024	**2,447**	**899**	**1,142**	**4,488**
Accumulated amortisation and impairment				
At 1 January 2024	**820**	**452**	**766**	**2,038**
Charge for the year [2]	**73**	**26**	**71**	**170**
Disposals	**–**	**–**	**(56)**	**(56)**
At 31 December 2024	**893**	**478**	**781**	**2,152**
Net book value				
At 31 December 2024	**1,554**	**421**	**361**	**2,336**
At 31 December 2023	1,427	447	359	2,233

1 Includes £89m (2023: £88m) of software under course of construction which is not amortised

2 Charged to cost of sales and commercial and administrative costs except development costs, which are charged to research and development

At 31 December, the Company had expenditure commitments for software of £15m (2023: £25m).

The carrying amount and the residual life of the material intangible assets for the Company are as follows:

	Residual life [1]	Net book value	
		2024 £m	2023 £m
Trent programme intangible assets [2]	One to 15 years	**2,001**	1,920

1 Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 123, the amortisation period of 15 years will commence on those assets which are not being amortised as the units are delivered

2 Included within the Trent programmes are the Trent 1000, Trent 7000 and Trent XWB

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant changes with an adverse effect on a programme and by analysing latest management forecasts against those prepared in 2023 to identify any deterioration in performance.

The Company believe there are significant business growth opportunities to come from Rolls-Royce playing a leading role in the transition to net zero, whilst at the same time climate change poses potentially significant risks. The assumptions used by the Directors are based on past experience and external sources of information. The main climate-related areas that have been considered are the risk that regulatory changes could materially impact demand for its products (and hence the utilisation of the products whilst in service and their useful lives) and shifting investment focus towards more sustainable products and solutions. Based on the climate scenarios prepared, the forecasts do not assume a significant deterioration of demand for Civil Aerospace programmes given that all commercial aero-engines are compatible with sustainable fuels. The investment required to ensure our new products will be compatible with net zero operation, and to achieve net zero Scope 1 + 2 emissions is reflected in the forecasts used.

A 1.5°C scenario has been prepared using key data points from external sources including Oxford Economics, Global Climate Service and Databank and the International Energy Agency. This scenario has been used as the basis of a sensitivity. It is assumed that governments adopt stricter product and behavioural standards and measures that result in higher carbon pricing. Under these conditions it is assumed that markets are willing to pay for low carbon solutions and that there is an economic return from strategic investments in low carbon alternatives.

Where a trigger event has been identified, an impairment test has been carried out. Where an impairment test was required this was performed on the following basis:

- The carrying values of assets in their current condition have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and
- The key assumptions underlying cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates consistent with the assumptions above.

There have been no (2023: none) individually material impairment charges or reversals recognised during the year.

4 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost or valuation					
At 1 January 2024	**907**	**2,482**	**218**	**90**	**3,697**
Additions	**3**	**47**	**5**	**73**	**128**
Acquisition of businesses	**1**	**5**	**–**	**–**	**6**
Reclassifications [1]	**6**	**35**	**(1)**	**(40)**	**–**
Reclassifications from right-of-use assets	**11**	**–**	**–**	**–**	**11**
Disposals/write-offs	**(10)**	**(67)**	**(8)**	**–**	**(85)**
Exchange differences	**–**	**(1)**	**–**	**–**	**(1)**
At 31 December 2024	**918**	**2,501**	**214**	**123**	**3,756**
Accumulated depreciation					
At 1 January 2024	**341**	**1,689**	**76**	**–**	**2,106**
Charge for the year [2]	**35**	**126**	**21**	**–**	**182**
Impairment [3]	**1**	**–**	**–**	**–**	**1**
Disposals/write-offs	**(7)**	**(64)**	**(5)**	**–**	**(76)**
At 31 December 2024	**370**	**1,751**	**92**	**–**	**2,213**
Net book value					
At 31 December 2024	**548**	**750**	**122**	**123**	**1,543**
At 1 January 2024	**566**	**793**	**142**	**90**	**1,591**

1 Includes reclassifications from assets under construction into the other categories of property, plant and equipment when the assets become available for use.

2 Depreciation is charged to cost of sales or commercial and administrative costs or included in the cost of inventory as appropriate

3 The carrying values of property, plant and equipment have been assessed during the period in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see assumptions in note 3. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks as explained in note 3. As a result of this assessment, there are no individually material impairment charges or reversals in the year

Property, plant and equipment includes:

	2024 £m	2023 £m
Capital expenditure commitments	**62**	54
Cost of fully depreciated assets	**1,125**	1,056

5 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost				
At 1 January 2024	**143**	**116**	**21**	**280**
Additions/modifications of leases	**–**	**41**	**–**	**41**
Acquisition of businesses	**1**	**–**	**–**	**1**
Disposals	**(7)**	**(8)**	**–**	**(15)**
Reclassifications to PPE	**(11)**	**–**	**–**	**(11)**
At 31 December 2024	**126**	**149**	**21**	**296**
Accumulated depreciation and impairment				
At 1 January 2024	**63**	**61**	**10**	**134**
Charge for the year	**11**	**29**	**5**	**45**
Disposals	**(5)**	**(8)**	**–**	**(13)**
At 31 December 2024	**69**	**82**	**15**	**166**
Net book value				
At 31 December 2024	**57**	**67**	**6**	**130**
At 31 December 2023	80	55	11	146
Right-of-use assets held for use in operating leases				
Cost	**16**	**–**	**21**	**37**
Depreciation	**(6)**	**–**	**(15)**	**(21)**
Net book value at 31 December 2024	**10**	**–**	**6**	**16**

6 Investments

	Subsidiary undertakings[1,2] Shares at cost £m	Joint ventures and associates[1] Shares at cost £m	Other investments[3] Total £m
At 1 January 2024	**1,473**	**36**	**31**
Additions[4]	**10**	**16**	**–**
Revaluation of investments accounted for at FVOCI[5]	**–**	**–**	**(2)**
Revaluation of other investments accounted for at FVTPL[6]	**–**	**–**	**(24)**
Impairment[7]	**(22)**	**–**	**–**
At 31 December 2024	**1,461**	**52**	**5**

1 Subsidiary and joint venture undertakings and associates are listed on pages 144 to 149. The Company has uncalled share capital in Nightingale Insurance Limited, one of its subsidiaries at 31 December 2024 of £30m (2023: £30m)

2 In 2023, an interest-bearing outstanding loan to Vinters International Limited, one of its subsidiaries, was presented alongside investment shares at cost as it was considered to be part of the capital funding of the subsidiary undertaking. Due to a significant repayment receipt in the year, with future additional repayments expected, this receivable balance of £1.6bn (2023: £1.7bn) has been disclosed as part of amounts owed by subsidiary undertakings in note 8. It is no longer considered to be part of capital funding.

3 Other investments includes unlisted investments of £nil (2023: £24m) and listed investments of £5m (2023: £7m)

4 Subsidiary additions of £10m in the year relate to the capitalisation of an intercompany loan. Additions to investments in joint ventures and associates of £16m relate to the joint venture, Beijing Aero Engine Services Company Limited

5 The Company has elected to value the listed investments at fair value through other comprehensive income

6 The Company wrote down the value of an unlisted investment of £24m to £nil in the year. This charge was recognised within net financing

7 The impairment of subsidiary undertakings in the year has arisen as a result of the carrying value of the investment being found to be less than the recoverable amount

7 Inventories

	2024 £m	2023 £m
Raw materials	**65**	33
Work in progress	**726**	728
Finished goods	**1,703**	1,565
	2,494	2,326
Inventories stated at net realisable value	**118**	124
Amount of inventory write-down	**24**	9
Reversal of inventory write-down	**–**	14

Inventories are stated after provisions for impairment of £234m (2023: £216m).

8 Trade receivables and other assets

	Current		Non-current[1]		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Trade receivables	**1,476**	1,358	**138**	40	**1,614**	1,398
Prepayments	**487**	624	**24**	25	**511**	649
RRSA prepayment for LTSA parts [2]	**486**	235	**1,182**	1,085	**1,668**	1,320
Receivables due on RRSAs	**1,118**	1,159	**119**	193	**1,237**	1,352
Amounts owed by:						
Subsidiary undertakings	**995**	1,176	**1,993**	475	**2,988**	1,651
Joint ventures	**778**	667	**–**	8	**778**	675
Parent undertaking [3]	**–**	–	**337**	337	**337**	337
Other taxation and social security receivable	**131**	99	**–**	25	**131**	124
Costs to obtain contracts with customers [4]	**1**	–	**–**	1	**1**	1
Other receivables [5]	**426**	388	**55**	36	**481**	424
	5,898	5,706	**3,848**	2,225	**9,746**	7,931

1 Trade receivables and other assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure is included in the table above and relate to amounts not expected to be received in the next 12 months, in line with specific customer payment arrangements, including customers on payment plans, or formal payment terms on balances with related undertakings. Included within non-current is the Vinters International Limited loan principal and interest receivable of £1.6bn (2023: £1.7bn), which is presented on the face of the balance sheet as loan receivable from subsidiary undertakings. In 2023, the loan balance was presented within note 6 as it was considered to be part of capital funding of the subsidiary undertaking. Due to a significant repayment receipt in the year, with future additional repayments expected, the receivable balance has been disclosed as part of amounts owed by subsidiary undertakings. It is no longer considered to be part of capital funding

2 These amounts reflect the contractual share of EFH flows from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £(262)m (2023: £(211)m) has been recognised in cost of sales in relation to parts supplied and used in the year

3 Amounts due from parent undertakings are interest free and repayable on demand. Whilst the Company could demand repayment, the Directors consider that the intention would be to not call upon this balance for repayment in the next 12 months but is expected to be settled within the normal operating cycle

4 These are amortised over the term of the related contract in line with engine deliveries, resulting in no amortisation (2023: £2m) in the year. There were no impairment losses (2023: none)

5 Other receivables include unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

All amounts owed by subsidiary undertakings (except those listed below) are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

- €8m (£7m) balance receivable from Europea Microfusioni Aerospaziali Spa (2023: €nil (£nil)). This is interest free and has a repayment date of 31 March 2025.
- US$6m (£4m) balance receivable from Yocova Private Limited (2023: US$nil (£nil)). This is interest free and has a repayment date of 31 March 2025.
- €5m (£4m) balance receivable from Aero Gearbox International SAS (2023: €3m (£2m)). This incurs interest at the higher of EURIBOR + 0.5%, and 0%, and has a repayment date of 30 September 2025.
- €7m (£6m) balance receivable from Europea Microfusioni Aerospaziali Spa (2023: €11m (£10m)). This incurs interest at 8% and has a repayment date of 16 June 2026.
- US$525m (£419m) balance receivable from Rolls-Royce Overseas Investments Limited (2023: US$578m (£455m)). This incurs interest at US Federal Reserve rate + 3.18% and has a repayment date of 31 December 2026.
- €12m (£10m) balance receivable from Europea Microfusioni Aerospaziali Spa (2023: €nil (£nil)). This is interest free and has a repayment date of 31 December 2027.
- €11m (£9m) balance receivable from Aerospace Transmission Technologies GmbH (2023: €11m (£10m)). This incurs interest at EURIBOR + 2% and has a repayment date of 31 December 2037.
- £1.5bn balance receivable from Vinters International Limited (2023: £1.6bn). This incurs interest at aggregate of term SONIA + 0.35% and has a repayment date of 25 May 2031.

The ECLs on amounts due to group undertakings reduced to £3m (2023: £5m). The assumptions and inputs used for the estimation of the allowance takes into account their market credit ratings.

The ECLs for trade receivables and other financial assets have decreased by £5m to £158m (2023: decreased by £47m to £163m).

8 Trade receivables and other assets *continued*

The Company has adopted the simplified approach to provide for ECLs, measuring the loss allowance at a probability weighted amount incorporated by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information. The assumptions and inputs used for the estimation of the ECLs are shown in the table below:

	2024			2023		
	Trade receivables and other financial assets £m	**Loss allowance £m**	**Average ECL rate**	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate
Credit rating C and above	**1,355**	**(55)**	**4%**	1,089	(68)	6%
Credit rating below C	**–**	**–**	**0%**	3	–	0%
Without credit rating	**2,719**	**(103)**	**4%**	2,731	(95)	3%
	4,074	**(158)**	**4%**	3,823	(163)	4%

The movements of the Company's ECLs provision are as follows:

	2024 £m	2023 £m
At 1 January	**(163)**	(210)
Increases in loss allowance recognised in the income statement during the year	**(84)**	(56)
Loss allowance utilised	**5**	19
Releases of loss allowance previously provided	**82**	68
Exchange differences	**2**	16
At 31 December	**(158)**	(163)

9 Contract assets and liabilities

	Current		**Non-current [1]**		**Total [2]**	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Contract assets						
Contract assets with customers	**552**	243	**434**	349	**986**	592
Participation fee contract assets	**19**	13	**129**	144	**148**	157
	571	256	**563**	493	**1,134**	749

1 Contract assets and contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities is further split according to when the related performance obligation is expected to be satisfied, and therefore, when revenue is estimated to be recognised in the income statement. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

2 Contract assets are classified as non-financial instruments

The balance includes £869m (2023: £441m) of Civil Aerospace LTSA assets and £36m (2023: £87m) Defence LTSA assets. The increase in the Civil Aerospace balance is driven by revenue recognised (when performance obligations have been completed during the year) being greater than the amount invoiced on those contracts that have a contract asset balance. Revenue recognised relating to performance obligations satisfied in previous years was £(36)m which reduced the contract asset (2023: £55m increased).

The decrease in the Defence balance is due to higher invoicing than revenue recognised in relation to the completion of performance obligations on those contracts.

Participation fee contract assets have reduced due to amortisation. No impairment losses (2023: none) of contract assets have arisen during the year.

The absolute value of expected credit losses for contract assets has increased by £6m to £11m (2023: decreased by £16m to £5m).

	Current		**Non-current**		**Total**	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Contract liabilities	**4,209**	4,227	**7,244**	6,084	**11,453**	10,311

During the year, £3,078m (2023: £2,511m) of the opening contract liability was recognised as revenue.

Contract liabilities have increased by £1,143m. The movement in the balance is largely as a result of increases in Civil Aerospace of £1,130m. This is mainly as a result of growth in LTSA liabilities of £1,688m (2024: £9,053m, 2023: £7,365m) driven almost wholly by large engines, with customer invoicing in 2024 (based on EFH) being in advance of revenue recognised (based on costs incurred completing performance obligations). The contract liability movement includes a decrease of £(46)m (2023: £243m increase) as a result of revenue being recognised in relation to performance obligations satisfied in previous years.

10 Cash and cash equivalents

	2024 £m	2023 £m
Cash at bank and in hand	**226**	128
Money-market funds	**1,834**	1,000
Short-term deposits	**2,921**	1,957
Cash and cash equivalents	**4,981**	3,085
Overdrafts (note 11)	**–**	–

Balances are presented on a net basis when the Company has both a legal right of offset and the intention to either settle on a net basis or realise the asset and settle the liability simultaneously. There is no offsetting of financial instruments in the Company's statement of financial position as at 31 December 2024 and 2023.

11 Borrowings and lease liabilities

	Current		Non-current		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Unsecured						
0.875% Notes 2024 €550m [1]	**–**	475	**–**	–	**–**	475
3.625% Notes 2025 $1,000m [1]	**795**	–	**–**	770	**795**	770
3.375% Notes 2026 £375m [2]	**–**	–	**364**	361	**364**	361
4.625% Notes 2026 €750m [3]	**–**	–	**620**	649	**620**	649
5.75% Notes 2027 $1,000m [3]	**–**	–	**795**	782	**795**	782
5.75% Notes 2027 £545m	**–**	–	**543**	542	**543**	542
1.625% Notes 2028 €550m [1]	**–**	–	**442**	455	**442**	455
Total unsecured	**795**	475	**2,764**	3,559	**3,559**	4,034
Lease liability – Land and buildings	**13**	14	**90**	111	**103**	125
Lease liability – Aircraft and engines	**10**	8	**2**	11	**12**	19
Lease liability – Plant and equipment	**30**	23	**39**	34	**69**	57
Total lease liabilities	**53**	45	**131**	156	**184**	201
Total borrowings and lease liabilities	**848**	520	**2,895**	3,715	**3,743**	4,235

	Less than one year £m	Between one and five years £m	After five years £m	Total £m
At 31 December 2024				
Borrowings	**795**	**2,764**	**–**	**3,559**
Lease liabilities	**53**	**80**	**51**	**184**
	848	**2,844**	**51**	**3,743**
At 31 December 2023				
Borrowings	475	3,559	–	4,034
Lease liabilities	45	102	54	201
	520	3,661	54	4,235

All outstanding items described as notes above are listed on the London Stock Exchange.

1 These notes are the subject of cross-currency interest rate swap agreements under which the Company has undertaken to pay floating rates of GBP interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Company has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss.

2 These notes are the subject of interest rate swap agreements under which the Company has undertaken to pay floating rates of interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Company has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss.

3 These notes are the subject of cross-currency interest rate swap agreements under which the Company has undertaken to pay fixed rates of GBP interest, which form a cash flow hedge.

During the period to 31 December 2024, the Company repaid a loan note of €550m in May 2024 in line with its maturity date.

The Company has access to the following undrawn committed borrowing facilities at the end of the year:

	2024 £m	2023 £m
Expiring within one year	**–**	–
Expiring after one year	**2,500**	3,500
Total undrawn facilities	**2,500**	3,500

At 31 December 2024, the Company had total undrawn facilities of £2.5bn (2023: £3.5bn).

In May 2024 the Company cancelled its undrawn £1bn UKEF-supported loan facility which was due to expire in 2027. The facility had remained undrawn in the year.

In October 2024, the Company extended the maturity date of its undrawn £2.5bn revolving credit facility by one year to November 2027, with the Company having the option to exercise a further one-year extension option, subject to the bank agreement at the time of exercise.

12 Leases

Leases as lessee

The net book value of lease right-of-use assets at 31 December 2024 was £130m (2023: £146m), with a lease liability of £184m (2023: £201m) per notes 5 and 11, respectively. Leases that have not yet commenced to which the Company is committed have a future liability of £nil. The Financial Statements include the following amounts relating to leases:

	2024 £m	2023 £m
Land and buildings depreciation and impairment	**(11)**	(11)
Plant and equipment depreciation and impairment	**(29)**	(24)
Aircraft and engines depreciation and impairment	**(5)**	(5)
Total depreciation and impairment for right-of-use assets	**(45)**	(40)

The total cash outflow for leases in 2024 was £70m (2023: £57m). Of this £60m related to leases reflected in the lease liability, £10m to short-term leases where lease payments are expensed on a straight-line basis and £nil for variable lease payments where obligations are only due when the assets are used. The timing difference between income statement charge and cash flow relates to costs incurred at the end of leases for residual value guarantees and restoration costs that are recognised within depreciation over the term of the lease, the most significant amounts relate to engine leases.

Interest expense on lease liabilities in 2024 was £9m (2023: £6m).

Leases as lessor

The Company acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessee provide protection over the Company's assets. Usage in excess of specified limits and damage to the engine while on lease are covered by variable lease payment structures. Lessee bankruptcy risk is managed through the Cape Town Convention on International Interests in Mobile Equipment (including a specific protocol relating to aircraft equipment), an international treaty that creates common standards for the registration of lease contracts and establishes various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws. Engines are only leased once the Company can confirm that appropriate insurance documentation is established that covers the engine assets to pre-agreed amounts. All such contracts are operating leases. The Company also leases out a small number of properties, or parts of properties, where there is excess capacity under operating leases.

Total non-cancellable future operating lease rentals receivables (undiscounted) of £4m (2023: £4m), are predominantly due after five years.

In a limited number of circumstances, the Company sublets properties that are treated as a finance lease when the arrangement transfers substantially all the risks and rewards of ownership of the asset. At 31 December 2024, the total undiscounted lease payments receivable is £37m (2023: £35m) on annual lease income of £5m (2023: £4m). The discounted finance lease receivable at 31 December 2024 is £30m (2023: £28m). There was £nil (2023: £nil) finance income recognised during the year.

13 Trade payables and other liabilities

	Current		Non-current		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Trade payables	**736**	803	**–**	–	**736**	803
Payables due on RRSAs	**1,529**	1,713	**11**	–	**1,540**	1,713
Amounts owed to:						
Subsidiary undertakings	**5,156**	4,598	**–**	–	**5,156**	4,598
Joint ventures and associates	**471**	530	**–**	–	**471**	530
Customer discounts [1]	**993**	974	**852**	730	**1,845**	1,704
Accruals	**2,228**	929	**89**	81	**2,317**	1,010
Deferred receipts from RRSA workshare partners	**55**	56	**757**	774	**812**	830
Government grants [2]	**19**	23	**3**	11	**22**	34
Other taxation and social security	**–**	27	**–**	–	**–**	27
Other payables [3]	**234**	255	**160**	174	**394**	429
	11,421	9,908	**1,872**	1,770	**13,293**	11,678

1 Customer discounts include customer concession credits. Revenue recognised comprises sales to the Group's customers after such items. Customer concession credits are discounts given to a customer upon the sale of goods or services. A liability is recognised to correspond with the recognition of revenue when the performance obligation is met, as set out on page 118. The largest element of the balance, approximately £1.4bn (2023: £1.2bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

2 During the year £12m (2023: £6m) of government grants were recognised in the income statement

3 Other payables includes payroll liabilities and HM Government levies

All amounts due to subsidiary undertakings (except those outlined below) are unsecured, interest free and are repayable on demand.

The Company is part of the Rolls-Royce group banking arrangements and the Company's main bank accounts are subject to offset and pooling arrangements with cash balances acquired from other group entities. As a result of these arrangements the balances are presented as intercompany payables as funds are pooled by the Company on the last working day of the month with funds returned the next day. The amounts owed by the Company of £1,561m as at 31 December 2024 (2023: £999m) are interest bearing and repayable on demand.

13 Trade payables and other liabilities *continued*

Other intercompany balances outstanding at 31 December 2024 were as follows:

- US$90m (£72m) balance payable to Rolls-Royce Canada Limited (2023: US$15m (£12m)). This incurs interest at 0.06% less than the FED rate mid-point (2023: 0.06% less than the FED rate mid-point) and is repayable on demand.
- CAD 98m (£54m) balance payable to Rolls-Royce Canada Limited (2023: CAD 180m (£107m)). This incurs interest at 0.06% less than the CORRA (2023: 0.06% less than the CORRA) and is repayable on demand.
- £81m balance payable to Nightingale Insurance Limited (2023: £81m). This incurs interest at 0.06% less than Bank of England base interest rate (2023: 0.06% less than Bank of England base interest rate) and is repayable on demand.
- US$435m (£347m) balance payable to Rolls-Royce North America (USA) Holdings Co (2023: US$310m (£244m)). This incurs interest at 0.06% less than the FED rate mid-point (2023: 0.06% less than the FED rate mid-point) and is repayable on demand.
- US$462m (£369m) balance payable to Rolls-Royce Power Systems AG (2023: US$345m (£271m)). This incurs interest at 0.06% less than the FED rate mid-point (2023: 0.06% less than the FED rate mid-point) and is repayable on demand.
- €484m (£401m) balance payable to Rolls-Royce Power Systems AG (2023: €420m (£365m)). This incurs interest at EURIBOR + 0.1% (2023: EURIBOR + 0.1%) and is repayable on demand.
- €800m (£663m) balance payable to Rolls-Royce Deutschland Ltd & Co KG (2023: €600m (£521m)). This incurs interest at the 3-month EURIBOR rate + 0.1% (2023: 3-month EURIBOR rate + 0.1%) and is repayable on demand.
- NOK31m (£2m) balance payable to RR Electrical Norway (2023: NOK31m (£2m)). This incurs interest at 0.06% less the policy rate published by Norges bank (2023: 0.06% less the policy rate published by Norges bank) and is repayable on demand.

All payables' balances are repayable on demand as either no formal loan agreement is in place or no final due date set – therefore all remain in the current classification.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

The Group's payment terms with suppliers vary on the products and services being sourced, the competitive global markets the Group operates in and other commercial aspects of suppliers' relationships. Industry average payment terms vary between 90 to 120 days.

The Group offers reduced payment terms for smaller suppliers, who are typically on 75-day payment terms, so that they are paid in 30 days. In line with civil aviation industry practice, the Group offers a supply chain financing (SCF) programme in partnership with banks to enable suppliers, including joint ventures, who are on standard 90-day payment terms to receive their payments sooner. The SCF programme is available to suppliers at their discretion and does not change rights and obligations with suppliers nor the timing of payment to suppliers.

At 31 December 2024, £594m of trade payables were within the scope of SCF arrangements of which suppliers had drawn £506m (2023: £418m), with £159m (2023: £154m) drawn by joint ventures. In some cases the Group settles the costs incurred by joint ventures as a result of them utilising SCF arrangements and, during the year to 31 December 2024, the Group incurred costs of £2m (2023: £28m) doing so with these costs included within the cost of sales.

14 Other financial assets and liabilities

Details of the Company's policies on the use of financial instruments are given in the accounting policies on page 121.

The fair values of other financial instruments held by the Company are as follows:

	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts [1] £m	Total derivatives £m	Financial RRSAs £m	Other £m	Total £m
At 31 December 2024							
Current assets	**138**	**5**	**148**	**291**	**–**	**–**	**291**
Non-current assets	**16**	**1**	**110**	**127**	**–**	**–**	**127**
Assets	**154**	**6**	**258**	**418**	**–**	**–**	**418**
Current liabilities	**(544)**	**(18)**	**–**	**(562)**	**(23)**	**(36)**	**(621)**
Non-current liabilities	**(1,364)**	**(23)**	**(111)**	**(1,498)**	**(77)**	**(1)**	**(1,576)**
Liabilities	**(1,908)**	**(41)**	**(111)**	**(2,060)**	**(100)**	**(37)**	**(2,197)**
	(1,754)	**(35)**	**147**	**(1,642)**	**(100)**	**(37)**	**(1,779)**
At 31 December 2023							
Current assets	70	6	8	84	–	–	84
Non-current assets	76	–	254	330	–	–	330
Assets	146	6	262	414	–	–	414
Current liabilities	(357)	(10)	(13)	(380)	(18)	(28)	(426)
Non-current liabilities	(1,769)	(15)	(73)	(1,857)	(81)	(1)	(1,939)
Liabilities	(2,126)	(25)	(86)	(2,237)	(99)	(29)	(2,365)
	(1,980)	(19)	176	(1,823)	(99)	(29)	(1,951)

1 Includes the foreign exchange impact of cross-currency interest rate swaps

Derivative financial instruments

The Company uses various financial instruments to manage its exposure to movements in foreign exchange rates. The Company uses commodity swaps to manage its exposure to movements in the price of commodities (jet fuel, base metals, gas and power). To hedge the currency risk associated with a borrowing denominated in a foreign currency, the Company has currency derivatives designated as part of a fair value or cash flow hedge. The Company uses interest rate swaps and forward rate agreements to manage its exposure to movements in interest rates.

Movements in the fair values of derivative financial assets and liabilities were as follows:

	Foreign exchange instruments £m	Commodity instruments £m	Interest rate instruments – hedge accounted [1] £m	Interest rate instruments - non-hedge accounted £m	Total £m
At 1 January 2024	**(1,980)**	**(19)**	**45**	**131**	**(1,823)**
Movements in fair value hedges	**–**	**–**	**(32)**	**–**	**(32)**
Movements in cash flow hedges	**–**	**–**	**(23)**	**–**	**(23)**
Movements in other derivative contracts	**(478)**	**(20)**	**–**	**40**	**(458)**
Contracts settled	**704**	**4**	**64**	**(78)**	**694**
At 31 December 2024	**(1,754)**	**(35)**	**54**	**93**	**(1,642)**

1 Includes the foreign exchange impact of cross-currency interest rate swaps

Where applicable, market values have been used to determine fair values. Where market values are not available, fair values have been calculated by discounting expected future cash flows at prevailing interest rates and translating at prevailing exchange rates.

Financial risk and revenue sharing arrangements (RRSAs) and other liabilities

The Company has financial liabilities arising from financial RRSAs. These financial liabilities are valued at each reporting date using the amortised cost method. This involves calculating the present value of the forecast cash flows of the arrangements using the internal rate of return at the inception of the arrangements as the discount rate.

Movements in carrying values is as follows:

	Financial RRSAs £m	Other - liabilities £m
At 1 January 2024	**(99)**	**(29)**
Cash paid	**17**	**–**
Additions	**–**	**(8)**
Changes in forecast payments	**(7)**	**–**
Financing charge	**(7)**	**–**
Exchange adjustments	**(4)**	**–**
At 31 December 2024	**(100)**	**(37)**

15 Provisions for liabilities and charges

	At 1 January 2024 £m	Charged to income statement [1] £m	Reversed £m	Utilised £m	At 31 December 2024 £m
Onerous contracts	1,441	539	(382)	(214)	1,384
Warranty and guarantees	12	4	(3)	–	13
Trent 1000 wastage costs	116	2	–	(82)	36
Transformation and restructuring	2	31	(6)	(26)	1
Other	22	1	–	(7)	16
	1,593	577	(391)	(329)	1,450
Current liabilities	320				285
Non-current liabilities	1,273				1,165

1 The charge to the income statement includes £47m (2023: £59m) as a result of the unwinding of the discounting of provisions previously recognised

Onerous contracts

Onerous contract provisions are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Onerous contract provisions are measured on a fully costed basis and during the year £214m (2023: £164m) of the provisions have been utilised. Additional contract losses for the Group of £539m (2023: £459m) have been recognised. These are mainly a result of increases in the estimate of future LTSA costs due to prolonged supply chain challenges, inflationary cost increases and implementing required product modifications that could cause some disruption to the throughput of engine overhauls.

Contract losses of £382m (2023: £398m) previously recognised have been reversed following improvements to the forecast revenue, to cost estimates and time on wing across various engine programmes as a result of operational improvements, contractual renegotiations and extensions. The Group continues to monitor the onerous contract provisions for changes in the market and revises the provision as required. The value of the remaining onerous contract provisions reflects, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 16 years.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires a company to recognise any impairment loss that has occurred on assets used in fulfilling the contract before recognising a separate provision for an onerous contract. No impairments were required for any of the assets solely used in the fulfilment of onerous contracts.

The Trent 1000 intangible assets (certification costs and development costs) and Trent 1000 spare engines (right of use and owned) are tested for impairment as part of the Trent 1000 Cash generating unit (CGU) and no impairment was required.

Warranty and guarantees

Provisions for warranty and guarantees primarily relate to products sold and are calculated based on an assessment of the remediation costs related to future claims based on past experiences. The provision generally covers a period of up to three years.

Trent 1000 wastage costs

In November 2019, the Group announced the outcome of testing and a thorough technical and financial review of the Trent 1000 TEN programme, following technical issues which were identified in 2019, resulting in a revised timeline and a more conservative estimate of durability for the improved HP turbine blade for the TEN variant. During the year, the Group has utilised £82m (2023: £79m) of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs. During the year, a net charge to the provision of £2m (2023: £16m) has been recognised reflecting the discount unwind. The value of the remaining provision reflects the single most likely outcome and is expected to be utilised in 2025.

Transformation and restructuring

In 2023, the Group announced a major multi-year transformation programme consisting of seven workstreams, set out in the 2022 Annual Report. During the year, the Group made progress against those workstreams and as a result of the details communicated, a provision of £31m (2023: £2m) has been recorded and recognised in cost of sales and commercial and administration costs. During the year £26m (2023: nil) has been utilised and £6m reversed (2023: nil) as part of these plans.

Other

Other items are individually immaterial and include provisions for employer liability claims of £3m (2023: £3m) as a result of historical insolvency of a previous provider.

16 Deferred taxation

Other tax credits/(charges)

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified			
	2024 £'m	2023 £'m	**2024 £'m**	2023 £'m	**2024 £'m**	2023 £'m
Deferred tax:						
Movement in post-retirement schemes	**68**	(54)	**–**	–	**–**	–
Cash flow hedge	**–**	–	**(1)**	5	**–**	–
Share-based payment – direct to equity	**–**	–	**–**	–	**66**	22
Other tax credits/(charges)	**68**	(54)	**(1)**	5	**66**	22

Deferred taxation assets and liabilities

	2024 £m	2023 £m
At 1 January	**1,929**	1,782
Amount credited to income statement	**691**	–
Amount credited to statement of OCI	**67**	174
Amount credited/(charged) to equity	**66**	(49)
On acquisition of businesses	**1**	22
At 31 December	**2,754**	1,929
Deferred tax assets	**2,949**	2,198
Deferred tax liabilities	**(195)**	(269)
Deferred tax	**2,754**	1,929

The analysis of the deferred tax position is as follows:

	2024 £m	2023 £m
Property, plant and equipment	**128**	198
Intangible assets	**(409)**	(382)
Other temporary differences[1]	**292**	294
Pensions and other post-retirement scheme benefits	**(195)**	(269)
Foreign exchange and commodity financial assets and liabilities	**425**	412
Losses	**2,472**	1,443
Advance corporation tax[2]	**–**	162
R&D credit	**41**	71
	2,754	1,929

Unrecognised deferred tax assets	**2024 £m**	2023 £m
Advance on corporation tax	**162**	–
Foreign exchange and commodity financial assets and liabilities	**26**	69
Losses	**594**	1,627
	782	1,696

Gross amount of losses and other deductible temporary differences for which no deferred tax has been recognised on which there is no expiry	**2024 £m**	2023 £m
Foreign exchange and commodity financial assets and liabilities	**103**	275
Losses	**2,376**	6,508
	2,479	6,783

1 Other temporary differences mainly relate to the deferral of relief for interest expenses and share-based payments expenses

2 Prior to 1999, advance corporation tax was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities. The balance has been de-recognised in 2024 following the Group's announcement to reinstate shareholder distributions via cash dividend, which will prevent utilisation of the surplus advance corporation tax balance

In addition to the gross balances shown above, advance corporation tax of £162m (2023: £nil) has not been recognised. Advance corporation tax has no expiry.

The total deferred tax asset of £2,949m (2023: £2,198m) is made up as follows:

- £2,472m (2023: £1,443m) relating to tax losses;
- £425m (2023: £412m) arising on unrealised losses on derivative contracts;
- £nil (2023: £162m) of advance corporation tax; and
- £52m (2023: £181m) relating to other deductible temporary differences, in particular tax depreciation and relief for interest expenses.

16 Deferred taxation *continued*

The deferred tax assets have been recognised based on the expectation that the business will generate taxable profits and tax liabilities in the future against which the losses and deductible temporary differences can be utilised.

Most of the tax losses relate to the Civil Aerospace large engine business which makes initial losses through the investment period of a programme and then makes a profit through its contracts for services. The programme lifecycles are typically in excess of 30 years.

Deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. A recoverability assessment has been undertaken, taking account of deferred tax liabilities against which the reversal can be offset and using latest UK forecasts, which are mainly driven by the Civil Aerospace large engine business, to assess the level of future taxable profits.

The recoverability of deferred tax assets has been assessed on the following basis:

– using the most recent UK profit forecasts, covering the next five years which are consistent with external sources on market conditions;
– the long-term forecast profit profile of existing large engine programmes which are typically in excess of 30 years from initial investment to retirement of the fleet, including the aftermarket revenues earned from airline customers;
– the long-term forecast is adjusted to exclude engine programmes which are in the development stage with no confirmed orders;
– taking into account the risk that regulatory changes could materially impact demand for our products;
– consideration that although all Civil Aerospace large engines are compatible with sustainable fuels, there is a risk that in the longer term demand will shift towards more sustainable products and solutions;
– taking into consideration past performance and experience as well as a 25% probability of a severe but plausible downside forecast materialising in relation to the civil aviation industry;
– the long-term forecast profit and cost profile of the other parts of the business; and
– consideration that the business returned to profitability in 2023.

The assessment takes into account UK tax laws that, in broad terms, restrict the offset of carried forward tax losses to 50% of current year profits. In addition, the amounts and timing of future taxable profits incorporate:
– the impact of significant Civil Aerospace large engine orders in 2024;
– the outcomes of strategic initiatives, including contractual margin improvements and cost reduction;
– the continued growth in Civil Aerospace engine flying hours; and
– management's assumptions on the impact of macro-economic factors and climate change on the business.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks have continued to develop over the last year.

The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Company has demonstrated that all the commercial aero engines it produces are compatible with sustainable fuels. The impact that this could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, a deferred tax asset of £2,949m has been recognised, which includes the recognition of a £1,033m deferred tax asset relating to tax losses. This reflects the conclusions that:
– Based on current financial results and an improved outlook it is probable that the UK group will generate taxable income and tax liabilities in the future against which these losses can be utilised.
– Using current forecasts and various scenarios these losses and other deductible temporary differences will be used in full within 30-40 years, which is within the expected programme lifecycles. An explanation of the potential impact of climate change on forecast profits and sensitivity analysis can be found in note 1.

The 2024 announcement of a reinstatement of regular shareholder distributions via cash dividends will prevent utilisation of the Company's £162m advance corporation tax balance. As a result, the associated deferred tax asset has been fully de-recognised.

Any future changes in tax law or the structure of the Company could have a significant effect on the use of losses and other deductible temporary differences, including the period over which they can be used. In view of this and the significant judgement involved, the Board continuously reassesses this area.

The Statutory instrument reducing the tax rate on authorised surplus pension charges from 35% to 25% effective from 6 April 2024 has been enacted on 11 March 2024. The deferred tax liability on the pension surplus has therefore been re-measured at 25%. The resulting credit has been recognised in OCI except to the extent that the items were previously charged or credited to the income statement. Accordingly, in 2024, £67m has been credited to OCI and £10m has been credited to the income statement.

The Company is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 31 December 2024, the Company has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The temporary differences associated with investments in subsidiaries, joint ventures and associates, for which a deferred tax liability has not been recognised, aggregate to £1,558m (2023: £1,230m). No deferred tax liability has been recognised on the potential withholding tax due on the remittance of undistributed profits as the Company is able to control the timing of such remittances and it is probable that consent will not be given in the foreseeable future.

17 Post-retirement benefits

The Company operates a funded UK defined benefit scheme, with the assets held in a separate trustee administered fund. Employees are entitled to retirement benefits based on either their final or career average salaries and length of service.

The UK defined benefit scheme is funded, with the assets held in a separate UK trust. The scheme closed to future accrual on 31 December 2020 for all active members and there are no new defined benefit accruals in the UK scheme. As at 31 December 2024, the scheme was estimated to be funded at 119% on the Technical Provisions basis.

The valuation of the defined benefit scheme is based on the most recent funding valuation from 31 March 2023, where relevant, updated by the scheme actuaries to 31 December 2024.

Other

Virgin Media
The Group is aware of a UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, which decided that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgment delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, this judgment will need to be reviewed for its relevance to the RRUKPF scheme, and other UK schemes. A high-level review has been undertaken of the UK Schemes which concluded that there is a very low risk of any historic plan amendments being found to be invalid. The Company's pension advisers have not completed detailed numerical analysis and no adjustments have been made to the Company Financial Statements at 31 December 2024. There is a separate legal case which is due to be taken to the High Court in early 2025, this is expected to provide further clarification on several outstanding points of detail relevant to this case.

Barber adjustment
In 2018, an estimated cost of equalising normal retirement ages between men and women arising from the Barber judgement in 1990 was recognised. While the Rolls-Royce schemes were equalised under these principles in the period after the original Barber ruling, further work has been carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments. This work has resulted in a past service charge of £14m being recognised in the income statement of the Company Financial Statements at 31 December 2024.

Amounts recognised in OCI in respect of defined benefit schemes	2024 £m	2023 £m
Actuarial gains and losses arising from:		
Demographic assumptions [1]	**19**	180
Financial assumptions [2]	**617**	(132)
Experience adjustments [3]	**(8)**	116
Return on scheme assets excluding financing income [2]	**(633)**	(12)
	(5)	152

1 This reflects latest available CMI mortality projections and an update of the post-retirement mortality assumptions based on an analysis prepared for the 31 March 2023 funding valuation

2 Actuarial gains and losses arising from financial assumptions arise primarily due to changes in interest rates and inflation

3 This reflects an experience gain as a result of allowance for updated membership data following the valuation during the year offset by realised inflation being higher than expected in the year

Amounts recognised in the balance sheet in respect of defined benefit schemes	2024 £m	2023 £m
Present value of funded obligations	**(3,958)**	(4,537)
Fair value of scheme assets	**4,737**	5,304
Net asset recognised in the balance sheet – Post retirement surplus [1]	**779**	767

1 The surplus is recognised as on an ultimate wind-up when there are no longer any remaining members, any surplus would be returned to the Company, which has the power to prevent the surplus being used for other purposes in advance of this event

Assumptions
Significant actuarial assumptions used at the balance sheet date were as follows:

	2024 £m	2023 £m
Discount rate	**5.50%**	4.50%
Inflation assumption (RPI)	**3.30%**	3.30%
Inflation assumption (CPI)	**2.90%**	2.85%
Transfer assumption (employed deferred/deferred)	**20%/15%**	35%/25%
Bridging Pension Option (BPO) assumption (employed deferred/deferred)	**40%/25%**	30%
Life expectancy from age 65: current male pensioner	**20.8 years**	20.8 years
future male pensioner currently aged 45	**21.5 years**	21.5 years
current female pensioner	**22.8 years**	22.8 years
future female pensioner currently aged 45	**24.1 years**	24.1 years

Discount rates are determined by reference to the market yields on AA rated corporate bonds. The rate is determined by using the profile of forecast benefit payments to derive a weighted average discount rate from the yield curve.

The inflation assumption is determined by the market-implied assumption based on the yields on long-term index-linked government securities.

17 Post-retirement benefits *continued*

The mortality assumptions adopted for the UK pension schemes are derived from the SAPS S3 'All' actuarial tables, with future improvements in line with the CMI 2023 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience and actuarial advice.

Other assumptions have been set on advice from the actuary, having regard to the latest trends in scheme experience and the assumptions used in the most recent funding valuation. The rate of increase of pensions in payment is based on the rules of the scheme, combined with the inflation assumption where the increase is capped.

Changes in present value of defined benefit obligations	2024 £m	2023 £m
At 1 January	**(4,537)**	(4,621)
Current service cost	**–**	(4)
Past-service cost	**(14)**	–
Finance cost	**(200)**	(218)
Benefits paid out	**165**	142
Actuarial gains	**628**	164
At 31 December	**(3,958)**	(4,537)
Funded schemes	**(3,958)**	(4,537)

The defined benefit obligations are in respect of:	2024 £m	2023 £m
Active plan participants [1]	**(1,277)**	(1,584)
Deferred plan participants	**(1,064)**	(1,287)
Pensioners	**(1,617)**	(1,666)
Weighted average duration of obligations (years)	**14**	16

1 Although the UK scheme closed to future accrual on 31 December 2020, members who became deferred as a result of the closure and remain employed by the Company retain some additional benefits compared with other deferred members. The obligations for these members are shown as active plan participants

Changes in fair value of scheme assets	2024 £m	2023 £m
At 1 January	**5,304**	5,215
Administrative expenses	**(5)**	(4)
Financing	**235**	247
Return on plan assets excluding financing	**(633)**	(12)
Contributions by employer	**1**	–
Benefits paid out	**(165)**	(142)
At 31 December	**4,737**	5,304
Total return on plan assets	**(398)**	235

Fair value of scheme assets	2024 £m	2023 £m
Sovereign debt	**3,335**	3,259
Corporate debt instruments	**1,860**	1,996
Interest rate swaps	**197**	170
Inflation swaps	**92**	86
Cash and similar instruments [1]	**(1,176)**	(892)
Liability driven investment (LDI) portfolios [2]	**4,308**	4,619
Unlisted equities	**25**	32
Synthetic equities [3]	**–**	20
Corporate debt instruments	**379**	630
Other	**25**	3
At 31 December	**4,737**	5,304

1 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £(1,203)m (2023: £(993)m). The latest maturity date for these short-term borrowings is June 2025

2 A portfolio of gilt and swap contracts, backed by investment-grade credit instruments and diversified liquidity funds, that is designed to hedge the majority of the interest rate and inflation risks associated with the schemes' obligations

3 Portfolios of swap contracts designed to provide investment returns in line with global equity markets. The maximum exposure (notional value and accrued returns) on the portfolios was £nil (2023: £379m)

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group (2023: none).

17 Post-retirement benefits *continued*

Future contributions

The Company does not expect to contribute to its defined benefit scheme in respect of 2024 (2023: £nil).

In the UK, any cash funding of RRUKPF is based on a statutory triennial funding valuation process. The Company and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting set out above. The assumptions used to value Technical Provisions must be prudent rather than a best estimate of the liability. Most notably, the Technical Provisions discount rate is currently based upon UK Government bond yields plus a margin (0.5% at the 31 March 2023 valuation) rather than being based on yields of AA corporate bonds. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis (estimated to be 119% at 31 December 2024). All cash due has been paid in full and the current SoC does not currently require any cash contributions to be made by the Company.

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2024, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

For the most significant funded schemes, the investment strategies hedge the risks from interest rates and inflation measured on a proxy solvency basis.

For the UK scheme, the interest rate and inflation hedging is currently based on UK Government bond yields without any adjustment for any credit spread. The sensitivity analysis set out below have been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

		2024 £m	2023 £m
Reduction in discount rate of 0.25% [1]	Obligation	**(145)**	(185)
	Plan assets (LDI portfolio)	**179**	204
Increase in inflation rate of 0.25% [1]	Obligation	**(55)**	(75)
	Plan assets (LDI portfolio)	**73**	77
Increase of 1% in transfer value assumption	Obligations	**(25)**	(30)
One year increase in life expectancy	Obligations	**(125)**	(155)

1 The differences between the sensitivities on obligations and plan assets arise largely due to differences in the methods used to value the obligations for accounting purposes and the adopted proxy solvency basis

Defined contribution schemes

The Company operates a number of defined contribution schemes. The total expense recognised in the income statement was £190m (2023: £165m).

18 Share capital

	Equity ordinary shares of 20p each (millions)	Nominal value £m
Authorised		
At 1 January and 31 December 2024	**2,000**	**400**
Issued and fully paid		
At 1 January and 31 December 2024	**1,691**	**338**

Rights, preferences and restrictions

Each member has one vote for each ordinary share held. Holders of ordinary shares are entitled to receive the Company's Annual Report; attend and speak at general meetings of the Company; to appoint one or more proxies or, if they are corporations, corporate representatives; and to exercise voting rights. The ordinary shares are not listed.

19 Share-based payments

Effect of share-based payment transactions on the Company's results and financial position

	2024 £m	2023 £m
Total expense recognised for equity-settled share-based payment transactions	**60**	39

Share-based payment plans in operation during the year

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

Long-term incentive plan

The fair value of shares awarded is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 companies and S&P Global Industrials Index companies and which incorporates into the valuation the interdependency between share price performance and TSR vesting where market-based conditions are applicable. This adjustment decreases the fair value of the award relative to the share price at the date of grant.

ShareSave

The fair value of the options granted is calculated using a pricing model that assumes that participants will exercise their options at the beginning of the six-month window if the share price is greater than the exercise price. Otherwise, it assumes that options are held until the expiration of their contractual term. This results in an expected life of the mid-point between the start of the exercise window and the date of expiration.

Incentive plan

The fair value of shares awarded is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Free shares

During the year, every Rolls-Royce employee was gifted 150 shares. The awards were granted under two plans; the 'Rolls-Royce Share Purchase Plan' for UK employees and the 'Rolls-Royce Global Employee Share Purchase Plan' for non-UK employees; both being equity-settled schemes. The fair value of shares awarded under the free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

The weighted average share price at the date share options were exercised was 420p (2023: 159p). The closing price at 31 December 2024 was 569p (2023: 300p).

The range of exercise prices for the share options as at 31 December 2024 was 97p to 232p.

			ShareSave (millions)	
Grant - vest	**Expiry date (31 January)**	**Exercise price in pence per share option**	**2024**	**2023**
2019 - 2025	2025	232	**1.6**	1.7
2021 - 2025	2025	97	**29.8**	30.7
			31.4	32.4

The weighted average remaining contractual life for the cash settled options as at 31 December 2024 was one month (2023: one year) as the majority of shares are due to vest in early 2025.

20 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the Serious Fraud Office and the US Department of Justice and a leniency agreement with the Ministério Público Federal, the Brazilian federal prosecutor. The terms of both DPAs have now expired. The Company has also met all of its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitorship. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Group or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Group. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date but cannot anticipate all the possible actions that may be taken or their potential consequences.

The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, grant funding, countertrade obligations and minor miscellaneous items, which could result in potential outflows if the requirements related to those arrangements are not met. Various Group undertakings are party to legal actions and claims (including with tax authorities) which arise in the ordinary course of business, some of which are for substantial amounts.

In connection with the sale of its products, the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of $405m (2023: $857m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately $100m could be called during 2025). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

The Group has responded appropriately to the Russia-Ukraine conflict to comply with international sanctions and export control regime, and to continue to implement the business decision to exit from Russia. The Group could be subject to action by impacted customers, suppliers and other contract parties.

While the outcome of the above matters cannot precisely be foreseen, the Directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

21 Related party transactions

	2024 £m	2023 £m
Sale of goods and services [1]	**7,500**	6,528
Purchases of goods and services [1]	**(8,350)**	(7,106)
Guarantees of joint arrangements' and associates' borrowings	**–**	2
Guarantees of non-wholly owned subsidiaries' borrowings	**4**	3

1 Sales of goods and services to related parties and purchases of goods and services from related parties, including joint ventures and associates, are included at the average exchange rate, consistent with the statutory income statement

The Company is a wholly owned subsidiary of its ultimate parent Rolls-Royce Holdings plc and is included within the consolidated results of Rolls-Royce Holdings plc and therefore has taken advantage of the exemption in FRS 101 not to disclose related party transactions with its parent company and other wholly owned group companies. The aggregated balances with joint ventures are shown in notes 8 and 13.

During the year, the Company transacted with its non-wholly owned subsidiary, Rolls-Royce SMR Limited:

	2024 £m	2023 £m
Sales to Rolls-Royce SMR Limited	**9**	7
Receivables with Rolls-Royce SMR Limited	**3**	2
Payables to Rolls-Royce SMR Limited	**–**	(103)

22 Parent and ultimate parent company

The Company's direct parent is Rolls-Royce Group Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Rolls-Royce Holdings plc. Copies of the Rolls-Royce Holdings plc Consolidated Financial Statements can be obtained from the Company Secretary at Kings Place, 90 York Way, London, N1 9FX, United Kingdom.

Subsidiaries

As at 31 December 2024, the companies listed below and on the following pages are indirectly held by Rolls-Royce plc, except those indicated as being held directly by Rolls-Royce plc. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Address	Class of shares	% of class held
Aerospace Transmission Technologies GmbH * [1]	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50
Amalgamated Power Engineering Limited [2]	London [3]	Deferred Ordinary	100 100
Bristol Siddeley Engines Limited * [2]	London [3]	Ordinary	100
Brown Brothers & Company, Limited [4]	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, KY11 9JT, Scotland	Ordinary	100
C A Parsons & Company Limited [4]	London [3]	Ordinary	100
Derby Specialist Fabrications Limited [2]	London [3]	Ordinary	100
Europea Microfusioni Aerospaziali S.p.A. *	Zona Industriale AS1, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Heaton Power Limited [2]	London [3]	Ordinary	100
John Thompson Cochran Limited [2]	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, KY11 9JT, Scotland	6% Cumulative Preference Ordinary	100 100
Karl Maybach-Hilfe GmbH i.l. [9]	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Kinolt Immo SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Immobilien SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Sistemas de UPS SpA	Bucarest No 17 Oficina, No 33, Previdencia, Santiago, Chile	Ordinary	100
Kinolt UK Ltd [2]	London [3]	Ordinary	100
LLC Rolls-Royce Solutions Rus [2]	Shabolovka Street 2, 119049, Moscow, Russian Federation	Ordinary	100
MTU Cooltech Power Systems Co., Limited [1]	Building No. 2, No. 1633 Tianchen Road, Quingpu District, Shanghai, China	Equity	50
MTU India Private Limited [6]	6th Floor, RMZ Galleria, S/Y No. 144 Bengaluru, Bangalore, Kamataka 560 064, India	Ordinary	100
MTU Polska Sp. z o.o.	ul. Hoża 86, lokal 410, 00-682 Warsawa, Polska	Ordinary	100
NEI International Combustion Limited [2]	London [3]	Ordinary	100
NEI Mining Equipment Limited [2]	London [3]	Ordinary	100
NEI Nuclear Systems Limited [2]	London [3]	Ordinary	100
NEI Parsons Limited [2]	London [3]	Ordinary	100
NEI Peebles Limited [2]	London [3]	Ordinary	100
NEI Power Projects Limited [2]	London [3]	Ordinary	100
Nightingale Insurance Limited	PO Box 33, Dorey Court, Admiral Park, St Peter Port GY1 4AT, Guernsey	Ordinary	100
No-Break Power Limited [2]	London [3]	Ordinary	100
Powerfield Limited [2]	Derby [7]	Ordinary	100
PT Rolls-Royce	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
PT Rolls Royce Solutions Indonesia	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
Rolls-Royce (Ireland) Unlimited Company [2]	Ulster International Finance, 1st Floor, IFSC House IFSC Dublin, Dublin, Co. Dublin, D01R2P9, Ireland	Ordinary	100
Rolls-Royce (Thailand) Limited	989 Floor 12A, Unit B1, B2, Siam Piwat Tower, Rama 1, Pathumwan, Bangkok, 10330, Thailand	Ordinary	100
Rolls-Royce Aero Engine Services Limited * [2]	London [3]	Ordinary	100
Rolls-Royce Australia Pty Limited	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Australia Services Pty Limited	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Brasil Limitada *	Rua Jose Versolato, No. 111, Torre B, Sala 2502, Centro, São Bernando do Campo, Sao Pãulo, CEP 09750-730, Brazil	Quotas	100
Rolls-Royce Canada Limited	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common Stock	100
Rolls-Royce Chile SpA	Rosario Norte #407 Depto. #1601 Comuna Las Condes Ciudad Santiago, Chile	Ordinary	100
Rolls-Royce China Holding Limited *	305 Indigo Building 1, 20 Jiuxianqiao Road, Beijing, 100016, China	Ordinary	100
Rolls-Royce Commercial Aero Engines Limited * [2]	London [3]	Ordinary	100
Rolls-Royce Controls and Data Services Limited * [2]	London [3]	Ordinary	100
Rolls-Royce Controls and Data Services (NZ) Limited	Deloitte Centre, Level 20, 1 Queen Street, Auckland, 10103, New Zealand	Ordinary	100
Rolls-Royce Controls and Data Services (UK) Limited * [4]	Derby [7]	Ordinary	100

Subsidiaries *continued*

Company name	Address	Class of shares	% of class held
Rolls-Royce Corporation	Wilmington [8]	Common Stock	100
Rolls-Royce Crosspointe LLC	Wilmington [8]	Partnership (no equity held)	100
Rolls-Royce Defense Products and Solutions Inc.	Wilmington [8]	Common Stock	100
Rolls-Royce Defense Services Inc.	Wilmington [8]	Common Stock	100
Rolls-Royce Deutschland Ltd & Co KG	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Partnership (no equity held)	100
Rolls-Royce Electrical Norway AS *	Jarleveien 8A, 7041, Trondheim, Norway	Ordinary	100
Rolls-Royce Energy Angola, Limitada [2]	Casa no. 174, Largo Leite Duarte, Bairro Miramar, Luanda, Municipality of Ingombota, Angola	Quota	100
Rolls-Royce Energy Systems Inc. [2]	Wilmington [8]	Common Stock	100
Rolls-Royce Engine Services Holdings Co.	Wilmington [8]	Common Stock	100
Rolls-Royce Engine Services Limitada Inc. [9]	Bldg. 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone, Clark, Pampanga, Philippines	Capital Stock	100
Rolls-Royce Erste Beteiligungs GmbH *	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100
Rolls-Royce Finance Company Limited [2]	London [3]	Deferred Ordinary	100 100
Rolls-Royce Finance Holdings Co.	Wilmington [8]	Common Stock	100
Rolls-Royce Fuel Cell Systems Limited * [4]	Derby [7]	Ordinary	100
Rolls-Royce General Partner (Ireland) Limited *	29 Earlsfort Terrace, Dublin 2, Dublin, D02AY28 Ireland	Ordinary	100
Rolls-Royce General Partner Limited * [2]	London [3]	Ordinary	100
Rolls-Royce High Temperature Composites Inc.	Corporation Service Company, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833, United States	Ordinary	100
Rolls-Royce Holdings Canada Inc. *	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common C	100
Rolls-Royce Hungary Kft *	Gizella U. 51–57, 1143 Budapest, Hungary	Cash shares	100
Rolls-Royce India Limited [2, 6, 10]	Derby	Ordinary	100
Rolls-Royce India Private Limited [6]	Birla Tower West, 2nd Floor 25, Barakhamba Road, New Delhi, 110001, India	Equity	100
Rolls-Royce Industrial & Marine Power Limited [4]	London [3]	Ordinary	100
Rolls-Royce Industrial Power (India) Limited [2, 6, 10]	Derby [7]	Ordinary	100
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited [4]	Derby [7]	Ordinary	100
Rolls-Royce Industries Limited * [4]	Derby [7]	Ordinary	100
Rolls-Royce International Limited *	Derby [7]	Ordinary	100
Rolls-Royce Japan Co., Limited	31st Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-Ku, Tokyo, 100-6031, Japan	Ordinary	100
Rolls-Royce Leasing Limited *	Derby [7]	Ordinary	100
Rolls-Royce Malaysia Sdn. Bhd.	Unit A-3-6 TTDI Plaza, Jalan Wan Kadir 3, Taman Tun Dr Ismail, 6000 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Marine North America Inc.	Wilmington [8]	Common Stock	100
Rolls-Royce Military Aero Engines Limited * [2, 6, 10]	London [3]	Ordinary	100
Rolls-Royce New Zealand Limited	Deloitte Centre, Level 20, 1 Queen Street, Auckland, 10103, New Zealand	Ordinary	100
Rolls-Royce North America (USA) Holdings Co.	Wilmington [8]	Common Stock	100
Rolls-Royce North America Holdings Inc.	Wilmington [8]	Common Stock	100
Rolls-Royce North America Ventures Inc.	Wilmington [8]	Common Stock	100
Rolls-Royce North America Inc.	Wilmington [8]	Common Stock	100
Rolls-Royce North American Technologies Inc.	Wilmington [8]	Common Stock	100

Subsidiaries *continued*

Company name	Address	Class of shares	% of class held
Rolls-Royce Oman LLC	Bait Al Reem, Business Office #131, Building No 81, Way No 3409, Block No 234, Al Thaqafa Street, Al Khuwair, PO Box 20, Postal Code 103, Oman	Ordinary	100
Rolls-Royce Operations (India) Private Limited [2, 6]	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India	Ordinary	100
Rolls-Royce Overseas Holdings Limited * [4]	Derby [7]	Ordinary Ordinary A	100 100
Rolls-Royce Overseas Investments Limited [4]	Derby [7]	Ordinary	100
Rolls-Royce Placements Limited [2]	London [3]	Ordinary	100
Rolls-Royce Power Engineering Limited *	Derby [7]	Ordinary	100
Rolls-Royce Power Systems AG	Maybachplatz 1, 88045, Friedrichshafen, Germany	Ordinary	100
Rolls-Royce Retirement Savings Trust Limited * [2, 6]	Derby [7]	Ordinary	100
Rolls-Royce Saudi Arabia Limited	3010 – Al Arid, Riyadh 13332 – 7663, Saudi Arabia	Cash shares	100
Rolls-Royce Singapore Pte. Ltd.	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100
Rolls-Royce SMR Limited *	Derby [7]	Ordinary	70.5
Rolls-Royce Solutions (Suzhou) Co. Ltd	9 Long Yun Road, Suzhou Industrial Park, Suzhou 215024, Jiang Su, China	Ordinary	100
Rolls-Royce Solutions Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Capital Stock	100
Rolls-Royce Solutions America Inc.	100 West Tenth Street, Wilmington - Delaware DE 19808, United States	Ordinary	100
Rolls-Royce Solutions Asia Pte. Limited	10 Tukang Innovation Drive, Singapore 618302	Ordinary	100
Rolls-Royce Solutions Augsburg GmbH	Dasinger Strasse 11, 86165, Augsburg, Germany	Capital Stock	100
Rolls-Royce Solutions Benelux B.V.	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	Ordinary	100
Rolls-Royce Solutions Brasil Limitada	Via Anhanguera, KM 29203, 05276-000 Sao Pãulo – SP, Brazil	Quotas	100
Rolls-Royce Solutions Enerji Deniz Ve Savunma Anonim Şirketi	Hatira Sokak, No. 5, Ömerli Mahellesi, 34555 Arnavutköy, Istanbul, Turkey	Ordinary	100
Rolls-Royce Solutions France S.A.S.	Immeuble Colorado, 8/10 rue de Rosa Luxembourg-Parc des Bellevues 95610, Erangy-sur-Oise, France	Ordinary	100
Rolls-Royce Solutions GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Rolls-Royce Solutions Hong Kong Limited	14/F, Chinabest International Centre, 8 Kwai On Road, Kwai Chung, N.T., Hong Kong	Ordinary	100
Rolls-Royce Solutions Ibérica s.l.u.	Paseo de las Flores 46, 28823 Coslada, Madrid, Spain	Ordinary	100
Rolls-Royce Solutions Israel Limited	6 Meir Ariel St., Natanya, Israel	Ordinary	100
Rolls-Royce Solutions Italia S.r.l.	Via Aurelia Nord, 328, 19021 Arcola (SP), Italy	Capital Stock	100
Rolls-Royce Solutions Japan Co. Limited	14-3, Nishitenma 4-chome, Kita-ku, Osaka 530-0047, Japan	Ordinary	100
Rolls-Royce Solutions Korea Limited	Unit 301, The Square, 9 Mulgeum-ro, Mulgeum-eup, Yangsan-si, Gyeongsangnam-do 50657, Republic of Korea	Ordinary	100
Rolls-Royce Solutions Liège Holding S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Liège S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Magdeburg GmbH	Friedrich-List-Strasse 8, 39122 Magdeburg, Germany	Capital Stock	100
Rolls-Royce Solutions Malaysia Sdn. Bhd.	Office no. B329, Spaces Platinum Sentral, Lot G02-G07, Level 3 Platinum Sentral, Jalan Stesen Sentral 2, 50470 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Solutions Mexico City S.A. de C.V.	Xochicalco 620, Colonia Letran Valle, Delegacion Benito Juarez, Mexico City 03650, Mexico	Common Shares	100
Rolls-Royce Solutions Middle East FZE	S3B5SR06, Jebel Ali Free Zone, South P.O. Box 61141, Dubai, United Arab Emirates	Ordinary	100
Rolls-Royce Solutions Ruhstorf GmbH	Rotthofer Strasse 8, 94099 Ruhstorf a.d. Rott, Germany	Capital Stock	100
Rolls-Royce Solutions South Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Ordinary	100
Rolls-Royce Solutions Trading and Contracting LLC [5]	REGUS Service Office, Office No. 1034, Shoumoukh Tower, 10th Floor, Tower B, C-Ring Road, Al Sadd, PO Box 207207, Doha, Qatar	Ordinary	49
Rolls-Royce Solutions UK Limited	Derby [7]	Ordinary	100
Rolls-Royce Solutions Willich GmbH	Konrad-Zuse-Str. 3, 47877, Willich, Germany	Capital Stock	100
Rolls-Royce Sp z.o.o. *	Opolska 100 31-323, Krakow, Poland	Ordinary	100
Rolls-Royce Submarines Limited *	Atlantic House, Raynesway, Derby, Derbyshire DE21 7BE, United Kingdom	Ordinary	100
Rolls-Royce Technical Support Sarl	Site Motoristes Vendor-Village , 46 avenue Jean Monnet, 31770, Colomiers, France	Ordinary	100
Rolls-Royce Total Care Services Limited * [4]	Derby [7]	Ordinary	100

Subsidiaries *continued*

Company name	Address	Class of shares	% of class held
Rolls Royce Turkey Güç Çözümleri San. ve Tic.Ltd.Şti.	Cumhuriyet Mah. Yakacık D-100 Kuzey Yanyol Cad. No: 25 Kartal, Istanbul, Türkiye	Cash shares	100
Rolls-Royce UK Pension Fund Trustees Limited * [2]	Derby [7]	Ordinary	100
Rolls-Royce Zweite Beteiligungs GmbH *	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100
Ross Ceramics Limited [4]	Derby [7]	Ordinary	100
Servowatch Systems Limited [4]	London [3]	Ordinary	100
Sharing in Growth UK Limited [11]	Moor Lane, Allenton, Derby, England, DE24 9HY, United Kingdom	Limited by guarantee	100
Spare IPG 20 Limited [4]	London [3]	Ordinary	100
Spare IPG 21 Limited [2]	London [3]	Ordinary	100
Spare IPG 24 Limited [4]	London [3]	Ordinary	100
Spare IPG 32 Limited [4]	London [3]	Ordinary	100
Spare IPG 4 Limited [2]	London [3]	Ordinary	100
Team Italia Marine S.R.L.	Kampanien, Via Luigi Einaudi 114/B, 61032 Fano, Pesaro and Urbino, Italy	Ordinary	100
The Bushing Company Limited [4]	London [3]	Ordinary	100
Timec 1487 Limited [2]	London [3]	Ordinary	100
Turbine Surface Technologies Limited * [1]	Unit 13a, Little Oak Drive, Sherwood Park, Annesley, Nottinghamshire NG15 0DR, United Kingdom	Ordinary A Ordinary B	Nil 100
Vessel Lifter Inc. [2]	Corporation Service Company, 1201 Hays Street, Tallahassee, Florida 32301, United States	Common Stock	100
Vinters Defence Systems Limited [2]	London [3]	Ordinary	100
Vinters Engineering Limited	Derby [7]	Ordinary	100
Vinters International Limited [4]	Derby [7]	Ordinary	100
Vinters Limited * [4]	Derby [7]	Ordinary	100
Vinters-Armstrongs (Engineers) Limited [2]	London [3]	Ordinary	100
Vinters-Armstrongs Limited [2]	London [3]	Ordinary B	100
Yocova Private Ltd * [2]	London [3]	Ordinary	100
Yocova PTE. Ltd. * [2]	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100

* Owned directly by the Company

[1] Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest
[2] Dormant entity
[3] Kings Place, 90 York Way, London N1 9FX, United Kingdom
[4] Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2024. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity
[5] Although the interest held is 49%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest
[6] Reporting year end is 31 March 2025
[7] Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom
[8] Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19809, United States
[9] Entity in liquidation
[10] Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2025. The Company will issue a guarantee pursuant to S479A in relation to the liabilities of the entity
[11] The entity is not included in the consolidation, as the Company does not have a beneficial interest in the net assets of the entity
[12] The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)
[13] Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity

Joint Ventures and Associates

Company name	Address	Class of shares	% of class held	Group interest held %
Aero Gearbox International SAS * [12]	18 Boulevard Louis Sequin, 92700 Colombes, France	Ordinary	50	50
Airtanker Services Limited *	Airtanker Hub, RAF Brize Norton, Carterton, Oxfordshire OX18 3LX, United Kingdom	Ordinary	23.5	23.5
Alpha Leasing (US) (No.2) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.4) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.5) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.6) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.7) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.8) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Leasing (US) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Alpha Partners Leasing Limited	1 Brewer's Green, London 3 SW1H 0RH, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Beijing Aero Engine Services Company Limited *	No.12 Jinhang Middle Road, Shunyi District, (Tianzhu Comprehensive Bonded Zone Bonded Function Zone 2), Beijing , China	Capital	50	50
CFMS Limited	43 Queen Square, Bristol BS1 4QP, United Kingdom	Limited by guarantee	–	33.3
Clarke Chapman Portia Port Services Limited [2]	Maritime Centre, Port of Liverpool, Liverpool L21 1LA, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Egypt Aero Management Services [9]	Maintenance and Technical Works Company Building, Room No. 204, Second Floor, Airport Road, El Nozha, Cairo	Ordinary	50	50
EPI Europrop International GmbH *	Pelkovenstr. 147, 80992 München, Germany	Capital Stock	28	28
Eurojet Turbo GmbH *	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Ordinary	33	33
Force MTU Power Systems Private Limited	Mumbai Pune Road, Akurdi, Pune, Maharashtra 411035, India	Capital Stock	49	49
Genistics Holdings Limited *	Derby [7]	Ordinary A Ordinary B	100 Nil	50
Global Aerospace Centre for Icing and Environmental Research Inc. [12]	1000 Marie-Victorin Boulevard, Longueuil Québec J4G 1A1, Canada	Ordinary	50	50
Hoeller Electrolyzer GmbH [13]	Alter Holzhafen, 23966 Wismar, Germany	Ordinary	54.2	54.2
Hong Kong Aero Engine Services Limited	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	Ordinary	50	50
International Aerospace Manufacturing Private Limited [6, 12]	Survey No. 3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	Ordinary	50	50
ITP Next Generation Turbines SL *	Parque Tecnologico Edificio 300, 48170, Zamudio, Vizcaya, Spain	Ordinary A Ordinary B	Nil 100	25
Light Helicopter Turbine Engine Company (unincorporated partnership)	Suite 119, 9238 Madison Boulevard, Madison, Alabama 35758, United States	Partnership (no equity held)	–	50
Manse Opus Management Company Limited [6]	Third Floor Queensberry House, 3 Old Burlington Street, London 3 W1S 3AE, United Kingdom	Limited by guarantee	33.3	33.3
MEST Co., Limited	97 Bukjeonggongdan 2-gil, Yangsan-si, Gyeongsangnam-do, 50571, Republic of Korea	Normal	46.8	46.8
MTU Power Systems Sdn. Bhd.	32 Floor, UBN Tower 10 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia	Ordinary A Ordinary B	100 Nil	49
MTU Turbomeca Rolls-Royce ITP GmbH *	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	25	25
MTU Turbomeca Rolls-Royce GmbH *	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	33.3	33.3
MTU Yuchai Power Company Limited	No 7 Danan Road, Yuzhou, Yulin, Guangxi, China, 537005, China	Capital Stock	50	50
N3 Engine Overhaul Services GmbH & Co KG	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
N3 Engine Overhaul Services Verwaltungsgesellschaft Mbh	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50

Joint Ventures and Associates *continued*

Company name	Address	Class of shares	% of class held	Group interest held %
Rolls Laval Heat Exchangers Limited * [2]	Derby [7]	Ordinary	50	50
Rolls-Royce & Partners Finance (US) (No 2) LLC	Wilmington [8]	Partnership (no equity held)	–	50
Rolls-Royce & Partners Finance (US) LLC	Wilmington [8]	Partnership (no equity held)	–	50
SAFYRR Propulsion Limited * [2]	Derby [7]	Ordinary A Ordinary B	Nil 100	50
Singapore Aero Engine Services Private Limited	11 Calshot Road, 509932, Singapore	Ordinary	50	50
Taec Ucak Motor Sanayi AS [2]	Levent Mahallesi Prof. Ahmet Kemal Aru Sk. No: 4/1, Beşiktaş, Turkey	Cash Shares	49	49
Techjet Aerofoils Limited [12]	Tefen Industrial Zone, PO Box 16, 24959, Israel	Ordinary A Ordinary B	50 50	50
TRT Limited *	2 Bramble Way, Clover Nook Industrial Estate , Somercotes, Derbyshire, England, DE55 4RH, United Kingdom	Ordinary A Ordinary B 1 C	Nil 100 Nil	50
Turbo-Union GmbH *	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Capital Stock	40	40
X R Aero Components Limited * [12]	Xujiawan, Beijiao, Xian 710021, Shaanxi, China	Ordinary	49	49

* Directly held by the Company

[1] Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest
[2] Dormant entity
[3] Kings Place, 90 York Way, London N1 9FX, United Kingdom
[4] Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2024. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity
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[6] Reporting year end is 31 March 2025
[7] Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom
[8] Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19809, United States
[9] Entity in liquidation
[10] Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2025. The Company will issue a guarantee pursuant to S479A in relation to the liabilities of the entity
[11] The entity is not included in the consolidation, as the Company does not have a beneficial interest in the net assets of the entity
[12] The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)
[13] Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROLLS-ROYCE PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Rolls-Royce plc's consolidated 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 2024 and of the group's profit and the group's cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements 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 audited financial statements ("Annual Report"), which comprise: the consolidated and company balance sheets as at 31 December 2024; the consolidated income statement, the consolidated and company statements of comprehensive income, the consolidated cash flow statement, the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee of Rolls-Royce Holdings plc (the company's ultimate parent company).

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, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Following our assessment of the risks of material misstatement of the financial statements, including the impact of climate change, we subjected 32 individual components (including three joint ventures) to full scope audits for group reporting purposes, which, with an element of sub-consolidation, equates to 15 group reporting opinions. In addition, 13 components performed targeted specified audit procedures contributing to audit coverage.
- The group engagement team audited the company and other centralised functions and balances including those covering the group treasury operations, corporate taxation, post-retirement benefits, and certain goodwill and intangible asset impairment assessments. The group engagement team performed audit procedures over the group consolidation and financial statements disclosures.
- The components on which we performed full scope audit procedures, together with the work performed by the group engagement team as identified above, accounted for 92 % of revenue and 79% of profit before taxation.
- For non-full scope components, which were not considered inconsequential components, we either performed audit procedures over specific account balances or targeted risk assessment procedures.
- Some centralised audit testing was performed for certain reporting components who are supported by the group's Finance Service Centres (FSCs).
- As part of the group audit supervision process, the group engagement team met with and discussed the approach and results of audit procedures with component teams and reviewed their audit files and final deliverables. In person site visits to components in the UK, Germany, US, Hong Kong and Singapore were also performed.

Key audit matters

- Long-term contract accounting and associated provisions (group and company)
- Deferred tax asset recognition and recoverability (group and company)
- Translation of foreign currency denominated transactions and balances (group and company)
- Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)

Materiality

- Overall group materiality: £178m (2023: £93m) based on approximately 1.0% of underlying revenue (2023: approximately 0.6% of underlying revenue).
- Overall company materiality: £92m (2023: £80m) based on approximately 1.0% of revenue (2023: approximately 1.0% of revenue).
- Performance materiality: £110m (2023: £80m) (group) and £65m (2023: £60m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Long-term contract accounting and associated provisions (group and company) Directors' Report and note 1 to the consolidated and company financial statements – Accounting policies – Revenue recognition and contract assets and liabilities The Civil Aerospace and Defence businesses operate primarily with long-term customer contracts that span multiple periods. These long-term contracts require a number of assumptions to be made in order to determine the expected lifetime revenue and costs of the contract and the amounts of revenue and profit/loss that are recognised in each reporting period. Small adjustments in assumptions can have a significant impact on the results of an individual financial year. Changes to the profile of shop visits or operating conditions of engines can result in different performance assumptions and hence cost profiles. Some contracts include inflation linked price escalations which require judgement to determine the extent to which future price increases are highly probable not to reverse and therefore can be recognised. These changes to forecasts can result in revisions to the revenue previously recognised. For Defence, long-term contracts tend to be for a fixed price or based on a cost plus or target cost reimbursement for qualifying costs and there are also some flying hours arrangements. For Civil Aerospace aftermarket contracts, income is earned based on engine flying hours (EFH). Management is required to estimate this to determine the total income expected over the life of a contract. The group expects large engine EFH to grow to 110-115% of pre-pandemic levels during 2025. In addition, the profitability of Civil Aerospace aftermarket contracts typically assumes that there will be significant cost improvements over the lifetime (eight to 15 years) of the contracts. Significant assumptions need to be made in determining time-on-wing, whether incremental costs should be treated as wastage or are part of the ongoing cost of servicing a contract, future exchange rates used to translate foreign currency income and costs and other operating parameters used to calculate the projected life cycle. These future costs are also risk adjusted to take into account forecasting accuracy which represents an additional judgement. At the development stage of a programme, agreements are entered into with certain Civil Aerospace suppliers to share in the risk and rewards of the contracts (Risk and Revenue Sharing Agreements – 'RRSA'). This can involve upfront participation fees from the RRSA that are amortised over the engine production phase. In addition, certain revenue and costs are recorded in the consolidated income statement net of the amounts received from the RRSA. The nature of the Civil Aerospace business gives rise to a number of contractual guarantees, warranties and potential claims, including the in-service issues of the Trent 1000 programme. The accounting for these can be complex and judgemental and may impact the consolidated income	We focused our work on a number of contracts where we consider there to be the highest degree of management judgement or estimation and designed specific procedures over the long-term contract accounting targeted at the associated risks. We also sample tested the remaining population of contracts. The audit procedures performed included: • We attended meetings with Civil Aerospace and Defence engine programme and customer contract managers in order to understand the operational matters impacting the performance of specific contracts and any amendments to contractual arrangements that could have an impact on performance; • We obtained and read the relevant sections of a sample of contracts to understand the key terms including performance obligations and pricing structures; • We assessed how management had forecast engine flying hours including by considering the downside scenarios modelled and comparing the assumptions to industry data; • We challenged management's judgments and associated risk adjustments relating to the risk of engine flying hours, costs and technical items; • We re-performed the calculations used to determine the degree of completion for a sample of contracts and this was also used in assessing the magnitude of any catch-up adjustments; • We compared the previously forecast results of a sample of contracts with the actual results to assess the performance of the contract and the historical accuracy of forecasting; • We verified a sample of costs incurred to third party documentation to assess the validity of the forecast costs to complete; • We assessed the assumptions relating to life cycle cost reductions to determine the likelihood of realisation and where relevant the speed at which they would be achieved, including the impact on the number of shop visits, validating these assumptions directly with the senior programme engineers; • We obtained support for the risk adjustments made in respect of future costs and challenged management's assumptions through assessment against historical performance, known technical issues and the stage of completion of the programme; • We recalculated the price escalation included within the contracts; • We challenged the assessment of provisions for onerous contracts to determine the completeness of the unavoidable costs to fulfil the contractual obligations. We also validated the rates used to discount the future cash flows; • We assessed the sensitivity of the Trent 1000 programme to reasonable changes in estimates, particularly in respect of the repair and overhaul facility capacity, technical cost creep on the known issues and cost outturns against previous similar matters, including whether any costs should be

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
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statement immediately or over the life of the contract. The valuation of provisions for the associated amounts are judgemental and need to be considered on a contract by contract basis.
Management have modelled the potential impact of climate change on its forecasts and has incorporated these estimates into the long-term contracts for Civil Aerospace, which is the business with the highest expected exposure to the impact of climate change. This included incorporating the potential impact of carbon prices on the group's direct emissions including engine testing and those of its suppliers and the potential impact of climate change on commodity prices in cost estimates. The impact of climate change on long-term contracts is highly uncertain and requires estimates on carbon prices, the cost and speed of decarbonisation, the ability of the group and its suppliers to pass on incremental costs and assessing the associated impact on aviation demand.
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treated as wastage, in determining whether the judgements were supportable;

We read and understood the key terms of a sample of RRSA contracts to assess whether revenue and costs had been appropriately reflected, net of the share attributable to the RRSA in the consolidated income statement;
With assistance from our valuation experts, we considered the appropriateness of the key assumptions used by management to model the impact of climate change, including deploying valuation experts to benchmark the carbon and commodity price forecasts utilised. We validated management's assertions on the ability of suppliers and the group to pass on incremental costs by reviewing supplier and customer contracts for price change mechanisms. Where appropriate we performed independent sensitivity analysis to determine to what extent reasonably possible changes in these assumptions could result in material changes to the revenue recorded in the year and assessed the appropriateness of the associated disclosures;
We read and challenged management's accounting papers that were prepared to explain the positions taken in respect of their key contract judgements;
We considered whether there were any indicators of management bias in arriving at their reported position; and
We assessed the adequacy of disclosures in note 1 of the key judgements and estimates involved in long-term contract accounting.

Based on the work performed, we concur that management's estimates for long-term contract accounting and associated provisions are materially appropriate, in the context of the financial statements taken as a whole.
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Deferred tax asset recognition and recoverability (group and company)
Directors' Report, note 1 to the consolidated and company financial statements – Accounting policies – Taxation, note 5 to the consolidated financial statements and Note 16 to the company financial statements – Deferred taxation
The recognition and recoverability of deferred tax assets in Rolls-Royce plc, where there have been significant taxable losses in the past, is based on a number of significant assumptions. Deferred tax assets can be recognised in relation to these losses to the extent it is probable that there will be sufficient future taxable profits to utilise them. Significant deferred tax assets have been recognised relating to Rolls-Royce plc on the basis of expected future levels of profitability. The magnitude of the assets recognised necessitates the need for a number of assumptions in assessing the future levels of profitability in the UK over an extended period. This requires assumptions on future profits from the group's aftermarket and original equipment sales including EFH, associated costs and the future exchange rates used to translate foreign currency denominated amounts.
At 31 December 2024, the group recognised £3,099m (2023: £2,399m) of deferred tax assets in the UK of which £2,472m (2023: £1,476m) relate to tax losses. £1,033m of additional deferred tax assets related to tax losses have been recognised in the year as a result of the latest assessment which incorporates the impact of Civil Aerospace large engine orders in 2024, the outcomes of strategic initiatives, continued growth in Civil Aerospace flying hours and other macro-economic factors. £629m of potential deferred tax assets in relation to UK losses remain unrecognised on the basis that management have judged there are not yet sufficient probable future taxable profits for them to be utilised against.
The existence of tax losses brought forward from prior periods and other deductible temporary differences in Rolls-Royce plc, combined with the impact of climate change on future forecasts, presents a heightened risk that deferred tax assets previously recognised may not be recoverable. Since the recognised deferred tax asset is recoverable over a long period, management have reflected their assessment of the impact of climate change within the model forecasting probable taxable profits. This incorporates multiple assumptions including future carbon prices, commodity prices,
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We evaluated management's methodology for assessing the recognition and recoverability of deferred tax assets, which remains consistent with the prior year, including the ability to offset certain deferred tax liabilities and deferred tax assets. Where recognition is supported by the availability of sufficient probable taxable profits in future periods against which brought forward tax losses can be utilised, our evaluation of these future profits considered both the business model and the applicable UK tax legislation.
We assessed the future profit forecasts of the UK tax group and the underpinning assumptions including management's risk weighting of particular profit streams in Rolls-Royce plc and tested that the assumptions, including the forecasts for periods beyond the normal five year forecasting horizon, were reasonable. In doing this, we verified that the forecasts did not include taxable profit growth that could not be demonstrated as probable.
Where applicable we assessed the consistency of the forecasts used to justify the recognition of deferred tax assets to those used elsewhere in the business, including for long-term contract accounting, for the going concern assessment and longer term viability statement. We also assessed the risk adjustments applied by management to these profit forecasts to future periods that are significantly further in time than the group's normal five year forecasting process and considered whether these appropriately reflect the estimation risk in the longer term forecasts.
We considered the appropriateness of the climate change assumptions modelled as part of their probability weighted scenarios to forecast probable profit levels and performed consistent procedures to those set-out in the long-term contract accounting and associated provisions key audit matter.
We also performed additional sensitivity analysis to understand whether reasonably possible changes to these assumptions could lead to a material change in the recognised asset and where appropriate ensured that adequate disclosure was provided.
We also assessed the adequacy of disclosures over this area, particularly the impact of changes in key estimates of the asset recognised and this has been disclosed in notes 1 and 5 of the consolidated financial statements; and notes 1 and 16 of the company financial statements.
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Key audit matter	How our audit addressed the key audit matter
the impact of government action on aviation demand, the cost and speed of decarbonisation and the ability of suppliers and Rolls-Royce plc to pass on price changes. To assess the impact of inherent uncertainty management have performed sensitivities over key estimates.	We did not identify any material uncorrected exceptions from our audit work.
Translation of foreign currency denominated transactions and balances (group and company) Note 1 to the consolidated and company financial statements – Accounting policies – Foreign currency translation Foreign exchange rate movements influence the reported consolidated income statement, the consolidated cash flow statement and the consolidated and company balance sheets. One of the group's primary accounting systems that is used by a number of their subsidiaries translates transactions and balances denominated in foreign currencies at a fixed budget rate for management information purposes. Foreign currency denominated transactions and balances are then re-translated to actual average and closing spot rates through manual adjustments. Due to the manual nature of the process and significance of the recurring adjustments needed there is a risk that transactions and balances denominated in foreign currencies are incorrectly translated in the consolidated financial statements.	We performed the following specific audit procedures over this area: • Obtained an understanding of the process employed by management to correctly record the translation of foreign currency balances and transactions; • Tested system reports identifying transactions and balances in transaction currency by agreeing these to general ledger balances; • Tested, on a sample basis, the manual calculations of the adjustment needed to correctly record the translation of the foreign currency denominated transactions and balances; • Sampled balances and transactions by transaction currency, tested to source data and assessed the completeness of these balances and transactions requiring adjustments; • Performed procedures at a group level to understand the work undertaken by management to identify any unusual movements or balances; and • Agreed the exchange rates used in management's translation adjustments to an independent source. There were no material uncorrected errors from our audit work.
Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group) Note 1 to the consolidated financial statements – Accounting policies – Presentation of underlying results, note 2 to the consolidated financial statements – Segmental analysis and note 27 to the consolidated financial statements – Derivation of summary funds flow statement. In addition to the performance measures prescribed by International Financial Reporting Standards, the group also presents their results on an underlying basis, as the Directors believe this better reflects the performance of the group during the year. The group also presents a free cash flow metric which the Directors believe reflects the cash generated from underlying trading. This differs from the cash flows presented in the consolidated cash flow statement. The underlying results differ significantly from the reported statutory results and are used extensively to explain performance to shareholders. Alternative performance measures can provide investors with additional understanding of the group's performance if consistently calculated, properly used and presented. However, when improperly used and presented, these non-GAAP measures can mislead investors and may mask the real financial performance and position. There is judgement in determining whether items should be excluded from underlying profit or free cash flow. A key adjustment between the statutory results and the underlying results relates to the foreign exchange rates used to translate foreign currency transactions and balances. The underlying results reflect the achieved rate on foreign currency derivative contracts settled in the period and retranslates assets and liabilities at the foreign currency rates at which they are expected to be realised or settled in the future. As the group can influence which derivative contracts are settled in each reporting period it has the ability to influence the achieved rate and hence the underlying results. One of the items excluded from underlying profit is exceptional restructuring costs associated with the transformation programme. Judgement is required to determine what costs are related to this programme to warrant exclusion from underlying profit.	We have considered the judgements taken by management to determine what should be treated as an exceptional item and the translation of foreign currency amounts and obtained corroborative evidence for these. We also considered whether there were items that were recorded within underlying profit that are exceptional in nature and should be reported as an exceptional item. No such material items were identified. As part of this assessment we challenged management's rationale for the designation of certain items as exceptional or one-off and assessed such items against the group's accounting policy, considering the nature and value of those items. Within underlying results, foreign currency transactions are presented at rates achieved on derivative contracts hedging the net operating cash flows of the group and monetary assets and liabilities are retranslated at rates forecast to be achieved on derivative contracts when the associated cash flows occur. We have agreed these forecast rates to the profile of the derivatives that are expected to mature in the future and tested their application to the relevant monetary assets and liabilities. We tested the reconciling items between the underlying operating profit and free cash flow disclosed in note 27 including verifying that the items adjusted for are consistent with the prior year. This included validating a sample of restructuring costs and verifying that the costs were sufficiently related to the transformation programme. We also considered whether free cash flow contains material one-off items which require further disclosure. We assessed the appropriateness and completeness of disclosures of the impact of one-off or non-underlying items primarily in notes 1, 2 and 27 to the consolidated financial statements and found them to be appropriate. This included assessing the explanations management provided on the reconciling items between underlying performance and statutory performance in note 2. Overall we found that the classification judgements made by management were in line with their policy for underlying results and exceptional items, had been consistently applied and there are no material uncorrected misstatements resulting from our testing.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the group consolidation. Of the group's approximately 350 reporting components, 32 individual components (including three joint ventures) were subject to full scope audits, which, with an element of sub-consolidation, equates to 15 group reporting opinions; 13 components performed targeted specified audit procedures contributing to audit coverage.

Under our audit methodology, we test both the design and operation of relevant business process controls over significant risks and perform substantive testing over each financial statement line item.

The group operates Finance Service Centres (FSCs) to bulk process financial transactions in Derby (UK), Indianapolis (US) and Bengaluru (India). Based on our assessment it is not possible to fully test revenue and profit centrally as certain key processes, such as long-term contracting, remain within the business due to their nature and are not handled by the FSCs.

Further specific audit procedures over central functions, the group consolidation and areas of significant judgement (including corporate taxation, certain goodwill balances and intangible assets, treasury and post-retirement benefits) were performed by the group audit team.

This scope of work, together with the additional procedures performed at a group level as identified above, covered 92% of revenue and 79% of profit before tax.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The group engagement team also reviewed selected audit working papers for certain component teams to evaluate the sufficiency of audit evidence obtained and fully understand the matters arising from the component audits.

In addition, senior members of the group engagement team have visited component teams across all group's major segments in the UK, Germany, US, Hong Kong and Singapore. These visits were in person for these locations. They included meetings with the component auditor and with local management.

The company comprises a number of businesses and we leveraged the testing performed over the largest of these that was obtained for the group audit. In addition, we centrally tested certain items such as derivatives as part of our treasury operations, defined benefit obligations, as well as corporate taxation. We audited company level adjustments including intercompany balances and the recoverability of investments in subsidiaries.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they adopted to assess the extent of the potential impact of climate risk on the group's and company's financial statements. In addition to enquiries with management, we understood the governance process in place to assess climate risk, reviewed the ultimate parent company's assessment of climate related risk including both physical and transition risks and read additional reporting made on climate related matters, including its CDP public submission and the group's disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.

We held meetings with management including the group's sustainability team to consider the completeness of management's climate risk assessment and its consistency with internal climate plans and board minutes, including whether the time horizons management have used take account of all relevant aspects of climate change such as transition risks. We also considered the consistency with the group's communications on climate related impacts. We challenged how management had considered longer term physical risks such as severe weather related impacts, and shorter-term transitional risks such as the introduction of carbon taxes.

We considered the following areas which depend on medium to long-term profit or cash flow forecasts to potentially be materially impacted by climate risk and consequently we focused our audit work in these areas: long-term contract accounting in the UK Civil business (including contract loss provisions); the recoverability of deferred tax assets in the UK and the recoverability of the carrying value of goodwill and certain intangible assets. Our findings were reported to and discussed with the Audit Committee of Rolls-Royce Holdings plc (the ultimate parent company) and management. Where significant, further details of how climate change has been considered in these areas and our audit response is given in the key audit matters above.

To respond to the audit risks identified in these areas we tailored our audit approach to address these, in particular, we :

- Deployed our valuation experts to benchmark carbon pricing and key commodity price forecasts against forecasts of future prices and found them to be materially reasonable. These have been incorporated by management in their forecasts of the group's future cost base for long-term contract accounting and associated provisions as well as scenarios utilised in assessing the recoverability of deferred tax assets, goodwill and other assets;
- Considered the reasonableness of management's assertion that climate change is unlikely to have a material impact on aviation demand by comparing management's EFH forecasts against other industry benchmarks and considering the sensitivity of EFH to different GDP growth rates expected under differing climate scenarios;
- Verified that estimates of capital and cash costs from reductions to the group's scope 1 and scope 2 emissions have been incorporated in the group's forecasts including those used for going concern and the disclosures around the viability of the group that are included in the Strategic Report;
- Validated management's judgement that climate change is unlikely to have a material impact on other estimates at 31 December 2024 including the recoverability of inventory or the expected credit loss provision associated with trade receivables and contract assets by considering the short timeframe these assets are expected to be utilised in compared to the period over which transition and physical risks are expected to arise; and;
- Where appropriate, performed independent sensitivity analysis to determine to what extent reasonably possible changes in the climate related assumptions in the group's forecasts could result in material changes to the impacted balances and assessed the appropriateness of the associated disclosures.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Sustainability section of the Strategic Report) within the Rolls-Royce Holdings plc Annual Report and our knowledge obtained from our audit. This included considering the models management used in the TCFD scenario analysis and if the assumptions in those models are consistent with the assumptions used elsewhere in the financial statements.

As disclosed within the Sustainability section of Rolls-Royce Holdings plc Annual Report the achievement of net zero by 2050 will require significant change across the aviation sector in particular, including widespread adoption of Sustainable Aviation Fuels or other alternative fuel sources. Management have not included the incremental cost of this in its longer term forecasts, based on the assumptions that such costs can be passed onto customers and will occur after the average life of the current existing contracts.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole for the year ended 31 December 2024. The future estimated financial impacts of climate risk are clearly uncertain given the medium to long-term time frames involved and their dependency on how governments, global markets, corporations and society respond to the issue of climate change and the speed of technological advancements that may be necessary. Accordingly, financial statements cannot capture all possible future outcomes as these are not yet known.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	**Financial statements - company**
Overall materiality	£178m (2023: £93m).	£92m (2023: £80m).
How we determined it	Approximately 1.0% of underlying revenue (2023: approximately 0.6% of underlying revenue)	Approximately 1.0% of revenue (2023: approximately 1.0% of revenue)
Rationale for benchmark applied	We have consistently used underlying revenue to determine materiality as opposed to a profit based benchmark. This is because there is considerable volatility in profit before tax as a result of revenue recognition under IFRS 15 and from the fair value movement in the group's derivatives. Underlying revenue continues to be a key performance metric for the group and is more stable than the profit metric. We have increased the percentage revenue measure used to determine materiality to 1.0% compared to 0.6% for 2023. This reflects the growth in the business following the post-COVID 19 pandemic recovery and further stabilisation of the industry. This is also a commonly used benchmark level for revenue based materiality. In conjunction with this increase we reduced our performance materiality level to 62.5% (2023: 75%) in order to limit the impact of the overall materiality increase on the extent of our detailed audit testing.	Consistent with the group financial statements, we have used revenue to determine materiality as opposed to a profit based benchmark. We have used statutory revenue rather than underlying revenue because underlying revenue is not disclosed for the company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £6m and £75m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 62.5% (2023: 75%) of overall materiality, amounting to £110m (2023: £80m) for the group financial statements and £65m (2023: £60m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee of Rolls-Royce Holdings plc (the company's ultimate parent company) that we would report to them misstatements identified during our audit above £7m (group audit) (2023: £3m) and £4.4m (company audit) (2023: £3m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the model used for management's going concern assessment which is primarily a liquidity assessment given there are no significant financial covenants in its committed debt facilities. Management's assessment covered the 18 months from the balance sheet date to 30 June 2026. We focused on this period and also considered the subsequent six months to the end of 2026;
- Management's base case forecasts are based on its normal budget and forecasting process for each of its businesses for the next five years. We understood and assessed this process by business including the assumptions used for 2025 and 2026 and assessed whether there was adequate support for these assumptions. We also considered the reasonableness of the monthly phasing of cash flows. A similar assessment was performed on the downside cash flows, including understanding of the scenarios modelled by management, how they were quantified and the resultant monthly phasing of the downside cash flow forecast;
- We have read and understood the key terms of all committed debt facilities to understand any terms, covenants or undertakings that may impact the availability of the facility;
- Using our knowledge from the audit and assessment of previous forecasting accuracy we conducted our own stress tests to apply to management's cash flow forecasts. We overlaid these tests on management's forecasts to form our own view on management's downside forecasts. This included consideration of management's assessment of the impact of climate change and the likelihood of any downside risks crystallising in the period to 30 June 2026;
- We considered the potential mitigating actions that management may have available to it to reduce costs, manage cash flows or raise additional financing and assessed whether these were within the control of management and possible in the period of the assessment; and
- We assessed the adequacy of disclosures in the Going concern statement and statements in note 1 of the consolidated and company financial statements and found these appropriately reflect the key areas of uncertainty identified.

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 2024 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 the regulations of country aviation authorities such as the Civil Aviation Authority, import and export restrictions including sanctions, and the UK Bribery Act, 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 Listing Rules of the UK Financial Conduct Authority, the Companies Act 2006 and 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 (1) posting inappropriate journal entries to manipulate financial results; (2) management bias in significant accounting estimates such as long-term contract accounting and associated provisions; (3) the sale of Civil engines to joint ventures for no clear commercial purpose or above market prices; and (4) inappropriately including or excluding transactions from the group's underlying or free cash flow alternative performance metrics. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions throughout the year with management, internal audit, the group's legal counsel, and the head of ethics and compliance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Assessment of 'speak-up' matters reported through the group's Ethics Line and the results of management's investigation of such matters;
- Verifying sales of spare engines to joint ventures are in line with the approved timetable and are at a price supported by external valuation;
- Reading the minutes of Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing legal expense accounts to identify significant legal spend that may be indicative of non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias), in particular in relation to long-term contract accounting and associated provisions;
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations, and testing all material consolidation journals; and
- Challenging why certain items are excluded or included from underlying profit or free cash flow and review of disclosures included in the Annual Report explaining and reconciling alternative performance measures to statutory metrics.

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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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.

Appointment

Following the recommendation of the Audit Committee of Rolls-Royce Holdings plc (the company's ultimate parent company), we were appointed by the members on 3 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ended 31 December 2018 to 31 December 2024.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2025

OTHER FINANCIAL INFORMATION

Foreign exchange

Foreign exchange rate movements influence the reported income statement, the cash flow and closing net cash/(debt) balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

£m		2024	2023	Change
USD per GBP	Year-end spot rate	**1.25**	1.27	-2%
	Average spot rate	**1.28**	1.24	+3%
EUR per GBP	Year-end spot rate	**1.21**	1.15	+5%
	Average spot rate	**1.18**	1.15	+3%

The Group's global corporate income tax contribution

The Group's total corporation tax payments in 2024 were £380m. Around 95% of this was paid in the US, Germany, UK, Singapore and Canada. The balance of tax payments were made in around 40 other countries.

In common with most multinational groups, the total profits for corporate income tax purposes are not the same as the consolidated profit before taxation reported on page 51.

The main reasons for this are:

(i) the consolidated income statement is prepared under IFRS, whereas the corporate income tax profits and losses for each company are determined by local tax accounting rules;

(ii) accounting rules require certain income and costs relating to our commercial activities to be eliminated from, or added to, the aggregate of all the profits of the Group companies when preparing the consolidated income statement (consolidation adjustments); and

(iii) specific tax rules including exemptions or incentives as determined by the tax laws in each country.

In most cases, paragraphs (i) and (ii) above are only a matter of timing and therefore tax will be paid in an earlier or later year. The impact of paragraph (iii) above will often be permanent, depending on the relevant tax law. Further information on the tax position of the Group can be found as follows:

- Rolls-Royce Holdings plc Audit Committee Report (page 82 of the Rolls-Royce Holdings plc Financial Statements) – updates were given to the Audit Committee during the year;
- note 1 to the Consolidated Financial Statements (page 65) – details of key areas of uncertainty and accounting policies for tax;
- note 5 to the Consolidated Financial Statements (pages 79 to 82); and
- details of the tax balances in the Consolidated Financial Statements together with a tax reconciliation. This explains the main drivers of the tax rate and the impact of our assessment on the recovery of UK deferred tax assets.

Information on the Group's approach to managing its tax affairs can be found at www.rolls-royce.com.

Investments and capital expenditure

The Group subjects all major investments and capital expenditure to a rigorous examination of risks and future cash flows. Investments and capital expenditure must align to the Group's strategy and create shareholder value. All major investments, including the launch of major programmes, require Board approval.

The Group has a portfolio of projects at different stages of their lifecycles. All of our major investments and projects are assessed using a range of financial metrics, including discounted cash flow and return on investment.

Financial risk management

The Board has established a structured approach to financial risk management. The Financial risk committee (FRC) is accountable for managing, reporting and mitigating the Group's financial risks and exposures. These risks include the Group's principal counterparty, currency, interest rate, commodity price, liquidity and credit rating risks outlined in more depth in note 19. The FRC is chaired by the Chief Financial Officer. The Group has a comprehensive financial risk policy that advocates the use of financial instruments to manage and hedge business operations risks that arise from movements in financial, commodities, credit or money markets. The Group's policy is not to engage in speculative financial transactions. The FRC sits quarterly to review and assess the key risks and agree any mitigating actions required.

Capital structure

£m	2024	2023
Total equity	**(521)**	(3,269)
Cash flow hedges	**(13)**	(12)
Group capital	**(534)**	(3,281)
Net cash/(debt)	**474**	(1,952)

Operations are funded through various shareholders' funds, bank borrowings, bonds and notes. The capital structure of the Group reflects the judgement of the Board as to the appropriate balance of funding required. Funding is secured by the Group's continued access to the global debt markets. Borrowings are funded in various currencies using derivatives where appropriate to achieve a required currency and interest rate profile. The Board's objective is to retain sufficient financial investments and undrawn facilities to ensure that the Group can both meet its medium-term operational commitments and cope with unforeseen obligations and opportunities.

The Group holds cash and short-term investments which, together with the undrawn committed facilities, enable it to manage its liquidity risk.

During the year to 31 December 2024, the Group repaid a €550m bond at its maturity and cancelled its £1bn undrawn UKEF-supported loan facility, which was due to mature in 2027. This facility had remained undrawn during the year. In addition, the Group extended its undrawn £2.5bn revolving credit facility by one year to November 2027, with the Group having the option to exercise a further one-year extension option, subject to the bank agreement at the time of exercise.

At the year end, the Group retained aggregate liquidity of £8.1bn, including cash and cash equivalents of £5.6bn and undrawn borrowing facilities of £2.5b.

The Group has one material debt maturity in October 2025. The maturity profile of the borrowing facilities is regularly reviewed to ensure that refinancing levels are manageable in the context of the business and market conditions. There are no rating triggers in any borrowing facility that would require the facility to be accelerated or repaid due to an adverse movement in the Group's credit rating. The Group conducts some of its business through a number of joint ventures. A major proportion of the debt of these joint ventures is secured on the assets of the respective companies and is non-recourse to the Group. This debt is further outlined in note 16.

Credit rating

£m	Rating	Outlook
Moody's Investors Service	Baa3	Positive
Standard & Poor's	BBB	Positive
Fitch	BBB-	Positive

The Group subscribes to Moody's, Standard & Poor's and Fitch for independent long-term credit ratings, with the ratings in the table above being applicable at the date of this report.

Accounting

The Consolidated Financial Statements have been prepared in accordance with IFRS, as adopted by the UK.

New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk. The Group's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements have necessitated some additional information being disclosed on page 95 in relation to the value of trade payables that were within the scope of the Group offered SCF scheme. This has been presented alongside the value of received payments which suppliers had drawn, this being information which the Group has previously disclosed in its Annual Reports.

There are no other new standards or interpretations issued by the IASB that had a significant impact on the Consolidated Financial Statements.

The Group does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements in 2024.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES (APMs) TO THEIR STATUTORY EQUIVALENT

Alternative Performance Measures (APMs)

Business performance is reviewed and managed on an underlying basis. These alternative performance measures reflect the economic substance of trading in the year. In addition, a number of other APMs are utilised to measure and monitor the Group's performance.

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 31 December 2023.

Underlying results from continuing operations

Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. Underlying results also exclude: the effect of acquisition accounting and business disposals, impairment of goodwill and other non-current assets where the reasons for the impairment are outside of normal operating activities, exceptional items and certain other items which are market driven and outside of managements control. Further detail can be found in note 2.

	2024 £m	2023 £m
Revenue from continuing operations		
Statutory revenue	**18,909**	16,486
Derivative and FX adjustments	**(1,061)**	(1,077)
Underlying revenue	**17,848**	15,409

	2024 £m	2023 £m
Gross profit		
Statutory gross profit	**4,221**	3,620
Derivative and FX adjustments	**(188)**	(461)
Programme exceptional credits	**–**	(21)
Exceptional transformation and restructuring charges	**147**	55
Acquisition accounting and M&A	**43**	46
Impairments	**–**	(8)
Civil Aerospace programme asset impairment reversal	**(132)**	–
Underlying gross profit	**4,091**	3,231

	2024 £m	2023 £m
Commercial and administrative costs from continuing operations		
Statutory commercial and administrative (C&A) costs	**(1,284)**	(1,110)
Derivative and FX adjustments	**–**	1
Exceptional transformation and restructuring charges	**70**	47
Other underlying adjustments	**17**	(2)
Underlying C&A costs	**(1,197)**	(1,064)

	2024 £m	2023 £m
Research and development costs from continuing operations		
Statutory research and development (R&D) costs	**(203)**	(739)
Derivative and FX adjustments	**(8)**	(4)
Exceptional transformation and restructuring charges	**17**	–
Acquisition accounting	**2**	4
Civil Aerospace programme asset impairment reversal	**(413)**	–
Underlying R&D costs	**(605)**	(739)

	2024 £m	2023 £m
Operating profit from continuing operations		
Statutory operating profit	**2,906**	1,944
Derivative and FX adjustments	**(191)**	(475)
Programme exceptional credits	**–**	(21)
Exceptional transformation and restructuring charges	**234**	102
Acquisition accounting and M&A	**45**	50
Civil Aerospace programme asset impairment reversal	**(545)**	–
Impairments	**(2)**	(8)
Other underlying adjustments	**17**	(2)
Underlying operating profit	**2,464**	1,590
Underlying operating margin	**13.8%**	10.3%

Organic change

Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2024. The movement in underlying change to organic change is reconciled below.

All amounts below are shown on an underlying basis and reconciled to the nearest statutory measure above.

Total group income statement

	2024 £m	2023 £m	Change £m	FX £m	Organic change £m	Organic change %
Underlying revenue	**17,848**	15,409	2,439	(245)	2,684	17
Underlying gross profit	**4,091**	3,231	860	(67)	927	29
Underlying operating profit	**2,464**	1,590	874	(35)	909	57
Net financing costs	**(171)**	(328)	157	(1)	158	(48)
Underlying profit before taxation	**2,293**	1,262	1,031	(36)	1,067	85
Taxation	**(282)**	(120)	(162)	10	(172)	143
Underlying profit for the year from continuing operations	**2,011**	1,142	869	(26)	895	78

Civil Aerospace

	2024 £m	2023 £m	Change £m	FX £m	Organic change £m	Organic change %
Underlying revenue	**9,040**	7,348	1,692	(61)	1,753	24
Underlying OE revenue	**3,105**	2,703	402	(29)	431	16
Underlying services revenue	**5,935**	4,645	1,290	(32)	1,322	28
Underlying gross profit	**1,990**	1,394	596	(21)	617	44
Commercial and administrative costs	**(396)**	(354)	(42)	2	(44)	12
Research and development costs	**(252)**	(343)	91	3	88	(26)
Joint ventures and associates	**163**	153	10	(1)	11	7
Underlying operating profit	**1,505**	850	655	(17)	672	79

Defence

	2024 £m	2023 £m	Change £m	FX £m	Organic change £m	Organic change %
Underlying revenue	**4,522**	4,077	445	(66)	511	13
Underlying OE revenue	**1,943**	1,766	177	(24)	201	11
Underlying services revenue	**2,579**	2,311	268	(42)	310	13
Underlying gross profit	**908**	804	104	(12)	116	14
Commercial and administrative costs	**(212)**	(173)	(39)	3	(42)	24
Research and development costs	**(55)**	(72)	17	–	17	(24)
Joint ventures and associates	**3**	3	–	–	–	–
Underlying operating profit	**644**	562	82	(9)	91	16

Power Systems

	2024 £m	2023 £m	Change £m	FX £m	Organic change £m	Organic change %
Underlying revenue	**4,271**	3,968	303	(118)	421	11
Underlying OE revenue	**2,942**	2,661	281	(81)	362	14
Underlying services revenue	**1,329**	1,307	22	(37)	59	5
Underlying gross profit	**1,199**	1,050	149	(33)	182	17
Commercial and administrative costs	**(483)**	(456)	(27)	12	(39)	9
Research and development costs	**(165)**	(187)	22	5	17	(9)
Joint ventures and associates	**9**	6	3	(1)	4	67
Underlying operating profit	**560**	413	147	(17)	164	40

New Markets

	2024 £m	2023 £m	Change £m	FX £m	Organic change £m	Organic change %
Underlying revenue	**3**	4	(1)	–	(1)	(25)
Underlying OE revenue	**3**	2	1	–	1	50
Underlying services revenue	**–**	2	(2)	–	(2)	(100)
Underlying gross (loss)/profit	**(4)**	1	(5)	–	(5)	(500)
Commercial and administrative costs	**(40)**	(24)	(16)	1	(17)	71
Research and development costs	**(133)**	(137)	4	1	3	(2)
Underlying operating loss	**(177)**	(160)	(17)	2	(19)	12

Trading cash flow

Trading cash flow is defined as free cash flow (as defined below) before the deduction of recurring tax and post-employment benefit expenses. Trading cash flow per segment is used as a measure of business performance for the relevant segments.

	2024 £m	2023 £m
Civil Aerospace	**2,030**	626
Defence	**591**	511
Power Systems	**452**	461
New Markets	**(181)**	(63)
Total reportable segments trading cash flow	**2,892**	1,535
Other businesses	**5**	5
Corporate and Inter-segment	**(62)**	(56)
Trading cash flow	**2,835**	1,484
Underlying operating profit charge exceeded by contributions to defined benefit schemes	**(31)**	(26)
Tax [1]	**(381)**	(172)
Free cash flow	**2,423**	1,286

1 See page 54 for tax paid on statutory cash flow

Free cash flow

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows.

Free cash flow from cash flows from operating activities

	2024 £m	2023 £m
Statutory cash flows from operating activities	**3,780**	2,486
Capital expenditure	**(876)**	(699)
Investment (including investment from NCI and movement in joint ventures, associates and other investments)	**16**	69
Capital element of lease payments	**(299)**	(291)
Interest paid	**(298)**	(333)
Exceptional transformation and restructuring costs	**104**	69
M&A costs	**1**	2
Other	**(5)**	(17)
Free cash flow	**2,423**	1,286

Group R&D expenditure

In year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year. For further detail, see note 3.

Gross Capital expenditure

Gross capital expenditure during the year excluding capital expenditure from discontinued operations. All proposed investments are subject to rigorous review to ensure that they are consistent with forecast activity and provide value for money. The Group measures annual capital expenditure as the cash purchases of PPE acquired during the year.

	2024 £m	2023 £m
Purchases of PPE (cash flow statement)	**519**	429

Key performance indicators

The following measures are key performance indicators and are calculated using alternative performance measures or statutory results. See below for calculation of these amounts.

Order backlog

Total value of firm orders placed by customers for delivery of products and services where there is no right to cancel. Further details are included in note 2 of the Consolidated Financial Statements.

Total underlying cash costs as a proportion of underlying gross margin (abbreviated to TCC/GM)

Total underlying cash costs during the year (represented by underlying research and development (R&D) expenditure and underlying commercial and administrative (C&A) costs) as a proportion of underlying gross profit. This measure provides an indicator of total cash costs relative to gross profit. A reduction in total cash costs relative to gross profit indicates how effective the business is at managing and/or reducing its costs.

	2024 £m	2023 £m
Underlying R&D expenditure [1]	**745**	836
Underlying C&A	**1,197**	1,064
Total cash costs	**1,942**	1,900
Underlying gross profit	**4,091**	3,231
Total cash costs as a proportion of underlying gross profit	**0.47**	0.59

1 Excludes £30m (2023: £6m) impact of acquisition accounting, exceptional transformation costs, derivatives and FX

GLOSSARY

AI	artificial intelligence
APM	alternative performance measure
Articles	Articles of Association of Rolls-Royce plc
AUKUS	Australia, United Kingdom, United States
BESS	battery energy storage system
C&A	commercial and administrative
CDP	Carbon Disclosure Project
Our Code	Global Code of Conduct
The Code	2018 UK Corporate Governance Code
CMD	capital markets day
Company	Rolls-Royce plc
DPAs	deferred prosecution agreements
DTR	The Financial Conduct Authority's Disclosure, Guidance and Transparency Rules
EFH	engine flying hours
ESG	environment, social, governance
EU	European Union
EUR	Euro
FLRAA	Future Long Range Assault Aircraft
FRC	Financial Reporting Council
FVOCI	fair value recognised through other comprehensive income
FX	foreign exchange
GBP	Great British pound or pound sterling
GCAP	Global Combat Air Programme
GDA	generic design assessment
GDP	gross domestic product
GESPP	Global Employee Share Purchase Plan
GHG	greenhouse gas
Group	Rolls-Royce plc and its subsidiaries
GW	Gigawatt
HPT	high pressure turbine
HSE	health, safety and environment

HVO	hydrotreated vegetable oil
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
KPIs	key performance indicators
ktCO$_2$e	kilotonnes of carbon dioxide equivalent
LIBOR	London inter-bank offered rate
LTIP	long-term incentive plan
LTSA	long-term service agreement
M&A	mergers and acquisitions
MRO	maintenance repair and overhaul
NCI	non-controlling interest
OCI	other comprehensive income
OE	original equipment
OECD	Organisation for Economic Cooperation and Development
PPE	property, plant and equipment
R&D	research and development
RRH	Rolls-Royce Holdings plc
RRH AGM	Rolls-Royce Holdings plc annual general meeting
RRH Annual Report 2024	Rolls-Royce Holdings plc Annual Report and Accounts for the year ending 31 December 2024
RRSAs	risk and revenue sharing arrangements
SAF	sustainable aviation fuel
SAESL	Singapore Aero Engine Services Private Limited
Scope 1 + 2 emissions	Group Scope 1 + 2 greenhouse gas emissions
SMRs	small modular reactors
STEM	science, technology, engineering and mathematics
TCC	total cash costs
TCC/GM	total underlying cash costs as a proportion of underlying gross margin
TCFD	Task Force on Climate-related Financial Disclosures
TSR	total shareholder return
UKEF	UK Export Finance
USD/US$	United States dollar