FINANCIAL STATEMENTS

Consolidated income statement

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	12	**172**	173
Operating profit		**2,906**	1,944
Gain arising on disposal of businesses	27	**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
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) (OCI)		**50**	(171)
Total comprehensive income for the year		**2,534**	2,233
Earnings per ordinary share attributable to ordinary shareholders:	6		
Basic		**30.05p**	28.85p
Diluted		**29.87p**	28.70p

1 Cost of sales includes a net charge for expected credit losses (ECLs) of £14m (2023: net release of £48m). Further detail can be found in note 14
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 9
3 Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 20

Consolidated statement of comprehensive income

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	22	22	116
Revaluation to fair value of other investments	12	(2)	(4)
Share of OCI of joint ventures and associates	12	(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	12	(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

At 31 December 2024

	Notes	2024 £m	2023 £m
ASSETS			
Intangible assets	9	4,402	4,009
Property, plant and equipment	10	3,724	3,728
Right-of-use assets	11	761	905
Investments – joint ventures and associates	12	592	479
Investments – other	12	5	31
Other financial assets	20	126	360
Deferred tax assets	5	3,660	2,998
Post-retirement scheme surpluses	22	790	782
Non-current assets		14,060	13,292
Inventories	13	5,092	4,848
Trade receivables and other assets	14	8,713	8,123
Contract assets	15	1,813	1,242
Taxation recoverable		71	80
Other financial assets	20	209	34
Cash and cash equivalents	16	5,575	3,784
Current assets		21,473	18,111
Assets held for sale	27	153	109
TOTAL ASSETS		35,686	31,512
LIABILITIES			
Borrowings and lease liabilities	17	(1,097)	(809)
Other financial liabilities	20	(642)	(448)
Trade payables and other liabilities	19	(8,009)	(6,896)
Contract liabilities	15	(6,309)	(6,098)
Current tax liabilities		(117)	(143)
Provisions for liabilities and charges	21	(589)	(532)
Current liabilities		(16,763)	(14,926)
Borrowings and lease liabilities	17	(4,035)	(4,950)
Other financial liabilities	20	(1,640)	(1,983)
Trade payables and other liabilities	19	(1,965)	(1,927)
Contract liabilities	15	(9,447)	(8,438)
Deferred tax liabilities	5	(231)	(330)
Provisions for liabilities and charges	21	(1,405)	(1,497)
Post-retirement scheme deficits	22	(981)	(1,035)
Non-current liabilities		(19,704)	(20,160)
Liabilities associated with assets held for sale	27	(100)	(55)
TOTAL LIABILITIES		(36,567)	(35,141)
NET LIABILITIES		(881)	(3,629)
EQUITY			
Called-up share capital	23	1,701	1,684
Share premium		1,012	1,012
Capital redemption reserve		168	167
Cash flow hedge reserve		13	12
Translation reserve		603	634
Accumulated losses		(4,409)	(7,190)
Equity attributable to ordinary shareholders		(912)	(3,681)
Non-controlling interest (NCI)		31	52
TOTAL EQUITY		(881)	(3,629)

The Financial Statements on pages 114 to 186 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

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	12	(172)	(173)
Dividends received from joint ventures and associates	12	77	54
Amortisation and impairment of intangible assets	9	(120)	272
Depreciation and impairment of property, plant and equipment	10	400	423
Depreciation and impairment of right-of-use assets	11	265	334
Adjustment of amounts payable under residual value guarantees within lease liabilities	18	(6)	(10)
Impairment of and other movements on investments	12	4	–
Decrease in provisions		(56)	(325)
Increase in inventories		(323)	(200)
Movement in trade receivables/payables and other assets/liabilities		833	(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	22	56	41
Cash funding of defined benefit post-retirement schemes	22	(74)	(69)
Share-based payments	24	136	66
Net cash inflow from operating activities before taxation		4,163	2,657
Taxation paid		(381)	(172)
Net cash inflow from operating activities		3,782	2,485
Cash flows from investing activities			
Movement in other investments	12	–	1
Additions of intangible assets	9	(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)	27	62	(4)
Movement in investments in joint ventures and associates	12	(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 lease liabilities		(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)
Redemption of C Shares		(1)	(1)
Net cash outflow from financing activities		(1,047)	(549)

Consolidated cash flow statement continued

Year ended 31 December 2024

	Notes	2024 £m	2023 £m
Change in cash and cash equivalents		**1,904**	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]		**5,573**	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

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 26.

	2024 £m	2023 £m
Reconciliation of movements in cash and cash equivalents to movements in net cash/(debt)		
Change in cash and cash equivalents	**1,904**	1,210
Cash flow from decrease in borrowings and lease liabilities	**778**	290
Less: settlement of related derivatives 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	**2,671**	1,489
Lease additions, modifications 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)	**2,417**	1,362
Net (debt) at 1 January	**(1,975)**	(3,337)
Net cash/(debt) at 31 December excluding the fair value of swaps	**442**	(1,975)
Fair value of swaps hedging fixed rate borrowings	**33**	23
Net cash/(debt) at 31 December	**475**	(1,952)

Consolidated cash flow statement continued

Year ended 31 December 2024

The movement in net cash/(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	Reclassi-fications £m	Other movements £m	At 31 December £m
2024							
Cash at bank and in hand	739	(15)	(10)	–	–	–	714
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	1,853	(62)	–	–	–	5,575
Overdrafts	(53)	51	–	–	–	–	(2)
Cash and cash equivalents (per cash flow statement)	3,731	1,904	(62)	–	–	–	5,573
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)	2,671	(50)	(11)	–	(193)	442
Fair value of swaps hedging fixed rate borrowings[1]	23	11	(18)	17	–	–	33
Net cash/(debt)	(1,952)	2,682	(68)	6	–	(193)	475
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 the fair value of swaps	(3,337)	1,489	57	7	–	(191)	(1,975)
Fair value of 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

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.
Capital redemption reserve – Amounts transferred from accumulated losses on the repurchase of ordinary shares or the redemption of C Shares. In Rolls-Royce Holdings plc's own Financial Statements, C Shares are issued from the merger reserve. This reserve was created by a scheme of arrangement in 2011. As this reserve is eliminated on consolidation in the Consolidated Financial Statements, the C Shares are shown as being issued from the capital redemption reserve.
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	Capital redemption reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Accumulated losses [1] £m	Total £m	NCI £m	Total equity £m
At 1 January 2024		1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)
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	22	–	–	–	–	–	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	12	–	–	–	–	–	(2)	(2)	–	(2)
OCI of joint ventures and associates	12	–	–	–	(3)	–	(1)	(4)	–	(4)
Related tax movements	5	–	–	–	(1)	(2)	61	58	–	58
Total comprehensive income/(expense) for the year		–	–	–	1	(31)	2,601	2,571	(37)	2,534
Issues of ordinary shares		17	–	–	–	–	–	17	–	17
Redemption of C Shares	20	–	–	1	–	–	(1)	–	–	–
Shares issued to employee share trust		–	–	–	–	–	(17)	(17)	–	(17)
Share-based payments – direct to equity [2]		–	–	–	–	–	95	95	–	95
Dividends to NCI		–	–	–	–	–	–	–	(3)	(3)
Transactions with NCI [3]		–	–	–	–	–	32	32	19	51
Related tax movements		–	–	–	–	–	71	71	–	71
Other changes in equity in the year		17	–	1	–	–	180	198	16	214
At 31 December 2024		1,701	1,012	168	13	603	(4,409)	(912)	31	(881)

A final dividend in respect of the year ended 31 December 2024 of 6 pence per share, or approximately £504m, based on a 30% pay-out ratio of underlying profit after tax attributable to ordinary shareholders (adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 148 for further details), is to be proposed at the forthcoming AGM. These financial statements do not reflect this proposed dividend.

Consolidated statement of changes in equity continued

Year ended 31 December 2023

	Notes	Attributable to ordinary shareholders Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Accumulated losses [1] £m	Total £m	NCI £m	Total equity £m
At 1 January 2023		1,674	1,012	166	26	861	(9,789)	(6,050)	34	(6,016)
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	22	–	–	–	–	–	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	12	–	–	–	–	–	(4)	(4)	–	(4)
OCI of joint ventures and associates	12	–	–	–	2	(1)	1	2	–	2
Related tax movements	5	–	–	–	5	(1)	(43)	(39)	–	(39)
Total comprehensive income/(expense) for the year		–	–	–	(14)	(227)	2,482	2,241	(8)	2,233
Issue of ordinary shares		10	–	–	–	–	–	10	–	10
Redemption of C shares	20	–	–	1	–	–	(1)	–	–	–
Shares issued to employee share trust		–	–	–	–	–	(10)	(10)	–	(10)
Share-based payments – direct to equity [2]		–	–	–	–	–	49	49	–	49
Dividends to NCI		–	–	–	–	–	–	–	(2)	(2)
Transactions with NCI [3]		–	–	–	–	–	57	57	28	85
Related tax movements		–	–	–	–	–	22	22	–	22
Other changes in equity in the year		10	–	1	–	–	117	128	26	154
At 31 December 2023		1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)

1 At 31 December 2024, 106,066,831 ordinary shares with a net book value of £26m (2023: 52,912,406 ordinary shares with a net book value of £22m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:
- 35,117,065 ordinary shares with a net book value of £14m (2023: 7,875,240 ordinary shares with a net book value of £15m) vested in share-based payment plans;
- the Company issued 88,200,000 (2023: 49,100,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £17m (2023: £10m); and
- the Company acquired none (2023: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 71,490 (2023: 284,850) of its ordinary shares through purchases on the London Stock Exchange

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 Holdings 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 187 to 191 with the associated accounting policies from page 189.

The Consolidated Financial Statements have been prepared in accordance with UK adopted International Accounting Standards (IAS) in conformity with the requirements of the 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 61. 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 61. 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 the 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.

1 Accounting policies continued

Climate change continued

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.

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 125 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 128.	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 130.
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 128.	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 130 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 required	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 on 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 9. 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 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 215 to 219.

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 164 in relation to the value of trade payables that were within the scope of such arrangements. This has been presented alongside the value of received payments which suppliers had drawn, this being information which the Group has already disclosed in its Annual Report.

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 ref
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 contacts entered into in connection with OE ales 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.	127
Risk and revenue sharing arrangements (RRSAs)	— Determination of the nature of entry fees received.		129
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.	130
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.		132
Leases	— Determination of the lease term.		133
Impairment of non-current assets	— Determination of cash-generating units for assessing impairment of goodwill.		134
Provisions	— Whether any costs should be treated as wastage. — Whether the criteria to recognise a 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.	135
Post-retirement benefits		— Estimates of the assumptions for valuing the net defined benefit obligation.	136

Material accounting policies

The Group's significant accounting policies are set out on pages 125 to 137. These accounting policies have been applied consistently to all periods presented in these Consolidated Financial Statements.

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*.

1 Accounting policies continued

Basis of consolidation continued

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 27.

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 127) 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.

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).

1 Accounting policies continued

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 21.

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 26 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

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 (generally up to 25 years), 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 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.

1 Accounting policies continued

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 132.

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. 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 145 to 148.

1 Accounting policies continued

Taxation 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 £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 122 to 124) 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 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 122 to 124 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 as 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.

1 Accounting policies continued

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.

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, financial RRSAs and C Shares.

- 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.

1 Accounting policies continued

Financial instruments – Hedge accounting continued
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.

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 when 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.

1 Accounting policies continued

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).

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.

1 Accounting policies continued

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.

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 SCFs, the related payables are retained on the Group's balance sheet and classified as trade payables. Further details are disclosed in note 19.

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 127; 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.

1 Accounting policies continued

Key judgement – Whether any costs should be treated as wastage
As described further on page 127, 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 transformation and restructuring provision has 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 within 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.

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 183, 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.

1 Accounting policies continued

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 *Employee Benefits*. 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 22.

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 Holdings 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 24 for a further description of the share-based payment plans.

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.

1 Accounting policies continued

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 its 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 Secure 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 businesses 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.

2 Segmental analysis continued

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. 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 period/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 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 ventures and associates	175	(3)	172
Operating profit	2,464	442	2,906
Gain arising on the 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)

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
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 ventures and associates	162	11	173
Operating profit	1,590	354	1,944
Gain arising on the 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

2 Segmental analysis continued

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
New Markets	–	–	–	–	–	–
Other businesses	–	–	–	–	–	–
	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.

Underlying adjustments

		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 changes on 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 gain 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 the 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 9 and 15
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 asset 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

At 31 December 2024	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Total reportable segments £m
Segment assets	19,303	3,495	3,998	111	26,907
Interests in joint ventures and associates	550	9	33	–	592
Segment liabilities	(26,621)	(3,322)	(1,969)	(135)	(32,047)
Net (liabilities)/assets	(6,768)	182	2,062	(24)	(4,548)
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
At 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	(24,447)	(3,376)	(1,765)	(88)	(29,676)
Net (liabilities)/assets	(6,285)	148	2,077	27	(4,033)
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	(2,227)	(2,010)
Interests in joint ventures and associates	592	479
Assets held for sale	153	109
Cash and cash equivalents and short-term investments	5,575	3,784
Fair value of swaps hedging fixed rate borrowings	154	118
Deferred and income tax assets	3,731	3,078
Post-retirement scheme surpluses	790	782
Total assets	35,686	31,512
Total reportable segment liabilities (excluding held for sale)	(32,047)	(29,676)
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	(36,567)	(35,141)
Net liabilities	(881)	(3,629)

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 expenditure	(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 amount 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 9 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 9 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 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 realised fair value movements on these interest rate 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 unlisted investment recorded at fair value through profit or loss (FVTPL)

5 Taxation

	UK		Overseas		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	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 an decrease in the 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 (charges)/credits

	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 profits of joint ventures and associates (note 12)	(137)	(139)
Profit before taxation excluding joint ventures and associates	2,097	2,288
Nominal tax charge at UK corporation tax rate 25.0% (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 derecognised on the basis that payment of cash dividends 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 and acquisition 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 dividends, 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				2023			
	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m	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	81	–	–	81
Expiry within six to 30 years	218	–	–	218	216	–	–	216
No expiry	2,698	2,515	107	76	6,891	6,537	275	79
	2,991	2,515	107	369	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 now 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 climate change 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 to 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 was 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 from 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.

Impact of recognition of UK deferred tax assets on underlying profit after tax

As outlined above, during the year the Group recognised a further £1,033m (of which £525m is non-underlying and £508m is underlying) deferred tax asset relating to UK tax losses and fully derecognised a £162m advance corporation tax balance (as an underlying charge). The net £346m credit to underlying profit after tax has been adjusted in the calculation of the proposed dividend per share, earnings per share and return on capital, this one-off non-cash adjustment has been made as it would otherwise cause a disproportionate impact on these metrics.

6 Earnings per ordinary share

Basic earnings per ordinary share (EPS) is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held under trust, which have been treated as if they had been cancelled.

	2024			2023		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit attributable to ordinary shareholders (£m):	2,521		2,521	2,412		2,412
Weighted average number of ordinary shares (millions)	8,388	51	8,439	8,361	44	8,405
EPS (pence):	30.05	(0.18)	29.87	28.85	(0.15)	28.70

The reconciliation between underlying EPS and basic EPS is as follows:

	2024		2023	
	Pence	£m	Pence	£m
EPS/Profit attributable to ordinary shareholders	30.05	2,521	28.85	2,412
Total underlying adjustments to profit before taxation (note 2)	0.70	59	(13.94)	(1,165)
Related tax effects	(6.34)	(532)	(1.16)	(97)
Adjustment for net recognition of deferred tax assets [1]	(4.12)	(346)	–	–
Underlying EPS/Underlying profit attributable to ordinary shareholders	20.29	1,702	13.75	1,150
Diluted underlying EPS attributable to ordinary shareholders	20.17		13.68	

1 Underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 148 for further details

7 Auditors' remuneration

	2024 £m	2025 £m
Fees payable to the Company's auditor for the audit of the Company's annual Financial Statements	3.9	3.6
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	8.6	8.6
Total fees payable for audit services	12.5	12.2
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]	13.3	13.1
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

8 Employee information

	2024 Number[1]	2023 Number[1]
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 Total £m	2023 Total £m
Wages, salaries and benefits	3,056	2,940
Social security costs	369	416
Share-based payments (note 24)	136	66
Pensions and other post-retirement scheme benefits (note 22)	387	346
Group employment costs[3]	**3,948**	**3,768**

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 26

9 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 the naval propulsors & handling business. See note 27 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 were 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 engines business based in Power Systems. See note 27 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 intellectual property) 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.

9 Intangible assets continued

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

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 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.

9 Intangible assets continued

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.

Material intangible assets (excluding goodwill)

The carrying amount and the residual life of the material intangible assets (excluding goodwill) for the Group is 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 132, 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.

9 Intangible assets continued

An 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 15) 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 (2023: none).

10 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 Includes reclassifications of assets under construction to the relevant classification in property, plant and equipment when available for use
3 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 27 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 9. 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

10 Property, plant and equipment continued

Property, plant and equipment includes:

	2024			2023		
	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	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).

11 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/modification of leases	38	56	104	198
Acquisition of businesses	2	–	–	2
Disposals	(6)	(22)	(54)	(82)
Transferred to current assets[1]	(4)	–	–	(4)
Reclassifications to PPE	(5)	–	(10)	(15)
Exchange differences	(18)	(2)	(3)	(23)
At 31 December 2023	513	194	1,864	2,571
Additions/modification 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)
Reclassifications to 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 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
2 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 27 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 9. 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 impairment charge of £8m has been recognised (2023: £71m)

12 Investments

Composition of the Group

The entities contributing to the Group's financial results are listed on pages 192 to 197.

Where the Group does not own 100% of the shares of an 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 as 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 as FVOCI	–	(2)
Revaluation of other investments accounted for as 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 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

12 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 income 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)*

13 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

	2024 £m	2023 £m
Inventories stated at net realisable value	232	187
Amount of inventory write-down	56	79
Reversal of inventory write-down	15	21

14 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
Other taxation and social security receivable	215	160	2	13	217	173
Costs to obtain contracts with customers[3]	11	7	124	109	135	116
Other receivables and similar assets[4]	529	478	58	45	587	523
	6,999	6,527	1,714	1,596	8,713	8,123

	2024 £m	2023 £m
Trade receivables and other assets are analysed as follows:		
Financial instruments (note 20):		
Trade receivables and similar items	5,188	4,857
Other non-derivative financial assets	366	332
Non-financial instruments	3,159	2,934
	8,713	8,123

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 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
4 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 disclosed 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%	1,744	(102)	6%
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%	5,431	(242)	4%

14 Trade receivables and other assets continued

The movements of the Group 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)

15 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 9, 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 20)	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 increase in Civil Aerospace of £1,179m. This is mainly 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.

16 Cash and cash equivalents

	2024 £m	2023 £m
Cash at bank and in hand	714	739
Money-market funds	1,900	1,077
Short-term deposits	2,961	1,968
Cash and cash equivalents per the balance sheet	5,575	3,784
Overdrafts (note 17)	(2)	(53)
Cash and cash equivalents per cash flow statement (page 118)	5,573	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.

17 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.

17 Borrowings and lease liabilities continued

The Group has access to the following undrawn committed borrowing facilities at the end of the year:

	Total	
	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 61.

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.

18 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 11 and 17, 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 leases:

	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 the 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.

18 Leases continued

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 10

Total non-cancellable future operating lease rentals (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.

19 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
Accrued liabilities	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 20):		
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 126. 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 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 costs are included within cost of sales.

20 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	12	A	–	5	–	–	–	5
Trade receivables and similar items	14	B/C	–	9	5,179	–	–	5,188
Other non-derivative financial assets	14	B	–	–	366	–	–	366
Other assets		D/F	21	–	16	–	–	37
Derivative financial assets[1]		C	298	–	–	–	–	298
Cash and cash equivalents	16	B	1,900	–	3,675	–	–	5,575
Borrowings	17	E/F	–	–	–	–	(3,577)	(3,577)
Lease liabilities	17	G	–	–	–	–	(1,555)	(1,555)
Derivative financial liabilities[1]		C	–	–	–	(2,054)	–	(2,054)
Financial RRSAs		H	–	–	–	–	(7)	(7)
Other liabilities		H	–	–	–	–	(198)	(198)
C Shares		B	–	–	–	–	(23)	(23)
Trade payables and similar items	19	B	–	–	–	–	(6,205)	(6,205)
Other non-derivative financial liabilities	19	B	–	–	–	–	(2,642)	(2,642)
Contract liabilities	15	B	–	–	–	–	(1,280)	(1,280)
			2,219	14	9,236	(2,054)	(15,487)	(6,072)
2023								
Other non-current asset investments	12	A	24	7	–	–	–	31
Trade receivables and similar items	14	B/C	–	9	4,848	–	–	4,857
Other non-derivative financial assets	14	B	–	–	332	–	–	332
Other assets		D/F	32	–	12	–	–	44
Derivative financial assets[1]		C	350	–	–	–	–	350
Cash and cash equivalents	16	B	1,077	–	2,707	–	–	3,784
Borrowings	17	E/F	–	–	–	–	(4,099)	(4,099)
Lease liabilities	17	G	–	–	–	–	(1,660)	(1,660)
Derivative financial liabilities[1]		C	–	–	–	(2,228)	–	(2,228)
Financial RRSAs		H	–	–	–	–	(17)	(17)
Other liabilities		H	–	–	–	–	(163)	(163)
C Shares		B	–	–	–	–	(23)	(23)
Trade payables and similar items	19	B	–	–	–	–	(5,091)	(5,091)
Other non-derivative financial liabilities	19	B	–	–	–	–	(2,521)	(2,521)
Contract liabilities	15	B	–	–	–	–	(1,358)	(1,358)
			1,483	16	7,899	(2,228)	(14,932)	(7,762)

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)

20 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
Level 3 – inputs not based on observable market data

Carrying values 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	C Shares £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)**	**(23)**	**(642)**
Non-current liabilities	**(1,364)**	**(22)**	**(111)**	**(1,497)**	**(7)**	**(136)**	**–**	**(1,640)**
Liabilities	**(1,903)**	**(40)**	**(111)**	**(2,054)**	**(7)**	**(198)**	**(23)**	**(2,282)**
	(1,868)	**(35)**	**147**	**(1,756)**	**(7)**	**(161)**	**(23)**	**(1,947)**
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)	(23)	(448)
Non-current liabilities	(1,766)	(15)	(73)	(1,854)	(7)	(122)	–	(1,983)
Liabilities	(2,117)	(25)	(86)	(2,228)	(17)	(163)	(23)	(2,431)
	(2,035)	(19)	176	(1,878)	(17)	(119)	(23)	(2,037)

1 Includes the foreign exchange impact of cross-currency interest rate swaps

20 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 revenue sharing arrangements (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

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20 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

20 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.

20 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

20 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	**301**	**4,346**	**460**	**81**	**5,188**
Other non-derivative financial assets	**73**	**242**	**40**	**11**	**366**
Other assets	**–**	**21**	**16**	**–**	**37**
Cash and cash equivalents	**2,251**	**1,283**	**1,867**	**174**	**5,575**
Assets	**2,625**	**5,897**	**2,383**	**266**	**11,171**
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)**
C Shares	**(23)**	**–**	**–**	**–**	**(23)**
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	**(2,563)**	**(10,898)**	**(1,703)**	**(323)**	**(15,487)**
	62	**(5,001)**	**680**	**(57)**	**(4,316)**
At 31 December 2023					
Other non-current asset investments	10	21	–	–	31
Trade receivables and similar items	219	4,039	513	86	4,857
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	1,565	5,114	2,056	313	9,048
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)
C Shares	(23)	–	–	–	(23)
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	(2,464)	(9,892)	(2,272)	(304)	(14,932)
	(899)	(4,778)	(216)	9	(5,884)

20 Financial instruments continued

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

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	4,738	324	82	44	5,188
Other non-derivative financial assets	331	32	–	3	366
Other assets	28	9	–	–	37
Derivative financial assets	298	–	–	–	298
Cash and cash equivalents	5,575	–	–	–	5,575
	10,975	365	82	47	11,469
At 31 December 2023					
Other non-current asset investments	31	–	–	–	31
Trade receivables and similar items	4,054	650	87	66	4,857
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
	8,591	650	91	66	9,398

20 Financial instruments continued

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)**
C Shares	**(23)**	**–**	**–**	**–**	**(23)**
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)**
	(10,445)	**(1,781)**	**(2,816)**	**(1,702)**	**(15,487)**
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)
C Shares	(23)	–	–	–	(23)
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)
	(9,083)	(1,565)	(4,079)	(1,293)	(14,932)

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

20 Financial instruments continued

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]	–	5,575	5,575	–	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)	5,304	443	(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.

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

C Shares and payments to shareholders

The Company has historically issued non-cumulative redeemable preference shares (C Shares) as an alternative to paying a cash dividend. C Shares in respect of a year were issued in the following year. Shareholders are able to redeem any number of their C Shares for cash. Any C Shares retained attract a dividend of Bank of England base rate on the 0.1p nominal value of each share, paid on a twice-yearly basis, and have limited voting rights. The Company has the option to compulsorily redeem the C Shares, at any time, if the aggregate number of C Shares in issue is less than 10% of the aggregate number of C Shares issued, or on the acquisition or capital restructuring of the Company.

Movements in issued and fully paid C Shares during the year were as follows:

	2024 Millions	2023 Millions
At 1 January	23,153	23,855
Redeemed	(647)	(702)
At 31 December	**22,506**	23,153

Payments to shareholders represent the value of C Shares to be issued in respect of the results for the year. There have been no issues (2023: no issues) of C Shares declared in respect of the year to 31 December 2024.

21 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 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 £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 provision 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.

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.

21 Provisions for liabilities and charges continued

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.

22 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.

22 Post-retirement benefits continued

Amounts recognised in the income statement

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Defined benefit schemes:						
Current service cost and administrative expenses	5	37	42	8	35	43
Past-service cost/(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		Defined contribution		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	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			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	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			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	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

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22 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 pension 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.

22 Post-retirement benefits continued

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

Changes in present value of defined benefit obligations

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	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			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	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

22 Post-retirement benefits continued

Fair value of scheme assets at 31 December

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	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)

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.

22 Post-retirement benefits continued

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

23 Share capital

	Non-equity		Equity	
	Special Share of £1	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid				
At 1 January 2023	1	–	8,368	1,674
Shares issued to employee share trust	–	–	49	10
At 31 December 2023	1	–	8,417	1,684
Shares issued to employee share trust	–	–	88	17
At 31 December 2024	**1**	**–**	**8,505**	**1,701**

The rights attaching to each class of share are set out on pages 220 to 221.

In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 20. In addition, rights to C share holders are included on page 220.

24 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 payments transactions	**95**	49
Total cost recognised for cash-settled share-based payments transactions	**41**	17
Share-based payments recognised in the consolidated income statement	**136**	66
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 86 to 110.

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).

25 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 its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to the same 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.

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.

26 Related party transactions

	2024 £m	2023 £m
Sales 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 14 and 19. Transactions with Group pension schemes are shown in note 22.

26 Related party transactions continued

Key management personnel are deemed to be the Directors (pages 68 to 69) and the members of the Executive Team (described on page 78). Remuneration for key management personnel is shown below:

	2024 £m	2023 £m
Salaries and benefits	29	26
Included in the above:		
Post-retirement schemes	1	–
Share-based payments	13	15

During the year, no Directors (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 plan is shown in the Remuneration Report on pages 86 to 110. 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 Remuneration Report.

27 Business disposals and businesses held for sale

Disposals

At 31 December 2023, the Group had 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
Intangible assets	49
Inventory	4
Provisions for liabilities and charges	(6)
Contract liabilities	(4)
Post-retirement scheme deficits	(1)
Less: Net assets disposed	42
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

27 Business disposals and businesses held for sale continued

Businesses held for sale

At 31 December 2024, the Group had 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 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

28 Derivation of summary funds flow statement

	2024					2023
	Cash flow £m	Impact of hedge book £m	Impact of acquisition accounting £m	Impact of other non-underlying items £m	Funds flow £m	Funds flow £m
Operating profit/(loss)	2,906	(191)	45	(296)	2,464	1,590
Loss on disposal of property, plant and equipment[1]	32	–	–	–	32	18
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)/decrease 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]	524	(341)	–	(17)	166	(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	3,782	(24)	–	106	3,864	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 exceptional transformation costs)	100	–	–	(106)	(6)	(17)
Free cash flow	2,425	–	–	–	2,425	1,285

1 Included in other operating cash flows in the summarised free cash flow on page 23
2 Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 23

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 218.

Company balance sheet

At 31 December 2024

	Notes	2024 £m	2023 £m
ASSETS			
Investments – subsidiary undertakings	2	14,905	14,810
Non-current Assets		14,905	14,810
Cash and cash equivalents		1	–
Current Assets		1	–
NET ASSETS	6	14,906	14,810
LIABILITIES			
Trade payables and other liabilities	3	(337)	(336)
Other financial liabilities	4	(22)	(23)
Current liabilities		(359)	(359)
NET ASSETS	6	14,547	14,451
EQUITY			
Called-up share capital	5	1,701	1,684
Share premium		1,012	1,012
Merger reserve		6,962	6,962
Capital redemption reserve		2,750	2,749
Other reserve		493	397
Retained earnings		1,629	1,647
TOTAL EQUITY		14,547	14,451

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company income statement. The result for the Company for the year was nil (2023: nil).

The Financial Statements on pages 187 to 191 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: 7524813

Company statement of changes in equity

For the year ended 31 December 2024

	Attributable to ordinary shareholders						
	Share capital £m	Share premium £m	Merger reserve [1] £m	Capital redemption reserve £m	Other reserve [2] £m	Retained earnings [3, 4] £m	Total equity £m
At 1 January 2023	1,674	1,012	6,962	2,748	349	1,658	14,403
Arising on issues of ordinary shares	10	–	–	–	–	(10)	–
Redemption of C Shares	–	–	–	1	–	(1)	–
Share-based payments – direct to equity	–	–	–	–	48	–	48
At 1 January 2024	**1,684**	**1,012**	**6,962**	**2,749**	**397**	**1,647**	**14,451**
Arising on issues of ordinary shares	**17**	**–**	**–**	**–**	**–**	**(17)**	**–**
Redemption of C Shares	**–**	**–**	**–**	**1**	**–**	**(1)**	**–**
Share-based payments – direct to equity	**–**	**–**	**–**	**–**	**96**	**–**	**96**
At 31 December 2024	**1,701**	**1,012**	**6,962**	**2,750**	**493**	**1,629**	**14,547**

1 The Company's merger reserve was created as a result of a High Court approved scheme of arrangement in 2011, when the Company became the holding company for the Rolls-Royce Group
2 Other reserve represents the value of the share-based payments in respect of employees of subsidiary undertakings for which payment has not been received
3 The reserves, which are distributable to the Company's equity shareholders, are determined with reference to the Companies Act 2006 and requires judgement in determining the amount available for distribution. Further guidance is given in the Institute of Chartered Accountants in England and Wales technical release 02/17BL in relation to what profits can be treated a distributable. At 31 December 2024, all the Company's retained earnings are distributable, however, the available amount may be different at the point any future distributions are made
4 At 31 December 2024, 106,066,831 ordinary shares with a net book value of £26m (31 December 2023: 52,912,406 ordinary shares with a net book value of £22m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:
- 35,117,065 ordinary shares with a net book value of £14m (31 December 2023: 7,875,240 ordinary shares with a net book value of £15m) vested in share-based payment plans;
- the Company issued 88,200,000 (31 December 2023: 49,100,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £18m (31 December 2023: £10m); and
- the Company acquired none (31 December 2023: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 71,490 (31 December 2023: 284,850) of its ordinary shares through purchases on the London Stock Exchange

1 Accounting policies

Basis of accounting
Rolls-Royce Holdings plc (the Company) is a public company limited by shares incorporated and domiciled in England in the United Kingdom. These Financial Statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* on the historical cost basis.

These financial statements have been prepared on a going concern basis. Further details are given in the Going Concern Statement on page 61. After due consideration, 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 Company Financial Statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) 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 Financial Reporting Standard 101 *Reduced Disclosure Framework*:

— a cash flow statement and related notes;

— comparative period reconciliation for investments and financial liabilities;

— comparative period reconciliation for share capital;

— the effects of new, but not yet effective accounting standards; and

— the requirements of IAS 24 *Related Party Disclosures* and has, therefore, not disclosed transactions between the Company and its wholly-owned subsidiaries.

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

There were no changes to accounting standards that had a material impact on these Financial Statements. The Company's 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, disclosure of non-audit fees information is not included in respect of the Company.

Key areas of judgement and sources of estimation uncertainty
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies. The Directors have not identified any critical estimates or judgements where there is a significant risk of material change in the next 12 months at 31 December 2024.

Material accounting policies
Investments in subsidiary undertakings
Investments included in assets are investments in subsidiary companies, and these are held at historical cost less impairments which is considered annually by the Directors.

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

Financial instruments
In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's C Shares are classified as financial liabilities and held at amortised cost from the date of issue until redeemed.

Equity
Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. The cost of issuing ordinary shares are charged to the share premium account.

Share-based payments
As described in the Remuneration Report on pages 86 to 110, the Company grants awards of its own shares to employees of its subsidiary undertakings (see note 24 of the Consolidated Financial Statements). The costs of share-based payments in respect of these awards are accounted for, by the Company, as an additional investment in its subsidiary undertakings. The costs are determined in accordance with IFRS 2 *Share-based Payment*. Any payments made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment.

1 Accounting policies continued

Insurance contracts

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 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 elected to apply IFRS 17 *Insurance Contracts* (rather than IFRS 9 *Financial Instruments*) to all currently issued financial guarantee contracts.

At 31 December 2024, financial guarantees of borrowings amounted to £6,094 (2023: £7,601m) of which the total amount of debt drawn is £3,594m (2023: £4,101m). 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). 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 both historical and forward-looking triggers and as such the estimated liability is immaterial. As the estimated liability is immaterial at 31 December 2024, no liability has been recognised in the Company Financial Statements.

2 Investments – subsidiary undertakings

	£m
Cost:	
At 1 January 2024	**14,810**
Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments	**95**
At 31 December 2024	**14,905**

Details of the Company's subsidiary undertakings and joint venture and associates undertakings are listed on pages 192 to 197.

The carrying value of the Company's investments in subsidiary undertakings has been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. No indicators of impairment were identified at 31 December 2024.

3 Trade payables and other liabilities

	2024 £m	2023 £m
Amounts owed to – subsidiary undertakings	**337**	336

Amounts owed to subsidiary undertakings are interest-free and repayable on demand.

4 Financial liabilities

C Shares

Movements during the year were as follows:

	C Shares of 0.1p millions	Nominal value £m
At 1 January 2024	**23,152**	23
Redeemed	**(647)**	(1)
At 31 December 2024	**22,505**	22

The rights attaching to C Shares are set out on page 220.

5 Share capital

	Non-equity			Equity	
	Special Share of £1	Preference shares of £1 each	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid					
At 1 January 2024	1	–	–	8,417	1,684
Shares issued to employee share trust	–	–	–	88	17
At 31 December 2024	1	–	–	8,505	1,701

The rights attaching to each class of share are set out on pages 220 to 221.

In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 4.

6 Reconciliation of net assets between Rolls-Royce Holdings plc Group and Company

As at 31 December 2024, Rolls-Royce Holdings plc consolidated group had net liabilities of £881m (2023: £3.6bn) compared to £14.5bn (2023: £14.5bn) of net assets of the Company. The Company is a holding company and does not trade in its own right. The Company was incorporated in 2011 and became the Rolls-Royce holding company through a Scheme of Arrangement. On becoming the Rolls-Royce holding company, the value of the Company's investment in subsidiaries was based on the market capitalisation of the Rolls-Royce group at that time. There was an increase in the investment as a result of a capital injection to Rolls-Royce Group Limited during 2020. The Group's consolidated financial statements are prepared on a historical cost basis except where UK adopted international accounting standards requires a valuation basis to be applied (see page 189 for further details). As different principles are applied in preparing the Company and consolidated group balance sheets there is a difference in the financial position reported. Examples of such differences include the following items that are in the Consolidated balance sheet but not reflected in the Company's balance sheet: net contract liabilities of £13.9bn (2023: £13.3bn) as a result of IFRS 15 *Revenue from Contracts with Customers*; and net financial liabilities of £1.9bn (2023: £2.0bn) arising from the recognition at fair value of foreign exchange derivatives held to manage exposure on the Group's future trading.

7 Contingent liabilities

For further details on action related to historical matters that could have an impact on the Company, see page 183.

8 Other information

Employees
The Company had no employees in 2024 (2023: none).

Share-based payments
Shares in the Company have been granted to employees of the Group as part of share-based payment plans, and are charged in the employing company.

Emoluments of Directors
The remuneration of the Directors of the Company is shown below, further information is in the Remuneration Report on pages 86 to 110.

The total amount of remuneration paid to Directors for the year ended 31 December 2024 was £7,670,542 (2023: £10,130,000). £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 two Directors (2023: three), which totalled £245,888 (2023: £244,000). No Directors exercised share options during the year (2023: none) nor received vested shares under the long-term incentive plan (2023: none). No Directors received payments for loss of office (2023: one Director totalling £483,000).

No Director accrued any retirement benefits in the year (2023: none).

Subsidiaries

As at 31 December 2024, the companies listed below and on the following pages are indirectly held by Rolls-Royce Holdings plc, except Rolls-Royce Group Limited, which is 100% directly owned by Rolls-Royce Holdings plc and Rolls-Royce plc which Rolls-Royce Holdings plc directly owns 3.54%. 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 Limited [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 Warsaw, Poland	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, County Dublin, DO1R 2P9, 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, São Paulo, 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

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 D02 AY28, Ireland	Ordinary	100
Rolls-Royce General Partner Limited[2]	London[3]	Ordinary	100
Rolls-Royce Group Limited[13]	London[3]	Ordinary Ordinary A	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[7]	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

Company name	Address	Class of shares	% of class held
Rolls-Royce North American Technologies Inc.	Wilmington [8]	Common Stock	100
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 plc	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 São Paulo – 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

Company name	Address	Class of shares	% of class held
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
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 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	London [3]	Ordinary	100
Yocova PTE. Ltd. [2]	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100

FINANCIAL STATEMENTS

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. Rolls-Royce plc 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 19808, 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. Rolls-Royce plc will issue a guarantee pursuant to S479A in relation to the liabilities of the entity
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14 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 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 [14]	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 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, 20 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
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

Company name	Address	Class of shares	% of class held	Group interest held %
SAFYRR Propulsion Limited [2]	Derby [7]	A Shares B Shares	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 DE55 4RH, United Kingdom	Ordinary A Ordinary B 1C	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

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