# Group at a glance



UNDERLYING REVENUE 1

STATUTORY REVENUE 1

FREE CASH FLOW 1

STATUTORY CASH FLOWS FROM **OPERATING ACTIVITIES** 

£17,848m

2023: £15,409m

£2,425m

£3,782m

2023: £16,486m

UNDERLYING OPERATING PROFIT<sup>1</sup>

STATUTORY OPERATING PROFIT 1

£18,909m

UNDERLYING OPERATING MARGIN

STATUTORY OPERATING MARGIN

£2,464m

2023: £1.590m

£2,906m

13.8%

15.4%

2023: 11.8%

**UNDERLYING PROFIT** BEFORE TAX 1

STATUTORY PROFIT BEFORE TAX 1

TOTAL UNDERLYING CASH COSTS AS A PROPORTION OF UNDERLYING GROSS MARGIN 1, 2 RETURN ON CAPITAL 1, 3, 4

£2,293m

£2,234m

0.47

2023: 0.59

13.8%

2023: 11.3%

UNDERLYING EARNINGS PER SHARE 1, 4

STATUTORY EARNINGS

NET CASH/(DEBT)

LIQUIDITY 5

20.29p

2023: 13.75p

30.05p

2023: 28.85p

£475m 2023: £(1,952)m

2023: £7.2bn

ORDER BACKLOG 6

GROSS R&D EXPENDITURE 1, 7

COUNTRIES WITH A ROLLS-ROYCE

£8\_1bn

£82.1bn

2023: £68.5bn

£1.5bn

2023: £1.4bn

48

2023: 48

PEOPLE (MONTHLY AVERAGE) 8

42,400

2023: 41,400

See note 2 on page 142 for a reconciliation between underlying and statutory results

A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 215 to 219
Total underlying cash costs as a proportion of underlying gross margin is defined on page 219 and is abbreviated to TCC/GM
Adjusted return on capital is defined on page 219 and is abbreviated to return on capital
Underlying profit after tax 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, on page 148 for further details
Liquidity is defined as cash and cash equivalents plus any undrawn facilities, as listed on page 61

<sup>6</sup> See note 2 on page 142
7 See note 3 on page 144 for a reconciliation of gross R&D expenditure to total R&D expenditure
8 See note 8 on page 150

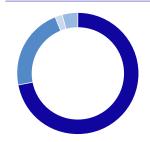
# **OUR DIVISIONS IN 2024**



# CIVIL **AEROSPACE**

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

### Underlying revenue



- Large engines 72%
- Business aviation 22% Regional - 2%
- V2500 4%

UNDERLYING REVENUE

£9,040m

2023: £7,348m

UNDERLYING OPERATING PROFIT

£1,505m

UNDERLYING OPERATING MARGIN

16.6%

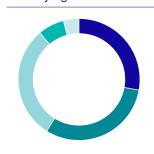
2023: 11.6%

See page 25 for the Civil Aerospace divisional review

### **DEFENCE**

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

### Underlying revenue



- Transport 28%
- Combat 31% Submarines - 30%
- Naval<sup>2</sup> 7%
- Helicopters 4%

UNDERLYING REVENUE

£4,522m

2023: £4,077m

UNDERLYING OPERATING PROFIT

£644m

2023: £562m

UNDERLYING OPERATING MARGIN

14.2%

2023: 13.8%

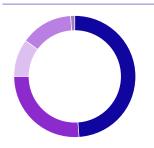
See page 27 for the Defence divisional review

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## POWER **SYSTEMS**

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

### Underlying revenue



- Power generation 49% Governmental – 26%
- Marine 10% Industrial - 14%
- BESS 1%

UNDERLYING REVENUE

£4,271m

2023: £3,968m

UNDERLYING OPERATING PROFIT

£560m

2023: £413m

UNDERLYING OPERATING MARGIN

13.1%

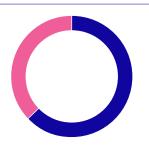
2023: 10.4%

See page 29 for the Power Systems divisional review

# NEW **MARKETS**

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

#### R&D expenditure<sup>1</sup>



Rolls-Royce SMR - 63% Rolls-Royce Electrical 3 – 37%

UNDERLYING REVENUE

£3m

2023: £4m

UNDERLYING OPERATING LOSS

£(177)m

UNDERLYING OPERATING MARGIN

2023: n/a

See page 31 for the New Markets divisional review

- Total R&D expenditure for New Markets in 2024 was £(133)m (2023: £(137)m)

  In September 2024, an agreement to sell the naval propulsors & handling business was announced
- 3 In 2023, we made the decision to exit our electrical business and in September 2024 we announced the closure of our advanced air mobility activities

# **Chair's statement**



On behalf of the Board, I want to thank our people worldwide for their commitment and passion. Everywhere we go, we meet enthusiastic colleagues, whose drive for excellence has enabled us to make such a strong start to our transformation programme.

It is now just over three years since I became your Chair. In that short time, we have embarked on a major transformation of the Group to build on the iconic strengths of our engineering heritage while significantly improving the resilience and performance of the business. We have refreshed our Board and strengthened our Executive Team, launched a new strategy and are demonstrating the successful implementation of that strategy through strong financial performance in 2024. While the transformation journey is not complete, robust foundations are now in place to support sustainable long-term growth.

On behalf of the Board, I want to thank our people worldwide for their commitment and passion. Everywhere we go, we meet enthusiastic colleagues, whose drive for excellence has enabled us to make such a strong start to our transformation programme.

I also extend my gratitude to our wider stakeholders for your continued trust and support. Together, we will build on the advances of 2024. We will ensure that Rolls-Royce remains a force for progress in innovation and technology, helping our customers benefit from the energy transition, being a responsible partner to all our stakeholders and driving a resilient and growing business long into the future.

#### Financial strength and shareholder distributions

In line with our capital framework, now that the balance sheet is being strengthened and we have been rated at investment grade by all three rating agencies in 2024, we are very pleased to reinstate dividends in respect of the full year 2024 for the first time since 2020, at a 30% payout ratio of profit after tax. The cash dividend of 6p per share will be paid in June subject to shareholder approval at our AGM on 1 May 2025. We are also pleased to announce a £1bn share buyback for completion during 2025. Further detail on our capital framework and strengthened balance sheet can be found on pages 19 to 21.

#### Advancing our transformation and culture

In 2023, we outlined the seven workstreams of the transformation programme and in September 2024 we launched the last of these in the form of our new purpose and behaviours. These shape how we think, work and collaborate and build upon the great traditions and legacy of Rolls-Royce (see page 10).

2024 has been a year of remarkable progress in delivering our multi-year transformation programme. Throughout 2024, the Board has monitored progress against our strategic initiatives, outlined at our Capital Markets Day in November 2023, keeping a close interest not only on our operational and financial performance but also the significant investments in technology, engineering capability and the skills and talents of our people, all of which are crucial to our long-term, sustainable performance. Tufan talks about these achievements in detail in his review (see pages 6 to 9) but we also continue to monitor the risks and challenges facing our business, particularly the geopolitical environment, technology development and opportunities for growth, supply chain challenges and the steps that Tufan and his team are taking to address these.

During 2024, members of the Board visited Derby, UK, Friedrichshafen, Germany and both Washington and Indianapolis in the US. Our visits allow us to listen to colleagues and see first hand how the transformation programme is impacting culture and behaviours across all our businesses. We have all been very encouraged by the enthusiasm and dedication of our colleagues as they fully embrace the new organisational design and ways of working. In addition to our site visits, our Employee Champions, Bev Goulet and Wendy Mars, through their engagement programmes, have provided invaluable insights into our colleagues' perspectives and needs.

#### **Engaging with our stakeholders**

My fellow directors and I have enjoyed opportunities to engage with our stakeholders during the year, for example, shareholders, institutional investors and government representatives. Where we do not interact directly, for example, with our commercial customers and suppliers, we hear regularly from Tufan and members of the Executive Team about their engagement with and feedback from these stakeholders. For more information see pages 64 and 65.

With geopolitical uncertainty and the increased focus by governments on their defence capabilities, the Board recognises the importance of our Defence division in the world, today and in the future. We therefore visited Washington, US in September and met with the Defence leadership team and the directors of our Rolls-Royce North America board. In addition, with the aid of external advisers, we explored perspectives on potential geopolitical risks and the possible implications of a change to the US administration.

My Board colleagues and I value the opportunity to meet and hear from our people across the Group and on our visits to both Derby, UK and Indianapolis, US in 2024, we held Meet the Board events with our people across the business. We ensure, through these events, that we encourage open dialogue to provide the opportunity to discuss issues that matter to our colleagues.

In November, together with colleagues on the Board, I visited our submarines business in Raynesway, Derby, UK. We spent the day with the leadership team to understand how they are responding to the opportunities provided by the AUKUS agreement and growth opportunities for our nuclear business. While at our facilities in Derby, UK, we were reminded, through the presence of our Nuclear Skills Academy, launched in 2022, of the valuable contribution which Rolls-Royce makes in our communities, particularly in providing opportunities and careers in science, engineering and technology.

The Board recognises the importance of our communities and understands that everything we do can have an impact on our local and global communities. During 2024, our focus has been supporting young people to overcome barriers to participation, especially through STEM learning opportunities. The Rolls-Royce Schools Prize for Science & Technology was held in Derby, UK in 2024, attended by some of my Board colleagues. Our community investment is discussed in more detail on page 49.

#### Sustainability and innovation

Our sustainability agenda remains integral to our strategic framework and our commitment to become a net zero company by 2050. Our Board actively oversees the progress of the sustainability initiatives, ensuring that environmental, social, and governance (ESG) considerations guide all material decisions. We have prioritised cleaner, more efficient technologies across our portfolio, reducing emissions, waste and resource consumption. The introduction of alternative fuels brings an exciting element to our energy transition agenda.

In 2024, the Board approved the first phase of a sustainability strategic review for the Group, which is described more fully from page 33. This followed a detailed and insightful review by our newly created Safety, Energy Transition & Tech Committee (SETT Committee). This Committee is well placed to assist the Board in its oversight as we continue to develop our sustainability programme.

Together with other Board colleagues, I was pleased to join a deep dive on our UltraFan programme to understand the future opportunities this technology provides in supporting the drive towards more energy efficient air travel in both the wide and narrowbody aircraft markets. My Board colleagues and I were delighted to see the UltraFan programme receiving recognition at the Aviation Week Network's 66th Laureat Awards. In June, members of our SETT Committee took the opportunity to visit our Power Systems division to see first-hand how they are developing their product portfolio to facilitate the use of alternative and more sustainable fuels.

"Now that the balance sheet is being strengthened, we are very pleased to reinstate dividends in respect of the full year 2024."

The expertise that Rolls-Royce has in nuclear technology has been recognised this year with the proposed investment in Rolls-Royce SMR by ČEZ Group and our strategic partnership with them in the deployment of up to three Rolls-Royce SMR power plants in the Czech Republic. The SETT Committee and other members of the Board benefited from a deep dive into the SMR technology, business model and opportunities it presents to provide clean and affordable energy.

We also continue to partner with stakeholders to advance global sustainability targets. Through collaboration with customers, regulators and suppliers, we aim to shape the future of aerospace and power systems, delivering high-integrity solutions that facilitate responsible and continuing growth.

#### **Board and Executive Team**

Over the last three years, we have reviewed and adjusted the cadence of our Board and Committee meetings to align with the rhythm of the Executive Team meetings and their agendas. We have found that this alignment is more efficient and facilitates better discussions at the Board through lively debate and constructive challenge. This brings to the table the skills, experience and insights our Board members have of complex, global industrial businesses, strategic and operational challenges and capital allocation and financial performance. This enables the diverse perspectives and expertise of my fellow directors to add valuable oversight to the work of the Executive Team as they deliver the transformation programme and manage the risks we face. Our Board effectiveness review this year confirmed that we have a cohesive and well-functioning board. However, we are not complacent. We have identified areas of focus for 2025 which are discussed further on page 77.

In the medium term, the Nominations, Culture & Governance Committee will identify future non-executive directors, as both Bev Goulet and Nick Luff are now in their final three-year term with us. In identifying new Non-Executive Directors, we will continue to be mindful of the diversity, experience, skills and knowledge across our Board to ensure the future success of the Group.

#### **Looking forward**

As our 2024 results demonstrate, our transformation programme, combined with the enthusiasm of our people, is creating a more resilient and high-performing Rolls-Royce. The Board is particularly pleased that this progress has allowed us to reinstate distributions to our shareholders and to upgrade our mid-term targets, two years into our multi-year transformation journey.

As we look ahead to 2025, we will continue to build on these strong foundations and to embed our new ways of working to create a business which is better able to withstand the challenges of the external environment and to seize the opportunities presented by the technologies and innovation of the future.

#### **Dame Anita Frew**

Chair

# Chief Executive's review



The combination of purpose, vision, a granular strategy, clear strategic initiatives and behaviours has created an aligned, energised and mobilised team. This is the foundation on which we will build a distinctive performance culture.

### Our delivery in 2024

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

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

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

At our Capital Markets Day (CMD) in 2023 we set out the performance delivery required to achieve our vision, measured by four strategic goals. These were; operating profit of between £2.5bn and £2.8bn; operating margin of between 13% and 15%; return on capital employed of between 16% and 18%; and free cash flow of between £2.8bn and £3.1bn. We called these our mid-term targets and set a goal of

achieving them by 2027. Driven by the accelerated strategic progress made in all our divisions by the end of 2024, cumulative profit and cash performance achieved around 90% and around 80% of these mid-term targets, respectively.

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

This strong performance means that we are very pleased to be able to reinstate dividends for the first time since 2019, at a 30% payout ratio of profit after tax. It also enables us to announce a £1bn share buyback for completion during 2025. These are significant announcements for Rolls-Royce and our shareholders. Our strong balance sheet was recognised externally by the ratings agencies with all three, Fitch, Moody's and S&P, holding Rolls-Royce at investment grade in 2024 for the first time since 2020.

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

#### **Our transformation**

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

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

We complemented this strategic process in 2024 with our new purpose and behaviours. Our purpose, a force for progress, powering, protecting and connecting people everywhere, demonstrates the impact of our products to make a positive contribution to society and our enduring commitment to engineering, technology and innovation. Our new behaviours: put safety first; do the right thing; keep it simple; and make a difference are explained in detail on page 10. As we engaged with our teams through 2024 on the purpose and behaviours, one of the most powerful programmes to evolve was our change makers initiative. These individuals are self-nominated employees throughout the Group who help embed, train, showcase and sustain our purpose and behaviours in their business areas. We had over 1,200 change makers sign up and we look forward to their continued support in 2025.

As our behaviours show, safety is the first and most important priority for every one of us at Rolls-Royce. In 2024, our total reportable injuries rate continued to decline, reaching 0.29 per 100 employees, a decrease from 2023 (see page 47). This is a positive trend, but even one injury at work is one too many and our mindset is always to drive this to zero. We also provide mission critical products that people's lives depend upon and we continuously strive to make our products even safer. Remaining vigilant and ensuring our culture gives everyone the confidence and tools to speak up about any product safety concern is at the heart of this. No journey to improve safety is ever complete and we must never be complacent. It will remain our first priority.

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

"Safety is the first and most important priority for every one of us at Rolls-Royce." Now let's turn to our progress in delivering on our transformation programme.

#### **Progress on our strategic framework**

#### Portfolio choices and partnerships

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

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

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

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

#### Strategic initiatives

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

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

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

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

## OUR STRATEGIC FRAMEWORK

# Portfolio choices and partnerships

The markets we have chosen to operate in, businesses we want to invest in and the partnerships that will help create truly winning positions.

#### **Strategic initiatives**

How we will create a competitive business, expand our earnings potential and sustainably improve our performance.

# Efficiency and simplification

The importance of a Group-wide focus to drive synergies that will enable us to be more competitive and simplify the way we operate.

# Lower carbon and digitally enabled businesses

Our commitment to the energy transition and capturing the benefits of becoming digitally enabled.

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

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

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

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

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

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

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

#### **Efficiency and simplification**

Significantly improving our cost base means that our commercial improvements and therefore gross margin increases, flow directly to our bottom line. At our CMD, we set out a target of delivering  $\pounds400m-\pounds500m$  of efficiency and simplification benefits across the Group to make us more competitively advantaged, resilient and fit for the future. This target included annualised benefits of approximately £200m from our organisational design programme, reducing layers, removing duplication and driving synergies across the Group to enable simpler, more agile ways of working. To date, we have delivered efficiency and simplification benefits of more than £350m. By the end of 2025, we expect to deliver benefits of more than £500m, two years earlier than planned.

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

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

### Lower carbon and digitally enabled businesses

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

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

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

#### Looking ahead to the mid-term

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

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

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

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

"The performance improvement and the actions required to deliver our targets are owned across the Group and supported through rigorous performance management."

#### Beyond the mid-term

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

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

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

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

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

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

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

**Tufan Erginbilgic**Chief Executive

# Our purpose, vision and behaviours

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



For more information, see the Chief Executive's review on pages 6 to 9

For more information, see People and culture on pages 46 to 50

the things that matter

# **Strategy**

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

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

We have built a world-class product portfolio and deep customer relationships in attractive markets. Our focus now is to translate our technical and market success into strong financial results. This is reflected in our upgraded mid-term targets (see page 21).

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

#### The Rolls-Royce proposition

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

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

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

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

## **OUR TRANSFORMATION**

#### STRATEGIC FRAMEWORK

- Portfolio choices and partnerships
- Strategic initiatives
- Efficiency and simplification
- Lower carbon and digitally enabled businesses

### **DELIVER AS ONE ROLLS-ROYCE**

- Embrace new ways of working and mindset
- Establish a differentiated performance culture
- Execute with strategic clarity
- Externally focused and benchmarking
- Simplified organisation and strengthened capabilities

A HIGH-PERFORMING, COMPETITIVE AND RESILIENT BUSINESS WITH PROFITABLE GROWTH

**GROWING SUSTAINABLE FREE CASH FLOWS** 

STRONG BALANCE SHEET AND GROWING SHAREHOLDER RETURNS

# OUR STRATEGIC FRAMEWORK: DELIVERING SUSTAINABLE GROWTH THROUGH TRANSFORMATION

#### 1. Portfolio choices and partnerships

We have made choices about the markets in which to operate, where to invest and the partnerships that will help create winning positions, based on clear criteria. We only invest where the market is attractive and growing, where we can build an advantaged position, differentiated through strong customer relationships and competitive technology, and where there are high barriers to entry. This allows us to allocate resources more effectively and drive profitable growth.

In Civil Aerospace, we successfully tested our UltraFan demonstrator and continue development to position us as a strong partner for the next generation of narrowbody aircraft. In SMR, we have reached an agreement with the ČEZ Group to deploy up to 3GW of capacity in the Czech Republic and work together to develop projects across Europe. We agreed to sell our US-based naval propulsors & handling business to Fairbanks Morse Defense; completed the sale of Power Systems' lower power range engines business to Deutz; and completed the sale of our direct air capture assets. We also took the decision to close our advanced air mobility activities.



### 2. Strategic initiatives

Enhancing our competitiveness, expanding our earnings potential and sustainably improving our performance relies on the successful implementation of our strategic initiatives. The initiatives are owned by our teams and the process we have put in place ensures that every employee knows their role in delivering against the targets, creating complete alignment with the Rolls-Royce strategy.

We are making good progress against our strategic initiatives. Delivery against these is helping to drive change across the Group, increasing value through top- and bottom-line actions. In Civil Aerospace, we have made significant technical progress in improving time on wing, strengthening our position in large engine aircraft. We further solidified our leadership in business aviation with the G700 entry into service and first flight of the Pearl 10X for our new customer Dassault. In Defence, we made progress on our strategy to grow our combat business, as well as commencing work to double the size of the Rolls-Royce Submarines site in Raynesway, Derby, UK. In Power Systems, actions on pricing and cost control have enhanced margins, allowing for profitable growth. We are particularly well-positioned to benefit from the rapidly growing data centre and governmental markets.



#### 3. Efficiency and simplification

Our Group-wide focus to drive synergies is making us more competitive by delivering significant and recurring operating cost reductions. Key levers include a more efficient and simplified operating model, a refreshed organisational design, changed ways of working, improved investment discipline, as well as more focused management of third-party costs. We now expect to achieve cumulative savings of over £500m

By the end of 2024, we had delivered more than £350m of cumulative benefits, well on track to deliver our target. Clear priorities on capital allocation, driven through a rigorous centralised process, have allowed us to be more focused and enabled investment in key initiatives. We have introduced a new purpose and behaviours, the foundations on which we are building a performance management culture. This is complemented by our new organisational design, which came into effect in the middle of 2024, creating an organisation that is leaner, more focused and with fewer layers.



#### 4. Lower carbon and digitally enabled businesses

We are committed to reaching net zero by the end of 2050, with an interim target of reducing Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline. We support our customers in achieving their ambitions by improving the efficiency of our products, which serve some of the hardest to decarbonise



Digital technology will play an increasingly important role throughout our value chain. We already use data from products in service to create value for ourselves and for our customers. We focus on four areas: enhancing the customer experience; accelerating product design; improving manufacturing; and empowering



Through our UltraFan demonstrator, we are advancing our technologies to improve fuel efficiency. In Defence, having supported the RAF in its testing of SAF blends in Typhoon refuelling missions, the RAF this year began using a blend of SAF with normal jet fuel on routine Typhoon operations for the first time. We have successfully tested our gas variant of the popular mtu Series 4000 engine with 100% hydrogen fuel; and by the end of the year we had been awarded hydrogen-readiness certification by international technical inspection specialists TÜV Süd for our current mtu Series 4000 gas engines. The Rolls-Royce SMR design also entered the final stage of the regulatory licencing process, having completed step 2 in August 2024, which we believe gives us a significant advantage to our competitors.

## Link to KPIs

- A Order backlog
- **B** Underlying revenue
- C Underlying operating profit/(loss)
- D Underlying operating margin
- E Free cash flow

- 3 Strategy

- F TCC/GM
- G Return on capital
- H Gross R&D expenditure
- Gross capital expenditure
- J Safety index
- K Total reportable injuries rate
- Employee engagement
- M Sustainability

#### For more information, see the Chief Executive's review on pages 6 to 9



#### For more information, see Sustainability on pages 32 to 51

# Link to risk

- 1 Safety
- 2 Compliance
- 4 Execution

- 5 Business interruption
- 6 Energy transition
- 7 Information & data
  - Market & financial shock
- 9 Political
- 10 Talent & capability
- 11 Technology

# **External environment**

#### Geopolitical and policy uncertainty

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

#### Rolls-Royce response

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

#### **Economic outlook**

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

#### **Rolls-Royce response**

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

#### Supply chain challenge

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

#### Rolls-Royce response

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

#### Long-term trends

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

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

#### **Rolls-Royce response**

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

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

# **Business model**

# OUR COMMON DRIVERS FOR SUCCESS

Advantaged businesses with strong positions in attractive and growing markets

## **OUR CORE DIVISIONS**

# **CIVIL AEROSPACE**

# **OUR ROLE** IN SOCIETY

#### Connect

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

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

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

>350m

Link to risk



# **OUR BUSINESS** MODEL DRIVERS

# **Differentiated services**

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

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

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

**CUSTOMERS ON** LONG-TERM SERVICE AGREEMENTS

3 out of 5

Link to risk

1 2 3 4 5 6

7 8 9 10 11

## **OUR UNIQUENESS**

#### **Trusted partner**

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

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

**NEW GENERATION** WIDEBODY AIRCRAFT **POWERED BY** ROLLS-ROYCE

4 out of 5

Link to risk

1 3 5 6 7 10 11

# WHAT WE **WILL ACHIEVE**

A HIGH-PERFORMING, COMPETITIVE, RESILIENT AND GROWING BUSINESS

Link to risk

1 Safety

7 Information & data

2 Compliance

8 Market & financial shock 9 Political

3 Strategy

4 Execution

10 Talent & capability

5 Business interruption

11 Technology

6 Energy transition

## ONE ROLLS-ROYCE

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



## **DEFENCE**

#### Protect

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

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

YEARS OF PROVIDING GAS TURBINE POWER FOR DEFENCE CUSTOMERS

>80

# **POWER SYSTEMS**

#### Power

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

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

EXPECTED ANNUAL GROWTH RATE ACROSS OUR POWER GENERATION MARKETS

>10%

#### **Customer-funded growth**

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

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

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

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

>15

#### One core solution addressing multiple markets

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

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

NUMBER OF S4000 ENGINES SOLD ACROSS DIVERSE MARKETS

60k

#### Global access, local presence

We support over 160 customers in over 100 countries. We provide whole engine design, development and manufacturing capability and operational independence in the US, UK and Germany and we work closely with partners in Japan, Italy, Kingdom of Saudi Arabia, India, Republic of Korea, Australia, Spain, and France.

HOME NATIONS WITH WHOLE ENGINE CAPABILITY

3

#### Structural advantage

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

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

MARKET SHARE IN GOVERNMENTAL BUSINESS

>30%



DRIVEN BY COMMITTED EMPOWERED PEOPLE OPERATING IN A PERFORMANCE CULTURE

UNDERPINNED BY OUR PURPOSE AND BEHAVIOURS

Read more about our strategy on pages 11 to 12

Read more about our KPIs on pages 16 to 18

Read more about our principal risks on pages 52 to 60

# **Key performance indicators**

# FINANCIAL PERFORMANCE INDICATORS 1



#### Order backlog (£bn)



#### HOW WE DEFINE IT

Total value of firm orders placed by customers for delivery of products and services where there is no right to cancel. This KPI is the same as the statutory measure for order backlog. See note 2 on page 142 for more information.

#### WHY IT IS IMPORTANT

Order backlog provides visibility of future business activity.

#### LINK TO REMUNERATION

Customer orders drive future revenue growth which, in turn, enables profit and cash flow growth. Profit and free cash flow performance are key financial metrics in the annual Incentive Plan.

#### Underlying revenue (£m)



#### HOW WE DEFINE IT

Revenue generated from operations at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. See note 2 on page 138 for more information.

#### WHY IT IS IMPORTANT

Underlying revenue provides a measure of business growth and activity.

#### LINK TO REMUNERATION

Underlying revenue growth enables profit and cash flow growth, both of which are key financial metrics in the annual Incentive Plan.

# Underlying operating profit/(loss) (£m)



#### HOW WE DEFINE IT

Operating profit generated from operations at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. It excludes M&A, exceptional items and certain other items outside of normal operating activities. See note 2 on page 138 for more information.

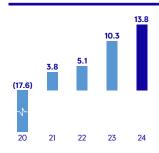
#### WHY IT IS IMPORTANT

Underlying operating profit indicates how the effect of growing revenue and control of our costs delivers value for our shareholders.

#### LINK TO REMUNERATION

Profit is a key financial performance measure for our annual Incentive Plan.

#### **Underlying operating margin (%)**



#### HOW WE DEFINE IT

Underlying operating profit (as defined above) as a percentage of underlying revenue (as defined above). It indicates how much profit the business makes for every one pound sterling of revenue generated.

## WHY IT IS IMPORTANT

Underlying operating margin indicates how effective the business is at converting revenue to profit. A higher margin is an indicator of increased value for our shareholders, as it demonstrates a higher conversion of revenue to profit.

#### LINK TO REMUNERATION

Profit is a key financial performance measure for our annual Incentive Plan and LTIP.

#### Free cash flow (£m)



### HOW WE DEFINE IT

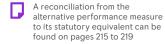
Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid and to exclude amounts spent or received on business acquisitions or disposals, and exceptional restructuring payments. Cash flow from operating activities is our statutory equivalent. See note 28 on page 186.

### WHY IT IS IMPORTANT

Free cash flow is a key metric used to measure the performance of our business and how effectively we are creating value for our shareholders. It enables the business to fund growth, reduce debt and make shareholder payments.

### LINK TO REMUNERATION

Free cash flow is a key financial metric in the annual Incentive Plan and LTIP.



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

# FINANCIAL PERFORMANCE INDICATORS CONTINUED



#### TCC/GM (ratio)



#### HOW WE DEFINE IT

TCC is defined as total underlying cash costs during the year (represented by underlying R&D and underlying C&A) as a proportion of underlying gross profit.

#### WHY IT IS IMPORTANT

This measure provides an indicator of total cash costs relative to gross profit (the percentage of the Group's overheads that are covered by gross profit). A reduction in total cash costs relative to gross profit indicates how effective the business is at managing and/or reducing its costs.

#### LINK TO REMUNERATION

Profit is a key financial performance measure for our annual Incentive Plan.

#### Return on capital (%) 2



#### HOW WE DEFINE IT

Return on capital is defined as net operating profit after tax (NOPAT) as a percentage of average invested capital.

NOPAT is defined as underlying net profit excluding net finance costs and the tax shield on net finance costs. Invested capital is defined as current and non-current assets less current liabilities. It excludes pension assets, cash and cash equivalents and borrowings and lease liabilities. See page 219 for more detail on how we calculate return on capital.

#### WHY IT IS IMPORTANT

Return on capital assesses our efficiency in allocating capital to profitable investments. The more efficient we are as a business in allocating capital to profitable investments, the more profitable we will be.

#### LINK TO REMUNERATION

Profit is a key financial performance measure for our 2024 LTIP.

#### Gross R&D expenditure (£m)



#### HOW WE DEFINE IT

In-year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year.

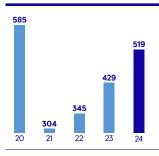
#### WHY IT IS IMPORTANT

This measure demonstrates the balance between long-term strategic investments and delivering short-term shareholder returns.

#### LINK TO REMUNERATION

Disciplined control and allocation of R&D expenditure optimises in-year profit and cash flow performance without compromising long-term growth through innovation. There is a balance of long-term metrics which reward strong financial performance and also relative returns to our shareholders through total shareholder return (TSR) in the LTIP.

#### Gross capital expenditure (£m)



### HOW WE DEFINE IT

In-year gross cash expenditure on capital excluding capital expenditure from discontinued operations.

### WHY IT IS IMPORTANT

This measure demonstrates the balance between long-term strategic investments and delivering short-term shareholder returns.

### LINK TO REMUNERATION

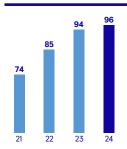
Disciplined control and allocation of capital expenditure optimises in-year profit and cash flow performance without compromising long-term capital requirements. There is a balance of long-term metrics which reward strong financial performance and also relative returns to our shareholders through total shareholder return (TSR) in the LTIP.

<sup>2</sup> Return on capital 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 on page 148 for more details

A reconciliation from the alternative performance measure to its statutory equivalent can be found on pages 215 to 219

# NON-FINANCIAL PERFORMANCE INDICATORS

#### Safety index (%)



#### HOW WE DEFINE IT

The safety index is the leading measure of our safety culture, which was introduced across the Group in 2021. The index consists of a composite score of five leading indicators with each indicator measuring a key element of our safety culture. See page 46 for more information.

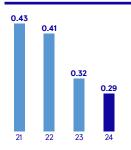
#### WHY IT IS IMPORTANT

The measure is strongly aligned to our strategy of safety being the number one priority with an emphasis on proactive measures.

#### LINK TO REMUNERATION

This metric accounts for 2.5% of the annual Incentive Plan.

#### Total reportable injuries rate



#### HOW WE DEFINE IT

This is a measure of total reportable injuries rate per 100 employees.

#### WHY IT IS IMPORTANT

This is a standard measure of actual safety experience which allows us to benchmark our performance against external peers and to measure progress against our ambition to zero harm.

#### LINK TO REMUNERATION

This metric accounts for 2.5% of the annual Incentive Plan.

#### Employee engagement (%) 3



#### HOW WE DEFINE IT

We measured engagement using the Gallup Q12 survey until 2023. During 2024, we transitioned to a new employee survey, Our Voices, powered by Qualtrics, that provides insights on engagement, inclusion and employee experience relative to our targeted behaviours. As this is the first year for Our Voices, we have benchmarked ourselves against the global manufacturing index, the mean average being 75 and the 75th percentile being 81 for 2024.

#### WHY IT IS IMPORTANT

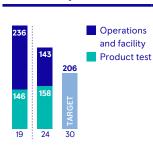
Our people are crucial to delivering our strategy. The Our Voices survey is now the cornerstone of our listening strategy, providing insights into employee engagement, culture and alignment with our strategic objectives.

This is an objective measure of how engaged our employees are with the business and the leadership.

#### LINK TO REMUNERATION

This metric accounts for 5% of the annual Incentive Plan.

#### Sustainability



#### HOW WE DEFINE IT

Operations and facility
Product test testing, measured in kilotonnes of carbon dioxide equivalent (ktCO<sub>2</sub>e).

During 2024, we completed the first phase of a review of our sustainability strategy and have committed to reduce these emissions by 46% by the end of 2030, against a 2019 baseline.

#### WHY IT IS IMPORTANT

The Group is committed to achieving net zero by 2050 and we support our customers to do the same. Playing our part in the energy transition means reducing energy consumption and decarbonising operations and product testing. This will help ensure our facilities and internal supply chains remain resilient in a changing external environment.

#### LINK TO REMUNERATION

This metric will account for 10% of the LTIP for awards granted from 2025, with performance measured against three-year cumulative targets.

For more information on Scope 1+2 emissions, see page 34

For more information on the Our Voices survey, see page 46

<sup>3</sup> External assurance over the employee engagement score is provided by Bureau Veritas. See page 211 for their assurance statement

For more information on our strategic framework, see page 12

# Financial review



# The transformation of Rolls-Royce into a high-performing, competitive, resilient and growing business continues with pace and intensity.

Since I joined Rolls-Royce in mid 2023, I continue to be impressed by our world-leading capabilities, our talented people and the exciting opportunities that our iconic company has to offer. I have had the chance to meet more of our teams in 2024 and visit more of our operations. It is energising to see first-hand the exceptional work being done and how everyone is working together as One Rolls-Royce to unlock our potential.

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

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

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

#### 1. Integrated performance management

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

Five-year plans are now linked to strategic initiatives which are now linked to annual budgets which in turn are linked to in-year performance

management. We rigorously track performance and make interventions proactively. Targets are underpinned and owned across the whole organisation. We drive for everyone to understand the role they play in achieving in-year and strategic performance delivery.

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

#### 2. Commercial and cost optimisation

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

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

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

#### 3. Working capital optimisation

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

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

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

#### 4. Capital framework

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

In line with our capital framework, now that the balance sheet is being strengthened, we are reinstating dividends in respect of the full year 2024. The cash dividend of 6p per share represents a 30% pay-out ratio of profit after tax and will be paid subject to shareholder approval at our AGM which will be held on 1 May 2025. We are also pleased to announce a £1bn share buyback to be completed over the course of 2025. These represent our first dividend in five years and our first buyback in ten years, significant milestones for Rolls-Royce and our shareholders, and a further demonstration of the strategic and financial progress we have made.

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

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

#### 2024 financial performance

2024 has been another year of strong strategic and financial delivery, building on our 2023 performance. Across these two years we have driven significantly improved performance: underlying operating profit has increased by £1.8bn to £2.5bn, operating margin by 8.7pts to 13.8%, free cash flow by £1.9bn to £2.4bn and return on capital has improved by 8.9pts to 13.8%.

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

- Growing and sustainable cash flows: Strong free cash flow of £2.4bn (2023: £1.3bn) was achieved despite a challenging supply chain environment. This was driven by strong operating profit and continued net long-term service agreement (LTSA) balance growth, alongside a working capital release and higher net investments in the year. Civil Aerospace LTSA balance growth net of risk and revenue sharing arrangements (RRSAs) of £0.7bn (2023: £1.1bn) was supported by higher large engine flying hours (EFH) at 103% of 2019 levels (2023: 88%) and an improved EFH rate, partly offset by higher shop visits. Working capital was an inflow of £280m, compared to an outflow of £356m in the prior year. Since 2022, we have increased our net investments by £0.5bn and our working capital programme has helped to drive more than a 45 day improvement in inventory days and a 14 day improvement in days sales outstanding with more than a 40% decrease in overdue debt.
- Strengthening our balance sheet and building resilience: Net cash stood at £475m at the end of 2024. This compares to a £2.0bn net debt position at the end of 2023. Gross debt was reduced by repaying a €550 million bond, and the remaining £1bn UK Export Finance (UKEF) supported undrawn loan facility was cancelled, both enabled by our growing and more resilient cash delivery. Liquidity remained robust at £8.1bn on 31 December 2024 (2023: £7.2bn). Our efforts to strengthen the balance sheet were recognised by all three credit ratings agencies, who rate us at investment grade with a positive outlook. In addition, the operating resilience of the Group has been improved. Total underlying cash costs as a proportion of underlying gross margin (TCC/GM) at year end was a best in class ratio of 0.47x (2023: 0.59x). We are creating a more robust and less volatile free cash flow delivery that is more resilient to the external environment.
- Shareholder distributions: In line with our capital framework, now that the balance sheet is being strengthened, we are reinstating shareholder dividends in respect of the full year 2024. The cash dividend of 6p per share represents a 30% pay-out ratio of underlying profit after tax¹ and will be paid subject to shareholder approval at our AGM on 1 May 2025. We are also pleased to announce a £1bn share buyback to be completed over the course of 2025.

#### 2025 outlook

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

#### **Upgraded mid-term targets**

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

- Civil Aerospace: We target an 18%-20% margin in the mid-term (2024: 16.6%). Higher operating profit will be driven by improved large engine LTSA aftermarket performance, with higher LTSA margins reflecting the benefits of our six levers (extending time on wing, lowering shop visit costs, reducing product costs, keeping engines earning, implementing value-driven pricing, and continuing to drive rigour on contractual terms and conditions). We expect improved large engine OE profitability, both in installed and spare engines, alongside further improvements in business aviation performance. These benefits will be partly offset by a reduced contribution from contractual margin improvements, as we anticipate completing the majority of our remaining onerous contract renegotiations in 2025 and 2026.
- 1 In 2024, the Group recognised a net £346m credit to underlying profit after tax (PAT), primarily in respect of deferred tax assets on UK tax losses. This £346m credit has been adjusted in the calculation of the proposed dividend per share. For further details, see note 5, page 148

- Defence: We target a 14%-16% margin in the mid-term (2024: 14.2%). Higher operating profit will be driven by stronger OE and aftermarket performance, reflecting commercial optimisation benefits supported by our actions taken over the past two years. These benefits will be partly offset by the impact of divestments.
- Power Systems: We target a 14%-16% margin in the mid-term (2024: 13.1%). Higher operating profit will be driven principally by power generation, as we continue to capture profitable growth in the data centre market, alongside governmental, and BESS which we aim to be profitable in the near-term. We also expect continued growth in our marine and industrial businesses.

Free cash flow of £4.2bn-£4.5bn in the mid-term compares to £2.4bn in 2024. The improvement will be driven by higher operating profit alongside a continued benefit in Civil Aerospace net LTSA balance growth at the upper end of the £0.8bn to £1.2bn guided range. LTSA

balance growth reflects growing large EFH to 130%-140% of 2019 levels, and our deliberate actions including driving a higher EFH rate, the benefits of our time on wing initiatives with total shop visits of 1,250-1,350 by the mid-term, alongside continued business aviation growth. Our mid-term targets assume a forecast achieved foreign exchange rate of \$1.31/£ in 2028. Our profit growth will lead to a higher cash tax cost.

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

Helen McCabe

Chief Financial Officer

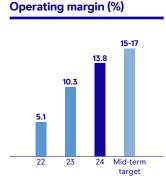
### GROUP MID-TERM TARGETS

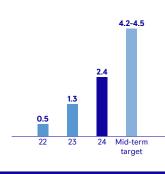
Our mid-term targets shared at our Capital Markets Day (CMD) in 2023 represented a step change in ambition. We continue to build on our world-class engineering heritage to deliver a winning investment proposition.

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

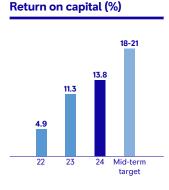
The upgraded mid-term targets are a milestone rather than a destination and we see strong growth, earnings expansion and cash flow potential beyond this timeframe. This is discussed in detail in the Chief Executive's review on pages 6 to 9.







Free cash flow (£bn)



#### Statutory and underlying Group financial performance

			2024			2023
£ million	Statutory	Impact of hedge book <sup>1</sup>	Impact of acquisition accounting	Impact of other non- underlying items	Underlying	Underlying
Revenue	18,909	(1,061)	-	-	17,848	15,409
Gross profit	4,221	(186)	43	13	4,091	3,231
Operating profit	2,906	(191)	45	(296)	2,464	1,590
Gain arising on disposal of businesses	16	-	-	(16)	-	_
Profit before financing and taxation	2,922	(191)	45	(312)	2,464	1,590
Net financing (costs)/income	(688)	419	-	98	(171)	(328)
Profit before taxation	2,234	228	45	(214)	2,293	1,262
Taxation <sup>2</sup>	250	(57)	(11)	(464)	(282)	(120)
Profit for the year	2,484	171	34	(678)	2,011	1,142
Basic earnings per share (pence) <sup>3</sup>	30.05				20.29	13.75

- 1 Reflecting the impact of measuring revenue and costs at the average exchange rate during the year and the valuation of assets and liabilities using the year end exchange rate rather than the rate achieved on settled foreign exchange contracts in the year or the rate expected to be achieved by the use of the hedge book
- 2 Statutory taxation includes the recognition of a deferred tax asset on UK tax losses of £1,033m (of which £508m is included in underlying) and the de-recognition of the deferred tax asset relating to advance corporation tax of £(162)m (of which £(162)m is included in underlying), see note 5, page 148 for further details)
- 3 In 2024, the 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

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

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

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

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

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

#### Free cash flow

			2024			2023
$\mathfrak E$ million	Cash flow	Impact of hedge book	Impact of acquisition accounting	Impact of other non- underlying items	Funds flow	Funds flow
Operating profit	2,906	(191)	45	(296)	2,464	1,590
Depreciation, amortisation and impairment	543	-	(45)	355	853	978
Movement in provisions	(56)	(56)	-	(55)	(167)	(258)
Movement in Civil Aerospace LTSA balance	1,193	(283)	-	-	910	1,331
Movement in RRSA prepayments for LTSA parts	(348)	129	-	-	(219)	(252)
Movement in cost to obtain contracts	(19)	1	-	-	(18)	(40)
Settlement of excess derivatives	(146)	-	-	-	(146)	(389)
Interest received	269	-	-	-	269	159
Other operating cash flows <sup>1</sup>	61	(5)	-	(13)	43	(68)
Operating cash flow before working capital and income tax	4,403	(405)	-	(9)	3,989	3,051
Working capital <sup>2</sup>	436	(271)	-	115	280	(356)
Cash flows on other financial assets and liabilities held for operating						
purposes	(676)	652	-	-	(24)	8
Income tax	(381)	-	-	-	(381)	(172)
Cash from operating activities	3,782	(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	100	_	_	(106)	(6)	(17)
Free cash flow	2,425	-	-	-	2,425	1,285

Other operating cash flows includes profit/(loss) on disposal, share of results and dividends received from joint ventures and associates, flows relating to our defined benefit post-retirement schemes, and share based payments
 Working capital includes inventory, trade and other receivables and payables, and contract assets and liabilities (excluding Civil Aerospace LTSA balances, prepayment to RRSAs and costs

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

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

**Movement in provisions** of  $\mathfrak{L}(167)$ m driven by movements across several provisions, including contract losses, warranty and guarantees, Trent 1000 and transformation and restructuring.

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

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

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

**Income tax** of  $\mathfrak{L}(381)$ m, net cash tax payments for 2024 were higher than the prior year ( $\mathfrak{L}(172)$ m) due to timing of payments.

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

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

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

Balance sheet			
£ million	2024	2023	Change
Intangible assets	4,402	4,009	393
Property, plant and equipment	3,724	3,728	(4)
Right-of-use assets	761	905	(144)
Joint ventures and associates	592	479	113
Civil Aerospace LTSA <sup>1</sup>	(10,184)	(9,080)	(1,104)
RRSA prepayments for LTSA parts <sup>1</sup>	1,668	1,320	348
Costs to obtain contracts <sup>1</sup>	135	116	19
Working capital <sup>1</sup>	(1,731)	(1,502)	(229)
Provisions	(1,994)	(2,029)	35
Net cash/(debt) <sup>2</sup>	475	(1,952)	2,427
Net financial assets and liabilities <sup>2</sup>	(1,980)	(2,060)	80
Net post-retirement scheme deficits	(191)	(253)	62
Taxation	3,383	2,605	778
Assets and liabilities held for sale <sup>3</sup>	53	54	(1)
Other net assets and liabilities	6	31	(25)
Net liabilities	(881)	(3,629)	2,748
Other items			
US\$ hedge book (US\$bn)	19	15	

1 The total of these lines represent inventory, trade receivables and payables, contract assets and liabilities and other assets and liabilities in the statutory balance sheet

2 Net cash includes £33m (2023: £23m) of the fair value of derivatives included in fair value hedges and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges

3 Assets and liabilities held for sale relate to the sale of the naval propulsors & handling business. During the year, the Group disposed of part of Power Systems' lower power range engines business that was held for sale in 2023

Key drivers of balance sheet movements were:

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

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

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

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

**Net cash/(debt):** Increased to £475m from £(2.0)bn driven by a free cash inflow of £2.4bn. Our liquidity position is strong with £8.1bn of liquidity including cash and cash equivalents of £5.6bn and undrawn facilities of £2.5bn. During the year, the Group repaid a €550m bond in line with its maturity date. Net cash included £(1.6)bn of lease liabilities (2023: £(1.7)bn).

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

# **Our divisions**

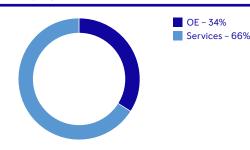


# CIVIL AEROSPACE



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

Underlying revenue mix



Underlying revenue mix by sector



UNDERLYING REVENUE

2023: £7.348m

£9,040m

UNDERLYING OPERATING PROFIT

£1,505m

2023: £850m

UNDERLYING OPERATING MARGIN

16.6%

2023: 11.6%

ORDER BACKLOG

£59.9bn

2023: £55.2bn

#### Market overview

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

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

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

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

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

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

In 2024, we saw higher shop visit volumes, as expected. These are required to maintain and repair our growing installed engine fleet. The supply chain environment remains challenging. Reflecting this, we have booked additional charges in 2024. However, we continue to work with focus and intensity across our supply chain to support growing OE and aftermarket volumes.

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

### Financial performance

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

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

Our efforts to improve the commercial terms and reduce costs across our large engine and business aviation contracts supported total

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

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

#### Key operational metrics

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

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

contractual margin improvements of £617m in the year. These benefits were partially offset by £382m of additional charges largely associated with the impact of prolonged supply chain challenges, which were booked across onerous provisions and contract catch-ups. As a result, net contractual margin improvements were £235m (2023: £(54)m), comprising contract catch-ups of £290m (2023: £(29)m) and net onerous provision charges of £(55)m (2023: £(25)m).

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

### Operational and strategic progress

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

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

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

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

#### Outlook

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

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

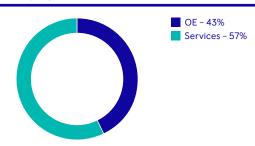


# **DEFENCE**



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

#### Underlying revenue mix



UNDERLYING REVENUE

£4,522m

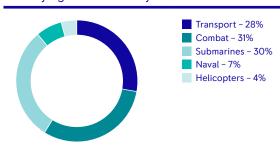
2023: £4.077m

UNDERLYING OPERATING PROFIT

£644m

2023: £562m

#### Underlying revenue mix by sector



UNDERLYING OPERATING MARGIN

14.2%

2023: 13.8%

ORDER BACKLOG

£17.4bn

2023: £9.2bn

#### Market overview

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

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

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

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

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

#### **Financial performance**

Revenue increased by  $13\%^1$  to £4.5bn (2023: £4.1bn). Growth was led by submarines which reported growth of  $53\%^1$  while transport and combat were broadly flat, as the supply chain constrained OE volumes. Total OE revenues grew by 11% versus last year to £1.9bn driven by increased submarines volumes, including the ramp up of the AUKUS programme. Services revenues grew by 13% to £2.6bn¹ supported by a more favourable shop visit mix and improved pricing.

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

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

### Operational and strategic progress

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

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

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

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

	2024	2023	Change
Trading cash flow	591	511	80

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

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

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

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

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

Additionally, 2024 saw us commence manufacturing parts for SSN-AUKUS boats, with long-lead components currently being worked on in our manufacturing facility. We successfully opened the 13,000m² warehousing facility, named Derwent Park, which sits behind our Raynesway site in Derby, UK. We also opened a satellite site in Glasgow, with an additional site in Cardiff nearing completion. Both sites will generate over 200 new jobs for the regions.

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

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

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

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

### **Outlook**

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

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

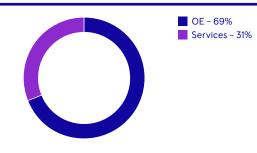


# POWER SYSTEMS



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

#### Underlying revenue mix



UNDERLYING OPERATING PROFIT

£4,271m

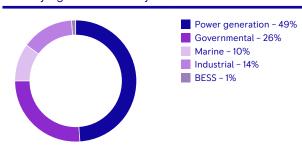
2023: £3,968m

UNDERLYING REVENUE

£560m

2023: £413m

#### Underlying revenue mix by sector



UNDERLYING OPERATING MARGIN

**13.1%** 

2023: 10.4%

ORDER BACKLOG

£4.8bn

2023: £4.1bn

#### Market overview

Our Power Systems business serves five distinct end markets.

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

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

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

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

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

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

#### Financial performance

Underlying revenue was £4.3bn, an increase of 11% versus the prior year, with particularly strong growth in power generation, where revenues grew by 25%, and by 46% for data centres. Revenue growth

was also strong in governmental at 17%, reflecting continued demand for land defence and naval products. Industrial revenues were 20% lower, largely as a result of the disposal of the lower power range of off highway engines. Underlying OE revenues grew by 14% to £2.9bn. Underlying services revenue grew by 5% to £1.3bn.

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

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

### Operational and strategic progress

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

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

Trading cash flow

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

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

2023

461

Change

(9)

2024

452

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

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

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

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

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

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

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

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

#### Outlook

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

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





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

#### Market overview

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

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

#### Financial performance

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

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

#### Operational and strategic progress

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

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

In 2024, Rolls-Royce SMR was named as the preferred supplier for the construction of SMRs by the Government of the Czech Republic and the Czech State utility, ČEZ Group. This represents an exclusive commitment to deploy up to 3GW of electricity in the Czech Republic.

Furthermore, this position is strengthened by a strategic investment by ČEZ Group into Rolls-Royce SMR, which we announced in the last quarter of the year. This partnership also enhances Rolls-Royce SMR's position as Europe's most advanced SMR technology, and puts ČEZ Group, Rolls-Royce SMR, and its existing shareholders, BNF Resources, Constellation, QIA and Rolls-Royce at the forefront of SMR deployment.

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

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

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

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

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

### Outlook

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

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

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

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

# Sustainability

Rolls-Royce is a force for progress, committed to playing our part in the energy transition for a more sustainable world.

# NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT



The following table summarises where you can find further information on each of the key areas of disclosure required by sections 414CA and 414CB of the Companies Act. The Companies (Strategic Report) (Climate-related Financial Disclosure) Regulations 2022 amend these sections of the Companies Act 2006, placing requirements on the Group to incorporate climate disclosures in the Annual Report. We believe these have been addressed within the climate-related disclosures on pages 34 to 45 and as such we have referenced the location of these within our statement on TCFD on page 36.

AREA	OVERVIEW	RELATED GROUP POLICIES & GUIDANCE	RELEVANT PRINCIPAL RISKS	PAGE
Environmental matters and climate-related disclosures	We have an important role to play in the global energy transition and it continues to be a strategic priority. During 2024, we completed the initial phase of a sustainability strategic review, during which, the Board and Executive Team reconfirmed their commitment to becoming a net zero company by 2050. We will also continue to focus on helping our customers to deliver their own sustainability agendas.	<ul> <li>Health, safety &amp; environment</li> </ul>	<ul><li>Safety</li><li>Energy transition</li></ul>	34 to 45
Employees	One of our new behaviours 'Put safety first' (see page 46) reinforces that safety, health and wellbeing are central to everything we do, and encourages a speak up culture. We recognise the impact that employee health and wellbeing – both physical and mental – has on the safety of our people, products and processes. As well as adhering and complying with Our Code and Group policy framework, employees also undertake our annual mandatory learning programme which centres around our values and behaviours and our safety, security and legal obligations.	<ul> <li>Our Code</li> <li>Security</li> <li>People</li> <li>Speak up</li> <li>Our life-saving rules</li> </ul>	<ul><li>Safety</li><li>Talent &amp; capability</li></ul>	46 to 51
Social matters	We are passionate about supporting young people – particularly those who are underrepresented in our industry and underserved in the community – to engage and participate in science, technology, engineering and maths (STEM) learning opportunities. Our target is to inspire 25 million of 'tomorrow's pioneers' by 2030. We do this by partnering with organisations that deliver high quality STEM learning experiences which are presented to and reviewed by our global network of charitable contributions and social sponsorships committees.	Charitable contributions and social sponsorships	- Political	49
Human rights	We are committed to protecting and preserving all internationally recognised human rights of everyone who may be impacted by our business activities along our value chain. This includes upholding the principles set out in our global policies and processes to fulfil our legal obligations and avoid any potential complicity in human rights violations. In 2024, we have enhanced our human rights risk management framework to ensure that we take appropriate action to prevent, minimise, mitigate and, where necessary, remedy human rights related risks.	<ul> <li>People</li> <li>Diversity, inclusion and belonging</li> <li>Human rights</li> <li>Data privacy</li> <li>Modern slavery statement</li> </ul>	- Compliance	51
Anti-bribery and corruption	We do not tolerate bribery and corruption in any form, as set out in Our Code and associated anti-bribery and corruption policy. We routinely check and test the effectiveness of our anti-bribery and corruption programme to manage proactively the associated risks (see page 51). We conducted a deep dive review of anti-bribery and corruption risks which was presented to the Board in July. Follow up actions include monthly sessions with the Chief Financial Officer and General Counsel to ensure actions to mitigate risks are progressing in a cohesive manner.	<ul> <li>Anti-bribery and corruption</li> </ul>	- Compliance	51

#### Relevant information

For a description of our business model, see pages 14 and 15

For details of the Group's principal risks, see pages 52 to 60

For a description of our non-financial KPIs, see page 18

Further information on Group policies can be found on www.rolls-royce.com

## 2024 HIGHLIGHTS

Launched our new purpose and behaviours

Completed the first phase of the sustainability strategic review

Announcement of Rolls-Royce as part of a landmark UK-Qatar climate technology partnership

Employee health and wellbeing, both physical and mental, directly impact the safety of our people, products and processes. We support colleagues in leading healthy lifestyles and maintaining overall wellbeing. We believe all incidents are preventable, focusing on proactive risk management as the foundation of our safety culture and a driver of our zero-harm strategy.

In 2025, we will continue embedding our new purpose and behaviours, reinforcing new ways of working, to drive efficiency, operational excellence and strategic execution. Our focus remains on building a sustainably distinctive business that benefits all our stakeholders.

Rolls-Royce is a force for progress, committed to making a difference by reaching net zero by the end of 2050. In 2024, we completed the first phase of a sustainability strategy review focusing on the energy transition. As part of this review, the Board and Executive Team reconfirmed their commitment to interim targets for Scope 1 + 2 emissions in line with our longer-term net zero goals.

We continue our focus on delivering new products and solutions that can accelerate the global energy transition with a number of achievements including the Rolls-Royce SMR design completing stage two of the UK Generic Design Assessment (GDA) process; our microgrid in Pusane, India, which won the German Sustainability Award; and the UltraFan team who was awarded a Royal Aeronautical Society team gold medal for their major contribution to the advancement of aerospace engineering.

We are committed to increasing access to quality education and supporting underrepresented young people in STEM, helping them achieve their aspirations and overcome barriers to success. We reached over one million people through STEM in 2024, progressing 45% towards our goal of inspiring 25 million young innovators by 2030 (see page 49).

We continue to drive an organisation that is unwavering in its support for a true meritocracy. In 2024, our efforts have been focused on tackling systemic barriers to the identification, progression, and retention of the best people throughout the Group to ensure that talent has equitable access to opportunities and can truly thrive.

We maintain the highest standards of ethics and compliance and as such engage with our employees on the important role they play in maintaining our high standards and living up to our company behaviour to do the right thing. Our annual mandatory learning programme, included core compliance learnings relating to gifts and hospitality policies, data privacy and export control. We ask all our employees to annually certify their understanding of Our Code.

In April 2024, we received official confirmation that we had been released from monitorship and the completion of leniency agreement with a CGU in Brazil.

We continued to focus on our human rights risk management framework to ensure that we take appropriate action to prevent, minimise, mitigate and, where necessary, remedy human rights related risks. Our framework includes processes, methods and tools to regularly assess our own operations and those of our suppliers.

We strive to operate responsibly and use the UN Sustainable Development Goals (SDGs) to guide areas of focus. As we complete further phases of our sustainability strategic review, we will continue to refine our alignment to the wider UN SDGs with a 2025 focus on responsible consumption and the social impacts on our people and communities. We also routinely benchmark performance in environmental, social and governance (ESG) assessments such as the Dow Jones Sustainability Index and the CDP.

#### ROLLS-ROYCE IS A FORCE FOR PROGRESS FIND OUT MORE WE ARE COMMITTED TO **UN SDG ALIGNMENT** Helping the world do things tomorrow that Pages 34 to 35 **Energy transition** cannot be done today and play our part in the and climate energy transition for a more sustainable world Pages 46 to 50 People and culture Being socially responsible: creating a positive impact for our people and our stakeholders **Ethics and** Operating ethically: living our behaviours in Page 51 accordance with our Group policies compliance

# **Energy transition and climate**

# We are committed to reaching net zero by the end of 2050.

## **OUR PROGRESS IN 2024**

UltraFan team awarded the Royal Aeronautical Society gold medal for their major contribution to the advancement of aerospace engineering

Power System's microgrid in India received the German Award for Sustainability Projects in the technology-energy category

Rolls-Royce SMR design completed step two of the UK Generic Design Assessment for nuclear power plants

We recognise the important role we play in the global energy transition and it continues to be a strategic priority. In 2024, we completed the first phase of a sustainability strategic review with a focus on energy transition. The review focused on key areas that are within our control as well as those that we need to support, influence and partner within our sectors. The review reconfirmed our commitment to reaching net zero by the end of 2050 by delivering the interim and long-term targets which now include product testing. These targets are:

- reduce Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline;
- reduce Scope 1 + 2 emissions to a net zero position by the end of 2050;
- demonstrate that all our products are compatible with net zero operations by the end of 2050;
- support the achievement of the industry net zero Scope 3, category
   (use of sold products) greenhouse gas emissions by the end of
   2050 in line with a science based trajectory.

Recognising the importance of decarbonising our own operations, 10% of our 2025 long-term incentive plan (LTIP) will be linked to delivering progress to the 2030 reduction target for Scope 1 + 2 emissions (see page 18 for further details).

Our strategy focuses on four pillars:

- decarbonising our operations, facilities, product testing and business activities;
- 2. enabling our customers to operate their products in a way that is compatible with low or net zero carbon emissions;
- delivering new products and solutions that can accelerate the global energy transition; and
- 4. supporting the necessary enabling environment, with public and policy support, to achieve our collective climate goals.

The following pages outline the progress we have made in advancing our strategy as well as the progress against our targets in 2024. We also outline our approach to assessing strategic resilience in the face of climate change through alignment with our Task Force on Climate-related Financial Disclosures (TCFD) reporting (see page 36).

# Decarbonising our operations, facilities, product testing and business activities

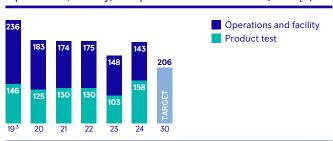
Playing our part in the energy transition means reducing energy consumption and decarbonising operations and product testing. This will help ensure our facilities and internal supply chains remain resilient in a changing external environment. We continue to make progress in decarbonising our global operations. Our total annual Scope 1 + 2 emissions, those associated with our operations, facilities, testing and business activities, comprised 301 ktCO $_2$ e in 2024, a 50 ktCO $_2$ e increase compared to 2023.

These emissions included 143 ktCO $_2$ e from facilities and operations and 158 ktCO $_2$ e from testing activity. We continued to reduce our operational emissions by a further 5 ktCO $_2$ e, a 3% improvement compared with 2023. The overall increase in total Scope 1+2 emissions was driven by an increase in product development testing, 55 ktCO $_2$ e.

The additional testing was in support of Trent XWB-84 EP certification. The main tests completed were a cyclic development test and a 150 hours certification test. The Trent XWB-84 EP achieved certification in December 2024 and builds on the proven track record of the Trent XWB-84, already celebrated as the world's most efficient large aero engine in service. Cutting-edge advances in aerodynamics and engine design allow us to further optimise performance, unleashing a 1% improvement in fuel efficiency and  $\text{CO}_2$  emissions, whilst further advancing our industry-leading reliability and durability.

Safety is our number one priority. Product testing is a critical part of our product safety assurance approach as well as a core part of the engine certification programmes that help us to deliver more efficient and lower emissions products. We recognise the potential for these activities to increase our emissions in the short term but they do not affect our commitment to an emissions reduction plan.

### Operations, facility, and product test emissions (ktCO<sub>2</sub>e)<sup>1,2</sup>



- 1 External assurance over Scope 1 + 2 data is provided by Bureau Veritas. See page 211 for their sustainability assurance statement
- 2 Data has been reported in accordance with our basis of reporting, available at www.rolls-royce.com/sustainability
- 3 2019 baseline

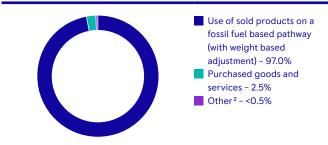
We continue to use sustainable aviation fuel (SAF) blends across our Civil Aerospace and Defence UK testing activities to help mitigate some of these emissions. Since October genset testing in Friedrichshafen, Germany has been using 3.4% hydrotreated vegetable oil (HVO) fuel.

Following completion of the first phase of our sustainability strategic review, we are announcing a new interim target to reduce our total Scope 1+2 emissions by 46% by 2030, from a 2019 baseline. This target brings product test into the scope of our emissions reduction targets for the first time and is aligned with a 1.5°C emissions reduction trajectory.

This target will be achieved through a combination of procuring clean energy, reducing overall energy demand and clean power generation. This latter element will utilise our own technology portfolio, including the commissioning of a battery installation for the logistics centre in Friedrichshafen, Germany.

Part of the next phase of our sustainability strategic review will include emissions sources beyond those within our immediate control (Scope 3). The emissions in our supply chain (Scope 3, category 1, purchased goods and services) account for approximately 2.5% of our total emissions and, as such, are our second largest emission category after the emissions from our products in operation (Scope 3, category 11, use of sold products emissions). Our Scope 3, category 1 emissions were estimated as 2.18 MtCO $_2$ e in 2024.

#### Total emissions footprint percentage split (%)

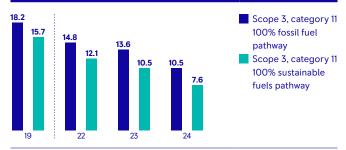


- 1 Data has been reported in accordance with our basis of reporting, available at www.rolls-rovce.com/sustainability
- 2 Other emissions calculated based on Scope 1+2 actuals for 2024 and Scope 3 estimations from 2019

# Enabling our customers to operate their products in a way that is compatible with low or net zero carbon emissions

The biggest contribution that Rolls-Royce can make to the global energy transition is to ensure the sectors we operate in (transport, energy and power generation) are compatible with net zero carbon emissions. Scope 3, category 11 emissions, those associated with the use of our sold products by our customers, are approximately 97% of our emissions and therefore dominate our emissions footprint. We are committed to working with our customers to enable them to operate these products in a way that is compatible with net zero emissions. We continue to see a reduction in Scope 3, category 11 emissions intensity driven through the sale of more efficient products and a shift in Power Systems' portfolio to lower emission applications.

# Use of sold products emissions intensity with weight based adjustment (ktCO<sub>2</sub>e/£m OE revenue)<sup>3,4</sup>



- 3 Absolute Scope 3, category 11 emissions are available on page 42
- 4 Data has been reported in accordance with our basis of reporting, available at www.rolls-royce.com/sustainability

To help our customers operate to the latest emissions standards, Rolls-Royce now offers the mtu Series 1163 and 8000 large engines in all cylinder variants in the power range between 4,800 and 10,000 KW with Selective Catalytic Reduction system for compliance with emission stage International Maritime Organisation Tier III.

Civil Aerospace made progress towards net zero operations using hydrogen as a fuel through the development and patenting of a series of components that make up a hydrogen injector for the Pearl GH2 demonstrator engine. The injector will be used in a Pearl 15 GH2 demonstrator engine to help us form the first commercial hydrogen powered solution in the industry.

The UltraFan team were awarded a Royal Aeronautical Society team gold medal for their major contribution to the advancement of aerospace engineering. UltraFan is the world's largest demonstrator aero engine containing a suite of scalable new technologies that deliver greater fuel efficiency. By enabling lower emissions and advancing sustainable practices, UltraFan contributes significantly to the aerospace industry's goal of achieving net zero carbon emissions by 2050. The demonstrator was successfully tested using 100% sustainable aviation fuel.

# Delivering new products and solutions that can accelerate the global energy transition

Beyond mitigating emissions associated with existing products and markets, we continue to develop technologies that can support the acceleration of the energy transition. Through the provision of low carbon and net zero technologies, we can help to abate emissions outside of our own emissions footprint in support of national and international climate policy goals.

Our strategy includes the development and deployment of small modular reactors (SMRs). This technology can play a vital role in decarbonising the global energy mix and in meeting increasing demand for clean electricity.

During 2024, the Rolls-Royce SMR design completed stage two of the UK GDA process. In addition, Rolls-Royce SMR was named as preferred supplier to the Czech Republic utility company, ČEZ Group. This decision strengthens our position in Europe as a leading SMR technology and will create jobs, enable decarbonisation, reduce the reliance on imported energy and support the global effort to reach net zero. Rolls-Royce SMR is also one of the final two SMR technologies in Sweden's SMR selection process.

In Power Systems, we see battery energy storage solutions as a growth area which complements our existing expertise in stationary power generation. Energy storage will play a critical role in stabilising intermittent renewables as part of the global energy transition.

In 2024, Power Systems was selected to supply an *mtu* battery energy storage system (BESS) with an output of 12 MW and a storage capacity of 24 MWh to Encavis AG. We will supply and install the energy storage system on a turnkey basis. It is expected to go into operation in the first quarter of 2025. In addition to this, Latvian transmission system operator Augstsprieguma tikls has ordered an *mtu* large-scale battery storage system to secure the Latvian power grid. Power Systems will supply an *mtu* EnergyPack QG large-scale battery storage system with an output of 80 MW and a storage capacity of 160 MWh. This makes the system one of the largest battery storage systems in the EU, supporting Latvia and other Baltic states to synchronise their energy supply with the continental European power grid in 2025.

Our microgrid in Pusane, India, won the German Sustainability Award. The microgrid consists of solar modules with 88.11 KWp as the main power source and a battery storage system with a capacity of 117.18 kWh for storing electrical energy. It will serve as the sole power source for Pusane village.

# Support the necessary enabling environment, with public and policy support, to achieve our collective climate goals

Our ability to deliver our strategy and to support our customers and government partners to meet their own climate goals is highly dependent upon a supportive external environment. We continue to actively engage policy makers, regulators and others to advocate for the necessary policy and economic support we have identified. During 2024, this included:

- Rolls-Royce being part of the landmark UK-Qatar climate technology partnership announced by the UK Prime Minister in December 2024;
- joining the Americans For Clean Aviation Fuels (ACAF) coalition, bolstering policy advocacy in the United States alongside aerospace and energy industry partners;
- presenting an International Civil Aviation Organization (ICAO)
   ACT-SAF webinar 'Update on 100% SAF testing and recent achievements'
- continued membership of the Alliance for Zero Emission Aviation (AZEA); and
- continued membership of the Renewable and Low-Carbon Fuels Value Chain Industrial Alliance (RLCF).

# Task Force on Climate-related Financial Disclosures statement

We continue to build our understanding of climate-related risks and opportunities to ensure we are strategically prepared for a climate-impacted future and able to seize commercial opportunities that arise from the energy transition. These activities in turn help to support our Task Force on Climate-related Financial Disclosures (TCFD) reporting.

In our 2023 Annual Report, we confirmed a position of consistency with nine of the 11 recommendations under the TCFD framework. We reported partial consistency against Strategy C and Metrics and targets C recommendations. In 2024, we improved in all areas of the TCFD recommendations. With the improvements made against Strategy C and Metrics and target C, we are now consistent with all 11 recommendations.

Through the first phase of our sustainability strategic review we have made considerable progress across the spectrum of TCFD pillars. This includes:

- strengthening Executive Team and operation management governance (see page 37);
- defining interim targets (see page 34);
- reviewing and refining our climate scenarios (see pages 38 to 41);
   and
- completing a long range qualitative assessment of the organisation's strategy and the resilience with respect to climate scenarios (see page 41).

#### Strategy C - resilience of the organisation's strategy

In 2023, the quantitative assessment of resilience of the organisation's strategy was only completed to a ten-year (medium-term) time horizon.

This meant that we could show only partial consistency with the Strategy C recommendation as most of the risks are expected to materialise after this period. In 2024, Rolls-Royce re-ran the quantitative assessment for ten years and, in addition, completed a qualitative assessment to 2050 (long term). This long-term assessment covered the expected period of risk and opportunities to materialise. The assessment identified no new risks or opportunities to be considered and that at this time we believe we would be able to detect and respond to any impact on demand, cost or competitive position. This assessment confirmed the resilience of our strategy in the long-term and as such means we now believe we show consistency with the Strategy C recommendation.

#### Metrics and targets C - presence of targets

Our sustainability strategic review defined an interim target for 2030 to support the mitigation of risk, realise opportunities and manage performance. The defined target is:

- reduce Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline.

This target was used as part of the sustainability strategic review to develop a granular delivery plan for Scope 1 + 2 reduction and the required investments to be included in the five-year plan. We believe this target, and the work it has informed, now brings Rolls-Royce back into consistency with Metrics and targets C to reach net zero by the end of 2050.

#### **TCFD** recommendations

	RECOMMENDATION	CONSISTENCY	PAGE	CA 414CB1
Governance	A Board oversight of climate-related risks and opportunities	•	37	CA s414CB(a)
	Management's role in assessing and managing climate-related risks and opportunities	•	37	CA s414CB(a)
Strategy	The organisation's identification of climate risks and opportunities it faces over the short, medium and long term	•	38	CA s414CB(d)
	B Consideration of the impact of climate risks and opportunities on the organisation's business, strategy and financial planning	•	38	CA s414CB(e)
	Resilience of the organisation's strategy, taking into consideration different climate-related scenarios	•	40	CA s414CB(f)
Risk management	Presence of the organisation's processes for identifying and assessing climate-related risks	•	38	CA s414CB(b)
	B Processes for managing climate-related risks including prioritisation methods	•	38	CA s414CB(b)
	Processes for identifying, assessing and managing climate-related risks are integrated into overall risk management	•	38	CA s414CB(c)
Metrics and targets	A Disclosure of metrics used to assess climate risks and opportunities in line with strategy and risk management processes	•	42	CA s414CB(h)
	B Disclosure of material greenhouse gas emissions and the associated risks	•	42	_
	Presence of targets used to manage climate-related risks and opportunities and performance against such targets	•	42	CA s414CB(g)

1 Companies Act 2006, s414CB(2a)-(2h)

#### Governance

Sustainability and climate are embedded within our Group governance framework, risk management system and operating model. The Board has oversight of climate-related risks and opportunities impacting the Group. All Board Committees include an aspect of sustainability within their remit. The Executive Team is responsible for the delivery of our climate strategy, including associated targets and transition plans, and for ensuring the assessment of and appropriate response to climate-related risks and opportunities throughout our business model and activities.

In 2024, we reviewed our governance structure at both an Executive Team and operational management level to reflect the changes in our business model and wider strategy. These changes have strengthened the focus on:

- integration across all ESG topics;
- strategy prioritisation;
- robust operational planning and delivery; and
- disclosure and data control.

#### **Board**

The Board has oversight of sustainability, including climate-related risks and opportunities impacting the Group. Some specific elements of those oversight responsibilities are delegated to committees of the Board.

After each Committee meeting, the Committee chair reports back to the Board on topics discussed. During 2024, the Board reviewed and approved the first phase of our sustainability strategic review, company targets, and the impact upon our climate-related disclosures.

The Safety, Energy Transition & Tech Committee oversees the Group's sustainability strategy, priorities and progress and has delegated responsibility to review the principal risk relating to climate change. It receives reports from the sustainability team and is updated on the discussions held at the executive-level energy transition & technology committee. In 2024, the Safety, Energy Transition & Tech Committee oversaw the first phase of the sustainability strategy review and agreed the delivery plans and targets that were developed.

The Audit Committee is responsible for reviewing and approving the content of our TCFD recommendations and noted progress as preparations were being made for the disclosures in this report. The Committee also ensures that, where material, the impact of climate change is reflected in the financial statements and disclosed appropriately. In 2024, the Audit Committee reviewed and agreed the approach to be ready for incoming sustainability legislation, including

the EU Corporate Sustainability Directive (CSRD) and the expected inclusion of the International Sustainability Standards Board (ISSB) general and climate requirements into UK Corporate Governance.

The Remuneration Committee determines our remuneration policy, and in 2024 approved that 10% of our 2025 LTIP be linked to delivering progress to the 2030 reduction target for Scope 1 + 2 emissions.

The Nominations, Culture & Governance Committee reviews the Board's skills and oversees membership of each of the Board Committees and terms of reference, ensuring that the Board's governance and oversight of ESG matters, including climate, is appropriate.

#### **Management**

The Executive Team is responsible for managing sustainability, including climate-related risks and opportunities on a day-to-day basis and for delivering the programmes and plans to achieve our sustainability goals, including decarbonisation.

The energy transition & technology committee, which meets four times a year, is a sub-committee of the Executive Team and is responsible for formulating and overseeing the Group's response to climate change and the energy transition and its technology portfolio. The committee also reviews investment decisions and projects where they relate to the energy transition or have an impact on mitigating Scope 1 + 2 or Scope 3 emissions. The committee is chaired by the Chief Executive and all members of the Executive Team are invited to participate. The committee regularly reports to the Safety, Energy Transition & Tech Committee. The energy transition & technology committee receives regular updates from our sustainability steering committee, which specifically oversees progress against our sustainability programme, including climate. In 2024, the energy transition & technology committee provided guidance and oversight of the sustainability strategic review and provided updates to the Safety, Energy Transition & Tech Committee on progress. The committee also reviewed and agreed the five-year plan inputs required to deliver against the 2030 Scope 1 + 2 target. The outputs from the energy transition risk deep dive were also reviewed by the committee.

The sustainability steering committee comprises core functional and capability representatives from the Executive Team, including the Chief Transformation Officer, General Counsel, Chief Financial Officer, Chief People Officer and Group Director of Engineering, Technology and Safety. The committee meets quarterly as a minimum, or more regularly to meet business needs. It provides regular steering and oversight of the sustainability strategy and progress made against our sustainability strategy implementation and goals.

#### Sustainability governance structure



#### Assessing strategic resilience

We assess our resilience over three time horizons: short term (less than five years), medium term (five to ten years) and longer term (ten years plus). This year we have focused on a qualitative assessment in the long term and re-ran a quantitative assessment in the short and medium term.

We use climate scenarios to test our strategic planning. We test against our business planning baseline to assess potential risks to our financial performance and to identify ways to mitigate our exposure to these risks. The output of these assessments helps inform our wider business planning and decision making, including our technology portfolio and investment decisions, as well as our related engagement activities.

Three potential futures have been considered, (see page 39), based on independent external climate scenarios that present plausible levels of global temperature rise and associated policy responses. These scenarios are not predictions or forecasts but future possibilities which enable us to explore the physical and transition risks and opportunities associated with climate change that may manifest over short-, mediumand longer-term horizons.

The primary question our assessment considers is to what extent do the climate scenarios manifest as risks and opportunities to the business? This includes assessment of potential impacts on market dynamics and demand; cost exposure, for instance carbon pricing; and physical impact of climate change on operations, including site-based impacts.

From this primary question, the questions assessed under each scenario include:

- how does the scenario impact the life or risk exposure of assets?
- how does the scenario impact future revenue projections?
- how does the scenario impact future profitability projections?
- what additional costs or revenues may occur under each scenario?

The outputs of this exercise inform our climate-related risk management process.

In 2024, we have followed a three-step process:

- identify, review and confirm key and emerging risks and opportunities;
- 2. confirm key scenarios and assumptions; and
- 3. model the potential impact of each risk.

#### Climate-related risks and opportunities

The identification, assessment and management of climate-related risks and opportunities is undertaken as part of our enterprise risk management framework in line with the TCFD Technical Supplement (see page 52). One of the ways climate-related risks and opportunities are identified is through the emerging risk process (see page 54). The Group regulatory horizon scanning process also helps us prepare to comply with incoming changes in environmental, social and corporate governance practices and disclosure requirements.

Once a risk is identified, the framework includes a requirement for risk owners to decide on and document their response to an identified risk. Although there are some examples where the risk can be transferred, in most cases risks are accepted and require mitigation, such as effective controls and/or a plan of action. These are monitored through our risk management effectiveness reviews (see page 52) with a focus on control effectiveness. The determination of risk materiality is based on gross and current (i.e. net) risk assessments, using Group-wide scoring criteria for impact and likelihood. These criteria are used for divisional and functional key risks as well as principal risks with the

expectation that the basis of the estimate is clear, consistent and with key assumptions documented.

Aligning with our overarching enterprise risk framework and using common assessment criteria for all risk categories ensures that risks can be compared across the Group, supporting prioritisation and providing a mechanism for monitoring how effectively we are managing these risks.

We have identified seven key climate-related risks and opportunities that are relevant to our business. Of these, four are transition risks and opportunities resulting from the shift towards a low carbon future and three are physical risks relating to the physical impact of climatic events.

Energy transition is our principal risk driver that specifically refers to the potential impacts on future revenues as a result of a potential failure to transition to an inherently lower carbon product portfolio. This risk was previously described as climate change and renamed in 2024 to give transparency and clarity on the specific nature of the risk (see page 58). Recognising climate change includes both transition and physical risks, the physical aspect of the risk is considered as part of the business interruption principal risk. This split reduces duplication and places risk management in the appropriate responsible business areas.

We have explored a number of climate-related opportunities. These include the demand for high baseload low-carbon energy sources provided through products like SMR; high demand for SAF compatible products across our sectors; and low carbon energy systems for local and back-up applications.

#### Climate scenarios assessment<sup>1</sup>

In 2024, we used the same base case and three climate scenarios as in 2023. To bookend the base case we assess a high and low temperature scenario and we use an additional scenario to explore a delayed and disruptive transition (which may present additional challenges for aspects of our business model, particularly in relation to the long-term nature of our business).

The scenarios we use are based on independent external climate scenarios <sup>2</sup> and are consistent with representative concentration pathways (RCPs). We use additional supplementary data from third-party sources, such as carbon pricing and GDP, to support our modelling and financial impact assessments.

#### Modelling the potential impact

Cross-functional teams within each business, including representatives from strategy, finance and risk, collectively assess the potential impact of each key risk on the business under each of these three scenarios. This includes calculating a revenue, cost or profit impact for each scenario across the timescales defined. As part of our 2024 activity, we have quantified short- (five years to 2029) and medium-term (ten years to 2034) risks, consistent with our wider financial and strategic planning. In addition, each business has considered, but not quantified, the potential implications of each scenario on a longer-term outlook to 2050. At this time we have not identified any impact on demand, cost or competitive position that we would not be able to detect and respond to.

- 1 Under each scenario our modelling considers both physical and transition-related elements
- 2 Key data points are taken from external sources, including Oxford Economics, Global Climate Service and Databank (data extract September 2024) and the International Energy Agency, Net Zero by 2050 A Road map for the Global Energy Sector, May 2021 and World Energy Outlook 2024, October 2024. These data points are then used to model Group specific assumptions such as demand for aviation and maritime transport

#### Key climate-related risks and opportunities

Transition risks and opportunities	Changing customer demand	Financial impact from changes to revenue and/or cost due customers responding to changing market conditions, for example customer sentiment or cost increases affecting passenger demand Civil Aerospace, opportunity for zero emissions solutions in our Pow Systems markets, customer priorities in Defence				
	Changes in costs due to carbon pricing	Changes to our costs due to the assumed application of carbon pricing measures on our Scope 1 + 2 activities and the application of carbon pricing to the activities of our suppliers that are passed through to us in the form of higher part costs				
	Changes in costs due to commodity price changes	Changes to our costs due to variation in market supply and demand and/or cost passed through from suppliers				
	Change in investment requirement	Changes to investment required (R&D, capital expenditure etc.) due to a need to respond to changing customer demand				
Physical risks	Facility disruption (acute risk)	Financial exposure resulting from a temporary (up to 12 months) disruption to a Rolls-Royce facility due to a climate-related event, (for example, flood or fire)				
	Supply chain disruption (acute risk)	Financial exposure resulting from a temporary (up to 12 months) disruption to supply chain due to climate-related event, (for example, flood or fire)				
	Impact on product performance (chronic risk)	Financial exposure resulting in a deviation in expected product performance, (for example, power, efficiency and/or life etc.) due to changes in environmental conditions				

#### Climate scenarios: summary and key assumptions 1

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#### **Baseline**

The world follows a path in which social, economic and technological trends do not shift markedly from historical patterns. Global and national institutions work toward achieving sustainability goals but make slow progress. Environmental systems experience further degradation, despite gradual improvement in energy and resource intensity. Global population growth is moderate and levels off in the second half of this century. Economic development proceeds unevenly. Income inequality persists or improves only slowly and challenges to reducing vulnerability to societal and environmental changes remain.

#### Net zero scenario

(Accelerated transition) (< 1.5°C by 2100) The world shifts gradually, but pervasively, toward a more sustainable path, emphasising more inclusive development that respects perceived environmental boundaries. Resulting global temperature rise plateaus at 1.5°C. Educational and health investments accelerate the demographic transition and the emphasis on economic growth shifts toward a broader emphasis on human wellbeing. Driven by an increasing commitment to achieving development goals, inequality is reduced both across and within countries. Consumption is oriented towards low material growth and lower resource and energy intensity.

### High temperature scenario

(Accelerated physical) (3.5°C by 2100) Expanding fossil fuel demand and government failure to meet stated commitments leads to higher emissions. The expected expansion towards renewables is cut short causing global emissions to rise significantly. Global warming rises to 2.1°C by 2050, on track to hit 3.5°C of global temperature rise by 2100. This causes significant physical disruption and damage that accelerates as the scenario progresses. Fossil fuel supply is slower to adjust than demand as existing resources are strained and further exploration is needed. This causes spot prices to rise contributing to inflationary pressure in both energy and consumer sectors.

# Disruptive scenario (Delayed

(Delayed disruption) (1.7°C by 2100) Increasing fossil fuel demand and delay of climate policies until 2030 leads to higher emissions. Stronger policy actions are necessary to compensate for time lost. Global warming can be contained to 1.7°C but the sudden shift in the energy mix causes more economic and environmental damage than in the baseline. Aggressive and uncertain carbon taxation policies cause substantial inflationary pressures, stranded assets and financial instability. Frictions in the shift towards renewables and more limited carbon capture availability than in the accelerated transition scenario require vast gains in energy efficiency to bring down emissions and therefore global warming by 2050.

<sup>1</sup> Source data points and assumptions used for each scenario have been included in our basis of reporting, available at www.rolls-royce.com/sustainability

### **CLIMATE RISK SUMMARY**

The following table summarises the potential impact assessments of each of our identified climate-related risks under the three scenarios (see page 39). These are presented as potential ranges that depict an estimated financial impact and timeframe. We have concluded that none of these risks have a material financial impact in the short term, as reflected in our financial statements, see note 1 of the Financial Statements on page 122.

PERCENTAGE IMPACT ON OPERATING PROFIT BY SCENARIO (CUMULATIVE 2025 TO 2034)

		NET ZER	0 <1.5°C		HIGH TEMP 3.5°C				DISRUPTIVE 1.7°C				TIMING OF		
	CA	D	PS	NM	C	A D		PS	NM	-	CA	D	PS	NM	HIGHEST EXPOSURE
Changing customer demand	(1.0)	(0.1)	(0.3)	0.0	(0	.5) C	.7	(0.2)	0.0		(0.3)	(0.2)	0.0	0.0	10yrs+
Change in costs due to carbon pricing	(2.1)	0.3	(0.5)	(0.2)	(0	.6) (0.	3)	0.4	0.0		(0.9)	(0.1)	0.2	(0.2)	5-10yrs
Change in costs due to commodity pricing	1.0	0.0	0.1	0.0	(0	.7) (	).1	(0.1)	(0.3)		0.1	(0.1)	0.4	0.0	5-10yrs
Changing investment requirement	0.0	0.0	0.0	0.0	•	0.0	.о	0.0	0.0		0.0	0.0	0.0	0.0	10yrs+
Facility disruption	(0.3)	(0.3)	(0.3)	0.0	(0	.3) (0.	3)	(0.3)	0.0		(0.3)	(0.3)	(0.3)	0.0	10yrs+
Supply chain disruption	(1.1)	(0.3)	(0.2)	0.0	(	.1) (0.	2)	(0.3)	0.0		(1.0)	(0.3)	(0.2)	0.0	10yrs+
Impact on product performance	0.0	0.0	0.0	0.0	(0	.4) 0	.0	0.0	0.0		0.0	0.0	0.0	0.0	10yrs+
Total	(3.5)	(0.4)	(1.2)	(0.2)	(3	.6) 0	.о	(0.5)	(0.3)		(2.4)	(1.0)	0.1	(0.2)	

#### **CLIMATE RISK SUMMARY CONTINUED**



#### Transition risks and opportunities

#### Changing customer demand

2025-2034: In the markets we serve, overall demand is expected to be robust in each scenario although product mix may change with customer requirements, particularly in Power Systems where we would see a stronger market for zero emissions solutions. We expect demand in Civil Aerospace to be strong, driven by clear demographic trends; enabled by a continued focus on efficiency and the introduction of sustainable fuels. We would expect climate stress to create opportunities in Defence; both in security and humanitarian response. We see significant opportunity to accelerate the growth of SMR in the medium term in the net zero and disruptive scenarios.

2035-2050: Longer term, we expect these trends to broadly continue.

#### Change in costs due to carbon pricing

2025-2034: Guided by our Scope 1 + 2 targets based on science, we are taking steps to reduce our exposure to carbon pricing by decarbonising our own operations and encouraging our suppliers to do the same.

2035-2050: Our long-term Scope 1 + 2 targets are based on science and therefore aligned with a net zero scenario. An acceleration of our decarbonisation plan would be needed in the disruptive scenario where carbon pricing is modelled to rapidly escalate in the 2030s.

#### Change in costs due to commodity pricing

2025-2034: Our markets can sustain the commodity price changes assumed in each scenario. There is medium-term risk in the high temperature scenario in Civil Aerospace and Power Systems where existing contracts may limit our ability to pass through higher than expected costs, negatively impacting profits. Future contracts with both suppliers and customers need to minimise and mitigate our potential exposure.

2035-2050: Longer term, we expect future contracts to mitigate the risk associated with the high temperature scenario.

#### Changing investment requirement

2025-2034: In both civil and defence aerospace markets, new products are expected in the mid-2030s. High carbon pricing could increase the level of technology required but would also delay new programme launch, allowing resources to be reallocated and presenting an upside opportunity for current product lines. In Power Systems the net zero and disruptive scenarios would require an acceleration of investment in new technologies.

2035-2050: Longer term, we see demand continuing for fuel efficiencies, compatibility with sustainable fuels and low and zero emission solutions.

#### Physical risks

#### **Facility** disruption

2025-2034: Quantification of potential impact is based on business continuity analysis performed by each division. Future site strategy, investment in existing facilities and development of new footprint options, needs to continue considering climate risk.

2035-2050: Longer-term facility disruption is expected to stabilise in the net zero and disruptive scenarios with the greatest risk in the high temperature scenario where climate adaption will increasingly be required. Our business resilience activity will consider physical climate risk as a driver.

#### Supply chain disruption

2025-2034: Quantification of potential impact is based on business continuity analysis performed by each division. Future supply chain decisions, including the need for dual sourcing, need to continue considering climate risk.

2035-2050: Longer-term supply chain disruption is expected to stabilise in the net zero and disruptive scenarios with the greatest risk in the high temperature scenario where climate adaption will increasingly be required. Our supply chain resilience activity will consider physical climate risk as a driver both directly to our suppliers' facilities and also logistics.

#### Impact on product performance

2025-2034: Over the next decade the temperature differences between scenarios is relatively limited and therefore impact on product performance is minimal.

2035-2050: Out to 2050 the risk is relatively stable in the net zero and disruptive scenarios. The greatest increase is in the high temperature scenario with Civil Aerospace seeing a low percentage increase in shop visits and costs and Power Systems seeing additional cooling needs across the portfolio.

#### **Metrics and targets**

Emissions are calculated in accordance with the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard and Corporate Value Chain (Scope 3) Accounting and Reporting Standard (GHG Protocol). See our basis of reporting at www.rolls-royce.com for further detail. We calculate and disclose our Scope 1 + 2; Scope 3, category 1; and our Scope 3, category 11 emissions. We completed an emissions inventory exercise in 2019 that demonstrates these represent >95% of our total footprint. This year, we decided to disclose our Scope 3, category 1 emissions as while only 2.5% of our footprint, these are a significant source of absolute emissions. We do not anticipate any material change in the composition of our emissions since 2019 and therefore we do not disclose the remaining 13 Scope 3 categories.

#### Scope 1 + 2 emissions

EMISSION SOURCE 1, 2	2019	2020	2021	2022	2023	2024
Scope 1: emissions from office, manufacturing and production facilities	91 ktCO₂e	89 ktCO₂e	83 ktCO₂e	99 ktCO₂e	83 ktCO₂e	78 ktCO₂e
Scope 1: emissions from product testing activities	137 ktCO₂e	124 ktCO₂e	129 ktCO₂e	127 ktCO₂e	96 ktCO₂e	157 ktCO₂e
Scope 2: emissions from the purchase of electricity, heat, steam and cooling for our facilities	154 ktCO₂e	94 ktCO₂e	92 ktCO₂e	79 ktCO₂e	72 ktCO₂e	66 ktCO₂e
Total Scope 1 + 2 emissions	382 ktCO₂e	307 ktCO₂e	304 ktCO₂e	305 ktCO₂e	251 ktCO₂e	301 ktCO₂e

Statutory GHG emissions disclosures are detailed in our SECR statement on page 212

#### Scope 3, category 1 emissions

EMISSION SOURCE <sup>3</sup>	2019 4	2020 4	20214	2022 4	2023 4	2024
Emissions from purchased goods and services, by spend	-	-	-	-	- 2.1	8 MTCO₂e

<sup>3</sup> Our Scope 3, category 1 calculation has been calculated using spend emission factors. Working with our vendors, we will seek to mature this approach from 2025 4 Reporting of Scope 3, category 1 started in 2024 and so no data is available for prior years

#### Scope 3, category 11 emissions

EMISSIONS SOURCE 5	2019	2020 <sup>6</sup>	2021 <sup>6</sup>	2022	2023	2024
Use of sold products on a fossil fuel based pathway (with weight based adjustment) <sup>7</sup>	129.3 MtCO₂e	-	_	85.7 MtCO₂e	96.8 MtCO₂e	83.7 MtCO <sub>2</sub> e
Use of sold products on a fossil fuel based pathway (without weight based adjustment)	566.3 MtCO₂e	-	-	247.4 MtCO <sub>2</sub> e	305.6 MtCO₂e	298.9 MtCO <sub>2</sub> e
Use of sold products of a sustainable fuel based pathway (with weight based adjustment) <sup>7</sup>	111.2 MtCO <sub>2</sub> e	-	-	70.0 MtCO₂e	74.7 MtCO₂e	60.7 MtCO <sub>2</sub> e
Use of sold products of a sustainable fuel based pathway (without weight based adjustment)	462.4 MtCO <sub>2</sub> e	-	-	185.1 MtCO <sub>2</sub> e	218.8 MtCO₂e	204.5 MtCO <sub>2</sub> e

Civil Aerospace data adjusted to include one quarter delay in year one of operations. Historical data has been restated to reflect this

#### Scope 3, category 11 emissions

Emissions associated with use of sold products by our customers or end-use customers comprise the majority of our emissions footprint. There has been a decrease in our absolute Scope 3, category 11 emissions compared with 2023. This has mostly been due to a change in sales mix within Power Systems. A greater percentage of the sales have been products in lower running hour applications such as back-up generators. Civil Aerospace and Defence emissions were broadly stable with a slight increase and decrease, respectively, due to engine sale volume changes.

<sup>2</sup> Scope 2 emissions are market-based

<sup>6</sup> Reporting of Scope 3, category 11 started in 2022 and so no data is available for interim years
7 Weight based adjustment is not applied to the Power Systems portfolio due to the complexity and variety of product applications. It is not appropriate for all applications such as stationary power generation

### **Transition plan**

#### **Ambition**

We are committed to reaching net zero Scope 1 + 2 greenhouse gas emissions by the end of 2050.

We recognise the role of interim emissions reduction targets in helping us and our stakeholders monitor progress against our long-term decarbonisation goal. Rolls-Royce will reduce Group Scope 1 + 2 greenhouse gas emissions (including product testing) by 46% by the end of 2030 against a 2019 baseline.

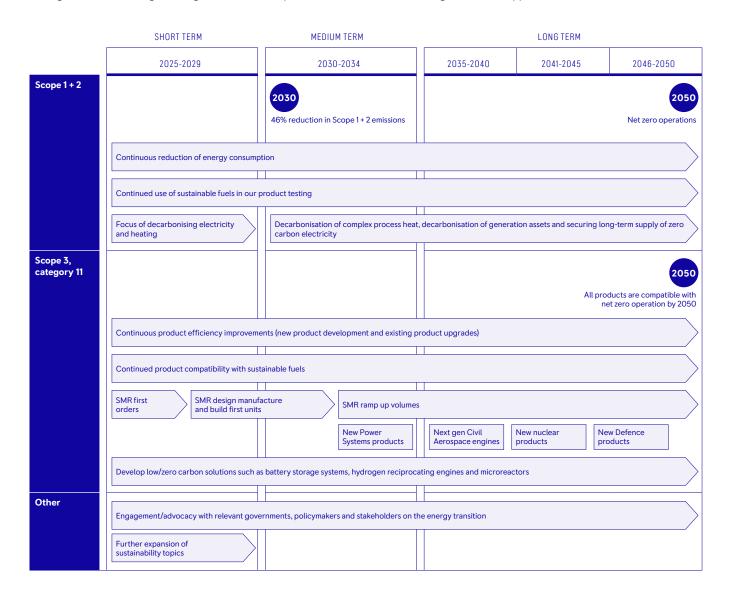
In recognition of the importance of decarbonising our own operations, as of 2025, 10% of management LTIP will be linked to delivering progress to the 2030 reduction target for Scope 1 + 2 emissions.

We also acknowledge that the largest contribution to our emissions footprint comes through the use of our products and so we are committed to demonstrating that all our products are compatible with net zero operations by the end of 2050. We will also support the achievement of industry net zero Scope 3, category 11 (use of sold products) greenhouse gas emissions by the end of 2050.

We will continually monitor and assess our climate impact and develop appropriate new targets and metrics to ensure that these impacts are properly measured and understood.

#### **Action plan**

We recognise the increasing expectation for companies to develop and disclose a detailed transition plan outlining the steps they are taking to align with a low and net zero global economy. To further align with our understanding of the Transition Plan Taskforce (TPT) recommendation principles we are disclosing additional details in our transition plan summary below. In 2024, we conducted the first phase of our sustainability strategic review delivering a more granular transition plan with defined metrics and targets that will support our transition to net zero.



### Decarbonising our operations, facilities, product testing and business activities

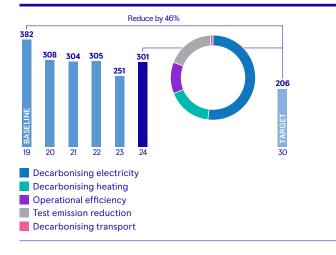
We have a detailed plan to achieve our 2030 Scope 1 + 2 target. There are five main areas of focus between now and 2030:

- decarbonising electricity;
- decarbonising heating;
- improved operational efficiency;
- reducing test emissions; and
- decarbonising transport.

To achieve these aims, we have a costed plan for the period to 2030. The largest contribution to our emissions reduction will come through a move to renewable and low carbon electricity sources. Our strategic priority in this area is on-site generation, supplemented by a multi-year Energy Attribute Certificate (EAC) strategy. This strategy includes multi-year options to secure compliant EACs including Private wire Power Purchase Agreements (PPAs), Sleeved PPAs, VPPAs and bundled contracts. By 2030, we plan to be powered by 100% renewable and low carbon electricity sources with a few geographical exclusions where this is not technically feasible.

To reduce test emissions we will continue to use sustainable fuels and as greater volumes become available we will gradually increase the volume of the fuels used at a rate that does not impact the validity of the testing. We are always looking at ways to improve the efficiency of testing through the deployment of new technology and methods. We will continue to do this to reduce the time on test, therefore reducing fuel burn, while maintaining the high standards and credibility of the testing itself. The ancillary electricity emissions allocated to testing will be decarbonised in line with the electricity strategy above.

### Operations, facility and test emissions reductions plan to 2030 (ktCO₂e)



### Enabling our customers to operate their products in a way that is compatible with low or net zero carbon emissions

To enable our customers to operate their current products in a low carbon or net zero way, we are focusing on improving product efficiency to burn less fuel and proving sustainable fuel compatibility. We have been working in partnership with the Royal Air Force as part of the Defence Suppliers Forum, looking at steps that can be taken to improve the uptake of sustainable aviation fuel within defence aviation. This work has been done with a range of Ministry of Defence, industrial and academic stakeholders. Key conclusions have included changing the mindset about energy security, re-thinking value propositions and identifying new commercial models.

### Delivering new products and solutions that can accelerate the global energy transition

As a force for progress we are working to accelerate the global energy transition through the development of a future product portfolio. The future portfolio will maintain the current social value it provides by powering, connecting and protecting people everywhere while being consistent with a net zero energy transition.

UltraFan, Battery Energy Storage Systems (BESS) and small modular reactors (SMRs) are in flight technology and product programmes that will diversify our portfolio and accelerate the global energy transition. In addition to these programmes, we are exploring alternative fuels, including hydrogen, to expand the capabilities of existing combustion technology. We continue to invest in novel technologies and applications, such as microreactors, to provide even greater social value to the world while limiting the negative environmental impacts. All new product decisions will be subject to strategic fit and investment criteria.

### Support the necessary enabling environment with public and policy support to achieve our collective climate goals

We understand that a successful energy transition requires the necessary enabling environment. This requires the right external policies to be in place and for us to collaborate with industry peers and partners to achieve our collective climate goals.

We are a member of trade associations and industry bodies that represent our sector and group interests and we inform their work to help shape the most attractive environment in which to operate our business. Based on 2024 data gathered to date, we are currently members of 146 trade associations and industry bodies, excluding Power Systems. Our memberships are concentrated in the countries in which we have a significant footprint and reflect the range of business interests we are pursuing. We will continue to review these memberships to ensure we are maximising for best value and strategic fit.

In addition to trade associations, we will continue to engage in aligned partnerships, such as the UK-Qatar climate technology partnership, to identify ways to accelerate our plans through technology and industry collaborations. We will work closely with customers and suppliers to enable the transition throughout our value chain in the knowledge that approximately 99% of our emissions footprint is upstream and downstream of our own operations.

### Responsible consumption

Understanding and minimising our environmental impacts across our operations and value chain helps ensure we are a responsible and resilient business. We particularly focus on minimising energy consumption and waste.

#### **OUR PROGRESS IN 2024**

Tornado 2 Tempest circular economy pilot completed

Every drop counts innovation portal challenge

Value chain engagement on new legislation

We are committed to behaving in a way that minimises our impact on the environment. This means taking personal and collective responsibility with our business partners to prevent or minimise any adverse environmental impact from our activities, products and services. As set out in our health, safety and environment policy, we do this by striving for resource efficiency and supporting the sustainable handling, collection, storage, use and disposal of resources. Increasing our operational resilience in this way is fundamental to the success of our business and is an integral part of how we work every day.

We focus on our material impacts by optimising energy use; reducing waste and optimising material efficiency. For each of these focus areas  $\,$ we implement measures to mitigate, prevent or minimise impacts and drive progress against our environmental targets. We recognise that many of our targets mature in 2025, and in phase two of our sustainability strategic review these will be reviewed and new targets set to maintain a focus on minimising our consumption and waste.

During 2024, we had a focus on water to better understand our impact. We completed a stress and scarcity assessment for all our global locations to identify the biggest risks to our business and improvement

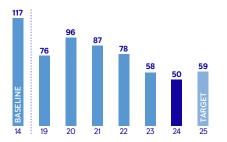
opportunities to the local environment. We identified our highest water consuming industrial processes and mapped them to the relevant facilities. The every drop counts innovation portal challenge was launched internally which focused on reducing freshwater usage in manufacturing processes and will help inform the creation of a roadmap to accompany a Group target proposal.

The incentive for circularity is deeply embedded in our business model given the significant aftermarket and maintenance requirements of our products. We are focused on the remanufacturing and reuse of components and pay particular attention to the responsible use of chemicals, waste and water.

In 2024, we supported the UK Ministry of Defence, Defence Equipment Sales Authority (DESA) as part of the Tornado 2 Tempest circular economy pilot. We worked with Additive Manufacturing Solutions Ltd. to recycle old RB199 titanium fan blades into a metal powder as part of an atomisation process. This powder was then used as a feedstock to 3D print a new engine component that was installed and ran as part of a wider engine test. In addition to demonstrating the resilience and sustainability benefits of recycling and reusing old material, we provide the users of our products with a comprehensive programme for spare parts and service solutions to maximise the performance and value of our products in use.

Our supply chain plays an important role in our ability to reduce environmental impacts, build operational resilience and improve performance against our targets. In 2024, we have been working with customers and suppliers to ensure we are prepared for and compliant with new legislation such as the Carbon Border Adjustment Mechanism (CBAM) and the EU Deforestation Regulation (EUDR).

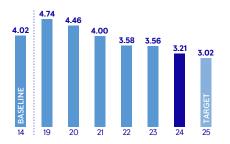
#### Energy consumption (MWh/£m)



Reduce total energy consumption, normalised by revenue, by 50% by 2025. 1, 2, 3

Reducing our energy demand is integral to our success in delivering our decarbonisation goals and reducing our exposure to energy-related risk. Our normalised energy consumption in 2024 was 50 MWh/£m. This represents a reduction of 432,086 MWh (31%) since 2014. The total amount of energy consumed in the year was 945,567 MWh, of which 30% came from renewable energy sources, including 1% generated from our own on-site clean energy installations.

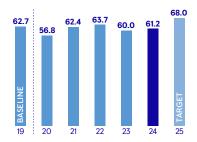
#### Total solid and liquid waste (t/£m)



Reduce total solid and liquid waste production, normalised by revenue, by 25% by 2025. 1, 2, 3

In 2024, our total normalised solid and liquid waste was 3.21 tonnes/£m, a 20% reduction since 2014. The total amount of solid and liquid waste generated in operations was 60.7 kilotonnes, compared to 47.6 kilotonnes in 2014. This includes 23 kilotonnes of hazardous, primarily chemical, waste. The overall increase in the volume of waste produced has been driven by increases in production and in liquid wastewater that would normally be treated on-site. We continue to pursue opportunities to prevent or reduce waste.

#### Recycling and recovery rate (%)



Increase the recycling and recovery rate to 68% by

Our recycling and recovery rate for 2024 was 61.2% This represents a 1.5% reduction against the 2019 baseline but an improvement on 2023 performance. Our Power Systems division has a recycling and recovery rate above 80%. During the year, 5.5 kilotonnes of waste were sent to landfill, a 9% increase since 2014, primarily due to the increase in waste foundry sand. We implemented a recycling solution for waste foundry sand in November 2024. but the full benefit on both recycling rate and landfill avoidance will not be realised until 2025.

- External assurance over selected sustainability data is provided by Bureau Veritas. See page 211 for their sustainability assurance statement Data has been calculated in accordance with our basis of reporting. This and further data is available at www.rolls-royce.com

Energy and waste data are normalised by Group revenue (£m)

### People and culture

"To be effective as a leader, I always talk about four things: the first is learning; the second is to always be learning; the third is the power of belief; and finally, to make a difference, you need to take some risks."

#### **OUR PROGRESS IN 2024**

Launched our new purpose and behaviours

Introduced Our Voices, a new colleague survey

Launched Your Shares: Gifted, a global employee share plan

#### Changing the way we work, think and behave

2024 has been a record-breaking year, underpinned by our transformation and the dedication of our colleagues. Our streamlined approach, built on purpose, vision, strategy and behaviours, has aligned, energised and mobilised teams, changing the way we work, think and behave.

Our transformation goes beyond short-term solutions. This means empowering our people to work with greater agility and efficiency and a stronger commitment to safety and quality. These priorities will help us achieve our vision of becoming a high-performing, competitive, resilient and growing business.

A key focus has been creating a simpler, more efficient organisation. Consolidating Engineering, Technology & Safety (ET&S), Procurement and Supply Chain capabilities has reduced duplication, standardised processes and leveraged best practices. By ensuring clear accountability and visibility of value creation, we have accelerated decision making and empowered leaders to focus on performance and unlocking potential as One Rolls-Royce.

Our new operating model enhances efficiency and cost reduction, ensuring we remain on track to deliver £200m in annualised savings by the end of 2025. Where possible, we have successfully redeployed skilled employees into growth areas, retaining critical capabilities while simplifying our structure.

In September, we launched our new purpose and behaviours to support our strategy, providing a clear roadmap to achieve our vision (see page 10). This alignment has energised and mobilised us as One Rolls-Royce, reinforcing our commitment to innovation, continuous improvement and the broader impact of our products on society.

#### Purpose driven leadership

Our leaders are catalysts for change and at the forefront of our transformation, engaging their teams on our new purpose and behaviours. By role-modelling these behaviours daily, they make our purpose meaningful in their work, while fostering an environment of learning, growth and alignment.

Leadership capability is strengthened through our flagship leadership development programmes. In 2024, we introduced a new strategic leadership development programme with the London Business School for our most senior leaders, complementing our leadership fundamentals and progression programmes for all leaders. This supports the acceleration of our transformation by aligning with our strategic goals and ensuring immediate application in daily work. 68% of all leaders have participated in at least one of our leadership development programmes since the introduction in 2021.

Building on the success of our 2023 BetterUp coaching pilot, we expanded our investment in 2024, with even more leaders now participating. Since its launch in 2023, more than 450 leaders have taken part. Coaching supports self-reflection, learning and team growth, reinforcing inclusive leadership and a culture of care and belonging.

Our newly launched Our Voices colleague survey provides insights into the employee experience (see page 18) and increases our leaders' accountability for driving change. It enables leaders and teams to reflect on behaviours, celebrate successes and commit to one big change for meaningful improvement. Over 30,700 of our people responded to our new survey this year; a 74% response rate. This approach ensures we continuously enhance the way we work, think and behave, in line with our new behaviours

#### **Change makers**

In 2024, over 1,200 colleagues volunteered to be part of our change makers network, driving cultural transformation as One Rolls-Royce. Their role is to promote our new purpose and behaviours, connect colleagues across the Group and support change from within. By engaging with leaders and inspiring others, they help unlock potential, foster meaningful connections and act as catalysts for change.

Although still in its early stages, the initiative has already received positive feedback, reflecting strong enthusiasm and alignment with our purpose and behaviours.

#### **Put safety first**

Safety is our number one priority; nothing is more important. We care about our colleagues, customers and each other. Our put safety first behaviour (see page 10) reinforces that safety, health and wellbeing are central to everything we do and promotes a speak up culture. Safety is everyone's responsibility and visible, engaged leadership is critical. Saying something could save someone and we encourage everyone to act if they notice an unsafe situation.

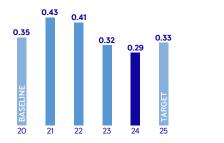
Employee health and wellbeing, both physical and mental, directly impact the safety of our people, products and processes. We support colleagues in leading healthy lifestyles and maintaining overall wellbeing. We believe all incidents are preventable, focusing on proactive risk management as the foundation of our safety culture and a driver of our zero-harm strategy.

Visible, engaged leadership is critical. Senior leaders conduct regular safety walks, fostering positive conversations and supporting risk-reduction improvements. Safety moments at the start of meetings raise awareness of key topics, roles and responsibilities, using real-life examples to reinforce important messages. In November, our chief medical officer led a global safety moment on mental health and resilience as part of our leadership business update.

Our safety index is a proactive global measure consisting of five leading indicators: senior leadership safety walks; safety case improvement activity; HSE alert response; close-out of HSE non-conformances; and accountable person engagement. In 2024, we achieved a safety index score of 96%, exceeding our 94% target, an improvement of 2% from 2023. 2025 is the fifth year of a five-year plan for our safety index. We will review this metric and make changes, to ensure that we continue to drive progress on our journey to improving safety at Rolls-Royce.

We continue to target world class and better TRI rates across our business. Our total reportable injuries (TRI) rate continued to decline, reaching 0.29 per 100 employees, a decrease from 2023 (0.32). There was a total of 126 TRIs in 2024 with 16 incidents resulting in major injuries. When incidents occur, we share learnings across the Group to improve controls and prevent recurrence. Knowledge-sharing is a key part of our transformation, reinforcing safety as our top priority.

#### TRI rate (per 100 employees)<sup>1</sup>



1 Our TRI rate shows the Group TRI performance (absolute and rate). External assurance over the TRI data is provided by Bureau Veritas (see page 211)

#### Supporting colleagues to LiveWell

Our LiveWell programme empowers colleagues to take personal responsibility for their health and wellbeing while supporting others to do the same at a local level. This global, evidence-based accreditation scheme helps sites, facilities and teams assess their workplace across three key areas: healthy bodies; healthy minds; and healthy workplaces. It enables teams to set data-driven goals and remove barriers to wellbeing. Currently, LiveWell operates in 21 countries, covering 84 workplaces globally.

We provide tools and resources to support mental, physical and financial wellbeing through our internal wellbeing site and run events year-round. Our 2024 World Mental Health Day promotion included interactive workshops led by internal and external experts, with over 21,000 colleagues participating and significant engagement on internal channels. In June, we also hosted our financial wellbeing event, money for humans, focused on mindful financing.

Mental health remains a key focus. It is identified as a risk on our HSE risk profiles, with regular reporting to the Executive Team on related absence trends and support service uptake. In 2024, we conducted a gap analysis with external specialists against the ISO 45003 standard for psychological health and safety, shaping our 2025 strategy for managing workplace mental health risks. Data from our workplace pressure risk assessment tool, further informs risk mitigation efforts.

Leaders play a critical role in managing and supporting good mental health at work and we make mental health training a requirement for our leadership roles. Our global mental health champion network, a group of trained volunteers offering guidance and support, grew by 18% to 855 champions across 13 countries. We continue to expand this network, sharing best practices and providing new toolkits to help champions and leaders connect colleagues with support resources.

"We promote a growth and experimentation mindset, encouraging curiosity and continuous learning to drive better outcomes."

#### A skills-powered organisation

Skills, capabilities and learning are central to transforming how we work, think and simplify operations. Moving to a skills-powered organisation makes us more agile, adaptive and resilient. By focusing on skills rather than job structures, we can better identify, develop and deploy critical expertise to align with our strategic priorities.

A key example is the creation of our ET&S function (see page 46), which leverages skills across the Group. This new function has helped close skills gaps through internal mobility, reducing costs by minimising external hiring. We map colleague skills to strategic priorities, enhancing both individual growth and organisational capability. Our skills profiles system achieved 40% global uptake in 2024, up from 20% in 2023.

To drive skills-based workforce planning, we launched the Enterprise Capability Committee (ECC), which reviews divisional plans and optimises productivity by aligning skills with business needs. We also use gigs, being short-term, project-based tasks, to enhance learning and embed agile ways of working. Digital systems and AI power an internal marketplace where colleagues can drive their own learning and skill development. This dynamic skills ecosystem enables colleagues to take ownership of their growth while enabling the business to utilise talent more effectively.

Our skills-powered approach has gained external recognition, featuring in case studies with Gartner and AON. In the UK, we contribute to government and industry forums to shape education policies that better prepare young people for employment.

Skills development is embedded in Leatro, our Group-wide learning platform, enabling colleagues to learn flexibly. In 2024, we launched the Winning Together learning hub, which now offers over 4,000 programmes aligned with our strategic priorities and tagged with relevant skills. We continuously refresh these resources to meet evolving business needs.

Aligned with Our Code and Group policies, we also run an annual mandatory learning programme covering values, behaviours and compliance. In 2024, 98% of our colleagues completed all mandatory learning (2023: 96%). Our continued investment in learning and development in 2024 was £28m (2023: £20.8m), delivering over 1 million hours of formal learning (2023: over 757,000 hours).

#### Driving a culture of high performance and engagement

We continue to reinforce a culture of meritocracy to drive high-performance and business transformation.

This is critical to our business and leadership strategies and in how we attract and retain talent by fostering a positive work environment where everyone feels valued, respected, safe and empowered to thrive.

Throughout the course of 2024, we have taken a more outcomes and systems-focused approach to drive change for increased cultural engagement by:

- Embedding new purpose and behaviours to ensure we are explicitly clear on what is most important to us and what we expect to see consistently from all employees. The behaviours have been integrated into our talent system to further reinforce and make this stick when it comes to how we hire, assess, select, reward and recognise individuals. One of our key behaviours is 'do the right thing' which looks to bolster a culture of caring which is created through respect, fairness and transparency.
- Creating a new engagement index and assessment methodology, 77% of colleagues (-2pts vs benchmark) responded favourably about their work environment, agreeing they feel valued, respected and empowered to thrive, a strong foundation for future measurement.
- Launching new leadership expectations which reinforces the need to build a high trust environment, as well as zero tolerance for mediocrity where we always hire the best people to build talent and capabilities. These new expectations have been communicated and are a cornerstone to our leadership strategy and system.
- Implementing a new enterprise talent system which ensures a progressive, standardised approach to how we source, attract, develop and retain the best talent. For example, we have a much more comprehensive approach to conducting talent reviews to ensure we have better line of site and visibility of talent across the organisation, and maintain focussed on transferable skills so we can consider broader career paths for individuals. We continue to offer additional support to candidates who declare a disability at the application stage and support our assessors and interviewers to ensure a fair process for all. We are committed to fair and equal consideration for applicants with disabilities and actively support employees who become disabled while working with us by making adjustments to enable their continued employment.
- Celebrating the uniqueness of all colleagues through our 'being like me' campaign. This remains a powerful engagement tool, inviting all to share their unique personal experiences and learn from one another. Since its introduction we have seen over 137 individuals voluntarily take part. It is an important part of our journey to embed a culture of care into the workplace.

"Leaders play a critical role in managing and supporting good mental health at work and we make mental health training a requirement for our leadership roles."  Continued emphasis on health, safety and wellbeing, fostering a strong speak-up culture. In 2024, 21,000 colleagues engaged in world mental health day sessions. We achieved a 96% safety index score, surpassing our 94% target and improving by 2% from 2023.
 Our TRI rate dropped to 0.29, a 12% improvement from 2023.

#### **Enabling high performance**

We are embedding a differentiated performance culture where clear expectations, continuous improvement and disciplined monitoring drive results. Our performance management framework, implemented in 2023, aligns individual goals with strategic priorities, ensuring a focus on high-impact actions and continuous improvement.

We connect reward and recognise both business success and individual contributions with differentiated outcomes for those delivering the greatest impact. Our core programme for leaders and most colleagues includes regular check-ins, performance reviews and biannual calibration, fostering accountability and alignment with our strategic priorities.

Our agile, outcome-focused approach encourages ongoing performance conversations, ensuring individuals understand what good looks like to continuously learn and improve.

#### **Your Shares: Gifted**

In September 2024, we launched the Your Shares: Gifted employee share plan, awarding 150 shares to every employee. With 99% workforce participation, this initiative has transformed our share ownership culture, strengthening alignment with our purpose and strategy.

In 2025, we are introducing Your Shares: Matched, enabling colleagues to continue sharing in our success through affordable share ownership.

#### **Sharing in our success**

In 2024, we enabled colleagues to share in our success through the Your Shares: Gifted global employee share plan (see page 107). Our global incentive arrangements align directly with the Group's strategy, cascading from Executive Director incentive metrics (see pages 99 and 100). The Executive Team have clear performance contracts linked to strategic priorities and personal reward packages.

Aligned with this, we increased pay transparency in 2024 by sharing US and UK leadership pay scales to build trust and to reinforce a high-performance culture.

We remain committed to fair pay globally, conforming to all national pay laws and progressing our work on living wage standards in line with the Corporate Sustainability Reporting Directive (CSRD). In the UK, we pay above Living Wage Foundation standards and require suppliers to meet minimum/fair wage commitments via our global supplier code of conduct.

Our total reward philosophy is built on five key principles:



**Differentiated for our employees** – we seek to offer flexible, merit-based choices to support our workforce and promote inclusion



A great colleague experience – we aim to be simple, engaging, valued, fair and understood



Attractively positioned – to ensure we retain core competencies and support the growth of skills and capabilities required for the future



Clearly aligned to delivering high performance – rewarding achievement of ambitious short-term and long-term targets



**Broader than financial reward** – we care about employee wellbeing, creating an environment where everyone can be at their best with career development and recognition

#### **Community and STEM outreach**

We are committed to increasing access to quality education and supporting underrepresented young people in STEM, helping them achieve their aspirations and overcome barriers to success. Our STEM programmes engage and inspire young people to develop the critical skills needed for a career in STEM, by demonstrating how science, technology, engineering and maths can help solve real-world challenges.

In 2024, our STEM ambassadors supported programmes worldwide:

- In India, we continued to support our Wings4Her programme for girls in underprivileged communities by providing tutoring, mentoring, career guidance and scholarships. Working with governmental pre-university colleges, our support enabled 400 girls to continue STEM studies.
- In the UK, we celebrated 20 years of the Schools Prize and have awarded £1.6m to more than 600 schools since 2004. The Schools Prize also provides continuous professional development for the teachers through our partnership with STEM Learning, supporting more than 300 teachers and estimated to impact the learning of 28,000 students in 2024.

"We care about employee wellbeing, creating an environment where everyone can be at their best with career development and recognition."

We reached over one million people through STEM in 2024 and are now 45% towards our goal of inspiring 25 million young innovators by 2030. Our people are at the heart of all our programmes and contributed 58,785 hours (2023: 37,680) to community investment and education outreach programmes in 2024. Our global charitable contributions and community investment for 2024 totalled £4.3m (2023: £4.3m), including £398,000 from a share forfeiture programme carried out in earlier years.

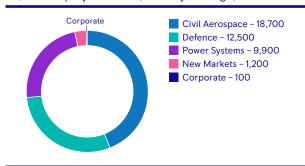
#### Looking ahead

In 2025, we will continue to embed our purpose and behaviours, reinforcing new ways of working, to drive efficiency, operational excellence and strategic execution. Our focus remains on building a sustainably distinctive business that benefits all our stakeholders.

Our 2024 performance reflects One Rolls-Royce in action, united in delivering our mid-term targets and beyond, shaping the future with innovation and impact.

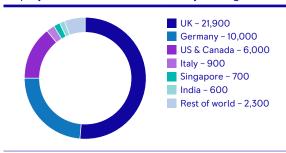
#### **People metrics**

#### 42,400 employees total (monthly average)<sup>1</sup>



<sup>1</sup> Segments are defined in note 2 on page 137

#### Employees in 48 countries (monthly average)<sup>2</sup>



2 Employee headcount data represents permanent employees and excludes contractors

#### Our diversity metrics at 31 December 2024<sup>3</sup>

#### Female diversity percentage tracking and 2025 targets

	2023	2024	2025 target
The Board <sup>4</sup>	50%	50%	50%
Executive Team	30%	30%	33%
ELG	23%	26%	35%
Senior leaders <sup>5</sup>	24%	25%	30%
All employees	18%	19%	25%

#### Ethnic diversity percentage tracking and 2025 targets for UK and US<sup>6</sup>

	2023	2024	2025 target
UK ethnicity	11%	12%	14%
US ethnicity	17%	17%	20%

#### **Gender diversity**

	Female	Male	Total	Female (%)
The Board	6	6	12	50%
Executive Team (ET)	3	7	10	30%
ET, Chief Governance Officer				
and direct reports	24	49	73	33%
ELG	24	68	92	26%
Senior leaders <sup>5</sup>	24	73	97	25%
All employees	7,811	34,400	42,211	19%

- 3 The data for diversity information is showing permanent employee year-end actuals
  4 The Board diversity policy aims for gender parity
  5 Senior leaders are defined in the Companies Act 2006 (those who have responsibility for planning and directing or controlling the activities of the entity or a strategically significant part of it). We do not include all subsidiary directors in the definition of senior leaders as this would not accurately reflect the leadership pipeline. We have a large number of small and dormant subsidiaries and the composition of these Boards reflects their level of activity. Accordingly, senior leaders refers to the Executive Team and the ELG  $\,$
- 6 For ethnicity information, we are only able to monitor and track this in the UK and US and, therefore, this only includes businesses in these locations. The population is only those who have chosen to disclose this information

Throughout this Annual Report, the information we disclose is in accordance with our reporting obligations as a UK registered company listed on the London Stock Exchange. We continue to keep our policies, procedures and targets under review to ensure compliance with the laws and regulations of the jurisdictions in which we operate. This includes our ongoing review in light of recent changes to US Federal law, to ensure we remain compliant

### **Ethics and compliance**

We are committed to ensuring that all our employees do the right thing and to creating a working environment where everyone can be at their best.

#### **OUR PROGRESS IN 2024**

Released from monitorship and conclusion of leniency agreement with Comptroller General of the Union in Brazil

Increased maturity in fraud risk assessment and incident management

Launch of corporate contributions reporting and approval

We are committed to upholding high ethical standards to create a working environment where everyone at Rolls-Royce and those we work with can be at their best. Our code of conduct (Our Code) and associated Group policies guide our actions and decisions to ensure we can be proud of the way we behave and the way we do business.

In 2024, Rolls-Royce launched its new purpose and behaviours which includes the behaviour, do the right thing. We are engaging with our employees across our global footprint on the important role they play in maintaining our high standards of ethics and compliance. In addition, as part of our 2024 annual mandatory learning programme, our core compliance learnings included our gifts and hospitality, data privacy and export control policies. We require all our employees to annually certify their understanding of Our Code.

We strive to create an environment where everyone feels valued and actively encouraged to speak up about questions or concerns without fear of negative consequences. This is a vital part of enhancing our culture of inclusion and belonging. Everyone can use our speak up channels, whether or not they are an employee. We provide multiple ways to raise a concern, including the Rolls-Royce speak up line which enables concerns to be raised anonymously and confidentially in multiple languages. A speak up report highlighting key statistics is made available to employees at regular intervals to remind them of the importance of speaking up and our annual speak up report is published on www.rolls-royce.com

We have a zero tolerance approach to misconduct of any kind and will take disciplinary action, where appropriate, including dismissal, in the event of a breach of Our Code. In 2024, 132 employees (2023: 132) left the business for reasons related to breaches of Our Code. The number is consistent with last year which shows that our enhanced consistency of tools across the Group which record and classify our dismissals continue to work well. It also demonstrates our commitment to enforcement of Our Code.

#### Supply chain due diligence

Our global supplier code of conduct sets out the ethical principles we expect from our suppliers. All suppliers are required contractually to adhere to this or a mutually agreed alternative. We work closely with our partners to continually improve the environmental and ethical performance of our supply chain. Partnering with a leading third-party provider, we conduct sustainability screening and assessments to understand the inherent sustainability risks within our supply chain and take appropriate mitigating actions where required. Prioritised suppliers are requested to complete a comprehensive assessment of their sustainability risk management. Where risks are identified, suppliers are asked to put in place improvement plans and offered support and resources to help with this via our third-party partner. To enhance the effectiveness of our due diligence controls, we also updated our partner contracts with specific sustainability clauses in 2024.

#### **Anti-bribery and corruption**

We do not tolerate bribery and corruption in any form, as set out in Our Code and associated anti-bribery and the corruption policy. We routinely check and test the effectiveness of our anti-bribery and corruption programme to manage proactively the associated risks (see page 56). In 2024, we continued to monitor our controls through compliance specific assurance activities, site visits and reviews of financial and operational data. These activities are overseen by the Nominations, Culture & Governance Committee (see page 80).

We conducted a deep dive review of anti-bribery and corruption risks which was presented to the Executive Team in May and the Board in July. Follow up actions from the discussion include monthly sessions with the Chief Financial Officer and the General Counsel to ensure to risk mitigations are progressing in a cohesive manner.

In October 2021, we entered into a leniency agreement with the Brazilian offices of the Comptroller General and Attorney General in relation to historic bribery allegations. As part of this, we agreed to implement improvements to our integrity programme in Brazil and to provide three reports to the Brazilian Comptroller General setting out all steps taken. Three reports were submitted in August 2022, February 2023 and November 2023. In the final report, we confirmed all required enhancements had been successfully completed. We received official confirmation in April 2024 that we had been released from the monitorship and that the leniency agreement had concluded.

#### **Human rights and anti-slavery**

Rolls-Royce is committed to protecting and preserving all internationally recognised human rights of everyone who may be impacted by our business activities along our value chain, in so far as is possible. This includes upholding the principles set out in our global policies and processes, including our global human rights policy, supplier code of conduct and Our Code, to fulfil our legal obligations and mitigate the risk of potential complicity in human rights violations.

During 2024, we took steps to further strengthen our human rights risk framework, including reviewing our existing policies and governance structure with the support of external counsel. As part of our due diligence activities, we expanded the coverage of our supplier sustainability assessments and carried out deep dive impact assessments on selected higher-risk business relationships.

Our approach includes conducting continuous external screening services, internal checks on contracts, certifications of the subsidiary or supplier, and specific examinations based on prioritised risks. In the event that an actual or potential human rights impact is identified, preventative, corrective or remedial measures may be assigned as appropriate in a systematic and proportionate manner. Each business unit now has an appointed human rights officer in place and we have rolled out dedicated human rights training to these specialist and other relevant roles. These activities are overseen by the human rights steering committee and the Nominations, Culture & Governance Committee (see page 80).



Find more information on our anti-slavery and human trafficking statement, see the Group policies and global supply chain page at www.rolls-royce.com



For more information on our ethics approach see the Nominations, Culture & Governance Committee report on page 80 or view Sustaining our culture of integrity document available at www.rolls-royce.com

### **Principal risks**

### The Rolls-Royce risk management and internal control framework

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

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

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

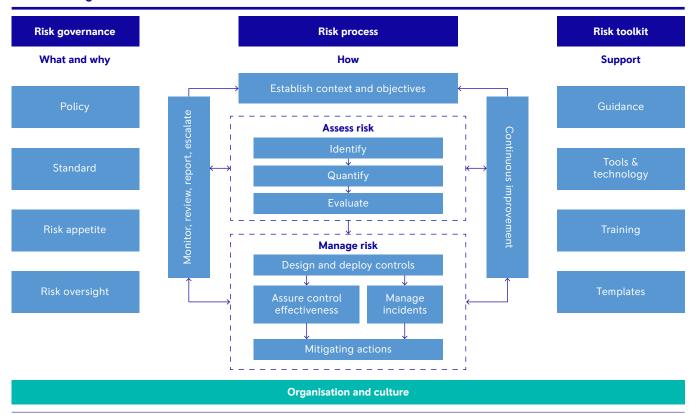
- 1. How effective the framework was at managing the principal risks:
  - Individual principal risks with reports throughout the year at the appropriate Board Committee, led by the risk owner (with a focus on controls in place to manage the risk and mitigating actions required to close any gaps). See pages 75 to 76 for a detailed list of these reviews

- A report by the head of enterprise risk management covering the principal risk portfolio to consider the current overall risk levels compared to risk appetite and our own internal targets.
- The Group's internal financial controls (at the Audit Committee) with financial reporting controls being subject to periodic review by the Group's internal controls team.
- 3. The effectiveness of the framework more broadly at improving the risk culture and capability of the organisation, including an annual risk maturity assessment.
- The input from assurance providers, such as the internal audit team, where risk-related findings are taken into account in managing related risks.

See page 53 for more on progress in 2024 and future risk improvement plans, as well as page 84 for more information on internal audit.

The Board confirms that it has monitored the effectiveness of risk management and internal controls throughout the year, in accordance with the Code.

#### The risk management framework



#### How Rolls-Royce uses the framework to manage risk

#### Risk governance

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

#### Risk process

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

Identify	Risks can be identified by anyone across the Group, including emerging risks as well as what could stop us achieving our strategic, operational or compliance objectives or impact the sustainability of our business model (described on pages 14 and 15.
Quantify and evaluate	Risk owners quantify the likelihood of a risk materialising and the potential impact if it does, taking into account current effective controls, and then deciding on a plan of action.
Control and assure	Risk owners design, implement and assure the effectiveness of controls to manage the risk, supported by different assurance providers using a three lines of defence approach (detailed in the principal risk tables from pages 55 to 60).
Act	Risk owners identify where mitigating actions are needed to bring the risk within appetite, assessing the Group's ability to reduce the impact of risks that materialise and ensuring the costs of operating a control are proportionate to the benefit provided.
Monitor, review and report	Risk owners report their assessment of current and target risk scores to local leadership as well as other review forums (including the Board and its Committees and the Executive Team) as needed depending on the level of the risk, for support, challenge and oversight.

#### Risk toolkit

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

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

#### Risk maturity and continuous improvement

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

#### Improvements in 2024

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

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

#### 2025 and beyond

Plans are now in place to ensure our readiness to meet the additional reporting requirements of the 2024 UK Corporate Governance Code. The RCA programme is a key foundational activity in relation to principal risks and, as such, will form part of the integrated Group-wide plan, which also incorporates other areas such as financial and non-financial reporting (including sustainability reporting requirements) and compliance.

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

#### **Examples of our new emerging risks**

#### EMERGING RISK TITLE AND DESCRIPTION

Demands on fuel stocks: competing use for feed stocks (for example, food versus fuel), cross-sector demands for feed fuel and the expansion of AI increasing demand on base energy requirements.

#### POTENTIAL IMPACT TO ROLLS-ROYCE

#### Threats:

- Reduce our access to fuel sources and supplies
- Hinders our ability to achieve decarbonisation across the full portfolio

#### **OUR RESPONSE**

Investigate and monitor:

- Continue to horizon scan and explore alternatives
- Monitor demand in the aviation sector as part of strategic planning
- Continue to develop our technology portfolio

Alternative fuel sources: development of alternative fuel sources, such as:

- Carbon-based liquid fuels
- Ammonia (carbon free fuel)
- Methanol

- Hydrogen

Opportunities (varying according to fuel):

- Low cost/high power solutions
- Potential for net zero carbon emissions
- Improved air quality

Investigate and monitor:

- Studies underway
- Pilots in development
- Technologies being mapped to better understand the threats and opportunities

Societal polarisation from increased access to propaganda (also linked to misinformation and disinformation).

#### Threats:

- Increase in conflict and division in the workplace
- Increased shareholder activism
- Increased insider threat risks

Manage according to our risk framework: Resources are now required and in place for additional monitoring, such as insider threats and likelihood of action.

#### **Emerging risks**

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

- record a new risk;
- amend an existing risk and manage this in accordance with our framework as described on page 52; or
- add the emerging risks to our watch list for investigation and monitoring.

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

#### Principal risks

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

#### Changes to the principal risks profile in 2024

We continue to review our principal risks, their dynamic nature and how well they are managed. During 2024, we have redefined two of our previous risks, technology and climate change (now energy transition), to reflect our strategy development in these areas.

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

#### Changes in overall risk levels

The overall risk level within our portfolio has reduced during 2024, as individual risks have reduced and/or we have improved control effectiveness. Details of these changes can be found in the following tables, starting on page 55, which detail the current principal risk pillars and drivers together with how we manage them and assure them in addition to internal audit and the oversight provided by the Board and its Committees.

#### **Board confirmation**

The Board confirms that it has assessed and monitored the Group's principal risks throughout the year, in accordance with the 2018 UK Corporate Governance Code.

#### PRINCIPAL RISKS - PILLARS











#### PRINCIPAL RISK DESCRIPTION

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

Product: Failure to provide safe products

#### CONTROLS AND MITIGATING ACTIONS

#### People:

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

#### Product:

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

#### People

- Safety case interventions
- HSE audit team

#### Product

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

#### OVERSIGHT FORUM(S)

- Safety, Energy Transition & Tech Committee
- Executive Team

#### **BUSINESS MODEL**

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

#### WHAT HAS CHANGED IN 2024?

This risk has improved during 2024, due to the strengthening of controls around people safety. However, safety is one of our core behaviours (see page 10) and the first priority for all our colleagues. We continue to prioritise action plans to improve people and product safety.

People safety related metrics and more information on how we are reducing safety risks can be found on page 18.

#### PRINCIPAL RISKS - PILLARS CONTINUED









### Compliance 🛂

#### PRINCIPAL RISK DESCRIPTION

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

#### OVERSIGHT FORUM(S)

#### **BUSINESS MODEL**

- Compliance teams
- Financial controls team
- Audit Committee
- Board
- Nominations, Culture & Governance Committee
- Executive audit committee
- Our business model drivers

#### WHAT HAS CHANGED IN 2024?

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

Read more about ethics and compliance on page 51.

### Strategy 🔇

#### PRINCIPAL RISK DESCRIPTION

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

#### OVERSIGHT FORUM(S)

#### **BUSINESS MODEL**

- Group strategy team
- Challenge from external advisers
- Board
- Executive Team
- Investment committee
- Our role in society
- Our business model drivers
- Our uniqueness

#### WHAT HAS CHANGED IN 2024?

Overall, this risk remained stable in 2024. We continued to iterate detailed strategies, for example, relating to sustainability and technology (see separate principal risk drivers on page 58).

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

#### PRINCIPAL RISKS - PILLARS CONTINUED











#### PRINCIPAL RISK DESCRIPTION

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

#### OVERSIGHT FORUM(S)

#### **BUSINESS MODEL**

- Executive Team monitoring of execution
- Board
- Executive Team
- Investment committee
- Our role in society
- Our business model drivers

#### WHAT HAS CHANGED IN 2024?

Overall, this risk remained stable in 2024, with the effectiveness of our controls in place to manage this risk improved in 2024, reflected in our financial performance (see pages 19 to 24), with a new operating model being implemented to deliver our strategy.

#### 



#### PRINCIPAL RISK DESCRIPTION

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

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

#### OVERSIGHT FORUM(S)

#### **BUSINESS MODEL**

- Investment reviews
- Supplier strategy and sourcing reviews
- Group security and resilience team
- Audit Committee
- Executive audit committee
- Our business model drivers
- Our uniqueness

#### WHAT HAS CHANGED IN 2024?

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

Read more about how we are managing uncertainty in our supply chain on page 13.

#### PRINCIPAL RISKS - DRIVERS







#### Energy transition 🛇



#### PRINCIPAL RISK DESCRIPTION

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

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

#### OVERSIGHT FORUM(S)

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

#### **BUSINESS MODEL**

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

#### WHAT HAS CHANGED IN 2024?

The need for lower carbon solutions has been identified as a long-term megatrend (see page 13), and the first phase of our sustainability strategy review took place in 2024, focusing on energy transition (see pages 34 and 35).

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

#### Information & data (including cyber)



#### PRINCIPAL RISK DESCRIPTION

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

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

- Group cyber security team
- Group security and resilience team

#### OVERSIGHT FORUM(S)

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

#### **BUSINESS MODEL**

- Our business model drivers
- Our uniqueness

#### WHAT HAS CHANGED IN 2024?

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

#### PRINCIPAL RISKS - DRIVERS CONTINUED







#### Market & financial shock



#### PRINCIPAL RISK DESCRIPTION

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

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

#### OVERSIGHT FORUM(S)

#### BUSINESS MODEL

- Five-year and strategic planning processes
- Strategy reviews

- Audit Committee
- Board
- Financial and operating drivers review
- Our business model drivers

#### WHAT HAS CHANGED IN 2024?

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

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

#### Political (\*)



#### PRINCIPAL RISK DESCRIPTION

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

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

#### OVERSIGHT FORUM(S)

- Board
- Executive Team

#### **BUSINESS MODEL**

- Our role in society
- Our business model drivers

#### WHAT HAS CHANGED IN 2024?

No change in the overall level of risk due to external factors such as the ongoing conflict in the Middle East and Ukraine, as well as the potential for increased geopolitical tensions, such as intensifying US-China competition and rising protectionism posing challenges, as outlined on page 13. This is a fast-moving risk we continually monitor and respond to.

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

#### PRINCIPAL RISKS - DRIVERS CONTINUED







#### Talent & capability 🛇



#### PRINCIPAL RISK DESCRIPTION

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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

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

#### OVERSIGHT FORUM(S)

- Nominations, Culture & Governance Committee
- People committee

#### **BUSINESS MODEL**

- Our business model drivers
- Our uniqueness

#### WHAT HAS CHANGED IN 2024?

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

### **Technology**



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

#### CONTROLS AND MITIGATING ACTIONS

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

#### ASSURANCE ACTIVITIES AND PROVIDERS

- Strategy reviews
- Investment reviews
- Technology reviews

#### OVERSIGHT FORUM(S)

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

#### **BUSINESS MODEL**

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

#### WHAT HAS CHANGED IN 2024?

The potential of digitalisation and AI to further transform how we operate has been identified as a long-term megatrend (see page 13) and we have continued to expand and evaluate this risk in 2024 as we further developed technology and digital roadmaps which outline what we need to achieve our strategic goals and ensure operational excellence. The level of risk has reduced due to these roadmaps and the integration of our technology strategy in our investment decision making, and the comprehensive, cross-business view of research and technology activities.

See page 13 for more on how we are embedding AI and digital tools throughout our business.

## Going concern and viability statements

#### Going concern statement

#### Overview

In accordance with the requirements of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group, taking into account its current position, the Group's principal risks which are described on pages 52 to 60, and the Group's mid-term forecasts together with factors that could affect its future development, performance and position, as set out in the Strategic Report on pages 2 to 65.

The Financial Review on pages 19 to 24 sets out the financial position of the Group, its cash flows, liquidity position and the Group's capital framework. The notes to the accounts include the objectives, policies and procedures over financial risk management, including financial instruments and hedging activities, exposure to credit risk, liquidity risk, interest rate risk and commodity price risk.

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

#### **Forecasts**

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

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

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

As announced on 27 February 2025, the Group is recommencing dividends, with the full year 2024 dividend of approximately £504m payable in June 2025, subject to shareholder approval, and interim and final dividends payable annually in June and September thereafter. In addition, the Group announced a £1bn share buyback which will be completed over the course of 2025. The dividends and the £1bn share buyback have been included in the going concern assessment in both the base case and the downside forecast.

The future impact of climate change on the Group has been considered through climate scenarios. The climate scenarios modelled do not have a material impact on either the base case or downside forecast over

the going concern period. Further detail on these climate scenarios is set out on page 39.

#### Liquidity and borrowings

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

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

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

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

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

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

#### Conclusion

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

#### Viability statement

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

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

We have created severe but plausible scenarios that estimate the potential impact of our principal risks arising over the assessment period (descriptions of our principal risks and the controls in place to mitigate them can be found on pages 52 to 60). We selected those principal risks that could have the most material impact to liquidity over the next five years and confirmed these with relevant subject matter experts. The risks chosen and scenarios used are as shown in the table on page 62.

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

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

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

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

- The Group is able to refinance maturing debt facilities and draw down existing available facilities as required. Debt maturities over the assessment period are as follows:
  - a. \$1bn bond maturing in 2025
  - b. €750m bond maturing in 2026
  - c. £375m bond maturing in 2026
  - d. £2.5bn revolving credit facility maturing in 2027 (currently undrawn facility, assumed to be refinanced upon maturity)

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

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

#### PRINCIPAL RISK

#### SCENARIO ASSUMPTIONS AND IMPACTS

#### Safety (product)

Civil Aerospace product safety event resulting in aircraft being grounded, lower engine flying hour (EFH) revenues, commercial penalties and additional costs (for example, unplanned shop visits). The grounding time and number of shop visits required to exceed headroom are considered remote.

#### Compliance

A compliance breach resulting in fines and loss of new business with governments and state-owned companies. The probability of triggering the size of fine required to exceed headroom is considered remote.

### Execution

A programme issue on a major programme of the same (proportionate) scale as Trent 1000. The extent to which engine life would need to be impacted to breach headroom is considered remote.

### **Business** interruption

- a) The loss of a key element of our supply chain resulting in an inability to fulfil Civil Aerospace large engine orders for 12 months (whatever is more demanding). Reverse stress testing would require the time over which orders could not be fulfilled to be extended beyond what we consider plausible.
- b) A test bed event that disrupts US Defence deliveries.
- c) An event in our Power Systems business that results in no deliveries over a period of time.
- d) A pandemic with similar impact to the COVID-19 pandemic with significant engine flying hour reduction in Civil Aerospace that require multiple years to recover to pre-pandemic levels and also impact on sales volumes especially in Civil Aerospace and the Power Generation businesses.

#### Energy transition (previously climate change)

Transition risk from our 1.5°C TCFD scenario where we receive lower revenues from existing Civil Aerospace and Power Systems products coupled with a business interruption at one of our facilities. The extent of time over which orders cannot be fulfilled in order to breach headroom is considered not plausible.

## Information & data (cyber)

A cyber-attack resulting in loss and corruption of data and resulting in business disruption, loss of EFHs, compliance concerns due to disclosure of data and potentially trigger debarment from government contracts. The time period over which EFHs would need to be affected to breach headroom is not considered plausible.

# Market & financial - market shock

Plausible downside scenario to model lower demand than our base case, with Civil EFHs held at Q4 2024 levels, as well as modelling 'worst case' inflation, interest rate and GDP taken from Bloomberg data.

#### **Political**

Sanctions imposed between major trading blocs resulting in supply chain disruption and a loss of sales in impacted markets. Reverse stress testing showed that sanctions would need to persist over a period of time beyond what is considered plausible.

### Section 172 statement

All of our Directors are briefed on their duties under the Companies Act 2006 during their induction. Our section 172(1) statement (s172) below sets out how the Directors have discharged their s172 duty. The Board recognises the responsibility to all our different but interrelated stakeholder groups and wider society. We recognise that effective engagement with a broad range of our stakeholders is essential for the long-term success of the business and we aim to create value for our stakeholders every day by maintaining levels of business conduct that are aligned to our values and our purpose. This section should be read in conjunction with our stakeholder engagement section on pages 64 and 65 and our Board's focus which contains information on the principal decisions made by the Board during 2024, on pages 75 and 76.

# The likely consequences of any decision in the long term

During the year, the Directors considered the Group's strategic direction and were regularly updated on progress with the divestment programme. This, in turn, creates long-term value for shareholders, recognising that the longer-term success of our business depends on the effects of our business activities on wider society. The Board also discussed the framework for shareholder returns (see page 20).

During 2024, Board discussions included a focus on the new organisational design and how we operate to enable a simpler, more efficient and effective organisation.

Further information on the launch of our multi-year transformation programme and new organisational design can be found on pages 11 and 12 in the Strategic report and page 75 in our Board focus.

### The interests of the Company's employees

The Directors recognise that the success of our business depends on attracting, retaining and motivating talented people. The Directors consider and assess the implications of decisions on our people, where relevant and feasible. Our focus on our people continued during 2024 and we launched our new purpose and behaviours during the second half of the year. Further information can be found on page 10 and in our People and culture section on page 46.

Additionally, at the 2024 AGM, a new share plan, the Rolls-Royce Global Employee Share Purchase Plan (GESPP) was approved, enabling the Group to gift all colleagues globally 150 Rolls-Royce shares (or cash equivalent where share allotment was not permitted). Further information on the GESPP can be found on page 48.

The need to foster the Company's business relationships with suppliers, customers and others

Delivering our strategy requires a strong, mutual and beneficial relationship with suppliers, customers, governments and joint venture partners. The Directors receive updates on engagement across the Group at Board meetings and the Board supports our Executive Team who work collaboratively with our suppliers and partners to continue to improve operational performance. During 2024, various Board and Executive Team members met with several of our key suppliers and customers. Further information can be found on page 64 of our Stakeholder engagement section.

#### The impact of the Company's operations on the community and the environment

Recognising the role we play in the global energy transition, the Board approved our refreshed sustainability strategy following an in-depth review by the Safety, Energy Transition & Tech Committee, see page 34 for information on our progress in advancing the strategy and progress against our targets in 2024.

The Board receives information through reports from the Chief Executive and Group-level reviews on various topics to help the Directors make decisions relating to net zero ambitions and proposals to divest or invest. In November, members of the Board attended the Rolls-Royce Schools Prize for Science & Technology 2022-2024 held in Derby, UK. Further information on this event can be found on page 65 of our Stakeholder engagement section.

The desirability of the Company maintaining a reputation for high standards of business conduct The Board reviews and approves our ethics and compliance frameworks and the General Counsel provides regular updates to the Board on compliance with regulation. This, in conjunction with the Board monitoring compliance with governance standards, helps to ensure that Board-level decisions and the actions of our subsidiaries promote high standards of business conduct. Our Code and Group policies, supplier code and modern slavery statements ensure high standards are approved and can be found on www.rolls-royce.com

The need to act fairly between members of the Company

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long term, taking into consideration the effect on the Group's stakeholders.

## Stakeholder engagement

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

#### STAKEHOLDER ENGAGEMENT STAKEHOLDER **ENGAGEMENT** REFERENCE The Directors recognise that the success of our business depends on attracting, retaining and See page 46 **People** motivating talented people. The Directors consider and assess the implications of decisions on our culture people, where relevant and feasible. See page 80 During 2024, our Employee Champions, Bev Goulet and Wendy Mars, continued to represent the voice of our people in the boardroom. The activities of the Employee Champions during the year and Culture & Governance opportunities for further engagement in 2025 were discussed at the Nominations, Culture &Committee Governance Committee. The Employee Champions provide regular feedback to Board members on report topics of interest and/or concern. This provides a valuable link between our people and the Board. See page 86 The Employee Champions continue to meet regularly with the employee stakeholder engagement committee, which provides support for their activities. In 2024, the Employee Champions had a schedule Committee of on-site and hybrid engagement activities which included sessions with the global inclusion network report chairs, inclusion champions and the people leadership team. Our Meet the Board event in Derby, UK, in May enabled around 60 of our apprentices to talk to the Board in an informal setting. Questions included what sustainability means to us as individuals and being inclusive, being at our best, being Rolls-Royce. Our Meet the Board event in Indianapolis, US, in September provided around 40 of our employees the opportunity to gain insights from our Board members and share their experiences from Rolls-Royce. We are committed to holding other Meet the Board events in 2025 as the Board understands the value of engaging with employees in more informal settings. In the second half of the year, the Group's new purpose and behaviours were launched. Comprehensive briefing packs were prepared for the Directors ahead of their September site visit to the Defence division in the US to support their discussions with colleagues. In addition, as part of our wider listening strategy, the new employee engagement survey, launched in September 2024, captured quantitative data and the results were shared with the Board. This allowed the Board to assess the impact of the new purpose and behaviours more effectively, ensuring alignment with our strategic goals. Many of our people are also our shareholders and we encourage their participation in a variety of share plans. At the 2024 AGM, a new share plan, the Rolls-Royce Global Employee Share Purchase Plan (GESPP), was approved which enabled the Group to gift all colleagues globally 150 Rolls-Royce shares or cash equivalent where share allotment is not permitted. Your Shares: Gifted was a thank you for their hard work and for the difference our colleagues make both today and for the future and it is one of the ways the Group is investing in our people. In addition, under the GESPP, we are launching Your Shares: Matched in 2025 where colleagues can purchase shares and the Company will match the shares up to a certain amount. See page 25 The Board recognises that the quality of the Group's customer relationships is based on mutual trust **Customers** as well as our engineering expertise. We recognise that we must retain and strengthen our focus on the transition to a net zero carbon global economy by creating the sustainable power that our customers require. We continue to focus on helping our customers deliver their own sustainability agendas. During 2024, the Chief Executive and members of the Executive Team engaged with customers at Farnborough, UK, with discussions focused on the potential of UltraFan as a scalable technology. In addition, engagement took place on proposed investment to increase time on wing for our customers. At every meeting, the Board receives operational updates, including customer metrics and feedback, across all the divisions. This greatly influences the Board's deliberations and its support for the Executive Team when considering our strategy. The Chair and Chief Executive will continue to meet with key customers during 2025. Suppliers and The interests of both our suppliers and partners are regularly considered as part of the Board's See page 6 Chief discussions on manufacturing strategy and when reviewing specific projects. The Board supports our partners Executive's Executive Team, who work collaboratively with our suppliers and partners, to continue to improve review operational performance through various means. The Board continued to receive updates from the businesses on supplier performance and supply chain disruption. During 2024, discussions took place on how we are helping our suppliers with the ongoing challenges experienced across the aerospace supply chain.

#### STAKEHOLDER ENGAGEMENT CONTINUED



STAKEHOLDER

#### **ENGAGEMENT**

REFERENCE

#### **Communities**

The Board recognises the importance of our communities and understands that everything we do can have an impact on our local and global communities. The Group's charitable contributions and sponsorships committee continued to identify causes for donation and partnership. During 2024, our focus was supporting young people, particularly those disadvantaged in our communities, to overcome barriers to participation, especially through STEM learning opportunities.

In November, Paulo Cesar Silva, Helen McCabe and members of the Executive Team attended the Rolls-Royce Schools Prize for Science & Technology 2022-2024 which was held in Derby, UK with approximately 150 attendees (see page 49). Our Group Director of Engineering, Technology & Safety acknowledged the valuable contribution that school teachers provide to inspire the future generations to participate in STEM learning. As part of the event, five finalist school teaching teams were hosted in Derby, UK, for the day with visits to the Rolls-Royce Heritage Centre and apprentice workshop.

See page 46 People and culture



Governing bodies and regulators

The Board recognises the importance of governments and regulators as stakeholders. Not only are governments across the world customers but they also support the Group's investment in infrastructure and technology. During 2024, the Chair and Chief Executive held meetings with UK Government ministers and senior officials on topics including the Atlantic Declaration, AUKUS and the SMR programme. Following the division of the UK BEIS Department, the Board engaged with and briefed the new post-holders on the Group's strategy and performance. The Board is updated on engagement with tax authorities and the related regulatory landscape. The General Counsel provides regular updates to the Board on compliance with regulation.

See page 25 Our divisions





#### Investors

The investor relations team is the key interface between the investment community and the Board, providing frequent dialogue and feedback. The Chair and members of the Board make themselves available to meet with institutional investors and seek to understand and prioritise the issues that matter most. In addition, the Chief Executive and Chief Financial Officer, supported by members of the Executive Team and the investor relations team, interact regularly with investors, most notably after our financial results, capital markets events, site visits and at conferences.

See page 11 Strategy

See page 86 Remuneration Committee report



During 2024, the Chairs of each Committee and the governance team engaged with shareholders and proxy advisers on proposals ahead of the 2024 AGM.



Strategic Report signed on behalf of the Board

**Tufan Erginbilgic Chief Executive** 27 February 2025