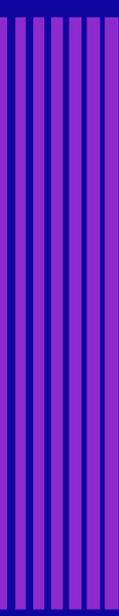




ANNUAL REPORT 2025

Rolls-Royce Holdings plc



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

Group at a glance

FINANCIAL HIGHLIGHTS

<p>UNDERLYING REVENUE ¹</p> <p>£20,059m</p> <p>2024: £17,848m</p>	<p>STATUTORY REVENUE ¹</p> <p>£21,207m</p> <p>2024: £18,909m</p>
<p>FREE CASH FLOW ¹</p> <p>£3,270m</p> <p>2024: £2,425m</p>	<p>STATUTORY CASH FLOWS FROM OPERATING ACTIVITIES</p> <p>£4,565m</p> <p>2024: £3,782m</p>
<p>UNDERLYING OPERATING PROFIT ¹</p> <p>£3,462m</p> <p>2024: £2,464m</p>	<p>STATUTORY OPERATING PROFIT ¹</p> <p>£4,468m</p> <p>2024: £2,906m</p>
<p>UNDERLYING OPERATING MARGIN</p> <p>17.3%</p> <p>2024: 13.8%</p>	<p>STATUTORY OPERATING MARGIN</p> <p>21.1%</p> <p>2024: 15.4%</p>
<p>UNDERLYING PROFIT BEFORE TAX ¹</p> <p>£3,352m</p> <p>2024: £2,293m</p>	<p>STATUTORY PROFIT BEFORE TAX ¹</p> <p>£6,935m</p> <p>2024: £2,234m</p>
<p>TOTAL UNDERLYING CASH COSTS AS A PROPORTION OF UNDERLYING GROSS MARGIN ^{1,2}</p> <p>0.36</p> <p>2024: 0.47</p>	<p>RETURN ON CAPITAL ^{1,3,4}</p> <p>18.9%</p> <p>2024: 13.8%</p>
<p>UNDERLYING EARNINGS PER SHARE ^{1,4}</p> <p>29.55p</p> <p>2024: 20.29p</p>	<p>STATUTORY EARNINGS PER SHARE</p> <p>69.41p</p> <p>2024: 30.05p</p>
<p>NET CASH</p> <p>£1,895m</p> <p>2024: £475m</p>	<p>LIQUIDITY ⁵</p> <p>£8.7bn</p> <p>2024: £8.1bn</p>
<p>ORDER BACKLOG ⁶</p> <p>£88.1bn</p> <p>2024: £82.1bn</p>	<p>GROSS R&D EXPENDITURE ⁷</p> <p>£1.4bn</p> <p>2024: £1.5bn</p>

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.

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.

See page 27 for the Defence divisional review

POWER SYSTEMS



Power Systems, with its product and solutions brand *mtu*, is a global provider of high-performance energy and propulsion solutions for a wide range of applications in the power generation, governmental, maritime and industrial sectors.

See page 29 for the Power Systems divisional review

1 A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 208 to 211

2 Total underlying cash costs as a proportion of underlying gross margin is defined on page 211 and is abbreviated to TCC/GM

3 Adjusted return on capital is defined on page 211 and is abbreviated to return on capital

4 Underlying profit after tax has been adjusted for the one-off non-cash impact of £277m (2024: £346m) related to the recognition of deferred tax assets on UK tax losses. See note 5, on page 145 for further details

5 Liquidity is defined as cash and cash equivalents plus any undrawn facilities, as listed on page 57

6 See note 2 on page 139

7 See note 3 on page 141 for a reconciliation of gross R&D expenditure to total R&D expenditure

See note 2 on page 136 for a reconciliation between underlying and statutory results

CIVIL AEROSPACE
UNDERLYING REVENUE

- Large engines – 76%
- Business aviation – 19%
- Regional – 2%
- V2500 – 3%



UNDERLYING OPERATING PROFIT

£2,130m

2024: £1,505m

UNDERLYING OPERATING MARGIN

20.5%

2024: 16.6%

DEFENCE
UNDERLYING REVENUE

- Transport – 31%
- Combat – 30%
- Submarines – 28%
- Naval¹ – 7%
- Helicopters – 4%



UNDERLYING OPERATING PROFIT

£689m

2024: £644m

UNDERLYING OPERATING MARGIN

14.4%

2024: 14.2%

POWER SYSTEMS
UNDERLYING REVENUE

- Power generation – 54%
- Governmental – 25%
- Marine – 10%
- Industrial – 9%
- BESS – 2%



UNDERLYING OPERATING PROFIT

£852m

2024: £560m

UNDERLYING OPERATING MARGIN

17.4%

2024: 13.1%

¹ On 18 September 2024, the Group signed a sale and disposal agreement for its naval propulsors & handling business with Fairbanks Morse Defense. On 1 July 2025 the sale of the naval propulsors business completed, with the sale of the naval handling business anticipated in 2026

Chair's statement

Dame Anita Frew
Chair



The Board is pleased with the progress we have made in 2025 to transform Rolls-Royce into a high-performing, competitive, resilient and growing business for the benefit of all our stakeholders. We recognise that ensuring the sustainable long-term growth of this great organisation is a multi-year journey.

It gives me great pleasure to introduce our Annual Report. In my introduction last year, I spoke about the major transformation which Tufan and all our colleagues at Rolls-Royce embarked upon in 2023. I said that while our transformation journey is not complete, robust foundations had been put in place to support sustainable long-term growth. Our strong performance in 2025, builds further confidence in those foundations, in the power of our transformation, the potential of our strategy and the commitment of our people.

On behalf of the Board, I want to thank our people worldwide for their passion, focus and dedication to Rolls-Royce.

During the year, I have had the opportunity to engage with many of our stakeholders, including institutional shareholders, customers and governments and I thank them for their continued trust and support. Our vision is to transform Rolls-Royce into a high-performing, competitive, resilient and growing business for the benefit of all our stakeholders. My Board colleagues and I are pleased with the strong progress we have made in 2025 towards realising this ambition. We recognise that ensuring sustainable long-term growth is a multi-year journey and Tufan sets out in more detail from page 6 our levers of growth to fully realise the potential of this great organisation.

Financial strength and shareholder distributions

Last year, the Board was pleased to announce a return to shareholder distributions in the form of cash dividends and a £1bn share buyback which was completed during 2025. At the end of 2025, we announced an interim share buyback of £200m which commenced in January and concluded in February 2026.

Reflecting the growing strength of our financial performance and balance sheet, we have announced a final cash dividend for 2025 of 5.0p per share to be paid in June subject to shareholder approval at our AGM on 30 April 2026. This brings the full year dividend for 2025 to 9.5p per share and is in line with the payout ratio we announced as part of our capital framework in 2024. We have also announced a multi-year share buyback programme across 2026 to 2028 of £7.0bn to £9.0bn. Of this, £2.5bn is expected to be completed in 2026, including £200m completed between 2 January 2026 and the date of this report.

In tandem with these shareholder distributions, we continue to make significant investments in our products, our operations and our people. Tufan talks more about these investments in his review from page 6.

Our strategy

Throughout 2025, the Board continued to monitor progress against our strategic initiatives, as outlined at our Capital Markets Day in November 2023. We are pleased that the strength of our performance this year in executing our strategy has allowed us to provide 2026 guidance of £4.0bn to £4.2bn underlying operating profit, and £3.6bn to £3.8bn free cash flow. We have also upgraded our mid-term targets to £4.9bn to £5.2bn underlying operating profit, 18% to 20% operating margin, £5.0bn to £5.3bn free cash flow, and 23% to 26% return on capital based on a 2028 timeframe.

During the year, the Board held a strategy session in which we looked at the opportunities for, and drivers of, growth in our current portfolio and market sectors beyond the mid-term. As we continue our transformation journey, the Board is focused on ensuring that Rolls-Royce is well-positioned to fully exploit these future opportunities.

In addition to our regular updates on strategic progress, the Board held a deep dive session with our Civil Aerospace leadership team to learn how our strategic initiatives are delivering value in this, our largest business division. This session enabled us to understand in more detail how we optimise our portfolio of large engine programmes to meet growing demand in the widebody aircraft market, and the steps we are taking to deliver operational excellence in our manufacturing and aftermarket operations. We also focused on the safety of our people and products, and learnt how we are nurturing talent and developing future leaders in the Civil Aerospace business.

On many of our site visits we were also able to see for ourselves how our strategic initiatives are cascaded through the organisation right down to the shop floor. In this way, our people can see how their day-to-day efforts directly impact the performance of Rolls-Royce.

Embedding cultural change

During the year, my fellow Directors and I were pleased to see how the organisation is embracing the cultural change that is at the heart of our transformation and without which our strong financial performance would not be possible. For me, cultural change means moving with pace, a focus on optimisation and a mindset of continuous improvement. These behaviours are evident, for example, in our improving safety metrics, in the remediation of long-standing engineering challenges, in better operational execution and in the agility with which we assessed, and took steps to mitigate, the potential impact of tariffs.

The Board recognises the paramount importance of safety for our people and all our stakeholders, and therefore, we are particularly pleased to see the focus and progress on our safety performance. I know my colleagues on the Safety, Energy Transition & Tech Committee were impressed with the new Safety Experience initiative which you can read more about on page 35.

Through our site visits and Meet the Board events my Board colleagues and I have experienced for ourselves how the transformation journey is energising our people. In 2025, we had the opportunity to engage with employees during visits to our business aviation facilities at Dahlewitz, Germany; our Defence site in Bristol, UK; and at our Civil Aerospace facilities in Derby, UK. In addition to our site visits, our Employee Champions, Bev Goulet and Wendy Mars, shared insights and feedback with the Board from their visits to our sites in Washington, UK; Inchinnan in Scotland, UK; and at our Nuclear Skills Academy in Derby, UK.

As I reflect on 2025, it is clear that we are building a culture of high performance and resilience and that, year-on-year, it reaches deeper into the organisation. You can read more about our People and culture from page 31.

Engaging with stakeholders

In addition to engaging with our people, my Board colleagues and I had opportunities to engage with shareholders, institutional investors and governments during the year. In parts of our home countries, Rolls-Royce is a major employer and contributor to the local economy. Therefore, we value our engagement with, and support from,

representatives of local governments and authorities at all times, and particularly as we plan capacity expansion to meet future growth opportunities. Where we do not interact directly with, for example, 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. In 2025 we were particularly pleased to learn that the actions which the management team have taken to enhance durability in the Trent 1000 fleet and to mitigate supply chain challenges have been making a meaningful difference to our customers, not least in the reduction of our aircraft on ground number. Please see Stakeholder engagement on page 60 for more information.

As you will read in our Remuneration report from page 82, my colleague Lord Jitesh Gadhia, Chair of our Remuneration Committee, engaged extensively in the autumn with our major institutional investors about proposed changes to our remuneration policy. As a Board we are committed to ensuring that our remuneration arrangements enable us to recruit and retain the best talent over the long-term, while also ensuring continued alignment of management interests with shareholder interests. The proposed changes to our remuneration policy are outlined in more detail from page 83.

Engineering for the future

In my Chair's statement last year, I talked about building on the iconic strengths of our engineering heritage. In 2025, we celebrated a number of milestones which speak to the depth and breadth of our engineering skill. The Trent 700 engine marked 30 years since entry into service with over 75 million flying hours since its launch. Our Dahlewitz, Germany site delivered its 9,000th jet engine for the business aviation market and more than 20 years since the Eurofighter Typhoon aircraft was first flown, we continue to receive orders for our EJ200 engine. Our expertise in nuclear propulsion for the UK Royal Navy's nuclear submarines is the foundation for Rolls-Royce SMR's small modular reactor technology, which was selected by Great British Energy – Nuclear, following a competitive tender process. But, as Tufan explains in more detail in his Chief Executive's review, we continue to invest in new technology, whether to enhance the

durability of our products, to reduce their impact on the environment or to meet the needs of our customers and society as the global demand for power, connection and protection increases (see the Chief Executive's review from page 6 and Sustainability from page 38).

Board

During 2025, we initiated a process to appoint successors to Bev Goulet and Nick Luff as they near the end of their terms as Non-Executive Directors on our Board. Our Nominations, Culture & Governance Committee aims to conclude these searches during the course of this year.

Once again, we conducted an internally facilitated review of the effectiveness of our Board and its Committees in 2025. These reviews were positive while also identifying areas for new or continued focus in 2026, which are discussed further on page 73.

Looking forward

2025 marks a third successive year of record performance. This demonstrates that our transformation programme, focus on operational excellence and the enthusiasm of our people is starting to generate sustained performance and is leading to the transformation of Rolls-Royce into a high-performing, competitive, resilient and growing business.

While there are many challenges in the external environment, there are also opportunities. Through robust operational execution of our strategy by our three divisions, Civil Aerospace, Defence, and Power Systems together with our joint venture for small modular reactors, Rolls-Royce is well-positioned to seize the opportunities for growth across our portfolio and our geographies, in and beyond the mid-term. Inspired by our purpose and empowered by the cultural change that is driving our transformation, the Board is confident that our leaders, and our people worldwide, are well equipped to navigate any headwinds while forging a path to greater innovation, resilience and growth.

Dame Anita Frew

Chair



It is clear that we are building a culture of high performance and resilience and that, year-on-year, it reaches deeper into the organisation.”

Chief Executive's review

Tufan Erginbilgic
Chief Executive



This year, we have further embedded the cultural change that is driving our transformation, with strong results produced across the Group. Through our transformation activities we have created unmatched growth and expanded the potential of the business. Our people are aligned, energised and mobilised. They are driven by a clear purpose which is moving us to a place where we can do things today that we could not previously do.

Our delivery in 2025

Safety is the single most important priority for everyone at Rolls-Royce, be it product, people or process safety. In all aspects we have continued to make strong progress. Our product safety risk is at the lowest level for a generation, with all divisions resolving issues and further enhancing our portfolio to the levels we and our customers expect. During the year, we launched a facilitator-led Safety Experience, available to all employees in which we step through key aspects of our safety system, the part we each play and how we are all responsible for safety. Over 13,000 of our people had completed this activity by the end of 2025 including members of the Executive Team. The Safety, Energy Transition & Tech Committee also

received a demonstration of this immersive experience. A speak up culture is central to safety, enabling proactive identification and resolution of potential issues. We have improved on all people safety measures over the last three years and are determined to build on that in 2026. Our mission never changes on safety. We will always strive for zero safety events and continue to enhance the safety of our products, systems and services.

In 2025, we had another strong year. Operating profit of £3.5bn was 38% higher than 2024, and free cash flow of £3.3bn was 35% above 2024. To all of our employees around the world who made this happen – thank you. Thanks to your efforts, we are securing our position as a high-performing, competitive, resilient and growing business.

The momentum we built in 2024 has continued through 2025. We have expanded the potential of the existing business while also seeking to assure our strategic ambitions. Underpinning our significantly improved performance is our strong operational execution which has increased operating margin and expanded profit and cash generation. One year ago, we set a mid-term operating margin target of 15% to 17%. We exceeded that range in 2025, three years earlier than planned. This, combined with our distinctive performance culture, is setting our business apart in terms of safety and day-to-day delivery, allowing us to exploit fully our advantaged technologies.

The external environment in which we operate has remained complex. Alongside industry-wide supply chain challenges there have been uncertainties introduced by tariffs and other geopolitical tensions. The resilience and agility we have established in the organisation has allowed us to deliver continued high-performance despite these headwinds.

I believe we have extensive growth opportunities beyond the mid-term, in our existing businesses and via our strategic investments as set out below. Our disciplined performance culture is ensuring a stable foundation for our future business performance.

Having reinstated dividends last year for the first time since 2019, we are very pleased to continue shareholder distributions with a final dividend of 5.0p per share in respect of the 2025 full year. This brings the full year dividend for 2025 to 9.5p per share. In November 2025, we completed the £1bn share buyback announced with our 2024 results. We commenced an interim buyback at the start of 2026 to the value of £200m, which was completed in February 2026. Given the strength of our balance sheet and cash generation potential, we can commit to a multi-year buyback in the range of £7.0bn to £9.0bn over the next three years, with £2.5bn (inclusive of the interim buyback of £200m already completed) allocated for 2026. This longer-term commitment is a sign of our belief in the business and our confidence is mirrored by the rating agencies, with all three, Fitch, Moody's and S&P rating us at investment grade.

We expect 2026 to be another strong year. Our 2026 guidance raises our operating profit to £4.0bn to £4.2bn and our free cash flow to £3.6bn to £3.8bn. This guidance sees us delivering our previous mid-term operating profit target two years earlier than planned.

Our transformation

I am frequently asked to describe the transformation we have undertaken at Rolls-Royce. My first point is to reiterate that we are not pursuing a turnaround or restructuring, rather a fundamental transformation of the business. When people think of a turnaround, the outcome is a return to a point in the past and past performance. Our transformation is about taking the business from point A to point B, where at point B the business is capable of things it could not even conceive at point A. Because of our differentiated mindset, capability and financial strength we are well on the way to point B. What we are learning is that as we get closer, we see more opportunity, expand further and point B evolves. Our transformation is an overarching programme that brings together our strategy, our purpose and our behaviours to align delivery as One Rolls-Royce.

In our 2024 Annual Report, I said that 2025 would be a significant year in which we secure the foundations that underpin our distinctive performance culture. At Rolls-Royce, culture is a product of how we run the business, it is not a separate agenda. It is embedded in our systems, leadership and daily decisions. We continue to pursue our transformation supported by our four key pillars: empowered leadership; granular strategy; performance culture; and intensity, pace and rigour. Our leaders are trusted and grounded in belief, clarity of direction and accountability. Our strategy is clear for all employees, who know their role and the critical contribution they make. Our strategic initiatives advance the business through clear expectations and targets, proactive interventions and continuous feedback. Our performance culture is rooted in developing and attracting the best talent. Through the year, there were many times where swift action was required to respond to changing context, dynamics and new constraints. Our teams demonstrated a high level of maturity, consistently operating with speed and depth when it mattered most, proving that our culture is supporting a completely different level of resilience.

Our behaviours

In 2024, we introduced our new behaviours: put safety first; do the right thing; keep it simple; and make a difference. These have galvanised our organisation and have swiftly become our language. They are simple and straightforward, with genuine substance, and I believe they have been instrumental in our success. As part of our engagement and recognition activities, we launched a portal, Power of You, that allows any employee to directly recognise someone or a team that

they believe has demonstrated one of our behaviours. Since its launch in October, there have been over 10,000 unique recognition records from around the world. That so many people see their colleagues making a difference correlates with our overall business performance. We now have an organisation that is driven by a clear purpose, and which thrives on making a difference. Further information on Power of You and our approach to employee recognition can be found in People and culture from page 31.

Sustained transformation depends on leaders who both run and evolve the business, not as separate roles, but as one integrated responsibility. We have standardised and embedded our leadership expectations into the systems that shape performance, succession and everyday decision-making. This performance framework ensures that these expectations translate into consistent behaviour and accountability. The impact of our leaders is amplified through our Change Maker network. This community continues to grow across the whole Group, with more than 1,300 employees participating. They have matured from advocacy to active facilitation, working alongside people leaders to embed behaviours into daily habits and tangible outcomes. Active sponsorship from leaders empowers Change Makers to remove barriers, recognise progress and increase the impact of our transformation on our culture. As I visit our sites across the globe, it is heartening to see this performance framework forming the foundations of a sustainable transformation.

Leadership changes

During the year, we created a new role on the Executive Team of Chief Procurement and Supply Chain Officer. This role recognises the importance of these areas and the need to continue driving improvements in our supply chain. It underscores our commitment to address these issues for the benefit of our customers and other stakeholders. I look forward to working with Martin Thomsen when he takes up this role in March. I also look forward to welcoming Maria Varsellona who joins us as Chief Legal Officer and I thank Mark Gregory for his 20 years of service to Rolls-Royce, the last ten of which as General Counsel, and wish him well for the future.

Progress on our strategic framework

Portfolio choices and partnerships

We continue to invest heavily in our products, infrastructure and capabilities. A significant investment has been made in our Civil Aerospace engine portfolio, with £1bn allocated to enhance attributes and increase time on wing, on which we are making good progress.

The Trent XWB engines remain incredibly popular. As the most successful large engine in our history, the Trent XWB-84's performance and time on wing continues to improve, with additional benefits being delivered through 2026. Improving on the most efficient large aero engine in service, the Trent XWB-84 EP (Enhanced Performance) entered service in 2025. Operators of this engine have seen improvements in fuel burn of over 1% in service. In addition, we completed materials, component and engine testing on the Trent XWB-97 developments, progressing our durability package on that engine.

Additive manufacturing offers enormous potential and is set to be used in many of our products across the portfolio. In an important breakthrough, Power Systems has redesigned, optimised, printed and tested numerous highly stressed core components in our Series 2000 engine. The team took advantage of the design freedom and new possibilities offered by the additive manufacturing techniques to deliver a lighter component, with geometries that could not be achieved with traditional manufacturing processes. The potential for this technology is vast, enabling faster manufacture for development, production and spare parts.

Another sign of our differentiated technologies aligning with our granular strategy is the selection by Great British Energy – Nuclear of Rolls-Royce SMR to build three small modular reactor (SMR) units in the UK following a competitive tender process. This is a boost to UK economic growth and exports that will create significant long-term value for Rolls-Royce.

The combination of these activities across our divisions and strategic investments is further evidence of our transformation into a high-performing, competitive, resilient and growing business that can invest in its future growth for the benefit of all stakeholders.

Strategic Initiatives

Civil Aerospace

Our momentum in Civil Aerospace continued in 2025 with growth in orders across our widebody portfolio. We received multiple commitments for the Trent XWB-97 powered A350 freighter and we expect to see continued momentum through 2026 with this aircraft. The Trent XWB family and the Trent 7000 remain popular choices, offering airlines versatile solutions.

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.

The Trent 1000 is also a beneficiary of continued investment. In 2025, the improved Phase 1 High Pressure Turbine (HPT) blade was fully certified for the Trent 1000 TEN, and began to be incorporated into the existing fleet at shop visits. The first new production engines entered into service with Lufthansa. We took the opportunity to acknowledge this major step forward in durability and doubling of time on wing by introducing this enhanced engine as the Trent 1000 XE. This recognises the significant investment, reliability and durability improvements and the completely refreshed standard our operators will receive. The improvements are also being incorporated in shop visits. We have very high confidence in the benefits of these improvements. In December, the Phase 2 HPT blade was certified and, during 2026, will be fitted to new engines and at shop visits, further increasing the time on wing of the engine.

A major focus through 2025 has been operational execution, specifically improving new engine production and aftermarket shop visit output, for the benefit of our customers. We were delighted to win a Supplier Award from Airbus, recognising our actions on new engine delivery and specifically for "Ramp up and Operational Excellence". This is the first time an engine manufacturer has been nominated for this award and is evidence of our strategy and transformation in action.

We have improved performance in, and continued to expand, our maintenance, repair and overhaul (MRO) facilities including in Derby, UK and Dahlewitz, Germany. In the wider MRO network Beijing Aero Engine Services Limited (BAESL), our joint-venture facility with Air China opened on plan and inducted its first Trent 700 engine. Air France Industries KLM Engineering & Maintenance centre inducted the first Trent XWB-84 engine, and we announced Turkish Technic and Emirates as the newest members of our MRO network.

A significant milestone occurred in 2025 with the marking of 30 years since the entry into service of the Trent 700. Since launch, this engine has completed over 75 million flying hours. This is a significant achievement with further potential as approximately 40% of the programme's total flight hours are still to come.

Rolls-Royce continues to set the standard in the business aviation market. In 2025, we delivered the 9,000th engine from our Dahlewitz site in Germany. We saw strong demand for the Pearl 15-powered Bombardier Global 5500 and 6500 as well as for the Pearl 700-powered Gulfstream G700 and the G800, that also entered into service last year. The Pearl 10X continues to make strong progress towards engine certification.

Defence

Our Defence division had notable orders and product development achievements in 2025. The EJ200 captured significant order intake from the Typhoon partner nations and secured major export success with Türkiye with commitments for 20 Typhoon aircraft with an option for more in the future. These orders mean we have visibility of EJ200 production into the 2030s.

Our work continues with the Defence Research and Development Organisation (DRDO) in India on the UK-India Jet Engine Advance Core Technologies (JEACT) programme to advance an indigenous combat engine design.

Over the past decade we have invested more than \$1bn in technology enhancements, facility upgrades and test capabilities at our Indianapolis, US site. We have made excellent progress with our F130 testing for the B52 re-engining programme. We started AE 1107 engine testing to support prototype delivery for the U.S. Army MV-75 Future Long Range Assault Aircraft (FLRAA) programme. Each MV-75 FLRAA will be equipped with two advanced Rolls-Royce AE 1107 engines, featuring world-class power density, cyber-compliant controls and survivability technology.

Power Systems

Momentum in our Power Systems division continued in 2025 with significant growth in power generation, where data centre demand soared, as well as in governmental. Consequently, we committed to significant investment at both our Mankato, Minnesota facility and our Aiken, South Carolina plant in the US.

Another benefit of our granular strategy is our focus on battery energy storage systems (BESS), designed for grid-scale performance, long term reliability and seamless integration with renewable power. The business achieved break-even in 2025. We have now delivered battery storage solutions for over 200 projects worldwide.

Looking ahead**Mid-term growth**

In our 2025 half year results, we upgraded our 2025 guidance based on the strong start to the year and confidence in our performance. Planning completed during 2025 shows that we expect our strong performance to continue in the mid-term. Accordingly, we have upgraded our mid-term targets to £4.9bn to £5.2bn underlying operating profit, 18% to 20% operating margin, £5.0bn to £5.3bn free cash flow, and 23% to 26% return on capital based on a 2028 timeframe.

All our divisions are expected to continue to contribute in 2026 and beyond. Operating profit growth in Civil Aerospace will be driven by several factors, including stronger aftermarket performance, improved widebody OE profitability, improved business aviation performance, and higher profitability on spare engines. By the mid-term, we expect rising widebody deliveries and Trent XWB installed engine deliveries to be break-even or positive, thanks to our commercial optimisation and efficiency actions. Over the last three years, we have captured more than 50% of widebody deliveries. This has driven up our share of the installed fleet from 34% to 38%.

Power generation revenues are now resulting in higher and improving margins, as we continue to enhance the business model. Data centre demand remains very strong and a significant portion of our growth to the mid-term is already underpinned by firm orders. In governmental, our strong market positions and increased global defence spending give us improved visibility of orders in the mid-term. Marine, BESS and services revenues are all expected to grow in this period.

In Defence, highly competitive performance in the mid-term will be driven by our self-help measures, coupled with demand growth, productivity improvements and capacity expansions. We see significant growth beyond the mid-term as new programmes ramp up.

Long-term growth – existing business

Civil Aerospace

In Civil Aerospace, we hold leading positions in widebody and business aviation. In widebody, we see growth in deliveries to the mid-term and beyond. We are continuing to improve our long-term service agreement margins beyond the mid-term. This is a sustainable benefit as more contracts come in with higher margins. Our time on wing initiatives are expected to result in a highly competitive engine portfolio.

Our Pearl family of business aviation engines leads the long range and ultra-long range segment, with strong positions on the latest large cabin jets. Deliveries of these platforms are ramping up and will remain in production for many years. Based on our actions, we expect to generate positive OE margins and as the fleet expands, we see potential to generate growing aftermarket revenues with increasing margins and cash flows.

Defence

Beyond the mid-term, growth opportunities accelerate as several major programmes ramp up. We hold a significant share in the GCAP programme, which we believe will be a leading combat aircraft programme with significant export opportunity potentially larger than Eurofighter. GCAP production is expected to ramp up in the mid-2030s. The MV-75 aircraft programme will also begin to ramp up from 2028, with a life of more than 30 years including both OE and aftermarket.

We see a growing trend toward autonomous platforms in defence. This is a significant market opportunity, which we are well placed to capitalise on given our capabilities. Rolls-Royce will power the U.S. Navy MQ 25A, the first autonomous aerial refueller in aviation history. We are investing further to position Rolls-Royce for future autonomous opportunities, including our Orpheus engine demonstrator, an affordable, versatile small engine architecture that can be adapted for multiple applications.

Power Systems

In Power Systems, long-term growth is expected to be driven primarily by power generation and governmental. We anticipate sustained power generation growth driven by data centres. We are uniquely positioned to help the hyperscalers with their future data centre power demands, including backup power, prime power and with SMRs. Our next generation Series 4000 engine, which will be released in 2028, targets the ever-increasing power demands of AI data centres with a 20% higher power density. In governmental markets, rising defence spending supports both land and naval applications, where we are the incumbent supplier on the main European NATO platforms.

Taken together, our existing businesses are well-positioned to deliver significant growth, with rising operating margins and growing cash flows well beyond the mid-term. This growth will be driven by a combination of market growth and self-help.

Long-term growth – new opportunities

We see the potential for long-term growth arising from new opportunities, leveraging our differentiated and advantaged technologies and capabilities. For example, our unique capability in nuclear positions us extremely well in this fast-growing market. We are already the leading SMR player in Europe, following success in the UK and the Czech Republic, and have started the regulatory process in the US. We see a total addressable market of more than 400 SMRs by 2050. In addition to SMRs, we see an adjacent opportunity in Advanced Modular Reactors (AMRs); AMRs are smaller, more flexible powerplants with potential applications in defence and commercial power.

A further growth opportunity is in narrowbody. Our UltraFan technology, which we are developing for both widebody and narrowbody platforms, positions us strongly for the next generation of narrowbody aircraft. The market is large and would offer meaningful synergies with our existing widebody and business aviation activities. To progress this opportunity, we are building a narrowbody sized demonstrator with up to 30,000 pounds of thrust, which is planned for ground testing in 2028. We expect UltraFan technology to deliver a significant improvement in fuel-burn versus existing narrowbody engines. We have already made significant investments in UltraFan and will continue to do so as we look to re-enter the narrowbody market in partnership.

The business we are creating

We are delivering on our proposition to transform Rolls-Royce into a high-performing, competitive, resilient, and growing business. We have achieved a step-change in financial performance over the past three years and we expect further strong progress in 2026. We have set new, upgraded mid-term targets for 2028.

We are transforming Rolls-Royce into a sustainably distinctive company for the benefit of all our stakeholders. We have advantaged products and technologies, significantly improved safety and operational capabilities and excellence in customer service. We have a differentiated mindset and distinctive performance culture. These, combined with a strong balance sheet and best-in-class efficiency, will unlock significant growth from our existing businesses, and new opportunities. I am very proud of the Rolls-Royce team and what we have delivered so far, and I am even more excited about what we will deliver together in the future.

Tufan Erginbilgic

Chief Executive



Safety is the single most important priority for everyone at Rolls-Royce.”

Our purpose, vision and behaviours

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 purpose statement encapsulates that commitment to the future and reflects why we exist as a business.

OUR PURPOSE

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

OUR VISION

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

OUR STRATEGY

A strategic framework to build a sustainably distinctive and leading business

1 Portfolio choices and partnerships

2 Strategic initiatives

3 Efficiency and simplification

4 Lower carbon and digitally enabled businesses

OUR BEHAVIOURS



Put safety first

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



Do the right thing

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



Keep it simple

Working together to share and execute ideas and staying adaptable to new ideas and solutions



Make a difference

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



For more information, see the Chief Executive's review from page 6



For more information, see People and culture from page 31

Our strategy

In 2025, significant progress was made in delivering our clear strategy. 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.

The strong progress made in 2025 gives us 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. This has enabled us to upgrade our mid-term targets to £4.9bn to £5.2bn underlying operating profit, 18% to 20% operating margin, £5.0bn to £5.3bn free cash flow, and 23% to 26% return on capital based on a 2028 timeframe.

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 Rolls-Royce 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, while 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 FLOW

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 we 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 announced a partnership with Turkish Technic to establish a state of the art maintenance, repair and overhaul centre. In Defence, we announced an expansion of our partnership with Avio Aero (Italy) and IHI (Japan) to accelerate the development of the power and propulsion system for the next-generation fighter aircraft being developed through the Global Combat Air Programme (GCAP) and we completed the sale of our naval propulsors business to Fairbanks Morse Defense. In nuclear, we are deepening our partnership with ČEZ Group (ČEZ), now a shareholder in Rolls-Royce SMR.

B	C	D	E
F	G	H	I
M			

1	2	3	4
5	6	7	8
9	10	11	

2

Strategic initiatives

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

In Civil Aerospace, we continue to make progress in improving time on wing, reducing operating costs and improving asset utilisation. In Business Aviation, our Pearl 800 engine entered service with Gulfstream and we completed certification testing on the Pearl 10X engine for Dassault. In Defence, we made significant progress on our strategy to grow our combat business by securing new exports for the EJ200 with Türkiye and demonstrating next generation technologies ahead of detailed design and development of GCAP's next generation power and propulsion system. In Power Systems, we announced an investment in our Mankato, Minnesota, US plant to increase the production capacity of back-up power generation systems for the rapidly growing data centre market.

A	B	C	D
E	F	G	H
I	K	L	M

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6	7	8	9
10	11		

3

Efficiency and simplification

Our Group-wide focus to drive synergies is making us more competitive by delivering significant and recurring operating cost reductions. Key levers include a more efficient and simplified operating model, a refreshed organisational design, changed ways of working and improved investment discipline, as well as more focused management of third-party costs. We have delivered cumulative savings of over £600m by the end of 2025, achieving the target set out during our Strategic Review in 2023.

A significant achievement contributing to our efficiency and simplification agenda is the scaling up of benefits in our Group Business Services function. We have expanded our Group Business Services operations in India and opened a new centre in Poland. These centres will provide effective and efficient support, as well as an improved customer experience.

A	B	C	D
E	F	G	H
I	J	K	L
M			

1	2	3	4
5	6	7	8
9	10	11	

4

Lower carbon and digitally enabled businesses

We are committed to reaching net zero by the end of 2050, with an interim target of reducing Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline. Our commitment to sustainability extends to supporting our customers in realising their environmental goals through improving the efficiency of our products – products that serve some of the hardest sectors to decarbonise.

In Civil Aerospace, we are making progress on maturing our next-generation, high-efficiency engine architecture, UltraFan, by preparing for ground testing of a demonstrator in the narrowbody thrust class. This initiative will demonstrate the potential of UltraFan technologies within a new market segment and reduce risk ahead of future flight testing of a larger, widebody engine.

Within our Defence division, we showcased the environmental and security of supply advantages through an innovative recycling initiative, Tornado 2 Tempest. This pioneering project demonstrated how retired RAF Tornado aircraft components can be turned into metal powder and subsequently reused to 3D print new parts for the Orpheus small engine concept.

Our Power Systems division released a position paper with Microsoft highlighting the potential of Hydrotreated Vegetable Oil (HVO) as a sustainable transitional fuel for backup power in data centres. The use of HVO can reduce lifecycle CO₂ emissions by up to 90% compared to fossil diesel and is compatible with existing generator infrastructure.

Rolls-Royce SMR made significant advances in 2025, having been chosen as the preferred technology in the Great British Energy – Nuclear small modular reactor competition. In Sweden, following a comprehensive evaluation process, we are collaborating with Vattenfall as we move towards final technology selection of an initial opportunity for three SMRs.

B	C	D	E
F	G	H	I
K	L	M	

2	3	4	5
6	7	8	9
10	11		

Link to KPIs

- A Order backlog
- B Underlying revenue
- C Underlying operating profit
- D Underlying operating margin
- E Free cash flow

- F TCC/GM
- G Return on capital
- H Gross R&D expenditure
- I Gross capital expenditure
- J Safety index

- K Total reportable injuries rate
- L Employee engagement
- M Sustainability

- For more information, see the Chief Executive's review from page 6
- For more information, see Our divisions from page 25
- For more information, see Sustainability from page 38

Link to risk

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

12

ROLLS-ROYCE HOLDINGS PLC ANNUAL REPORT 2025

External environment

<p>Geopolitical tension and protectionism</p> <p>Geopolitical tension and protectionism have risen sharply in the past year, with US tariffs hitting their highest point in a century. Countries have responded with new trade agreements or reciprocal tariffs, reshaping global trade and slowing economic growth. This uncertainty has increased supply chain pressures, commodity price volatility, and delayed investment.</p>	<p>Our response</p> <p>Rolls-Royce addresses geopolitical uncertainty by closely monitoring trends and regularly reviewing risks to our strategy.</p> <p>Our diversified portfolio and multiple revenue streams strengthen our resilience and minimise reliance on individual markets, while our broad international presence enables us to respond effectively to protectionist policies.</p> <p>We were quick to respond to the impact of tariffs, where we were able to fully mitigate their direct impact across the Group.</p>
<p>Continuing supply chain challenges</p> <p>In 2025, the global supply chain remained challenging: shortages in raw materials, labour issues, geopolitical conflicts, and a complex international climate, have contributed to uncertainty across various industries resulting in increased costs, extended lead times, and shifts in supply chain dynamics worldwide.</p> <p>Strong growth in Civil Aerospace has strained an aviation supply chain that has yet to fully recover from the pandemic, and the pressure has been exacerbated by the introduction of tariffs. These factors continue to pose challenges for aircraft deliveries and the availability of spare parts.</p>	<p>Our response</p> <p>Closer integration between procurement and supplier management, upskilling procurement teams with advanced digital tools and embedding employees in some of our key suppliers has enabled improved supply chain management and efficiency.</p> <p>The Executive Team has been enhanced by the addition of a Group Chief Procurement and Supply Chain Officer. Commencing in March and reporting directly to the Chief Executive, this appointment will further enhance efforts to improve resilience and competitiveness.</p>
<p>A weakening consensus on environmental action</p> <p>Over the last few years, we have seen a move towards more flexible, and sometimes weaker, environmental regulations. Reversals in regulation in the US and concerns around competitiveness and the cost of the energy transition in Europe, together with selective policy easing in other regions, has created an uncertain and uneven landscape that could slow progress on decarbonisation.</p> <p>Disagreements over trade and energy at COP30 prevented the translation of earlier pledges to phase out fossil fuels into concrete actions, emphasising a shift towards voluntary national implementation plans.</p> <p>Ongoing energy security concerns will keep fossil fuel markets volatile, while policy support, lower costs, and financial innovation will boost clean energy. Geopolitical and technological shifts are expected to channel investment towards assets that build supply resilience and speed decarbonisation.</p>	<p>Our response</p> <p>Minimising the environmental impact of our operations is essential, and Rolls-Royce remains well positioned to sustain and selectively advance our decarbonisation roadmap. As society's need for affordable, reliable, and sustainable energy continues to grow, the evolving energy landscape creates substantial new business opportunities across our portfolio.</p> <p>The growing adoption of AI is contributing to increased data centre size, capacity, and power requirements, resulting in robust demand within our Power Systems business.</p> <p>The SMR programme developed by Rolls-Royce SMR has advanced from concept to preferred-bidder status in multiple jurisdictions, providing our customers with a differentiated, capital-light route into new nuclear capacity.</p>
<p>European calls for sovereign capability in defence</p> <p>Driven by the conflict in Ukraine, shifting US focus, and a growing recognition of the need for strategic autonomy, Europe is increasing investment in defence.</p> <p>Europe enters 2026 with political will, financing capacity, and industrial momentum to build sovereign, interoperable defence capabilities.</p> <p>NATO's updated guidelines call for members to invest a minimum of 3.5% of GDP to defence, with at least 20% dedicated to equipment procurement. Frontline countries such as Poland already meet or surpass this.</p> <p>In 2025 the UK committed to a sustained uplift in defence spending over the next decade. Germany plans to spend more than €150 billion per year on defence by 2029 in order to meet its 3.5% target.</p>	<p>Our response</p> <p>As the leading provider in Europe of defence power and propulsion capability across land, sea and air, Rolls-Royce is well placed to support Europe's determination to secure sovereign capabilities over the coming decade and beyond.</p> <p>The EJ200 is the leading European combat engine, in service with the UK, German, Italian and Spanish armed forces. Our Power Systems engines power Europe's leading main battle tank and most of the navies in Europe.</p> <p>Higher utilisation and intensified readiness will drive increased service revenues in the short term. New programme opportunities will support investment in technology in the longer term.</p>

Business model

OUR COMMON DRIVERS FOR SUCCESS

Advantaged businesses with strong positions in attractive and growing markets

OUR DIVISIONS

CIVIL AEROSPACE

OUR ROLE IN SOCIETY

Connect

We make it possible for people to travel safely, reliably, efficiently, and affordably around the world.

We create social and economic value by enabling unique experiences and in-person connections – bringing together people and cultures, businesses and families.

PASSENGERS WHO FLEW ON A ROLLS-ROYCE POWERED AIRCRAFT IN 2025

>390m

Link to risk

1 3 4 6 9 11

OUR BUSINESS MODEL DRIVERS

Differentiated services

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

We pioneered long-term service agreements, a model that aligns our interests with those of our customers and rewards us for improving reliability, availability and cost efficiency.

Through data-driven insights and focused customer support, we deliver value to airlines and set the benchmark for customer service in business aviation.

NEW DELIVERY BUSINESS AVIATION ENROLLED IN CORPORATE CARE ENHANCED

>70%

Link to risk

1 2 3 4 5 6

7 8 9 10 11

OUR UNIQUENESS

Trusted partner

We work closely with our aircraft manufacturer and airline customers to understand their needs and co-create solutions.

We have long-standing partnerships with airlines to support their operations, including through joint maintenance, repair and overhaul (MRO) facilities.

We partner with our supply chain to access specialised capabilities, maximising market coverage and minimising investment required, and share risk and reward.

IN PRODUCTION WIDEBODY AIRCRAFT WITH A ROLLS-ROYCE ENGINE OPTION

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

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 nations keep their citizens safe at home, protect their interests abroad, and respond rapidly to humanitarian emergencies.

YEARS OF PROVIDING NUCLEAR PROPULSION POWER TO THE UK'S ROYAL NAVY

63

POWER SYSTEMS

Power

We provide solutions to the challenges created by society's rapidly growing demand for energy and mobility.

We deliver high-performance, reliable and sustainable power that supports economic growth and development.

EXPECTED ANNUAL GROWTH RATE IN THE DATA CENTRE MARKET

>20%

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 give customers unique capabilities and remain in service for decades.

We create value and resilience for the Group by balancing the volatility of commercial markets and leveraging 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 integrated system solutions for use on land and at sea.

We invent once and use many times, creating product families that serve multiple applications across diverse markets. This approach delivers proven solutions for our customers and maximises returns on investment for our shareholders.

NUMBER OF \$4000 ENGINES SOLD ACROSS DIVERSE MARKETS

70,000

Global access, local presence

We proudly support over 160 customers in over 100 countries.

With full engine design capability in the UK, US and available in Germany, we ensure sovereign independence and freedom to operate.

We strengthen our global reach through close partnerships with allied nations including Japan, Italy, Australia, the Kingdom of Saudi Arabia, India, the Republic of Korea, Spain, and France.

COUNTRIES WHERE ROLLS-ROYCE HAS SOVEREIGN WHOLE ENGINE DESIGN CAPABILITY

3

Structural advantage

We deliver unmatched power, reliability and efficiency, providing premium performance and value for our customers.

Recognised as the engine provider of choice where the mission matters, we support critical infrastructure with high-integrity back-up power for hospitals, airports and data centres; and provide high-performance power and propulsion for naval vessels, military vehicles and yachts.

MARKET SHARE IN NAVAL BUSINESS

>30%



DRIVEN BY COMMITTED EMPOWERED PEOPLE OPERATING IN A PERFORMANCE CULTURE

UNDERPINNED BY OUR PURPOSE AND BEHAVIOURS

Read more about Our strategy from page 11

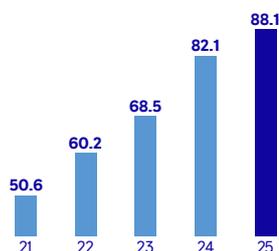
Read more about our KPIs from page 16

Read more about our principal risks from page 48

Key performance indicators

FINANCIAL PERFORMANCE INDICATORS

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 139 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 134 for more information.

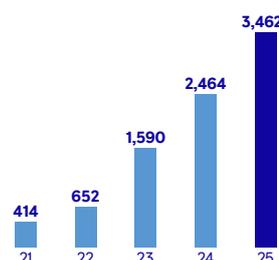
WHY IT IS IMPORTANT

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 (£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 134 for more information.

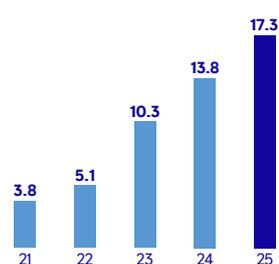
WHY IT IS IMPORTANT

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, cash received on maturity of share-based payment schemes and amounts paid relating to the settlement of excess derivatives. It excludes amounts spent/received on business acquisitions/disposals, and other material exceptional or one-off cash flows. Cash flows from operating activities is our statutory equivalent. See note 30 on page 181 for more information.

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 distributions.

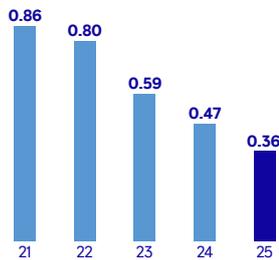
LINK TO REMUNERATION

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

 A reconciliation from the alternative performance measure to its statutory equivalent can be found from page 208

FINANCIAL PERFORMANCE INDICATORS CONTINUED

TCC/GM (ratio)



HOW WE DEFINE IT

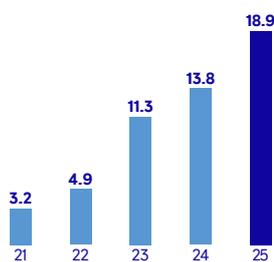
TCC is defined as total underlying cash costs during the year (represented by underlying R&D and underlying C&A) as a proportion of underlying gross profit.

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 (%)¹

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 211 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 LTIP.

Gross R&D expenditure (£m)²

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.

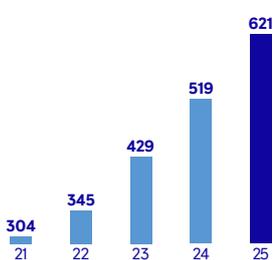
WHY IT IS IMPORTANT

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. Both our Annual Incentive Plan and our LTIP reward strong financial performance, with the LTIP incorporating a Total Shareholder Return (TSR) metric, which is a holistic metric for assessing performance, incorporating investor expectations about the Company performance and future value creation.

Gross capital expenditure (£m)



HOW WE DEFINE IT

In-year gross cash expenditure on capital excluding depreciation, impairments and write-offs 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 capital expenditure optimises in-year profit and cash flow performance without compromising long-term capital requirements. Both our Annual Incentive Plan and our LTIP reward strong financial performance, with the LTIP incorporating a Total Shareholder Return (TSR) metric, which is a holistic metric for assessing performance, incorporating investor expectations about the Company performance and future value creation.

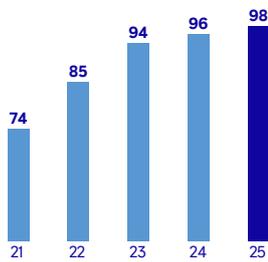
¹ Return on capital has been adjusted for the one-off non-cash impact of £277m (2024: £346m) related to the recognition of deferred tax assets on UK tax losses. See note 5 on page 142 for more details

² The £58m decrease in gross R&D in 2025 compared with 2024 is driven by the Group's exit of its advanced air mobility activities in 2024, and the deconsolidation of Rolls-Royce SMR Limited in 2025, which contributed a £189m decrease. Adjusting for this, gross R&D increased by £131m

 A reconciliation from the alternative performance measure to its statutory equivalent can be found from page 208

NON-FINANCIAL PERFORMANCE INDICATORS

Safety index (%)



HOW WE DEFINE IT

The safety index provides a composite score of five leading indicators: senior leadership safety walks; safety case improvement activity; HSE alert response, non-conformance close-out and accountable person engagement. Together, these measures reinforce proactive safety behaviours that improve the effectiveness of our controls.

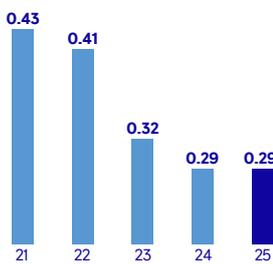
WHY IT IS IMPORTANT

With measures that mature year-on-year, the safety index facilitates the continuous improvement of our safety culture.

LINK TO REMUNERATION

This metric accounts for 2.5% of the Group and division elements of the Annual Incentive Plan.

Total reportable injuries rate¹



HOW WE DEFINE IT

This is a measure of total reportable injuries (TRI) 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. TRI events are shared widely to strengthen controls and reinforce a culture in which colleagues feel safe to speak up.

LINK TO REMUNERATION

This metric accounts for 2.5% of the Group and division elements of the Annual Incentive Plan.

Employee engagement (%)¹



HOW WE DEFINE IT

Our Voices: Big Picture has evolved over the past year and is now a core source for listening to our colleagues and taking action. Our Voices delivers insights on engagement, inclusion and employee experience relative to our targeted behaviours.

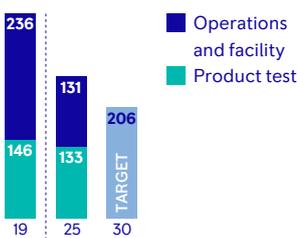
WHY IT IS IMPORTANT

Our people are crucial to delivering our strategy. Our Voices: Big Picture is a key part of our listening strategy, providing a clear picture of our cultural progress, while also making clear where we must act with urgency.

LINK TO REMUNERATION

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

Scope 1 + 2 greenhouse gas emissions¹



HOW WE DEFINE IT

Total Scope 1 + 2 greenhouse gas emissions from facilities, operations and testing, measured in kilotonnes of carbon dioxide equivalent (ktCO₂e).

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 accounts for 10% of the 2025 LTIP award, and is a cumulative target which will measure the progress made against our sustainability commitments (to reduce Scope 1 + 2 emissions by 46% by the end of 2030, against a 2019 baseline) over 2025, 2026 and 2027.

¹ External assurance provided by DNV. See from page 202 for their assurance statement

For more information on our strategic framework, see page 12

For more information on Scope 1 + 2 emissions, see from page 38

For more information on the Our Voices survey, see page 32

Helen McCabe
Chief Financial Officer



2025 was another strong year of delivery for Rolls-Royce and marked the third successful year of our transformation programme as we become a high-performing, competitive, resilient and growing business.

2025 marked another strong year for Rolls-Royce in both strategic and financial delivery. Key strategic and financial metrics improved significantly, as did operational execution. All three of our divisions, and our growing nuclear business, contributed to the Group's continued progress.

Our strong performance, despite a challenging environment, also enabled us to reward shareholders with £1.9bn of distributions last year, and at full year 2025 results, announce our first multi-year share buyback.

We delivered all of this while continuing to invest in future growth for decades to come. Key investments included: UltraFan in Civil Aerospace, which will position us for future success on both widebody and narrowbody platforms; the next-generation engine in Power Systems, which will be the most compact and powerful engine in its category in the market; and in Defence, continued investment across our many multi-decade platforms.

The progress we have made is due to a One Rolls-Royce mindset and team effort. It could not have happened without the expertise, commitment and hard work of the teams across the Group. I continue to be impressed by the commitment and enthusiasm of our talented people. Having visited many of our sites around the globe, including in the UK, US, India, Poland, and Germany, energy levels amongst our people are higher than ever. Teams across the organisation are delivering to an ever-increasing standard as we transform Rolls-Royce into a high-performing, competitive, resilient and growing business. Thank you to all colleagues.

Our transformation has already delivered class-leading performance, and we know there is more we need and want to do, to enable us to unlock further potential across the Group. That work is already underway.

I previously shared my four key areas of focus: integrated performance management, commercial and cost optimisation, working capital optimisation, and capital framework. We continue to make good progress across all four as part of our transformation journey.

1. Integrated performance management

Our approach to integrated performance management remains at the heart of what we do. It is distinctive and embedded throughout all levels of the organisation. We aim for everyone in Rolls-Royce to understand how they contribute to strategic and financial delivery. Everyone has clear targets, which are linked to our strategic initiatives. Rigorous and dynamic performance management ensures that the delivery of these strategic initiatives drives in-year, mid-term and longer-term delivery.

We continue to invest in and improve our performance management processes. A step-change improvement in management information, supported by the use of digitisation tools, such as dashboards used throughout all levels of the organisation, drives deeper analysis and insight into key business drivers. All of which help drive pace, intensity and better insight for more proactive and timely interventions.

2. Commercial and cost optimisation

As part of our transformation, we have embedded a new commercial mindset and cost-conscious culture across the organisation.

Commercial optimisation remains a key area of focus as we adopt a value-based pricing approach across the Group. This has been a significant driver of improved performance in all three divisions. For example, in Civil Aerospace where we are driving higher aftermarket margins, we have now renegotiated all our original equipment (OE) contracts. Strong progress has also been made with onerous aftermarket contracts, the most significant of which have been renegotiated with the balance to be concluded in 2026.

Improved commercial acumen is also making us more agile. For example, we were quick to respond to the impact of tariffs, where we were able to fully mitigate their direct impact. We are transforming Rolls-Royce into a more commercially proactive and agile business.

Our cost efficiency initiatives are also continuing to deliver as we continue to embed a cost-conscious mindset across the Group. At the end of 2025, our total cash costs to gross margin ratio, a measure of operational efficiency and resilience, stood at 0.36x, a best-in-class ratio. Our efficiency and simplification programme has delivered benefits of £0.6bn, exceeding our target of £0.5bn by the end of 2025. A number of workstreams underpin our activities in this area. For example, zero-based budgeting which has been rolled out across the organisation, driving discipline in spending and providing efficiency benefits. We have also expanded our Group Business Services operations in India and opened a new centre in Poland. These centres will provide effective and efficient support, as well as an improved customer experience.

3. Working capital optimisation

Working capital optimisation remains a key priority as we focus on delivering sustainable and growing free cash flow, maintaining our resilience and increasing our return on capital.

In the three years of our transformation we have materially strengthened working capital management, with significant improvements across inventory days and days sales outstanding, as well as overdue debt. All of this we have done in a challenged supply chain environment, and as we supported business growth. Working capital culture and discipline across the Group is becoming much stronger.

We worked closely with key suppliers, including embedding Rolls-Royce employees into their organisations, to support them as they navigated supply chain challenges.

We are also investing in improved sales, inventory and operational planning systems and processes. A new material Group-wide programme was launched to drive further operational and working capital improvements.

4. Capital framework

Significantly, 2025 was the first time in more than five years that we paid a dividend and the first time in ten years that we executed a share buyback, returning a combined total of £1.9bn to our shareholders in the year. Our approach to dividends is to pay an interim and a final cash dividend each year, with full year dividends based on a pay-out ratio of between 30% to 40% of underlying profit after tax. The final dividend for 2025 of 5.0p per share, will be paid subject to shareholder approval at our Annual General Meeting to be held on 30 April 2026. It takes the total dividend for 2025 to 9.5p, which represents a 32% payout ratio of underlying profit after tax.

We further strengthened our balance sheet, enabled by a growing cash delivery, and ended 2025 with a net cash position. We also repaid a \$1bn bond that matured in October.

Our efforts continue to be recognised by the credit rating agencies, who now all hold us at strong investment grade. In 2025, both Fitch and S&P Global upgraded Rolls-Royce to BBB+ and Moody's upgraded Rolls-Royce to Baa1.

We continued to make strategic, disciplined investments in 2025, while staying focused on the safety of our products, processes and people. Our £1bn multi-year time on wing investment is progressing to plan and will help extend the time between shop visits for our customers, as well as creating additional capacity in our maintenance, repair and overhaul (MRO) facilities.

Our strong progress and confidence in our future plans enabled us to announce a £7.0bn to £9.0bn share buyback across 2026 to 2028, with £2.5bn to be returned in 2026.

Taken together with our commitment to regular and growing dividends, this represents a return to shareholders of over 75% of free cash flow between 2026 to 2028, based on our upgraded mid-term targets. This is our first multi-year share buyback. Another key milestone in our transformation journey.

As our transformation programme continues, I look forward to making further progress in these four key priorities in 2026. We have so much more potential, and I am excited about the journey ahead.

2025 financial performance

2025 has been another year of strong strategic and financial delivery with a significant improvement across all financial metrics. Over the past three years, our transformation programme has delivered a step-change in performance, with higher operating profit and free cash flow delivered alongside a doubling of capital expenditure, as we continue to transform Rolls-Royce into a high-performing, competitive, resilient, and growing business. Our actions have driven stronger financial performance despite an external environment that remains challenging, including supply chain constraints which we are actively managing.

Significant operating profit and margin growth:

Underlying operating profit increased to £3.5bn in 2025 compared with £2.5bn in 2024, with an operating margin of 17.3% (2024: 13.8%). Civil Aerospace delivered an underlying operating margin of 20.5% (2024: 16.6%), driven by stronger large engine aftermarket performance, contractual margin improvements and higher spare engine profitability. Defence reported an underlying operating margin of 14.4% (2024: 14.2%), which reflects stronger performance across transport and combat, and the absence of a one-off benefit in submarines in the prior year. Power Systems delivered an operating margin of 17.4% (2024: 13.1%), driven by power generation, where we continue to capture profitable growth in data centres, and governmental. Across the Group, improved profitability was supported by our ongoing efficiency and simplification programme.

Sustainable free cash flow growth:

Free cash flow of £3.3bn (2024: £2.4bn) was driven by strong operating profit, continued long-term service agreement (LTSA) balance growth, and a strong working capital performance offset by net investments. Civil Aerospace LTSA balance growth net of risk and revenue sharing arrangements (RRSAs) was £0.6bn (2024: £0.7bn), this was supported by 8% growth in large engine flying hours (EFH) and an improved EFH rate, partly offset by a higher number of shop visits and supply chain costs. Working capital was an inflow of £421m (2024: £280m), reflecting the continued benefits of our working capital initiatives. Net investments of £257m (2024: £282m) supported maintenance repair and overhaul (MRO) capacity growth in Civil Aerospace and additional capacity in Power Systems.

Building resilience: Net cash stood at £1.9bn at 31 December 2025 compared with £475m at the end of 2024, supported by continued strong cash flow delivery. Gross debt reduced to £2.8bn (2024: £3.6bn), as we repaid a \$1bn bond in October from available cash, and lease liabilities stood at £1.5bn (2024: £1.6bn). Liquidity remained robust at £8.7bn (2024: £8.1bn), which included cash and cash equivalents of £6.2bn (2024: £5.6bn). Total underlying cash costs as a proportion of underlying gross margin (TCC/GM) further improved to 0.36x (2024: 0.47x), reflecting further cost discipline and operational efficiency. We are building a more resilient company with a less volatile free cash flow.

Growing shareholder returns: Reflecting strong strategic and financial progress and in line with our capital framework, we reinstated regular shareholder dividends in 2025 and completed a £1.0bn share buyback programme. This represented the first time that Rolls-Royce has paid a dividend in more than five years and the first buyback for 10 years. The final dividend for 2025 is 5.0p per share, taking the total dividend for 2025 to 9.5p, which represents a 32% payout ratio of underlying profit after tax. The final dividend will be paid subject to shareholder approval at our Annual General Meeting on 30 April 2026¹. Our strong balance sheet position, alongside our upgraded mid-term targets for operating profit and free cash flow, gives us confidence to announce our first multi-year buyback programme, totalling £7.0bn–£9.0bn across 2026 to 2028, of which £2.5bn will be completed in 2026, which includes the £200m that was completed between 2 January and 20 February 2026.

2026 outlook

We expect significant further progress in 2026. Our forecast for 2026 underlying operating profit is £4.0bn–£4.2bn and free cash flow between £3.6bn–£3.8bn. Our free cash flow guidance for full year 2026 includes a £150m–£200m cash impact related to the supply chain, and is based on Civil Aerospace net LTSA balance growth broadly similar to the prior year (2025: £0.6bn).

Upgraded mid-term targets

Our strong delivery in 2025 and our actions to expand earnings and free cash flow gives us confidence to upgrade our mid-term targets. The increase in our mid-term operating profit and margin guidance is primarily driven by higher LTSA and time and materials profit in Civil Aerospace and stronger performance in power generation and governmental in Power Systems.

Underlying operating profit is expected to increase from £3.5bn in 2025 to £4.9bn–£5.2bn in the mid-term and underlying operating margin from 17.3% in 2025 to 18%–20%; a strong delivery with highly competitive margins across all divisions.

¹ The dividend will be paid on 3 June 2026 to ordinary shareholders on the register on 24 April 2026. In addition to the cash dividend, shareholders will be offered a dividend reinvestment plan. For further details see note 7, page 146

Civil Aerospace: we now target a mid-term margin of 21%–23% compared to 20.5% in 2025. We expect large EFH growth to be 130% to 140% of 2019 levels, alongside 650–750 total OE deliveries and 1,300–1,400 total shop visits in 2028. Higher operating profit growth will be driven by:

- Stronger widebody aftermarket performance across LTSA and time and materials.
- Improved widebody OE profitability as Trent XWB installed engine deliveries become breakeven or positive by the mid-term due to commercial optimisation and efficiency actions.
- A further increase in business aviation performance across both OE and aftermarket.
- Higher spare engine profitability reflecting commercial optimisation and mix.
- A reduced contribution from contractual margin improvements.

Defence: we continue to target a 14%–16% margin in the mid-term compared to 14.4% in 2025. Higher operating profit will be primarily driven by:

- Stronger performance across all end markets, with higher aftermarket profit alongside increased OE volumes.
- Continued self-help actions.
- Productivity improvements due to capacity expansion.

Power Systems: we now target a mid-term margin of 18%–20% compared to 17.4% in 2025. Higher operating profit will be driven by:

- Power generation OE revenue growth of around 20% per annum driven by data centres, with higher margins reflecting an improved product mix and efficiencies.
- Governmental OE revenue growth of around 20% per annum (previously 12–14%) reflecting increased global defence spending.
- Marine OE revenue growth of 5–7% per annum.
- BESS: double-digit OE revenue growth.
- Strong growth in service revenues will support margin improvements to the mid-term.

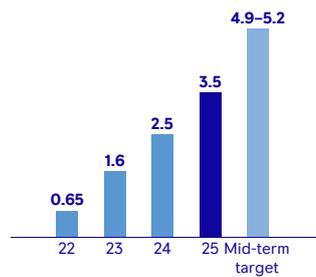
These targets are significantly underpinned by our strategic initiatives and the actions that we have taken across the Group, and will be supported by further efficiencies to drive disciplined growth, including expanding our digital and GBS capabilities, as well as zero-based budgeting activities, all of which will drive a further improvement in our TCC/GM ratio.

Free cash flow of £5.0bn–£5.3bn in the mid-term compares to £3.3bn in 2025. Free cash flow will be driven by operating profit alongside continued growth of the Civil Aerospace net LTSA balance in the £0.8bn–£1.2bn range. LTSA balance growth reflects large EFH growth to 130% to 140% of 2019 levels, a higher average normalised EFH rate, the benefits of our time on wing initiatives with shop visits falling to 1,300–1,400 in the mid-term, alongside continued business aviation growth. Our mid-term targets assume a forecast achieved foreign exchange rate of \$1.33/£ and the absence of a cash impact related to the supply chain.

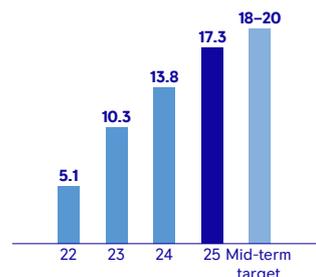
Helen McCabe
Chief Financial Officer

GROUP MID-TERM TARGETS

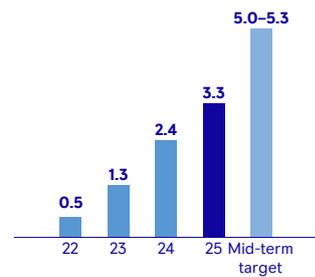
Operating profit (£bn)



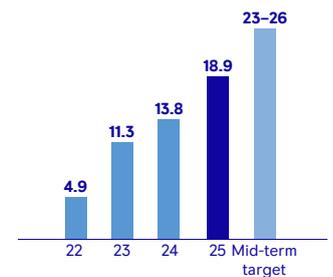
Operating margin (%)



Free cash flow (£bn)



Return on capital (%)



Statutory and underlying Group financial performance

£ million	2025				2024	
	Statutory	Impact of hedge book ¹	Impact of acquisition accounting	Impact of other non-underlying items	Underlying	Underlying
Revenue	21,207	(1,148)	–	–	20,059	17,848
Gross profit	6,175	(799)	14	(264)	5,126	4,091
Operating profit	4,468	(797)	16	(225)	3,462	2,464
Gain arising on disposal of businesses ²	809	–	–	(809)	–	–
Profit before financing and taxation	5,277	(797)	16	(1,034)	3,462	2,464
Net financing income/(costs)	1,658	(1,823)	–	55	(110)	(171)
Profit before taxation	6,935	(2,620)	16	(979)	3,352	2,293
Taxation ³	(1,099)	660	(3)	(151)	(593)	(282)
Profit for the year	5,836	(1,960)	13	(1,130)	2,759	2,011
Basic earnings per share (pence) ³	69.41				29.55	20.29

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 For further information, see note 29, page 180

³ In 2025, the underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £277m related to the recognition of deferred tax assets on UK tax losses (2024: £346m), see note 5, page 145 for further details

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

Revenue: Underlying revenue of £20.1bn was higher by 14%, with strong growth across all divisions. Statutory revenue of £21.2bn was 12% higher compared with 2024. The difference between statutory and underlying revenue is driven by statutory revenue being measured at average prevailing exchange rates (2025: GBP:USD 1.32; 2024: GBP:USD 1.28) and underlying revenue being measured at the hedge book achieved rate during the year (2025: GBP:USD 1.44; 2024: GBP:USD 1.48).

Operating profit: Underlying operating profit of £3.5bn (17.3% margin) compared to £2.5bn (13.8% margin) in the prior year. Underlying operating profit was higher in all three core divisions, driven by our strategic initiatives, including commercial optimisation and cost efficiency benefits. The largest increase in underlying operating profit was in Civil Aerospace, driven by stronger large engine aftermarket performance, contractual margin improvements and spare engine profitability. Power Systems also delivered a significant increase in underlying operating profit, driven by continued profitable growth in power generation, notably in data centres, and governmental. Higher Defence profit

reflected stronger performance across transport and combat, partly offset by the absence of a one-off benefit in submarines. Statutory operating profit of £4.5bn compares to underlying profit of £3.5bn. The £(1)bn difference between statutory and underlying operating profit comprises a £(797)m negative impact from currency hedges in the underlying results alongside a net £(209)m of other adjustments to underlying operating profit. The £(209)m is made up of: impairment reversal of £(179)m related to a Civil Aerospace programme asset impairment previously recorded, £(83)m onerous provision release, £(6)m pension past service credit, £(1)m other credits, £44m of charges relating to transformation and restructuring costs and £16m amortisation of intangible assets arising on previous acquisitions.

Profit before taxation: Underlying profit before taxation of £3.4bn included £(110)m net financing costs comprising £265m interest receivable, £(240)m interest payable and £(135)m of other financing charges and costs of undrawn facilities. Statutory profit before tax of £6.9bn included £1.3bn net fair value gains on derivative contracts, £(31)m net interest payable, net foreign exchange gains of £499m and £(134)m other financing charges and costs of undrawn facilities.

Taxation: Underlying tax charge of £(593)m (2024: £(282)m) reflects an overall tax charge on profits of Group companies and includes a £277m tax credit relating to the recognition of previously unrecognised deferred tax asset on underlying UK tax losses and a £31m tax credit relating to the utilisation of previously unrecognised UK tax loss deferred tax asset against underlying profits in the year. These are reflected in the statutory tax charge of £(1.1)bn (2024: tax credit of £250m) which also includes a further £286m tax credit on the recognition of previously unrecognised deferred tax asset on non-underlying UK tax losses, offset by a tax charge of £(660)m related to unrealised gains on foreign exchange derivatives, a £(44)m tax charge related to programme asset impairment reversals, a tax charge of £(58)m relating to the reduction in the substantively enacted tax rate in Germany and a £(30)m tax charge relating to other non-underlying items.

Free cash flow

£ million	2025				2024	
	Cash flow	Impact of hedge book	Impact of acquisition accounting	Impact of other non-underlying items	Funds flow	Funds flow
Operating profit	4,468	(797)	16	(225)	3,462	2,464
Depreciation, amortisation and impairment	737	–	(16)	179	900	853
Movement in provisions	(486)	78	–	118	(290)	(167)
Movement in Civil Aerospace LTSA balance	123	378	–	–	501	910
Movement in RRSA prepayments for parts	90	(19)	–	–	71	(219)
Movement in cost to obtain contracts	(44)	–	–	–	(44)	(18)
Settlement of excess derivatives	(148)	–	–	–	(148)	(146)
Interest received	270	–	–	–	270	269
Other operating cash flows ¹	110	–	–	5	115	43
Operating cash flow before working capital and income tax	5,120	(360)	–	77	4,837	3,989
Working capital ²	613	(195)	–	3	421	280
Cash flows on other financial assets and liabilities held for operating purposes	(578)	532	–	–	(46)	(24)
Income tax	(590)	–	–	35	(555)	(381)
Cash from operating activities	4,565	(23)	–	115	4,657	3,864
Capital element of lease payments	(232)	23	–	–	(209)	(275)
Capital expenditure	(978)	–	–	–	(978)	(876)
Cash received on maturity of share based payment schemes	40	–	–	–	40	–
Investments	(7)	–	–	37	30	16
Interest paid	(262)	–	–	–	(262)	(298)
Other	144	–	–	(152)	(8)	(6)
Free cash flow	3,270	–	–	–	3,270	2,425

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

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

Free cash flow in the year was £3.3bn, £845m higher than the prior year driven by:

Underlying operating profit of £3.5bn was £1.0bn higher than the prior year. This reflects higher underlying operating profit and margins in all three core divisions, notably Civil Aerospace.

Movement in provisions of £(290)m was primarily driven by a net release of onerous provisions.

Movement in Civil Aerospace LTSA balance was £501m (2024: £910m), driven by continued EFH growth and a higher normalised EFH rate due to our commercial actions, offset by an increased number of shop visits. Catch-ups were £(279)m in 2025 compared with £(311)m in the prior year.

Movement in RRSA prepayments for parts of £71m (2024: £(219)m) is driven by growth in income received from customers (based on EFH flown) where the partner receives a share in advance of them providing goods and services to the Group.

Working capital inflow of £421m, compared to an inflow of £280m in the prior year.

This reflected the continued benefits of our working capital initiatives, partly offset by investment to support growth across the Group. A net £1.1bn inflow from receivables, payables and contract liabilities, was partly offset by a £(685)m increase in inventory.

Income tax of £(555)m was higher than the prior year of £(381)m due to increased profits and timing of payments.

Capital expenditure of £(978)m includes £(621)m of property, plant and equipment additions and £(364)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.

Balance sheet

£ million	2025	2024	Change
Intangible assets	4,598	4,402	196
Property, plant and equipment	4,013	3,724	289
Right-of-use assets	759	761	(2)
Joint ventures and associates	1,285	592	693
Civil Aerospace LTSA ¹	(10,397)	(10,184)	(213)
RRSA prepayments for parts ¹	1,771	1,668	103
Costs to obtain contracts ¹	178	135	43
Working capital ¹	(2,216)	(1,731)	(485)
Provisions	(1,557)	(1,994)	437
Net cash ²	1,895	475	1,420
Net financial assets and liabilities ²	(38)	(1,980)	1,942
Net post-retirement scheme deficits	(606)	(191)	(415)
Taxation	3,068	3,383	(315)
Assets and liabilities held for sale ³	(4)	53	(57)
Other net assets and liabilities	4	6	(2)
Net liabilities/(liabilities)	2,753	(881)	3,634
US\$ hedge book (US\$bn)	21	19	

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 £(77)m (2024: £33m) 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 handling business. During the year, the Group disposed of the naval propulsors business to Fairbanks Morse Defence (FMD) that was held for sale in 2024

Key drivers of balance sheet movements were:

Joint ventures and associates: The £693m increase was largely a result of Rolls-Royce SMR being recognised at its fair value as an equity-accounted investment following the strategic investment by ČEZ Group (ČEZ) in Rolls-Royce SMR during the year.

Civil Aerospace LTSA: The £(213)m 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 the first shop visits do not occur for some time after the engine is delivered.

RRSA prepayments for parts: The £103m 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 £(2.2)bn net working capital position increased by £(485)m compared to the prior year. The movement comprised an increase in net contract liabilities of £(541)m and £(580)m increase in net payables due to changes in operational volumes and timing of supplier payments. This was partly offset by a £636m increase in inventory reflecting higher sales volumes.

Provisions: The £437m net reduction in provisions was due to onerous provision reversals and utilisation being greater than onerous provision charges in the year, supported by continued efforts to renegotiate our most significant onerous contracts.

Net cash: Increased to £1.9bn from £475m driven by a free cash inflow of £3.3bn. Our liquidity position is strong with £8.7bn of liquidity including cash and cash equivalents of £6.2bn and undrawn facilities of £2.5bn. During the year, the Group repaid a \$1.0bn bond in line with its maturity date. Net cash included £(1.5)bn of lease liabilities (2024: £(1.6)bn).

Net financial assets and liabilities: A £1.9bn increase in the net financial assets primarily driven by fair value gains on foreign exchange and commodity contracts due to the impact on the movement in GBP:USD exchange rates.

Net post-retirement scheme deficits: Increased £415m largely due to the Rolls-Royce UK Pension Fund entering into a Buy-in transaction in 2025, the Buy-in was done in anticipation of entering into a full Buy-out during 2026.

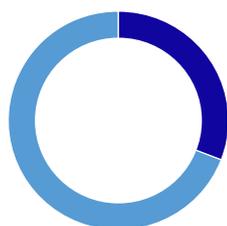
Taxation: The net tax asset decrease of £(315)m was driven by a £130m decrease in deferred tax liabilities (primarily due to a reduction in the UK defined benefit pension surplus) which was more than offset by a £(245)m increase in net current tax liabilities (driven by timing of payments) and a net reduction in the deferred tax asset of £(200)m. The reduction in the deferred tax asset was a result of a £(504)m reduction in deferred tax related to foreign exchange derivatives, which moved from a net financial liability to a net financial asset position, a £(178)m reduction in other deferred tax assets driven by a reactivation of previously disallowed interest in the UK and asset impairment reversals, and other movements on UK tax losses of £(81)m. These were partly offset by the recognition of a £563m deferred tax asset relating to UK tax losses previously not recognised.

Our divisions



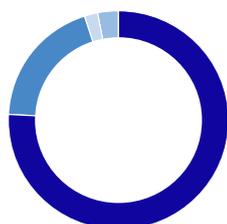
Civil Aerospace is a major manufacturer of aero engines for the large commercial aircraft, regional jets and business aviation markets. The division uses its engineering expertise, in-depth knowledge and capabilities to provide through-life service solutions for its customers.

UNDERLYING REVENUE MIX



■ OE - 31%
■ Services - 69%

UNDERLYING REVENUE MIX BY SECTOR



■ Large engines - 76%
■ Business aviation - 19%
■ Regional - 2%
■ V2500 - 3%

UNDERLYING REVENUE

£10,382m

2024: £9,040m

UNDERLYING OPERATING PROFIT

£2,130m

2024: £1,505m

UNDERLYING OPERATING MARGIN

20.5%

2024: 16.6%

ORDER BACKLOG¹

£64.6bn

2024: £59.9bn

¹ See note 2 on page 139



PIONEERING THE INTELLIGENT ENGINE

With its market-leading technology and cutting-edge connectivity, our Pearl family is the engine family of choice in the very long-range and ultra long-range business aviation market.

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 14,263 in-service engines and power four out of five in-production widebody aircraft. A majority of our engines are covered under long-term service agreements, and are supported by our global MRO network spanning 12 locations in 10 countries.

In 2025, we saw a strong intake of orders and as such our large engine order book increased by 20% to 2,207 engines at the end of the year. A total of 638 large engines were ordered with a gross book-to-bill ratio of 2.5x. Significant new orders included Riyadh Air, IndiGo, and IAG. Deliveries of 259 large engines during 2025 (2024: 278) were aligned to airframer production schedules, reflecting the impact of industry-wide supply chain issues, and included a slightly lower number of spare engine deliveries.

Our market share of the installed widebody base has grown from 34% at the end of 2022 to 38% at the end of 2025, supported by our market share of more than 50% of new engine deliveries over the past three years.

Business aviation engine deliveries were 224 in 2025 (2024: 251), of which a majority were Pearl engines, which saw a 26% increase year-on-year, offset by lower deliveries of legacy BR engines. At present, there are over 7,500 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 the Gulfstream and the Bombardier aircraft. There are over 1,600 BR725 and Pearl engines in service, which power the Gulfstream G650/G650ER/G700 and the Bombardier Global jets 5500/6500.

Large engine flying hours rose by 8% compared to the prior year to 111% of 2019 levels, driven by continued strong demand for travel and our growing installed large

engine fleet. Business aviation and regional engine flying hours were broadly unchanged compared to 2024.

In 2025, we saw higher shop visit volumes, as expected, despite continued supply chain challenges which we are actively managing. These shop visits are required to maintain and repair our growing installed engine fleet.

We have invested to grow capacity in Derby, UK, Dahlewitz, Germany, and Singapore. This has allowed us to deliver more new engines, and at the end of 2025, support a more than 50% increase in large engine shop visits over the past three years.

Financial performance

Underlying revenue of £10.4bn increased 15%, driven by a higher number of shop visits and commercial optimisation. Underlying OE revenue grew by 3% in the year to £3.2bn and services revenue grew by 21% to £7.2bn. LTSA revenue catch-ups were £279m (2024: £311m).

Underlying operating profit was £2.1bn (20.5% margin) versus £1.5bn in 2024 (16.6% margin). The increase in operating profit was driven by stronger large engine aftermarket performance across LTSA and time and materials, a larger contribution from contractual margin improvements, and improved spare engine profitability.

Our work on commercial optimisation and cost reduction across large engine and business aviation contracts supported gross contractual margin improvements of £553m (2024: £617m). These were primarily driven by the continued successful renegotiation of onerous contracts in the year, alongside the achievement of key time on wing milestones on the Trent XWB-84. These benefits were partially offset by £161m (2024: £382m) of additional charges 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 £392m (2024: £235m),

Financial overview

£ million	2025	Organic change ¹	M&A	FX	2024	Change	Organic change ¹
Underlying revenue	10,382	1,326	–	16	9,040	1,342	15%
Underlying OE revenue	3,217	101	–	11	3,105	112	3%
Underlying services revenue	7,165	1,225	–	5	5,935	1,230	21%
Underlying gross profit	2,675	679	–	6	1,990	685	34%
Gross margin %	25.8%				22.0%		+3.7pt
Commercial and administrative costs	(432)	(37)	–	1	(396)	(36)	9%
Research and development costs	(267)	(15)	–	–	(252)	(15)	6%
Joint ventures and associates	154	(6)	–	(3)	163	(9)	(4)%
Underlying operating profit	2,130	621	–	4	1,505	625	41%
Underlying operating margin %	20.5%				16.6%		+3.9pt

	2025	2024	Change
Trading cash flow	2,512	2,030	482

Key operational metrics

	2025	2024	Change
Large engine deliveries	259	278	(7)%
Business aviation engine deliveries	224	251	(11)%
Total engine deliveries	483	529	(9)%
Large engine LTSA flying hours (million)	17.0	15.8	8%
Large engine LTSA major refurbis	517	430	20%
Large engine LTSA check & repair	562	473	19%
Total large engine LTSA shop visits	1,079	903	19%

¹ Organic change is the measure of change at constant translational currency applying full year 2024 average rates to 2025 and excludes M&A and business closures. All underlying income statement commentary is provided on an organic basis unless otherwise stated

comprising contract catch-ups of £226m (2024: £290m) and net onerous provision releases of £166m (2024: charges of £55m).

Trading cash flow of £2.5bn was 24% higher than the prior year (2024: £2.0bn). The increase in trading cash flow was primarily driven by higher operating profit, partly offset by slightly lower year-on-year LTSA balance growth. LTSA balance growth net of RRSAs was £0.6bn (2024: £0.7bn), supported by continued EFH growth, a higher normalised EFH rate due to our commercial actions, with LTSA invoiced flying hour receipts of £6.0bn (2024: £5.5bn), offset by a higher number of shop visits.

Operational and strategic progress

We have made continued progress on our six levers to unlock value within 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.

Our time on wing programme to improve the durability across our in-production Trent engines now targets more than a 100% increase. More than half of this improvement is now delivered. On the Trent XWB-84, we have refined and accelerated our programme to extend critical part lives. For the Trent 1000 XE engine, the improved phase one HPT blade was certified in June and has been fitted to new production engines and engines in shop visits. In addition, the phase two HPT blade was certified for the Trent 1000 XE and Trent 7000 engines in December and will be incorporated into production engines and existing engines commencing in 2026.

We have continued to enact and embed a value-based pricing framework and have made further progress on re-structuring onerous contracts, driving improvements in LTSA margins. Alongside our time on wing improvements and cost initiatives, our efforts have significantly improved contract margins of in-production engines over the past three years.

During 2025, we continued to make progress in expanding our MRO capacity across the network. We celebrated the official opening of BAESL, our MRO joint venture with Air China in Beijing, China, to support up to 250 shop visits per year by the mid-2030s. We announced plans with Turkish Technic to establish a world-leading aero engine facility in Istanbul, Republic of Türkiye, targeted to be operational by the end of 2027 to support up to 200 shop visits per year.

In business aviation, the first Pearl 700 powered Gulfstream G800 entered service in August. Certification for the Pearl 10X engine, which powers the Dassault Falcon 10X, is underway, with all engine certification tests successfully completed in 2025. The ongoing finalisation of the certification reports for EASA is progressing to plan.

We continue to progress our work on the UltraFan technology programme, which spans the development of the next-generation, ducted engine solution for widebody and narrowbody aircraft. Where applicable, we will utilise technologies and learnings from the programme to enhance existing Trent engines by improving time on wing, increasing fuel efficiency, reducing emissions and engine noise.

The transition to lower-carbon energy and the reduction of emissions in our markets is important. 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. In May, the new Trent XWB-84EP engine variant entered into service delivering a 1% fuel efficiency improvement, as well as improved durability, reduced CO₂ emissions, and further time on wing benefits.

Outlook

We expect 2026 large EFH will grow to 115%–120% of 2019 levels, alongside 550–600 total OE deliveries and 1,480–1,550 total shop visits. We now target a mid-term margin of 21%–23% compared to 20.5% in 2025. We expect large EFH growth to be 130%–140% of 2019 levels, alongside 650–750 total OE deliveries and 1,300–1,400 total shop visits in 2028. Higher operating profit to the mid-term will be driven by: stronger widebody aftermarket performance; improved widebody OE profitability as Trent XWB installed engine deliveries become breakeven or positive; a further increase in business aviation performance; higher spare engine profitability; a reduced contribution from contractual margin improvements.

Beyond the mid-term, we see continued installed engine growth with our young and growing widebody fleet. Higher LTSA margins and continued LTSA balance growth will be supported by the full benefit of our strategic initiatives which drive a proportionately lower number of shop visits, and a continued benefit from contracts coming through on better terms. We also expect improving OE profitability, alongside further growth in business aviation.

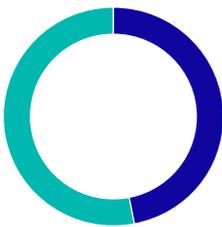


DEFENCE

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.

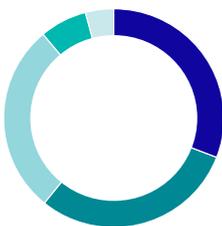


UNDERLYING REVENUE MIX



■ OE – 47%
■ Services – 53%

UNDERLYING REVENUE MIX BY SECTOR



■ Transport – 31%
■ Combat – 30%
■ Submarines – 28%
■ Naval – 7%
■ Helicopters – 4%

UNDERLYING REVENUE

£4,772m

2024: £4,522m

UNDERLYING OPERATING PROFIT

£689m

2024: £644m

UNDERLYING OPERATING MARGIN

14.4%

2024: 14.2%

ORDER BACKLOG¹

£17.4bn

2024: £17.4bn

¹ See note 2 on page 139

GCAP: SECURING SOVEREIGN CAPABILITY AND DRIVING HIGH-VALUE INDUSTRIAL GROWTH

As a lead partner in GCAP, Rolls-Royce is driving the development of advanced power and propulsion systems. This investment secures thousands of highly skilled engineering roles and anchors a strong national supply chain, ensuring long-term economic growth and industrial resilience.

Market overview

Our Defence business supports five distinct end markets: transport, where we are the market leader; combat, where we have full power and propulsion 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.

Order intake in Defence was £5.5bn in the year with a book-to-bill ratio of 1.1x. Our order backlog at the year end stood at £17.4bn, equivalent to more than three years of revenue, with order cover of around 90% for 2026.

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 peace.

We provide power for our global defence customers. We are a trusted supplier chosen for our unrivalled engineering and technological capabilities, as we push the boundaries of what is possible and provide our customers with a strategic advantage. 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. We are well positioned to capture a significant portion of these emerging opportunities as well as benefit from the growing combat market, including autonomous platforms.

² Defence revenues in 2024 included a c.£220m benefit of a one-off capital and lease transaction.

Financial performance

Underlying revenue grew by 8% to £4.8bn (2024: £4.5bn), with 20% growth in transport, 7% growth in combat, and 11% growth in naval, partly offset by 1% lower submarines revenue. Total OE revenue growth was 18% and services revenue growth was 1%. Excluding the impact of a one-off benefit in submarines revenue in the prior year,² total revenue growth was 14%, services revenue growth was 11% and submarines revenue growth was 17%.

Key milestones in the year included the announcement by the international GCAP consortium of a major expansion of their partnership to accelerate the development of power and propulsion systems, the first MV-75 engine entering development testing, continued testing of the F-130 engine for the B-52, and the first engine delivery for the MQ-25 unmanned refuelling aircraft programme.

Underlying operating profit was £689m (14.4% margin) compared to £644m (14.2% margin) in the prior year. The year-on-year improvement reflected stronger performance in transport OE, driven by increased volumes and a more favourable mix including improved margins from international sales. Combat OE profit was also higher. This was partly offset by the absence of a one-off benefit in submarines in the prior year.

Trading cash flow was £745m compared to £591m in the prior year, driven by higher operating profit and a stronger working capital performance.

Operational and strategic progress

In Defence, demand for our products remains robust and we secured major orders this year.

In the first half, we agreed key aftermarket contracts worth more than £1.5bn with the UK MoD and the US DoW for the EJ200 and AE 2100 engines.

Financial overview

£ million	2025	Organic change ¹	M&A ²	FX	2024	Change	Organic change ¹
Underlying revenue	4,772	369	(48)	(71)	4,522	250	8%
Underlying OE revenue	2,228	336	(24)	(27)	1,943	285	18%
Underlying services revenue	2,544	33	(24)	(44)	2,579	(35)	1%
Underlying gross profit	933	40	(3)	(12)	908	25	4%
Gross margin %	19.6%				20.1%		(0.8)pt
Commercial and administrative costs	(201)	10	(1)	2	(212)	11	(5)%
Research and development costs	(45)	9	-	1	(55)	10	(16)%
Joint ventures and associates	2	(1)	-	-	3	(1)	(33)%
Underlying operating profit	689	58	(4)	(9)	644	45	9%
Underlying operating margin %	14.4%				14.2%		0.1pt

	2025	2024	Change
Trading cash flow	745	591	154

1 Organic change is the measure of change at constant translational currency applying full year 2024 average rates to 2025 and excludes M&A and business closures. All underlying income statement commentary is provided on an organic basis unless otherwise stated

2 On 1 July 2025 the sale of the naval propulsors business completed. As a result, organic change excludes the naval propulsors results from 2025 and 2024

In the second half of the year, the Republic of Türkiye and the UK signed an agreement to export 20 British-built Eurofighter Typhoon aircraft, with an option for more in the future.

Furthermore, Italy, Germany and Spain have placed orders this year for EJ200 engines. Coupled with the recent commitment from the Republic of Türkiye, this now provides visibility of our EJ200 original equipment production into the 2030s.

During the year, we also made important progress on the development of key future programmes. On GCAP, the international consortium announced a major expansion of their partnership to accelerate development of the power and propulsion system for the next-generation fighter aircraft. As leaders of the GCAP power and propulsion workstream, we successfully tested a combustor developed with enhanced additive layer manufacturing techniques that will result in an improved design and higher performance.

In addition, we began AE 1107 engine testing to support the prototype delivery for the U.S. Army MV-75 Future Long Range Assault Aircraft (FLRAA) programme. At the heart of this next-generation platform are Rolls-Royce engines, the latest evolution of a powerplant trusted by the U.S. military for decades. Each MV-75 FLRAA will be equipped with two advanced Rolls-Royce AE 1107F engines, featuring world-class power density, cyber-compliant controls and survivability technology.

We also carried out altitude testing and released controls software for the next phase of integration testing of our F130 engine for the B-52 re-engine programme. The ramp-up of the MV-75 and B-52 programmes is supported by significant investments that we have already made in Indianapolis, US, where we have invested around \$1bn over the last decade to increase our production capacity, modernising and improving our facilities and supporting thousands of local jobs. This investment reflects our belief in American capability and our commitment to being in the US for the long term.

During the year, Rolls-Royce submarines alongside Assystem, AtkinsRéalis and Frazer-Nash, formed the Capability Assured Strategic Partnership, which brings together nuclear capability in the UK to support the Royal Navy's submarines programme and the wider Defence Nuclear Enterprise. We also signed a memorandum of understanding with the State of Victoria, Australia, outlining a commitment to collaborate on developing their defence industry skills, supply chain, and innovation ecosystem. This follows similar agreements signed with Western and South Australian governments in 2025 and highlights the unique nuclear expertise Rolls-Royce brings to the AUKUS agreement. Furthermore, to meet the growing demand from the Royal Navy and as part of our commitment to AUKUS, we announced our fissile construction partner in the expansion of our submarines site in Derby, UK.

As part of our continued transformation programme, Rolls-Royce completed the sale of our naval propulsors business to Fairbanks Morse Defense in July.

Outlook

We continue to target a 14%–16% margin in the mid-term compared to 14.4% in 2025. Higher operating profit will be primarily driven by:

- Stronger performance across all end markets, with higher aftermarket profit alongside increased OE volumes.
- Continued self-help actions.
- Productivity improvements due to capacity expansion.

Beyond the mid-term, we have growing visibility of future demand, we anticipate prolonged demand for our existing portfolio of profitable products including EJ200 and our AE engine family alongside the ramp up of new platforms. These new platforms will remain in service for decades to come and include AUKUS, B-52, GCAP, MV-75, and MQ-25, alongside a growing opportunity from autonomous platforms.

 **POWER SYSTEMS**

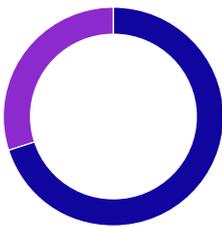
Power Systems, with its product and solutions brand *mtu*, is a global provider of high-performance energy and propulsion solutions for a wide range of applications in the power generation, governmental, maritime and industrial sectors.



THE BACKBONE OF THE DIGITAL WORLD

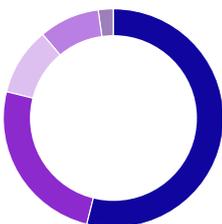
Power Systems delivers the trusted power infrastructure of choice for hyperscale and high availability data centres worldwide. Its advanced efficiency, connectivity and rapid response capabilities ensure maximum uptime, robust protection against grid instability and a secure foundation for the world's increasingly digital operations.

UNDERLYING REVENUE MIX



■ OE – 70%
■ Services – 30%

UNDERLYING REVENUE MIX BY SECTOR



■ Power generation – 54%
■ Governmental – 25%
■ Marine – 10%
■ Industrial – 9%
■ BESS – 2%

UNDERLYING REVENUE

£4,892m

2024: £4,271m

UNDERLYING OPERATING PROFIT

£852m

2024: £560m

UNDERLYING OPERATING MARGIN

17.4%

2024: 13.1%

ORDER BACKLOG¹

£6.1bn

2024: £4.8bn

¹ See note 2 on page 139

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 back-up and continuous power needs. We have a market share of 20% to 25% in our key markets of data centres and mission-critical back-up systems. Data centres now represent more than 80% of power generation revenue.

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 of 30% in our key markets of 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% to 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 15% to 20% and our key markets are rail and mining.

Our fast-growing battery energy storage systems business (BESS), which achieved a breakeven performance in 2025, provides grid stability to harness renewable power.

In 2025, order intake in Power Systems was £6.1bn, up 21% versus the prior year, with a book-to-bill ratio of 1.2x. OE order coverage for 2026 is 79%. Order intake grew 31% year-on-year in power generation, and in governmental order intake grew 15%.

Financial performance

Underlying revenue was £4.9bn, an increase of 19% versus the prior year. Power generation revenue growth was 30%, including data centre revenue growth of 35%. Governmental revenue growth was 14%, driven by both land and naval defence. Underlying OE revenue grew by 23% to £3.4bn. Underlying services revenue grew by 12% to £1.5bn.

Underlying operating profit grew by 60% to £852m. Underlying operating margin rose by 4.5pts to 17.4% (2024: 13.1%). The increase in operating profit was driven by significant profitable growth in power generation OE, stronger governmental services growth and our young and growing BESS business, which is now breakeven. Power generation growth was driven by data centres, where we continued to capture the benefits of volume, mix and commercial optimisation.

Trading cash flow was £658m compared to £452m last year. The increase in trading cash flow was mainly due to stronger operating profit, partly offset by higher investments and working capital to support disciplined business growth.

Financial overview

£ million	2025	Organic change ¹	M&A ²	FX	2024	Change	Organic change ¹
Underlying revenue	4,892	794	(113)	(60)	4,271	621	19%
Underlying OE revenue	3,433	641	(104)	(46)	2,942	491	23%
Underlying services revenue	1,459	153	(9)	(14)	1,329	130	12%
Underlying gross profit	1,522	356	(23)	(10)	1,199	323	30%
Gross margin %	31.1%				28.1%		+2.6pt
Commercial and administrative costs	(518)	(38)	3	–	(483)	(35)	8%
Research and development costs	(164)	3	–	(2)	(165)	1	(2)%
Joint ventures and associates	12	4	–	(1)	9	3	44%
Underlying operating profit	852	325	(20)	(13)	560	292	60%
Underlying operating margin %	17.4%				13.1%		+4.5pt

	2025	2024	Change
Trading cash flow	658	452	206

1 Organic change is the measure of change at constant translational currency applying full year 2024 average rates to 2025 and excludes M&A and business closures. All underlying income statement commentary is provided on an organic basis unless otherwise stated

2 On 31 July 2024 the sale of the lower power range engines business completed. As a result, organic change excludes the power range engines results from 2024

Operational and strategic progress

We have seen growing demand for our back-up power solutions for data centres, driven by global trends in cloud computing, data processing and AI. Our order intake in power generation grew 31% in 2025 and we are now taking orders for 2027 and 2028. We have significantly expanded our production capacity worldwide, including in our US production network, in Aiken and Mankato, to support this growing data centre demand.

In October, we announced a new product to support the power generation market, a fast-start gas genset. This will offer prime power to data centre customers who are awaiting grid connection and can later be switched to back-up power generation once the data centre is connected to the grid. There has been strong interest in this product from our customers.

In governmental, we hold a market-leading position and are well positioned to capture increased defence spending by governments through our propulsion systems placed into military vehicle platforms and naval vessels. In December, we received a major order to supply more than 300 *mtu* engines to power Leopard 2 tanks. We are also developing new, 8-, 10-, and 12-cylinder S199 engines. The development project is progressing to plan and we are planning to make the first deliveries in 2026.

In BESS, we have seen strong growth with improved profitability. We have won a large order with the Ignitis Group in Lithuania.

In marine, we advanced our yacht propulsion portfolio with the new *mtu* 12V2000Z engine delivering 2,222 hp, representing the next development step in our high-performance Series 2000 platform. We continue to execute our integrated 'Bridge to Propeller' strategy, combining propulsion, POD drives and *mtu* NautiQ bridge systems into fully integrated yacht solutions from a single source. We have successfully tested the world's first high-speed marine engine powered exclusively by methanol in Friedrichshafen, Germany.

The development of our next-generation Series 4000 engine is progressing to plan, with product launch on track for 2028. Our first sample engine has been commissioned in Aiken, US. In product testing the engine has delivered to all targeted technical parameters.

We have also conducted single-cylinder testing of advanced and optimised components for future generation engines. These components are developed using cutting-edge additive manufacturing technology, a significant milestone in our technological innovation efforts.

Outlook

We now target a mid-term margin of 18%–20% compared to 17.4% in 2025. Higher operating profit will be driven by:

- Power generation OE revenue growth of around 20% per annum driven by data centres, with higher margins reflecting an improved product mix and efficiencies.
- Governmental OE revenue growth of around 20% per annum (previously 12–14%) reflecting increased global defence spending.
- Marine OE revenue growth of 5–7% per annum.
- BESS: double-digit OE revenue growth.
- Strong growth in service revenues will support margin improvements to the mid-term.

Beyond the mid-term, growth will mainly be driven by power generation and governmental. We anticipate sustained power generation growth driven by data centres, where our strong market position will be supported by the introduction of our more power-dense next generation engine. In governmental, rising defence spending supports both land and naval applications, where we are the incumbent supplier on the main European NATO platforms, and we remain well positioned to support US growth. We also see opportunities for profitable growth in marine, rail, mining, and BESS.

People and culture

“The power lies in each person being clear on how they contribute, understanding what is expected, and believing they can make a real difference. When we achieve this, we become known for high-performing teams and a relentless pursuit of excellence – where every individual’s potential is unlocked, safety and integrity are never compromised, and our collective ambition shapes the future of our industry and the world.”

Tufan Erginbilgic
Chief Executive

Advancing our transformation through people and culture

We want to win and achieve future success through our interconnected pillars of transformation and laser focus on performance culture. This is a fundamental reset moment. We are managing the business differently and expect more from our employees. Our cultural transformation and focus on high performance is not only enabling our immediate transformation priorities but also strengthening the foundations for long-term, sustainable success. We reinforce our performance expectations every day through our people and talent systems, leadership and strategy.

It is critical that each person is clear on how they contribute, understanding what is expected, and believing they can make a real difference. When we achieve this, we become known for high-performing teams and a relentless pursuit of excellence – where safety and integrity are never compromised, every individual’s potential is unlocked, and our collective ambition shapes the future of our industry and the world.

This year, we continued to build on the foundations set in 2024 when we launched our new purpose, vision and behaviours, increased employee ownership in the

Company through Your Shares: Gifted and strengthened how we listen and respond to employee feedback through Our Voices, which evolved our approach to listening to our employees.

In 2025, we launched our People Deal (see below) to clarify our employee proposition and drive cultural change. It clearly articulates what we promise to employees, and what we expect in return, linking our purpose, leadership expectations and behaviours to the everyday experience at work. For the first time, we have one forward-looking narrative, helping us change our culture, further reinforcing three essential mindset shifts:

- **Performance culture:** focusing on relative strategic business impact and differentiated outcomes
- **Talent first:** building strategic capability and differentiated development
- **Continuous learning:** encouraging curiosity to grow and adapt

Our People Deal

The People Deal will guide how we attract, develop, support and reward our employees, enabling sustained high performance and supporting our vision for a high-performing, competitive, resilient and growing business.



Engagement & recognition

We are committed to engaging and recognising our employees – placing safety at the centre of how we work. Through our listening channels, we regularly listen and invite employees to have a voice in shaping our culture, influencing decisions, and driving meaningful change. This is supporting us to build a workplace where everyone can thrive and belong.

Our Change Maker network established in 2023 has matured and turned intention into sustained action during 2025. The network is made up of self-nominated employees across the Group who help embed, develop, showcase and sustain our purpose and behaviours in their business areas. Now more than 1,300 employees strong, Change Makers have evolved from advocacy to active facilitation, working alongside people leaders to embed behaviours into daily habits and deliver tangible outcomes from Safety Experience events to Winning Together (transformation) sessions. Where leaders actively sponsor and empower Change Makers, removing barriers, and recognising progress, the cultural impact is significantly higher.

Our Employee Voice Network, an all-employee network, launched in September and is open to all employees globally. It brings diverse perspectives into decision-making, strengthens fair and equitable change, and reinforces a shared culture. Together with our other listening channels, the Network forms a continuous listening and response system that connects employee insight to visible organisational change. It is led by 12 senior leaders globally (UK, US, Germany and India) and sponsored by three executive leadership group members (UK, US and Germany).

We know that employees who receive meaningful recognition are five times more likely to feel connected to their culture and engaged in their work. The results of our employee survey indicate that recognition must improve, with just 67% feeling appreciated for their contributions. We launched our Group-wide recognition strategy, Power of You, in October. Power of You provides a consistent, high-impact way to reinforce our purpose and behaviours. It is enabled through a world-class digital and AI solution and launched simultaneously

Our People Deal comprises six tenets

ENGAGEMENT & RECOGNITION
WE PROMISE
To listen, value your voice and recognise your impact.
WE EXPECT
You engage respectfully, recognise others and live our behaviours.

PERFORMANCE
WE PROMISE
To support you to perform at your best with regular feedback.
WE EXPECT
You strive for excellence and raise the bar for yourself and others.

EXTRAORDINARY LEADERSHIP
WE PROMISE
Inspiring leaders who role-model our Leadership Expectations.
WE EXPECT
You take ownership regardless of where you sit in the organisation.

CAPABILITY & SKILLS
WE PROMISE
Continuous learning opportunities to help future proof your skills.
WE EXPECT
Your curiosity and drive for new learning opportunities.

TALENT
WE PROMISE
An opportunity rich climate with a diverse range of career opportunities.
WE EXPECT
You're the architect of your career to unleash your potential.

REWARD
WE PROMISE
An attractive total reward package that goes beyond pay.
WE EXPECT
Focus on impact and finding ways to make a difference.

across all 47 countries. We will now embed recognition as an everyday leadership habit, ensuring appreciation is timely, equitable and clearly linked to strategic outcomes most important to us.

Our wellness programme, LiveWell, has continued to empower employees to take personal responsibility for their health and wellbeing while supporting others to do the same at a local level. In 2025, 51 sites moved up an accreditation level, now representing 88 workplaces and 21 countries.

One year on, Our Voices, our approach to employee listening, has evolved from a standalone survey into a core Group-wide multi-channel mechanism for listening to our employees and turning insight into action. In our annual survey we had participation from 32,862 employees representing 79% of our global workforce. This confirms strong momentum across engagement, safety and trust, while also highlighting where we must act with urgency.

Confidence in our strategy and leadership communication continues to grow, with 82% saying our strategy is clear and 88% confirming receipt of regular business updates, representing significant year-on-year improvements.

The survey also highlights critical gaps, with only 64% of employees feeling well equipped with the tools they need to do their jobs, and just 51% are confident that meaningful action will follow the survey, both are below external benchmarks.

To equip our people with the tools they need to do their jobs, over the next five years, we will invest in digital capability to strengthen how our people work, collaborate and perform across engineering, manufacturing, services, and company systems. Workforce digitisation is equipping employees with refreshed laptops, upgraded collaboration tools, and modernised shop-floor technology, removing friction from daily work and enabling faster, better decisions. AI workforce readiness is also underway, building confidence in data-driven decision-making and accelerating responsiveness across the business.

Belonging scores remain stable year-on-year with 75% of colleagues feeling they belong at work. A further indicator of our cultural transformation is the continued strength of our speak up culture (see Ethics and compliance on page 37). While overall content trends remain stable, the increase of speak up reports has enabled earlier identification of risk and more timely intervention. This has prompted deeper collaboration between HR and Compliance

to ensure appropriate action and sustained improvement. Examples of targeted cultural interventions include compliance-led listening sessions, speak up process refresh sessions within the HR community and site-led communication and awareness as required.

Beyond these formal measurements of our culture, we continue to draw insight from a broader set of cultural indicators, including retention data, belonging metrics, and qualitative feedback through our listening channels. These give us a richer, more human picture of how employees are experiencing the organisation and allow us to identify where alignment with our purpose, vision and behaviours is strong, and where additional focus is required.



Performance

A key lever for driving a high-performance culture is our performance management strategy which holistically integrates business and employee performance. We know that companies that focus on their people's performance are 4.2 times more likely to outperform their peers, realising an average 30% higher revenue growth, on top of reaping dividends in culture, collaboration, innovation and sustained competitive performance. Key benefits include:

- improved employee performance and discretionary effort;
- higher workforce performance and engagement; and
- better perceptions of fairness and decision quality.

We have an established foundation and rhythm of performance management through the organisation, which we can now build on to unlock greater potential and performance in our teams. We support employees to perform at their best and create high impact through strategically aligned goals, regular real-time feedback and coaching, and strong performance differentiation to reflect business impact. We drive strong differentiation across the workforce based on relative business impact and achievement of strategic business outcomes. Our focus is on empowering employees to perform at their best, upgrading people leader capability, building a rhythm of regular, candid feedback and continuing to optimise the process so that it drives high performance. This is not about working harder, it is about making a difference.



Talent

As we enter a phase of accelerated growth it is critical to have a strategic pipeline of talent with the right skills to enhance business critical capabilities.

Our Emerging Talent portfolio, spans apprenticeship and graduate schemes across nuclear, procurement, commercial, project management, digital and IT, finance, Global Business Services, manufacturing operations and software engineering. There are over 2,000 employees on the programme globally. Significant investment continues in early-career and apprenticeship pathways. In the UK, our apprentices achieve results above the industry benchmark at 92%.

Elevating our work experience offering has been central to building early engagement at the start of our talent pipeline. Discover: On Demand, our new, free virtual work experience and careers platform launched in October and was designed to open the world of science, technology, engineering and business to young people aged 14 to 18. The target is to engage 8,000 students in the first six months, so far we have enrolled 5,200 students, with 80% starting an experience and 70% completing an experience. We have also seen 84% engage with Future Ready Skills modules. The average time in a first engagement is 56 minutes.

Graduate engagement has evolved this year, with the launch of the Enterprise Skills Accelerator programme, designed for early career professionals. The first cohort welcomed 16 individuals and is designed to accelerate the development of commercially astute, generalist future leaders.

Together, targeted actions ensure we are building a resilient, future-ready workforce with depth of capability required to sustain performance and execute our strategy at pace.

To sustain a high-performance culture over the long term, we have continued to strengthen the depth, quality and readiness of our talent and capability. We remained steadfast in removing bias from our Group-wide talent system, ensuring a progressive and standardised approach to how we source, attract, develop and retain the very best people. Our global belonging framework embeds fairness, respect and meritocracy across the entire talent system, from onboarding through to exit. See our fair working practices on page 36.

We have made substantial progress across our talent and capability strategy. We strengthened our workforce planning capability through extensive forecasting to map critical skills, assess the impact of AI, understand geographical talent supply and

shape future workforce requirements. This enabled a targeted uplift in business-critical capability through both external hires and accelerated internal upskilling.

Our approach recognises that organisational capability extends beyond technical skills; it is the combination of knowledge, behaviours, culture, mindset and leadership required to turn strategy into results. Strategic workforce capabilities are therefore defined, measured and developed deliberately, with investment focused on value-driving roles rather than uniformly across the organisation.

Extensive research has been undertaken to identify key skills across all critical capability areas to better understand the impact of AI on roles, as well as the geographical supply of the best talent and to ensure a progressive, consistent and aligned approach to strategic workforce planning so that we are making progress in shaping the workforce for the future.

A high-potential development strategy is in place to ensure holistic development of successors with strategic initiatives launched to strengthen our talent supply chain of future-ready leaders:

- Rapid High Potential Programme: piloted during 2024 targeted the development of senior leadership successors. The initial pilot proved highly successful, resulting in leaders progressing into bigger and more complex roles in 2025.
- Career Acceleration Programme (CAP): launched this year, targeting mid-career leaders viewed as having progression capacity to grow into bigger and more complex roles in the future. Executive leaders are involved in co-facilitating various elements of the programme.

The Global Talent Exchange forum launched this year and has proactively encouraged internal talent mobility of high-potential individuals, giving us better ability to implement cross-divisional internal moves and promotions. Internal mobility continues to be a powerful driver of transformation. 2,378 internal moves were made in 2025 which is clear evidence of our commitment to developing and advancing talent across the organisation.

In addition, 77% of the annual promotions represented employees progressing to their first leadership role, demonstrating strong upward mobility at the early leadership stages and reinforcing our focus on building future leaders from within.

Our transition to a new talent acquisition partner has delivered measurable results, including material improvements in hiring efficiency and annualised savings. For example, offer acceptance time reduced from 87 to 68 days, with time-to-start improving across the UK, US and Germany.



Capability & skills

We encourage our employees to keep learning to future-proof their skills. Learning has been transformed this year, through digital and AI-enabled tools, delivering 991,196 learning hours and embedding learning into the flow of work. The expansion of MyLeatro, our AI learning platform, has reduced the cycle time from identifying a skill gap to applying new learning from months to days, significantly increasing responsiveness and agility.

Leadership capability continues to strengthen, with 93% of leaders in our flagship programmes assessed as high or strong performers. These improvements are translating into materially reduced capability risk across Finance, Procurement & Supply Chain, Global Business Services and Enterprise Leadership.

All employees complete annual mandatory learning on topics that are fundamental to how we work and how we must live up to our Code of Conduct and Group policies. In 2025, mandatory learning was completed by over 98% of our employees and 100% of our leaders.

Looking ahead, we will continue to build future-critical skills through partnerships and academies. We want to ensure our employees keep learning new skills that remain relevant for the future. Pushing themselves out of their comfort zone and remaining open to new learning and work experiences across different divisions and functions will contribute to the organisation becoming fully connected as One Rolls-Royce.



Empowering colleague-led culture change

Change Makers were introduced in 2024 as part of our broader transformation journey, activating the organisation around our purpose, vision, strategy, and behaviours. Now comprising more than 1,300 employees, the network has moved from advocacy to active facilitation.

Progress and shifts in role over 12 months:

- Co-facilitated 80+ Safety Experience events (over 13,000 employees).
- 250+ Winning Together sessions.
- 50+ habit-building tools created.
- 40+ wellbeing integration sessions.
- Direct support to the Transformation Office on decision-making, behaviours and habit formation.



Extraordinary leadership

We want to inspire and provide stretch opportunities for our employees with extraordinary leaders who exemplify our Leadership Expectations (Perform & Transform). Transformation depends on leaders who both run and evolve the business. Over the past year, we have embedded our Leadership Expectations into the systems that shape performance, succession, and everyday decision-making.

Spanning six domains, the Perform & Transform framework anchors how leaders show up and drive outcomes. It is now fully integrated into performance assessment, succession planning and leadership storytelling, ensuring that expectations translate into consistent behaviour and accountability.

The immediate data points indicate that our investments are driving tangible improvements in leadership effectiveness. Across our top leadership development programmes, we are seeing some good learning and business impact – over 90% of leaders confirmed that they are applying their learning directly and delivering visible impact.

Our coaching partnership with Better Up continues to scale. This year leaders have completed over 5,000 coaching hours; 90% of coaching participants report that coaching has made them more effective at work, with the largest self-reported improvements linked directly to our leadership expectations.

This confirms that we are building a leadership ecosystem that consistently reinforces the behaviours and capabilities required for sustained high performance. We also expanded the use of short-term, project-based opportunities (known as ‘gigs’) to enhance capability and embed agile ways of working. This resulted in over 2,000 gigs created on our internal talent marketplace, enabling mobility, stretch and career growth.



Reward

Our promise is to deliver an attractive total reward package that goes beyond pay. We focus on impact, high performance, and delivery.

In 2025, we continued to connect business success with reward, with differentiated outcomes for those delivering the greatest impact. Our global incentive arrangements help us to drive alignment throughout the organisation with a strong cascade of targets throughout the Group from Executive to all levels and ensure employees benefit from our performance.

We continued to invest in developing a culture of shared ownership. Building on the issue of the 150 free shares to all employees in September 2024, we launched a new share plan, Your Shares: Matched in all major locations. 97% of our global population are eligible to join, with an average take-up rate globally of 66%. This is a real example of how we are Winning Together, and how our transformation programme has enabled this investment in our people.

OUR COMMITMENT TO STEM ACROSS GLOBAL COMMUNITIES

We have maintained our commitment to increasing access to quality education and supporting young people in STEM, helping them build the skills, confidence and opportunities needed to realise their aspirations and overcome barriers to success.

Our commitment is to:

- increase opportunities for our people to contribute their time, skills and expertise to social impact initiatives reinforcing our commitment to making a difference
- cultivate robust partnerships in our communities to address shared business and social challenges
- co-create impactful community programmes, and partnerships that deliver real shared value
- focus our charitable giving and sponsorships on initiatives that align with our purpose and drive social progress

For detail on our contribution to social impact initiatives see page 38.

This year, we intentionally refocused our partnerships to deliver greater impact through deeper STEM engagement. As a result, 83% of our total STEM reach actively engaged participants (2024: 75%), reflecting an increase in high-quality interactions. While we continue to make progress toward our target, our focus on impact-driven programmes is expected to result in lower overall reach numbers going forward. We continue to monitor and review our metrics, and associated targets to ensure we measure real social impact and maximise the value we create for our business, and all our stakeholders.

Looking forward

Sustaining pace, intensity and cultural reinforcement

Our priority is to sustain and deepen our current momentum: strengthening leadership accountability, building future-critical skills through targeted and purposeful partnerships, accelerating decision clarity, embedding performance culture into every corner of the organisation and leveraging digital systems to reinforce simplicity and execution excellence. Together, these actions ensure that progress is not only achieved but sustained.

Our People Deal will continue to guide how we attract, develop, support and reward our people, creating the conditions for consistent high performance and enabling us to achieve our vision of a high-performing, competitive, resilient and growing company.

Since setting our ambitious 2025 representation targets in 2020, we have delivered meaningful progress across leadership and workforce representation. We achieved gender parity at Board level and made sustained improvements across senior leadership and employee populations, reflecting the impact of consistent focus and targeted action. While not all of our ambitions were fully realised within the original timeframe, the progress made reinforces the long-term nature of building diverse pipelines, particularly for senior and specialist roles. We have more to do, and will continue to leverage our enterprise talent system to broaden access to opportunity, ensure merit-based hiring and progression, and remove barriers so that everyone has an equal opportunity to participate and succeed.

Future approach to workforce representation targets

We are shifting from fixed demographic targets toward strengthened leadership accountability, transparent pipelines, objective assessment and measurable cultural outcomes. We will:

- continue to meet recommended guidance across all jurisdictions we operate within, for example, FTSE Women Leaders and the Parker Review;
- avoid fixed demographic and representation targets;
- focus on pipeline strength, sponsorship, succession transparency, and culture; and
- increase internal and external transparency of progress and leadership accountability.

 For information about our people and diversity see page 36.

People, health and safety

We will continue to focus on people, health and safety in 2026, as set out on page 35.

People, health and safety

As we continue to accelerate our transformation, putting safety first remains non-negotiable. Across all safety, health and wellbeing activity, leadership visibility and employee voice are central. Safety walks, wellbeing conversations and local interventions ensure concerns are heard early, while our integrated systems provide the tools and support needed to act effectively. Together, these approaches ensure our people remain safe, healthy and ready to perform, enabling our organisation to sustain high-performance over the long term.

Over 13,000 employees took part in our Safety Experience events in 2025, representing more than a quarter of the Group. Endorsed and attended by the Executive Team, these two-hour, in-person sessions reinforce the importance of keeping our people, our products and the people who use them safe, strengthening ownership of personal responsibility and empowering employees to act and make a difference.

Safety performance

Our safety index provides a composite score of five leading safety indicators: senior leadership safety walks, safety case improvement activity, HSE alert response, non-conformance close-out and accountable person engagement. Together, these measures reinforce proactive safety behaviours that improve the effectiveness of our controls. The measures mature year-on-year to facilitate the continuous improvement of our safety



We put safety first to help us all avoid physical, mental or workplace health issues. Like physical safety, our mental health should be a priority every day – it plays a vital role in people, product, and safety and how we perform and transform.

Sarah Armstrong
Chief People Officer

culture. As 2025 marks the final year of our five-year safety index plan, we have reviewed the metric to ensure it continues to drive the right behaviours, supports our journey towards zero harm and increases the focus on proactive risk management and process safety.

The proposed safety index for 2026 includes three existing measures; senior leadership safety walks, HSE alert response and non-conformance close-out, and three new measures; completion of leadership training, closure of process safety risk assessment actions and closure of actions from investigations. The introduction of the new measures has required a re-baselining of the safety index. The proposed Group safety index target for 2026 is 87%. Had we been operating these measures in 2025, we would have scored 78%, hence this moves us to a more robust scorecard and sets a challenging requirement.

The full year Group safety index score for 2025 was 98%, slightly above the target of 97%.

In 2025, the Total Reportable Injury (TRI) rate was 0.29, which is the same as in 2024. There were 128 TRIs in 2025, this is an increase from 126 in 2024. TRI events are shared widely to strengthen controls and reinforce a culture in which employees feel safe to speak up. See page 18 for further information on our safety index key performance indicator.

TRI RATE (PER 100 EMPLOYEES)¹



¹ Our TRI rate shows the Group TRI performance (absolute and rate). External assurance over the TRI data is provided by DNV (see page 202)

Health as safety

Health remains integral to both safety and performance. UK occupational health referrals remained steady this year, with mental health-related absence representing over 35% of cases. In response, we approved and updated our mid-term plan focused on mental health interventions, improved access to support and strengthened leader capability – embedding health as safety and health by design.

Prevention and early intervention

We continued to strengthen musculoskeletal prevention and 'health as safety' practices. In 2025, almost 1,000 employees accessed physiotherapy through an expanded self-referral programme. Athletic trainers in Indianapolis, US delivered activities including ergonomics coaching and warm-up programmes supporting approximately 2,000 employees. 'Health by design' interventions have been adopted, reducing ergonomic risk at source.

In the UK, health surveillance compliance (legally required medicals) improved by 63% in 2025, driven by better outreach, increased onsite provision and closer operational engagement.

Mental health as safety

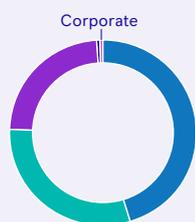
Following an ISO 45003 gap analysis, we continued to embed mental health training within our safety-first strategy and align it with the People Deal. More than 13,000 employees have now completed the Brain as a Safety Tool element of the Safety Experience and, in the six months since its launch, over 500 people leaders have completed the updated Mental Health Safety for Leaders programme. Additionally, we strengthened our Global Mental Health Champion network to 400 champions and launched Mental Health Foundations for Everyone to build organisation-wide literacy.

To shift from reactive response to proactive prevention, we introduced new Group-wide tools, focused on psychosocial risk. Our first globally valid and reliable psychological risk assessment tool will launch with seven UK pilots in early 2026, providing leaders with evidence-based insight into psychological risk. A peer-support pilot and new internal resources further strengthen early intervention and employee connection.

Together, these actions strengthen our alignment with ISO 45003 and emerging global legal expectations, reduce risk and ensure mental health is designed into the way work is planned and delivered. Embedding mental health within safety first is now a core driver of performance – supporting better judgement, reducing error and sustaining high performance operations, while ensuring our people remain safe, healthy and ready to perform.

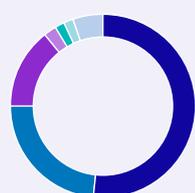
People metrics

42,600 EMPLOYEES TOTAL (MONTHLY AVERAGE)¹



- Civil Aerospace – 19,400
- Defence – 12,800
- Power Systems – 10,000
- All Other Businesses – 200
- Corporate – 200

EMPLOYEES IN 47 COUNTRIES (MONTHLY AVERAGE)²



- UK – 22,100
- Germany – 9,900
- US & Canada – 6,000
- Italy – 1,000
- Singapore – 700
- India – 700
- Rest of world – 2,200

Our diversity metrics at 31 December 2025³

Female diversity percentage tracking and 2025 targets

	2025	2024	2025 target
The Board ⁴	50%	50%	50%
Executive Team (ET)	30%	30%	33%
Enterprise Leadership Group (ELG)	31%	26%	35%
Senior leaders ⁵	31%	25%	30%
All employees	19%	19%	25%

Ethnic diversity percentage tracking and 2025 targets for UK and US⁶

	2025	2024	2025 target
UK ethnicity	13%	12%	14%
US ethnicity	18%	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	25	58	83	30%
ELG	26	59	85	31%
Senior leaders ⁵	29	66	95	31%
All employees	8,235	34,927	43,162	19%

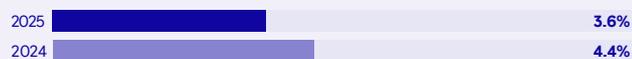
- 1 Segments are defined in note 2 on page 134
- 2 Employee headcount data represents permanent employees and excludes contractors
- 3 The data for diversity information is showing permanent employee year-end actuals
- 4 The Board Composition policy aims for gender parity
- 5 Senior leaders are defined 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.

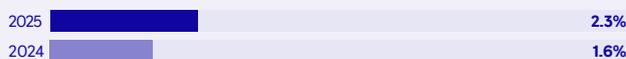
Gender pay reporting

In accordance with The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, we publish our UK gender pay gap on our website at www.rolls-royce.com.

MEDIAN GENDER PAY GAP ACROSS ALL EMPLOYEES IN THE UK



MEAN GENDER PAY GAP ACROSS ALL EMPLOYEES IN THE UK



Fair hiring and pay practices

We remain committed to fair hiring practices and provide additional support to candidates who declare a disability or require adjustments during the recruitment process. We actively support employees who become disabled while working with us, ensuring the necessary adjustments are made to enable their continued contribution and success.

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.

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 2025

- Delivered senior leadership economic crime refresher learning in light of the introduction of the new offence of failure to prevent fraud under the Economic Crime and Corporate Transparency Act 2023
- Continued focus on economic crime risk assessment and incident management
- Launch of an improved, integrated third-party risk management system

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.

Progress in 2025

In 2025, we continued to embed our 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 2025 annual mandatory learning programme, our core compliance learnings included our fraud, data privacy and export control policies. We require all our leaders to certify annually their understanding of Our Code.

Speak up

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 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

Enforcing Our Code

We do not tolerate misconduct of any kind and will take disciplinary action, as appropriate, including dismissal, in the event of a breach of Our Code. In 2025, 82 employees (2024: 132) left the business for reasons related to breaches of Our Code. While the number is lower than previous years, which may be due to a number of factors (including transformation and increased compliance), we continue to demonstrate our commitment to enforcement of Our Code.

Supply chain due diligence

Our Supplier Code sets out the behaviours, practices and standards we expect our suppliers to demonstrate and comply with, all of which are based on Our Code, policies and standards. Selected suppliers are contractually required to adhere to this or a mutually agreed alternative. Partnering with specialist third-party providers, 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, including via our third-party partners where appropriate.

Anti-bribery and corruption

We do not tolerate bribery and corruption in any form. This is 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 52). In 2025, 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 76).

Remediations from the July 2024 Board review of anti-bribery and corruption risks (detailed in last year's report) have been completed. A holistic Group-wide programme has commenced to cover governance of remote sites and subsidiaries with monthly reporting to the Chief Financial Officer, General Counsel and Chief Transformation Officer.

Human rights and anti-slavery

Rolls-Royce is committed to protecting and preserving all recognised human rights of our employees and contract workers; those employed by our suppliers; and communities affected by our operations and supply chain operations. This includes upholding the principles set out in our global Human Rights Policy to ensure that we act in a socially responsible manner, complying with all applicable laws and regulations in the countries where we operate.

During 2025, we took steps to further strengthen our human rights risk framework, including by updating our global Human Rights Policy and selecting a specialist consultancy to refresh our assessment of salient human rights issues and carry out a benchmarking analysis of our human rights processes and procedures, which will take place in 2026. When that assessment has concluded, we will implement recommended changes with a view to further enhancing our risk framework. We expect our suppliers, contractors, joint ventures and other partners to protect and preserve human rights in their activities and operations, and to always adhere to high standards of ethically, environmentally and socially responsible behaviour. In 2025, we had no known, formally-reported events in our own operations or our supply chain that would qualify as severe human rights impacts. Any potential human rights risks were identified, escalated, addressed and mitigated in line with our risk framework.

Our Modern Slavery Statement, which is published annually, sets out the actions we have taken to review and strengthen how modern slavery-related risks, including forced labour, child labour and human trafficking, are identified, assessed and mitigated in our own operations and in our supply chain.

 Find more information on our Human Rights Policy and Modern Slavery Statement, see the Sustainability page at www.rolls-royce.com

 For more information on our ethics approach view Sustaining our culture of integrity document available at www.rolls-royce.com

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 from page 39 and as such we have referenced the location of these within our statement on TCFD on page 40.

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 2025, we made progress against our Scope 1 + 2 targets as well as successfully achieving our 2025 environmental targets for energy consumption, waste and recycling. We continue to make preparations for new incoming reporting standards in the UK and EU. We enhanced our climate risk scenario analysis to cover the full period to 2050.	1. Health, safety & environment policy	– Safety – Energy transition	39–47
Employees	In 2025, we strengthened our people strategy to reinforce a high-performing and resilient culture, embedding safety, wellbeing, leadership accountability and capability development across the Group. Significant investment in leadership, learning, workforce readiness and health by design initiatives improved organisational effectiveness, reduced risk, and supported long-term value creation. We continued to prioritise colleague voice, engagement and recognition while advancing people and culture across our operations. Together, these actions ensure our workforce remains safe, skilled, motivated, and aligned to delivering sustainable business performance.	1. Our Code 2. Security & resilience policy 3. People policies 4. Speak up policy 5. Our life-saving rules 6. Global Equal Employment Opportunity Policy	– Safety – Talent & capability	31–36
Social matters	Our people remain at the heart of all our programmes and contributed 72,163 hours to community investment and education outreach programmes in 2025. Our global charitable contributions and community investment totalled £5.4m, including £600,000 from a share forfeiture programme carried out in earlier years. We reached 823,797 people through STEM in 2025 and are now 49% towards our goal of inspiring 25 million young innovators by 2030. In 2025, we intentionally refocused partnerships to deliver impact-focused STEM engagements, resulting in higher quality but lower overall reach as we drive towards programmes with greater value for business and society.	1. Charitable contributions and social sponsorships	– Political – Talent & capability	34
Human rights	We are committed to protecting and preserving all recognised human rights of our employees and contract workers; those employed by our suppliers; and communities affected by our operations and supply chain operations. This includes upholding the principles set out in our global Human Rights Policy to ensure that we act in a socially responsible manner, complying with all applicable laws and regulations in the countries where we operate. In 2025, we updated our global Human Rights Policy and took steps to further strengthen our human rights risk management framework to ensure that we take appropriate action to identify and mitigate human rights-related risks and, where necessary, remedy human rights impacts.	1. People policies 2. Global Equal Employment Opportunity Policy 3. Human rights policy 4. Data privacy policy 5. Modern Slavery Statement	– Compliance	37
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 52).	1. Anti-bribery and corruption policy	– Compliance	37

Relevant information

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

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

 For details of the Group's principal risks, see pages 48 to 56

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

ROLLS-ROYCE IS A FORCE FOR PROGRESS

	WE ARE COMMITTED TO	READ MORE	UN SDG ALIGNMENT
Energy transition and environment	Helping the world do things tomorrow that cannot be done today and playing our part in the energy transition for a more sustainable world.	Pages 39–40	  
People and culture	Being socially and ethically responsible: creating lasting social value for our people and stakeholders.	Pages 31–36	    

Energy transition and environment

We are committed to reaching net zero by 2050

AMBITION

To become a lower carbon and digitally enabled business we are embracing the energy transition, participating in growing markets where we have capability to win and where our skills can make a genuine impact to the pursuit of a low-carbon world. We are committed to reaching net zero by the end of 2050. We will measure our progress against the following interim and long-term targets:

- reduce Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline;
- reduce Scope 1 + 2 emissions to net zero by the end of 2050;
- demonstrate that all our products are compatible with net zero operations by the end of 2050; and
- support the achievement of industry net zero (Rolls-Royce Scope 3, category 11 (use of sold products)) greenhouse gas emissions by the end of 2050 in line with a science-based trajectory.

OPTIMISE OUR OPERATIONS

Deliver low-carbon operations, improve resource efficiency and drive value

ENABLE OUR CUSTOMERS

Deliver innovative products and solutions which accelerate the energy transition

ENGAGE AND COLLABORATE

Partner with customers, suppliers, industry and policymakers

RISKS¹

<ul style="list-style-type: none"> – 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 to our commodity costs due to variation in market supply and demand and/or costs passed through from suppliers. – Financial exposure resulting from a temporary (up to 12 months) disruption to a Rolls-Royce facility and/or our supply chain due to a climate-related event (for example, flood or fire). 	<ul style="list-style-type: none"> – Financial impact from changes to revenue and/or costs due to customers responding to changing market conditions. – Changes to investment required, for example, R&D and capital expenditure due to a need to respond to changing customer demand. – Financial exposure resulting in a deviation in expected product performance. – Failure to attract, retain and develop the critical talent, skills and capabilities required to deliver our strategic priorities could threaten our ability to be a high-performing, competitive, resilient and growing business. 	<ul style="list-style-type: none"> – 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 to our costs due to variation in market supply and demand and/or costs passed through from suppliers. – Financial impact from changes to revenue and/or costs due to customers responding to changing market conditions. – Changes to investment required due to a need to respond to changing customer demand.
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DEPENDENCIES¹

<ul style="list-style-type: none"> – Availability of low-carbon energy infrastructure. – Sustainable fuel infrastructure and availability to support our product testing. 	<ul style="list-style-type: none"> – Sustainable fuel infrastructure and availability. – Skills and capabilities (see People and culture from page 31). – Long-term government commitments and timely government decisions. 	<ul style="list-style-type: none"> – Availability of external funding. – Long-term government commitments and timely government decisions. – Skills and capabilities (see People and culture from page 31).
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POLICIES

<ul style="list-style-type: none"> – Health, Safety and Environment Policy – Procurement Policy – Global Supplier Code of Conduct 	<ul style="list-style-type: none"> – Health, Safety and Environment Policy – Product Safety Policy – Quality Policy – Intellectual Property Policy – Global Supplier Code of Conduct 	<ul style="list-style-type: none"> – Anti-Bribery and Corruption Policy – Competition and Anti-trust Policy – Conflicts of Interest Policy – Gifts and Hospitality Policy – Political Activity and Trade Association Policy – Sponsorships and Donations Policy – Know Your Partner Policy
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¹ For further quantification of the risks and their relationship to dependencies, see the climate risk scenario analysis on page 47

Greenhouse gas emission footprint

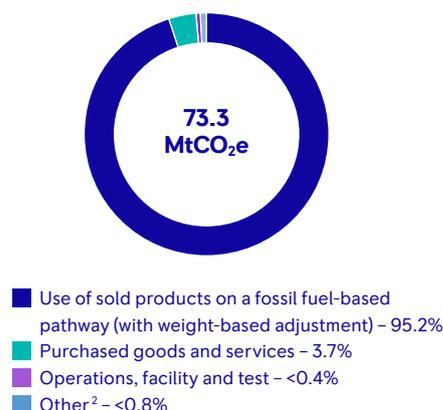
In 2025, our total emission footprint was 73.3 MtCO₂e; this was an overall reduction against 2024 of 75.6 MtCO₂e. This was driven by a reduction in our use of sold product (Scope 3, category 11 emissions (see page 44 for further details).

Emissions associated with the use of sold products (Scope 3, category 11), are approximately 95.2% of our emissions and dominate our emissions footprint. Therefore, the biggest contribution that Rolls-Royce can make to the global energy transition is to support the sectors we operate in to be compatible with net zero carbon emissions.

The emissions in our supply chain (Scope 3, category 1, purchased goods and services) account for approximately 3.7% of our total emissions and, as such, are our second largest emission category. Therefore, we can make a significant contribution by supporting our supply chain to reduce their emissions.

As part of our ongoing activities to better understand our total greenhouse gas (GHG) footprint we plan to complete a review of all our other Scope 3 emissions in 2026 to enable us to update our baseline position from 2019. We do not expect the review to materially affect our understanding of our GHG emissions. However, we see it as good practice to keep our assumptions under constant review and update them on a periodic basis.

TOTAL EMISSIONS FOOTPRINT PERCENTAGE SPLIT¹ (%)



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

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 are 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. For 2025, we confirm a continued position of consistency with all 11 recommendations.

TCFD recommendations

	RECOMMENDATION	CONSISTENCY	PAGE	CA S414CB ³
Governance	A Board oversight of climate-related risks and opportunities	✓	45	2(a)
	B Management's role in assessing and managing climate-related risks and opportunities	✓	46	2(a)
Strategy	A The organisation's identification of climate risks and opportunities it faces over the short, medium and long term	✓	39	2(d)
	B Consideration of the impact of climate risks and opportunities on the organisation's business, strategy and financial planning	✓	39	2(e)
	C Resilience of the organisation's strategy, taking into consideration different climate-related scenarios	✓	39	2(f)
Risk management	A Presence of the organisation's processes for identifying and assessing climate-related risks	✓	46-47	2(b)
	B Processes for managing climate-related risks including prioritisation methods	✓	46-47	2(b)
	C Processes for identifying, assessing and managing climate-related risks are integrated into overall risk management	✓	46-47	2(c)
Metrics and targets	A Disclosure of metrics used to assess climate risks and opportunities in line with strategy and risk management processes	✓	39	2(h)
	B Disclosure of material greenhouse gas emissions and the associated risks	✓	39-40	-
	C Presence of targets used to manage climate-related risks and opportunities and performance against such targets	✓	39	2(g)

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

Transition plan

We support 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. Below is a 2025 baselined plan aimed at achieving our net zero ambitions.

	SHORT TERM	MEDIUM TERM	LONG TERM			
	2025-2029	2030-2034	2035-2040	2041-2045	2046-2050	
Cut carbon emissions and improve resource efficiency across our operations and facilities		2030 46% reduction in Scope 1 + 2 emissions			2050 Net zero operations	
	Continuous reduction of energy consumption					
	Continued use of sustainable fuels in our product testing					
	Focus of decarbonising electricity and heating	Decarbonisation of complex process heat, decarbonisation of generation assets and securing long-term supply of zero-carbon electricity				
Deliver innovative products and solutions to accelerate the global energy transition sustainably					2050 All products are compatible with net zero operation by 2050	
	Continuous product efficiency improvements (new product development and existing product upgrades)					
	Continued product compatibility with sustainable fuels					
	Rolls-Royce SMR first orders	Rolls-Royce SMR design manufacture and build first units	Rolls-Royce SMR ramp up volumes			
			New Power Systems products	Next-gen Civil Aerospace engines	New nuclear products	New Defence products
	Develop low/zero-carbon solutions such as battery storage systems, hydrogen reciprocating engines and microreactors					
Collaborate, engage and partner with policymakers and industry to achieve collective energy transition and environment goals	Engagement/advocacy with relevant governments, policymakers and stakeholders on the energy transition					
	Further expansion of sustainability topics					

Deliver low-carbon operations, improve resource efficiency and drive value

Focus

Playing our part in the energy transition means: decarbonising our operations and product testing; reducing consumption and reducing waste. This will help ensure our facilities and internal supply chains remain resilient in a changing external environment.

Metrics and targets

To track progress against these focus areas we have the following targets:

- 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;
- reduce total energy consumption, normalised by revenue, by 50% by 2025 against a 2014 baseline;
- reduce total solid and liquid waste production, normalised by revenue, by 25% by 2025 against a 2014 baseline; and
- increase the recycling and recovery rate to 56.4% by 2025.

For 2025 progress see below.

The targets above help us monitor our exposure to risks identified in our climate risk scenario analysis (see page 47). They allow us to assess our exposure to carbon and commodity pricing.

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 and our ambition to be net zero by 2050.

Plan

To achieve our aims, we have a costed plan for the period to 2030 that includes:

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

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 onsite 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, Virtual Power Purchase Agreements (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 help us meet our Scope 1 + 2 targets and make the right investment decisions we will be introducing a shadow carbon price as part of our investment decisions from 2026 onwards.

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, thereby 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.

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. Our commitment to consume responsibly is built on the principles of the consumption and waste hierarchies.

2025 progress

We continue to make progress in decarbonising our global operations. Our total annual Scope 1 + 2 GHG emissions (market-based), those associated with our operations, facilities, testing and business activities, comprised 264 ktCO₂e in 2025, a 34 ktCO₂e decrease compared to 2024. These emissions included 131 ktCO₂e from

facilities and operations and 133 ktCO₂e from testing activity. We continued to reduce our operational emissions by a further 12 ktCO₂e, an 8% improvement compared with 2024. The overall decrease in total Scope 1 + 2 emissions was driven by a planned decrease in product development testing, 22 ktCO₂e.

OPERATIONS, FACILITY, AND PRODUCT TEST EMISSIONS (ktCO₂e)^{1,2}



1 External assurance over Scope 1 + 2 data is provided by DNV. See page 202 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 Baseline year is 2019

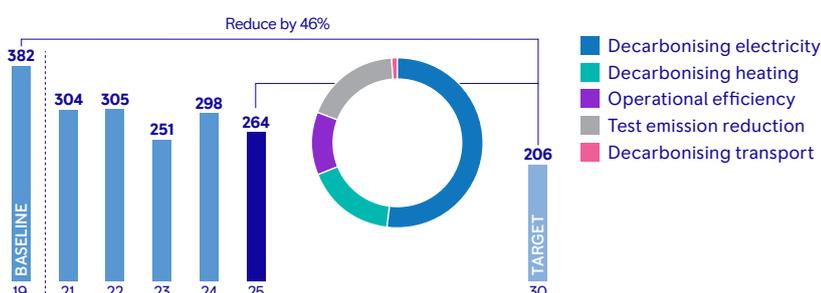
To support our electricity decarbonisation, Rolls-Royce has reached a long-term power purchase agreement with Stadtwerke Ulm/Neu-Ulm (SWU) for the annual purchase of around 20,000 MWh of CO₂e-free electrical energy. This equates to a carbon emissions reduction of around 7 ktCO₂e every year.

We continue to use sustainable aviation fuel (SAF) blends across our Civil Aerospace and Defence testing activities to help mitigate some of these emissions. Throughout 2025 genset testing in Power Systems used 14.9% hydrotreated vegetable oil (HVO) fuel (2024: 3.4%). The increase was driven by the use of HVO for the whole year rather than just the last few months of the year.

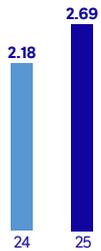
In Friedrichshafen, Germany two bench tests for the engine Series 2000 and Series 4000 were equipped with power recuperation technology replacing water brakes, reducing water and fuel consumption. Modernisation of further test benches is planned for 2026.

To allow us to focus on our most material GHG emissions we first started reporting Scope 3, category 1 (goods and services) in 2024. Our Scope 3, category 1 emissions (the spend-based method) were estimated as 2.69 MtCO₂e in 2025. This was an increase of 0.51 MtCO₂e with respect to our 2024 emissions, 2.18 MtCO₂e. We continue to use a largely spend-based method for Scope 3, category 1 emissions. The increase was driven by an increased spend, particularly in emissions-intensive commodities.

OPERATIONS, FACILITY AND TEST EMISSIONS REDUCTION PLAN TO 2030 (ktCO₂e)



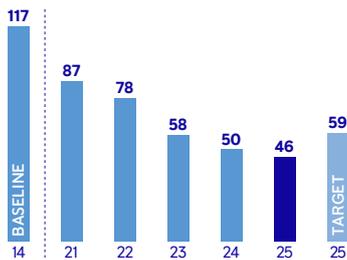
SCOPE 3, CATEGORY 1: GOODS AND SERVICES (MTCO₂e)¹



1 Scope 3, category 1 calculated using the spend-based method

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 2025 was 46 MWh/£m. The total amount of facility energy consumed in the year was 983,979 MWh. This represents a reduction of 393,674 MWh (29%) since 2014. Renewable energy sources provided 41% of the energy, including 1% generated from our own onsite clean energy installations.

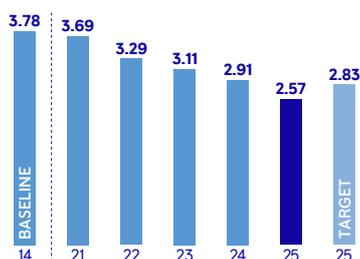
ENERGY CONSUMPTION (MWH/£M)



In support of our continued energy consumption reduction our German sites: Augsburg, Dahlewitz, Friedrichshafen, Oberursel and Ruhstorf achieved certification for their energy management systems (ISO 50001).

In 2025, our total normalised solid and liquid waste was 2.57 tonnes/£m, a 32% reduction since 2014. The total amount of solid and liquid waste generated in operations was 54.7 kilotonnes, compared to 44.7² kilotonnes in 2014. This includes 21.9 kilotonnes of hazardous, primarily chemical, waste.

TOTAL SOLID AND LIQUID WASTE (T/£M)²



2 Our 2014 waste data baseline has been restated following the divestment of our US naval business

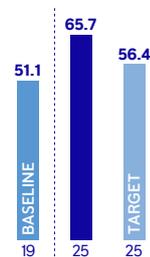
The overall increase in the volume of waste produced has been driven by increases in production and in liquid wastewater that would normally be treated onsite. We continue to pursue opportunities to prevent or reduce waste.

In 2025, within logistics, our packaging optimisation programme continued to focus on opportunities to reduce cost, waste and CO₂e emissions.

Our recycling and recovery rate for 2025 was 65.7%; this represents a 14.6% improvement against the restated³ 2019 baseline. Our Power Systems division has a recycling and recovery rate of approximately 90%. We decreased the amount of non-hazardous waste sent to landfill by 86% since 2014, with 324 tonnes sent to landfill in 2025. This was achieved through the success of our previous zero non-hazardous waste to landfill programmes and subsequent improvements in local waste treatment options.

In 2025, a number of innovations in engineering have focused on reducing the net shape of components to help reduce waste as well as the carbon footprint of these components. This included Metal Injection Molding (MIM) as an alternative to casting and Metal Binder Jetting (MJB) processing in Civil Aerospace.

RECYCLING AND RECOVERY RATE (%)³



3 Baseline and target restated to align with current operation footprint and the sale of naval propulsors & handling business. Our operational footprint has changed significantly since 2019, most recently with the sale of the naval propulsors & handling business in 2024. This has had a significant impact on our baseline number and so this and the related target have been recalculated and restated to align with our current operation footprint. The target has been restated as the equivalent recycling and recovery rate (%) improvement as before

2025 marked an excellent milestone in the Group's commitment to consume more responsibly. We achieved all our targets set out for 2025 with respect to energy, waste and recycling.

We met our energy consumption target in 2024 and continued to deliver further savings in 2025 resulting in an overall revenue normalised reduction of 61% (target 50%) against a 2014 baseline.

We managed to reduce total solid and liquid waste production, normalised by revenue, by 32% (target 25%) against a 2014 baseline.

We increased our recycling and recovery rate to 65.7% (target 56.4%).

We understand that although these are important milestones and markers for progress, they are not the end of the journey. As such, we are currently undergoing a strategic review of our responsible consumption plans with the aim to develop appropriate ambitions for the coming years.

Deliver innovative products and solutions which accelerate the energy transition

Focus

We are committed to working with our customers to enable them to operate their products in a way that is compatible with net zero emissions. 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 support national and international climate policy goals.

Targets

To track progress we have the following targets:

- to demonstrate that all our products are compatible with net zero operations by the end of 2050; and
- to support the achievement of industry net zero Scope 3, category 11 (use of sold products) GHG by the end of 2050 in line with a science-based trajectory.

The targets above help us monitor our exposure to risks identified in our climate risk scenario analysis (see page 47). They allow us to assess our ability to manage changes in customer demand and changing investment need by demonstrating that our products are aligned to the energy transition as well as our ability to attract the right talent and capability who want to help support the energy transition.

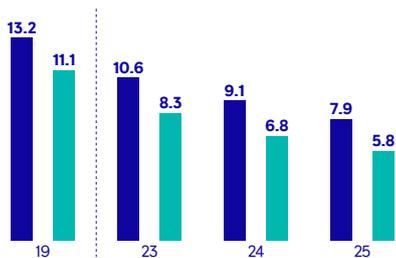
Plan

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 continuing to prove that our products are compatible with sustainable fuels. 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 nuclear technology 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 and methanol, 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.

2025 progress

We continue to see a reduction in Scope 3, category 11 emissions intensity driven by the sale of more efficient products and a shift in the Power Systems portfolio to lower-emission applications. To deliver the sustainable fuels pathway (shown below) it is critical that the availability of sustainable fuels significantly increases between now and 2050.

USE OF SOLD PRODUCTS EMISSIONS INTENSITY WITH WEIGHT-BASED ADJUSTMENT (ktCO₂e/EM OE REVENUE)^{1,2,3}



■ Scope 3, category 11 100% fossil fuel pathway
 ■ Scope 3, category 11 100% sustainable fuels pathway

- 1 Absolute Scope 3, category 11 emissions are available on page 205
- 2 Data has been reported in accordance with our basis of reporting, available at www.rolls-royce.com/sustainability
- 3 Data has been reset due to the divestment of the lower power range engine business in 2024

A significant step forward in Civil Aerospace was the entry into service of the Trent XWB-84 EP with improved fuel consumption of more than 1%. For Power Systems a significant step was the successful test of the world’s first high-speed marine engine powered exclusively by methanol on its test bench in Friedrichshafen, Germany. Together with our partners in the meOHmare research project, this is an important milestone on the road to climate-neutral and environmentally friendly propulsion solutions for shipping.

Across Civil Aerospace we continued to look at both complex and simple innovations and improvements that help reduce our emissions and wider environmental impact. In business aviation a simple idea not to paint the bypass duct on Pearl 15 engines resulted not only in a cost saving but also about a 1.9 kg weight saving. Phase 3 of the Trent XWB-97 testing programme started to build on the previous phases of time on wing improvements; and we published a paper on better modelling of aero engine soot formations that will improve the way we predict and reduce overall engine environmental impact.

Power Systems has developed and published third-party verified Environmental Product Declarations (EPD) for *mtu* emergency power generator sets. These reports enable Power Systems to demonstrate the environmental footprint of *mtu* emergency power systems of the *mtu* 16V4000 DS2500 type and of the 10V1600. The EPDs take into account the entire life cycle of the product, from raw material extraction and manufacturing to use and end-of-life recycling.

As part of our portfolio transition, Rolls-Royce has now delivered *mtu* battery storage solutions for over 200 projects worldwide. This year, Lithuanian energy supplier Ignitis Group selected Rolls-Royce to supply large-scale battery storage systems. The order comprises systems with a total storage capacity of 582 megawatt hours and a total output of 291 megawatts. This is the largest battery order ever received by Rolls-Royce Power Systems.

Rolls-Royce and Duisburger Hafen AG have opened a CO₂-neutral and self-sufficient energy system for the new Duisburg Gateway Terminal, located in the Rhine-Ruhr industrial region of Germany. The core components are two *mtu* combined heat and power units designed for operation with 100% hydrogen, which are being used here for the first time worldwide.

The new 67-metre German customs vessel, Rügen, was officially put into operation. It is powered by four 16-cylinder *mtu* Series 4000 gas engines. Reliability and low emissions were key factors in the choice of the *mtu* engines.

We are enabling the energy transition through our customers by providing emergency power to Norfolk Offshore Wind Farm on the east coast of the UK that will generate electricity to satisfy demand from more than four million households. Eureka Pumps AS has placed an order for four engines from the *mtu* Series 4000 to provide emergency power for two converter platforms.

Rolls-Royce has been awarded a contract by Polat Enerji, one of Türkiye’s leading investors in the renewable energy sector, to supply a large-scale battery energy storage system with a capacity of 132 MWh. The *mtu* QG EnergyPack will be integrated into the Göktepe Wind Power Plant near Yalova in northwestern Türkiye and will ensure that electricity from renewable sources can be fed into the grid without interruption.

Rolls-Royce SMR has been selected by Great British Energy - Nuclear (GBE-N) to build three SMR units in the UK. The first of these was announced to be Wylfa on Ynys Môn (Anglesey), North Wales. In addition, Rolls-Royce SMR has been selected by Vattenfall as one of only two companies to reach the final stage in the process to identify Sweden’s nuclear technology partner.

Partner with customers, suppliers, industry and policymakers

Focus

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.

- availability of low-carbon energy infrastructure
- sustainable fuel availability and infrastructure
- availability of appropriate funding; and
- timely government decisions and long-term commitments

Plan

We will actively engage policy makers, regulators and others to advocate for the necessary policy and economic support we have identified. 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.

2025 progress

In 2025, we held over 200 trade association and corporate memberships. 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.

We supported activities across the aviation sector, including updates to aviation potential roadmaps to net zero through ASD (Destination 2050) and ATAG (Waypoint 2050). Through membership of UK Jet Zero Taskforce expert groups we co-authored a number of reports. Rolls-Royce contributed to shaping the future funding landscape in Clean Aviation and as part of Project ARIS and continued to share our expertise through ICAO and CAEP forums.

Rolls-Royce has released a position paper with Microsoft highlighting the potential of HVO as a sustainable fuel for back-up power in data centres in Singapore. The paper outlines the opportunities and regulatory conditions necessary to establish HVO and other low-carbon fuels as alternatives to fossil diesel in critical digital infrastructure.

In addition to supporting the shaping of policy and sharing expertise, we continue to engage in energy transition aligned partnerships. This includes the launch of project QRITOS: with funding from the ATI, and in partnership with British Airways, Imperial College London and Heathrow. QRITOS will examine smarter ways of using SAF with an aim to better understand how best to target SAF towards the very small proportion of flights that drive the majority of climate impact. Rolls-Royce has been

selected by the European Union's Clean Aviation programme to lead the Ultra Novel and Innovative Fully Integrated Engine Demonstrations (UNIFIED), one of 12 ground-breaking new projects aiming to decarbonise aviation. This project contains key industrial, academic and research partners across France, Germany, the Netherlands, Norway, Spain and the UK. Subject to successful completion of grant preparation, the project will enable ground testing of an UltraFan technology demonstrator at a short to medium-range thrust class for future narrowbody aircraft and also enable the preparation of key activities towards future flight test of the UltraFan architecture.

Rolls-Royce, together with German energy supplier Avacon, is driving forward the integration of battery storage into the power grid as part of a research project. Based on a field test, the aim is to show how energy communities, photovoltaic systems and *mtu* battery storage can be intelligently linked to contribute to an efficient energy supply and to stabilise the energy system.

Rolls-Royce and the Singapore Institute of Technology entered into a collaboration to develop innovative technologies for hybrid and autonomous ships and harbour crafts. This will support future reductions of CO₂ emissions and support our customers with digital systems.

Power Systems successfully tested the first high-speed single-fuel methanol engine with 2,000 kw, proving that CO₂-neutral marine propulsion with combustion engines is possible. The engine is being developed as part of the meOHmare research project funded by the German Federal Ministry for Economic Affairs and Energy. At Power Systems, dual-fuel solutions are also being tested as a useful bridging technology.

Rolls-Royce, Landmark and ASCO have teamed up to commission a 10-megawatt gas engine power plant with a carbon capture system in the UK, ensuring stable energy supply while reducing CO₂ emissions through circularity, enabling captured carbon use in food products, synthetic fuels and SAF.

Rolls-Royce and INERATEC, a leading manufacturer of Power-to-X plants and climate-neutral e-fuels, have formed a strategic partnership to decarbonise back-up power for data centres. The goal is to replace fossil diesel in emergency power systems with synthetic fuels produced from renewable hydrogen and CO₂.

Governance

Sustainability and climate are embedded within our Group governance framework, risk management system and operating model. We monitor the reporting landscape that is and will be applicable to Rolls-Royce over the coming years and have identified the UK deployment of International Sustainability Standards Board (ISSB) Sustainability Reporting Standards (SRS) S1 and S2 as applicable to Rolls-Royce and also the EU Corporate Sustainability Reporting Directive (CSRD). We have a programme of work to prepare Rolls-Royce for these standards that we expect to apply to our full year 2027 reporting.

In 2025, we enhanced our operational programme governance and escalation criteria for the delivery of our Scope 1 + 2 decarbonisation programme.

Board

The Board has oversight of sustainability, including climate-related risks and opportunities impacting the Group. All Board Committees include an aspect of sustainability within their remit. 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.

The Safety, Energy Transition & Tech (SETT) Committee oversees the Group's sustainability strategy, priorities and progress and has delegated responsibility to review the principal risk relating to energy transition. It receives reports from the sustainability team and is updated on the discussions held at the executive-level energy transition & technology committee.

In 2025, the SETT Committee oversaw the preparations for incoming regulation including the EU CSRD and the UK

deployment of ISSB standards as well as the first Group Double Materiality Assessment (DMA). The Committee reviewed progress against the Scope 1 + 2 delivery plans and the energy transition principal risk.

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 2025, the Audit Committee reviewed TCFD disclosures, the principal risk relating to energy transition and preparations for CSRD.

The Remuneration Committee determines our remuneration policy, and in 2025 reviewed progress against the 2025 LTIP 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 the delivery of our climate strategy, including associated targets and transition plan, and for ensuring the assessment of and appropriate response to climate-related risks and opportunities throughout our business model and activities.

The energy transition & tech 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.

Sustainability governance structure



The committee regularly reports to the SETT Committee. The energy transition & tech committee receives regular updates from our sustainability steering committee, which specifically oversees progress against our sustainability programme, including climate targets.

In 2025, the energy transition & tech committee reviewed 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 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. In 2025 the steering committee reviewed all of the content that was submitted to the Board and also approved the implementation of a shadow carbon price for 2026 onwards.

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). In 2025, we focused on developing a quantitative assessment for all three time horizons including the long term, which had previously been qualitative.

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 41), 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, medium and 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 2025, we have followed a three-step process:

1. 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 recommendations (see page 40). One of the ways climate-related risks and opportunities are identified is through the emerging risk process (see page 50). 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 48) 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. These are consistent with our 2024 assessments. 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 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 (see page 54). 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 high demand for sustainable fuel-compatible products across our sectors and low-carbon energy systems for local and back-up applications.

Climate scenarios assessment^{1,2}

In 2025, we used the same updated climate base case and three climate scenarios as in 2024. To bookend the base case we assess a high and low-temperature scenario and we use an additional scenario to explore a delayed disruptive transition. We extended the range of our quantitative assessment from 10 years to 25 years to cover the full period to 2050 to align with our net zero commitments. We updated our assessment to align with the latest Group long-term plans.

The scenarios we use are based on independent external climate scenarios and are consistent with representative concentration pathways (RCPs). We use additional supplementary data from third-party sources, such as carbon pricing, 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 and profit impact for each scenario across the timescales defined. As part of our 2025 activity, we have quantified short (five years to 2030), medium-term (ten years to 2035), and long-term (25 years to 2050) risks consistent with our five year-plan and long term strategic planning. 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 Based on the Oxford Economics, Global Climate Service and Databank and other external sources, including the 'Working Together for Better Climate Action: Carbon Pricing, Policy Spillovers, and Global Climate Goals' report issued by the World Trade Organization, International Monetary Fund, the Organisation for Economic Co-operation and Development, United Nations Trade and Development, and the World Bank

CLIMATE RISK SCENARIO ANALYSIS

The following table summarises the potential net impact assessments of each of our identified climate-related risks under the three scenarios (see our basis of reporting available at www.rolls-royce.com). 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. For more information about how these have been considered in the financial statements, see note 1 of the Financial statements on pages 121 to 123.

	PERCENTAGE IMPACT ON GROUP OPERATING PROFIT BY SCENARIO (CUMULATIVE 2025 TO 2050)									TIMING OF HIGHEST EXPOSURE
	NET ZERO -1.5 °C			HIGH TEMP 4.6 °C			DISRUPTIVE 1.7 °C			
	CA	D	PS	CA	D	PS	CA	D	PS	
Changing customer demand	(0.1)	0.6	(4.7)	(1.7)	(0.9)	(3.6)	(0.6)	0.1	(2.3)	10yrs+
Change in costs due to carbon pricing	(0.5)	1.5	(0.2)	(0.1)	0.0	(0.1)	(0.2)	1.2	(0.2)	5–10yrs
Change in costs due to commodity pricing	0.3	0.0	0.1	(0.1)	0.1	(1.4)	0.1	0.0	(1.5)	10yrs+
Changing investment requirement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10yrs+
Facility disruption	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	10yrs+
Supply chain disruption	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	(0.2)	(0.1)	(0.1)	10yrs+
Impact on product performance	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10yrs+
Divisional totals	(0.6)	1.9	(5.0)	(2.2)	(1.0)	(5.3)	(1.0)	1.1	(4.2)	

Key: ■ Opportunity ■ Risk CA = Civil Aerospace D = Defence PS = Power Systems

Transition risks and opportunities

Changing customer demand	In the long term, we see a deterioration in operating profit across all scenarios for our current portfolio in the markets we serve. This is driven primarily by the impact of a slowing GDP growth rate in the medium-term compared to the baseline and customer responses in some scenarios favouring a product mix with a lower overall profit margin. The high-temperature scenario shows the greatest impact as GDP growth nears zero in the long-term. We expect demand in Civil Aerospace to remain reasonably strong, driven by clear demographic trends and enabled by a continued focus on efficiency and the introduction of sustainable fuels. We would expect climate stress in the high-temperature scenario to create opportunities in Defence, both in security and humanitarian response; however this is tempered by reduced customer demand for microreactors.
Change in costs due to carbon pricing	Guided by our Scope 1 + 2 targets based on science, we are taking steps to reduce our exposure to carbon pricing in the long-term by decarbonising our own operations and encouraging our suppliers to do the same.
Change in costs due to commodity pricing	Our markets can sustain the commodity price changes assumed in each scenario. There is long-term risk in the high-temperature scenario, particularly in Power Systems where higher costs for key commodities such as industrial metals slows the rate of customer pass through. Future contracts with both suppliers and customers need to minimise and mitigate our potential exposure.
Changing investment requirement	Our investment strategies and plans are well aligned to the net zero scenario, and will continue to be robust across the other scenarios. In both Defence and Civil Aerospace markets, new products are expected in the mid 2030s and early 2040s. 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 delayed transition scenarios would require an acceleration of investment in new technologies, but the overall investment would remain consistent. Longer-term, we see demand continuing for fuel efficiencies, compatibility with sustainable fuels and low and zero-emission solutions.

Physical risks

Facility disruption	Quantification of potential impact is based on business continuity analysis. Future site strategy, investment in existing facilities and development of new footprint options, need to continue considering climate risk. Longer term the greatest risk is in the high-temperature scenario where climate adaptation could be required in some locations. Our business resilience activity will consider physical climate risk as a driver.
Supply chain disruption	Quantification of potential impact is based on business continuity analysis. Future supply chain decisions, including the need for dual sourcing, need to continue considering climate risk. Longer term, the greatest risk is in the high-temperature scenario where climate adaptation could be required in some locations. Our supply chain resilience activity will consider physical climate risk as a driver both directly to our suppliers' facilities and key logistics routes.
Impact on product performance	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 customer de-ratings and/or additional cooling needs across the portfolio.

Principal risks

Risk management is increasingly an integral part of our ways of working, enhancing our ability to successfully execute our strategy in a predictable, repeatable manner.

Our approach to risk management and the improvements we have made during the year are outlined below. We explain how we identify principal and emerging risks, how these are mitigated in line with our risk appetite, and how they have changed in 2025.

Our approach relies on an organisation and culture where individuals at all levels (starting with the Executive Team) demonstrate the principles of good risk management and the capabilities to deliver on these.

Our risk management and internal control framework

We have an established framework, shown in the diagram below, to support the delivery of effective risk management. It enables us to manage risks in an integrated, consistent way across the Group and is refreshed annually.

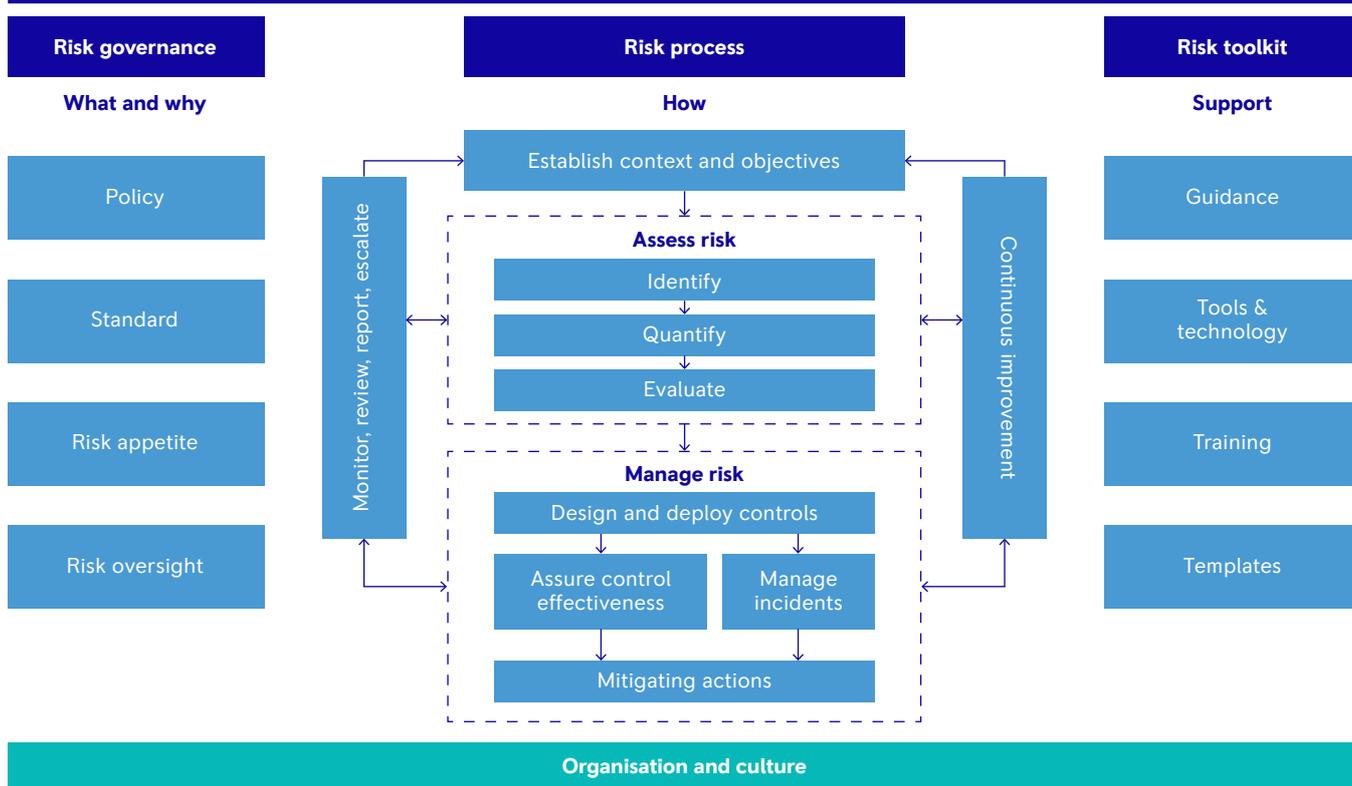
The framework aligns with international standards for managing risk and sets out requirements across the Group for all types of risk, including climate, finance, legal, operations, technical and programmes.

The Board is ultimately responsible for our approach to risk management and internal controls, from endorsing the framework each year, to assessing:

- how effective the framework is at managing the principal risks;
- the input from assurance providers listed in the principal risk tables from page 51, as well as the internal audit team. Risk-related findings are taken into account when considering how well risks are being managed; and
- the Group’s internal financial controls (by the Audit Committee) with financial reporting controls being subject to periodic review by the internal controls team.

The Board confirms that it has monitored the effectiveness of risk management and internal controls throughout the year, in accordance with the 2024 UK Corporate Governance Code excluding provision 29 which is effective for Rolls-Royce from 1 January 2026.

The risk management framework



How we use the framework to manage risk

Risk governance

Risk governance sets out the roles and responsibilities, as well as the what and the why, of risk management through the policy and standard. The Board’s responsibilities relating to principal risks and risk management are primarily discharged by ensuring that we have an effective risk management framework in place. In addition, the Board evaluates how well our principal risks are being managed as part of their review of:

- individual principal risk reports from the executive risk owner throughout the year at the Board or appropriate Board Committee (with a focus on current risk status, controls in place to manage the risk, and mitigating actions). See from page 66 to 72 for a detailed list of reviews that took place this year; and
- a portfolio principal risk report, shared with the Board by the Head of Enterprise Risk Management, summarising our overall risk position at the end of the year. This report highlights changes in risk status and includes an effectiveness review of the risk management framework as well as an assessment of risk maturity.

Risk appetite for principal risks is also included as part of the Board’s annual risk framework review. There are three possible threat risk appetite levels – low, moderate and high. These statements are used as guidance to help risk owners determine an acceptable current risk position as well as set a target position if they consider the risk to be out of appetite.

Below Board level, the Executive Team reviews portfolio and individual principal risk reports throughout the year, with divisional level risk information also being considered at the executive audit committee and as an input into the five-year planning process. These reports contain the risk status including whether this is within our risk appetite, control effectiveness and details of improvement actions to mitigate any control gaps.

Risk process

Risk owners are accountable for the execution of the risk process, to ensure that our threats and opportunities are identified, assessed, managed and assured. It applies to all levels and types of risks.

Identify	Risks can be identified by anyone across the Group. The risk process focuses on scanning the internal and external environment to monitor emerging trends (such as those identified as part of the emerging risks described on page 50), to identify and document what could hinder or accelerate the achievement of our strategic, operational and 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, considering current effective controls, and then deciding on a course of action to manage the risk.
Control and assure	Most risks are managed through the implementation of controls designed to prevent, detect or react to either the causes or impacts of a risk, which are then anchored in our processes. Risk owners must satisfy themselves that the controls are effective and that their opinion rests on assurance findings.
Act	Where a controls gap has been identified, or a risk is otherwise not currently within risk appetite, risk owners are responsible for implementing remediating action plans to reduce the current risk level. Any costs of remediation plans should be 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, escalation and oversight.

Risk toolkit

The above are underpinned by a toolkit of guidance, templates, tools and training and an independent enterprise risk management team supports the divisions and functions in their effective management of risk. Continuous improvement in 2025 has focused on streamlining the supporting toolkit across the Group and moving everyone to one enterprise-wide risk tool.

For some principal risks, such as cyber-security, safety and compliance, there is mandatory training in place, linked to performance management and remuneration, which all our people are required to complete and comply with. See page 33 for further details.

Emerging risks

We have processes in place to identify emerging risks, which we define as uncertainties that could become a principal risk of the future. As part of this, we analyse external data as well as horizon scan for changes in the external environment relating to:

- resilience;
- regulatory and compliance; and
- disruptive new technologies.

Outputs are assessed by subject matter experts and, where we identify any potential new impacts on us, we take one of the following actions:

- record a new risk;
- amend an existing risk and manage this in accordance with our framework as described on page 48; or
- add the emerging risks to our watch list for investigation and monitoring.

The Board considers a summary of emerging risks and responses annually. This year it concluded that many of the external areas of focus (geopolitical tensions, extreme weather events and supply chain disruption) are already captured as causes in our existing principal risks.

The remainder of our emerging risk watch list is consistent with last year.

Of the three newly identified emerging risks we reported last year, one remains an emerging risk (demands on fuel stocks) and two are now being actively managed: alternative fuel sources as an input into the technology principal risk, and the impact of societal polarisation as part of our business-as-usual activities.

In 2025, timeframes for several emerging risks shortened while others identified through the year are now being actively managed and are no longer considered to be emerging risks, such as potential shortages of raw materials (now part of business interruption risk).

Principal risks

Each principal risk is owned by one or more members of the Executive Team and is subject to a review at the appropriate executive committee at least once each year, ahead of a review by the Board or relevant Board Committee. Risks are managed in relation to achieving our target risk appetite or better. The actions needed to achieve or maintain these target positions are also monitored.

Changes to the principal risks profile in 2025

Throughout the year, we continued to monitor our principal risks portfolio to ensure that it remains current and dynamic.

The overall risk level within our portfolio has remained stable in 2025, with an increase in probability for both political and business Interruption because of the increasing volatility in the external environment. However, we continue to develop controls and mitigation programmes to keep pace.

Details of these changes can be found in the tables starting on the following page, which outline the current principal risks together with how we manage 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 2024 UK Corporate Governance Code excluding provision 29 which is effective for Rolls-Royce from 1 January 2026.

PROVISION 29 OF THE 2024 UK CORPORATE GOVERNANCE CODE

Provision 29 of the 2024 Code, which applies to Rolls-Royce for the financial year beginning on 1 January 2026, requires an explicit declaration by the Board as to the effectiveness of material controls as at the balance sheet date.

While our risk management framework already includes the requirement to deploy and assure controls to manage risk, in 2025 we enhanced our framework by:

- defining the criteria for identifying material controls, covering financial, operational, reporting and compliance risks; and
- identifying our material controls and ensuring that they are documented to a specified standard.

The material controls identified to date primarily relate to our principal risks described in the tables starting on page 51, with additional material controls over financial and non-financial reporting.

As part of this work and in line with guidance relating to the 2024 Code, we continue to challenge ourselves on both our control materiality assessment and the fitness for purpose of our assurance processes. To prepare for the declaration in the Annual Report 2026, we have:

- set out our approach to assurance to confirm the effectiveness of material controls;
- mapped the assurance process (covering first, second and third line accountabilities) which is already, or will need to be, in place for the Board to have confidence in effectiveness conclusions and to support the declaration; and

- identified any gaps arising or enhancements needed to meet the requirements of the Code.

We will continue to monitor progress on additional improvement actions, such as the development of new controls or strengthening our assurance coverage for a specific risk throughout 2026 as part of our existing executive, Board and/or Board Committee risk agenda items.

PRINCIPAL RISKS

Change in risk level: Increased Static Decreased

Safety

PRINCIPAL RISK DESCRIPTION	CONTROLS
<p>People and process: 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.</p> <p>Product: Failure to meet the expectations of our customers to provide safe products which also meet the relevant regulations.</p>	<p>People and process:</p> <ul style="list-style-type: none"> – Our HSE management and governance framework includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant Group, legal, regulatory and industry requirements – We have nuclear site licensing <p>Product:</p> <ul style="list-style-type: none"> – Our product safety management system includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant Group, legal, regulatory and industry requirements. As part of this we: <ul style="list-style-type: none"> • verify and approve product design; • test adherence to quality standards during manufacturing; • validate conformance to specification for our own products and those of our suppliers; • mandate safety awareness training; and • use engine health monitoring to provide early warning of product issues. <p>Our controls are underpinned by a strong safety culture, as detailed on page 35.</p>

ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<p>People and process</p> <ul style="list-style-type: none"> – Safety case interventions – HSE audit team <p>Product</p> <ul style="list-style-type: none"> – Product safety assurance board – Product safety assurance team – Technical product lifecycle audits 	<ul style="list-style-type: none"> – Safety, Energy Transition & Tech Committee – Executive Team 	<ul style="list-style-type: none"> – Our role in society – Our business model drivers – Our uniqueness

WHAT HAS CHANGED IN 2025?

The level of safety risk has decreased during 2025, due to the strengthening of controls, with safety a focus for all colleagues, and we continue to prioritise action plans to improve people, process and product safety. People safety metrics, including the reported improvement in the safety index, along with further detail on the actions being taken to reduce these risks, can be found on page 35.

PRINCIPAL RISKS – CONTINUED

Change in risk level: Increased Static Decreased

Compliance

PRINCIPAL RISK DESCRIPTION	CONTROLS	
<p>Failure to comply with legislation and/or other regulatory requirements in the heavily regulated environment in which we operate (e.g. 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/or suspension of export privileges (including export credit financing), each of which could have a material adverse effect.</p>	<ul style="list-style-type: none"> – Compliance risk framework which comprises: <ul style="list-style-type: none"> • a comprehensive suite of mandatory policies and processes and controls; • third-party due diligence; • investigations into potential regulatory matters; • digital screening and IT compliance tools; • data classification to meet internal and external requirements and standards; and • export control framework. – Speak up line and investigation of speak up cases 	
<p>ASSURANCE ACTIVITIES AND PROVIDERS</p> <ul style="list-style-type: none"> – Compliance teams – Financial controls team 	<p>OVERSIGHT FORUM(S)</p> <ul style="list-style-type: none"> – Audit Committee – Board – Nominations, Culture & Governance Committee – Executive audit committee – Disclosure Committee 	<p>BUSINESS MODEL</p> <ul style="list-style-type: none"> – Our business model drivers
<p>WHAT HAS CHANGED IN 2025?</p> <p>Our compliance risk has remained stable in 2025 due to the ongoing effectiveness of our controls to manage the risks as well as our agility in responding to a changing regulatory landscape. Mitigating actions focused on the overarching compliance framework as well as specific key risk areas including, but not limited to, new export control requirements, failure to prevent fraud, human rights and modern slavery, competition, money laundering and data privacy. Read more about ethics and compliance on page 37, which covers supply chain due diligence, anti-bribery and corruption, and human rights and anti-slavery in more detail.</p>		

Strategy

PRINCIPAL RISK DESCRIPTION	CONTROLS	
<p>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.</p>	<ul style="list-style-type: none"> – Long-term planning including portfolio reviews – Strategic performance reviews – Integrated performance management <p>To support these controls, we benchmark our capabilities and performance against our competitors, the market and other external metrics as well as horizon scan for competitive threats and opportunities, including patent searches.</p>	
<p>ASSURANCE ACTIVITIES AND PROVIDERS</p> <ul style="list-style-type: none"> – Challenge from external advisers 	<p>OVERSIGHT FORUM(S)</p> <ul style="list-style-type: none"> – Board – Executive Team – Investment committee 	<p>BUSINESS MODEL</p> <ul style="list-style-type: none"> – Our role in society – Our business model drivers – Our uniqueness
<p>WHAT HAS CHANGED IN 2025?</p> <p>Overall, this risk remained stable in 2025. We continued to iterate detailed strategies, including for other principal risks, such as energy transition and technology. Robust controls operate over our decision-making processes and integrated performance management also drives strategic priorities (such as through the five-year planning process).</p>		

PRINCIPAL RISKS – CONTINUED

Change in risk level: Increased Static Decreased

Execution

PRINCIPAL RISK DESCRIPTION		CONTROLS
<p>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, and/or falling significantly short of customer expectations.</p>		<ul style="list-style-type: none"> – Strategic performance reviews – Integrated performance management, including forecasting, budgeting, financial planning, and monitoring performance against plans – Investment committee
ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Business reviews – Programme introduction and lifecycle management and the project assurance review process 	<ul style="list-style-type: none"> – Board – Executive Team – Investment committee 	<ul style="list-style-type: none"> – Our role in society – Our business model drivers
WHAT HAS CHANGED IN 2025?		
<p>Overall, this risk remained stable in 2025. The potential impact of this risk materialising is high with a complex and competitive operating environment. However, we have focused on embedding strong performance management, including the effectiveness of our controls, to manage this risk, as well as robust Executive Team oversight. The outcome is reflected in our financial results (see pages 19 to 24), as well as enabling ongoing transformation and putting in place the foundations and sustainable change required to take advantage of future opportunities.</p>		

Business interruption

PRINCIPAL RISK DESCRIPTION		CONTROLS
<p>Failure to prevent 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 and/or external supply chain, which could result in failure to meet agreed customer commitments and damage our prospects of winning future orders.</p> <p>Disruption could be caused by a range of events, for example extreme weather or natural hazards (such as 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.</p>		<ul style="list-style-type: none"> – Clarity of which products, services and/or customers to prioritise following a disruption – Strategic decision-making on product and suppliers, including: <ul style="list-style-type: none"> • supplier due diligence; • dual sourcing of critical suppliers; • identification of alternate suppliers; • investment in capacity, equipment and facilities and in researching alternative materials; and • holding surplus stock to offset future shortages. – Investment committee – Business continuity policy, including crisis management exercises – Relevant and appropriate insurance in place
ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Supplier monitoring tools – Security and resilience team – External property risk assessments 	<ul style="list-style-type: none"> – Audit Committee – Executive audit committee 	<ul style="list-style-type: none"> – Our business model drivers – Our uniqueness
WHAT HAS CHANGED IN 2025?		
<p>The probability of this risk materialising has increased in 2025 as the external environment remains uncertain, increasing the likelihood of external events which could disrupt our ability to deliver the business model. However, we continue to develop controls and mitigation programmes to keep pace and manage any potential impacts.</p> <p>Read more about how we are managing uncertainty in our supply chain on page 13.</p>		

PRINCIPAL RISKS – CONTINUED

Change in risk level:  Increased  Static  Decreased

Energy transition 

PRINCIPAL RISK DESCRIPTION	CONTROLS	
Failure to reach net zero by 2050, and failure to leverage 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; and/or force government intervention to limit emissions.	<ul style="list-style-type: none"> – Sustainability governance framework which encompasses: <ul style="list-style-type: none"> • inclusion of sustainability criteria in our Investment committee decision-making process to reduce the carbon impact of existing products; and replace our existing products with zero-carbon technologies; • energy transition & technology committee; • sustainability steering committee which considers climate scenario modelling, physical risk impact assessments and emerging risk identification; • global supplier code of conduct; and • commercial agreements. 	
ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Sustainability team – External verification of data and calculations 	<ul style="list-style-type: none"> – Board – Audit Committee – Safety, Energy Transition & Tech Committee – Executive audit committee – Executive energy, transition & technology committee 	<ul style="list-style-type: none"> – Our role in society – Our business model drivers – Our uniqueness
WHAT HAS CHANGED IN 2025?		
There has been no overall change in risk status. The likelihood of this risk materialising is driven by macro-economic, geopolitical and social factors, with our controls focused on mitigating their impact. Our focus for 2026 will include continued review of our sustainability strategy, the management of Scope 1 + 2 decarbonisation, a review of responsible consumption targets and product portfolio alignment. See pages 38 to 47 for more on sustainability and related key risks.		

Information & data (including cyber-security) 

PRINCIPAL RISK DESCRIPTION	CONTROLS	
Failure to protect the integrity, confidentiality and availability of data, both physical and digital, systems, services or products from attempts to cause us and/or our customers harm, which could hinder data-driven decision-making, disrupt internal business operations and services for customers, or result in a data breach or non-compliance to regulatory requirements, all of which could damage our reputation, reduce resilience, and cause financial loss.	<ul style="list-style-type: none"> – The information security management system deploys multiple layers of controls, such as web and email gateways, intrusion detection, behavioural analytics and data loss prevention – Extensive maintenance and testing of hardware and software and systems – Access controls (employees and third parties) to our locations, infrastructure, systems, software and data – Control of the use of our systems – Application of our incidence response framework to govern our response to potential cyber-security incidents and significant IT disruption 	
ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Cyber-security team – Security and resilience team 	<ul style="list-style-type: none"> – Safety, Energy Transition & Tech Committee – Executive audit committee 	<ul style="list-style-type: none"> – Our business model drivers – Our uniqueness
WHAT HAS CHANGED IN 2025?		
The risk level has reduced in 2025 due to the progress of our mitigation programmes putting in place additional effective controls. For example, we have put in place improvements in controls to address externally facing vulnerabilities and enhancements to other controls. However, the risk remains high due to external factors including the ongoing speed of evolution of cyber-security threats, with increasing sophistication and technological advancement of the threat actor groups. We continue to monitor the evolving external threat landscape, undertaking additional mitigating activities where needed.		

PRINCIPAL RISKS – CONTINUED

Change in risk level: Increased Static Decreased

Market & financial shock

PRINCIPAL RISK DESCRIPTION	CONTROLS
<p>Failure to minimise our exposure to market and financial risks, some of which are of a macro-economic nature (e.g. economic growth rates, foreign currency, oil price, interest rates) and some of which are more specific to us (e.g. 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.</p> <p>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.</p>	<ul style="list-style-type: none"> – 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 – Diverse and balanced portfolio – Financial risk committee which monitors financial risks and compliance with relevant policies including: <ul style="list-style-type: none"> • group liquidity policy; • credit risk policy; • policies designed to hedge residual risks using financial derivatives covering foreign exchange, interest rates and commodity price risk; and • maintaining strong access to debt and equity markets as a strategic lever to manage financial risk and safeguard capital resilience. – Treasury operates a system of confirmations, mandates, system access controls, segregation of duties, dual controls and checks to prevent and detect fraud and errors <p>In addition, controls in place to manage business interruption and political risk, also address market shock risk.</p>

ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Strategy reviews – Group investments team – Treasury team 	<ul style="list-style-type: none"> – Board – Audit Committee – Executive audit committee 	<ul style="list-style-type: none"> – Our business model drivers

WHAT HAS CHANGED IN 2025?

The robust control environment we have in place has kept this risk stable in 2025. Uncertainty around external market volatility and significant shocks (such as global conflict or the repeat of a pandemic) is offset by our increasing ability to withstand these events through our greater business resilience. The Board has continued to approve policies to manage financial risks, the Group's £2.5bn revolving credit facility was renewed in December 2025, and the control environment is underpinned by systemised segregation of duties and management review of controls.

Political

PRINCIPAL RISK DESCRIPTION	CONTROLS
<p>Failure to respond strategically and tactically to geopolitical developments and events, such as adverse changes in key political relationships, trade protectionism and conflicts, deteriorating tax or regulatory regimes, and armed conflict, would lead to an unfavourable business climate which could impact our short and/or long-term execution commitments.</p>	<ul style="list-style-type: none"> – Geopolitical insights capability, which includes: <ul style="list-style-type: none"> • development of Group and country strategies and maintaining our understanding of associated dependencies; • horizon scanning processes; • Group crisis and incident management policy; and • diversification considerations built into our investment and procurement choices.

ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Government relations teams – Country councils – Input from external advisers 	<ul style="list-style-type: none"> – Board – Executive audit committee 	<ul style="list-style-type: none"> – Our role in society – Our business model drivers

WHAT HAS CHANGED IN 2025?

The probability of this risk arising has increased due to ongoing uncertainty in the external environment. The likelihood of emerging risks now materialising due to political developments globally, such as intensifying trade conflict and rising protectionism (see page 13) is higher than before.

However, our ability to respond to geopolitical risks, such as tariffs, has kept pace with the external environment. We continue to build on our insights capabilities to further improve our adaptability.

PRINCIPAL RISKS – CONTINUED

Change in risk level: Increased Static Decreased

Talent & capability

PRINCIPAL RISK DESCRIPTION	CONTROLS
Failure to attract, retain and develop the critical talent, skills and capabilities required to deliver our strategic priorities could threaten our ability to be a high-performing, competitive, resilient and growing business.	<ul style="list-style-type: none"> – The People System includes controls to: <ul style="list-style-type: none"> • anticipate future requirements, strategically shaping future workforce composition and a differentiated workforce strategy; • attract and develop the best talent to increase talent density and bench strength; • drive high performance through a culture of regular and candid feedback and strong relative differentiation; • operate a differentiated and fair reward proposition to reflect strategic business impact and critical positions and difficult-to-hire capabilities; • improve future readiness of workforce through targeted learning, integrating learning into the flow of work through digital including delivering mandatory learning; • increase relevant talent supply through fit-for-purpose emerging talent programmes; and • embed and monitor a culture of belonging through defined standards, leadership accountability, and regular employee listening, ensuring equitable access to opportunity, equity in decision-making, and psychological safety.

ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – People leadership team – Leaders across Rolls-Royce – Employee opinion survey – External remuneration audits 	<ul style="list-style-type: none"> – Nominations, Culture & Governance Committee – People committee 	<ul style="list-style-type: none"> – Our business model drivers – Our uniqueness
WHAT HAS CHANGED IN 2025?		
The level of risk has remained steady this year through controls operating as part of the People System launched in 2024, with a focus in 2025 on performance management, employee engagement, reward, capability and skills, talent management and development, which you can read more about on pages 31 to 36, as well as more information on people-related initiatives, such as the People Deal and Change Makers.		

Technology

PRINCIPAL RISK DESCRIPTION	CONTROLS
Failure to ensure products and services are based on competitive technology, leveraging substantial engineering and scientific challenges, adopting digital tools (such as AI) and/or 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 negatively impact our competitiveness and market share.	<ul style="list-style-type: none"> – Horizon scanning process for emerging technology threats and opportunities, which includes the identification of business opportunities, providing technology intelligence, and performing early-stage technical assessments – The outputs are used to inform strategy and technology roadmaps as well as how we prioritise the research and technology portfolio

ASSURANCE ACTIVITIES AND PROVIDERS	OVERSIGHT FORUM(S)	BUSINESS MODEL
<ul style="list-style-type: none"> – Technical assurance team – Programme introduction and lifecycle management to prioritise investments and uphold uniform project management standards 	<ul style="list-style-type: none"> – Safety, Energy Transition & Tech Committee – Executive energy transition & tech committee 	<ul style="list-style-type: none"> – Our role in society – Our business model drivers – Our uniqueness
WHAT HAS CHANGED IN 2025?		
This risk has remained stable in 2025 due to the ongoing mitigating actions to manage this risk, including detailed technology roadmaps, robust horizon scanning and the work of the Group-wide research and technology organisation. New technologies are matured and vetted for industrialisation and customer interest during development and before integration into our systems.		
To further mitigate the impact of potential technological disruptions and align with broader strategy needs, we will continue to invest in emerging technology evaluation, accelerate innovation through data-driven approaches, and prioritise technology integration.		

Going concern and viability statements

Going concern statement

Overview

In accordance with the requirements of the 2024 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 51 to 56, 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 61.

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 2027. The Directors have determined that the period to June 2027 ('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.

The Group's base case forecast reflects the Directors' best estimation of how the business plans to perform over the going concern period. 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 2025 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 product costs, 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.

On 26 February 2026, the Group announced a multi-year share buyback programme across 2026–2028 of £7.0bn to £9.0bn. Of this, £2.5bn is expected to be completed in 2026, including the £200m completed between 2 January 2026 and the date of this report. The share buybacks expected to be completed during the going concern period have been included in the going concern assessment in both the base case and downside forecast.

In reviewing the Group's cash flow forecasts and available liquidity, the Directors have considered the current volatility in macroeconomic variables and an external environment that remains challenging, including geopolitical tensions, the uncertainty introduced by tariffs and supply chain challenges. The Directors continue to actively manage the potential impact of these factors on the Group's cash flow forecasts and available liquidity.

In modelling both the base case and downside forecast, the repayment of a €750m bond that matured in February 2026 and a £375m bond that is due to mature in June 2026 have been assumed to be repaid from cash in both the base case and 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 47.

Liquidity and borrowings

During 2025, the Group repaid a \$1bn bond at its maturity in October. The Group also repaid a €750m bond that matured in February 2026. The £2.5bn undrawn revolving credit facility was refinanced in December 2025, extending the revolving credit facility maturity to December 2030.

At 31 December 2025, the Group had liquidity of £8.7bn including cash and cash equivalents of £6.2bn and undrawn facilities of £2.5bn. The going concern period

includes the repayment of a €750m bond that matured in February 2026 and a £375m bond that is due to mature in June 2026. Given the Group's cash and liquidity position over the going concern period, the bond maturities in 2026 have been assumed to be repaid from cash, should the Group wish to not refinance.

Based on borrowing facilities available at the date of this report the Group's committed borrowing facilities at 31 December 2025 and 30 June 2027 are set out below. None of the facilities are subject to any financial covenants or rating triggers which could accelerate repayment.

£m	31 December 2025	30 June 2027
Issued bond notes ¹	2,859	1,806
Revolving credit facility (undrawn) ²	2,500	2,500
Total committed borrowing facilities	5,359	4,306

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 £2.5bn revolving credit facility matures in December 2030

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 2027.

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 2027 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Viability statement

The viability assessment considers liquidity over a longer period than the going concern assessment. Consistent with previous years, we evaluate viability over a five-year period, in line with the Group's five-year planning process. We continue to believe that this is the most appropriate as, inevitably, the degree of certainty reduces over any longer timespan.

We have created severe but plausible scenarios that estimate the potential impact from certain 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 51 to 56.

Given our increased liquidity levels and consistency in conclusions reached each year, we targeted those principal risks that could have the most material impact on 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 the following page.

The cash flow impacts of these scenarios were overlaid on the five-year plan 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. These activities include raising additional funds, reducing expenditure and divesting parts of our business.

Reverse stress testing was also performed to assess the severity of scenarios that would have to occur to exceed liquidity headroom. The outcomes of the stress tests were not considered plausible.

Based on their assessment of prospects and viability above, the Board confirms that it has a reasonable expectation that the Group will be able to continue its operations and meet its liabilities as they fall due over the next five years. In making this statement, the Directors have made the following key assumptions:

1. The Group is able to refinance maturing debt facilities and draw down existing available facilities as required. Debt maturities over the assessment period are £5.4bn (including the undrawn revolving credit facility of £2.5bn maturing by December 2030), with new bonds assumed to be issued as planned;
2. The Group has access to global debt markets and expects to be able to refinance these debt facilities on commercially acceptable terms;
3. That implausible scenarios do not occur. Implausible scenarios include either multiple risks impacting at the same time or where management actions do not mitigate an individual risk to the degree assumed; and
4. That in the event of one or more risks occurring which have a particularly severe effect on the Group's liquidity, all potential actions would be taken on a timely basis. These include, but are not limited to, restricting capital and other expenditure to only committed and essential levels, reducing or eliminating discretionary spend, implementing pay deferrals, raising additional funds through debt or equity raises, executing disposals, undertaking further restructuring and pausing distributions.

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, can 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, including non-compliance to sovereign state requirements, resulting in fines and loss of sales with governments and state-owned companies. The probability of triggering the size of fine required to exceed headroom is considered remote.
Business interruption	<ol style="list-style-type: none"> 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. 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. <p>The extent of time over which orders cannot be fulfilled that would breach headroom is not considered plausible.</p>
Business interruption – pandemic	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. The extent of time over which orders cannot be fulfilled that would breach headroom is not considered plausible.
Information & data (cyber-security)	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 triggering debarment from government contracts. Our mitigating actions were found to be sufficient to prevent a breach of headroom.
Political	Sanctions imposed, for example as a result of conflict between major trading blocs, resulting in supply chain disruption and a loss of sales in impacted markets. Our mitigating actions were found to be sufficient to prevent a breach of headroom.

Section 172 statement

Stakeholder considerations are integral to the Board's discussions and our decisions aim to promote our long-term success.

Our section 172(1) statement (s172 statement) below sets out how the Directors have had regard to stakeholders in discharging their s172 duty. We recognise that consideration of the broad range of our stakeholders during decision-making is essential for the long-term success of our business and we aim to create value for our stakeholders and wider society by maintaining levels of business conduct that are aligned to our purpose, vision and behaviours. There may be situations in which the interests of certain stakeholders may be prioritised over others and we acknowledge that not all decisions will result in a positive outcome for all stakeholders. By having a consistent and purposeful process in place to consider a broad range of stakeholders, and the different interests and factors to be assessed, we aim to ensure that our decisions promote our long-term success.

This section should be read in conjunction with our Stakeholder engagement section from page 60 and Board focus, which contains information on the principal decisions made by the Board during 2025 and related outcomes, from page 71.

SECTION 172 DUTY	RELEVANT DISCLOSURE AND PAGE REFERENCE	SECTION 172 DUTY	RELEVANT DISCLOSURE AND PAGE REFERENCE		
The likely consequences of Board decision-making in the long-term	Any decisions taken by the Board are expected to influence the Group's long-term performance, resilience and ability to create sustainable value for shareholders and wider stakeholders.	The impact of our operations on the community and the environment	The Board recognises that any decisions taken must give due consideration to how operations affect the wider community and the environment.		
	Group at a glance		2	Chief Executive's review	6
	Chair's statement		4	Our purpose, vision and behaviours	10
	Chief Executive's review		6	Our strategy	11
	Our purpose, vision and behaviours		10	External environment	13
	Our strategy		11	Key performance indicators	16
	External environment		13	People and culture	31
	Business model		14	Sustainability	38
	Key performance indicators		16	Principal risks	48
	Financial review		19	Safety, Energy Transition & Tech Committee report	110
	Principal risks		48		
	Going concern and viability statements		57	The desirability of maintaining a reputation for high standards of business conduct	The Group is committed to doing business in the right way. When promoting the success of the Group the Directors have regard to the desirability of maintaining a reputation for high standards of business conduct.
	Chair's introduction		63		Our Code, Group policies and Supplier Code of Conduct seek to ensure high standards are applied across our own operations and supply chain, and can be found at www.rolls-royce.com
	Remuneration Committee report		82		Group at a glance
		Chair's statement	4		
The interests of our employees	The Directors recognise that the success of our business depends on attracting, retaining and motivating talented people. To that end, the Directors consider and assess the implications of decisions on our people where relevant and feasible.		Chief Executive's review		6
	Our people and product safety performance remains a high priority, alongside employee engagement.		Our purpose, vision and behaviours		10
	Group at a glance	2	Our strategy		11
	Chair's statement	4	External environment		13
	Chief Executive's review	6	Business model		14
	Our purpose, vision and behaviours	10	Key performance indicators		16
	Our strategy	11	Ethics and compliance		37
	Key performance indicators	16	Non-financial and sustainability information statement		38
	People and culture	31	Principal risks		48
	Stakeholder engagement	60	Going concern and viability statements		57
	Chair's introduction	63	Stakeholder engagement	60	
	Remuneration Committee report	82	Chair's introduction	63	
	Safety, Energy Transition & Tech Committee report	110	Board of Directors	64	
			Corporate Governance	67	
The need to foster our business relationships with suppliers, customers and others	Delivering our strategy requires a strong, mutual and beneficial relationship with suppliers, customers and governments.		Nominations, Culture & Governance Committee report	76	
	Group at a glance	2	Audit Committee report	78	
	Chief Executive's review	6	Remuneration Committee report	82	
	Our purpose, vision and behaviours	10			
	Our strategy	11	The need to act fairly between shareholders	After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy over the long term, taking into consideration the effect on the Group's stakeholders.	
	External environment	13		Stakeholder engagement	60
	Business model	14		Chair's introduction	63
	Key performance indicators	16		Audit Committee report	78
	Financial review	19			
	Ethics and compliance	37			
	Sustainability	38			
	Principal risks	48			
	Going concern and viability statements	57			
	Stakeholder engagement	60			
Chair's introduction	63				
Remuneration Committee report	82				
Safety, Energy Transition & Tech Committee report	110				

Stakeholder engagement

Consistent communication with stakeholders is a priority for the Board and the Executive Team, who maintain regular touchpoints with stakeholders to keep apprised of their views and interests. The matters identified through this engagement influence Board decision-making in the short and medium-term and our long-term strategy. This section should be considered together with the s172 statement on page 59 and Board focus from page 71.

OUR PEOPLE



Why they matter

At the heart of our business is the unrivalled dedication and technical expertise of our people. With over 42,000 colleagues in varied roles worldwide, engagement needs to be far reaching and accessible in order to ensure that our purpose, vision and behaviours are embedded in our culture.

How we engaged

In 2025, employees were again given the opportunity to share their perspectives on how the Group lives up to our behaviours, our strategy, performance and leadership via our annual survey – Our Voices: Big Picture. The results are anonymised to encourage an open conversation, and people leaders receive team results to enable Winning Together conversations to make a difference.

A further pulse survey – Our Voices: In Focus, is used to check on how it feels to work at Rolls-Royce and whether there is clarity to deliver the strategy. The output of the survey supports the formation of focus groups to explore high-impact topics and big themes, enabling a better understanding of perspectives.

Our Executive Team regularly host live events in the form of townhalls and ‘ET Teams Talks’ where all colleagues can hear about our progress and have open, honest conversations about topics that matter most. This was an opportunity to communicate directly with the Chief Executive and the Executive Team, part of our commitment to engage, listen and act on feedback.

During 2025, our Employee Champions, Bev Goulet and Wendy Mars, continued to represent the voice of our people in the boardroom. The Employee Champions, supported by our Employee Stakeholder Engagement Group, provide regular feedback to the Board on topics of interest and/or concern. This provides a valuable link between our people and our Directors. We believe that these methods of engagement with our people are effective in building and maintaining trust and communication while providing colleagues with a forum to influence change in relation to matters that affect them.

Site visits remain an important opportunity for Board members to gain a deeper understanding of how the different divisions operate, and to meet individuals from those divisions. More information about the Board’s site visits can be found on page 70.

Engagement outcomes

We believe that when we feel we belong, we are at our best for each other, our business and our customers, and this starts with how we treat each other every day. Building on the 2024 launch of our new purpose, vision and behaviours, in 2025, we introduced three new ways to make belonging a lived reality for our employees. These include:

- a Global Equal Employment Opportunity Policy, which outlines how we expect people to behave towards each other, how we make people decisions and our zero-tolerance approach to discrimination. The principles of our Policy apply not only to employees, but also to our visitors, customers, suppliers and former employees;
- the Global Belonging Forum is sponsored by our people committee and chaired by our Chief People Officer. This senior leadership forum is dedicated to embedding a culture of belonging across the Group; and
- the Employee Voice Network is open to all colleagues to bring individual perspectives, passions and personalities together to connect, discuss and problem solve.

Many of our people are also our shareholders and we encourage their participation in a variety of share plans. Following the gift to all colleagues of 150 Rolls-Royce shares (or cash equivalent where share allotment was not permitted) in 2024, these gifted shares vested for colleagues in the Global Employee Share Purchase Plan (GESPP) in September 2025. Additionally, we successfully launched Your Shares: Matched in 2025, a new global all-employee share purchase and match plan, where all participants receive a 1:1 match on their investment up to a maximum of £50 per month.

See from page 6
Chief Executive’s review

See from page 31
People and culture

See from page 76
Nominations, Culture & Governance Committee report

See from page 82
Remuneration Committee report

CUSTOMERS



Why they matter

The quality of the Group’s customer relationships, based on mutual trust as well as our engineering expertise, are critical to the Group’s long-term success. While our customers provide a sustainable revenue for the business, they also support our journey to becoming a lower-carbon business which is firmly embedded in our strategy. By using our unique skills and expertise to develop innovative solutions we are helping the world do things tomorrow that we cannot do today. We remain steadfast in delivering the technical solutions required to reduce the carbon emissions of the air transportation sector through our work in developing advanced aircraft and propulsion technologies that enable net zero carbon emissions while maintaining the safety and quality standards of our industry. This commitment underpins our strategy and ensures that our innovation aligns with the evolving needs of the markets in which we operate.

How we engaged

Throughout the year, the Chief Executive and Executive Team continued to engage directly with customers at major industry events and strategic forums, including at the premier aerospace event of 2025, the Paris Air Show. These discussions focused on opportunities to re-enter the narrowbody market, improvements to time on wing and overall operational efficiency.

To ensure we deliver with urgency to armed forces around the world, our Defence team engages regularly with our global Defence customers, including at events like the Association of the United States Army (AUSA) Annual Meeting & Exposition in North America and Defence and Security Equipment International (DSEI) in the UK.

At every meeting, the Board receives operational updates, including feedback on customer interactions, across all the divisions. This greatly influences the Board’s deliberations and its support for the Executive Team when considering opportunities and risks and our strategy.

Engagement outcomes

Customer insights and operational updates significantly influence the Chief Executive and Executive Team’s deliberations on the execution of our strategy. These engagements strengthen partnerships, guide investment priorities, and ensure alignment with our sustainability and growth objectives.

See from page 6
Chief Executive’s review

See from page 25
Our divisions

SUPPLIERS AND PARTNERS



Why they matter

Maintaining healthy, long-term relationships with our suppliers helps us to protect business continuity and achieve our environmental ambitions. Strong supplier relationships ensure sustainable high-quality delivery for the benefit of all stakeholders.

How we engaged

The interests of both our suppliers and partners are a high priority for the Group and inform discussions and decisions on our manufacturing strategy and when reviewing specific projects. The Board supports our Executive Team, who work collaboratively with our suppliers and partners, to continue to improve operational performance through various means.

Engagement outcomes

The Board received updates from the business on supplier performance and continued supply chain challenges. During 2025, discussions took place on how we are mitigating supply chain risks by helping our suppliers across the aerospace supply chain.

We are supporting our partners in several ways, including with a dedicated and resourced taskforce which is focused on supply chain challenges impacting the Trent 1000 engine.

See from page 6
Chief Executive’s review

See from page 25
Our divisions

COMMUNITIES



Why they matter

We believe that thriving communities are a foundation of our long-term success. Our commitment goes beyond business. We are dedicated to forging strong, progressive relationships with the communities where we operate. We understand that our success is closely linked to the economic prosperity and wellbeing of our local communities. That is why we invest in powerful partnerships and local initiatives that create meaningful, measurable impact where it matters most.

How we engaged

We take a proactive approach to community engagement, driven by open dialogue, active listening, and genuine collaboration. By working closely with community leaders, social partners, and local organisations, we ensure our efforts are aligned with the unique needs and aspirations of each location. Our investments in education and skills outreach, charitable sponsorships and donations, and encouragement of employee volunteering are designed to create lasting value and promote sustainable development. We empower our people to make a difference, enabling them to share their expertise, learn from others, and drive positive change both within our business and in the communities around us. Together, we define objectives and develop initiatives that deliver tangible benefits for both our communities and our Group.

Engagement outcomes

Our people are the driving force behind our community programmes, contributing 72,163 hours (2024: 58,785) to community investment and education outreach in 2025, a testament to our growing impact. Our global STEM ambassador network continues to inspire the next generation, with around 1,700 accredited ambassadors in the UK alone this year, igniting curiosity and ambition in young people worldwide. We continue to expand our global STEM ambassador network.

See from page 31
People and culture

See from page 38
Sustainability

GOVERNING BODIES AND REGULATORS



Why they matter

The Board recognises the importance of governments and regulators as key stakeholders, customers, funders and supporters of our global trading activity.

How we engaged

During 2025, the Chair and Chief Executive held meetings with country leaders, ministers and senior officials from governments around the world. Areas of engagement included civil and defence nuclear via SMR and AUKUS, civil and combat air capability including civil aero engine development and exports, sales of the EJ200 engine and the Global Combat Air Programme (GCAP), and our power-generation solutions for existing and fast-growing markets including data centres. These engagements help strengthen our relationships with key markets including but not limited to the UK, US, EU and member states, India, and the Kingdom of Saudi Arabia.

The General Counsel provides regular updates to the Board on compliance with regulation impacting our licence to operate. The Board is updated on engagement with tax authorities and the related regulatory landscape.

Engagement outcomes

Engagement has focused on delivering the Group priorities and strategic initiatives, including growing our defence offer in and with countries around the world, keeping our civil engines earning with existing and new customers, strengthening our global MRO capability, and seeking to secure new markets across all our core businesses and through Rolls-Royce SMR.

See from page 25
Our divisions

See page 37
Ethics and compliance

INVESTORS



Why they matter

A resilient investor base and ongoing access to capital are essential to the Group's long-term success. This relies on us providing existing and prospective shareholders with a clear and comprehensive understanding of our business, including our strategy, growth opportunities, risks and overall performance, to support informed investment decisions.

How we engaged

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 the issues that matter most to them. 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, principally after our financial results, and at conferences.

Our engagement with institutional investors has continued throughout the year, including meeting with investors on post-results roadshows across London, UK and Boston, New York and Los Angeles, US. Key investor conferences during the year included the Bank of America Global Industrials Conference (UK), the Jefferies Industrials Conference (US) and the Goldman Sachs Industrials Conference (UK).

The AGM held at the Rolls-Royce Learning and Development Centre in Derby, UK, in May provided retail shareholders with the opportunity to engage directly with Board members.

During 2025, the Chair of the Remuneration Committee, members of management and the Chief Governance Officer engaged with shareholders and proxy advisers to seek support for our remuneration policy proposals.

Engagement outcomes

Our largest shareholders have remained broadly consistent over the past year, reinforcing our view that our investors continue to be supportive of our transformation programme and strategy. Furthermore, our strong growth prospects to the mid-term and beyond continue to attract new investors.

See from page 11
Our strategy

See from page 82
Remuneration Committee report

Strategic Report signed on behalf of the Board

Tufan Erginbilgic
Chief Executive
26 February 2026

GOVERNANCE REPORT

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Chair's introduction

Dame Anita Frew
Chair



In 2025, our governance framework, including our approach to leadership, oversight and accountability, enabled the Board to continue to guide the successful transformation of the Group.

As Chair of the Board, I am pleased to introduce our Governance report for 2025. At Rolls-Royce, we believe that good governance is the foundation of sustainable success.

As a Board, we are committed to ensuring that our governance framework evolves to meet the regulatory requirements and to uphold the highest possible standards of transparency and stewardship relevant to the Group.

Our focus in 2025

In 2025, the Safety, Energy Transition & Tech (SETT) Committee expanded its remit to include cyber-security and held a deep dive into our cyber-security maturity and preparedness which was attended by all Board members. A full report of the SETT Committee's activities during the year is set out on page 110.

At the Nominations, Culture & Governance Committee, we are regularly updated on the succession pipeline and associated development initiatives for our senior leaders. In 2025, this included insights from our enterprise-wide talent and leadership system. A full report of the Nominations, Culture & Governance Committee can be found from page 76.

During the year, the Audit Committee considered regular reports on our preparations for the introduction of provision 29 of the 2024 UK Corporate Governance Code. A full report of the Audit Committee's activities during the year can be found from page 78.

The Remuneration Committee retained its focus on ensuring that our remuneration arrangements are appropriate in the context of our business performance. A full report of the Remuneration Committee's activities during the year can be found from page 82.

Board effectiveness

We have undertaken a review of the performance of the Board and its Committees in 2025 to enable us to continuously improve as a Board. Areas for focus in 2026 were identified for the Board and its Committees. You can read about these on page 73 and in the individual Committee reports.

Engaging with our stakeholders

We take every opportunity to engage with our stakeholders where appropriate to remain updated on their views and interests. Once again, our engagement has influenced the Board over the course of the year in our discussions and decision-making. During 2025, there were many opportunities for my Board colleagues to engage with our people and our shareholders, which I have described below. Our stakeholder engagement report from page 60 provides more detail.

Our people

My fellow Directors and I particularly enjoy the opportunities we have to visit our facilities and to engage with and hear directly from our people across the Group. We have two dedicated initiatives which support the Board's understanding of the experience of our employees:

- first, the Meet the Board events which, in 2025, were held in Derby, UK in May and in Dahlewitz, Germany in October. These events allow our people across the business to engage directly with the Board Directors, encouraging open dialogue on issues that matter to them. They also provide an opportunity for my Board colleagues to share their personal reflections with our people and to recognise the commitment and contribution which our people make every day to the success of Rolls-Royce; and
- second, our Employee Champions, Bev Goulet and Wendy Mars, play a critical role in reaching out to our people. Through site visits and engagement forums, they gather feedback and ensure that any concerns are raised with management and in the boardroom. Read more about the work of our Employee Champions on page 77.

Members of the SETT Committee also engaged with our people on a visit to our Defence site at Bristol, UK in September (see page 70 for more information).

In 2025, we introduced our new People Deal which is described in more detail in People and culture from page 31. During 2026, my Board colleagues and I look forward to meeting many more of our people and supporting them in their understanding of how we work together to enable a high-performance culture which supports the delivery of our strategy for all our stakeholders.

Our shareholders

During the year, I met with several of our major institutional investors to understand their views of Rolls-Royce.

In the autumn, Lord Jitesh, Chair of the Remuneration Committee, engaged with many of our major shareholders on the changes proposed to our remuneration policy. See page 88 for more information about these proposals.

In May, we held our 2025 AGM. Our fully hybrid format allowed shareholders to participate virtually or in person. This approach reflects our commitment to leverage technology to strengthen engagement and create opportunities for shareholders to connect directly with the Board. We will use this hybrid format again for our 2026 AGM to be held on 30 April 2026. I look forward to engaging with our shareholders at this time. Details of the AGM will be available to our shareholders in mid-March 2026.

Looking forward

The Board's focus for 2026 will again include succession planning for those Non-Executive Directors who are due to retire in the near term. We will also focus on talent and development more broadly within the organisation in support of our strategy.

I would like to thank my fellow Directors for their strong commitment and thoughtful counsel as we navigated the challenges and opportunities of 2025, and I look forward to working with them as the transformation of Rolls-Royce continues in 2026.

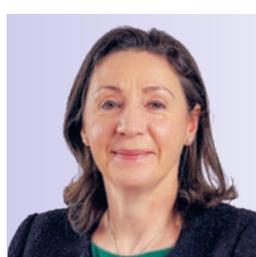
Dame Anita Frew
Chair

Board of Directors

Position	Board skills and competencies	Key external appointments
 <p>DAME ANITA FREW Chair of the Board</p> <p>N</p> <p>Appointed to the Board on 1 July 2021 and as Chair on 1 October 2021</p>	<p>Dame Anita brings a wealth of extensive leadership and global experience from more than two decades of board appointments, both in the UK and internationally. Together, with her skills and reputation with investors and government institutions, her broad knowledge of strategic management across a range of sectors is invaluable to the Board and the Group as a whole.</p>	<p>Past</p> <ul style="list-style-type: none"> Industrial strategy advisory council (UK Government), member Croda International plc, Chair
 <p>TUFAN ERGINBILGIC Chief Executive</p> <p>Appointed to the Board on 1 January 2023</p>	<p>Tufan is a proven leader of winning teams within complex multinational organisations, with over six years as CEO of BP's downstream business. He drives a high-performance culture and delivers results for investors. He has extensive strategic and operational experience and a firm understanding of safety critical industries as well as the challenges and commercial opportunities presented by the drive for low-carbon technologies. Tufan has a strong track record for execution, delivery and the creation of significant value and an ambition to deliver the full potential of our market positions.</p>	<p>Current</p> <ul style="list-style-type: none"> Iveco Group NV, NED <p>Past</p> <ul style="list-style-type: none"> UK Prime Minister's 2024 Business Council Global Infrastructure Partners, Partner & senior adviser BP p.l.c., various executive roles DCC plc, NED Türkiye Petrol Rafinerileri A.S., NED GKN plc, NED
 <p>HELEN MCCABE Chief Financial Officer</p> <p>Appointed to the Board on 4 August 2023</p>	<p>Helen has a track record of promoting rigorous financial discipline and her experience of delivering effective performance management within complex multinational engineering organisations is invaluable as the Group moves, at pace, to transform Rolls-Royce. Helen brings extensive experience and in-depth financial understanding to the Executive Team and the Board.</p>	<p>Past</p> <ul style="list-style-type: none"> BP p.l.c., various leadership roles
 <p>GEORGE CULMER Senior Independent Non-Executive Director</p> <p>N A R</p> <p>Appointed to the Board on 2 January 2020</p>	<p>George has a strong track record as a senior finance professional with significant experience gained in large, international, highly regulated groups with high cyber-threat profiles and has proven business leadership credentials. With this experience, together with his strengths in change leadership and transformation gained from within complex groups, George makes a significant contribution to the Board.</p>	<p>Current</p> <ul style="list-style-type: none"> Aviva plc, Chair <p>Past</p> <ul style="list-style-type: none"> Lloyds Banking Group plc, Chief Financial Officer RSA Insurance Group plc, Chief Financial Officer
 <p>BIRGIT BEHRENDT Independent Non-Executive Director</p> <p>N S</p> <p>Appointed to the Board on 11 May 2023</p>	<p>Birgit brings deep experience across global procurement and supply chain management to the Board. Alongside this, she has significant insight into the development and management of international joint ventures (JVs), having led Ford's key European JVs. She also has a strong track record and an ongoing interest in developing, mentoring and coaching key talent and encouraging women in particular to consider a career in STEM. She has worked in the US and Germany and brings deep experience of working with unions and works councils.</p>	<p>Current</p> <ul style="list-style-type: none"> Umicore SA, NED Thyssenkrupp AG, NED KION Group AG, NED Infinium Holdings, Inc., NED Stulz Verwaltungs-GmbH & Co. KG, adviser <p>Past</p> <ul style="list-style-type: none"> Ford, various executive roles Ford-Werke GmbH, NED
 <p>STUART BRADIE Independent Non-Executive Director</p> <p>N R S</p> <p>Appointed to the Board on 11 May 2023</p>	<p>Stuart brings to the Board a reputation for building strong relationships and successfully driving comprehensive organisational transformation. Over the past 11 years, Stuart has guided KBR's evolution, prioritising a focus on people alongside strong commercial discipline. KBR delivers disruptive technologies and digital solutions that address areas of global importance. Stuart has used a safety and ESG focus to deliver cultural change and helped make KBR the number one in its peer group in delivering against its ESG agenda.</p>	<p>Current</p> <ul style="list-style-type: none"> KBR, Inc., Chair, President & Chief Executive

Committee membership

N Nominations, Culture & Governance **A** Audit **R** Remuneration **S** Safety, Energy Transition & Tech **○** Denotes Chair

Position	Board skills and competencies	Key external appointments
 <p>LORD JITESH GADHIA Independent Non-Executive Director</p> <p>R N A</p> <p>Appointed to the Board on 1 April 2022</p>	<p>Lord Jitesh brings a wealth of complex advisory and transactional experience to the Board, having spent nearly 25 years in the banking and private equity sector. He has extensive remuneration experience, earned from listed companies, UK Government Investments and UK Financial Investments, where he played a key role in compensation discussions about the Government's investments in some of the UK's biggest companies. This, together with his broad industry experience, is an asset to the Board and its Committees.</p>	<p>Current</p> <ul style="list-style-type: none"> – Taylor Wimpey plc, SID – Intas Pharmaceuticals, NED – Court of Directors of the Bank of England, NED <p>Past</p> <ul style="list-style-type: none"> – Compare the Market Limited, NED – UK Government Investments, NED – Blackstone Group, Senior MD
 <p>BEVERLY GOULET Independent Non-Executive Director Rolls-Royce North America Holdings Inc., board member Lead Employee Champion</p> <p>N A R</p> <p>Appointed to the Board on 3 July 2017</p>	<p>Having spent many years in the airline industry, Bev brings valuable knowledge and operational experience to the Board. The Board benefits from her deep understanding of the aerospace industry and strategic focus.</p> <p>In addition, Bev's position as a board member of Rolls-Royce North America Holdings Inc., continues to provide an invaluable link for the Board to our operations in the US.</p>	<p>Current</p> <ul style="list-style-type: none"> – Xenia Hotels & Resorts, Inc., NED – Answer ALS Foundation, Foundation Board Chair <p>Past</p> <ul style="list-style-type: none"> – American Airlines, Inc., various executive roles – American Airlines Federal Credit Union, Chair – Atlas Air Worldwide Holdings, Inc., NED
 <p>NICK LUFF Independent Non-Executive Director</p> <p>A N</p> <p>Appointed to the Board on 3 May 2018</p>	<p>Nick is an experienced finance executive having been chief financial officer of a number of listed companies across a variety of industries. He has broad financial skills and a track record of driving business performance. His extensive non-executive and audit committee experience, together with both financial and accounting expertise and a passion for engineering, is crucial in his role as Chair of the Audit Committee and is invaluable to the Board.</p>	<p>Current</p> <ul style="list-style-type: none"> – RELX plc, Chief Financial Officer <p>Past</p> <ul style="list-style-type: none"> – Centrica plc, Chief Financial Officer – Lloyds Banking Group plc, NED – QinetiQ Group plc, NED
 <p>WENDY MARS Independent Non-Executive Director Employee Champion</p> <p>S N R</p> <p>Appointed to the Board on 8 December 2021</p>	<p>As a leader, Wendy has overseen diverse teams across sales, engineering and innovation in 123 countries. She brings experience and insight across hardware, software and services with a deep understanding of technological transformation of complex global organisations. Wendy's knowledge of both the technical steps needed to foster innovation in a technology company as well as the challenging realities of its implementation in organisations at different stages of their transformation journey is invaluable to the Board and the Group as a whole. Technology can play a significant role in helping businesses to achieve their sustainability objectives; Wendy brings this experience to the Board.</p>	<p>Past</p> <ul style="list-style-type: none"> – Cisco Systems, Inc., President Europe, Middle East and Africa region – ThruPoint, Inc., various executive roles
 <p>PAULO CESAR SILVA Independent Non-Executive Director</p> <p>N A S</p> <p>Appointed to the Board on 1 September 2023</p>	<p>Paulo has deep expertise in the aerospace industry, a broad international mindset and an appetite for growth, change and innovation. Alongside this, he brings a wealth of strategic, commercial and operational experience to the Board's discussions. He also has considerable finance experience having spent his early career in senior finance roles.</p>	<p>Current</p> <ul style="list-style-type: none"> – Electra.Aero, adviser <p>Past</p> <ul style="list-style-type: none"> – Embraer S.A., President & Chief Executive Officer – Cemig, NED – Grupo Aguiá Branca SA, Board member – Petrobras SA, NED
 <p>DAME ANGELA STRANK Independent Non-Executive Director</p> <p>N S</p> <p>Appointed to the Board on 1 May 2020</p>	<p>Dame Angela brings a wealth of corporate business experience to the Board and a proven track record in managing engineering operations and driving technology, science and engineering research programmes. Having actively worked in climate research, the low carbon transition, and pioneering women in STEM careers, sustainability and corporate ethics are key areas of interest. As a member of the Safety, Energy Transition & Tech Committee, Dame Angela brings invaluable expertise to the Group's development of its safety and sustainability strategy, drawing on her experience from chairing the sustainability and safety committees of three other FTSE 100 companies.</p>	<p>Current</p> <ul style="list-style-type: none"> – Mondi plc, NED – SSE plc, NED – Rio Tinto, innovation advisory committee <p>Past</p> <ul style="list-style-type: none"> – Severn Trent plc, NED – BP p.l.c., various executive roles

Committee membership

- N** Nominations, Culture & Governance
- A** Audit
- R** Remuneration
- S** Safety, Energy Transition & Tech
- Denotes Chair

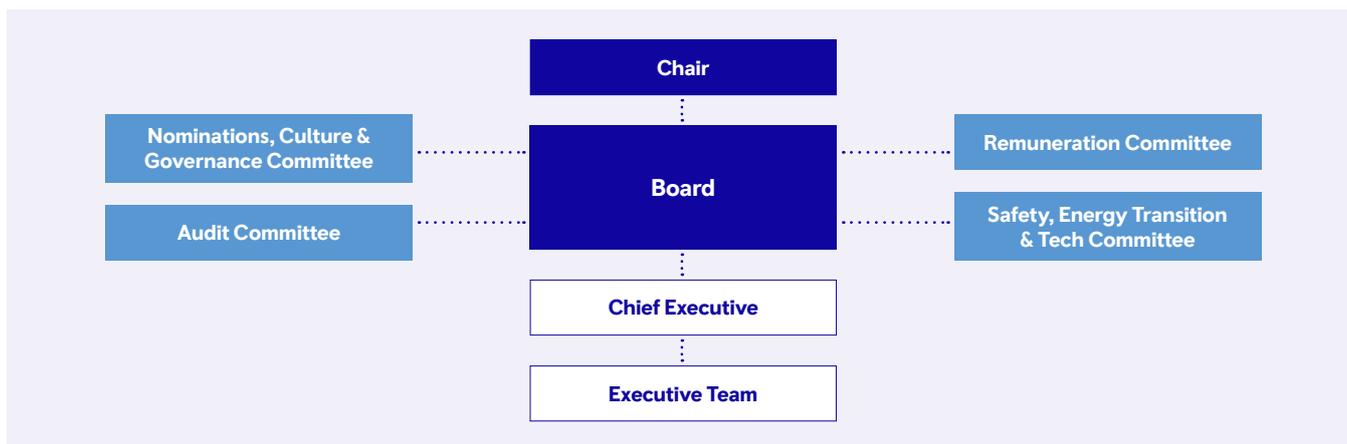
Compliance with the Code

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE

The Company is subject to the principles and provisions of the 2024 UK Corporate Governance Code (excluding provision 29 which is applicable for accounting periods beginning on or after 1 January 2026) (the Code), and provision 29 of the 2018 UK Corporate Governance Code (the 2018 Code, together, the Codes). Copies of the Codes are available at www.frc.org.uk. For the year ended 31 December 2025, the Board considers that it has applied the principles and complied in full with the provisions of the Codes applicable for 2025. Further information on our preparation for the application of provision 29 of the 2024 UK Corporate Governance Code is available on page 50.

Board leadership and company purpose	<ul style="list-style-type: none"> – Our Board comprises a diverse group of skilled and experienced individuals who, through a programme of regular meetings and site visits, promote the long-term sustainable success of the Group through the decisions they take – Our Governance report from page 63 provides examples of our leadership and our stakeholder engagement report from page 60 sets out how we have engaged with our key stakeholders – Throughout the year, the Board has provided oversight of the ongoing Group-wide transformation programme 	<ul style="list-style-type: none"> See page 10 Our purpose, vision and behaviours See from page 60 Stakeholder engagement See from page 64 Board of Directors See from page 71 Board focus
Division of responsibilities	<ul style="list-style-type: none"> – We clearly define the roles of the Chair and the Chief Executive and fully support the separation of the two roles – The Board believes it operates effectively with the appropriate balance of independent Non-Executive Directors and Executive Directors – The Board regularly considers the time commitments of our Non-Executive Directors – Prior Board approval is required for any Director's external appointments to ensure there is no conflict or compromise on their time – The quality of information and resources available to the Board has enabled us to operate effectively and efficiently throughout the year 	<ul style="list-style-type: none"> See from page 64 Board of Directors See from page 76 Nominations, Culture & Governance Committee report
Composition, succession and evaluation	<ul style="list-style-type: none"> – Our Board comprises a combination of broad skills, experience and knowledge – We have a clear process when considering appointments to the Board and maintain effective succession planning – For 2025, we carried out an internal evaluation of the Board and its Committees, supported by Independent Audit Ltd. The methodology and outcomes can be found on page 73 	<ul style="list-style-type: none"> See from page 64 Board of Directors See page 69 Composition of the Board See page 73 Board effectiveness
Audit, risk and internal control	<ul style="list-style-type: none"> – We recognise the importance and benefits of ensuring the internal audit function and the external auditors remain independent – The Board presents a fair, balanced and understandable assessment of the Group's position and its prospects – Our risk and control environment is reviewed by the Audit Committee. The Board considered both emerging and principal risks during the year – The Audit Committee looked at preparations for provision 29 of the 2024 UK Corporate Governance Code – The Safety, Energy Transition & Tech Committee considered the information and data principal risk, which forms part of the Committee's review of business interruption and cyber-security 	<ul style="list-style-type: none"> See from page 48 Principal risks See from page 78 Audit Committee report See page 110 Safety, Energy Transition & Tech Committee report See page 111 Responsibility statements
Remuneration	<ul style="list-style-type: none"> – The Remuneration Committee, comprising only Non-Executive Directors, is responsible for developing the remuneration policy and determining executive and senior management remuneration – The Remuneration Committee carried out a review in July 2025 of the performance of WTW as the independent adviser to the Committee. – No Director is involved in deciding their own remuneration outcome – The Remuneration Committee Chair and members of management engaged with investors in the autumn of 2025 on the new remuneration policy proposed in this Annual Report for approval by shareholders at the 2026 AGM 	<ul style="list-style-type: none"> See from page 82 Remuneration Committee report

Corporate governance



THE ROLE OF THE BOARD

The Board is ultimately responsible to shareholders for the leadership, direction, performance and long-term sustainable success of the Group. It sets the Group's strategy and objectives and oversees and monitors internal controls, risk management, principal risks, governance and viability of the Group. In doing so, the Directors discharge their duties under s172 of the Companies Act 2006 (see page 59 for further information).

The Board has established certain principal Committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas (see page 68). The Chair of each Committee reports to the Board on the Committee's activities after each meeting.

In addition to the Board's principal Committees, it has established a sub-Committee of Directors who each hold an appropriate level of UK national security clearance for the purpose of receiving and considering, on behalf of the Board, any UK classified information relating to the Group's programmes and activities.

Bev Goulet, an independent Non-Executive Director and a US national, also sits on the board of Rolls-Royce North America Holdings Inc. to create a link between the Board and the Group's North American governance structure.

Roles and responsibilities

The roles of the Chair and Chief Executive are clearly defined and the Board supports the separation of the two roles. The Chair is responsible for the leadership and effectiveness of the Board. The Chief Executive is responsible for the day-to-day management of the Group's business and leads the Executive Team which comes together to review, agree and communicate issues and actions of Group-wide significance.

Non-Executive Directors support the Chair and provide objective and constructive challenge to management. The Senior Independent Director (SID) provides a sounding board for the Chair and serves as an intermediary for the Chief Executive, other Directors and shareholders when required.

The Chief Governance Officer ensures that appropriate and timely information is provided to the Board and its Committees and is responsible for advising and supporting the Chair and the Board on all governance matters. All Directors have access to the Chief Governance Officer and may take independent professional advice at the Group's expense in conducting their duties.

Director independence

Potential conflicts of interest that each Director may have are monitored and assessed and recommendations made to the Board as to whether these should be authorised and if any conditions should be attached to such authorisations to consider whether each of them continues to be independent. The Directors are regularly reminded of their continuing obligations in relation to conflicts and are required to review and confirm their external interests at least annually.

Following due consideration, the Board determined that all Non-Executive Directors continued to be independent in both character and judgement. In accordance with the Code, the Chair was deemed to be independent on her appointment.

Disclosure Committee

The Board has established a Disclosure Committee to assist it with implementing the procedures and controls for the disclosure of information to meet the legal and regulatory requirements set out in the FCA's Listing Rules and Disclosure Guidance & Transparency Rules and the UK Market Abuse Regulation. The committee is comprised of any two of the Chair, the Chief Executive, the Chief Financial Officer, the General Counsel and the Chief Governance Officer, with all members of the committee expected to attend meetings wherever possible.

Key matters reserved for the Board

- The Group's long-term objectives, strategy and risk appetite
- The Group's organisation and capability
- Overall corporate governance arrangements, including Board and Committee composition, Committee terms of reference, Director independence and conflicts of interest
- Internal controls, governance and risk management frameworks
- Changes to the corporate or capital structure of the Company
- The Annual Report and financial and regulatory announcements
- Significant changes in accounting policies or practices
- Annual plan and financial expenditure and commitments above levels set by the Board
- Overview of the speak up programme and cases reported through the speak up line
- The Group's digital, IT and AI strategy

Principal risks: strategy; execution; and political

THE ROLE OF EACH COMMITTEE

Nominations, Culture & Governance

Lead the process for appointments to the Board; ensure plans are in place for orderly succession to the Board and senior executive positions

Oversee the development of a diverse pipeline for succession

Ensure the composition of the Board is appropriate and relevant so that the Board is in the best position to oversee financial and operational performance and drive the Group's strategy

Assess and monitor culture to ensure alignment with the Group's policies, practices and behaviours

Oversee the Group's Global Equal Opportunity Policy and its implementation

Keep the Board's corporate governance arrangements under review and ensure these are consistent with best corporate governance standards

Receive reports on issues raised through the speak up line and review the results of investigations into ethical and/or compliance breaches and allegations of misconduct

Principal risks: compliance; talent & capability

 See from page 76 for the Nominations, Culture & Governance Committee report

Remuneration

Determine a policy for Executive Director remuneration capable of attracting and retaining individuals necessary for business success

Set remuneration for the Chair of the Board, Executive Directors and senior management

Determine the design, conditions and coverage of incentives for senior executives and approve total and individual payments under the plans

Determine targets for any performance-related pay plans and the issue and terms of all-employee share plans

Oversee any major changes in remuneration

Review workforce remuneration and related policy and the alignment of incentives and rewards with culture, taking these into account when setting the policy for Executive Director remuneration

 See from page 82 for the Remuneration Committee report

Audit

Assist the Board in monitoring the integrity of the Group and Company financial statements and any formal announcements relating to financial performance

Review the internal financial controls, the risk management and internal control systems and review any concerns relating to financial fraud

Review and provide recommendations to the Board regarding financial reporting, focusing on accounting policies, judgements and estimates; disclosures; compliance with regulations; and recommendation to the Board that the Annual Report is fair, balanced and understandable

Monitor and review the effectiveness of the internal audit function and oversee the Company's relations with the external auditor and approve their terms of engagement and fees

Principal risks: compliance; business interruption; market & financial shock

 See from page 78 for the Audit Committee report

Safety, Energy Transition & Tech

Provide oversight of responsibilities in respect of product safety, people safety (occupational health and safety, process safety, the maintenance of facilities, asset integrity and personnel security), environment and energy transition, including progress and delivery, with measurements against agreed metrics, targets and objectives and technology (including cyber-security)

Monitor the operation of the Group's product safety governance frameworks, scrutinising the development and implementation of changes in process and practice

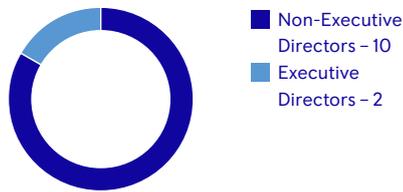
Review, challenge and support the Group's energy transition strategy, track progress and review the environmental impacts of products and operations. Provide oversight and assurance of the Group's scientific and technological strategy, processes and investments

Principal risks: safety; energy transition; information & data including cyber-security; technology

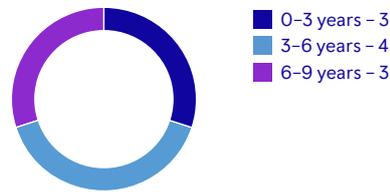
 See page 110 for the Safety, Energy Transition & Tech Committee report

COMPOSITION OF THE BOARD AT 26 FEBRUARY 2026

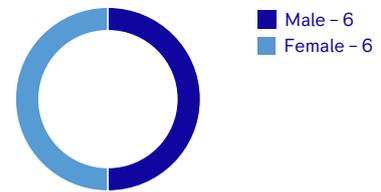
BALANCE OF THE BOARD



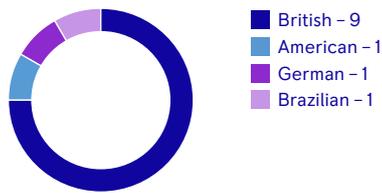
NON-EXECUTIVE DIRECTORS' TENURE



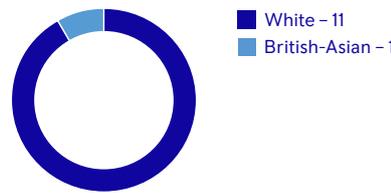
BOARD MEMBERS BY GENDER



BOARD MEMBERS BY NATIONALITY¹



BOARD MEMBERS BY ETHNICITY



¹ According to the Company's Articles, more than 50% of our Directors must be British citizens

Non-Executive Directors' skills and experience at 26 February 2026

	Dame Anita Frew	Birgit Behrendt	Stuart Bradie	George Culmer	Lord Jitesh Gadhia	Beverly Goulet	Nick Luff	Wendy Mars	Paulo Cesar Silva	Dame Angela Strank
Business experience										
People & product safety	●	●	●						●	●
Cyber & digital			●	●				●		
Climate change & sustainability	●	●	●				●	●		●
Engineering, science & technology	●	●	●					●	●	●
Company leadership	●		●	●			●		●	
Finance	●			●	●	●	●		●	
Audit & risk management	●			●	●	●	●		●	
Remuneration	●			●	●	●				●
Transformation	●	●	●	●	●	●	●	●	●	●
Legal & regulation	●			●	●	●	●			
Sector specific			●			●			●	
Geopolitics	●	●			●					
Global experience										
Europe	●	●	●	●	●		●	●	●	●
Americas		●	●			●	●		●	●
Asia, Middle East & Africa		●	●		●			●	●	●

Board and Committee attendance in 2025

	Board	Nominations, Culture & Governance	Audit	Remuneration	Safety, Energy Transition & Tech
	8 meetings	3 meetings	5 meetings	4 meetings	3 meetings
Dame Anita Frew	8/8	3/3	–	–	–
Tufan Erginbilgic	8/8	–	–	–	–
Helen McCabe	8/8	–	–	–	–
Birgit Behrendt	8/8	3/3	–	–	3/3
Stuart Bradie ¹	7/8	3/3	–	0/1	3/3
George Culmer	7/8	3/3	5/5	4/4	–
Lord Jitesh Gadhia	8/8	3/3	5/5	4/4	–
Beverly Goulet	8/8	3/3	5/5	4/4	–
Nick Luff	8/8	3/3	5/5	–	–
Wendy Mars	8/8	3/3	–	4/4	3/3
Paulo Cesar Silva ²	8/8	3/3	1/1	–	3/3
Dame Angela Strank	8/8	3/3	–	–	3/3

¹ Joined the Remuneration Committee on 1 August 2025

² Joined the Audit Committee on 1 August 2025

Attendance

The table above sets out the Directors' attendance at Board and Committee meetings throughout 2025.

Board members' attendance was once again high in 2025. However, Directors are sometimes unable to participate in certain Board and Committee meetings. George Culmer was not able to attend the February 2025 Board meeting and Stuart Bradie was not able to attend the November Board meeting or the December Remuneration Committee meeting due to prior business commitments. However, the Directors provided feedback on the matters under consideration to the Chair of the Board and the Committee Chair, as appropriate.

Most scheduled meetings end with a private discussion of the Non-Executive Directors led by the Chair of the Board or Committee, without the Executive Directors or members of the Executive Team or management present.

In support of the Board and Committees' work, where there is a requirement for greater, in-depth discussion, we hold deep dives into specific areas of focus outside the meeting schedule. In 2025, the Safety, Energy Transition & Tech Committee held a deep dive relating to cyber-security. All members of the Board are invited to join these sessions and all members of the Board did join the cyber-security deep dive.

The Remuneration Committee held three additional sessions during 2025 to consider the proposal for changes to the remuneration policy and to discuss shareholder feedback on these proposals.

Where legislation and regulation has changed that impacts directors' duties, we provide in-depth training as part of our Nominations, Culture & Governance Committee programme. In addition, annually we provide training on specific topics capable of impacting the Group. In December, our General Counsel and members of the Legal, Ethics & Compliance teams provided an overview of competition and anti-trust law.

Site visits

To further support the work of the Board and its Committees, we arrange site visits to different areas of the business throughout the year so that Board members are able to gain a deeper understanding of how the different divisions operate. During such site visits the Board meet our people including key personnel within the divisions, receive tours of facilities and attend meetings which focus on specific areas of interest for each of the businesses.

– In May, we held a Meet the Board event. This took place at the Learning and Development Centre in Derby, UK and provided a number of our employees at various levels of seniority the opportunity to talk to the Board in an informal setting. The afternoon consisted of breakout sessions where Board members could talk about their experiences and career progression, while the employees were given the opportunity to ask the Board members questions on a variety of topics relating to Rolls-Royce.

- In September, the Safety, Energy Transition & Tech Committee members met with the Defence leadership team in Bristol, UK. The site tour covered the Operations Facility and Innovation Suite, and included discussion on site safety, site improvement and capacity expansion. The Committee members interacted with and received presentations from management and engineers. There was also an opportunity to meet with employees in a less formal capacity over lunch.
- A second Meet the Board event took place in Dahlewitz, Germany in October. The visit included an extensive tour of the site and was followed by a session with colleagues who were given the opportunity to ask questions directly to the Board. Employees were able to gain insights from Board members who reflected on their impression of the facilities and the strong culture of safety at the Dahlewitz site.
- Our Employee Champions, Bev Goulet and Wendy Mars, visited our sites in Inchinnan and Washington, UK. See page 77 of the Nominations, Culture & Governance Committee report for more information about these visits.

BOARD FOCUS

In 2025, the activities of the Board followed a detailed programme focused on priorities which support our vision of becoming a high-performing, competitive, resilient and growing business. From considering the long-term strategy of the Group to shaping the culture, the Board ensures the interests of our stakeholders are considered throughout the decision-making process.

This section should be read in conjunction with our s172 statement on page 59 and Stakeholder engagement section from page 60.

The Board considers a number of standing items at each meeting, including:

- a report on current operational matters from the Chief Executive;
- a report on year-to-date financial performance including budgets and financial plans from the Chief Financial Officer;
- reports from the Chairs of the Committees on matters considered at the respective Committee meetings; and
- reports on governance matters from the Chief Governance Officer and legal updates from the General Counsel.

The key matters, decisions considered and outcomes determined by the Board during the year are set out below. The Board recognises that outcomes may not crystallise as expected, or may change over time. Not all decisions will have immediately observable outcomes.

Decisions	Outcomes	Stakeholders
<p>Strategy and transformation</p>		
<p>The Board has been focused on the delivery of the initiatives within our strategic framework, namely: portfolio choices and partnerships; strategic initiatives; efficiency and simplification, and lower-carbon and digitally enabled businesses.</p> <p>The ongoing transformation programme has supported our strong strategic delivery and underpinned our actions, investments, and performance improvements across the Group.</p> <p>This has delivered strong financial performance and sustainable growth which has enabled the Board to look ahead to the mid-term and beyond the mid-term.</p> <p> See from page 11 Our strategy</p>	<ul style="list-style-type: none"> – Continued to track progress made against our strategic initiatives – Received a deep dive on the Civil Aerospace division to review strategy beyond the mid-term and implementation of the transformation programme – Approved capital investment in Power Systems – Considered aspects of a successful bid submission by Rolls-Royce SMR to Great British Energy – Nuclear to build three SMR units in the UK – Considered the transaction between the trustee of the Rolls-Royce UK Pension Fund and Pension Insurance Corporation for a £4.3bn bulk annuity insurance ‘Buy-in’ for the scheme 	
<p>Operational excellence</p>		
<p>The success of our strategic delivery is predicated on our commitment to operational excellence. The Board’s review and decisions focused on the progress of our strategic initiatives to drive a step-change in operational performance and optimisation.</p> <p> See from page 11 Our strategy</p>	<ul style="list-style-type: none"> – Endorsed new Civil Aerospace value stream operating model aligned to strategic KPIs – Tracked growth in aftermarket operations and adoption of MRO transformation framework – Approved investment and deployment of a refreshed Group Business Service (GBS) strategy, which involves scaling up GBS operations and efficiencies. We have opened a new GBS centre in Poland and are expanding our centre in India – Monitored technological updates throughout the year, including initiatives to improve durability and time on wing – Endorsed implementation of governance and mitigation strategies to enhance supply chain resilience 	
<p>Financial</p>		
<p>Financial performance is closely monitored by the Audit Committee and the Board which consider the position and prospects of Rolls-Royce.</p> <p> See from page 19 Financial review</p>	<ul style="list-style-type: none"> – Approved the 2025 annual budget and five-year plan – Approved the 2024 full year results announcement, 2024 Annual Report and Accounts, 2025 half-year results announcement and the trading updates issued during the year – Reviewed financial position, going concern and viability of the Group – Assessed the impact of announced tariffs and the mitigating actions taken 	

Key stakeholders



BOARD FOCUS CONTINUED

Decisions

Outcomes

Stakeholders

Shareholder distributions and capital framework

Rolls-Royce has achieved strong financial performance in 2025, with significant year-on-year improvement across all key financial metrics, due to another period of strong strategic delivery.

The significant growth in operating profit and sustainable free cash flow growth in 2024 strengthened the balance sheet and enabled the Board to reinstate shareholder distributions in 2025 and to reassess the Group's capital framework.

 See from page 19
Financial review

- Approved the reinstatement of shareholder dividends, returning £0.9bn of dividends to shareholders in 2025 comprising a 6p dividend per share in respect of the full year 2024 results and the interim dividend of 4.5p per share in respect of the 2025 half-year results
- Approved a £1bn share buyback programme through 2025 and a £200m interim share buyback programme which ran from 2 January 2026 to the date of this report
- Repaid in cash a \$1bn bond that matured in October and renewed our revolving credit facility



People and culture

In 2024, Rolls-Royce launched its new purpose, vision and behaviours to align our culture with our strategy. Our behaviours are: put safety first; do the right thing; keep it simple; and make a difference.

In 2025, the Board has been focused on oversight of management initiatives to embed the desired culture required to support the delivery of our strategy. Our behaviours complement our strategic framework and are key to delivery of our transformation into a high-performing, competitive, resilient and growing business.

 See from page 31
People and culture

- Reviewed the implementation of our purpose, vision and behaviours and endorsed the launch of our new leadership expectations to perform and transform
- Reviewed the results of the annual Our Voices employee engagement survey
- Considered the results from our speak up line programme
- Approved updates to Our Code and Group policies to reflect our behaviours
- Endorsed key Group-wide HSE activities and programmes including updates on our journey to zero harm
- Tracked key HSE performance KPIs to monitor progress



Risk and internal control

The approach to risk management and internal control at Rolls-Royce supports the delivery of our key strategic objectives. The Board and its Committees consider the nature and extent of the principal risks to Rolls-Royce, which informs discussions ranging from strategic delivery to financial performance.

 See from page 48
Principal risks

- Approved compliance framework and endorsed approach to compliance risk management
- Reviewed principal risks and approach to risk management
- Considered our cyber-security framework and maturity assessment
- Monitored preparedness for the changes to the 2024 Code effective from 1 January 2026, related to the review of the effectiveness of the Company's risk management and internal control framework
- Considered supply chain performance risks and mitigations, including our business interruption framework and emerging risks



Governance

Governance arrangements at Rolls-Royce provide the overarching structure for accountability and decision-making needed to achieve our strategic objectives.

 See from page 67
Governance report

- Considered succession at the most senior levels of the business
- Appointed Paulo Cesar Silva as a member of the Audit Committee
- Appointed Stuart Bradie as a member of the Remuneration Committee
- Reviewed and updated the Board governance documents which included the terms of reference for each Committee, and Matters Reserved for the Board



Key stakeholders

 People  Customers  Suppliers and partners  Communities  Governing bodies and regulators  Investors

BOARD EFFECTIVENESS

Review of the Board and Committees

In January 2026, we carried out an internal review of our Board's effectiveness in 2025, supported by Independent Audit Ltd. The questionnaire-based approach was wide-ranging and again included a focus on Board composition and dynamics; the Board's role; and the Board at work.

The review took the form of an online questionnaire and the scope was agreed with the Chair and Chief Governance Officer in advance. Independent Audit Ltd provided an anonymised report and the Chair and Chief Governance Officer, in discussion with the Board, have agreed an action plan for 2026. Each Committee chair considers feedback for the Committees for which they are responsible. In addition to this review, during a private meeting of the Non-Executive Directors, the Senior Independent Director led a review of the Chair's performance without the Chair present.

The Nominations, Culture & Governance Committee has an item at the end of each agenda without any management present and, during these sessions, they discuss the performance of the Chief Executive throughout the year. The Chair also conducted the Chief Executive's annual performance review having sought feedback on his performance from the Board. These meetings concluded that both the Chair and the Chief Executive were effective and feedback was shared with each of them. In addition, the Chair met with each of the Non-Executive Directors separately to discuss their individual performance and gather feedback on the Board and Committee evaluation. Having undertaken an externally facilitated Board effectiveness review in 2023 and mindful of the Code's provision, the Board intends to carry out an externally facilitated performance review in 2026.

AREAS OF FOCUS

2025 FOCUS

Board composition and dynamics

Succession planning for the Board and Executive Team

The Board's role

Continued focus on strategic progress, ambitions and future growth opportunities

Focus on emerging technologies including digital and AI and their associated risks and opportunities

Continue to focus on areas of risk and challenge to the business, for example, supply chain and cyber-security

The Board at work

Board site visits and deep dives for opportunities to meet with our people and observe how our new purpose and behaviours are being received in the business

PROGRESS IN 2025

The Nominations, Culture & Governance Committee and the Board considered succession at the most senior levels of the business.

Paulo Cesar Silva was appointed to the Audit Committee in August 2025. Paulo brings relevant financial and sector experience to the Audit Committee. In addition, Stuart Bradie joined the Remuneration Committee in August 2025. Stuart brings broad insights as a global business leader. As a member of the Safety, Energy Transition & Tech Committee (the SETT Committee), Stuart provides insight on our non-financial key performance metrics.

The Board considered the long-term prospects of the Company's business divisions beyond the mid-term of 2028. This included a deep dive session on Civil Aerospace.

There has been a continued focus on emerging technologies, including digital and AI. In April, the SETT Committee considered the approach to digital and data assets, including AI. This was followed by a deep dive session in December 2025, attended by all members of the Board, on our cyber-security risk and maturity.

In December, the Audit Committee considered business interruption, with particular focus on incident management and our supply chain, at which all members of the Board were present.

The Board met with our people throughout the year. This included site visits as a Board to Derby, UK and Dahlewitz, Germany. Members of the Board visited sites including Washington and Inchinnan, UK. The Board also received reports from the Employee Champions who meet with the employee stakeholder group. See page 70 for further information.

The SETT Committee visited the Defence team in Bristol, UK. More information on this can be found on page 70.

FOCUS IN 2026

Conclude succession planning for Nick Luff and Beverly Goulet as they are due to retire from the Board in 2027.

Continue to review our approach to building talent and capability across the organisation with a particular focus on the development of, and succession planning for, the senior leadership population.

Continued focus on strategic progress, ambitions and future growth opportunities

Focus on emerging technologies including digital and AI and their associated risks and opportunities

Continue to focus on areas of risk and challenge to the business, for example, supply chain and cyber-security

In addition to the areas set out above, the Board, SETT Committee and Employee Champions will engage with our people on site visits. In doing so, Board members will pay particular attention to how our new People Deal and continued focus on our 'safety first' behaviour is resonating with colleagues.

Executive Team



1. DR JÖRG STRATMANN
CEO – Rolls-Royce Power Systems AG

2. NICOLA GRADY-SMITH
Chief Transformation Officer

3. DR ROB WATSON
President – Civil Aerospace

4. HELEN MCCABE
Chief Financial Officer

5. CHRIS CHOLERTON
Group President

6. TUFAN ERGINBILGIC
Chief Executive

7. SARAH ARMSTRONG
Chief People Officer

8. MARK GREGORY
General Counsel

9. ADAM RIDDLE
President – Defence
Chairman & CEO – Rolls-Royce North America

10. SIMON BURR MBE
Group Director of Engineering,
Technology & Safety

On 1 March 2026, Maria Varsellona will join the Executive Team as Chief Legal Officer. Mark Gregory will leave the business on 31 March 2026. On 9 March 2026, Martin Thomsen will join the Executive Team as Chief Procurement and Supply Chain Officer.

 Appointment details and career highlights of the members of the Executive Team are available at www.rolls-royce.com



Executive audit committee

- consider principal risks
- review delivery of the in-year internal audit plan and finalise the internal audit plan for the forthcoming year ahead of Audit Committee approval

Energy transition & tech committee

- ensure the Group is playing a winning role in energy transition and future technologies
- consider the rationale for and progress of investments in energy transition
- make capital allocation decisions on technologies that support energy transition
- assess strategic opportunities for future technology investments

Investment committee

- make capital allocation decisions for all investments, acquisitions and divestments in line with our strategy
- review performance of in-flight investments

Business review

- develop division pricing strategy and commercial capability
- identify and deliver pricing actions and capability improvements to enable a step-change in performance
- review performance by division, focusing on in-year and five-year horizons
- includes financial and operational performance, people and talent, strategic initiatives, principal risks and engagement with our people

People committee

- ensure that Rolls-Royce has a Winning Team to deliver our strategic priorities
- keep under review talent and succession, performance and leadership, reward, purpose and experience

Operating committee

- improve Group-wide operational performance
- review supply chain performance
- oversee critical enablers of operational performance

Financial and operating drivers review

- review in-year financial performance and operational drivers against plan
- agree interventions where required

Nominations, Culture & Governance Committee report

KEY AREAS OF FOCUS IN 2025

- Succession planning for Non-Executive Directors
- Reviewed our new Belonging Framework
- Executive Team and key role succession planning



Members All Non-Executive Directors are members of the Committee

Remit See page 68

I am pleased to present the 2025 report of the Nominations, Culture & Governance Committee which provides an overview of our key areas of focus during 2025.

Nominations

Composition of the Board and its Committees

The Committee is responsible for keeping the structure, size and composition of the Board and its Committees under review. In 2025, there were no changes to the composition of the Board. During the year, the Committee considered the re-appointment of Lord Jitesh, for a three-year term. As all Non-Executive Directors are appointed annually once they have served six years on the Board, George Culmer, Nick Luff and Bev Goulet were each re-appointed for a further one-year term.

In anticipation of changes to the composition of our Committees as Nick Luff and Bev Goulet approach the end of their tenure on the Board, Paulo Cesar Silva was appointed to the Audit Committee and Stuart Bradie was appointed to the Remuneration Committee each from 1 August.

The role of each Committee is set out on page 68. The full terms of reference applicable to all Committees can be found at www.rolls-royce.com. See pages 64 and 65 for our current Board Committee membership. Directors' biographies are available from page 64.

Board appointment, induction and development

During 2025, the Committee initiated a process to find a successor for Nick Luff, as Chair of the Audit Committee, which is ongoing. Nick is due to retire from the Board in 2027.

Prior to making any new appointments to the Board, the Committee considers the skills and attributes required and agrees a profile. The Committee also provides input into a shortlist of candidates and is involved in the interview process for all appointments. The Committee recommends the appointments to the Board for approval. All Non-Executive Directors are appointed to the Nominations, Culture & Governance Committee and to other Board Committees, depending on the skills they bring.

The Chief Governance Officer arranges a comprehensive, tailored induction programme for newly appointed Non-Executive Directors, which includes dedicated time with the Executive Team and senior management and scheduled trips to business operations. The programme is tailored based on the experience and background of the individual and the requirements of the role including the role they will be taking up or the Board Committees they will join. All Directors visit the Group's main operating sites as part of their induction and are encouraged to make at least one visit to other sites every year. Site visits are an important part of the induction process, as well as for continuing education. They help Directors understand the Group's activities through the direct experience of seeing our facilities and operations and by having discussions with a diverse group of our people. Information on our site visits during the year can be found on page 70.

It is important that the Directors continue to develop and refresh their understanding of the Group's activities and, where necessary, they will deep dive into specific areas (see page 70). Prior to joining their first Audit and Remuneration Committee meetings, Paulo and Stuart met with key management personnel to deepen their understanding of the matters considered by those Committees. In addition to understanding the Group, it is equally important that Directors continue to update their skills and knowledge and receive relevant training where necessary as well as ensuring there is an appropriate focus on the Group's different stakeholders. The Board's engagement with its stakeholders is set out on pages 60 to 61.

My fellow Directors and I also attend relevant external seminars, conferences and training events to keep up-to-date on developments in key areas. In December, we received training in relation to competition laws. We learnt about the areas of focus for our competition law compliance activities across our business divisions and the controls in place to mitigate the risks associated with a breach of these laws.

Directors' conflicts of interest

As required under the Code, the Board monitors and reviews any potential conflict of interest. Any additional external appointments taken up by Directors during the year are considered by the Committee and approved by the Board prior to the Directors accepting such appointments. The Committee considers any conflicts that may arise as a result of any external appointments taken up by the Directors and the Board monitors the extent of those interests and the time commitment required to fulfil them to ensure that effectiveness is not compromised. As part of the Committee's discussions, external appointments are considered against the parameters set by ISS. The Committee has found this to be a useful gauge when discussing whether there is potentially any impact on Directors' time commitments when taking on additional external appointments. During 2025, none of the Board members took on any additional external appointments.

In 2025, the Directors demonstrated a strong commitment to the Company, as shown by their high levels of attendance at all our meetings (see page 70).

Succession planning

The Committee considers the current skills, experience and tenure of the Directors, both Executive and Non-Executive, and assesses future needs against the longer-term strategy of the Group. The skills and experience criteria for incoming directors is discussed and agreed before the recruitment process commences.

In this way, the Committee plays a vital role in promoting effective Board and leadership succession, making sure it is fully aligned to the Group's strategy. In July, the Committee discussed Executive Team succession, which included a review of our succession pool for the most senior leaders.

Principal risk review

The Committee considers the principal risk of talent and capability as part of the regular discussion on succession planning. In 2025, we learnt about the key features of our systemic approach to building business capabilities to drive a high-performance culture. The development of our leaders is critical to ensuring the right culture and behaviours are embedded Group-wide. We learnt about the many and varied strategic programmes for building and developing our leaders of the future.

Culture

People and culture

Our people and our culture are at the heart of the transformation of Rolls-Royce. During 2025, the Committee received updates on how our business management approach is driving cultural change and how we are embedding our purpose and behaviours into everyday work, particularly through our focus on our leaders and Change Makers.

Creating a high-performing merit-based organisation, where everyone, regardless of their identity, feels able to thrive and belong is a priority. The Board recognises that this is an area subject to changing laws and regulations and that the policies and processes within Rolls-Royce must also evolve and adapt. The Committee was therefore pleased to consider our new Group-wide Belonging framework. This framework focuses on fairness, access and meritocracy and includes the launch in 2025 of our Employee Voice Network and our new Global Equal Employment Opportunities Policy, which was approved by the Committee. This new policy reaffirms our commitment to non-discrimination and merit-based work.

During 2025, we considered the results of the Our Voices survey. The 2025 survey results indicate strong performance relative to the 2024 baseline with increases in the overall engagement index, and no change in the inclusion metric 'at work, I feel as if I belong'.

The Board composition policy aims to maintain gender parity. As there were no changes to the Board during 2025, we continued to meet the Board's ambition in this regard. With my position as Chair of the Board and with Helen McCabe as our Chief Financial Officer, we continue to exceed the Board's intention that at least one senior Board member will be a woman. In addition, one of our Board members, Lord Jitesh, is from a non-white ethnic minority background. The Board composition policy is available at www.rolls-royce.com

Representation in our Executive Team continues to stand at 30% female, 70% male.

Disclosures under UK Listing Rule 6.6.6 can be found on page 214. Progress on our 2025 diversity targets can be found on page 36.

Employee voice

Our Employee Champions, Bev Goulet and Wendy Mars, enjoyed a number of engagement opportunities in 2025. In May, they visited our Nuclear Skills Academy in Derby, UK and met with staff and apprentices there.

In July, they visited our compressor manufacturing facilities in Washington and Inchinnan, UK. At both sites, Bev and Wendy met with staff at all levels from apprentices to site leadership, including trade union representatives. They reported their impressions of both sites to the Board, noting in particular the pride that staff have in their workplace and in Rolls-Royce.



During our visits to Washington and Inchinnan in the UK, we were struck by the immense pride felt by the staff for their workplace. They shared their enthusiasm and optimism for the future of their sites and were excited by the opportunity to play their part in the ongoing transformation of Rolls-Royce.”

Bev Goulet,
Independent Non-Executive
Director and Lead Employee
Champion

Speak up programme

During the year, the Committee received reports from our Chief Compliance Officer – Group Strategy and Policy on the operation of the speak up line. The Committee considered reporting trends in 2025, and was pleased to note that our speak up rate is in line with external benchmarks and to learn about a number of improvement activities relating to the speak up programme. Information on the speak up line can be found on page 37.

For more information about People and culture see from page 31.

Governance

Human rights

The Committee reviewed and approved changes to our Human Rights Policy. For more information on human rights and anti-slavery see page 37.

Corporate governance

During 2025, the Audit Committee took steps to prepare for reporting under provision 29 of the 2024 UK Corporate Governance Code against which we have to report next year. We are pleased to report full compliance with the 2024 Code as it applies to the 2025 financial year.

Extracts from the Group's governance framework, which is also applied to our subsidiary companies and is our response to the Wates principles, are available at www.rolls-royce.com

Evaluating the work of the Committee

The work of the Committee in 2025 was rated highly in our Committee evaluation report and I would like to thank my Board colleagues for their support and counsel during 2025. For more information on the Board evaluation see page 73.

Our focus in 2026

The evaluation clearly identified those areas for ongoing focus in 2026. In particular, we will conclude our succession planning for Bev Goulet and Nick Luff, who will retire in 2027. We will also maintain our focus on longer-term succession planning for members of the Executive Team and to monitoring progress across the organisation towards sustaining and embedding the cultural change that will underpin our transformation over the long term.

I look forward to working with my fellow Directors in 2026 on these and other important topics within the remit of the Committee.

Dame Anita Frew

Chair of the Nominations,
Culture & Governance Committee

Audit Committee report

AREAS OF FOCUS IN 2025

- Assessed the impact on long-term contract accounting of contract renegotiations, supply chain challenges and geopolitical uncertainty
- Assisted the Board in its decision to reinstate shareholder distributions in 2025 through both dividends and share buybacks
- Considered the accounting impact of changes to the UK defined benefit pension scheme, reviewed the changes in governance for Rolls-Royce SMR Limited leading to its deconsolidation, and assessed the judgement to fully recognise the deferred tax asset related to historical UK tax losses



Members

Nick Luff (Chair)
George Culmer
Lord Jitesh Gadhia
Beverly Goulet
Paulo Cesar Silva

Remit

See page 68

I am pleased to present the Audit Committee report for the year ended 31 December 2025, which provides an overview of our areas of focus during the year, as well as the Committee's key activities and the framework within which it operates.

George Culmer, Bev Goulet and I have recent and relevant financial experience. This is complemented by Lord Jitesh Gadhia's complex advisory and transactional experience. The appointment of Paulo Cesar Silva as a member of the Committee on 1 August brings additional aerospace sector knowledge to our deliberations. The Board remains confident that the Committee members have the appropriate knowledge, skills and experience to fulfil the duties delegated to the Committee and that the Committee, as a whole, has the competence relevant to the sectors in which the Group operates.

Our focus in 2025

This report sets out the work of the Committee in 2025 with a focus on the issues relevant to the Group's financial reporting, considering how business performance is reflected, assessing key accounting judgements and ensuring ongoing quality of the related

disclosures. In our meetings, we continue to have robust conversations to ensure management are challenged, to satisfy ourselves that the judgements taken are appropriate for the Group and the disclosures made are reflective of performance.

During the year the Committee undertook deep dives of the principal risks we oversee, including our supply chain performance and mitigations, and a review of our incident management framework, each an aspect of the business interruption principal risk. We also reviewed how we mitigate the risk of financial shock under the financial & market shock principal risk, and we considered financial reporting risks and the management of tax and customs risks. We approved our tax policy to ensure it remains appropriate for the Group and considered the Group's position in respect of its external tax disclosure obligations.

The Committee continues to oversee the assurance activity conducted by internal audit. The Committee monitored delivery of their 2025 internal audit plan, considered the findings from internal audit reports and reviewed the implementation of identified actions. We also approved the 2026 internal audit plan, confirming the focus on key risks and adequate cover of all material operations and appropriate geographical coverage.

During 2025, we have seen a material strengthening of the Group's balance sheet, improving from a net liabilities position in 2024 to a net assets position in 2025. This strengthening has enabled the reinstatement of shareholder distributions in 2025 through both dividends and share buybacks, for which the Committee supported the Board in its deliberations and confirmed the sufficiency of the Company's distributable reserves.

Financial reporting

The Group has complex long-term contract accounting and, as in prior years, the Committee spent much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In 2025, we considered the implications of our assumptions and key accounting judgements on the financial performance of the Group. We assessed the implications of the renegotiation of the most significant onerous aftermarket contracts in Civil Aerospace on our long-term contract accounting, as well as the impact of ongoing supply chain challenges with a backdrop of continuing geopolitical uncertainty.

Following an investment made by ČEZ Group (ČEZ), the Group relinquished control of Rolls-Royce SMR Limited (Rolls-Royce SMR) in the first half of 2025. Alongside the deconsolidation of Rolls-Royce SMR, the Committee determined that the New Markets operating segment that was previously reported at 31 December 2024 was no longer considered to meet the definition of an operating segment. The Group's share of the financial results of Rolls-Royce SMR have been included in 'All Other Businesses'. For further information on this change, see note 2 of the Consolidated Financial Statements on page 134.

The Committee also considered changes in the global macro-economic and political environment. Most notably the Committee tested with management and supported the conclusion that the Group expected to fully offset the impact of announced direct tariffs on the Group through the mitigating actions that were taken.

We have ensured that the disclosures in respect of all key areas of judgement are appropriate and balanced. We assess and consider the sensitivity of the estimates to changes in key assumptions which are summarised in note 1 of the Consolidated Financial Statements on page 124.

Climate change

We have continued to support the Board in its considerations of climate change risks and opportunities. The Committee has reviewed and approved the TCFD recommendations (see page 40) and noted the progress during the year as the disclosures were being prepared for this Annual Report. The Committee has ensured it understands and challenged the assumptions in the climate scenarios used by management including the forecasts for the assessment of going concern and viability, long-term contract accounting, impairment testing and deferred tax asset recognition. The impact of climate change, where material, is reflected in the financial statements and disclosed accordingly. See note 1 in the Consolidated Financial Statements from page 121.

The Committee has received updates on the development of non-financial reporting and assurance requirements in respect of sustainability. This has included updates on climate disclosures under the existing TCFD recommendations, our preparedness for new EU reporting requirements set out in the Corporate Sustainability Reporting Directive (CSRD), EU Taxonomy, Corporate Sustainability Due Diligence Directive (CSDDD) and new UK reporting requirements in the International Sustainability Standards Board (ISSB).

The Committee also received updates on the improving internal controls in relation to process and data and considered progress made with the Group's reporting.

Fair, balanced and understandable assessment

As in prior years, at the request of the Board, the Committee considered whether the Annual Report, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy. In so doing, the Committee considered the financial reporting procedures and internal controls in place in preparing the report. The Committee is satisfied that there is a robust governance framework with well documented planning and procedures for the preparation of the report and a collaborative approach across all those who contribute to the report. The Committee concluded that the basis of preparation was consistent with financial reporting throughout the year and that all significant issues had been considered. The Committee was satisfied that the process was effective and that the messaging was consistent, including the narrative reflecting the financials. It was confirmed to the Board that, when taken as a whole, the Annual Report is fair, balanced and understandable. The Board's confirmation is set out on page 111.

Significant reporting matters relating to the 2025 financial statements:

A summary of the significant matters we considered in respect of the 2025 Consolidated Financial Statements is set out below.

AREA OF FOCUS	CONSIDERATIONS
Long-term contract accounting	The Committee considered the assessment of estimates of future revenue and costs on the Group's long-term contractual arrangements. This has continued to be a particular focus for the Committee due to the complex nature of long-term contract accounting, ongoing geopolitical uncertainty and the potential implications of this on future costs, as well as the ongoing supply chain challenges and the implications of this on forecasting future costs and capacity output. Onerous contracts are particularly sensitive to changes in revenue as well as cost assumptions, therefore we also focused on the impact of renegotiated onerous aftermarket contracts. We reviewed contract catch-ups to understand the changes to revenue and the cost assumptions driving them. Further, we reviewed the disclosures and concluded these, together with the assessments, were appropriate. See note 1 in the Consolidated Financial Statements.
Tax accounting	The Committee discussed the recoverability of deferred tax assets and the forecasts, assumptions and sensitivities applied in order to ascertain the recognition and recoverability of them. The Committee discussed the basis for the recognition and considered the judgements and estimates necessary to assess their recoverability. This was particularly important during the year as we moved back to full recognition of the deferred tax asset related to UK tax losses. We considered the recognition of the UK deferred tax assets in light of the requirements set out in IAS 12 <i>Income Taxes</i> to assess probable profits. We confirmed the approach, which remained consistent with that taken in 2024, together with the disclosures set out in notes 1 and 5 to the Consolidated Financial Statements on pages 121 and 142, respectively.
Deconsolidation of Rolls-Royce SMR Limited	The Committee discussed the deconsolidation of Rolls-Royce SMR Limited (Rolls-Royce SMR) arising from the new equity investment by ČEZ Group in March 2025 and reflecting the terms of the revised shareholder agreement which resulted in the Group relinquishing control of Rolls-Royce SMR. The Committee also considered the accounting treatment of the deconsolidation and recognition of its investment in Rolls-Royce SMR at its fair value, and the resulting gain on disposal recognised in the year. The Committee concluded that it was appropriate to deconsolidate Rolls-Royce SMR during 2025 and recognise this gain on disposal. Further detail on the deconsolidation and resulting gain on disposal can be found in note 29 to the Consolidated Financial Statements on page 179.
Changes to the UK defined benefit pension scheme	The Committee considered the impact of the trustee of the Rolls-Royce UK Pension Fund entering into a Buy-in transaction with Pension Insurance Corporation plc. The Committee paid particular attention to asset re-measurement loss that arose as a result of this transaction, and whether that asset re-measurement loss should be recognised through the income statement or through other comprehensive income and expenses. The Committee concluded that it was appropriate to recognise the asset remeasurement loss through other comprehensive income and expenses. See note 24 to the Consolidated Financial Statements on page 171.
Going concern and viability	As in previous years, the Committee reviewed the information, underlying assumptions and downside risks modelled and presented in support of the going concern and viability assessment. The Committee concluded that the Group has a strong liquidity position over the going concern period and that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years. The Going concern and viability statements are set out from page 57.
Alternative performance measures (APMs)	The Committee reviewed the clarity of the definitions and the reconciliation of each APM to its statutory equivalent. The Committee concluded that there was no undue prominence of the APMs in the Annual Report. See page 208 for a reconciliation of APMs to their statutory equivalents.

Risk management and the internal control environment

Our risk management and internal control framework is described in the Principal risks section on page 48. During 2025, the Committee reviewed the effectiveness of risk controls and their assurance, ensuring actions to mitigate where needed and to manage risks in relation to our appetite for taking risk as described from page 48.

We satisfied ourselves that the processes for identifying and managing risks remain appropriate and that all principal risks and mitigating actions had been subject, during the year, to a detailed review by the Board or an appropriate Board Committee. Based on this and on our other activities, including consideration of the work of internal and external audit and attendance at the Committee meetings by divisional and functional risk owners, the Board confirmed that a robust assessment of the principal risks and emerging risks facing the Group had been undertaken. The Board has allocated certain principal risks to the Committee and we considered these in detail throughout the year, as described below. The Board reallocated the oversight of the Information & data principal risk, including cyber-security, from the Committee to the Safety, Energy Transition & Tech (SETT) Committee in early 2025, reflecting the alignment with its other principal responsibilities and its members' expertise. The SETT Committee report can be found on page 110.

From our discussions, we are satisfied that the principal risks that the Committee oversees have received appropriate management attention during 2025:

- Business interruption: the Committee received updates on the status of the Group's supply chain management, focused primarily on civil aerospace, and considered our ability to react to, and manage crises, under the Group's incident management framework.
- Financial shock: the Committee considered the financial risks to which the Group is exposed including liquidity risk, credit risk, foreign exchange and commodity risk, interest rate risk and fraud risk and the mitigations and controls that we have in place.

The Committee specifically reviews the Group's internal controls over financial reporting (see page 48). During 2025, we received an update on the risk assessment to identify the controls considered to be material and in-scope from a financial reporting perspective. We monitored progress against the 2025 financial controls programme to strengthen the financial reporting and compliance controls, and we confirmed completion of identified key activities. We also considered the external auditor's observations on the financial control environment.

Effectiveness of risk management and internal control systems

The Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process. We consider that our review of the risk management and internal control systems, in place throughout 2025 and up to the date of this report, satisfies the requirements of the Code, the DTR and the FRC's guidance on risk management. To support this:

- we monitor changes to regulatory requirements with respect to risk management on an ongoing basis;
- we review relevant policies and procedures and update where necessary, in line with regulatory changes and our perspective on effective approaches to risk management;
- our risk management team and relevant assurance functions, such as internal audit, review key business processes, including long-term contract pack reviews and the budgeting process with periodic reforecasting, identifying key risks and opportunities;
- we assess and monitor management responses to key audit findings, including the design of mitigations and developments to existing controls;
- a defined anti-bribery and corruption policy has been implemented; and
- where necessary, we report to the Board and its Committees on key risk and regulatory matters.

During the course of the financial year, any control weaknesses identified through the operation of our risk management and internal control processes were subject to monitoring and resolution in line with our normal business operations. In 2025, no significant weaknesses were identified. To further support the enhancement of the existing internal control environment:

- risk management specialists have been assigned to review and monitor the implementation of actions, to ensure these remain appropriate and aligned to the risks to which they relate;
- policies and procedures are subject to review and are updated to align with changes in the underlying control environment; and
- risk owners are accountable for managing these risks.

In addition, and on an ongoing basis, the Board reviews the effectiveness of the Group's risk management and internal control system and continues to:

- monitor reports from the Executive Team, relating to their assessment of risks and internal control systems;

- monitor assurance received from the Executive Team regarding compliance with relevant policies;
- monitor assurance received on the effectiveness of the Group's internal control environment;
- review reports from this Committee, the internal audit function and the external auditor;
- review the Group's response to incidents and threats, including those related to cyber-security and safety; and
- review information gathered from the Group's formal whistleblowing process where issues relate to financial misconduct.

Where opportunities for improvement were identified, action plans have been put in place and progress is monitored by the Committee.

UK Corporate Governance Code – provision 29

Provision 29 of the 2024 UK Corporate Governance Code, which applies to Rolls-Royce for the financial year beginning on 1 January 2026, requires an explicit declaration by the Board as to the effectiveness of material controls as at the balance sheet date. During the year and with a view to making the required declaration in the 2026 Annual Report, we continued to focus on strengthening our risk and control environment. We received reports on the Group's progress in identifying and documenting material controls, and discussed the level of preparedness of the assurance processes for assessing their effectiveness. Further information on our preparation for provision 29 can be found on page 50.

Going concern and viability statements

During 2025, there has been a material strengthening of the Group's balance sheet, improving from a net liabilities position in 2024 to a net assets position in 2025. This strengthening enabled the Board to reinstate shareholder distributions through both dividends and share buybacks, and to repay from cash a \$1bn bond that matured in October. Nevertheless, we continued to pay particular attention to the going concern and viability statement. With consideration to the available information, the Committee confirms it maintains a reasonable expectation that the Group is able to continue to meet its liabilities as these fall due, over the next five years. We reviewed the processes and assumptions underlying the going concern and viability statements set out from page 57, considering in particular:

- the Group's forecast funding position over the next five years;
- the forecasts for material subsidiaries making up this position;

- an analysis of impacts of severe but plausible risk scenarios, ensuring that these included relevant principal risks;
- the impact of multiple risks occurring simultaneously;
- additional mitigating actions that could be taken in extreme circumstances; and
- the current borrowing facilities in place and the availability of future facilities.

As a result, we are satisfied that the going concern and viability statements have been prepared on an appropriate basis.

Internal audit

The head of internal audit regularly attends and reports to the Committee on internal audit matters including:

- identifying key trends and headline findings from internal audit reports issued in the period;
- details of any specific significant findings raised by internal audit that warrant the Committee's attention;
- status of agreed actions arising from internal audit work;
- progress against the current year's internal audit plan and any changes to the plan; and
- the plan of internal audit work for the following year.

I meet with the head of internal audit on a regular basis, to discuss the function and understand its findings in more depth. We continue to focus on the nature of issues raised by internal audit and the timescales to complete the related actions. The future work plan is risk-based, including risks to both short- and longer-term objectives while balancing principal risk areas with business-as-usual transactional activity where controls are understood to be mature and established. Internal audit also considers the activities of our second line assurance functions in their approach. Annually, we review the effectiveness of the Group's internal audit function. For 2025, this included an assessment of the function's resources, methodologies, plans, performance, reporting and quality assurance. Based on the report received, we are satisfied that the scope, extent and effectiveness of internal audit are appropriate for the Group and that there is a suitable plan in place to sustain this. Specific actions for further improvement were identified, the implementation of which will be monitored during 2026.

External audit

PwC were appointed as the Group's external auditor for the financial year commencing on 1 January 2018, following a formal tender process in 2016. As required by audit partner rotation rules, Ian Morrison took over as lead audit partner for the 2023 audit. Other than the services detailed below, PwC have no other connection with the Group or its Directors.

Audit tender

In line with UK legal requirements regarding auditor tenure and audit tendering, in December the Committee determined that the external audit contract will be put out to tender in 2026 for the financial year commencing 1 January 2028. The Committee will lead the tender process and recommend its conclusions to the Board by the end of 2026. We believe that this timetable will provide sufficient time for consideration of alternative firms and, if there is a change from PwC, allowing for a period of transition for a new audit firm to build up sufficient knowledge and understanding of the Group. We will report the outcome of the tender, and detail on the process, in the 2026 Annual Report.

During 2025, the Group complied with the relevant provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014, the FRC guidance on 'Audit Committees and the External Audit: Minimum Standard' and the 2024 UK Corporate Governance Code and the Committee intends for the tender process to be carried out in line with those obligations in 2026.

2025 audit

PwC presented its audit plan to the Committee, providing its assessment of the key audit risks and the proposed scope of audit work. Reflecting on findings from the half-year review and the developments in the Group, we agreed the approach and scope of work to be undertaken. Key risks and the audit approach to these risks are discussed in the Independent Auditor's Report from pages 193 to 203, which also highlights the other risks that PwC drew to our attention. As part of the reporting of the half-year and full year results, in July 2025 and February 2026 PwC reported to the Committee on its assessment of the Group's judgements and estimates in respect of these risks and the adequacy of the reporting. Where effective to do so, PwC also reported on its assessment of the Group's controls. As in prior years, I meet with the lead audit partner regularly and the Committee has a private meeting with PwC at least once a year. The Committee reviewed the quality of the external audit throughout the year and considered the performance of PwC. To support this, the Committee members and senior personnel who regularly interact with the external auditors undertake annually an internal evaluation, focusing on a range of factors we consider relevant to audit quality. The findings from the 2025 audit evaluation and agreed actions were reviewed and approved by the Committee in February 2026. Feedback was also received from the auditors on their performance against their own objectives.

Based on this, the Committee recommended to the Board that PwC be reappointed as external auditors at the 2026 AGM.

Non-audit services

To safeguard the auditor's independence and objectivity, and in accordance with the FRC's ethical standard, we do not engage PwC for any non-audit services, except where it is work that they must, or are clearly best suited to, perform. Accordingly, our policy for the engagement of the auditor to undertake non-audit services broadly limit these to audit-related services such as reporting to lenders and grant providers, where there is a requirement by law or regulation for the auditors to perform the work. All other non-audit services are considered on a case-by-case basis in light of the requirements of the FRC's ethical standards and in compliance with our own policy.

Fees paid to PwC are set out in note 8 to the Consolidated Financial Statements on page 147. All proposed services must be pre-approved in accordance with the policy which is reviewed and approved annually. Above defined levels, my approval is also required before PwC is engaged. We also review the non-audit fees charged by PwC on a quarterly basis. Our non-audit services policy can be found at www.rolls-royce.com

Non-audit related fees paid to the auditor during the year were £0.8m (2024: £0.8m), representing 6% (2024: 6%) of the audit fee. This included £0.7m (2024: £0.7m) relating to the review of the half-year results. Our annual review of the external auditor takes into account the nature and level of all services provided. Based on our review of the services provided by PwC and discussion with the lead audit partner, we concluded that neither the nature nor the scale of the non-audit services gave any concerns regarding the objectivity or independence of PwC.

Looking forward

This report provides an understanding of the Committee's work over the past year and I would like to thank my fellow colleagues on the Committee for their support during the year. Our evaluation noted that the Committee is operating well. In addition to the audit tender process, our focus in 2026 will continue to include oversight of the reporting environment and monitoring the control framework to ensure compliance with provision 29 of the 2024 UK Corporate Governance Code, applicable to the Company from 1 January 2026. The Committee will also monitor preparedness for the implementation of IFRS 18, which provides a new presentation requirement for the statement of profit or loss, alongside new definitions and disclosures related to non-IFRS performance measures, effective from 1 January 2027.

Nick Luff

Chair of the Audit Committee

Remuneration Committee report

KEY AREAS OF FOCUS IN 2025

- Design of, and consultation with shareholders on, a new remuneration policy
- Delivery of our new global share plan for the wider workforce
- Consideration of financial and non-financial performance metrics to drive continued delivery of our transformation



Members Lord Jitesh Gadhia (Chair)
Stuart Bradie
George Culmer
Beverly Goulet
Wendy Mars

Remit See page 68

On behalf of the Remuneration Committee, I am pleased to present our Remuneration report for 2025. This letter outlines the key decisions taken by the Committee during 2025 and new remuneration policy proposals for which we are seeking shareholder approval at the 2026 AGM.

I am pleased to welcome Stuart Bradie, who joined the Committee in August. Stuart is also a member of our Safety, Energy Transition & Tech Committee and will provide insights into our non-financial key performance metrics in addition to his broader insights as a global business leader.

On behalf of the Committee, I would like to thank our shareholders for the strong levels of support that we received at our 2025 AGM and for the engagement received during our consultation in the year.

Business context for 2025

2025 marks a third successive record year of performance for Rolls-Royce. Since Tufan Erginbilgic joined the organisation on 1 January 2023, over £88bn of shareholder value has been created as at 31 December 2025. Dividends have been reinstated, a £1bn share buyback has been completed in the year, and investments within our business have increased year-on-year. The exceptional share price return of over 1,100% during this period far exceeds the relative performance of any of our industry peers and has been achieved despite a challenging and uncertain external environment in most of our key markets.

Tufan and his leadership team have consistently exceeded the expectations of our stakeholders with bold mid-term guidance issued in 2023 delivered two years early. Guidance has been beaten and raised consistently and our ambitious upgraded mid-term targets (based on a 2028 timeframe) are significantly underpinned by the transformation actions that the leadership team are delivering.

PERFORMANCE OF ROLLS-ROYCE OVER THE PAST THREE YEARS (UNAUDITED)



Remuneration decisions related to 2025

The current remuneration policy was approved by shareholders at our AGM in 2025. Key features of the policy and how it operated during 2025 can be found on page 86.

Salary

As disclosed last year, base pay awards of 5% were delivered to both Tufan Erginbilgic and Helen McCabe effective 1 March 2025. At the time, this was below the median increase for the broader UK population for 2025 of 5.5%.

The Committee undertook a benchmarking process during the summer to inform our new policy proposals and this identified a material gap between the current pay arrangements for Tufan and Helen and competitive levels of pay prevalent within our peer group. Consequently, the Committee decided to make further adjustments to the base pay arrangements from 1 September as a proactive measure to recognise the exceptional performance of the Executive Directors and to mitigate the gap to market. Tufan's base salary was increased by 15.6% and Helen's base salary was increased by 17.7%. These adjustments result in base pay levels aligned to those typical in other FTSE 10 companies. No further increases to base salaries are planned until March 2027.

Annual incentive outturn in respect of 2025

Unsurprisingly, given the strength of performance, the annual incentive outturns for 2025 are significantly above target, aligning with the wider shareholder experience. The performance measures for 2025 were weighted 80% towards Group performance and 20% towards personal performance. At Group level, free cash flow of £3,270m and operating profit of £3,462m were materially ahead of the original targets and maximum threshold for performance, delivering maximum outturns for these elements. The scorecard included two strategic measures to incentivise quality of financial performance and the importance of delivery to our customers. Underlying operating margin performance of 17.3% was ahead of the level required to trigger maximum payout, reflecting very significant year-on-year improvement. However, the customer metric was behind target, primarily reflecting continued supply chain challenges which management continue to address. As a result, the customer metric vested at 22% of maximum. Other non-financial performance metrics counted for 10% of the 2025 scorecard and related to safety (5%) and people (5%). The safety metric measures a combination of the total reportable injuries (TRI) rate and a safety index, which places focus on proactive risk management and process safety. The outturn was 39% of maximum, reflecting good progress on the safety index scores, counterbalanced by the fact that the TRI rate remained the same as 2024 performance, missing the limit set for 2025. The people outturn, which is linked to colleague engagement assessed via the Our Voices survey, was 100% of maximum, reflecting impressive year-on-year improvement in employee engagement. Twenty percent of the overall weighting is linked to personal performance of the Executive Directors. Page 102 sets out the Committee's assessment of this element of the incentive, which vested above target at 100% of maximum for Tufan Erginbilgic and at 90% of maximum for Helen McCabe.

In reviewing incentive outturns, the Committee considered the experience of internal and external stakeholder groups, in particular our employees and shareholders. Our global incentive arrangements include a strong cascade of targets throughout the Group, which means that our wider workforce also benefits from the excellent performance achieved. The positive experience for our shareholders has already been highlighted above. In this context, the Committee is pleased to recognise this excellent performance in an overall outturn of 94% of maximum for Tufan Erginbilgic and 92% of maximum for Helen McCabe. In line with the current policy, as Tufan and Helen already hold share interests in excess of twice their shareholding requirements, all of the 2025 annual incentive will be paid in cash in March 2026.

Long-term incentive plan (LTIP) outturn

Under the current remuneration policy, we reinstated an LTIP for Executive Directors in May 2024. The performance period for these awards will not conclude until 31 December 2026, when the performance conditions will be assessed. Therefore, there are no standard LTIP awards vesting for the performance period ended 31 December 2025. However, under the terms of the buy-out awards agreed for Helen McCabe upon joining Rolls-Royce, some performance shares were granted in place of performance shares with equivalent vesting terms which were forfeited upon her resignation from her previous employer. The performance conditions for these shares will deliver a vesting level of 100% based upon financial performance over the period 1 January 2023 to 31 December 2025.

Background to the proposed new remuneration policy

Our current remuneration policy was developed in 2023 and was baselined to a median FTSE 50 position, reflecting the Company's size and context at that time. Minor amendments to the policy were approved by shareholders in May 2025 relating to incentive deferral and shareholding requirements. Following the success of the transformation, as at 31 December 2025, Rolls-Royce had a market capitalisation of £97bn and was the sixth largest company in the FTSE. Our Chief Executive and leadership team have driven an unprecedented step-change in performance, and we believe that aligning our pay arrangements to reflect our current circumstances is a strategic priority to enable continued business outperformance.

The following factors have influenced our proposals:

International competition for talent

Retention

The Executive Directors have rightly attracted global attention for the pace and success of our ongoing transformation. Our executives are highly sought after in the international talent market and competitive reward arrangements are essential to retaining our key talent. For the avoidance of any doubt, the proposed adjustments to future remuneration arrangements are proactive measures initiated by the Committee and are not reactive measures.

Attraction

A large proportion of our talent pool for succession is US-based where the aerospace and defence sector is most heavily represented. We are competing for talent at all levels with global industrial and engineering peers and other major US employers.

Our international talent pool is reflected in our operations. While we are listed in the UK, our businesses are global, with operations, customers and suppliers present in all continents. Less than 15% of our 2025 revenue was derived from customers based in the UK.

When required, it is important that the Board has the optionality to recruit a sufficiently capable Chief Executive with experience in the key North American market, but this would likely come at a significantly higher cost than our current policy permits. For example, as at 1 January 2025, the total target direct compensation for Tufan Erginbilgic was 5% lower than a division leader of General Electric.

Remuneration benchmarking peer group review

An updated peer group for remuneration purposes was developed by the Committee during the year and was approved in August based upon market conditions and reported public information at that time. It incorporates similarly complex global businesses which operate in similar markets to those of Rolls-Royce today, and in markets which represent our growth opportunities (i.e. narrowbody aerospace and nuclear). It also includes key talent markets with both traditional and emerging peers amongst UK-listed multinationals and international engineering and industrial technology sectors. The companies were screened by a conventional market capitalisation size filter (e.g. selecting companies between 0.5x – 2.0x of the Company's market capitalisation) with adjustments to ensure critical talent peers above and below this range were included to ensure the output results in an appropriate forward-looking peer group. We believe that the output of this benchmarking reflects our business reality with the resulting median well aligned to our market capitalisation (see table below).

Comparison of Rolls-Royce market capitalisation to the chosen peer group

Market capitalisation	Three-month average share price to 4 Aug 2025 (£m)	Closing share price 4 Aug 2025 (£m)
Rolls-Royce Holdings plc	76,168	91,680
Peer Group upper quartile	116,357	122,688
Peer Group median	80,253	90,159
Peer Group lower quartile	58,355	63,060

Further details of the methodology adopted to select the peer group are included on page 88.

Proposed new remuneration policy

We have conducted a thorough review of pay competitiveness (base salary, target bonus, expected value of long-term incentives) relative to our updated remuneration peer group and propose a reset of total target direct compensation to better align to the median position. Both our Chief Executive and Chief Financial Officer's current target remuneration is below the lower quartile of our peer group, and significantly below our main aerospace and defence competitors. Consequently, subject to shareholder approval, we propose increases to short and long-term incentive opportunities from 1 January 2026 to better align with market median levels.

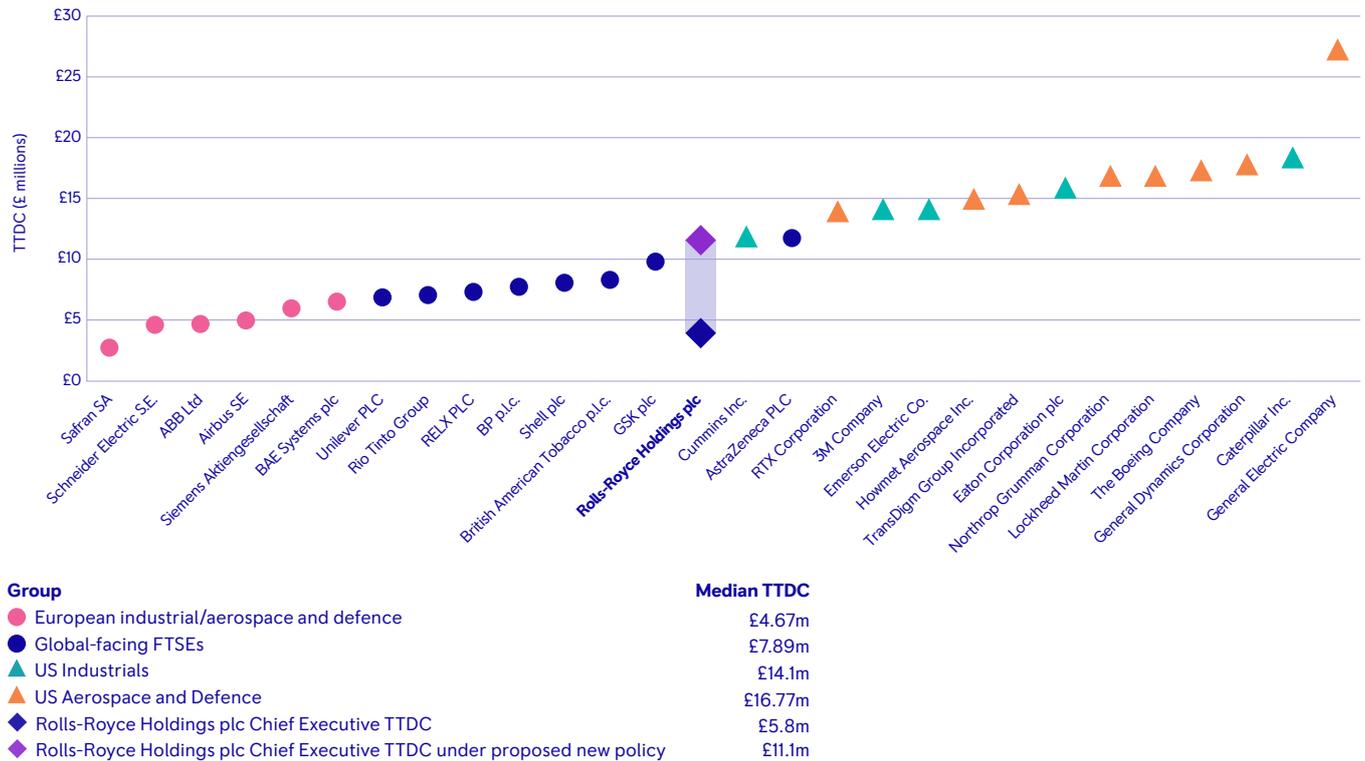
The following table summarises the current and proposed changes to incentive arrangements for our Chief Executive and Chief Financial Officer, which will ensure that total target direct compensation levels are competitive.

Proposed changes to incentives

	Chief Executive		Chief Financial Officer	
	Current Policy	Proposed Policy	Current Policy	Proposed Policy
On-target annual incentive % of base salary	100%	150%	100%	No change
Maximum annual incentive % of base salary	200%	300%	200%	No change
LTIP grant level % of base salary	375%	750%	275%	450%

The table overleaf sets out the impact of these changes relative to the updated remuneration peer group.

CHIEF EXECUTIVE TOTAL TARGET DIRECT COMPENSATION (TTDC) RELATIVE TO PEER GROUP (UNAUDITED)



Alignment with shareholder interests

To ensure continued alignment of management interests with shareholder interests, the shareholding requirement for the Chief Executive will increase from 400% to 750% of base salary and for the Chief Financial Officer from 300% to 450% of base salary. This aligns the shareholding requirement with the new LTIP grant levels, and increases the number of shares our Executive Directors will be required to hold for two years following cessation of employment.

No further changes to the remuneration policy are proposed.

Consultation process and shareholder feedback

In September, we consulted with our 24 largest shareholders, who collectively hold over 50% of our share capital. We subsequently held 12 shareholder meetings and received nine written responses. We also met with three proxy advisers. We are pleased to confirm that there was consistent and positive support from shareholders, and a strong understanding of our rationale and approach from proxy advisers.

A key consistent theme which emerged from the consultation process was investor expectation that the Committee maintains a disciplined approach to target setting under the new policy. There was widespread support for an increase in performance-related pay opportunity for the executives, but on the basis that remuneration outcomes continue to be underpinned by excellent performance levels. Investors appreciated that the impact of the proposed increases to incentive opportunity under the forward-looking policy would only impact individuals if future performance conditions are satisfied. The following quote from one of our shareholders was one of many received along very similar lines:

“Thank you very much for reaching out about this proposed change in remuneration policy. I have reviewed the attached letter and we are very supportive of the changes – we have been impressed by the efforts Tufan and Helen have led in transforming the Company and believe these remuneration changes continue to provide strong incentive and alignment to continue to drive strategic progress at the Company.” – Investor

We deeply appreciate the views of our shareholders and are pleased with the time given and engagement received during this process. We are confident that we received a strong mandate to proceed with the proposed changes outlined above.

A small number of shareholders raised specific questions about the approach taken by the Committee in constructing the peer group, which we have clarified in a written response and in this Remuneration report. We also received questions from some investors about the choice of performance metrics in the incentive plans. We have reviewed the metrics to apply in 2026 onwards and have set out our rationale in this Remuneration report. We did consider the choice of peer group to apply for the measurement of relative total shareholder return (TSR), which is a key metric within the long-term incentive plan (LTIP). Specifically, we considered if it would be appropriate to adopt the same remuneration peer group for TSR purposes but have decided to treat these two peer groups separately. The TSR peer group is made up of organisations with whom Rolls-Royce competes for capital as opposed to talent. Also, the indices used for TSR measurement benefit from being dynamic to reflect regular movement of companies entering and leaving the indices for a range of reasons, updated on a daily basis. This level of dynamism is less relevant when benchmarking executive remuneration.

Looking ahead – summary implementation of the remuneration policy in 2026

2026 Annual incentive targets

The 2026 annual incentive measures and weightings will be consistent with 2025 and continue to reflect our strategic priorities. The measures are: free cash flow (40%); operating profit (30%); strategic objectives of customer delivery (5%) and operating profit margin (15%); people (5%) which includes engagement and colleague experience supporting the behaviours that we are seeking to embed in our organisation; and safety (5%) which is the number one priority for all of our people.

2026 Long-term incentive plan (LTIP) targets

The targets underpinning the 2026 LTIP are included in the Remuneration report. Subject to shareholder approval, the LTIP award will be 750% of salary for the Chief Executive and 450% of salary for the Chief Financial Officer. Following the three-year performance period ending 31 December 2028, any vesting will be subject to a mandatory two-year holding period. The LTIP measures have been reviewed for 2026 and will be weighted equally between: free cash flow (33.33%); operating profit margin (33.33%); and relative TSR (33.33%) assessed in equal parts against the FTSE 100 and the S&P Global Industrials index constituents.

The Committee is mindful that free cash flow and operating profit margin metrics feature in both the annual incentive and the LTIP and believes that this is appropriate to incentivise consistency and quality of financial performance over the medium term.

The 2025 LTIP performance metrics included a 10% weighting against Scope 1 + 2 emission targets and the performance conditions of that plan will mature on 31 December 2027. We remain sensitive to our environmental sustainability responsibilities and may consider reinstating an emissions target into the LTIP from that point to cover the period from 1 January 2028 to 31 December 2030, aligned with the timeframe of our commitment to reduce Scope 1 + 2 emissions by 46% (against a 2019 baseline).

Wider workforce context

In 2025, our new share plan offering to the wider workforce vested for a large proportion of our people. We awarded all global colleagues 150 free shares on 12 September 2024 when our share price was £4.93. These shares vested in all countries outside of the UK on 12 September 2025, having benefited from a return of approximately 130%. For colleagues in the UK, these shares will vest in 2027.

Your Shares: Gifted has been followed by Your Shares: Matched, a purchase plan where with every share purchased by the participant, Rolls-Royce awards a matching share for free, up to a maximum investment each month. This plan was launched in phases in 2025 in Germany, UK, US, Canada, China, Singapore, Italy and India, enabling 97% of our global workforce to participate. We strongly believe in the importance of employee share ownership and our colleagues have experienced first-hand the benefits of the significant share price growth seen in recent years – driven by our transformation. The launch of Your Shares: Matched has been incredibly successful, with 67% of colleagues in Germany, 72% in the UK, 50% in the US, 77% in China and 63% in Canada choosing to participate. This level of take-up is very high by any external standards. It is driven by our colleagues' belief in our future, and active leadership engagement with colleagues and their representatives on the value of employee share ownership.

In 2025, the median base pay increase in the UK was 5.5%. We have agreed a multi-year pay deal with our main UK trade union-represented colleagues to cover the period up to 28 February 2027. This includes an increase of 4.1% in 2026.

In 2025, incentive levels for all colleagues were reviewed to ensure that they are attractive and competitive for our circumstances. Positive changes to on-target and maximum incentive opportunities are planned for the majority of the global workforce from 2026.

Chair and Non-Executive Director fees

In parallel with the benchmarking activity undertaken during the year for the Executive Directors, the Committee reviewed the fees paid to the Chair. The Chair, together with the Executive Directors, also reviewed the fees paid to the Non-Executive Directors.

Recognising the material change in market position of Rolls-Royce, it was agreed to adjust fees to better align with levels typical of those for a FTSE 10 organisation. The adjustments approved are set out on page 108 and took effect from 1 September 2025. A further adjustment to NED fees was made to take effect from 1 March 2026.

Remuneration Committee advisers

During 2025, the Committee had access to advice from WTW. WTW were appointed by the Committee following a formal tender process in 2021. Total fees for the advice provided to the Committee during the year by WTW were £238,243 (2024: £99,850). Fees are based on a time and materials basis. WTW also provided human capital and benefits services to the Group. No Directors have a connection to WTW.

The Committee requests that WTW attend meetings periodically during the year. The Committee is exclusively responsible for reviewing, selecting and appointing its advisers and is satisfied that the advice it has received has been objective and independent and that there is no conflict of interest associated with any advice provided. WTW is a member of the remuneration consulting group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

In 2025, the Committee carried out a review of the performance of WTW. This focused on the strength of the WTW team, treatment of sensitive topics and their awareness of Rolls-Royce and its stakeholders in the context of remuneration. The findings from this review and agreed actions were approved by the Committee.

Evaluating the work of the Committee

The work of the Committee in 2025 was rated highly and I would like to thank my colleagues on the Committee for their support during 2025.

Summary

The Committee is delighted with the progress that has been made on the transformation programme and the impact that this is having for shareholders and all stakeholders. We are particularly proud of the level of alignment we have managed to achieve between shareholders, management and the wider workforce through our share plans and we are excited and determined to continue to play a key role in embedding a distinctive performance culture within Rolls-Royce.

We welcome any feedback on this report and look forward to receiving your support for our new Remuneration Policy and Directors' Remuneration report at our AGM on 30 April 2026.

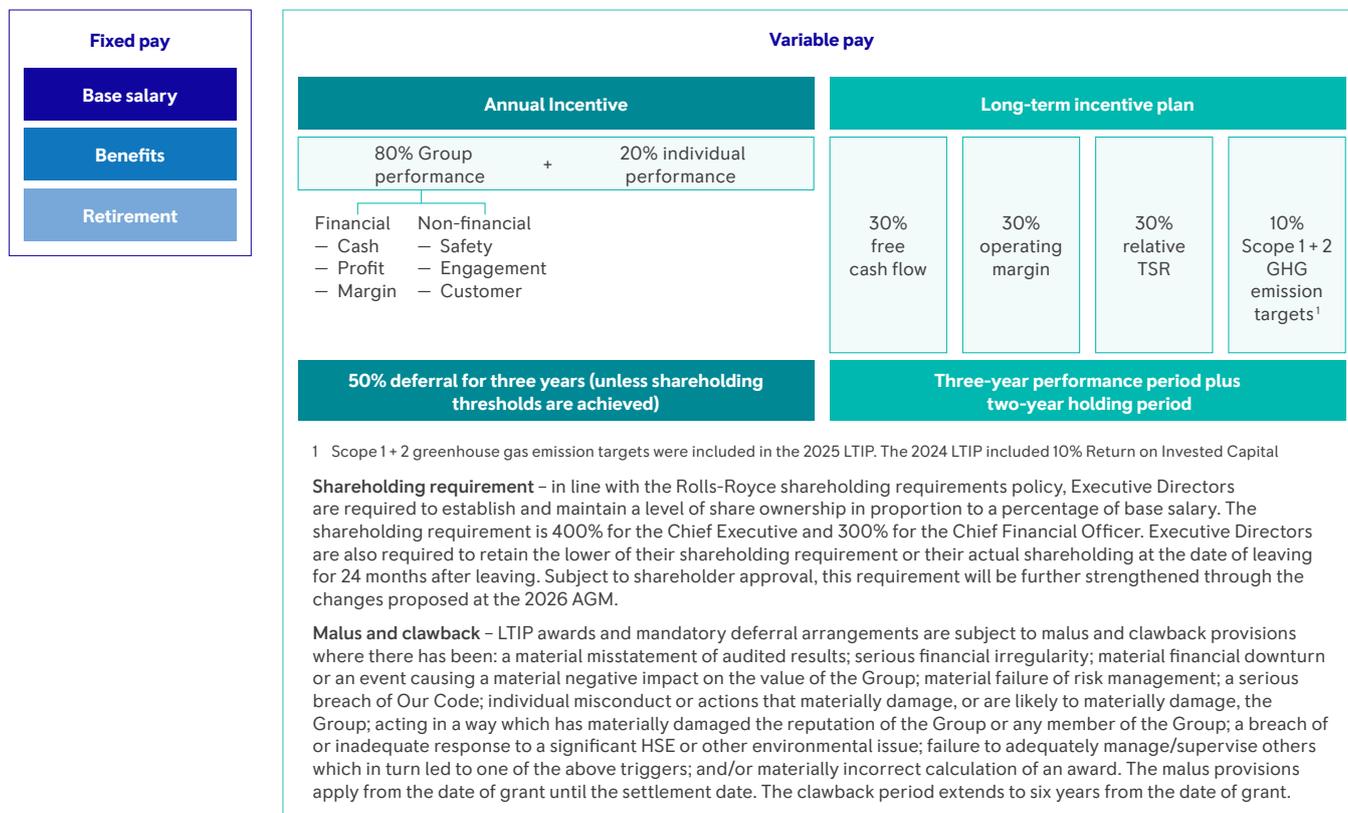
Lord Jitesh Gadhia

Chair of the Remuneration Committee

Remuneration at a glance

This section provides a summary of the current remuneration policy and its implementation that was approved by a binding shareholder vote at the AGM on 1 May 2025 (see page 109). The full policy can be found in the corporate governance section at www.rolls-royce.com

Summary of our current remuneration policy



Executive Directors: Summary policy and implementation table 2025

Base salary	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to companies of a similar size, complexity and international reach.
Implementation in 2025	<p>A salary increase of 5% was awarded to Tufan Erginbilgic and to Helen McCabe effective 1 March 2025. This increase was below the median increase for the broader UK population for 2025 of 5.5%.</p> <p>Following an updated benchmarking process to support the proposed new policy, a further adjustment was made for both Tufan Erginbilgic (15.6%) and Helen McCabe (17.7%) on 1 September 2025. No further adjustments are planned before 1 March 2027.</p>
Benefits	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Benefits may include car allowance and related costs, financial planning assistance, private medical insurance, life assurance and other appropriate benefits at the discretion of the Committee.
Implementation in 2025	No changes to benefits.

Executive Directors: Summary policy and implementation table 2025 continued

Retirement	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Executive Directors are offered membership of a defined contribution plan. A cash allowance may be payable in lieu of contributions to the defined contribution plan. The maximum contribution is 12% of base salary, in line with the rate offered to the wider UK workforce.
Implementation in 2025	Allowance of 12% of base salary, in line with the rate for the wider UK workforce.
Annual incentive	
Purpose and link to strategy	We reward annual performance against stretching financial, strategic and individual targets aligned to delivery of the Group's strategy.
Key features of current policy	An annual award which may be based on a combination of financial, operational and individual performance measures aligned to the Group's strategy. At least half the annual incentive awarded in any year will be deferred into shares for Executive Directors who have not achieved the shareholding guideline. If the Executive Director has exceeded their in-employment shareholding guideline, but has not achieved a level of double the shareholding guideline, the level of annual incentive deferral into shares reduces from 50% to 25% of salary. Should the Executive Director achieve double the shareholding guideline then the annual incentive would pay out fully in cash. The deferral period will normally be for a period of three years. The Committee may apply discretion to adjust any formulaic outturn. Malus and clawback provisions apply. Maximum annual opportunity: 200% of base salary.
Implementation in 2025	An outturn of 189% of target (94% of maximum) for Tufan Erginbilgic and 185% of target (92% of maximum) for Helen McCabe.
Long-term incentive plan	
Purpose and link to strategy	We incentivise the execution of strategy, driving long-term value creation and sustainable long-term returns to shareholders.
Key features of current policy	Awards are subject to performance targets normally assessed over three financial years. The number of shares will be adjusted to reflect performance on the third anniversary of the grant. The shares will vest on the five-year anniversary of the grant, after a two-year holding period. The Committee may apply discretion to adjust any formulaic outturn. Malus and clawback provisions apply. The maximum long-term incentive award for Executive Directors is 375% of base salary.
Implementation in 2025	Awards of 375% and 275% of base salary were made to the Chief Executive and Chief Financial Officer respectively, on 26 March 2025 for the performance period ending 31 December 2027. If minimum performance levels are achieved the LTIP will vest at 20%. Further details of the performance metrics can be found on page 100 of the 2024 Annual Report. No standard LTIP awards vested during the year. However, 850,760 shares awarded to Helen McCabe under the terms of the buyout of awards forfeited from her previous employer vested in 2025. Full details of the buyout were included in the 2023 Annual Report.
Shareholding requirement	
Purpose and link to strategy	To align the interests of Executive Directors to those of shareholders by requiring Executive Directors to build a high level of personal shareholding in the Company during their employment and for a specified post-employment holding period.
Key features of current policy	The shareholding requirement is 400% of base salary for Tufan Erginbilgic and 300% of base salary for Helen McCabe. Executive Directors are required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for 24 months.
Implementation in 2025	Shareholdings as a percentage of salary as at 31 December 2025 of the Chief Executive and Chief Financial Officer were 3,729% and 1,179% respectively.

The information above reflects the current policy and does not include the proposed changes to incentive levels and shareholding requirements which will be subject to shareholder approval on 30 April 2026.

Alignment with shareholders

The policy ensures alignment with shareholders through a significant part of the overall reward package being delivered in shares with long holding periods. This alignment will be further strengthened if shareholders approve the proposed amendments to the current policy at the 2026 AGM (see from page 88).

Remuneration policy

Introduction

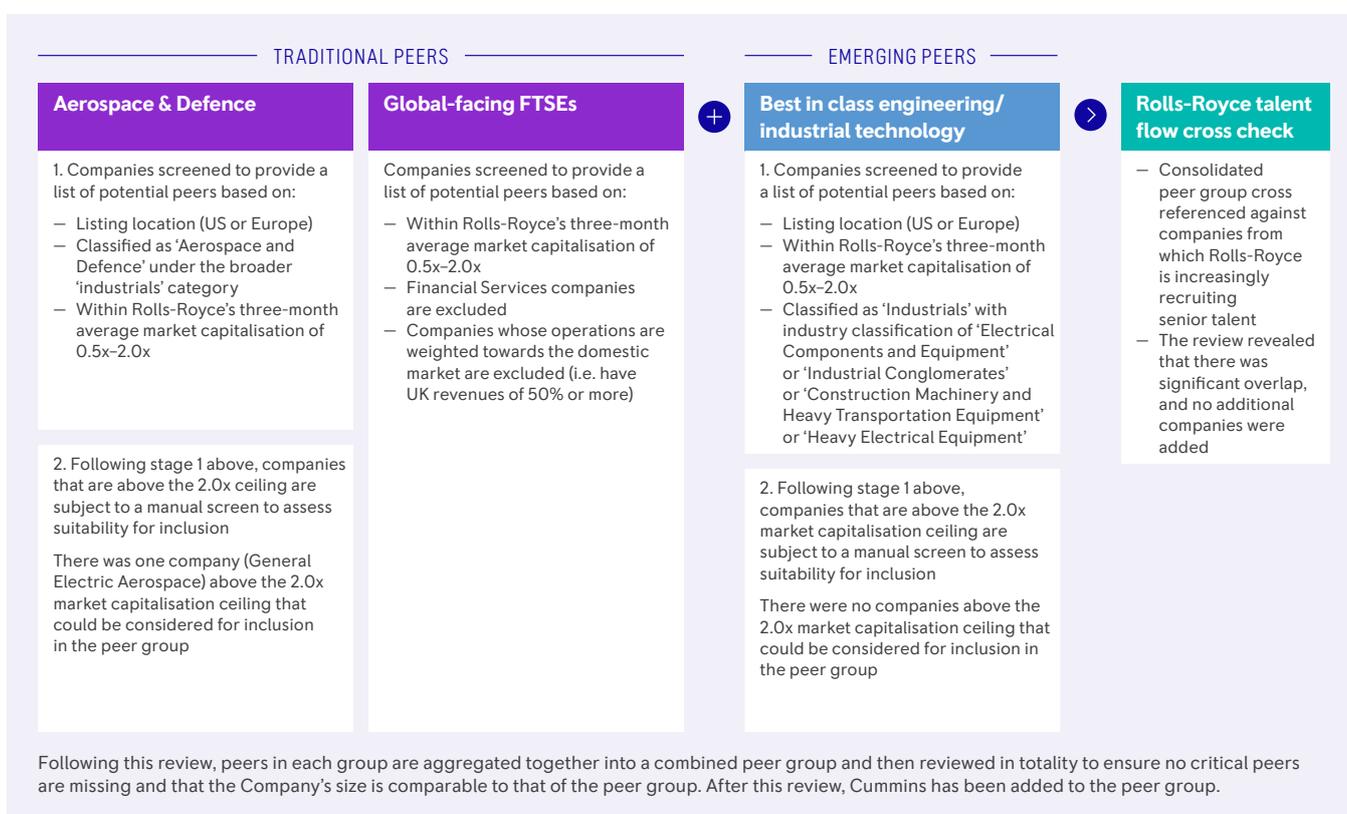
This policy will take effect immediately after the AGM to be held on 30 April 2026, subject to shareholder approval.

Background to the proposed new remuneration policy

The current policy was developed in 2023 and was baselined to a median FTSE 50 position, reflecting the Company's size and context at that time. Minor amendments to the policy were approved by shareholders in May 2025 relating to incentive deferral and shareholding requirements. Following the success of the ongoing transformation, as at 31 December 2025 Rolls-Royce had a market capitalisation of £97bn and was the sixth largest company in the FTSE.

For the purpose of benchmarking remuneration, an updated peer group has been developed by the Committee and was approved in August 2025 based upon market conditions and reported public information at that time. It incorporates similarly complex global businesses which operate in similar markets to those of Rolls-Royce, and in markets which represent our growth opportunities (e.g. narrowbody aerospace and nuclear). It also includes key talent markets with both traditional and emerging peers amongst UK-listed multinationals and international engineering and industrial technology sectors. The companies have been screened by a conventional market capitalisation size filter (e.g. selecting companies between 0.5x – 2.0x of the market capitalisation of Rolls-Royce) with adjustments to ensure critical talent peers above and below this range are included to ensure the output results in an appropriate forward-looking peer group. We believe that the output of this benchmarking reflects our business reality, with the resulting total target direct compensation median well aligned to our market capitalisation.

Peer group methodology in detail



Resulting peer group



1 At the time of assessment, General Electric was the only peer with a market capitalisation in excess of 2.0x that of Rolls-Royce. General Electric is a direct peer of our core Aerospace & Defence activity and is highly relevant as a competitor for talent

2 At the time of assessment, Cummins' market capitalisation was below 0.5x that of Rolls-Royce. Cummins is a relevant peer given the adjacency to our Power Systems business and our growing market presence in the US industrial power sector

Proposed changes to policy design

1. Incentive on-target and maximum levels

The table below summarises the current and proposed changes to incentive arrangements for our Chief Executive and Chief Financial Officer which will ensure that total target direct compensation levels are competitive relative to our chosen peer group.

	Chief Executive		Chief Financial Officer	
	Current Policy	Proposed Policy	Current Policy	Proposed Policy
On-target annual incentive	100% of base salary	150% of base salary	100% of base salary	No change
Maximum annual incentive	200% of base salary	300% of base salary	200% of base salary	No change
Long-term incentive plan grant level	375% of base salary	750% of base salary	275% of base salary	450% of base salary

Chief Executive and Chief Financial Officer total target direct compensation relative to peer group

Rolls-Royce/Peer group		Base salary	Target bonus (% of base salary)	Target annual compensation	Target LTI ³ (% of base salary)	Total target direct compensation ⁴
Tufan Erginbilgic	Rolls-Royce Chief Executive – before any changes¹	1,371,563	100%	2,743,126	225%	5,829,143
	Compa-ratio versus median	99%		83%		50%
Peer group	Upper quartile	1,440,000	175%	3,805,000	950%	15,495,000
	Median	1,385,000	150%	3,300,000	510%	11,730,000
	Lower quartile	1,175,000	125%	3,090,000	285%	6,955,000
	Proposals from 1 January 2026 – including base pay increase²	1,586,000	150%	3,965,000	450%	11,102,000
	Compa-ratio versus median	115%		120%		95%
Helen McCabe	Rolls-Royce Chief Financial Officer – before any changes¹	795,506	100%	1,591,012	165%	2,903,597
	Compa-Ratio versus median	99%		96%		63%
Peer group	Upper quartile	870,000	115%	1,870,000	515%	5,330,000
	Median	805,000	100%	1,650,000	315%	4,615,000
	Lower quartile	730,000	100%	1,525,000	240%	3,760,000
	Proposals from 1 January 2026 – including base pay increase²	936,000	100%	1,872,000	270%	4,399,200
	Compa-ratio versus median	116%		113%		95%

¹ Figures shown before changes are based on salaries in place as at 1 March 2025

² Proposed changes include base pay adjustments effective from 1 September 2025

³ Long-term incentive awards are delivered as grants of performance shares, with three-year performance conditions plus a two-year deferral period (i.e. five years in total). The target LTI percentages shown in the tables above assume LTIP grants of performance shares vest at 60% of maximum

⁴ Target total direct compensation includes on-target levels of incentive payments. The Committee has also considered the relativity of the proposed changes assuming maximum potential outturns and the relative positioning of the proposed changes to the peer group would be broadly consistent to the on-target compa-ratio

2. Shareholding requirement – aligning with shareholder interests

To ensure continued alignment of management interests with shareholder interests, the shareholding requirement for the Chief Executive will increase from 400% to 750% of base salary and for the Chief Financial Officer from 300% to 450% of base salary. This aligns the shareholding requirement with the new LTIP grant levels, and increases the number of shares our Executive Directors will be required to hold for two years following cessation of employment.

There are no further changes proposed to the policy.

No Executive Director was present during discussion of their own remuneration package and they were not involved in the final approval of the new remuneration policy design.

Consideration of shareholder feedback

During the policy review process we consulted with our 24 largest shareholders, who collectively hold over 50% of our share capital. We set out our proposals in writing and subsequently held twelve shareholder meetings and received nine written responses. We also met with three proxy advisers. We are pleased to confirm that there was consistent and positive support from shareholders, and a strong understanding of our rationale and approach from proxy advisers.

The Committee wholly believes that effective shareholder alignment requires appropriately stretching targets. Performance targets are set following a rigorous process including several internal and external reference points, including the business plan and analyst consensus estimates at the time the targets are set.

Remuneration policy table

The table below sets out each element of the Executive Directors' remuneration, which is subject to shareholder approval at the AGM to be held in April 2026.

Base salary	
Purpose and link to strategy	We provide competitive salaries to attract and retain individuals of the highest calibre to develop and execute the business strategy.
Operation	<p>Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed, but not led, by reference to:</p> <ul style="list-style-type: none"> – size and scope of the role; – skills and experience of the individual; – market competitiveness of the broader remuneration package; – performance of the Group and individual; – wider market and economic conditions; and – increases made across the Group. <p>The Committee has the flexibility to set the salary of a new hire at a discount to the market and to realign it in subsequent years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience that is critical to the delivery of the Group's strategy.</p> <p>No recovery or withholding applies.</p>
Maximum opportunity	There is no formal maximum. Any salary increases will be assessed annually and will not normally exceed average increases for employees in other appropriate parts of the Group. Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances, including but not limited to: where there is a significant change in the scale, scope or responsibility of a role; where the organisation has undergone significant change; development within a role; and/or significant market movement.
Performance measures	Not applicable, although overall individual and business performance is considered when setting and reviewing base salary.
Benefits	
Purpose and link to strategy	We provide competitive benefits suitable to attract and retain individuals of the right calibre to develop and execute the business strategy and to support their wellbeing.
Operation	<p>A range of benefits may be provided including, but not limited to, provision of a company car or car allowance; financial planning and tax assistance; private medical insurance; life assurance; and other appropriate benefits at the discretion of the Committee.</p> <p>Relocation support or support for accommodation and travel may be offered to executives where necessary. Executive Directors may participate in the Group's all-employee share plans.</p> <p>No recovery or withholding applies.</p>
Maximum opportunity	<p>There is no formal maximum. The cost of benefits is not predetermined, reflecting the need to allow for increases associated with the provision of benefits. Benefit costs are reviewed regularly to ensure they remain cost-effective.</p> <p>Participation in any tax advantaged share schemes is capped at the same level as other participants, which is determined by the Group within the bounds of any applicable legislation which may change from time to time.</p>
Performance measures	Not applicable.

Remuneration policy table continued

Retirement	
Purpose and link to strategy	We provide a competitive retirement savings plan suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.
Operation	Executive Directors are offered membership of a retirement savings plan. A cash allowance may be payable in lieu of contributions to the plan. In certain jurisdictions it may be more appropriate to offer more bespoke retirement arrangements. The Committee will give due consideration to local employment legislation, market practices and the cost of the plan.
Maximum opportunity	The maximum employer contribution for the Executive Directors is aligned with that made available to the wider workforce, being 12% of base salary in the UK.
Performance measures	Not applicable.

Annual incentive	
Purpose and link to strategy	We reward annual performance against stretching financial, strategic and individual targets aligned to delivery of the Group's strategy. Deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.
Operation	The Group operates an Annual Incentive Plan which may be based on a combination of financial, operational and individual performance measures aligned to the Group's strategy. At least half the annual incentive awarded in any year will be deferred into shares for Executive Directors who have not achieved the shareholding guideline. If the Executive Director has exceeded their in-employment shareholding guideline, but has not achieved a level of double the shareholding guideline, the level of annual incentive deferral into shares reduces from 50% to 25% of salary. Should the Executive Director achieve double the shareholding guideline then the annual incentive would pay out fully in cash. The deferral period will normally be for a period of three years. The Committee has discretion to permit a dividend equivalent amount to accrue on shares delivered under the deferred annual incentive arrangement. Vesting of deferred shares is dependent on continued employment or good leaver status, as described in the notes to the policy table from page 93. The Committee retains the discretion, acting fairly and reasonably, to alter the annual incentive outcome in light of the underlying performance of the Group, taking account of any factors it considers relevant. Clawback will apply to any cash incentive paid for three years from the date of the cash payment being made, and malus will apply to any deferred shares within the three year deferral period.
Maximum opportunity	The maximum annual incentive opportunity for Executive Directors is 300% of base salary.
Performance measures	The incentive may be based on a combination of financial, operational and individual measures which the Committee will review on an annual basis. The precise allocation between financial and non-financial measures, as well as weightings within these measures, will depend on the strategic focus of the Group from year to year. At least 50% of the performance measures will be financial. Up to 25% of the maximum incentive opportunity is paid for achieving a threshold level of performance and the maximum incentive is paid for delivering stretching levels of business performance and outstanding personal performance. No incentive is payable if threshold levels of performance are not achieved.

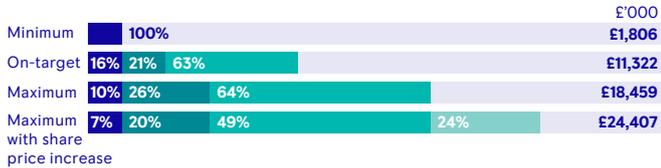
Remuneration policy table continued

Long-term incentive plan	
Purpose and link to strategy	We incentivise the execution of strategy and seek to drive long-term value creation and alignment with long-term returns to shareholders.
Operation	<p>Awards under the LTIP are conditional rights to receive shares subject to continued employment or good leaver status and the achievement of any relevant performance conditions.</p> <p>Awards are subject to performance targets normally assessed over three financial years and subject to a two year holding period. The Committee has discretion to set different performance periods if it considers appropriate.</p> <p>The Committee shall determine the extent to which the performance measures have been met. The Committee may make adjustments to performance targets if an event occurs or circumstances arise which cause the Committee to determine that performance conditions are no longer appropriate. The performance targets will be at least as challenging as the ones originally set.</p> <p>The Committee has discretion to permit a dividend equivalent amount to accrue on shares during the holding period under the LTIP.</p> <p>The Committee has the ability to exercise discretion in adjusting the formulaic outcome of incentives to ensure the outcome is reflective of the performance of the Group and the individual over the performance period.</p> <p>Malus and clawback apply for six years from the date of grant (see page 94).</p>
Maximum opportunity	The maximum long-term incentive award for Executive Directors is 750% of base salary.
Performance measures	<p>The Committee determines performance measures and weightings each year and will ensure that the targets are stretching and support value creation for shareholders while remaining motivational for management. The precise measures and weightings will be determined by the Committee on an annual basis and will depend on the strategic focus of the Group year-to-year. A minimum of 90% of measures will be financial.</p> <p>Measures for the 2025 award included: free cash flow (30%); operating margin percentage (30%); relative total shareholder return (30%); and Scope 1 + 2 greenhouse gas emission targets (10%). For 2026, the measures will include a one-third weighting to each of: free cash flow, operating margin and relative total shareholder return. For each performance element, achievement of the threshold performance level will result in no more than 20% of the maximum award paying out. For achievement of the maximum performance level, 100% of the maximum pays out. No amount is payable if threshold levels of performance are not achieved.</p> <p>The Committee will review the measures each year, and will consider whether it is appropriate to change the measures to ensure continued alignment to strategic priorities.</p>
Share ownership	
Purpose and link to strategy	Ensures alignment with shareholders' interests.
Operation	<p>Executive Directors are required to build a holding of share interests equivalent in value to a percentage of their base salary within five years from the date they become subject to the Policy. From 2026, the shareholding requirement will increase to reflect the LTIP grant level, which for the Chief Executive is 750% of base salary, and for the Chief Financial Officer and any other Executive Director is 450% of base salary. Where requirements are not met, Executive Directors must retain at least one half of after-tax shares released from the deferred bonus arrangements and the LTIP until this requirement is met.</p> <p>Post-cessation, Executive Directors are normally required to retain the lower of the shareholding requirement or their actual shareholding at leaving date for 24 months.</p>

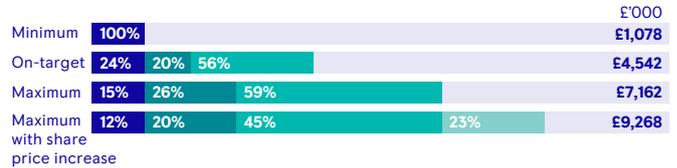
Remuneration policy – worked examples for 2026

The tables below provide an illustration of what could be received by each Executive Director for awards granted in, and remuneration for, the 2026 performance year, assuming minimum, on-target and maximum levels of performance. The maximum with share price increase scenario shows the impact of 50% share price growth on the LTIP shares.

TUFAN ERGINBILGIC
CHIEF EXECUTIVE



HELEN MCCABE
CHIEF FINANCIAL OFFICER



■ Fixed pay ■ Annual incentive ■ LTIP ■ Share price increase

Minimum	Fixed remuneration (salary, retirement, benefits)
On-target	Fixed remuneration, on-target annual incentive (equivalent to 150% of salary for the Chief Executive and 100% of salary for the Chief Financial Officer) and 60% vesting of the LTIP (equivalent to 450% for the Chief Executive and 270% for the Chief Financial Officer)
Maximum	Fixed remuneration, maximum annual incentive (equivalent to 300% of salary for the Chief Executive and 200% of salary for the Chief Financial Officer) and 100% vesting of the LTIP (equivalent to 750% for the Chief Executive and 450% for the Chief Financial Officer)
Maximum assuming 50% increase in share price	All elements are the same as the maximum but assumes a 50% increase in the share price from the date that the shares are granted

Alignment with shareholders

The table below illustrates how the policy aligns the interests of Executive Directors with the long-term interests of shareholders. A significant portion of the total compensation package will be delivered in shares. 50% of the annual incentive will be deferred into shares for a period of three years and the long-term incentive plan will have a three-year performance period followed by a two-year holding period.



¹ Deferral of 50% of the annual incentive will apply unless an Executive Director has satisfied at least their minimum shareholding requirement. Twenty-five percent of the annual incentive will be deferred if the shareholding requirement is met in full. No deferral will apply where an Executive Director holds over 200% of their shareholding requirement. Information on the current shareholding requirements for the Executive Directors can be found on page 105.

Notes to the Remuneration policy table

Performance measure selection and setting

The annual incentive measures are determined annually to reflect matters which the Committee considers to be areas of specific focus for the Executive Directors over the short term. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group's strategic objectives.

The Committee sets performance conditions relating to the LTIP awards which are designed to align the interests of management and shareholders, incentivise management to deliver the Group's strategic objectives and reward performance over the longer term.

Targets for the annual incentive and performance measures for the LTIP awards are reviewed and set before the awards are made, based on a number of internal and external reference points, including strategic plans and analyst consensus to reflect market expectations where available. The Committee intends that the targets will be stretching and will align management's interests with those of shareholders. The measurement of performance is at the Committee's discretion, which may include appropriate adjustments to financial or non-financial elements and/or consideration of overall performance in the round. Adjustments may be either upwards or downwards.

In exceptional circumstances, performance conditions may also be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate.

Malus and clawback provisions

Malus and clawback apply to the annual incentive and the LTIP. Malus allows the Committee, in its absolute discretion, to determine at any time prior to the vesting of an award, to reduce or cancel the award. Clawback allows the Committee, in its absolute discretion, to claw back from individuals some or all of the vested awards or paid annual incentives. Malus and clawback may apply in certain circumstances, including:

- a material misstatement of audited results;
- serious financial irregularity;
- material financial downturn or an event causing a material negative impact on the value of the Group;
- material failure of risk management;
- a serious breach of Our Code;
- individual misconduct or actions that materially damage, or are likely to materially damage, the Group;
- acting in a way which has materially damaged the reputation of the Group or any member of the Group;
- a breach of or inadequate response to a significant HSE or other environmental issue;
- materially incorrect calculation of an award; and/or
- failure to adequately manage/supervise others which in turn led to one of the above triggers and/or materially incorrect calculation of an award.

Policy on new appointments

The Board will appoint new Executive Directors with a reward package recommended by the Committee that is in line with the remuneration policy. Base salary may be set at a higher or lower level than the previous incumbent. The maximum incentive opportunity on appointment will be no higher than the maximum of the shareholder approved remuneration policy, which is 300% for the annual incentive and 750% for the LTIP.

Remuneration forfeited on resignation from a previous employer may be compensated. This will be considered on a case-by-case basis and may comprise cash or shares. In general:

- if such remuneration was in the form of shares, compensation will be in the Company's shares;
- if remuneration was subject to achievement of performance conditions, compensation will, where possible, be subject to performance (either Rolls-Royce performance conditions or actual/forecast performance outturns from the previous company); and
- the timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited.

Legacy terms for internal appointments may be honoured, including any outstanding incentive awards. If an Executive Director is appointed following a merger or an acquisition of a company by Rolls-Royce, legacy terms and conditions may be honoured.

Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide reasonable relocation assistance and other allowances including expatriate assistance. Global relocation support and any associated costs or benefits (including but not limited to housing, school fees, tax preparation and filing assistance and flights back to the home country) may also be provided if business needs require it. Should the Executive's employment be terminated without cause by the Group, repatriation costs may be met by the Group.

The Company may agree to pay the reasonable legal fees incurred by a new appointee for advice received in relation to their contract of employment or service agreement.

Wider workforce considerations

The Committee has responsibility for overseeing pay arrangements of all our people and reviews broader workforce policies and practices in order to support decisions on executive pay. When setting remuneration for Executive Directors and senior management, the Committee carefully considers wider remuneration across the Group, including salary increases, annual incentive awards, share plan participation and pay ratios between Executive Directors and employees.

Paying our people fairly relative to their role, skills, experience and contribution is central to our approach to remuneration. The Group's reward framework and policies fundamentally support this. The remuneration policy for senior executives and other employees is determined based on similar principles to Executive Directors. For roles below the Board, the exact structure and balance are tailored based on various factors including the scale, scope or responsibility of the role, development within the role and local market practice.

We drive alignment through the organisation with our incentives and our all-employee share plans. The Annual Incentive Plan performance measures cascade from Executive Directors to the vast majority of our wider workforce and our LTIP plan cascades to over 5,000 global leaders as well as our key talent groups, totalling approximately 14% of our global workforce. This drives alignment of organisational and individual objectives, ensuring that the wider workforce is driving the key metrics which will help us to continue to deliver a step-change in our performance and enable our strategy. Our reward arrangements are subject to regular consultation activity with leaders, employees and their representatives.

The Committee is committed to driving a culture of employee share ownership, with 2025 being a pivotal year on this journey. The all-employee share plan transitioned from a Save As You Earn plan, which was cash settled outside of the UK and share settled in the UK, and saw the launch of a global purchase plan (Your Shares: Matched), where the Company matches personal investment up to a certain value each month, allowing all colleagues to become shareholders. The Committee is pleased with the level of engagement with the new plan, with 66% of eligible colleagues choosing to participate.

We awarded all global colleagues 150 free shares on 12 September 2024 when our share price was £4.93, making the entire workforce shareholders. These shares vested in all countries outside of the UK on 12 September 2025, having benefited from a return of approximately 130%. For colleagues in the UK, these shares will vest in 2027. The Committee firmly believes that share ownership drives engagement with both business and share price performance, and reinforces the message that we all benefit if the business succeeds. Not only does employee share ownership ensure greater alignment of financial interests, it provides our people with additional voice in corporate matters as a result.

Share plans

The Committee retains a number of discretions consistent with the relevant share plan rules. For example, in the event of any variation in the share capital of the Company, a demerger, special dividend, distribution or any other transaction which will materially affect the value of shares, the Committee may make an adjustment to the number or class of shares subject to awards.

The treatment of leavers, including change of control provisions, in all of our share plans is covered by the respective plan rules.

Service contracts

A summary of the key elements of the Executive Directors' service agreements as they relate to remuneration are as follows:

Contract duration	No fixed term.
Notice period	12 months' notice both to and from the Executive Director.
Payment in lieu of notice (PILON)	<p>Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, retirement contributions or allowance, car allowance and a sum representing the cost of private medical insurance. The Company may elect to provide private medical insurance and/or to allow an Executive Director to retain their company car through the notice period, or the balance of it, as an alternative to making cash payments.</p> <p>The Company is entitled to make the PILON on a phased basis, subject to mitigation, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.</p>
Change of control	The service agreements for Executive Directors do not contain change of control provisions. However, if there is a change of control of the Company or other specified Company events, the relevant plan rules contain details on the impact for awards. In most cases, this is likely to result in the awards vesting early but subject to still meeting any applicable performance conditions, as decided by the Committee, which may have regard to projected performance over the whole period, and applying time prorating. Alternatively, awards may be exchanged for new awards over shares in the acquiring company in some circumstances.
Other entitlements on termination	<p>There is no contractual entitlement to notice or any other payments in respect of the period after termination of employment if the individual is summarily dismissed.</p> <p>Please see payments for loss of office over the page for a summary of other entitlements which may be due upon termination and which relate to remuneration.</p>

Payments for loss of office

The Company's policy on payments for loss of office is as follows.

The relevant share plan rules govern the treatment of in-flight share awards when an Executive Director leaves. The table below summarises leaver provisions for good leavers.

Good leavers are those who have left the Group due to: death; ill-health, injury or disability; redundancy; retirement with the agreement of the Group; the sale or transfer of the business in which the Executive Director is employed to a company which is not a member of the Group; the participant's employing company ceasing to be a member of the Group; and other such circumstances approved by the Committee.

All awards will normally lapse if an individual leaves the Company for any reason other than a good leaver reason. The Committee will not exercise discretion where a participant is dismissed for gross misconduct.

The Company may agree to pay the reasonable legal fees for the advice received in relation to the termination of employment.

Component	Approach
Annual incentive	<p>Individuals who are determined by the Committee to be good leavers may be considered for an annual incentive in relation to the year in which their active employment ceases.</p> <p>When deciding whether to exercise its discretion to allow a payment in respect of an annual incentive (and, if so, its amount and the terms on which it may be paid), the Committee will consider such factors as it considers to be appropriate, including performance against targets, the performance of the individual and the Group in general and the circumstances in which the individual is leaving office. Any payment to a good leaver in respect of an annual incentive will typically be made at the same time as annual incentives are paid to other employees. Clawback will continue to apply to the cash element of any payment made in respect of an annual incentive. The Committee will determine if it is appropriate in the particular circumstances to apply incentive deferral.</p> <p>Deferred shares allocated will vest in full on the vesting date if an individual is determined by the Committee to be a good leaver unless the Committee, in its absolute discretion, determines that an award will vest on such earlier date on or following the date of such cessation as it may specify. Otherwise, they will lapse on exit.</p>
Long-term incentive plan	<p>If an individual is determined by the Committee to be a good leaver, LTIP awards will normally continue to vest on the original vesting date and any holding period will normally still apply (subject to the satisfaction of performance conditions and unless the Committee exercised its discretion to waive time prorating, which will apply to reflect the period worked). If an individual leaves during the holding period for any reason (except summary dismissal) the award will not lapse or be prorated for time but the holding period will normally remain in force.</p>
GESPP and SIP schemes	<p>Awards under all employee plans (Global Employee Share Purchase Plan and the Share Incentive Plan) are subject to the same leaver provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.</p>

Legacy commitments

Any remuneration payments and/or payments for loss of office made under legacy arrangements prior to the approval of the remuneration policy may be paid out subject to the terms of the remuneration policy in place at the time they were agreed. For these purposes, payments include satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment will be agreed at the time the award is granted. Unvested Annual Incentive Plan awards issued under the previous policies, along with any salary that was deferred into shares, will vest on the usual vesting dates, consistent with the terms of that policy. LTIPs granted under previous policies remain in place, consistent with the terms of those policies.

Minor amendments

The Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval.

Non-Executive Directors' remuneration

The table below sets out the main elements of Non-Executive Directors' remuneration.

Fees	
Purpose and link to strategy	To reward individuals for fulfilling their role and attract individuals of the skills and calibre required.
Operation	<p>The Committee makes recommendations to the Board on the Chair's remuneration. The Chair and the Executive Directors determine the remuneration of the Non-Executive Directors.</p> <p>The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary skills and experience. Fees are periodically reviewed to ensure they remain appropriate in the context of: the role scope; company size; complexity and global breadth; and wider market conditions.</p> <p>The Chair is normally paid a single fee which reflects the commitment, demands and responsibility of the role and may be paid in either cash or shares or a combination of both.</p> <p>Other Non-Executive Directors are normally paid a base fee and additional fees for Board Committee chairmanship and membership responsibilities. The Senior Independent Director, Employee Champions and the Rolls-Royce North America Board director receive an additional fee for these additional duties. Non-Executive Director fees may be paid in either cash or shares or a combination of both.</p> <p>Non-Executive Directors are not eligible to participate in the annual incentive or LTIP.</p>
Maximum opportunity	The current limit on the aggregate fees is set out in the Articles of Association which may be amended by a shareholder vote.
Performance measures	Not applicable.
Benefits	
Purpose and link to strategy	To reimburse Non-Executive Directors for reasonable expenses incurred in fulfilling the duties of their role.
Operation	Reimbursement for expenses that may include, but are not limited to, travel, hotel and subsistence incurred when attending meetings. The Group may provide support with tax matters for Non-Executive Directors based outside the UK. The Chair may have occasional use of chauffeur services. The Group may pay tax on benefits provided to Non-Executive Directors.
Maximum opportunity	Not applicable.
Performance measures	Not applicable.

Implementation of remuneration policy for 2026

Base salary	The salaries for the Chief Executive and the Chief Financial Officer were reviewed in September 2025. No increase is proposed in 2026. Base salaries will next be reviewed in March 2027.
Benefits	There will be no change to our approach to benefits in 2026, which includes car allowance, financial planning assistance, insurances and other benefits.
Retirement	The cash allowance for Tufan Erginbilgic and Helen McCabe is 12% of salary, in line with the rate made available to the wider UK workforce.
Annual incentive	In line with the proposed policy, the annual incentive for 2026 will be based on 80% Group performance and 20% individual performance, with a maximum opportunity for Tufan Erginbilgic of 300% of salary and Helen McCabe of 200% of salary. At least half of the annual incentive awarded in any year will be deferred into shares which will vest after three years for Executive Directors who have not achieved the shareholding guideline.

The performance metrics continue to reflect the key strategic priorities for the Group, and remain unchanged for 2026, with an 85% weighting to financial metrics, and 15% to non-financial (customer; safety and people) metrics.

The metrics and associated weightings will be:

Metric	Weighting	Link to strategy
Free cash flow	40%	A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.
Operating profit	30%	Indicates how the effect of growing revenue and control of our costs delivers value for shareholders.
Strategic objectives (split 5% customer and 15% operating profit margin)	20%	Incentivises the delivery of key annual objectives linked to the transformation. Customer delivery and continuing focus on margin improvement are both critical to increasing the quality and sustainability of financial returns.
Safety	5%	Safety is the Group's licence to operate and is the number one priority for all of our people.
People	5%	Our Voices survey is an objective way of assessing how engaged our employees are with the business, its leaders and our transformation.

Where targets are set with a one-year performance period and are considered to be commercially sensitive, they will be disclosed following the end of the performance period, along with performance against targets and the details and context for the assessment of performance.

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to apply discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

Implementation of remuneration policy for 2026 continued

Long-term incentive plan

The long-term incentive has a three-year performance period and a two-year holding period, with a maximum opportunity of 750% of salary for Tufan Erginbilgic and 450% for Helen McCabe.

For each performance element, achievement of threshold will result in no more than 20% of the maximum pay out and no amount payable for an element if the threshold is not met. Achievement of the maximum performance would result in 100% of the maximum award paying out.

Since we re-introduced a market-typical LTIP in 2024, the metrics have been updated each year to reflect our key strategic priorities at the time. This is demonstrated in the table below. Cash, profit and relative share performance remain consistent metrics. Return on Capital in the 2024 LTIP and a Scope 1 + 2 related metric in the 2025 LTIP continue to drive long-term focus and action in these key areas. The Committee will continue to consider LTIP metrics each year in light of our strategic priorities each year.

	2024	2025	2026	2027	2028
2024 LTIP	30% free cash flow 30% operating margin 30% relative TSR 10% return on capital				
2025 LTIP		30% free cash flow 30% operating margin 30% relative TSR 10% Scope 1 + 2 emissions			
2026 LTIP			33.3% free cash flow 33.3% operating margin 33.3% relative TSR		

2026 metrics

Metrics	Weighting	Threshold ¹ (20% vesting)	Maximum ¹ (100% vesting)	Link to strategy
Free cash flow (three-year cumulative)	33.3%	£13.0bn	£13.6bn	A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.
Operating margin % (average over three-year performance period)	33.3%	18.7%	19.5%	Reflects the quality of performance and will encourage continued cost focus across the Group.
Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P global industrials index constituents)	33.3%	Median	Upper quartile	Closely aligns executive pay outcomes with the shareholder experience, a measure favoured by a large proportion of our shareholder base.

¹ Outturn between threshold and maximum will be calculated on a straight-line sliding scale

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to apply discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

The long-term incentive opportunities and time horizons will operate in accordance with the remuneration policy.

Remuneration report

Executive Directors' remuneration

The following pages show how we have applied our remuneration policy during 2025 and disclose all elements of remuneration received by our Executive Directors.

Executive Directors' single figure of remuneration (audited)

	Tufan Erginbilgic		Helen McCabe	
	2025 £'000	2024 £'000	2025 £'000	2024 £'000
Salary (a)	1,432	1,136	836	690
Salary as deferred shares	-	160	-	62
Benefits (b)	89	105	33	29
Annual Incentive Plan (c)	2,996	2,556	1,730	1,483
Long-Term Incentive Plan	-	-	-	-
Retirement allowance (d)	172	156	100	90
Previous employer buyouts (e)	-	-	1,104	888
Total remuneration	4,689	4,113	3,803	3,242
Total fixed remuneration	1,693	1,557	969	871
Total variable remuneration	2,996	2,556	2,834	2,371

a) Salary (audited)

The Company provides suitable competitive salaries to attract and retain individuals of the right calibre to develop and execute the business strategy.

As disclosed last year, base pay awards of 5% were delivered to both Tufan Erginbilgic and Helen McCabe effective 1 March 2025. At the time, this was below the median increase for the broader UK population for 2025 of 5.5%. The Committee subsequently undertook a benchmarking process during the summer to inform our new policy proposals and this identified a material gap between the current pay arrangements for Tufan and Helen and competitive levels of pay prevalent within our peer group. Consequently, the Committee decided to make further adjustments to the base pay from 1 September as a proactive measure to recognise the exceptional performance of the Executive Directors and to mitigate the gap to market. Tufan's base salary was increased by 15.6% and Helen's base salary was increased by 17.7%. These adjustments result in base pay levels aligned to those typical in other FTSE 10 companies. No further increases to base salaries are planned until March 2027.

	Base salary as at 1 March 2026 (£)	Base salary as at 1 March 2025 (£)
Tufan Erginbilgic	1,586,000	1,371,563
Helen McCabe	936,000	795,506

b) Benefits (audited)

Benefits are provided to ensure that remuneration packages remain sufficiently competitive to attract and retain individuals of the right calibre to develop and execute the business strategy and to enable them to devote themselves fully to their roles. The value of all taxable benefits paid to Executive Directors is shown below.

	Car or car allowance £'000		Medical insurance £'000		Travel and subsistence £'000		Tax benefit £'000		Total £'000	
	2025	2024	2025	2024	2025	2024	2025	2024	2025	2024
Tufan Erginbilgic	15	15	68	64	-	26	6	-	89	105
Helen McCabe	15	15	2	2	4	11	12	1	33	29

c) Annual Incentive Plan (audited)

The Annual Incentive Plan is designed to incentivise the execution of the business strategy, delivery of financial targets and the achievement of personal objectives. Awards are made in March each year, following the prior calendar year performance period. Half of the incentive is deferred into shares for three years for Executive Directors who have not achieved their shareholding guideline. If the Executive Director has exceeded their shareholding guideline but not achieved a level of double the shareholding guideline, the level of annual incentive deferral into shares reduces from 50% to 25%. Should the Executive Director achieve double the shareholding guideline then the annual incentive would fully pay out as cash. Any deferred shares include the right to receive an amount equal in value to any shareholder distributions issued during the deferral period. The shares are conditional on continued employment but do not have further performance conditions. In 2025, the maximum opportunity under the Annual Incentive Plan for the Chief Executive and the Chief Financial Officer was 200% of base salary.

- 80% of the award is based on Group performance; and
- 20% of the award is based on individual performance.

The Committee reviewed the 2025 outturn against the performance measures.

2025 Annual Incentive performance outturns

	Weighting	Threshold (50% outturn) ¹	Target (100%) ¹	Maximum (200%) ¹	Performance pre-adjustments	Performance post-adjustments	% of target	% of maximum
Annual targets:								
Free cash flow ²	40%	£2,656m	£2,856m	£3,056	3,270	3,247	200%	100%
		Actual £3,247m						
Operating profit ²	30%	2,657	2,857	3,057	3,462	3,438	200%	100%
		Actual £3,438m						
People – Our Voices survey	5%	78%	79%	80%	n/a	n/a	200%	100%
		Actual 81%						
Safety	5%							
– Safety index score	2.5%	95%	97%	99%	n/a	n/a	155%	77.5%
		Actual 98.1%						
– Total Reported Injuries	2.5%	0.275%	0.25%	0.2%	n/a	n/a	0%	0%
		Actual 0.29%						
Key strategic objectives³								
– Operating profit margin ²	15%	13.8%	14.2%	15.2%	17.3%	17.1%	200%	100%
		Actual 17.1%						
– Customer ⁴	5%	n/a	n/a	n/a	n/a	n/a	44.7%	22.3%
		Actual 44.7%						
Outcome							186.1%	93.1%

1 Payout between threshold and target and target and maximum is calculated on a straight line sliding scale

2 Free cash flow and operating profit have been adjusted to account for foreign exchange changes during 2025 in order to ensure that targets and assessments are measured on a like-for-like basis

3 Key strategic objectives aligned to the broader transformation objectives were weighted 75% to operating profit margin and 25% to customer delivery metrics

4 Each Division had one clear, simple and easily measurable delivery metric that our customers would support. Group outturn is the average of the three Divisions. Civil Aerospace and Defence missed their target, while Power Systems achieved 134%

85% of the 2025 annual incentive scorecard was weighted to financial metrics and 15% weighted to non-financial metrics. The Committee considered adjustments to targets resulting from events which were not anticipated at the time the targets were set, to ensure that targets and assessments are measured on a like-for-like basis. No further adjustments were made.

The incentive plan outturns are 186.1% of target and 93.1% of maximum.

	Tufan Erginbilgic	Helen McCabe
Group performance (% of maximum) – weighting 80%	93.1%	93.1%
Individual performance (% of maximum) – weighting 20%	100%	90%
Actual award (% of maximum)	94%	92%
Actual award (% of salary)	189%	185%
Actual award (£'000)	£2,996	£1,730

As the Chief Executive and the Chief Financial Officer hold more than double their required shareholding, all of the 2025 Annual Incentive will be paid as cash.

Definitions used for performance measures:

Operating profit – adjusted Group underlying operating profit before tax.

Free cash flow – adjusted Group free cash flow.

Operating profit margin – adjusted Group underlying operating profit margin.

People – based on the results of the Our Voices survey.

Safety – equally weighted between our two key internal safety measures (the safety index and total reported injury rates). The safety index is an established internal KPI used by all divisions and was included for the first time as an incentive metric for 2023.

Individual performance

Subject to achievement of a minimum financial threshold, 20% of the annual incentive opportunity for the Executive Directors is based on the achievement of their personal objectives. The financial threshold for 2025 was to deliver a Group free cash flow of a minimum of £1,530m. Personal performance objectives are set at the beginning of the year and are aligned with the Group's priorities.

Chief Executive: Tufan Erginbilgic

Objective	Measure	Assessment against objective
Safety	Demonstrate year-on-year progress to reduce the number of Total Reported Injuries (TRI). Embed process safety reporting and performance management across the Group.	<p>Product safety risk reached its lowest level in a generation, with all divisions resolving issues and enhancing portfolios.</p> <p>Safety culture is consistently reinforced at every level in the organisation and embedded in the new behaviours. More than 13,000 employees completed the new facilitator-led Safety Experience, reinforcing understanding of safety systems and personal accountability.</p> <p>The Our Voices survey results demonstrated safety is understood by all layers of the organisation as our number one priority.</p> <p>TRI rate stable year-on-year at 0.29, which is the lowest level on record.</p>
Operational effectiveness	Drive improvements in product cost with the aim of outperforming industry benchmarks.	<p>Proactive steps taken across the Group to improve supply chain efficiency and to continue to manage ongoing supply chain challenges in the aviation supply chain. Engine production and aftermarket throughput improved, which was recognised externally by Airbus through its Operational Excellence Award. Global MRO expansion is restoring fleet performance, with progress on reducing aircraft on ground.</p> <p>Excellent progress on all six levers to unlock value within Civil Aerospace: extend time on wing, lower shop visits, reduce product costs, keep engines earning for longer, value-based pricing and contractual rigour to restructure onerous contracts.</p> <p>Group Business Services (GBS) function scaled up with the expansion of a Global Capability and Innovation Centre in India, which will include engineering, people, finance and procurement teams, as well as digital and data innovation teams to help accelerate digital transformation.</p>
Performance management	Deliver free cash flow of £2,800m; deliver operating profit of £2,900m; and deliver operating margin of 14.2%.	<p>Significant outperformance across all financial KPIs enabling updated mid-term guidance to be delivered.</p> <p>2025 free cash flow of £3,270m; operating profit of £3,462m; and operating margin of 17.3%.</p> <p>The organisation has achieved its mid-term operating margin target (15%-17%) three years early. Based on 2026 guidance, we expect to deliver profit targets two years earlier than planned.</p>
Strategic initiatives delivery	<p>Embed a multi-year transformation programme that will eliminate aircraft on ground and deliver a step-change in original equipment performance and commercial capability across the Group.</p> <p>Secure strategic partnership for Rolls-Royce SMR.</p>	<p>The 17 strategic initiatives are all delivering and many over-achieving the targets, including net efficiency targets over-delivered.</p> <p>In Civil Aerospace, excellent progress has been made to improve time on wing and in reducing aircraft on ground.</p> <p>In Defence, significant progress has been made to grow our combat business.</p> <p>In Power Systems, we are capturing profitable growth in the back-up power generation systems for the rapidly growing data centre market.</p> <p>Rolls-Royce SMR was selected by Great British Energy – Nuclear to deploy three SMRs in the UK. We deepened our partnership with ČEZ Group, now a shareholder in Rolls-Royce SMR.</p>
Behaviours	Maintain strong engagement scores measured by Our Voices in 2025.	<p>Strong year-on-year progress reported in the Our Voices survey, demonstrating our transformation continues to be reinforced by the four behaviours introduced in 2024: put safety first; do the right thing; keep it simple; and make a difference. These behaviours have become part of the organisation's common language.</p> <p>The Power of You recognition platform has generated over 10,000 recognitions since launch, with strong adoption across all regions.</p>

Overall personal performance assessment: 200%

Chief Financial Officer: Helen McCabe

Objective	Measure	Assessment against objective
Safety	Continue to build a culture that puts safety at the heart of everything we do. Ensure robust compliance and controls environment.	Consistent and effective advocate driving safety culture. Internal controls and compliance processes and culture demonstrably strengthened across the Group underpinned by greater use of digital and automation.
Operational effectiveness	Finalise and start to execute an IT & Digital strategy; Execute GBS strategy in line with plan; Execute new Sales, Inventory & Operating Planning (SIOP) process.	Comprehensive IT & Digital strategy approved to address safety, compliance and strategic delivery. Launch of AI platform, AiRR, with AI capabilities being deployed across engineering, MRO and supply chain. Continued focus to maintain and strengthen cyber compliance and security. Integrated performance management robustly embedded. Excellent GBS progress: established new centre in Poland and expanded centre in India, including approximately 200 colleague transfers whilst maintaining 'silent running'; accelerated business cases approved and progressed; governance in place, with high confidence of achieving efficiency, effectiveness and experience commitments. New Group-wide SIOP process tracking very well with high visibility and confidence of optimisation benefits with cycle times reduced, processes being optimised and insights improved.
Performance management	Deliver free cash flow of £2,800m; deliver operating profit of £2,900m; and deliver operating margin of 14.2%.	Significant outperformance across all financial KPIs enabling updated mid-term guidance to be delivered. 2025 free cash flow of £3,270m; operating profit of £3,462m; and operating margin of 17.3%. The organisation has achieved its mid-term operating margin target (15%–17%) three years early. Based on 2026 guidance, we expect to deliver profit targets two years earlier than planned.
Strategic initiatives delivery	Execute the capital framework strategically, commercially and robustly. Deliver targeted investor updates successfully.	Balance sheet resilience restored. Upgrades to strong investment grade ratings from all three credit rating agencies. Return to shareholder distributions in the form of first cash dividends in more than five years and first share buyback programme in ten years. Purposeful and effective investor engagement on capital frame.
Behaviours	Implement new organisational design across Finance, GBS, IT & Digital functions. Strengthen talent pipeline for critical roles. Drive engagement and our behaviours with visible leadership.	Demonstrable progress in strengthening key talent areas. Group-wide focus to achieve synergies and deliver significant and recurring operating cost reductions. More efficient and simplified operating model with greater investment discipline and more focused management of third-party costs. Cumulative efficiency and simplification savings of over £600m delivered by the end of 2025, overachieving the targets set out in the Strategic Review in 2023. Strong year-on-year progress reported in the Our Voices survey. Colleague engagement and impact of behaviours all above Group average.

Overall personal performance assessment: 180%

d) Retirement (audited)

Executive Directors are offered membership of a defined contribution plan with a maximum employer contribution of 12% of salary (or cash allowance of equivalent value) in line with the rate available to the wider UK workforce.

In 2025, Tufan Erginbilgic and Helen McCabe received a cash allowance in lieu of employer contributions.

e) Compensation for remuneration forfeited from previous employment (audited)

Chief Financial Officer

Helen McCabe has been compensated for remuneration forfeited from previous employment which included shares. A number of these shares were subject to performance conditions set for the wider Group in 2022 and 2023. Details of these awards, the performance conditions and targets were first reported in the 2023 Annual Report.

e) Compensation for remuneration forfeited from previous employment (audited) continued

The first tranche of performance shares vested in March 2025 and were subject to performance conditions set in 2022 covering the performance period 1 January 2022 to 31 December 2024. The performance conditions included a free cash flow target (45% weighting, threshold target of £874m and maximum target of £2,674m); a cumulative operating profit target (45% weighting, threshold target of £1,705m and maximum target of £2,905m); and a CO₂ sustainability target (10% weighting, calculated as the average achievement of CO₂ sustainability milestones across the divisions, subject mainly to product compatibility with sustainable fuels). This award vested at 98%, with free cash flow and operating profit above the maximum target and the CO₂ sustainability milestone vested at 80%. The value of this award has been calculated and restated using the actual share price at vest of £7.67. The figure of £888,000 includes share price appreciation over the performance period of £705,000.

The second tranche of performance shares were subject to performance conditions set in 2023 covering the performance period 1 January 2023 to 31 December 2025, and will vest in March 2026. The performance conditions were equally weighted to operating profit (threshold target of £4.4bn, maximum of £5.4bn) and free cash flow (threshold target of £4bn, maximum of £5.3bn). This award will vest at 100%, with free cash flow and operating profit above the maximum target. The value of this award has been calculated using the average share price for the month ended 31 December 2025 of £11.13. The figure of £1,104,000 includes share price appreciation over the performance period of £951,000.

Payments to past Directors (audited)

Jasmin Staiblin stepped down as a Non-Executive Director from the Board on 13 May 2021. Jasmin was appointed as a member of the supervisory board of Rolls-Royce Power Systems AG on 10 June 2021 and as chair of their supervisory board, executive committee, audit committee and mediation committee on 11 June 2021. Payments of £275,636 have been made to Jasmin in 2025 in relation to her appointment (2024: £259,905). No other payments have been made to past Directors during the year.

Payments for loss of office (audited)

There were no payments for loss of office in 2025.

Executive Directors' shareholdings and share interests 2025 Annual Incentive Plan – Deferred shares

The following table summarises the Annual Incentive Plan awards made to Executive Directors in March 2025. Awards were made in the form of shares representing 50% of the annual incentive in respect of the 2024 financial year. These conditional awards are subject to continuous employment. Further details about the 2024 Annual Incentive Plan can be found in the 2024 Annual Report.

	Number of shares granted	Value of award at grant £'000	Vesting date	Market price at grant ¹ GBP
Tufan Erginbilgic	161,710	1,278	26/03/2028	790.33
Helen McCabe	93,792	741	26/03/2028	790.33

2025 LTIP

The following table summarises the LTIP awards made to the Executive Directors on 26 March 2025 for the performance period ending 31 December 2027. For further information see page 87.

	Number of shares granted	Value of award at grant £'000	End of performance period	Vesting date	Market price at grant ¹ GBP
Tufan Erginbilgic	650,787	5,143	31/12/2027	26/03/2030	790.33
Helen McCabe	276,802	2,187	31/12/2027	26/03/2030	790.33

¹ Based on 15-day average share price prior to the date of grant

Executive Directors' share awards (audited)

The tables below provide details of the Executive Directors' overall interests in ordinary shares under the Company's share plans. The Executive Directors do not have share options.

Award Type	Date of grant	Balance as of 31 December 2024	During the year			Balance as of 31 December 2025	Date of vest
			Granted	Vested	Lapsed		
Tufan Erginbilgic							
LTIP (Buyout) ¹	08/03/2023	4,128,138	-	-	-	4,128,138	08/03/2027
	08/03/2023	4,128,138	-	-	-	4,128,138	08/03/2028
LTIP ²	24/05/2024	1,129,193	-	-	-	1,129,193	24/05/2029
	26/03/2025	-	650,787	-	-	650,787	26/03/2030
Executive Incentive Plan ^{1,3,4}	01/03/2024	511,390	-	-	-	511,390	01/03/2027
	01/03/2024	767,086	-	-	-	767,086	01/03/2028
Annual Incentive Plan ^{1,3}	26/03/2025	-	161,710	-	-	161,710	26/03/2028
Salary Deferred Shares ^{1,3}	27/01/2023 –	-	-	-	-	-	27/01/2025 –
	28/05/2024	259,584	-	217,547	-	42,037	28/05/2026
Total		10,923,529	812,497	217,547	-	11,518,479	

¹ Shares are not subject to performance conditions

² Shares are subject to performance conditions

³ Shares will accrue additional shares at vest as a result of the reinvestment of dividend equivalents during the vesting periods

⁴ These awards were issued under the legacy hybrid Executive Incentive Plan which operated over 1 January 2021 to 31 December 2023

Award Type	Date of grant	Balance as of 31 December 2024	During the year			Balance as of 31 December 2025	Date of vest
			Granted	Vested	Lapsed		
Helen McCabe							
LTIP (Buyout)	29/11/2023	536,966 ¹	-	536,966	-	-	08/03/2025
	29/11/2023	198,002 ¹	-	198,002	-	-	08/03/2025
	29/11/2023	118,156 ²	-	115,792	2,364	-	08/03/2025
	29/11/2023	99,212 ²	-	-	-	99,212	23/03/2026
	29/11/2023	162,337 ¹	-	-	-	162,337	23/03/2026
LTIP ²	24/05/2024	480,284	-	-	-	480,284	24/05/2029
	26/03/2025	-	276,802	-	-	276,802	26/03/2030
Executive Incentive Plan ^{1,3,4}	01/03/2024	99,175	-	-	-	99,175	01/03/2027
	01/03/2024	148,763	-	-	-	148,763	01/03/2028
Annual Incentive Plan ^{1,3}	26/03/2025	-	93,792	-	-	93,792	26/03/2028
Salary Deferred Shares ^{1,3}	26/08/2023 -						26/08/2025 -
	26/05/2024	42,801		26,548		16,253	26/05/2026
Total		1,885,696	370,594	877,308	2,364	1,376,618	

1 Shares are not subject to performance conditions

2 Shares are subject to performance conditions

3 Shares will accrue additional shares at vest as a result of the reinvestment of dividend equivalents during the vesting periods

4 These awards were issued under the legacy hybrid Executive Incentive Plan which operated over 1 January 2021 to 31 December 2023

Executive Directors' share interests as at 31 December 2025 (audited)

The table below provides details of the total shareholding and share interests of the Executive Directors (including the interests of their connected persons) in ordinary shares as at 31 December 2025.

	Shares beneficially held	Scheme Interests			Total scheme interests	Shareholding requirement (%)	% of 2025 base salary ²
		Conditional shares not subject to performance conditions	Conditional shares subject to performance conditions	Salary deferred shares			
Tufan Erginbilgic	115,883	9,696,462	1,779,980	42,037 ³	11,518,479 ³	400	3,729
Helen McCabe	709,248 ¹	504,067	856,298	16,253 ³	1,376,618 ³	300	1,179

1 Shares beneficially held by Helen McCabe include 617 shares through the employee share purchase plan

2 Calculated by reference to the three-month average share price to 31 December 2025

3 Shares will accrue additional shares at vest as a result of the reinvestment of dividend equivalents during the vesting periods

During the period between 1 January 2026 to 26 February 2026, the following changes in interests have occurred:

- On 26 January 2026, 10,195 salary deferred shares vested for Tufan Erginbilgic and 3,942 salary deferred shares vested for Helen McCabe
- Helen McCabe acquired 15 shares on 7 January 2026 and 16 shares on 9 February 2026 under the Your Shares: Matched employee share scheme

No other changes in Executive Director share interests occurred in the period.

Executive Directors' shareholding requirements (audited)

In line with our shareholding requirements policy, Executive Directors are required to establish and maintain a level of share ownership in proportion to a percentage of base salary. The shareholding requirement is 400% for the Chief Executive and 300% for the Chief Financial Officer. Share interests that are included in the shareholding requirements are as follows: shares vested from Company share plans; shares held in the individual's own name or by a nominee; shares held by a person closely associated (PCA) (as defined by the UK Market Abuse Regulation) where the PCA has given express permission; shares held as part of Your Shares: Matched; and, the estimated net-of-tax shares held in trust as part of invested awards under the incentive plans where the awards are not subject to any performance conditions.

Individuals are expected to meet the shareholding requirement within five years of being subject to the policy. Where the shareholding requirements are not met, individuals may only dispose of shares in the following circumstances: to cover taxation and other costs associated with the vesting or exercise of a share award; in connection with the operation of the malus and clawback policy; or where the Committee determines there are exceptional circumstances.

At 31 December 2025, Tufan Erginbilgic's shareholding represented 3,729% of his base salary and Helen McCabe's shareholding represented 1,179% of her base salary. They have been subject to the policy since January and August 2023 respectively. These percentages have been calculated by reference to the three-month average share price to 31 December 2025, being the last working day of the year.

The Executive Directors are required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for two years post-cessation of employment.

Executive Directors' contractual arrangements

Each Executive Director has a service agreement that sets out their contract with the Company.

	Effective date of contract	Notice period from Company	Notice period from individual
Tufan Erginbilgic	1 January 2023	12 months	12 months
Helen McCabe	4 August 2023	12 months	12 months

Pay across the organisation

This section of the report enables our remuneration arrangements to be seen in context by providing:

- a comparison of the percentage change in our Directors' remuneration with the change in our UK employees' average remuneration over two years;
- a ten-year history of our Chief Executive's remuneration;
- our TSR performance over the same period;
- an indication of the ratio between our Chief Executive's remuneration and the remuneration of employees; and
- a year-on-year comparison of the total amount spent on employment costs across the Group and shareholder payments.

Percentage change in Directors' remuneration

The following table compares the percentage change in each of the Director's salary/fees, benefits and annual incentive to the average percentage change in salary, benefits and incentive for all UK employees for the past five years. This is reported only for Directors who have served two full years. UK employees were chosen as a comparator group in order to avoid the impact of exchange rate movements over the year. UK employees including apprentices, graduates and interns make up 50% of the total employee population and are employed by Rolls-Royce plc or its relevant subsidiaries. Rolls-Royce Holdings plc has no employees. Details of the adjustments made to Chair and Non-Executive Director fees are set out on page 108.

	2024-2025			2023-2024			2022-2023			2021-2022			2020-2021		
	Salary/fees %	Benefits %	Annual Incentive award %	Salary/fees %	Benefits %	Annual Incentive award %	Salary/fees %	Benefits %	Annual Incentive award %	Salary/fees %	Benefits %	Annual Incentive award %	Salary/fees %	Benefits %	Annual Incentive award %
Dame Anita Frew	22.80	46.24	n/a	16.73	40.00	n/a	n/a	(61.54)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tufan Erginbilgic ¹	26.07	(14.90)	17.21	3.68	262.07	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Helen McCabe ¹	21.16	13.37	16.66	n/a	n/a	n/a									
Birgit Behrendt ¹	34.40	78.38	n/a	n/a	n/a	n/a									
Stuart Bradie ^{1,2}	45.12	(62.31)	n/a	n/a	n/a	n/a									
George Culmer ³	41.96	(20.68)	n/a	48.24	(60.00)	n/a	n/a	6.25	n/a	14.29	150	n/a	n/a	n/a	n/a
Lord Jitesh Gadhia ⁴	34.59	19.08	n/a	32.22	-	n/a	38.46	(50)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Beverly Goulet ⁵	43.29	15.47	n/a	48.24	(26.87)	n/a	6.25	28.85	n/a	14.29	1,633.33	n/a	7.69	-	n/a
Nick Luff ⁶	25.18	-	n/a	18.95	-	n/a	n/a	-	n/a	5.56	-	n/a	38.46	-	n/a
Wendy Mars ⁷	38.44	20.55	n/a	54.22	(37.50)	n/a	18.57	60	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Paulo Cesar Silva ^{1,8}	45.12	147.24	n/a	n/a	n/a	n/a									
Dame Angela Strank ⁹	38.44	75.82	n/a	16.88	(50.00)	n/a	(14.44)	(50)	n/a	8.43	300	n/a	n/a	n/a	n/a
UK employees average ^{10,11}	3.36	(0.31)	1.23	4.69	(9.80)	(2.75)	5.77	(1.87)	25.42	5.71	3.80	3	1.03	(9.13)	1,435

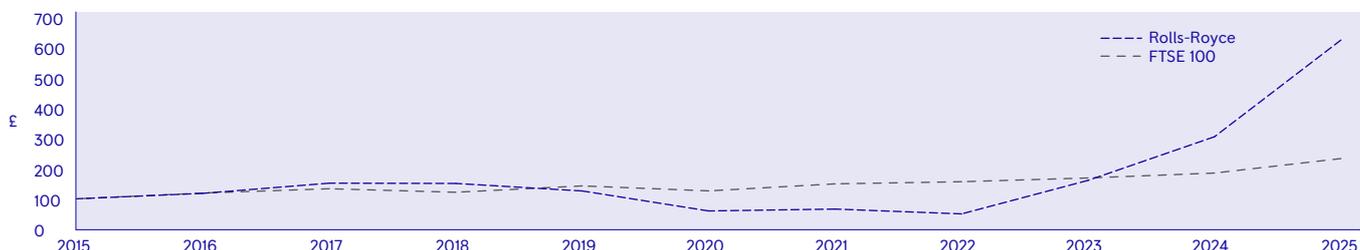
Chief Executive pay

Year	Chief Executive	Single figure of total remuneration £000	Incentive award as a % of maximum	LTIP as a % of maximum
2025	Tufan Erginbilgic	4,689	94	-
2024	Tufan Erginbilgic	4,113	97	-
2023	Tufan Erginbilgic	13,610	97	-
2022	Warren East	3,835	74	-
2021	Warren East	3,950	79.7	-
2020	Warren East	1,110	-	-
2019	Warren East	2,528	52	53
2018	Warren East	4,075	60	100
2017	Warren East	2,331	68	-
2016	Warren East	2,089	55	-

Tufan Erginbilgic was appointed as Chief Executive on 1 January 2023 and received compensation for remuneration forfeited from previous employment in 2023.

TSR performance

The Company's TSR performance over the previous ten years compared to a broad equity market index is shown in the graph below. The FTSE 100 has been chosen as the comparator because it contains a broad range of other UK-listed companies. The graph shows the change in value of a hypothetical £100 holding in the Company's ordinary shares over ten years (prior years adjusted for the rights issue), relative to the FTSE 100 index.



Chief Executive pay ratio

The Committee is mindful of the relationship between the remuneration of the Chief Executive and the wider employee population. This is the eighth year that we have published our Chief Executive pay ratio and we have continued to use option A. We believe that this is the most accurate and robust methodology because it relies on calculating actual full time equivalent remuneration for all relevant employees rather than rely on data collected for other purposes. We have used the full time equivalent total remuneration of all UK employees at 31 December 2025.

Year	Method	25th percentile	Median	75th percentile
2025	Option A	82:1	69:1	56:1
2024	Option A	74:1	64:1	54:1
2023 ¹	Option A	254:1	219:1	185:1
2022	Option A	75:1	64:1	55:1
2021	Option A	88:1	76:1	63:1
2020	Option A	26:1	22:1	19:1
2019	Option A	66:1	56:1	48:1
2018	Option A	92:1	77:1	66:1

For 2025, the salary and total remuneration for the three employees identified at the 25th, median and 75th percentiles are as follows:

Year	25th percentile	Median	75th percentile
Salary ²	£46,577	£55,992	£66,828
Total remuneration	£57,164	£67,584	£83,291

1 The 2023 pay ratio was elevated primarily by the award of shares valued at £7.5m at the time of grant to the Chief Executive as compensation for remuneration forfeited from previous employment. If this value was removed from the calculation the median pay ratio would have been 98:1

2 Calculated using base pay as at 31 December 2025

There is strong alignment between the reward structure for the Chief Executive and that of the wider workforce, with the majority of employees participating in an incentive plan with aligned financial metrics. We also encourage all eligible employees to join our all-employee share plans, with over 99% of our global population receiving an award of shares in 2024 under our Your Shares: Gifted plan. In 2025, we launched Your Shares: Matched, a global purchase plan structured to offer matching free shares for every share purchased up to a maximum monthly limit. This aligns to our broader strategy to increase employee share ownership and links directly to the transformation programme. Further information can be found in the strategy section on the transformation programme from page 11.

Relative importance of spend on pay

The following chart sets out the percentage change in shareholder distributions from dividends and share buybacks and overall expenditure on pay across the Group.

SHAREHOLDER DISTRIBUTIONS (£M)

(Consolidated cash flow statement)

2025	1,893 (100%)
2024	0 (0%)

GROUP EMPLOYMENT COSTS (£M)

(Note 9, employee information – see page 147)

2025	4,051 (2.61%)
2024	3,948 (4.78%)

Non-Executive Directors' remuneration

Non-Executive Directors' single figure of remuneration (audited)

	Fees (£'000)		Benefits (£'000)		Total remuneration (£'000)	
	2025	2024	2025	2024	2025	2024
Dame Anita Frew	702	572	10	7	712	579
Birgit Behrendt	121	90	9	5	130	95
Stuart Bradie ¹	131	90	1	3	132	93
George Culmer	179	126	2	2	181	128
Lord Jitesh Gadhia	160	119	1	1	161	120
Beverly Goulet	181	126	57	49	238	175
Nick Luff	141	113	–	–	141	113
Wendy Mars	177	128	6	5	183	133
Paulo Cesar Silva ²	131	90	12	5	143	95
Dame Angela Strank	121	90	2	1	123	91
Total	2,044	1,544	100	78	2,144	1,622

1 Stuart Bradie was appointed as a member of the Remuneration Committee on 1 August 2025

2 Paulo Cesar Silva was appointed as a member of the Audit Committee on 1 August 2025

Non-Executive Directors' fees

The Chair's fee is reviewed by the Board as a whole on the recommendation of the Committee. The review of the other Non-Executive Directors' base fees is reviewed by the Chair and Executive Directors. No individual may be involved in setting their own fee. Fees were reviewed in 2025 and changes were approved effective 1 March 2025, as set out below, representing a 5% increase in line with the awards to our Executive Directors in March 2025 (see page 82).

In parallel with the benchmarking activity undertaken during the year for the Executive Directors, the Committee reviewed the fees paid to the Chair. The Chair, together with the Executive Directors, also reviewed the fees paid to the Non-Executive Directors. Recognising the material change in market position of Rolls-Royce, it was agreed to apply an adjustment to fees to align with levels typical of those for a FTSE 10 organisation, which took effect from 1 September 2025. A further adjustment of 4% to Non-Executive Director fees has been made effective 1 March 2026 to maintain a market competitive position.

	1 March 2026 £'000	1 September 2025 £'000	1 March 2025 £'000	2024 £'000
Chair	832	800	662	630
Other Non-Executive Director base fee	125	120	95	90
Chair of the Audit Committee	47	45	37	35
Chair of the Remuneration Committee	47	45	37	35
Chair of the Safety, Energy Transition & Tech Committee	47	45	37	35
Committee member	26	25	16	15
Senior Independent Director	47	45	37	35
Lead Employee Champion	26	25	21	20
UK Employee Champion	21	20	16	15
North American board member	26	25	16	15

Non-Executive Directors' benefits (audited)

The benefits for Non-Executive Directors relate predominantly to travel, hotel and subsistence incurred in attending meetings and site visits. These figures have been grossed up for tax purposes where applicable.

For Non-Executive Directors based outside the UK, the Company may also pay towards tax advice and the cost of making tax filings.

Non-Executive Directors' share interests (audited)

The Non-Executive Directors are not eligible to participate in any of the Group's share schemes, incentive arrangements or pension schemes.

A facility is in place which enables Non-Executive Directors, who reside in a permitted dealing territory, to use some or all of their fees, after the appropriate statutory deductions, to make market purchases of shares in the Company on a monthly basis. Wendy Mars and Birgit Behrendt use this facility.

The Non-Executive Directors and their connected persons hold the following interests in the ordinary shares of the Company:

	31 December 2025	31 December 2024
Dame Anita Frew	350,000	350,000
Birgit Behrendt	5,051	3,441
Stuart Bradie	95,437	95,437
George Culmer	37,960	37,960
Lord Jitesh Gadhia	50,000	50,000
Beverly Goulet	41,405	40,972
Nick Luff	120,000	120,000
Wendy Mars	51,049	48,318
Paulo Cesar Silva	41,780	-
Dame Angela Strank	85,506	70,653

During the period between 1 January 2026 to 26 February 2026, the following changes in interests have occurred:

- Birgit Behrendt acquired 88 shares on 7 January 2026 and 89 shares on 9 February 2026 under a share purchase plan for Non-Executive Directors; and
- Wendy Mars acquired 146 shares on 7 January 2026 and 147 shares on 9 February 2026 under a share purchase plan for Non-Executive Directors.

No other changes in Non-Executive Directors' share interests have occurred in the period.

Non-Executive Directors' letters of appointment

Non-Executive Directors are subject to letters of appointment and are required to be re-elected at each AGM.

Shareholder voting

The remuneration policy and remuneration report were last approved by shareholders at our 2025 AGM held on 1 May 2025. Details of voting are shown in the table below. Withheld votes are not counted towards the total percentage of votes cast.

	For	% For	Against	% Against	Withheld
Approval of the remuneration policy	5,264,406,289	99.55	23,709,234	0.45	2,041,090
Approval of the remuneration report	5,263,080,768	99.53	25,023,003	0.47	2,046,299

Statutory requirements

The Committee's composition, responsibilities and operation comply with the principles of good governance, as set out in the Code, the UK Listing Rules (of the Financial Conduct Authority) and the Companies Act 2006. The Directors' Remuneration Report has been prepared on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Remuneration Report, comprising the Remuneration Committee report, the remuneration policy and the 2025 Remuneration report, has been approved by the Board and signed on its behalf by:

Lord Jitesh Gadhia

Chair of the Remuneration Committee
26 February 2026

Safety, Energy Transition & Tech Committee report

KEY AREAS OF FOCUS IN 2025

- Review of Group-wide improvement programmes for people and product safety
- Principal risk reviews and a deep dive into cyber, including IT and operational technology
- Site visit to Bristol, UK, focused on people and product safety and technology
- Monitoring progress against our sustainability targets and review of the sustainability report for recommendation to the Board
- Keeping a strong focus on technology including AI



Members

Wendy Mars (Chair)
Birgit Behrendt
Stuart Bradie
Paulo Cesar Silva
Dame Angela Strank

Remit

See page 68

I am pleased to present the 2025 report of the Safety, Energy Transition & Tech Committee. The Committee focuses on people and product safety and the energy transition agenda. It also provides oversight and assurance of the Group's research and technological strategy, processes and investments. During the year, following a reallocation of accountabilities by the Board, the Committee additionally took on responsibility for cyber-security from the Audit Committee.

The Committee comprises solely Non-Executive Directors, and each member brings deep experience in the Committee's areas of focus which they have gained in their various external executive roles. Our Committee evaluation noted that this Committee is performing well and I would like to thank my fellow Committee members for their invaluable insights for the work of the Committee during the year.

The Committee met three times in 2025, with the February meeting focused on reporting only. After each meeting, the Committee meets without management present. A summary of the Committee's remit can be found on page 68.

Safety

Safety, in respect of our people, processes and products, remains the highest priority for the Group and the Committee takes a great interest in understanding the progress of our improvement programmes and how we are developing a safety-first culture. In depth updates were received at the two main meetings, including a summary of performance in 2025 and the associated action plans for 2026 across all programmes to ensure continuous improvement towards embedding Group-wide standards and policies. Updates around people and process safety covered TRI rate reporting and our progress against our safety index scorecard, alongside initiatives that we are taking around occupational health. We reviewed and considered in detail the product safety principal risk including our performance against key safety metrics and the enhancement of culture through revised communications.

During the year, the Committee visited our site in Bristol, UK, where we met with the Defence leadership team. The visit provided an opportunity for the Committee to learn about the operations at the site and to engage with local management, engineers and high potential employees. During our visit, we discussed both people and product safety and experienced, at shop floor level, how these two priorities are embedded in the processes and practices of the site. In addition, we heard about how productivity and time gains had been achieved from the adoption of an agile approach for key technology advancement programmes, and the development of technology for next-generation power and propulsion products such as GCAP. The Committee members were pleased to receive a demonstration of the Safety Experience, an impactful, interactive, facilitator-led event which has been attended face-to-face by over 13,000 employees in 2025.

Energy Transition

An area of focus for the Committee is to provide oversight of the Group's energy transition strategy and to receive progress reports against policies, strategies, KPIs, plans, capability, process and systems. During the year, we reviewed progress made in 2025 against our Scope 1 + 2 emissions reduction plans and the Scope 3, category 11 (use of sold products) emissions reporting (see page 42). The Committee reviewed the progress against the sustainability strategy which was approved in 2024 and, together with the Audit Committee, assessed the Group's readiness for compliance reporting with new regulations. At our meeting in February 2026, as part of our year-end reporting, the Committee reviewed the Sustainability report set out on pages 38 to 47 and recommended it to the Board for approval.

Technology

Technology is a principal risk for the Group, but also an area of opportunity. Accordingly, the Committee's review of technology during the year has focused on both understanding the technology principal risk and how the Group mitigates this, and how our strategic decisions are translated into research and technology (R&T) portfolio priorities. The Committee received updates on the technology and product roadmapping process by which the Group manages its R&T. We considered how horizon scanning operates to help identify and quantify emerging technology threats and opportunities by ensuring that novel technology pathways are recognised early, their potential is explored, and eventual risks of disruption are mitigated. The Committee also considered the significant value opportunity for AI, the systematic approach to deliver that opportunity and the guardrails and policies in place to ensure responsible adoption.

Following the reallocation of cyber-security responsibilities to the Committee, we received a number of updates on cyber and IT to understand our existing approach and environment. At our December meeting, we undertook a deep dive into cyber encompassing IT and operational technology (OT) that the whole Board attended. The meeting focused on our programme of IT and OT maturity alongside hearing about detection, defence, and recovery response against cyber threats.

Looking forward

In 2026, the Committee will continue to focus on its principal responsibilities with a particular focus on people and process safety, our readiness for sustainability reporting, and the risks and opportunities related to AI and how these impact the future of our technologies. We will continue to monitor our response to the ever-evolving cyber-security landscape.

Wendy Mars

Chair of the Safety, Energy Transition & Tech Committee

Responsibility statements

Statement of Directors' responsibilities in respect of the financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group Financial Statements in accordance with UK-adopted international accounting standards and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 *Reduced Disclosure Framework* and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

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

Directors' confirmations

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

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

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

By order of the Board

Claire-Marie O'Grady
Chief Governance Officer
26 February 2026

FINANCIAL STATEMENTS

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Consolidated income statement

Year ended 31 December 2025

	Notes	2025 £m	2024 £m
Revenue	2	21,207	18,909
Cost of sales ^{1,2}		(15,032)	(14,688)
Gross profit	2	6,175	4,221
Commercial and administrative costs	2	(1,268)	(1,284)
Research and development costs ²	2, 3	(495)	(203)
Share of results of joint ventures and associates	14	56	172
Operating profit		4,468	2,906
Gain arising on disposal of businesses ³	29	809	16
Profit before financing and taxation		5,277	2,922
Financing income	4	2,137	536
Financing costs	4	(479)	(1,224)
Net financing income/(costs)⁴		1,658	(688)
Profit before taxation		6,935	2,234
Taxation	5	(1,099)	250
Profit for the year		5,836	2,484
Attributable to:			
Ordinary shareholders		5,841	2,521
Non-controlling interests (NCI)		(5)	(37)
Profit for the year		5,836	2,484
Other comprehensive (expense)/income (OCI)		(545)	50
Total comprehensive income for the year		5,291	2,534
Earnings per ordinary share attributable to ordinary shareholders:	6		
Basic		69.41p	30.05p
Diluted		69.14p	29.87p

1 Cost of sales includes a net charge for expected credit losses (ECLs) of £28m (2024: £14m). Further detail can be found in note 16

2 In the year ended 31 December 2025, the impact of an exceptional impairment reversal was included within both cost of sales, £179m (2024: £132m), and research and development, £6m (2024: £413m). Further details can be found in notes 2, 10 and 11

3 In the year ended 31 December 2025, the Group completed the sale of the naval propulsors business and also recognised an exceptional gain on disposal as a result of the deconsolidation of Rolls-Royce SMR Limited during the year. Further details can be found in note 29

4 Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 22

Consolidated statement of comprehensive income

Year ended 31 December 2025

	Notes	2025 £m	2024 £m
Profit for the year		5,836	2,484
Other comprehensive (expense)/income (OCI)			
Actuarial movements on post-retirement schemes ¹	24	(444)	22
Revaluation to fair value of other investments	14	(1)	(2)
Share of OCI of joint ventures and associates		(1)	(1)
Related tax movements	5	115	61
Items that will not be reclassified to profit or loss		(331)	80
Foreign exchange translation differences on foreign operations		(169)	(29)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		(18)	-
NCI disposed through disposal of business	29	(23)	-
Movement on fair values charged to cash flow hedge reserve		(38)	(17)
Reclassified to income statement from cash flow hedge reserve		27	22
Share of OCI of joint ventures and associates		2	(3)
Related tax movements	5	5	(3)
Items that will be reclassified to profit or loss		(214)	(30)
Total other comprehensive (expense)/income		(545)	50
Total comprehensive income for the year		5,291	2,534
Attributable to:			
Ordinary shareholders		5,319	2,571
NCI		(28)	(37)
Total comprehensive income for the year		5,291	2,534

¹ This movement includes a charge of around £450m as a result of the agreement to transfer the future pension obligations in the UK scheme to Pension Insurance Corporation plc. See note 24 for further information

Consolidated balance sheet

At 31 December 2025

	Notes	2025 £m	2024 £m
ASSETS			
Goodwill ¹	10	1,028	1,009
Intangible assets ¹	11	3,570	3,393
Property, plant and equipment	12	4,013	3,724
Right-of-use assets	13	759	761
Investments ²	14	1,289	597
Other financial assets	22	523	126
Deferred tax assets	5	3,460	3,660
Post-retirement scheme surpluses	24	286	790
Non-current assets		14,928	14,060
Inventories	15	5,728	5,092
Trade receivables and other assets	16	8,946	8,713
Contract assets	17	1,897	1,813
Taxation recoverable		75	71
Other financial assets	22	282	209
Cash and cash equivalents	18	6,244	5,575
Current assets		23,172	21,473
Assets held for sale	29	15	153
TOTAL ASSETS		38,115	35,686
LIABILITIES			
Borrowings and lease liabilities	19	(1,426)	(1,097)
Other financial liabilities	22	(293)	(642)
Trade payables and other liabilities	21	(8,863)	(8,009)
Contract liabilities	17	(7,832)	(6,309)
Current tax liabilities		(366)	(117)
Provisions for liabilities and charges	23	(507)	(589)
Current liabilities		(19,287)	(16,763)
Borrowings and lease liabilities	19	(2,846)	(4,035)
Other financial liabilities	22	(627)	(1,640)
Trade payables and other liabilities	21	(1,778)	(1,965)
Contract liabilities	17	(8,762)	(9,447)
Deferred tax liabilities	5	(101)	(231)
Provisions for liabilities and charges	23	(1,050)	(1,405)
Post-retirement scheme deficits	24	(892)	(981)
Non-current liabilities		(16,056)	(19,704)
Liabilities associated with assets held for sale	29	(19)	(100)
TOTAL LIABILITIES		(35,362)	(36,567)
NET ASSETS/(LIABILITIES)		2,753	(881)
EQUITY			
Called-up share capital ³	25	1,689	1,701
Share premium ³		-	1,012
Capital redemption reserve ³		5	168
Cash flow hedge reserve		7	13
Translation reserve		418	603
Retained earnings / (Accumulated losses) ³		607	(4,409)
Equity attributable to ordinary shareholders		2,726	(912)
Non-controlling interest (NCI)		27	31
TOTAL EQUITY		2,753	(881)

1 Goodwill has been disclosed separately from other intangible assets at 31 December 2025 (and its comparative represented) as such presentation is deemed relevant to an understanding of the Group's financial position

2 An equity-accounted investment was recognised at fair value on the balance sheet as a result of the deconsolidation of Rolls-Royce SMR Limited during the year. Further details can be found in note 29

3 On 1 May 2025 Rolls-Royce Holdings plc performed a bonus issue of one share from its merger reserve for £6,962m, the merger reserve is eliminated within the consolidated balance sheet and therefore is not shown above. The Company subsequently performed a capital reduction against share capital, share premium, and capital redemption reserve

The Financial Statements on pages 113 to 181 were approved by the Board on 26 February 2026 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Consolidated cash flow statement

Year ended 31 December 2025

	Notes	2025 £m	2024 £m
Reconciliation of cash flows from operating activities			
Operating profit		4,468	2,906
Loss on disposal of property, plant and equipment		18	32
(Profit)/loss on disposal of intangible assets		(2)	6
Share of results of joint ventures and associates	14	(56)	(172)
Dividends received from joint ventures and associates	14	88	77
Impairment of goodwill	10	-	13
Amortisation and impairment of intangible assets	11	241	(133)
Depreciation and impairment of property, plant and equipment	12	338	400
Depreciation and impairment of right-of-use assets	13	158	265
Adjustment of amounts payable under residual value guarantees within lease liabilities		-	(6)
Impairment of and other movements on investments		-	4
Decrease in provisions		(486)	(56)
Increase in inventories		(685)	(323)
Movement in trade receivables/payables and other assets/liabilities		763	833
Movement in contract assets/liabilities		704	752
Cash flows on other financial assets and liabilities held for operating purposes ¹		(578)	(676)
Cash flows on settlement of excess derivative contracts ²		(148)	(146)
Interest received		270	269
Net defined benefit post-retirement cost recognised in profit before financing	24	42	56
Cash funding of defined benefit post-retirement schemes	24	(84)	(74)
Share-based payments	26	104	136
Net cash inflow from operating activities before taxation		5,155	4,163
Taxation paid		(590)	(381)
Net cash inflow from operating activities		4,565	3,782
Cash flows from investing activities			
Additions of intangible assets	11	(364)	(367)
Disposals of intangible assets		5	5
Purchases of property, plant and equipment		(621)	(519)
Disposals of property, plant and equipment		2	5
Disposal of businesses (including cash flows on disposals in prior periods)	29	80	62
Movement in investments in joint ventures and associates	14	(41)	(17)
Net cash outflow from investing activities		(939)	(831)
Cash flows from financing activities			
Repayment of loans		(927)	(475)
Settlement of swaps hedging fixed rate borrowings		93	(11)
Proceeds from increase in loans		177	7
Capital element of lease payments		(232)	(299)
Net cash flow from decrease in borrowings and lease liabilities		(889)	(778)
Interest paid		(180)	(200)
Interest element of lease payments		(74)	(83)
Fees paid on undrawn facilities		(8)	(15)
Cash received on maturity of share based payment schemes		40	-
Transactions with NCI ³		34	33
Dividends to NCI		(1)	(3)
Redemption of C Shares		(2)	(1)
Share buyback		(1,008)	-
Dividends paid	7	(885)	-
Net cash outflow from financing activities		(2,973)	(1,047)

Consolidated cash flow statement continued

Year ended 31 December 2025

Notes	2025 £m	2024 £m
Change in cash and cash equivalents	653	1,904
Cash and cash equivalents at 1 January	5,573	3,731
Exchange gains/(losses) on cash and cash equivalents	15	(62)
Cash and cash equivalents at 31 December⁴	6,241	5,573

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

2 In 2020, the Group took action to reduce the size of the USD hedge book by \$11.8bn across 2020–2026 to reflect the fact that at that time, future operating cash flows were no longer forecast to materialise. To achieve the necessary reduction in the hedge book, a separate and distinct set of foreign exchange derivative instruments were entered into to buy \$11.8bn which had the impact of fixing the fair value of the over-hedged position and provided certainty over when the cash flows to settle the position would occur in future periods. The associated cash outflow of these transactions is £1,674m and occurs over the period 2020–2026. During the year, the Group incurred a cash outflow of £148m (2024: £146m) and estimates that future cash outflows of £27m will be incurred during 2026

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

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

In deriving the consolidated cash flow statement, movement in balance sheet items have been adjusted for non-cash items. The cash flow in the year includes the sale of goods and services to joint ventures and associates – see note 28.

	2025 £m	2024 £m
Reconciliation of movements in cash and cash equivalents to movements in net cash		
Change in cash and cash equivalents	653	1,904
Cash flow from decrease in borrowings and lease liabilities	889	778
Less: settlement of related derivatives included in fair value of swaps below	93	(11)
Change in net cash resulting from cash flows	1,635	2,671
Lease additions, modifications and other non-cash adjustments on borrowings and lease liabilities	(232)	(193)
Exchange gains/(losses) on net cash/(debt)	118	(50)
Net debt disposed of on disposal of businesses	1	–
Fair value adjustments	8	(11)
Movement in net cash	1,530	2,417
Net cash/(debt) at 1 January excluding the fair value of swaps	442	(1,975)
Net cash at 31 December excluding the fair value of swaps	1,972	442
Fair value of swaps hedging fixed rate borrowings	(77)	33
Net cash at 31 December	1,895	475

Consolidated cash flow statement continued

Year ended 31 December 2025

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

	At 1 January £m	Funds flow £m	Net funds on disposal of business £m	Exchange differences £m	Fair value adjustments £m	Reclassi- fications £m	Other movements £m	At 31 December £m
2025								
Cash at bank and in hand	714	182	-	(7)	-	-	-	889
Money market funds	1,900	484	-	40	-	-	-	2,424
Short-term deposits	2,961	(12)	-	(18)	-	-	-	2,931
Cash and cash equivalents (per balance sheet)	5,575	654	-	15	-	-	-	6,244
Overdrafts	(2)	(1)	-	-	-	-	-	(3)
Cash and cash equivalents (per cash flow statement)	5,573	653	-	15	-	-	-	6,241
Other current borrowings	(799)	750	-	(32)	40	(988)	(2)	(1,031)
Non-current borrowings	(2,776)	-	-	54	(32)	988	(2)	(1,768)
Lease liabilities	(1,555)	232	-	81	-	-	(228)	(1,470)
Lease liabilities included within liabilities held for sale	(1)	-	1	-	-	-	-	-
Financial liabilities	(5,131)	982	1	103	8	-	(232)	(4,269)
Net cash/(debt) excluding the fair value of swaps	442	1,635	1	118	8	-	(232)	1,972
Fair value of swaps hedging fixed rate borrowings ¹	33	(93)	-	(22)	5	-	-	(77)
Net cash/(debt)	475	1,542	1	96	13	-	(232)	1,895
2024								
Cash at bank and in hand	739	(15)	-	(10)	-	-	-	714
Money market funds	1,077	841	-	(18)	-	-	-	1,900
Short-term deposits	1,968	1,027	-	(34)	-	-	-	2,961
Cash and cash equivalents (per balance sheet)	3,784	1,853	-	(62)	-	-	-	5,575
Overdrafts	(53)	51	-	-	-	-	-	(2)
Cash and cash equivalents (per cash flow statement)	3,731	1,904	-	(62)	-	-	-	5,573
Other current borrowings	(478)	471	-	-	(18)	(774)	-	(799)
Non-current borrowings	(3,568)	(3)	-	19	7	774	(5)	(2,776)
Borrowings included within liabilities held for sale	-	-	-	-	-	-	-	-
Lease liabilities	(1,660)	299	-	(7)	-	1	(188)	(1,555)
Lease liabilities included within liabilities held for sale	-	-	-	-	-	(1)	-	(1)
Financial liabilities	(5,706)	767	-	12	(11)	-	(193)	(5,131)
Net cash/(debt) excluding the fair value of swaps	(1,975)	2,671	-	(50)	(11)	-	(193)	442
Fair value of swaps hedging fixed rate borrowings ¹	23	11	-	(18)	17	-	-	33
Net cash/(debt)	(1,952)	2,682	-	(68)	6	-	(193)	475

¹ Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net cash/(debt) therefore includes the fair value of derivatives included in fair value hedges (2025: £(26)m, 2024: £62m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (2025: £(51)m, 2024: £(29)m)

Consolidated statement of changes in equity

Year ended 31 December 2025

The following describes the nature and purpose of each reserve within equity:

Share capital – The nominal value of ordinary shares of 20p each in issue.

Share premium – Proceeds received in excess of the nominal value of ordinary shares issued, less the costs of issue.

Capital redemption reserve – Amounts transferred from accumulated losses on the repurchase of ordinary shares, the redemption of C Shares and the nominal value of ordinary shares cancelled as a part of the share buyback programme. In Rolls-Royce Holdings plc's own Financial Statements, C Shares were issued from the merger reserve. This reserve was created by a scheme of arrangement in 2011. As this reserve was eliminated on consolidation in the Consolidated Financial Statements, the C Shares were shown as being issued from the capital redemption reserve.

Hedging reserves – Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges and cost of hedging reserve.

Translation reserve – Gains and losses arising on retranslating the net assets of overseas operations into sterling.

Retained earnings / accumulated losses – All other net gains and losses and transactions with owners not recognised elsewhere and ordinary shares held for the purpose of share-based payment plans.

Non-controlling interests – The share of net assets or liabilities of subsidiaries held by third parties.

	Notes	Attributable to ordinary shareholders					Retained earnings / accumulated losses) ¹ £m	Total £m	NCI £m	Total equity £m
		Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Translation reserve £m				
At 1 January 2025		1,701	1,012	168	13	603	(4,409)	(912)	31	(881)
Profit/(loss) for the year		-	-	-	-	-	5,841	5,841	(5)	5,836
Foreign exchange translation differences on foreign operations		-	-	-	-	(169)	-	(169)	-	(169)
Foreign exchange translation differences reclassified to income statement on disposal of businesses	29	-	-	-	-	(18)	-	(18)	-	(18)
NCI disposed of on disposal of business	29	-	-	-	-	-	-	-	(23)	(23)
Actuarial movements on post-retirement schemes ²	24	-	-	-	-	-	(444)	(444)	-	(444)
Fair value movement on cash flow hedges		-	-	-	(38)	-	-	(38)	-	(38)
Reclassified to income statement from cash flow hedge reserve		-	-	-	27	-	-	27	-	27
Revaluation to fair value of other investments	14	-	-	-	-	-	(1)	(1)	-	(1)
OCI of joint ventures and associates	14	-	-	-	2	-	(1)	1	-	1
Related tax movements	5	-	-	-	3	2	115	120	-	120
Total comprehensive income/(expense) for the year		-	-	-	(6)	(185)	5,510	5,319	(28)	5,291
Bonus issue ³		6,962	-	-	-	-	(6,962)	-	-	-
Capital reduction ³		(6,962)	(1,012)	(177)	-	-	8,151	-	-	-
Share buyback programme ⁴		(12)	-	12	-	-	(1,019)	(1,019)	-	(1,019)
Redemption of C Shares	22	-	-	2	-	-	(2)	-	-	-
Share-based payments – direct to equity ⁵		-	-	-	-	-	138	138	-	138
Dividends paid		-	-	-	-	-	(885)	(885)	-	(885)
Dividends to NCI		-	-	-	-	-	-	-	(1)	(1)
Transactions with NCI		-	-	-	-	-	9	9	25	34
Related tax movements	5	-	-	-	-	-	76	76	-	76
Other changes in equity in the year		(12)	(1,012)	(163)	-	-	(494)	(1,681)	24	(1,657)
At 31 December 2025		1,689	-	5	7	418	607	2,726	27	2,753

Consolidated statement of changes in equity continued

	Notes	Attributable to ordinary shareholders						Total £m	NCI £m	Total equity £m
		Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Accumulated losses ¹ £m			
At 1 January 2024		1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)
Profit/(loss) for the year		-	-	-	-	-	2,521	2,521	(37)	2,484
Foreign exchange translation differences on foreign operations		-	-	-	-	(29)	-	(29)	-	(29)
Actuarial movements on post-retirement schemes	24	-	-	-	-	-	22	22	-	22
Fair value movement on cash flow hedges		-	-	-	(17)	-	-	(17)	-	(17)
Reclassified to income statement from cash flow hedge reserve		-	-	-	22	-	-	22	-	22
Revaluation to fair value of other investments	14	-	-	-	-	-	(2)	(2)	-	(2)
OCI of joint ventures and associates	14	-	-	-	(3)	-	(1)	(4)	-	(4)
Related tax movements	5	-	-	-	(1)	(2)	61	58	-	58
Total comprehensive income/(expense) for the year		-	-	-	1	(31)	2,601	2,571	(37)	2,534
Issue of ordinary shares		17	-	-	-	-	-	17	-	17
Redemption of C Shares	22	-	-	1	-	-	(1)	-	-	-
Ordinary shares purchased		-	-	-	-	-	-	-	-	-
Shares issued to employee share trust		-	-	-	-	-	(17)	(17)	-	(17)
Share-based payments – direct to equity ⁵		-	-	-	-	-	95	95	-	95
Dividends to NCI		-	-	-	-	-	-	-	(3)	(3)
Transactions with NCI		-	-	-	-	-	32	32	19	51
Related tax movements	5	-	-	-	-	-	71	71	-	71
Other changes in equity in the year		17	-	1	-	-	180	198	16	214
At 31 December 2024		1,701	1,012	168	13	603	(4,409)	(912)	31	(881)

- 1 At 31 December 2025, 69,290,662 ordinary shares with an aggregate value of £503m were held for the purpose of share-based payment plans and included in retained earnings / (accumulated losses) (2024: 106,066,831 ordinary shares with an aggregate value of £26m). During the year:
- 81,979,149 ordinary shares with an aggregate value of £22m vested in share-based payment plans (2024: 35,117,065 ordinary shares with an aggregate value of £14m);
 - the Company issued nil new ordinary shares to the Group's share trust for its employee share-based payment plans with an aggregate value of £nil (2024: 88,200,000 ordinary shares with an aggregate value of £17m);
 - the Company, through the Employee Benefit Trust, acquired none (2024: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased none (2024: 71,490) of its ordinary shares through purchases on the London Stock Exchange; and
 - the Employee Benefit Trust purchased 3,719,489 (2024: nil) ordinary shares with an aggregate value of £40m from the Company, the Company purchased these shares through the share buyback scheme and held them as Treasury shares
- 2 This movement includes a charge of around £450m as a result of the agreement to transfer the future pension obligations in the UK scheme to Pension Insurance Corporation plc. See note 24 for further information
- 3 On 1 May 2025 Rolls-Royce Holdings plc performed a bonus issue of one share from its merger reserve for £6,962m, the merger reserve is eliminated within the consolidated statement of changes in equity and therefore is not shown in the movement table above. The Company subsequently performed a capital reduction against share capital, share premium, and capital redemption reserve
- 4 Following the announcement of the £1bn share buyback on 27 February 2025, during the year the Company purchased with cash 106,291,417 (2024: none) of its ordinary shares at a cost of £1bn. The Company also separately paid costs of £8m in relation to the programme. Of these ordinary shares purchased by the Company, 61,088,437 shares at a cost of £500m were cancelled during the year. As detailed above 3,719,489 shares at a cost of £40m were sold to the Employee Benefit Trust for consideration of £40m and in December 2025 the Company gifted the remaining 41,483,491 ordinary shares at a cost of £460m to the Employee Benefit Trust
- 5 Share-based payments – direct to equity is the share-based payment charge for the year less actual cost of vesting excluding those vesting from own shares and cash received on share-based schemes

1 Accounting policies

The Company and the Group

Rolls-Royce Holdings plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in England in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2025 consist of the audited consolidation of the Financial Statements of the Company and its subsidiaries (together referred to as the Group) together with the Group's interest in jointly controlled and associated entities.

Basis of preparation and statement of compliance

The Company has elected to prepare its individual Company Financial Statements under FRS 101 *Reduced Disclosure Framework*. They are set out on pages 182 to 186 with the associated accounting policies from page 184.

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

The Consolidated Financial Statements have been prepared on a going concern basis as described on page 57. The historical cost basis has been used except where IFRS require the revaluation of financial instruments to fair value and certain other assets and liabilities on an alternative basis, most significantly post-retirement scheme obligations are valued on the basis required by IAS 19 *Employee Benefits*.

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

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

Going concern

The Directors have undertaken a comprehensive going concern review. In adopting the going concern basis for preparing these Consolidated and Company Financial Statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of possible risks and uncertainties over an 18-month period from the balance sheet date to June 2027. The Directors have determined that the period to 30 June 2027 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short- to medium-term cash flow forecasts and available liquidity. Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have considered two forecasts in the assessment of going concern, along with a likelihood assessment of these forecasts, being:

- base case, which reflects the Directors' current expectations of future trading; and
- a downside forecast, which envisages severe but plausible downside risks.

Further details are given in the going concern review on page 57. After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and downside forecast, the Directors consider that the Group has sufficient liquidity to continue in operational existence over the going concern period to 30 June 2027 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Climate change

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

- optimising our operations, including decarbonising operations, facilities, product testing and business activities. This will be met through a combination of procuring clean energy, reducing overall energy demand, and clean power generation. An estimate of the investment required to meet Scope 1 + 2 emission improvements is included in the forecasts that support these Consolidated Financial Statements;
- enabling our customers, by delivering innovative products and solutions that can accelerate the global energy transition. This includes the development and deployment of a future portfolio that includes the UltraFan engine in Civil Aerospace, Battery Energy Storage Systems in Power Systems and small modular reactors. An estimate of the investment required to deliver these technologies is included in the forecasts that support the Consolidated Financial Statements; and
- engaging and collaborating with customers, suppliers, industry and policymakers supporting the necessary enabling environment to achieve collective energy transition and climate goals.

1 Accounting policies continued

Climate change continued

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

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

The key sources of estimation uncertainty at the balance sheet date are set out on page 124 and the Directors have considered the impact of climate change on those estimates. The key assumptions used in this assessment are consistent with those used in the climate scenarios presented in the Strategic Review. A summary of the assessment is set out below.

Risk	How reflected in the Financial Statements	Impact on Civil Aerospace LTSAs
Changing customer demand	The most likely assumptions are used in the estimates implicit in the preparation of the Financial Statements. The use of sensitivity analysis ensures that any impact of climate change on demand is immaterial.	Forecast EFH are based on customer and market data and therefore already include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 1% change in EFH forecasts over the remaining term of Civil LTSA contracts is disclosed on page 127.
Changes in costs due to carbon pricing ¹ and commodity price changes ²	The potential impact of carbon pricing has been estimated by applying carbon prices to the forecast emissions generated by the Group and its supply chain. This impact, together with that from estimated commodity prices under each scenario, have been added/deducted to forecast costs in the base forecasts. The analysis reflects that: decarbonisation activities will occur in both the Group and its supply chain; and that some supplier contracts offer protection from cost increases in the short to medium term where pricing is fixed or subject to capped escalation clauses.	The increase in the cost base of the current Civil LTSA contracts due to carbon and commodity prices is estimated to be around 1% (2024: 1%) with the incremental cost included in the cost to complete estimates that drive revenue recognition. Changes in estimates have not had a material impact on revenue catch-ups or contract loss provisions in the year (2024: not material). A sensitivity disclosing the impact of a 2% change in shop visit costs over the remaining term of Civil LTSA contracts is disclosed on page 127.
Change in investment required	Changing investment requirements may arise due to the introduction/acceleration of new technologies. Research is expensed and development costs capitalised as incurred.	No impact to existing LTSAs.

¹ Based on the Oxford Economic Global Climate Service and Databank, with rates of \$145 per tonne of carbon in 2025 increasing to c. \$300 in 2030. Beyond 2030, the Group has considered a range of carbon pricing data sources with an assumed increase (in outturn economics) of c. 2% per annum to c. \$475 per tonne by 2050

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

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

Carrying value of goodwill – The recoverable amount used in impairment testing is based on the cash flow projections of the CGUs to which the goodwill balances relate. The projections include assumptions that are based on past experience and external sources of information in relation to sales volumes, product costs and the required level of investment that could all be impacted by climate change. The climate scenarios prepared do not show a significant deterioration of demand for Civil Aerospace (including Rolls-Royce Deutschland) programmes given that all commercial aero engines are compatible with sustainable fuels, similarly the majority of the portfolio in Power Systems is compatible with alternative and more sustainable fuels. The scenarios reflect the impact of a broad range of potential costs imposed by policy or regulatory interventions (through carbon pricing) and the investment required to ensure new products will be compatible with net zero operation, and to achieve net zero Scope 1 + 2 GHG emission commitments. The scenarios do not indicate the need for an impairment charge and the Directors do not consider that any reasonably possible changes in the climate related assumptions would cause the value in use of the goodwill to fall below its carrying value.

Recoverability of programme intangible assets – The recoverable amount used in impairment testing is based on the cash flow projections of the individual programmes. The projections include assumptions in relation to sales volumes and product costs that could be impacted by climate change. Given the level of headroom in the programme intangible assets, with most engines being compatible with alternative or more sustainable fuels, and with cost estimates including an allowance for the impact of carbon pricing, there is no indication of any potential impairment as a result of climate change.

1 Accounting policies continued

Useful lives of assets – The useful lives of property, plant and equipment and right-of-use assets could be reduced by climate-related matters, for example, as a result of physical risks, obsolescence or legal restrictions. The change in useful lives would have a direct impact on the amount of depreciation or amortisation recognised each year from the date of reassessment. The Directors' review of useful lives has taken into consideration the impacts of the Group's decarbonisation strategy and has not had a material impact on the results for the year. The Directors have also considered the remaining useful economic lives of material intangible assets, including the £1,993m and £814m capitalised development spend associated with the Trent and business aviation programmes disclosed in note 11. Given the measures the Group is taking, including demonstration that all the commercial aero-engines and majority of the portfolio in Power Systems are compatible with alternative and sustainable fuels, the Directors judge that no adjustment is required to the useful economic lives.

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

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

Recoverability of deferred tax assets on UK tax losses – Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the assets can be utilised. The deferred tax asset on UK tax losses primarily arises in Rolls-Royce plc and has been recognised based on the expectation that the business will generate taxable profits and tax liabilities in the future against which the losses and deductible temporary differences can be utilised. Recognising the longer term over which these assets will be recovered, the Group considers climate change scenarios that could impact future taxable profits through changes in demand for our products or their cost. The variability in taxable profits that could arise from changes in such estimates is not considered to be of sufficient magnitude that it would impact our judgement that there will be sufficient future taxable profits available against which the assets can be utilised.

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

Defined benefit pension plans – Having assessed the risks and opportunities of climate change and considered the nature of the assets of the fund, climate change is unlikely to have a material impact on the position in the Consolidated Financial Statements

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

Presentation of underlying results

The Group measures financial performance on an underlying basis and discloses this information as an alternative performance measure (APM). This is consistent with the way that financial performance is measured by the Directors and reported to the Board in accordance with IFRS 8 *Operating Segments*. The Group believes this is the most appropriate basis to measure the in-year performance, as underlying results reflect the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which economically hedge net foreign currency cash flows at predetermined exchange rates. In addition, underlying results exclude the accounting impact of acquisition accounting and business disposals, impairment charges where the reasons are outside of normal operating activities, exceptional items, and certain other items which are market driven and outside of the control of management. Further details are given in note 2. A reconciliation of APMs to the statutory equivalent is provided on pages 208 to 211.

Revisions to IFRS applicable in 2025

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

Revisions to IFRS not applicable in 2025

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

IFRS 18 *Presentation and Disclosure in Financial Statements*

The IASB issued a new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, on 9 April 2025 that will replace IAS 1 *Presentation of Financial Statements*. The purpose of the new standard is to provide more consistent presentation of financial information across preparers as it is acknowledged that existing standards have given flexibility to present information in different ways. IFRS 18 *Presentation and Disclosure in Financial Statements* will not impact the recognition or measurement of items in the financial statements. Many of the existing presentation principles in IAS 1 *Presentation of Financial Statements* are retained, but there are some more specific requirements that will require the Group to make some changes in its future Annual Reports and Interim Financial Statements.

The new Standard was endorsed by the UK Endorsement Board (UKEB) and will be applicable for reporting periods beginning on or after 1 January 2027. The Group does not anticipate its early adoption of the new Standard. Comparative information for 2026 will need to be restated when subsequent financial statements are published. The Group has continued its implementation activities and expects the most significant changes post 2027 to be in relation to the presentation of items within the Statutory Consolidated Income Statement. The changes are expected to include: 'share of results of joint ventures and associates' being presented in the new investing category and included when arriving at a new subtotal 'operating profit including share of results of joint ventures and associates'; interest income will be reclassified from net

1 Accounting policies continued

financing into the new investing category; the majority of foreign exchange differences will be reclassified from net financing into the operating category; and fair value gains/(losses) related to foreign currency contracts and commodity contracts will be reclassified from net financing into the operating category. The process of assessing the financial impact on the Consolidated Financial Statements will continue during 2026.

Key areas of judgement and sources of estimation uncertainty

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

Area	Key judgements	Key sources of estimation uncertainty	Page ref
Revenue recognition and contract assets and liabilities	<ul style="list-style-type: none"> – Whether Civil Aerospace OE and aftermarket contracts should be combined. – How performance on long-term aftermarket contracts should be measured. – Whether long-term aftermarket contracts contain a significant financing component. – Whether any costs should be treated as wastage. – Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 <i>Revenue from Contracts with Customers</i>. – Whether sales of spare engines to joint ventures are at fair value. – When revenue should be recognised in relation to spare engine sales. 	<ul style="list-style-type: none"> – Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change. 	126
Risk and revenue sharing arrangements (RRSAs)	<ul style="list-style-type: none"> – Determination of the nature of entry fees received. 		127
Research and development	<ul style="list-style-type: none"> – Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation. – Determination of the basis for amortising capitalised development costs. 		130
Leases	<ul style="list-style-type: none"> – Determination of the lease term. 		131
Impairment of non-current assets	<ul style="list-style-type: none"> – Determination of cash-generating units for assessing impairment of goodwill. 		131
Provisions	<ul style="list-style-type: none"> – Whether any costs should be treated as wastage. 	<ul style="list-style-type: none"> – Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts. – Estimates of the future revenues and costs to fulfil onerous contracts. – Assumptions implicit within the calculation of discount rate. 	132
Post-retirement benefits		<ul style="list-style-type: none"> – Estimates of the assumptions for valuing the net defined benefit obligation. 	133

Material accounting policies

The Group's significant accounting policies are set out on pages 124 to 133. These accounting policies have been applied consistently to all periods presented in these Consolidated Financial Statements.

Basis of consolidation

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

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

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

1 Accounting policies continued

Basis of consolidation continued

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

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

Any subsidiary undertaking, joint arrangement or associate sold or acquired during the year are included up to, or from, the date of change of control. Details of transactions in the year are set out in note 29.

Revenue recognition and contract assets and liabilities

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

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

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

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

Key areas of the accounting policy are:

- Future variable revenue from long-term contracts is constrained to take account of the risk of non-recovery of resulting contract balances from reduced utilisation e.g. EFHs, based on historical forecasting experience and the risk of aircraft being parked by the customer.
- A significant amount of revenue and cost related to long-term contract accounting is denominated in currencies other than that of the relevant Group undertaking, most significantly USD transactions in sterling and euro denominated undertakings. These are translated at estimated long-term exchange rates.
- The assessment of stage of completion is generally measured for each contract. However, in certain cases, such as for CorporateCare agreements, where there are many contracts covering aftermarket services each for a small number of engines, the Group accounts for a portfolio of contracts together, as the effect on the Consolidated Financial Statements would not differ materially from applying the standard to the individual contracts in the portfolio. When accounting for a portfolio of LTSAs, the Group uses estimates and assumptions that reflect the size and composition of the portfolio.
- A contract asset/liability is recognised where payment is received in arrears/advance of the revenue recognised in meeting performance obligations.
- Contract modifications of LTSAs can be accounted for as separate contracts, termination of the existing contract and the creation of a new contract, or as part of the existing contract. The treatment is dependent on whether the change in scope is because of the addition of promised goods or services that are distinct and whether the price increases by an amount that reflects their standalone selling prices.
- Where material, wastage costs (see key judgements on page 126) are recorded as an expense and excluded from the measure of progress of LTSA contracts.
- The Group recognises a liability for their obligation to repurchase parts it has sold to the maintenance, repair and overhaul bases who overhaul the Group's customers' engines.

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

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

The Group has elected to use the practical expedient to expense as incurred any incremental costs of obtaining or fulfilling a contract if the amortisation period of an asset created would have been one year or less. Where costs to obtain a contract are recognised in the balance sheet, they are amortised over the performance of the related contract (eight to 15 years).

1 Accounting policies continued

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

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

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

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

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

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

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Examples include technical issues that: require resolution to meet regulatory requirements; have a wide-ranging impact across a product type; and cause significant operational disruption to customers. Similarly, in these rare circumstances, significant disruption costs to support customers resulting from the actual performance of a delivered good or service may be treated as a wastage cost. Provision is made for any costs identified as wastage when the obligation to incur them arises – see note 23.

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

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

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

The Civil Aerospace business maintains a pool of spare engines to support its customers. Some of these engines are sold to, and held by, joint venture companies. The assessment of whether the sales price reflects fair value is a key judgement. The Group considers that based upon the terms and conditions of the sales, and by comparison to the sales price of spare engines to other third parties, the sales made to joint ventures reflect the fair value of the goods sold. See note 28 for the value of sales to joint ventures during the year.

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

Revenue is recognised at the point in time when a customer obtains control of a spare engine. The customer could be a related party, an external operator or a spare engine service provider. Depending on the contractual arrangements, judgement is required on when the Group relinquishes control of spare engines and, therefore, when the revenue is recognised. The point of control passing has been concluded to correspond to the point of legal sale, even for instances where the customer is contracted to provide some future spare engine capacity to the Group to support its installed engine base. In such cases, the customer has responsibility for generating revenue from the engines and exposure to periods of non-utilisation; exposure to risk of damage or loss, risk from residual value movements, and will determine if and when profits will be made from disposal. The spare engine capacity that will be made available to the Group in the future does not consist of identified assets and the provider retains a substantive right to substitute the asset through the Group's period of use. It is, therefore, appropriate to recognise revenue from the sale of the spare engines at the point that title transfers. During 2025, of the total 52 (2024: 57) large spare engine sales delivered, 5 (2024: 20) engines were sold to customers where contractual arrangement allows for some future spare engine capacity to be used by the Group. These sales contributed £94m (2024: £399m) to revenue for the year.

1 Accounting policies continued

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

The Group has long-term contracts that fall into different accounting periods and which can extend over significant periods (generally up to 25 years), the most significant of these are LTSAs in the Civil Aerospace business, with contracts typically covering a period of eight to 15 years. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess: EFHs, time on wing and other operating parameters; the pattern of future maintenance activity and the costs to be incurred; lifecycle cost improvements over the term of the contracts; and escalation of revenue and costs (that includes the impact of inflation). Many of the revenues and costs are denominated in currencies other than that of the relevant group undertaking, these are translated at an estimated long-term exchange rate, based on historical trends and economic forecasts.

The impact of climate change on EFHs and costs is also considered when making these estimates. Industry and customer data on expected levels of utilisation is included in the forecasts used. Across the length of the current Civil Aerospace LTSA contracts, allowance has been made for around a 1% (2024:1%) projected cost increase resulting from carbon pricing and commodity price changes.

During the year, changes to the estimate in relation to the Civil Aerospace long term contracts resulted in favourable catch-up adjustments to revenue of £253m (2024: favourable catch-up adjustments of £311m).

The sensitivities below demonstrate how changes in assumptions (including as a result of climate change) could impact the level of revenue recognised were assumptions to change. The Directors believe that the estimates used to prepare the Consolidated Financial Statements take account of the inherent uncertainties, constraining the expected level of revenue as appropriate. Based upon the stage of completion of all LTSA contracts within Civil Aerospace as at 31 December 2025, the following reasonably possible changes in estimates would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates):

- A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an in-year impact of around £20m. This would be expected to be seen as a catch-up change in revenue or, to the extent it impacts onerous contracts, within cost of sales.
- A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £400m.
- A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £120m.

Risk and revenue sharing arrangements (RRSAs)

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

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

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

Key judgement – Determination of the nature of entry fees received

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

The non-refundable cash entry fee is considered to be one element of a long-term supply agreement. These receipts are deferred on the balance sheet and recognised against the cost of sales over the estimated number of units to be delivered on a similar basis to the amortisation of development costs – see page 129.

Government grants

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

Interest

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

1 Accounting policies continued

Taxation

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

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits, which include the reversal of taxable temporary differences, will be available against which the assets can be utilised. Further details on the Group's tax position can be found on pages 142 to 145.

Foreign currency translation

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

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

Discontinued operations and business disposals

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

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

Financial instruments – Classification and measurement

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

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

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

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

1 Accounting policies continued

Financial instruments – Impairment of financial assets and contract assets

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

Financial instruments – Hedge accounting

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

The Group economically hedges the fair value and cash flow exposures of its borrowings. Cross-currency interest rate swaps are held to manage the fair value or cash flow exposures of borrowings denominated in foreign currencies and are designated as fair value hedges or cash flow hedges as appropriate. Interest rate swaps are held to manage the interest rate exposures of fixed and floating rate borrowings and may be designated as fair value hedges or cash flow hedges as appropriate. If the swaps are not designated as fair value or cash flow hedges, the economic effect is included in the underlying results – see note 22.

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

Financial instruments – Hedge accounting continued

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

Business combinations and goodwill

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

Customer relationships

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

Certification costs

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

Research and development

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

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

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

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

1 Accounting policies continued

Key judgement – Determination of the point in time when costs incurred on an internal programme development meet the criteria for capitalisation

The Group incurs significant research and development expenditure in respect of various development programmes. Determining when capitalisation should commence and cease is a key judgement, as is the determination of when subsequent expenditure on the programme assets should be capitalised. During the year, £222m (2024: £263m) of development expenditure was capitalised.

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

The Group continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years.

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

Key judgement – Determination of the basis for amortising capitalised development costs

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

Software

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

Other intangible assets

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

Property, plant and equipment

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

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

- Land and buildings, as advised by the Group's professional advisers:
 - freehold buildings – three to 50 years; and
 - no depreciation is provided on freehold land.
- Plant and equipment – two to 25 years.
- Aircraft and engines – five to 20 years.

Leases

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

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

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

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

1 Accounting policies continued

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

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

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

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

Key judgement – Determination of lease term

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Certain land and building leases have renewal options although none due in the next 12 months would have a material impact. Other renewals are evenly spread between 2029 to 2033 and then post 2038. The Group reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities.

Impairment of non-current assets

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

If the recoverable amount of an asset (or CGU) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss is recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs of disposal. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset (or CGU). Fair value less costs of disposal (FVL COD) reflects market inputs or inputs based on market evidence if readily available. If these inputs are not readily available, the fair value is estimated by discounting future cash flows modified for market participants' views. The relevant local statutory tax rates have been applied in calculating post-tax to pre-tax discount rates.

Key judgement – Determination of CGUs for assessing impairment of goodwill

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

Inventories

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

Cash and cash equivalents

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

The Group's suppliers have access to a supply chain financing (SCF) programme through partnership with banks. This is to enable smaller suppliers, including joint ventures (90-day standard payment terms), who are on our standard 75 day or more payment terms to receive their payment sooner. The election to utilise the programme is the sole decision of the supplier. As the Group continues to have a contractual obligation to pay its suppliers under commercial terms, which are unaffected by any utilisation of the programme, and it does not retain any ongoing involvement in the SCFs, the related payables are retained on the Group's balance sheet and classified as trade payables. Further details are disclosed in note 21.

1 Accounting policies continued

Provisions

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

The principal provisions are recognised as follows:

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

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur. As the Group is an owner of an engine Type Certificate, it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Group is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSAs, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. Where Airworthiness Directives are issued, requirements cannot be met without the Group incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Group in designing and overhauling aero engines it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

During the year, the Group has utilised the remaining £35m of the Trent 1000 wastage costs provision.

Key judgement – Estimates of the time to incorporate required modified parts into the fleet to resolve technical issues on the Trent 1000, and the implications of this on forecast future costs when assessing onerous contracts

The Group considers that at 31 December 2025 the Trent 1000 onerous contract provisions are most sensitive to changes in estimates. Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the first half of 2026 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £20m to £30m charge.

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

The Group has provisions for onerous contracts at 31 December 2025 of £986m (2024: £1,433m). An increase in Civil Aerospace large engine estimates of LTSA costs of 1% over the remaining term of the contracts could lead to around a £50m to £70m increase in the onerous contract provisions across all programmes.

Key estimates – Assumptions implicit within the calculation of discount rates

The onerous contract provisions are sensitive to changes in the discount rate used to value the provisions. The rate used for each contract is derived from bond yields (i.e. risk-free rates) with a similar duration and currency to the contract that they are applied to. The rate is adjusted to reflect the specific inflation characteristics of the contracts. The forecast rates are determined from third-party market analysis and average 5%. A 1% change in the discount rates used could lead to around a £20m to £30m change in the provision.

Customer financing support

In connection with the sale of its products, the Group will, on occasion, provide financing support for its customers. Credit-based guarantees are disclosed as commitments or contingent liabilities dependent on whether aircraft have been delivered or not. As described on page 178, the Directors consider the likelihood of crystallisation in assessing whether provision is required for any contingent liabilities.

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

1 Accounting policies continued

Post-retirement benefits

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

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

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

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

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

Key estimate – Estimates of the assumptions for valuing the net defined benefit obligation

The Group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19 *Employee Benefits*. The valuations, which are based on assumptions determined with independent actuarial advice, resulted in a net deficit of £606m before deferred taxation being recognised on the balance sheet at 31 December 2025 (2024: deficit of £191m). The size of the net surplus/deficit is sensitive to the actuarial assumptions which include the discount rate, price inflation, pension and salary increases, longevity and, in the UK, the number of plan members who take the option to transfer their pension to a lump sum on retirement or who choose to take the Bridging Pension Option. Following consultation, the UK scheme closed to future accrual on 31 December 2020.

A reduction in the discount rate of 0.25% from 5.60% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £140m and an increase in the assumed rate of inflation of 0.25% (RPI of 3.05% and CPI of 2.70%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m. In August 2025 the scheme completed a Buy-in, with the purchase of a bulk insurance annuity policy, with the effect that the majority of scheme liabilities, and therefore these potential risks, are covered by this policy. See further details and overseas scheme sensitivities in note 24.

Share-based payments

The Group provides share-based payment arrangements to certain employees. These are principally equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest based on expected performance, except where additional shares vest as a result market-based performance conditions, such as the total shareholder return (TSR) performance condition in the long-term incentive plan (LTIP), where no adjustment is required as allowance for these performance conditions are included in the initial fair value.

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

The cost of shares of Rolls-Royce Holdings plc held by the Group for the purpose of fulfilling obligations in respect of employee share plans is deducted from equity in the consolidated balance sheet. See note 26 for a further description of the share-based payment plans.

Post balance sheet events

Rolls-Royce plc and the Trustee of the UK pension scheme signed an agreement on 2 February 2026 triggering the wind up of the UK scheme. The Group's current expectation is that the residual surplus on the scheme will be shared between the Group and the scheme's members, and communications to this effect have been made to members. This is subject to a statutory consultation process between the Trustee and the members, expected to be completed in 2026. Subject to the outcome of that process, it is currently expected that this will result in a constructive obligation of around £100m being recognised as a past service charge in the income statement in 2026.

Following the completion in November 2025 of its £1 bn share buyback programme for 2025, the Group announced in December 2025 that it was commencing a further share buyback programme of up to £200m in January 2026. This programme was completed in February 2026, with the Group having purchased 15,971,931 shares for consideration of £200m. These shares have all been cancelled.

On 26 February 2026, the Group announced a multi-year share buyback programme (see page 57 for further details).

On 16 February 2026, the Group repaid €750m of borrowings on their contractual maturity date which, along with the associated cross currency interest rate swaps, resulted in a cash outflow of £677m.

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 2025 results as appropriate.

2 Segmental analysis

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

Civil Aerospace	development, manufacture, marketing and sales of commercial aero engines and aftermarket services
Defence	development, manufacture, marketing and sales of military aero engines, naval engines, submarine nuclear power plants and aftermarket services
Power Systems	development, manufacture, marketing and sales of integrated solutions for onsite power and propulsors

On 4 March 2025, an investment was received by Rolls-Royce SMR Limited from ČEZ Group (CEZ), as a result the Group relinquished control of Rolls-Royce SMR Limited and the subsidiary was deconsolidated (see note 29 for further details).

Following the decision in 2024 to exit the Group's advanced air mobility activities and the deconsolidation of Rolls-Royce SMR Limited on 4 March 2025 (see note 29) the New Markets operating segment that was reported at 31 December 2024 is no longer regularly reviewed by the Board as a basis for making decisions about the allocation of resources to the business or to assess its performance. In line with IFRS 8 *Operating Segments*, New Markets is no longer considered to meet the definition of an operating segment.

Revenue and expenses from new electrical power solutions and the Group's share of the financial results of Rolls-Royce SMR Limited have been included in 'All Other Businesses', which also includes the trading results of the UK Civil Nuclear business. The segmental analysis for 2024 has been restated to reflect the 2025 assessment of operating segments.

Underlying results

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

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

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

In the year to 31 December 2025, the Group was a net seller of USD at an achieved exchange rate GBP:USD of 1.44 (2024: 1.48) based on the USD hedge book.

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by \$11.8bn across 2020–2026 to reflect the fact that, at that time, future operating cash flows were no longer forecast to materialise. An underlying charge of £1.7bn was recognised within the underlying finance costs in 2020 and the associated cash settlement costs occur over the period 2020–2026. The derivatives relating to this underlying charge have been subsequently excluded from the hedge book, and therefore are also excluded from the calculation of the average exchange rate achieved in the current and future periods.

Underlying performance also excludes the following:

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

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

2 Segmental analysis continued

Acquisition accounting, business disposals and impairment

The Group excludes these from underlying results so that the current year and comparative results are directly comparable.

Exceptional items

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

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

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

Other items

The financing component of the defined benefit pension scheme cost is determined by market conditions and has therefore been excluded from underlying performance.

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

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

	Civil Aerospace £m	Defence £m	Power Systems £m	All Other Businesses ¹ £m	Corporate and Inter-segment ² £m	Total Underlying £m
Year ended 31 December 2025						
Underlying revenue from sale of original equipment	3,217	2,228	3,433	13	-	8,891
Underlying revenue from aftermarket services	7,165	2,544	1,459	-	-	11,168
Total underlying revenue	10,382	4,772	4,892	13	-	20,059
Gross profit/(loss)	2,675	933	1,522	(2)	(2)	5,126
Commercial and administrative costs	(432)	(201)	(518)	(5)	(67)	(1,223)
Research and development costs	(267)	(45)	(164)	(21)	-	(497)
Share of results of joint ventures and associates	154	2	12	(112)	-	56
Underlying operating profit/(loss)	2,130	689	852	(140)	(69)	3,462
Year ended 31 December 2024						
Underlying revenue from sale of original equipment	3,105	1,943	2,942	15	-	8,005
Underlying revenue from aftermarket services	5,935	2,579	1,329	-	-	9,843
Total underlying revenue	9,040	4,522	4,271	15	-	17,848
Gross profit/(loss)	1,990	908	1,199	(3)	(3)	4,091
Commercial and administrative costs	(396)	(212)	(483)	(41)	(65)	(1,197)
Research and development costs	(252)	(55)	(165)	(133)	-	(605)
Share of results of joint ventures and associates	163	3	9	-	-	175
Underlying operating profit/(loss)	1,505	644	560	(177)	(68)	2,464

1 Following the decision to exit the Group's advanced air mobility activities in 2024 and the relinquishment of control of Rolls-Royce SMR Limited on 4 March 2025 (see note 29) the results of those activities in both 2024 and 2025 have been reported within All Other Businesses. The Group's income statement for 2025 includes two months of the results of Rolls-Royce SMR Limited as a subsidiary and ten months of the Group's share of the results of the equity-accounted investment

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

2 Segmental analysis continued

Reconciliation to statutory results

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
Year ended 31 December 2025			
Revenue from sale of original equipment	8,891	212	9,103
Revenue from aftermarket services	11,168	936	12,104
Total revenue	20,059	1,148	21,207
Gross profit	5,126	1,049	6,175
Commercial and administrative costs	(1,223)	(45)	(1,268)
Research and development costs	(497)	2	(495)
Share of results of joint ventures and associates	56	–	56
Operating profit	3,462	1,006	4,468
Gain arising on the disposal of businesses	–	809	809
Profit before financing and taxation	3,462	1,815	5,277
Net financing	(110)	1,768	1,658
Profit before taxation	3,352	3,583	6,935
Taxation	(593)	(506)	(1,099)
Profit for the year	2,759	3,077	5,836
Attributable to:			
Ordinary shareholders	2,764	3,077	5,841
NCI	(5)	–	(5)
Year ended 31 December 2024			
Revenue from sale of original equipment	8,005	384	8,389
Revenue from aftermarket services	9,843	677	10,520
Total revenue	17,848	1,061	18,909
Gross profit	4,091	130	4,221
Commercial and administrative costs	(1,197)	(87)	(1,284)
Research and development costs	(605)	402	(203)
Share of results of joint ventures and associates	175	(3)	172
Operating profit	2,464	442	2,906
Gain arising on the disposal of business	–	16	16
Profit before financing and taxation	2,464	458	2,922
Net financing	(171)	(517)	(688)
Profit/(loss) before taxation	2,293	(59)	2,234
Taxation	(282)	532	250
Profit for the year	2,011	473	2,484
Attributable to:			
Ordinary shareholders	2,048	473	2,521
NCI	(37)	–	(37)

2 Segmental analysis continued

Disaggregation of revenue from contracts with customers

Analysis by type and basis of recognition

	Civil Aerospace £m	Defence £m	Power Systems £m	All Other Businesses £m	Corporate and Inter-segment £m	Total Underlying £m
Year ended 31 December 2025						
Original equipment recognised at a point in time	3,217	409	3,368	–	–	6,994
Original equipment recognised over time	–	1,819	65	13	–	1,897
Aftermarket services recognised at a point in time	1,617	735	1,348	–	–	3,700
Aftermarket services recognised over time	5,469	1,809	111	–	–	7,389
Total underlying customer contract revenue	10,303	4,772	4,892	13	–	19,980
Other underlying revenue ¹	79	–	–	–	–	79
Total underlying revenue²	10,382	4,772	4,892	13	–	20,059
Year ended 31 December 2024						
Original equipment recognised at a point in time	3,105	562	2,871	3	–	6,541
Original equipment recognised over time	–	1,381	71	12	–	1,464
Aftermarket services recognised at a point in time	1,258	918	1,231	–	–	3,407
Aftermarket services recognised over time	4,594	1,661	98	–	–	6,353
Total underlying customer contract revenue	8,957	4,522	4,271	15	–	17,765
Other underlying revenue ¹	83	–	–	–	–	83
Total underlying revenue²	9,040	4,522	4,271	15	–	17,848

1 Includes leasing revenue

2 Includes £259m of revenue recognised in the year relating to performance obligations satisfied in previous years, of which £253m related to Civil Aerospace long term contracts (2024: £317m, of which £311m relates to Civil Aerospace long term contracts)

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results ¹ £m
Year ended 31 December 2025			
Original equipment recognised at a point in time	6,994	211	7,205
Original equipment recognised over time	1,897	1	1,898
Aftermarket services recognised at a point in time	3,700	123	3,823
Aftermarket services recognised over time	7,389	806	8,195
Total customer contract revenue	19,980	1,141	21,121
Other revenue	79	7	86
Total revenue	20,059	1,148	21,207
Year ended 31 December 2024			
Original equipment recognised at a point in time	6,541	384	6,925
Original equipment recognised over time	1,464	–	1,464
Aftermarket services recognised at a point in time	3,407	163	3,570
Aftermarket services recognised over time	6,353	501	6,854
Total customer contract revenue	17,765	1,048	18,813
Other revenue	83	13	96
Total revenue	17,848	1,061	18,909

1 During the year to 31 December 2025, revenue recognised within Civil Aerospace, Defence and Power Systems of £2,034m (2024: £1,915m) was received from a single customer

2 Segmental analysis continued

Analysis by geographical destination

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

	2025 £m	2024 £m
United Kingdom	3,103	2,642
Germany	1,225	1,048
Türkiye	442	307
Spain	410	282
Switzerland	362	440
Italy	357	318
France	327	332
Ireland	202	324
Netherlands	199	130
Israel	139	73
Norway	132	96
Poland	107	141
Sweden	95	28
Portugal	82	121
Latvia	54	16
Rest of Europe	192	273
Europe	7,428	6,571
United States	5,802	5,477
Canada	529	462
North America	6,331	5,939
South America	300	336
Central America	90	169
United Arab Emirates	543	255
Saudi Arabia	514	428
Qatar	374	196
Rest of Middle East	243	301
Middle East	1,674	1,180
China	1,500	1,400
Japan	733	634
Singapore	558	506
South Korea	404	359
Indonesia	199	125
Philippines	166	130
India	152	147
Taiwan	148	211
Thailand	140	138
Rest of Asia	380	243
Asia	4,380	3,893
Africa	587	406
Australasia	417	415
	21,207	18,909

2 Segmental analysis continued

Order backlog

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

	2025			2024		
	Within five years £bn	After five years £bn	Total £bn	Within five years £bn	After five years £bn	Total £bn
Civil Aerospace	29.2	35.4	64.6	29.7	30.2	59.9
Defence	14.1	3.3	17.4	14.0	3.4	17.4
Power Systems	5.9	0.2	6.1	4.7	0.1	4.8
All Other Businesses	-	-	-	-	-	-
	49.2	38.9	88.1	48.4	33.7	82.1

The parties to these contracts have approved the contract and customers do not have a unilateral enforceable right to terminate the contract without compensation. The Group excludes Civil Aerospace OE orders (for deliveries beyond the next seven to 12 months) that customers have placed where they retain a right to cancel. The Group's expectation based on historical experience is that these orders will be fulfilled. Civil Aerospace order backlog has increased by £4.7bn, this is due to new aftermarket contracts and contract extensions. Other drivers include commercial optimisation and revenue escalation with major customers. The Civil order backlog will be recognised over the contract term. The £1.3bn increase within Power Systems is mainly driven by orders for power generation (from the growth in data centres) and governmental, which will be mainly recognised over the next three years.

Underlying adjustments

		2025				2024			
		Revenue £m	Profit before financing £m	Net financing £m	Taxation £m	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance		20,059	3,462	(110)	(593)	17,848	2,464	(171)	(282)
Impact of foreign exchange differences as a result of hedging activities on trading transactions ¹	A	1,148	797	499	(328)	1,061	197	190	(97)
Unrealised fair value changes on derivative contracts held for trading ²	A	-	-	1,328	(333)	-	(6)	(649)	164
Unrealised fair value changes on derivative contracts held for financing ³	A	-	-	(4)	1	-	-	40	(10)
Exceptional programme credits ⁴	B	-	83	-	(21)	-	-	-	-
Exceptional transformation and restructuring charges ⁵	B	-	(44)	-	4	-	(234)	(11)	65
Impairment reversals ⁶	C	-	179	-	(44)	-	547	-	(157)
Effect of acquisition accounting ⁷	C	-	(16)	-	3	-	(45)	-	11
Other ⁸	D	-	7	(55)	12	-	(17)	(87)	27
Gains arising on the disposals of businesses ⁹	C	-	809	-	(28)	-	16	-	(6)
Impact of tax rate change ¹⁰	D	-	-	-	(58)	-	-	-	10
Recognition of deferred tax assets ¹¹	D	-	-	-	286	-	-	-	525
Total underlying adjustments		1,148	1,815	1,768	(506)	1,061	458	(517)	532
Statutory performance per consolidated income statement		21,207	5,277	1,658	(1,099)	18,909	2,922	(688)	250

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

- The impact of measuring revenues and costs at the average exchange rate during the year and the impact of valuation of assets and liabilities using the year end exchange rate rather than the achieved rate or the exchange rate that is expected to be achieved by the use of the hedge book increased statutory revenues by £1,148m (2024: £1,061m) and increased profit before financing and taxation by £797m (2024: £197m). Underlying financing excludes the impact of revaluing monetary assets and liabilities at the year end exchange rate
- The underlying results exclude the fair value changes on derivative contracts held for trading. These fair value changes are subsequently recognised in the underlying results when the contracts are settled
- Includes net fair value loss of £4m (2024: gain of £40m) on any interest rate swaps not designated into hedging relationships for accounting purposes
- During 2025, contract loss provisions have reduced by £83m (2024: £nil) as a result of amounts released following contractual renegotiations where the original charge was treated as non-underlying
- In 2023, the Group announced a major multi-year transformation programme (set out in the 2022 Annual Report). During 2025, the Group incurred charges of £44m related to this programme (2024: £234m). The charges comprise of advisory fees and transformation office costs £52m (2024: £37m) and severance costs £3m (2024: £68m). These were partly offset by an £11m reversal of previously recognised costs for impairments, write-offs and closure costs related to the exit of the Group's advanced air mobility activities (2024: £129m)
- The Group has assessed the carrying value of its assets and reviewed them for potential impairment and impairment reversal triggers. During 2025, there was an impairment reversal of intangible assets of £10m (2024: £413m), property, plant and equipment assets of £46m (2024: £nil), right of use assets of £129m (2024: £nil) and contract assets of £nil (2024: £132m). See note 10, 11, 12 and 13 for further details. Of the £185m reversed, £179m (2024: £132m) was included within cost of sales, and £6m has been included with research and development costs, see note 3 for further details
- The effect of acquisition accounting includes the amortisation of intangible assets arising on previous acquisitions
- Includes interest received of £52m (2024: £78m) on interest rate swaps which are not designated into hedge relationships for statutory purposes from interest payable on an underlying basis to fair value movement and £6m (2024: charge of £13m) past-service credit on defined benefit schemes
- An exceptional gain on disposal was recognised as a result of the deconsolidation of Rolls-Royce SMR Limited and the sale of the naval propulsors business during the year. Further details can be found in note 29
- Represents the impact to the income statement of the gradual reduction in the German Federal Corporate Income tax rate from 15% to 10%, in 2024 this represented the reduction in the tax rate on authorised surplus pension charges from 35% to 25% in 2024
- During 2025, the Group recognised deferred tax assets of £563m (2024: £1,033m) relating to UK tax losses of which £277m (2024: £508m) is included in underlying performance and £286m (2024: £525m) in non-underlying

2 Segmental analysis continued

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	Total reportable segments £m
At 31 December 2025				
Segment assets	20,754	3,582	4,691	29,027
Interests in joint ventures and associates	570	9	34	613
Segment liabilities	(25,932)	(3,523)	(2,404)	(31,859)
Net (liabilities)/assets	(4,608)	68	2,321	(2,219)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	766	185	219	1,170
Depreciation, amortisation and impairment	493	73	167	733
At 31 December 2024				
Segment assets	19,303	3,495	3,998	26,796
Interests in joint ventures and associates	550	9	33	592
Segment liabilities	(26,621)	(3,322)	(1,969)	(31,912)
Net (liabilities)/assets	(6,768)	182	2,062	(4,524)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	650	164	198	1,012
Depreciation, amortisation and impairment	210	85	199	494

Reconciliation to the balance sheet

	2025 £m	2024 £m
Segment assets (excluding held for sale)	29,027	26,796
Interests in joint ventures and associates	613	592
All Other Businesses	681	122
Corporate and Inter-segment	(2,286)	(2,227)
Assets held for sale	15	153
Cash and cash equivalents	6,244	5,575
Fair value of swaps hedging fixed rate borrowings	-	154
Deferred and income tax assets	3,535	3,731
Post-retirement scheme surpluses	286	790
Total assets	38,115	35,686
Segment liabilities (excluding held for sale)	(31,859)	(31,912)
All Other Businesses	(62)	(200)
Corporate and Inter-segment	2,286	2,227
Liabilities associated with assets held for sale	(19)	(100)
Borrowings and lease liabilities	(4,272)	(5,132)
Fair value of swaps hedging fixed rate borrowings	(77)	(121)
Deferred and income tax liabilities	(467)	(348)
Post-retirement scheme deficits	(892)	(981)
Total liabilities	(35,362)	(36,567)
Net assets/(liabilities)	2,753	(881)

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

	2025 £m	2024 £m
United Kingdom	5,833	4,968
Germany	2,613	2,326
United States	1,482	1,481
Other	731	709
	10,659	9,484

3 Research and development

	2025 £m	2024 £m
Gross research and development expenditure	(1,417)	(1,475)
Contributions and fees ¹	814	700
Net expenditure	(603)	(775)
Capitalised as intangible assets ²	211	263
Amortisation and impairment of capitalised costs ^{3,4}	(103)	309
Net amount recognised in the income statement	(495)	(203)
Underlying adjustments ⁴	(2)	(402)
Net underlying cost recognised in the income statement	(497)	(605)

1 Includes £795m (2024: £667m) of government funding

2 R&D capitalised as intangibles is presented net of £11m (2024: £nil) Government funding received

3 See notes 2, 10 and 11 for analysis of amortisation and impairment

4 Underlying adjustments include impact of acquisition accounting, foreign exchange and an impairment reversal of £6m (2024: £413m). Further details can be found in notes 2 and 11

4 Net financing

	2025		2024	
	Statutory £m	Underlying ¹ £m	Statutory £m	Underlying ¹ £m
Interest receivable and similar income ²	271	265	269	266
Net fair value gains on foreign currency contracts	1,335	-	-	-
Net fair value gains on non-hedge accounted interest rate swaps ³	-	-	40	-
Financing on post-retirement scheme surpluses	32	-	37	-
Net foreign exchange gains	499	-	190	-
Financing income	2,137	265	536	266
Interest payable	(302)	(240)	(362)	(273)
Net fair value losses on foreign currency contracts	-	-	(631)	-
Net fair value losses on non-hedge accounted interest rate swaps ³	(4)	-	-	-
Net fair value losses on revaluation of other investments accounted for at FVTPL ⁴	-	-	(24)	(24)
Foreign exchange differences and changes in forecast payments relating to financial RRSAs	(4)	-	-	-
Net fair value losses on commodity contracts	(7)	-	(18)	-
Financing on post-retirement scheme deficits	(38)	-	(39)	-
Cost of undrawn facilities	(9)	(9)	(17)	(17)
Other financing charges	(115)	(126)	(133)	(123)
Financing costs	(479)	(375)	(1,224)	(437)
Net financing income/(costs)	1,658	(110)	(688)	(171)
Analysed as:				
Net interest (payable)/receivable	(31)	25	(93)	(7)
Net fair value gains/(losses) on derivative contracts	1,324	-	(609)	-
Net post-retirement scheme financing	(6)	-	(2)	-
Net foreign exchange gains	499	-	190	-
Net other financing	(128)	(135)	(174)	(164)
Net financing income/(costs)	1,658	(110)	(688)	(171)

1 See note 2 for definition of underlying results

2 Includes interest income on cash balances and short-term deposits of £149m (2024: £188m) and similar income of £122m (2024: £81m) on money market funds

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

4 Included in the 2024 financing costs is a £24m charge in relation to the fair value write down of an unlisted investment recorded at fair value through profit or loss (FVTPL)

5 Taxation

	UK		Overseas		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Current tax charge for the year	39	30	730	379	769	409
Current tax charge in respect of Pillar Two income taxes	2	2	-	-	2	2
Adjustments in respect of prior years	(9)	-	79	(18)	70	(18)
Current tax	32	32	809	361	841	393
Deferred tax charge for the year	726	265	50	3	776	268
Adjustments in respect of prior years	12	17	(25)	(47)	(13)	(30)
Recognition of deferred tax	(563)	(1,033)	-	-	(563)	(1,033)
Derecognition of advance corporation tax	-	162	-	-	-	162
Deferred tax charge resulting from a decrease in the overseas tax rate	-	-	58	-	58	-
Deferred tax credit resulting from a decrease in the UK tax rate	-	(10)	-	-	-	(10)
Deferred tax	175	(599)	83	(44)	258	(643)
Charged/(credited) in the income statement	207	(567)	892	317	1,099	(250)

Other tax (charges)/credits

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified		2025 £m	2024 £m
	2025 £m	2024 £m	2025 £m	2024 £m		
Deferred tax:						
Movement in post-retirement schemes	115	61	-	-	-	-
Cash flow hedge	-	-	3	(1)	-	-
Net investment hedge	-	-	2	(2)	-	-
Share-based payments – direct to equity	-	-	-	-	76	71
Other tax credits/(charges)	115	61	5	(3)	76	71

Tax reconciliation

	2025 £m	2024 £m
Profit before taxation	6,935	2,234
Less share of profits of joint ventures and associates (note 14)	(71)	(137)
Profit before taxation excluding joint ventures and associates	6,864	2,097
Nominal tax charge at UK corporation tax rate 25% (2024: 25%)	1,716	524
Overseas rate differences ¹	40	27
US state taxes	18	23
Exempt gain on disposal of businesses ²	(185)	-
Tax de-grouping charge ³	-	102
Other permanent differences ⁴	5	12
Tax losses and other temporary differences not recognised in deferred tax ⁵	11	3
Derecognition of deferred tax	-	30
Benefit arising from previously unrecognised other temporary differences ⁶	(27)	(42)
Recognition of deferred tax ⁷	(563)	(1,033)
Utilisation of previously unrecognised UK tax losses	(31)	-
Adjustments in respect of prior years	57	(48)
Derecognition of advance corporation tax ⁸	-	162
Increase in deferred taxes resulting from a change in the overseas tax rate ⁹	58	-
Decrease in deferred taxes resulting from a change in the UK tax rate ¹⁰	-	(10)
	1,099	(250)
Underlying items (note 2)	593	282
Non-underlying items	506	(532)
	1,099	(250)

1 Overseas rate differences mainly relate to tax on profits or losses in countries such as Germany

2 Relates primarily to deconsolidation of Rolls-Royce SMR Limited

3 The tax de-grouping charge in 2024 arose on the dilution of the shareholding in Rolls-Royce SMR Limited to below 75%

4 Includes £2m (2024:£2m) relating to Pillar two income taxes

5 Relates to tax losses not recognised

6 Relates to foreign exchange derivatives

7 The recognition of deferred tax relates to UK tax losses

8 Advance corporation tax was de-recognised in 2024 on the basis that payment of cash dividends will prevent the utilisation

9 Represents the impact to the income statement of the gradual reduction in the German Federal corporate income tax rate from 15% to 10%

10 Represents the impact to the income statement of the reduction in the tax rate on authorised surplus pension charges from 35% to 25% in 2024

5 Taxation continued

Deferred taxation assets and liabilities

	2025 £m	2024 £m
At 1 January	3,429	2,668
Amount (charged)/ credited to income statement	(258)	643
Amount credited to OCI	117	59
Amount credited/(charged) to hedging reserves	3	(1)
Amount credited to equity	76	71
Exchange differences	(8)	(11)
At 31 December	3,359	3,429
Deferred tax assets	3,460	3,660
Deferred tax liabilities	(101)	(231)
	3,359	3,429

The analysis of the deferred tax position is as follows:

	At 1 January £m	Recognised in income statement £m	Recognised in OCI £m	Recognised in equity £m	Exchange differences £m	At 31 December £m
2025						
Intangible assets	(613)	(8)	-	-	(16)	(637)
Property, plant and equipment	142	(80)	-	-	8	70
Other temporary differences ¹	874	(7)	5	13	(1)	884
Net contract liabilities	63	(3)	-	-	-	60
Pensions and other post-retirement scheme benefits	(54)	(23)	115	-	(2)	36
Foreign exchange and commodity financial assets and liabilities	488	(506)	-	-	2	(16)
Losses	2,481	420	-	63	-	2,964
R&D credit	48	(51)	-	-	1	(2)
	3,429	(258)	120	76	(8)	3,359
2024						
Intangible assets	(431)	(191)	-	-	9	(613)
Property, plant and equipment	229	(87)	-	-	-	142
Other temporary differences ¹	752	77	(3)	62	(14)	874
Net contract liabilities	60	3	-	-	-	63
Pensions and other post-retirement scheme benefits	(123)	10	61	-	(2)	(54)
Foreign exchange and commodity financial assets and liabilities	451	40	-	-	(3)	488
Losses	1,489	984	-	9	(1)	2,481
R&D credit	79	(31)	-	-	-	48
Advance corporation tax ²	162	(162)	-	-	-	-
	2,668	643	58	71	(11)	3,429

1 Other temporary differences mainly relate to the deferral of relief for interest expenses and share based payments in the UK and revenue recognised earlier under local GAAP compared to IFRS in Germany. The amount recognised in the income statement includes a £1m credit (2024: £8m credit) relating to share-based payments

2 Prior to 1999 advance corporation tax ("ACT") was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities. See page 144 for further details

5 Taxation continued

Unrecognised deferred tax assets

	2025 £m	2024 £m
Advance corporation tax	181	181
UK losses	5	629
Foreign exchange and commodity financial assets and liabilities	–	27
Losses and other unrecognised deferred tax assets	54	47
Deferred tax not recognised on unused tax losses and other items on the basis that future economic benefit is uncertain	240	884

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

	2025				2024			
	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m
Expiry within five years	178	–	–	178	75	–	–	75
Expiry within six to 30 years	512	–	–	512	218	–	–	218
No expiry	94	18	–	76	2,698	2,515	107	76
	784	18	–	766	2,991	2,515	107	369

Advance corporation tax was derecognised in 2024 following the Group's announcement to reinstate shareholder distributions via cash dividends. In addition to the gross balances shown above, advance corporation tax of £181m (2024: £181m) has not been recognised as a result of the assessment performed considering the time period over which this could be recovered, when taking into account both shadow and surplus advance corporation tax. Advance corporation tax has no expiry. See below for developments following the 2025 Autumn Budget.

Of the total deferred tax asset of £3,460m, £2,835m (2024: £3,099m) relates to the UK and is made up as follows:

- £2,954m (2024: £2,472m) relating to tax losses;
- £(40)m (2024: £425m) arising on unrealised losses on derivative contracts; and
- £(79)m (2024: £202m) relating to other deductible temporary differences, in particular tax depreciation and relief for interest expenses.

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

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

Deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Where necessary, this is based on management's assumptions and probability assessments relating to the amounts and timing of future taxable profits. The Directors continually reassess the appropriateness of recovering deferred tax assets, which includes a consideration of the level of future profits and the time period over which they are recovered. A recoverability assessment has been undertaken, taking account of deferred tax liabilities against which the reversal can be offset and using latest UK forecasts, which are mainly driven by the Civil Aerospace large engine business, to assess the level of future taxable profits.

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

- using the most recent UK profit forecasts, covering the next five years which are consistent with external sources on market conditions;
- the long-term forecast profit profile of existing large engine programmes which are typically in excess of 30 years from initial investment to retirement of the fleet, including the aftermarket revenues earned from airline customers;
- the long-term forecast is adjusted to exclude engine programmes which are in the development stage with no confirmed orders;
- taking into account the risk that regulatory changes could materially impact demand for our products;
- consideration that although all Civil Aerospace large engines are compatible with sustainable fuels, there is a risk that in the longer term demand will shift towards more sustainable products and solutions;
- the long-term forecast profit and cost profile of the other parts of the UK business;
- taking into consideration past performance and experience, including the fact that the UK business returned to profitability in 2023; and
- reflecting the sustained profitability and continued growing financial resilience of the Group, modelling is based on 100% probability of a base case forecast (31 December 2024: 75% base case and 25% downside forecast). It also reflects the fact that the Group's multi-year transformation continues to deliver despite the current volatility in macro-economic variables and an external environment that remains challenging, including geopolitical tensions, the uncertainty introduced by tariffs and supply chain challenges. Delivery against the Group's strategic initiatives continues to expand the earnings potential of the business.

5 Taxation continued

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

- the impact of significant Civil Aerospace large engine orders in 2025 and improvements in large engine LTSA business plans;
- latest assessment of the time period over which future probable profits are expected to arise for Civil Aerospace large engine programmes;
- the outcomes of strategic initiatives, including contractual margin improvements and cost reduction;
- the continued growth in Civil Aerospace engine flying hours; and
- management's assumptions on the impact of macro-economic factors and climate change on the UK business.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks remain consistent with those at 31 December 2024. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Group has demonstrated that all the commercial aero engines it produces are compatible for use with sustainable fuels. The impact that this could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, the Group has recognised a total deferred tax asset relating to UK tax losses of £2,954m (2024: £2,472m), which includes the recognition of a further £563m (2024: £1,033m) of previously unrecognised deferred tax asset relating to UK tax losses (of which £286m is non-underlying and £277m is underlying). This reflects the conclusions that:

- based on current financial results and an improved outlook it is probable that the UK business will generate taxable income and tax liabilities in the future against which these losses can be utilised; and
- using current forecasts and various scenarios these losses will be used in full within eight-15 years, which is within the expected programme lifecycles.

As stated above, the ACT balance of £181m remains unrecognised at 31 December 2025. The Group is closely monitoring developments following the announcement in the 2025 Autumn Budget that the shadow ACT regime will be repealed, effective from 1 April 2026. The statutory instrument is not yet published so the legislation is not substantially enacted at the balance sheet date. This will be considered for future accounting periods.

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

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 31 December 2025, the Group has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The temporary differences associated with investments in subsidiaries, joint ventures and associates, for which a deferred tax liability has not been recognised, aggregate to £2,825m (2024: £1,558m). No deferred tax liability has been recognised on the potential withholding tax due on the remittance of undistributed profits as the Group is able to control the timing of such remittances and it is probable that consent will not be given in the foreseeable future.

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

As outlined above, during the year the Group recognised a further £563m (2024: £1,033m) of previously unrecognised deferred tax asset relating to UK tax losses (of which £286m (2024: £525m) is non-underlying and £277m (2024: £508m) is underlying). During 2024 the Group fully derecognised £162m advance corporation tax balance (as an underlying charge). The £277m (2024: net £346m) credit to underlying profit after tax has been adjusted in the calculation of earnings per share, the proposed dividend payout ratio, and return on capital. This one-off non-cash adjustment has been made as it would otherwise cause a disproportionate impact on these metrics.

6 Earnings per ordinary share

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

	2025			2024		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit attributable to ordinary shareholders (£m):	5,841		5,841	2,521		2,521
Weighted average number of ordinary shares (millions)	8,415	33	8,448	8,388	51	8,439
EPS (pence):	69.41	(0.27)	69.14	30.05	(0.18)	29.87

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

	2025		2024	
	Pence	£m	Pence	£m
EPS/Profit attributable to ordinary shareholders	69.41	5,841	30.05	2,521
Total underlying adjustments to (loss)/profit before taxation (note 2)	(42.58)	(3,583)	0.70	59
Related tax effects	6.01	506	(6.34)	(532)
Adjustment for recognition of deferred tax assets ¹	(3.29)	(277)	(4.12)	(346)
Underlying EPS/Underlying profit attributable to ordinary shareholders	29.55	2,487	20.29	1,702
Diluted underlying EPS attributable to ordinary shareholders	29.44		20.17	

¹ Underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £277m (2024: £346m) related to the recognition of deferred tax assets on UK tax losses, see note 5 for further details

7 Dividends

	2025 £m	2024 £m
Dividends provided for or paid during the year	885	–

Ordinary dividends declared and paid in the year ended 31 December 2025 comprised of a final dividend for 2024 of 6.0p per ordinary share and an interim cash dividend in respect of the first half of 2025 of 4.5p per ordinary share.

The Employee Benefit Trust has currently waived the right to receive dividends on Rolls-Royce Holdings plc shares. This waiver has been applied to dividends paid in 2025.

The Directors have proposed a final dividend for 2025 of 5.0p per share (2024: 6.0p), giving a total for the year of 9.5p (2024: 6.0p) including the interim dividend paid during the year of 4.5p (2024: nil). The expected cost of servicing this final dividend is £419m, for which no liability has been recognised at the balance sheet date. The final dividend will be paid on 3 June 2026 to shareholders on the register on 24 April 2026. The election deadline for ordinary shareholders wishing to participate in the Dividend Reinvestment Programme (DRIP) is 15 May 2026, further details can be obtained from the Company's Registrar, Equiniti Limited.

8 Auditors' remuneration

	2025 £m	2024 £m
Fees payable to the Company's auditor for the audit of the Company's annual Financial Statements	3.4	3.9
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	8.4	8.6
Total fees payable for audit services	11.8	12.5
Fees payable to the Company's auditor and its associates for other services:		
Audit related assurance services ¹	0.7	0.7
Other assurance services ²	0.1	0.1
Total fees payable to the Company's auditor and its associates³	12.6	13.3
Fees payable in respect of the Group's pension schemes:		
Audit	0.1	0.1

1 This includes £0.7m (2024: £0.7m) for the review of the half-year report

2 This includes £0.1m (2024: £0.1m) in respect of agreed upon procedures in respect of levies payable

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

9 Employee information

	2025 Number ¹	2024 Number ¹
United Kingdom	22,100	21,900
Germany	9,900	10,000
United States	5,300	5,300
Italy	1,000	900
Singapore	700	700
Canada	700	700
India	700	600
China	500	500
Israel	300	300
France	200	200
Rest of world	1,200	1,300
Monthly average number of employees	42,600	42,400
Civil Aerospace	19,400	18,700
Defence	12,800	12,500
Power Systems	10,000	9,900
All Other Businesses ²	200	1,200
Corporate ³	200	100
Monthly average number of employees	42,600	42,400

	2025 Total £m	2024 Total £m
Wages, salaries and benefits	3,107	3,056
Social security costs	437	369
Share-based payments (note 26)	104	136
Pensions and other post-retirement scheme benefits (note 24)	403	387
Group employment costs⁴	4,051	3,948

1 Employee numbers are rounded to the nearest hundred

2 Following the decision to exit the Group's advanced air mobility activities in 2024 and the relinquishment of control of Rolls-Royce SMR Limited on 4 March 2025 the results of those activities in both 2024 and 2025 have been reported within All Other Business. The employee information above contains two months of Rolls-Royce SMR Limited employee information, following the relinquishment of control of Rolls-Royce SMR Limited in March 2025 the employee information of Rolls-Royce SMR Limited was not included within the monthly average number of employees for the Group

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

4 Remuneration of key management personnel is shown in note 28

10 Goodwill

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

	Rolls-Royce Power Systems AG £m	Rolls-Royce Deutschland Ltd & Co KG £m	Other ¹ £m	Total £m
Cost:				
At 1 January 2024	798	240	63	1,101
Transferred to assets held for sale ²	–	–	(25)	(25)
Exchange differences	(19)	(11)	(1)	(31)
At 31 December 2024	779	229	37	1,045
Transferred from assets held for sale ²	–	–	2	2
Disposals of business	–	–	(2)	(2)
Disposals	–	–	(10)	(10)
Exchange differences	8	11	–	19
At 31 December 2025	787	240	27	1,054
Accumulated amortisation and impairment:				
At 1 January 2024	–	3	32	35
Impairment ³	–	–	13	13
Transferred to assets held for sale ²	–	–	(12)	(12)
At 31 December 2024	–	3	33	36
Transferred from assets held for sale ²	–	–	2	2
Disposals of business	–	–	(2)	(2)
Disposals	–	–	(10)	(10)
At 31 December 2025	–	3	23	26
Net book value at:				
At 31 December 2025	787	237	4	1,028
At 31 December 2024	779	226	4	1,009

1 Goodwill balances that are not considered to be individually significant were also tested for impairment

2 At 31 December 2024 the Group held for sale the goodwill allocated to the naval propulsors & handling business. During the year goodwill with a net book value of £nil was transferred into and out of assets held for sale relating to the naval propulsors business and naval handling business respectively. The assets and liabilities of the naval propulsors business were disposed of on 1 July 2025 and the assets of the naval handling business are held for sale at 31 December 2025, see note 29 for further details

3 During 2024 the Group impaired £13m of goodwill due to the closure of its electrical advanced air mobility activities

The Directors have reviewed the presentation of the Balance Sheet during the year and believe that presenting goodwill separately from the remaining intangible assets is relevant to an understanding of the entity's financial position and provides more useful information to the users of the Annual Report and Financial Statements. The comparative balance at 31 December 2024 has also been represented for comparability.

The carrying amount of goodwill allocated across multiple CGUs is not significant in comparison with the Group's total carrying amount of goodwill.

Goodwill has been tested for impairment during 2025 on the following basis:

- the carrying values of goodwill have been assessed by reference to the value in use;
- these have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions. These forecasts generally cover the next five years. Growth rates for the period not covered by the forecasts are based on growth rates of 2% which reflects the products, industries and countries in which the relevant CGU or group of CGUs operate. Inflation has been included based on contractual commitments where relevant. Where general inflation assumptions have been required, these have been estimated based on externally sourced data. General inflation assumptions of 2% to 3% have been included in the forecasts, depending on the nature and geography of the flows;
- the key forecast assumptions for the impairment tests are the discount rate and the cash flow projections, in particular the programme assumptions (such as sales volumes and product costs), the impact of foreign exchange rates on the relationship between selling prices and costs, and growth rates. Impairment tests are performed using prevailing exchange rates; and
- the Group believes there are significant business growth opportunities to come from Rolls-Royce playing a leading role in the transition to net zero as we develop and deliver the products that will support our customers through the energy transition across multiple markets. At the same time climate change poses potentially significant risks. The assumptions used by the Directors are based on past experience and external sources of information. Based on the climate scenarios prepared, the forecasts do not assume a significant deterioration of demand for Civil Aerospace (including Rolls-Royce Deutschland) programmes given that all commercial aero engines are compatible with sustainable fuels. Similarly, the majority of the portfolio in Power Systems is now compatible with alternative and more sustainable fuels. The investment required to ensure our new products will be compatible with net zero operation, and to achieve net zero Scope 1 + 2 GHG emission commitments is reflected in the forecasts used.

10 Goodwill continued

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

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

Cash-generating unit (CGU) or group of CGUs

	Primary operating segment	Key trading assumptions ¹	Nominal pre-tax discount rate		Growth rate ²		Downside scenario weighting ³	
			2025	2024	2025	2024	2025	2024
Rolls-Royce Power Systems AG	Power Systems	e.g. volume of equipment deliveries; pricing achieved; cost escalation	10.7%	10.2%	2%	2%	25%	25%
Rolls-Royce Deutschland Ltd & Co KG	Civil Aerospace	e.g. volume of engine deliveries, flying hours of installed fleet, cost escalation	11.7%	12.6%	2%	2%	25%	25%

1 Trading assumptions are based on current and known future programmes, estimates of market share and long-term economic forecasts

2 Growth rate at which cash flows beyond the five-year forecasts are assumed to grow

3 Weighting of the plausible downside scenario in relation to macro-economic factors

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

11 Intangible assets

	Certification costs £m	Development expenditure £m	Customer relationships £m	Software ¹ £m	Other ² £m	Total £m
Cost:						
At 1 January 2024	930	3,763	498	1,004	699	6,894
Additions	-	263	-	96	8	367
Transferred to assets held for sale ³	-	(4)	(4)	(1)	-	(9)
Disposals ⁴	-	(3)	(13)	(77)	(2)	(95)
Exchange differences	(1)	(63)	(12)	(4)	(17)	(97)
At 31 December 2024	929	3,956	469	1,018	688	7,060
Additions	31	222	-	105	6	364
Transferred from assets held for sale ³	-	3	4	-	(4)	3
Disposals ⁵	-	(422)	(415)	(26)	(122)	(985)
Exchange differences	2	62	2	-	16	82
At 31 December 2025	962	3,821	60	1,097	584	6,524
Accumulated amortisation and impairment:						
At 1 January 2024	467	1,976	433	718	357	3,951
Charge for the year ⁶	27	96	35	78	19	255
Impairment ⁷	-	(405)	-	-	17	(388)
Transferred to assets held for sale ³	-	(4)	(4)	(1)	-	(9)
Disposals ⁴	-	-	(13)	(69)	(2)	(84)
Exchange differences	(1)	(37)	(10)	(3)	(7)	(58)
At 31 December 2024	493	1,626	441	723	384	3,667
Charge for the year ⁶	31	107	7	68	22	235
Impairment ⁸	(3)	(4)	-	-	13	6
Transferred from assets held for sale ³	-	3	4	-	(4)	3
Disposals ⁵	-	(422)	(415)	(23)	(122)	(982)
Exchange differences	1	18	-	-	6	25
At 31 December 2025	522	1,328	37	768	299	2,954
Net book value at:						
At 31 December 2025	440	2,493	23	329	285	3,570
At 31 December 2024	436	2,330	28	295	304	3,393

11 Intangible assets continued

- 1 Includes £160m (2024: £100m) of software under course of construction which is not amortised
- 2 Other intangible assets includes trademarks, brands and the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance which will improve reliability and enable the Group to reduce the costs of meeting LTSA obligations
- 3 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. During the year intangible assets with a net book value of £nil was transferred into and out of assets held for sale relating to the naval propulsors business and naval handling business respectively. The assets and liabilities of the naval propulsors business were disposed of on 1 July 2025 and the assets of the naval handling business are held for sale at 31 December 2025, see note 29 for further details
- 4 During 2024 the Group disposed of its lower power range engine business based in Power Systems
- 5 During 2025 the majority of disposals relate to the derecognition of assets that are fully amortised and where no future economic benefits are expected from their use or disposal
- 6 Charged to cost of sales and commercial and administrative costs except development costs, which are charged to research and development costs
- 7 The 2024 impairment charge included £17m of other impairment (related to IP) resulting from the closure of the Group's electrical advanced air mobility activities. It also included the reversal of a Civil Aerospace programme asset impairment recognised in 2020, with £413m credited to research and development within the non-underlying income statement
- 8 The 2025 impairment charge includes a partial impairment reversal of a Civil Aerospace – Trent programme asset that had been fully impaired by 30 June 2020. A reversal of £10m has been credited, with £4m recognised in cost of sales and £6m in research and development within the non-underlying income statement. See further details below

At 31 December 2025, the Group had expenditure commitments for software of £24m (2024: £28m).

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

Material intangible assets

The carrying amount and the residual life of the material intangible assets for the Group is as follows:

	Residual life ¹	Net book value	
		2025 £m	2024 £m
Trent programme intangible assets ²	1–15 years	1,993	2,001
Business aviation programme intangible assets ³	9–15 years	814	674
Intangible assets related to Power Systems ⁴		323	309
		3,130	2,984

- 1 Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 129, the amortisation period of 15 years will commence on those assets which are not being amortised as the units are delivered
- 2 Included within the Trent programmes are the Trent 1000, Trent 7000 and Trent XWB
- 3 Included within business aviation are the Pearl 700, Pearl 15 and Pearl 10X
- 4 Includes £112m (2024: £107m) in respect of a brand intangible asset which is not amortised. Remaining assets are amortised over a range of three to 15 years

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant programme changes and by analysing latest management forecasts against those prepared in 2024 to identify any change in performance. Where a trigger event has been identified, an impairment test has been carried out. Where an impairment test was required, it was performed on the following basis:

- the carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and
- the key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates consistent with the assumptions above.

An intangible asset impairment reversal of £10m was recognised together with a property, plant and equipment impairment reversal of £46m (see note 12) and a lease right-of-use asset impairment reversal of £129m (see note 13) being recognised in cost of sales (£179m) and research and development (£6m) in the year as follows:

	Impairment reversal			Total £m	Pre-tax nominal discount rate at 30 June 2025 ¹
	Intangible assets £m	Property, plant and equipment £m	Right-of-use assets £m		
Civil Aerospace – Trent programme assets	10	46	129	185	12.0%

- 1 The equivalent pre-tax nominal discount rate in 2020 when the impairment was recognised was 11.0%

The recoverable amount calculated includes passage of time benefits in addition to those from the impairment reversal trigger drivers described above and has resulted in a partial impairment reversal. In making this assessment, the Directors have considered a range of sensitivities in relation to the aftermarket returns, cost increases and discount rates.

There have been no other individually material impairment charges or reversals recognised during the year (2024: reversal of £413m).

12 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2024	1,883	4,962	1,006	412	8,263
Additions	21	129	108	245	503
Transferred to assets held for sale ¹	(33)	(51)	–	(2)	(86)
Disposals/write-offs	(23)	(142)	(17)	(4)	(186)
Reclassifications within PPE ²	46	67	3	(116)	–
Reclassification from right-of-use assets	11	–	–	–	11
Exchange differences	(23)	(55)	(1)	–	(79)
At 31 December 2024	1,882	4,910	1,099	535	8,426
Additions	56	178	163	273	670
Disposal of businesses	–	(5)	–	–	(5)
Disposals/write-offs	(19)	(284)	(5)	(8)	(316)
Reclassifications within PPE ²	42	104	1	(147)	–
Exchange differences	–	1	(8)	(17)	(24)
At 31 December 2025	1,961	4,904	1,250	636	8,751
Accumulated depreciation and impairment:					
At 1 January 2024	709	3,384	434	8	4,535
Charge for the year ³	77	249	49	–	375
Impairment	2	23	–	–	25
Transferred to assets held for sale ¹	(11)	(24)	–	–	(35)
Disposals/write-offs	(16)	(123)	(10)	–	(149)
Reclassifications within PPE ²	16	(16)	–	–	–
Exchange differences	(9)	(39)	(1)	–	(49)
At 31 December 2024	768	3,454	472	8	4,702
Charge for the year ³	71	239	70	–	380
Impairment ⁴	–	2	(44)	–	(42)
Disposal of businesses	–	(2)	–	–	(2)
Disposals/write-offs	(14)	(278)	(4)	–	(296)
Exchange differences	(3)	2	(3)	–	(4)
At 31 December 2025	822	3,417	491	8	4,738
Net book value at:					
At 31 December 2025	1,139	1,487	759	628	4,013
At 31 December 2024	1,114	1,456	627	527	3,724

1 At 31 December 2024 the Group held for sale the assets and liabilities of its naval propulsors & handling business. The assets and liabilities of the naval propulsors business were disposed of during the year and the assets of the naval handling business are held for sale at 31 December 2025, see note 29 for further details

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

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

4 The carrying values of property, plant and equipment have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in notes 10 and 11. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. During the year, a partial impairment reversal of £46m has been recognised within cost of sales (2024: £nil), as outlined within notes 2, 10 and 11

Property, plant and equipment includes:

	2025			2024		
	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m
Assets held for use in leases where the Group is the lessor:						
Cost	6	36	1,018	6	36	861
Depreciation	(4)	(23)	(366)	(4)	(22)	(372)
Net book value	2	13	652	2	14	489

	2025 £m	2024 £m
Capital expenditure commitments	252	177
Cost of fully depreciated assets	2,183	2,286

The Group's share of equity accounted entities' capital commitments is £100m (2024: £69m).

13 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2024	513	194	1,864	2,571
Additions/modification of leases	28	73	37	138
Transferred to assets held for sale ¹	(2)	(1)	-	(3)
Disposals	(8)	(17)	-	(25)
Reclassifications to PPE	(11)	-	-	(11)
Exchange differences	(3)	(3)	(4)	(10)
At 31 December 2024	517	246	1,897	2,660
Additions/modification of leases	79	50	49	178
Disposal of businesses	(2)	-	-	(2)
Disposals	(11)	(49)	(54)	(114)
Exchange differences	(14)	1	3	(10)
At 31 December 2025	569	248	1,895	2,712
Accumulated depreciation and impairment:				
At 1 January 2024	259	109	1,298	1,666
Charge for the year ²	42	43	172	257
Impairment ³	3	2	3	8
Transferred to assets held for sale ¹	(2)	-	-	(2)
Disposals	(7)	(17)	-	(24)
Exchange differences	(1)	(2)	(3)	(6)
At 31 December 2024	294	135	1,470	1,899
Charge for the year ²	47	47	193	287
Impairment ³	-	-	(129)	(129)
Disposal of businesses	(1)	-	-	(1)
Disposals	(11)	(36)	(54)	(101)
Exchange differences	(6)	2	2	(2)
At 31 December 2025	323	148	1,482	1,953
Net book value:				
At 31 December 2025	246	100	413	759
At 31 December 2024	223	111	427	761
Right-of-use assets held for use in operating leases where the Group is the lessor:				
Cost	18	-	1,895	1,913
Depreciation	(9)	-	(1,482)	(1,491)
Net book value at 31 December 2025	9	-	413	422
Cost	18	-	1,897	1,915
Depreciation	(8)	-	(1,470)	(1,478)
Net book value at 31 December 2024	10	-	427	437

1 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. The assets and liabilities of the naval propulsors business were disposed of on 1 July 2025 and the assets of the naval handling business are held for sale at 31 December 2025, see note 29 for further detail

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

3 The carrying values of right-of-use assets have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in notes 10 and 11. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). During the year, a partial impairment reversal of £129m has been recognised within cost of sales (2024: charge of £8m) as outlined within notes 2, 10 and 11

14 Investments

Composition of the Group

The entities contributing to the Group's financial results are listed on pages 187 to 190.

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

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

Equity accounted and other investments

	Equity accounted	Other ¹	Total
	Joint ventures		
	£m	£m	£m
At 1 January 2024	479	31	510
Additions ²	17	-	17
Impairment	(4)	-	(4)
Share of retained profit ³	95	-	95
Reclassification of deferred profit to deferred income ⁴	(2)	-	(2)
Revaluation of other investments accounted for as FVOCI	-	(2)	(2)
Revaluation of other investments accounted for as FVTPL ⁵	-	(24)	(24)
Exchange differences	11	-	11
Share of OCI	(4)	-	(4)
At 1 January 2025	592	5	597
Transfer from subsidiary to joint venture ⁶	732	-	732
Additions ²	56	-	56
Share of retained loss ³	(32)	-	(32)
Reclassification of deferred profit to deferred income ⁴	2	-	2
Revaluation of other investments accounted for as FVOCI	-	(1)	(1)
Exchange differences	(66)	-	(66)
Share of OCI	1	-	1
At 31 December 2025	1,285	4	1,289

1 Other investments includes unlisted investments of £nil (2024: £nil) and listed investments of £4m (2024: £5m)

2 Additions relates to investments of £52m (2024: £nil) related to Rolls-Royce SMR Limited following its deconsolidation in March 2025. Of this, £15m was recognised in July 2025 due to a change in shareholding resulting from an additional equity investment made by ČEZ Group (ČEZ), a further £37m was recognised in December 2025 due to the purchase of shares by Rolls-Royce Plc from an existing investor. Further details can be found in note 29. The remaining £4m (2024: £17m) of additions relates to the joint venture, Beijing Aero Engine Services Company Limited

3 See table below

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

5 During 2024 the Group wrote down the value of an unlisted investment. This charge was recognised within net financing

6 In March 2025, an equity-accounted investment of £732m was recognised at fair value as a result of the deconsolidation of Rolls-Royce SMR Limited. See note 29 for further information

Reconciliation of share of retained (loss)/profit to the income statement and cash flow statement:

	2025	2024
	£m	£m
Share of results of joint ventures and associates ¹	71	137
Adjustments for intercompany trading ²	(15)	35
Share of results of joint ventures and associates to the Group	56	172
Dividends paid by joint ventures and associates to the Group (cash flow statement)	(88)	(77)
Share of retained (loss)/profit above	(32)	95

1 The results to 31 December 2025 include ten months of the Group's share of the results of Rolls-Royce SMR Limited

2 During the year, the Group sold spare engines to Rolls-Royce & Partners Finance, a joint venture and subsidiary of Alpha Partners Leasing Limited. The Group's share of the profit on these sales is deferred and released to match the depreciation of the engines in the joint venture's financial statements. In 2025 profit deferred on the sale of engines was higher than (2024: lower than) the release of that deferred in prior years

14 Investments continued

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

	Principal location	Activity	Ownership interest
Alpha Partners Leasing Limited (APL)	UK	Aero-engine leasing	50.0%
Hong Kong Aero Engine Services Limited (HAESL)	Hong Kong	Aero-engine repair and overhaul	50.0%
Singapore Aero Engine Services Pte Limited (SAESL)	Singapore	Aero-engine repair and overhaul	50.0%
Rolls-Royce SMR Limited (SMR)	UK	Small modular reactors	57.8%

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

	APL		HAESL		SAESL		SMR ¹
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025
Revenue	518	400	3,674	4,017	3,505	2,469	2
Profit/(loss) and total comprehensive income/ (expense) for the year	168	114	93	70	48	46	(193)
Dividends paid during the year	(14)	(63)	(78)	(69)	-	-	-
Profit/(loss) for the year included the following:							
Depreciation and amortisation	(154)	(150)	(13)	(11)	(16)	(18)	(2)
Interest income	13	12	-	-	5	8	6
Interest expense	(127)	(112)	(8)	(8)	(2)	(1)	-
Income tax (expense)/credit	(62)	(41)	(16)	(17)	(5)	(3)	12
Current assets	343	345	515	1,129	1,291	1,154	70
Non-current assets ²	3,776	3,506	97	100	152	133	1,032
Current liabilities	(242)	(360)	(331)	(895)	(1,019)	(950)	(57)
Non-current liabilities ²	(2,955)	(2,662)	(45)	(95)	(67)	(8)	(243)
Net assets	922	829	236	239	357	329	802
Included in the above:							
Cash and cash equivalents	192	190	7	4	77	129	52
Current financial liabilities ³	(114)	(244)	(100)	(10)	-	-	-
Non-current financial liabilities ³	(2,371)	(2,134)	(37)	(86)	(67)	(8)	-

Reconciliation to the carrying amount recognised in the Consolidated Financial Statements

	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	57.8%
Ownership interest	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%	57.8%
Group share of net assets above	461	415	118	120	179	165	463
Goodwill	-	-	35	37	10	11	209
Adjustments for intercompany trading	(404)	(386)	4	(7)	(3)	(4)	-
Included in the balance sheet	57	29	157	150	186	172	672

1 In March 2025, an equity-accounted investment of £732m was recognised at fair value as a result of the deconsolidation of Rolls-Royce SMR Limited. A notional purchase price allocation (PPA) exercise has been undertaken that has identified and valued the assets and liabilities of the joint venture as if the Group had acquired a business. The majority of the value of the investment has been attributed to development expenditure related to Rolls-Royce SMR Limited's investment in its products. Goodwill, which has not been impaired, relates to the expected future growth of the business

2 Non-current assets includes £1,006m of intangible assets identified on acquisition relating to development expenditure and non-current liabilities including £(239)m of associated deferred tax liabilities

3 Excluding trade payables and other liabilities

The summarised aggregated results of the Group's share of equity accounted investments is as follows:

	Individually material joint ventures (above)		Other joint ventures		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Profit and total comprehensive income for the year	36	115	34	18	70	133
Assets:						
Non-current assets	2,609	1,870	433	245	3,042	2,115
Current assets	1,115	1,314	605	632	1,720	1,946
Liabilities: ¹						
Current liabilities	(829)	(1,102)	(703)	(536)	(1,532)	(1,638)
Non-current liabilities	(1,674)	(1,382)	(98)	(86)	(1,772)	(1,468)
Group adjustment for goodwill	254	48	-	-	254	48
Adjustment for intercompany trading	(403)	(397)	(24)	(14)	(427)	(411)
Included in the balance sheet	1,072	351	213	241	1,285	592
1 Liabilities include borrowings of:	(1,345)	(1,241)	(267)	(113)	(1,612)	(1,354)

15 Inventories

	2025 £m	2024 £m
Raw materials	699	544
Work in progress	1,932	1,715
Finished goods	3,097	2,833
	5,728	5,092
Inventories stated at net realisable value	236	232
Amount of inventory write-down	113	56
Reversal of inventory write-down	75	15

16 Trade receivables and other assets

	Current		Non-current ¹		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Trade receivables	3,046	2,917	78	138	3,124	3,055
Prepayments	1,083	829	78	89	1,161	918
RRSA prepayment for parts ²	570	486	1,201	1,182	1,771	1,668
Receivables due on RRSAs	1,114	1,118	91	119	1,205	1,237
Amounts owed by joint ventures and associates	706	894	7	2	713	896
Other taxation and social security receivable	184	215	2	2	186	217
Costs to obtain contracts with customers ³	2	11	176	124	178	135
Other receivables and similar assets ⁴	532	529	76	58	608	587
	7,237	6,999	1,709	1,714	8,946	8,713

Trade receivables and other assets are analysed as follows:

Financial instruments (note 22):

Trade receivables and similar items	5,041	5,188
Other non-derivative financial assets	484	366
Non-financial instruments	3,421	3,159
	8,946	8,713

- Trade receivables and other assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure is included in the table above and relates to amounts not expected to be received in the next 12 months, in line with specific customer payment arrangements, including customers on payment plans
- These amounts reflect the contractual share of EFH flows and original equipment deposits from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £597m (2024: £262m) has been charged to cost of sales in relation to parts supplied and used in the year
- These are amortised over the term of the related contract in line with engine deliveries, resulting in amortisation of £10m (2024: £8m) in the year. There were no impairment losses
- Other receivables includes unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

The Group has adopted the simplified approach to provide for expected credit losses (ECLs), measuring the loss allowance at a probability weighted amount incorporated by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information.

The ECLs for trade receivables and other financial assets has decreased by £7m to £232m (2024: decreased by £3m to £239m).

The assumptions and inputs used for the estimation of the ECLs are disclosed in the table below:

	2025			2024		
	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %
Credit rating BBB- and above ¹	1,519	(24)	2%	2,179	(74)	3%
Credit rating below BBB- ¹	629	(72)	11%	28	(4)	14%
Without credit rating	3,609	(136)	4%	3,586	(161)	4%
	5,757	(232)	4%	5,793	(239)	4%

- During the year, there has been a change to the classification used for investment gradings. In 2024, the ratings were reported using credit ratings C and above, credit ratings C and below and without credit rating. In 2025, the ratings have been reported using credit rating BBB- and above, credit rating below BBB- and without credit rating

16 Trade receivables and other assets continued

The movements of the Group ECLs provision are as follows:

	2025 £m	2024 £m
At 1 January	(239)	(242)
Increases in loss allowance recognised in the income statement during the year	(83)	(130)
Loss allowance utilised	18	11
Releases of loss allowance previously provided	55	116
Transferred to assets held for sale	-	1
Exchange differences	17	5
At 31 December	(232)	(239)

17 Contract assets and liabilities

	Current		Non-current ¹		Total ²	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Contract assets						
Contract assets with customers	561	886	1,019	598	1,580	1,484
Participation fee contract assets	31	38	286	291	317	329
	592	924	1,305	889	1,897	1,813

1 Contract assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

2 Contract assets are classified as non-financial instruments

The balance includes £973m (2024: £955m) Civil Aerospace LTSA assets and £477m (2024: £381m) Defence LTSA assets.

The increase in the Civil Aerospace balance is driven by revenue recognised (when performance obligations have been completed during the year) being greater than the amount invoiced on those contracts that have a contract asset balance. Revenue recognised relating to performance obligations satisfied in previous years was £36m which reduced the contract asset (2024: reduction of £42m) in Civil Aerospace.

No impairment losses in relation to these contract assets (2024: none) have arisen during the year.

Participation fee contract assets have decreased by £12m (2024: increased by £102m) primarily due to amortisation of £(20)m (2024: £(23)m) and the Civil Aerospace programme asset impairment reversal of £nil (2024: £132m), offset by foreign exchange on consolidation of £8m (2024: £(7)m).

The absolute value of ECLs for contract assets has increased by £1m to £12m (2024: increased by £5m to £11m).

	Current		Non-current ¹		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Contract liabilities	7,832	6,309	8,762	9,447	16,594	15,756

Contract liabilities are analysed as follows:

Financial instruments (note 22)	1,423	1,280
Non-financial instruments	15,171	14,476
	16,594	15,756

1 Contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities are further split according to when the related performance obligation is expected to be satisfied and, therefore, when revenue is estimated to be recognised in the income statement

During the year, £5,562m (2024: £5,048m) of the opening contract liability was recognised as revenue.

Contract liabilities have increased by £838m. The movement in the Group balance is primarily as a result of an increase in Civil Aerospace of £576m. This is mainly a result of growth in LTSA liabilities of £231m (2025: £11,370m, 2024: £11,139m) driven almost wholly by large engines, with customer invoicing in 2025 (based on EFH) being in advance of revenue recognised (based on costs incurred completing performance obligations). The contract liability movement includes a decrease of £289m (2024: decrease of £354m) as a result of revenue being recognised in relation to performance obligations satisfied in previous years. Contract liability increases in Defence of £180m and Power Systems of £90m is from the receipt of deposits in advance of performance obligations being completed.

18 Cash and cash equivalents

	2025 £m	2024 £m
Cash at bank and in hand	889	714
Money market funds	2,424	1,900
Short-term deposits	2,931	2,961
Cash and cash equivalents per the balance sheet	6,244	5,575
Overdrafts (note 19)	(3)	(2)
Cash and cash equivalents per cash flow statement (page 117)	6,241	5,573

Cash and cash equivalents at 31 December 2025 includes £210m (2024: £245m) that is not available for general use by the Group. This balance includes £47m (2024: £40m) which is held in an account that is exclusively for the general use of Rolls-Royce Submarines Limited and £128m (2024: £160m) which is held exclusively for the use of Rolls-Royce Saudi Arabia Limited. This cash is not available for use by other entities within the Group. The remaining balance relates to cash held in non-wholly owned subsidiaries and joint arrangements.

Balances are presented on a net basis when the Group has both a legal right of offset and the intention to either settle on a net basis or realise the asset and settle the liability simultaneously. There is no offsetting of financial instruments in the Group's statement of financial position as at 31 December 2025 and 2024.

19 Borrowings and lease liabilities

	Current		Non-current		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Unsecured						
Overdrafts	3	2	–	–	3	2
Bank loans	5	4	4	3	9	7
3.625% Notes 2025 \$1,000m ¹	–	795	–	–	–	795
3.375% Notes 2026 £375m ²	372	–	–	364	372	364
4.625% Notes 2026 €750m ³	654	–	–	620	654	620
5.75% Notes 2027 \$1,000m ³	–	–	741	795	741	795
5.75% Notes 2027 £545m	–	–	543	543	543	543
1.625% Notes 2028 €550m ¹	–	–	470	442	470	442
Other loans	–	–	10	9	10	9
Total unsecured	1,034	801	1,768	2,776	2,802	3,577
Lease liability – Land and buildings	45	44	456	405	501	449
Lease liability – Aircraft and engines	304	209	562	784	866	993
Lease liability – Plant and equipment	43	43	60	70	103	113
Total lease liabilities	392	296	1,078	1,259	1,470	1,555
Total borrowings and lease liabilities	1,426	1,097	2,846	4,035	4,272	5,132

All outstanding items described as loan notes above are listed on the London Stock Exchange

1 These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay floating rates of GBP interest, which form a fair value hedge.

They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

2 These notes are the subject of interest rate swap agreements under which the Group has undertaken to pay floating rates of interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

3 These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay fixed rates of GBP interest, which form a cash flow hedge

During the year to 31 December 2025, the Group repaid a loan note of \$1bn in October 2025 in line with its maturity date.

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

	Total	
	2025 £m	2024 £m
Expiring within one year	–	–
Expiring after one year	2,500	2,500
Total undrawn facilities	2,500	2,500

Further details can be found in the going concern statement on page 57.

In December 2025 the Group signed a new £2.5bn Revolving Credit Facility maturing December 2030 and cancelled the existing facility. These facilities have not been drawn during the year and remain undrawn at 31 December 2025.

20 Leases

Leases as lessee

The net book value of right-of-use assets at 31 December 2025 was £759m (2024: £761m), with a lease liability of £1,470m (2024: £1,555m), per notes 13 and 19, respectively. Leases that have not yet commenced to which the Group is committed have a future liability of £293m (2024: £2m) and consist of mainly plant and equipment and properties. The consolidated income statement shows the following amounts relating to leases:

	2025 £m	2024 £m
Land and buildings depreciation and impairment ¹	(47)	(45)
Plant and equipment depreciation and impairment ²	(47)	(45)
Aircraft and engines depreciation and impairment ³	(64)	(175)
Total depreciation and impairment charge for right-of-use assets	(158)	(265)
Adjustment of amounts payable under residual value guarantees within lease liabilities ^{3,4}	–	6
Expense relating to short-term leases of 12 months or less recognised as an expense on a straight line basis ²	(31)	(38)
Expense relating to variable lease payments not included in lease liabilities ^{3,5}	(8)	(8)
Total operating costs	(197)	(305)
Interest expense ⁶	(74)	(83)
Total lease expense	(271)	(388)
Income from sub-leasing right-of-use assets	30	29
Total amount recognised in the income statement	(241)	(359)

1 Included in cost of sales and commercial and administration costs depending on the nature and the use of the right-of-use asset

2 Included in cost of sales, commercial and administration costs, or research and development depending on the nature and use of the right-of-use asset

3 Included in cost of sales

4 Where the cost of meeting residual value guarantees is less than that previously estimated, as costs have been mitigated or liabilities waived by the lessor, the lease liability has been remeasured. Where the value of this remeasurement exceeds the value of the right-of-use asset, the reduction in the lease liability is credited to cost of sales

5 Variable lease payments primarily arise on a small number of contracts where engine lease payments are dependent upon utilisation rather than a periodic charge

6 Included in financing costs

The total cash outflow for leases in 2025 was £345m (2024: £421m). Of this, £306m related to leases reflected in the lease liability, £31m to short-term leases where lease payments are expensed on a straight-line basis and £8m for variable lease payments where obligations are only due when the assets are used. The timing difference between income statement charge and cash flow relates to costs incurred at the end of leases for residual value guarantees and restoration costs that are recognised within depreciation over the term of the lease, the most significant amounts relate to engine leases.

Engine leases in the Civil Aerospace business often include clauses that require the engines to be returned to the lessor with specific levels of usable life remaining or cash payments to the lessor. The costs of meeting these requirements are included in the lease payments. The amounts payable are calculated based upon an estimate of the utilisation of the engines over the lease term, whether the engine is restored to the required condition by performing an overhaul at our own cost or through the payments of amounts specified in the contract and any new contractual arrangements arising when the current lease contracts end. Amounts due can vary depending on the level of utilisation of the engines, overhaul activity prior to the end of the contract, and decisions taken on whether ongoing access to the assets is required at the end of the lease term. The lease liability at 31 December 2025 included £292m relating to the cost of meeting these residual value guarantees in the Civil Aerospace business. Up to £127m is payable in the next 12 months and £165m is due over the following five years.

Leases as lessor

The Group acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessees provide protection over the assets. Usage in excess of specified limits and damage to the engine while on lease are covered by variable lease payment structures. Lessee bankruptcy risk is managed through ongoing monitoring of airline credit rating and, where applicable, the Cape Town Convention on International Interests in Mobile Equipment (including a specific protocol relating to aircraft equipment); an international treaty that creates common standards for the registration of lease contracts and establishes various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws. Engines are only leased once the Group confirm that appropriate insurance documentation is established that covers the engine assets to pre-agreed amounts. All such contracts are operating leases. The Group also leases out a small number of properties, or parts of properties, where there is excess capacity under operating leases.

	2025 £m	2024 £m
Operating lease income ^{1,2}	91	99

1 Includes variable lease payments received of £73m (2024: £83m) that do not depend on an index or a rate

2 Items of property, plant and equipment subject to an operating lease are disclosed in note 12

Total non-cancellable future operating lease rentals (undiscounted) are £63m (2024: £71m) with £11m (2024: £10m) due within one year, £39m (2024: £38m) between one to five years and £13m (2024: £23m) after five years.

In a limited number of circumstances, the Group sublets properties that are treated as a finance lease when the arrangement transfers substantially all the risks and rewards of ownership of the asset. At 31 December 2025, the total undiscounted lease payments receivable is £32m (2024: £37m) on annual lease income of £5m (2024: £5m). The discounted finance lease receivable at 31 December 2025 is £25m (2024: £29m).

21 Trade payables and other liabilities

	Current		Non-current		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Trade payables	2,167	1,526	40	-	2,207	1,526
Accrued liabilities	2,242	2,552	113	109	2,355	2,661
Customer discounts ¹	1,113	1,035	631	866	1,744	1,901
Payables due on RRSAs	1,800	1,529	14	11	1,814	1,540
Deferred receipts from RRSA workshare partners	35	55	747	757	782	812
Amounts owed to joint ventures and associates	564	492	-	-	564	492
Government grants ²	42	26	33	24	75	50
Other taxation and social security	116	54	-	-	116	54
Other payables ³	784	740	200	198	984	938
	8,863	8,009	1,778	1,965	10,641	9,974

Trade payables and other liabilities are analysed as follows:

Financial instruments (note 22):

Trade payables and similar items	6,928	6,205
Other non-derivative financial liabilities	2,522	2,642
Non-financial instruments	1,191	1,127
	10,641	9,974

¹ Customer discounts include customer concession credits. Revenue recognised comprises sales to the Group's customers after such items. Customer concession credits are discounts given to a customer upon the sale of goods or services. A liability is recognised to correspond with the recognition of revenue when the performance obligation is met, as set out on page 125. The largest element of the balance, approximately £1.2bn (2024: £1.4bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

² During the year, £5m (2024: £102m) of government grants were released to the income statement

³ Other payables includes payroll liabilities and HM Government UK levies

The Group's payment terms with suppliers vary based on the products and services being sourced, the competitive global markets the Group operates in and other commercial aspects of suppliers' relationships. Industry average payment terms vary between 90 to 120 days. The Group offers reduced payment terms to its smaller suppliers, who are typically on 75-day payment terms, so that they are paid in 30 days.

In line with civil aviation industry practice, the Group offers a SCF programme in partnership with banks to enable suppliers (including joint ventures who are on 90-day standard payment terms) to receive their payments sooner. This SCF programme is available to suppliers at their discretion and does not change the Group's rights and obligations with the suppliers or the timing of payment by the Group to settle its liabilities arising from transactions with these suppliers.

At 31 December 2025, £646m (2024: £594m) of trade payables and other liabilities were within the scope of SCF arrangements of which suppliers had drawn £536m (2024: £506m), with £227m (2024: £243m) drawn by joint ventures. In some cases the Group settles the costs incurred by joint ventures as a result of them utilising SCF arrangements and, during the year to 31 December 2025, the Group incurred costs of £9m (2024: £9m). These costs were included within cost of sales.

22 Financial instruments

Carrying values and fair values of financial instruments

	Notes	Basis for determining fair value	Assets			Liabilities		Total £m
			FVPL £m	FVOCI £m	Amortised cost £m	FVPL £m	Other £m	
2025								
Other non-current asset investments	14	A	-	4	-	-	-	4
Trade receivables and similar items	16	B/C	-	10	5,031	-	-	5,041
Other non-derivative financial assets	16	B	-	-	484	-	-	484
Other assets		D/F	18	-	14	-	-	32
Derivative financial assets ¹		C	773	-	-	-	-	773
Cash and cash equivalents	18	B	2,424	-	3,820	-	-	6,244
Borrowings	19	E/F	-	-	-	-	(2,802)	(2,802)
Lease liabilities	19	G	-	-	-	-	(1,470)	(1,470)
Derivative financial liabilities ¹		C	-	-	-	(680)	-	(680)
Financial RRSA's		H	-	-	-	-	(5)	(5)
Other liabilities		H	-	-	-	-	(214)	(214)
C Shares		B	-	-	-	-	(21)	(21)
Trade payables and similar items	21	B	-	-	-	-	(6,928)	(6,928)
Other non-derivative financial liabilities	21	B	-	-	-	-	(2,522)	(2,522)
Contract liabilities	17	B	-	-	-	-	(1,423)	(1,423)
			3,215	14	9,349	(680)	(15,385)	(3,487)
2024								
Other non-current asset investments	14	A	-	5	-	-	-	5
Trade receivables and similar items	16	B/C	-	9	5,179	-	-	5,188
Other non-derivative financial assets	16	B	-	-	366	-	-	366
Other assets		D/F	21	-	16	-	-	37
Derivative financial assets ¹		C	298	-	-	-	-	298
Cash and cash equivalents	18	B	1,900	-	3,675	-	-	5,575
Borrowings	19	E/F	-	-	-	-	(3,577)	(3,577)
Lease liabilities	19	G	-	-	-	-	(1,555)	(1,555)
Derivative financial liabilities ¹		C	-	-	-	(2,054)	-	(2,054)
Financial RRSA's		H	-	-	-	-	(7)	(7)
Other liabilities		H	-	-	-	-	(198)	(198)
C Shares		B	-	-	-	-	(23)	(23)
Trade payables and similar items	21	B	-	-	-	-	(6,205)	(6,205)
Other non-derivative financial liabilities	21	B	-	-	-	-	(2,642)	(2,642)
Contract liabilities	17	B	-	-	-	-	(1,280)	(1,280)
			2,219	14	9,236	(2,054)	(15,487)	(6,072)

¹ In the event of counterparty default relating to derivative financial assets and derivative financial liabilities, offsetting would apply and financial assets and liabilities held with the same counterparty would net off. If this occurred with every counterparty, total financial assets would be £343m (2024: £26m) and liabilities £250m (2024: £1,657m)

22 Financial instruments continued

Fair values equate to book values for both 2025 and 2024, with the following exceptions:

	Basis for determining fair value	2025		2024	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Other assets	F	14	15	16	16
Borrowings	E	(2,780)	(2,778)	(3,559)	(3,540)
Borrowings	F	(22)	(23)	(18)	(21)
Financial RRSAs	H	(5)	(5)	(7)	(7)

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. There have been no transfers during the year from or to Level 3 valuation. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below.

- A These primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology
- B Fair values are assumed to approximate to cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months. Money market funds are valued using Level 1 methodology
- C Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves. For commodity derivatives, forward commodity prices are used to determine expected future cash flows. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2)
- D Other assets are included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/Level 3). At 31 December 2025, Level 3 assets totalled £11m (2024: £14m)
- E Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1)
- F Other assets and borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows. (Level 2)
- G The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2)
- H The fair value of RRSAs and other liabilities are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3)

IFRS 13 *Fair Value Measurement* defines a three level valuation hierarchy:

- Level 1 – quoted prices for similar instruments
 Level 2 – directly observable market inputs other than Level 1 inputs
 Level 3 – inputs not based on observable market data

Carrying values of other financial assets and liabilities

	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts ¹ £m	Total derivatives £m	Financial RRSAs £m	Other £m	C Shares £m	Total £m
2025								
Non-current assets	467	6	32	505	–	18	–	523
Current assets	257	6	5	268	–	14	–	282
Assets	724	12	37	773	–	32	–	805
Current liabilities	(193)	(19)	(24)	(236)	(1)	(35)	(21)	(293)
Non-current liabilities	(382)	(17)	(45)	(444)	(4)	(179)	–	(627)
Liabilities	(575)	(36)	(69)	(680)	(5)	(214)	(21)	(920)
	149	(24)	(32)	93	(5)	(182)	(21)	(115)
2024								
Non-current assets	10	1	110	121	–	5	–	126
Current assets	25	4	148	177	–	32	–	209
Assets	35	5	258	298	–	37	–	335
Current liabilities	(539)	(18)	–	(557)	–	(62)	(23)	(642)
Non-current liabilities	(1,364)	(22)	(111)	(1,497)	(7)	(136)	–	(1,640)
Liabilities	(1,903)	(40)	(111)	(2,054)	(7)	(198)	(23)	(2,282)
	(1,868)	(35)	147	(1,756)	(7)	(161)	(23)	(1,947)

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

22 Financial instruments continued

Derivative financial instruments

The Group uses various financial instruments to manage its exposure to movements in foreign exchange rates. The Group uses commodity swaps to manage its exposure to movements in the price of commodities (jet fuel, base metals, gas and power). To hedge the currency risk associated with a borrowing denominated in a foreign currency, the Group has currency derivatives designated as part of fair value or cash flow hedges. The Group uses interest rate swaps and forward rate agreements to manage its exposure to movements in interest rates.

Movements in the fair values of derivative financial assets and liabilities were as follows:

	Foreign exchange instruments		Commodity instruments		Interest rate instruments – hedge accounted ¹		Interest rate instruments – non-hedge accounted		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
At 1 January	(1,868)	(2,035)	(35)	(19)	54	45	93	131	(1,756)	(1,878)
Movements in fair value hedges	-	-	-	-	(33)	(32)	-	-	(33)	(32)
Movements in cash flow hedges	-	-	-	-	(40)	(23)	-	-	(40)	(23)
Movements in other derivative contracts ²	1,335	(631)	(7)	(18)	-	-	(4)	40	1,324	(609)
Contracts settled	682	798	18	2	(50)	64	(52)	(78)	598	786
At 31 December	149	(1,868)	(24)	(35)	(69)	54	37	93	93	(1,756)

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

2 Included in net financing

Financial risk and revenue sharing arrangements (RRSAs) and other financial assets and liabilities

The Group has financial liabilities arising from financial RRSAs that are valued at each reporting date using the amortised cost method. This involves calculating the present value of the forecast cash flows of the arrangements using the internal rate of return at the inception of the arrangements as an appropriate discount rate. Other liabilities includes royalties payable to airframers where the present value of the liability is calculated using the Group's average borrowing rate as that reflects the nature of the balance in line with the effective interest method. In each case below, the fair value of the assets and liabilities reflect a level 3 valuation.

Movements in the carrying values were as follows:

	Financial RRSAs		Other – assets		Other – liabilities	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
At 1 January	(7)	(17)	14	25	(198)	(163)
Exchange adjustments included in OCI	6	1	(3)	-	3	(5)
Additions	-	-	-	-	(29)	(34)
Financing charge ¹	-	-	-	(11)	(16)	(9)
Excluded from underlying profit/(loss):						
Changes in forecast payments ¹	(4)	-	-	-	-	-
Cash paid	-	9	-	-	17	12
Other	-	-	-	-	9	1
At 31 December	(5)	(7)	11	14	(214)	(198)

1 Included in net financing

22 Financial instruments continued

Effect of hedging instruments on the financial position and performance

To manage the risk of changes in the fair values of fixed rate borrowings (the hedged items), the Group has entered into fixed-to-floating interest rate swaps and cross currency interest rate swaps (the hedging instruments), which, for accounting purposes, are designated as fair value hedges. The impact of fair value hedges on the financial position and performance of the Group is as follows:

	Hedged item ¹				Hedging instrument ²						
	Nominal £m	FV adjustment in the period £m	FV adjustment since inception £m	Carrying amount £m	Nominal £m	Carrying amount asset £m	Carrying amount liability £m	FV movement in the period £m	Hedge ineffect- iveness in the period ³ £m	Weighted average FX rate	Weighted average interest rate
At 31 December 2025											
Sterling	(375)	(8)	3	(372)	375	-	(3)	9	-	1.00	SONIA + 0.89
Euro	(484)	(28)	14	(470)	484	-	(23)	31	4	1.14	SONIA + 1.09
At 31 December 2024											
Sterling	(375)	(3)	11	(364)	375	-	(12)	3	-	1.00	SONIA + 0.89
USD	(658)	(25)	(137)	(795)	658	128	-	25	-	1.52	SONIA + 1.47
Euro	(484)	13	42	(442)	484	-	(54)	(11)	2	1.14	SONIA + 1.09

1 Hedged items are included in borrowings in the balance sheet

2 Hedging instruments are included in other financial assets or liabilities in the balance sheet

3 Hedge ineffectiveness is included in net financing in the income statement

To manage the foreign exchange rate risk in cash flows on fixed rate non-GBP borrowings (the hedged items), the Group has entered into fixed-to-fixed cross-currency interest rate swaps (the hedging instruments) to hedge the cash flows into GBP, which, for accounting purposes, are designated as cash flow hedges.

The impact of cash flow hedges on the financial position and performance of the Group is as follows:

	Hedged item			Hedging instrument ¹					Hedging reserves		
	Nominal £m	FV movement in the period £m	Nominal £m	Carrying amount asset/ (liability) £m	FV movement in the period £m	Hedge ineffect- iveness in the period ² £m	Weighted average FX rate	Weighted average interest rate	Amount recognised in OCI £m	Recycled to net financing £m	Closing cash flow hedge reserve £m
At 31 December 2025											
USD	(772)	56	772	(22)	(59)	(2)	1.29	5.33	55	(53)	(7)
Euro	(677)	(23)	677	(21)	24	-	1.11	5.45	(17)	26	(1)
At 31 December 2024											
USD	(772)	(15)	772	37	9	(6)	1.29	5.33	(19)	15	(9)
Euro	(677)	28	677	(45)	(28)	-	1.11	5.45	36	(38)	(10)

1 Hedging instruments are included in other financial assets or liabilities in the balance sheet

2 Hedge ineffectiveness is included in net financing in the income statement

22 Financial instruments continued

Risk management policies and hedging activities

The principal financial risks to which the Group is exposed are: foreign currency exchange rate risk; liquidity risk; credit risk; interest rate risk; and commodity price risk. The Board has approved policies for the management of these risks.

Foreign currency exchange rate risk – The Group has significant cash flows (most significantly USD, followed by the euro) denominated in currencies other than the functional currency of the relevant trading entity. To manage its exposures to changes in values of future foreign currency cash flows, so as to maintain relatively stable long-term foreign exchange rates on settled transactions, the Group enters into derivative forward foreign currency transactions. In addition, the Group enters into fixed-to-floating cross-currency interest rate swaps to manage its exposure to changes in fair value as a result of foreign exchange risk. See below.

The Group economically hedges its GBP/USD exposure by forecasting highly probable net USD receipts up to five years forward. Hedges are taken out within prescribed maximum and minimum hedge positions set out in the Group FX Policy. The maximum and minimum policy bands decline gradually over the five-year horizon and are calculated as a percentage of forecast net income. A similar policy is operated for the Group's EUR/USD exposure. For accounting purposes, these derivative contracts are not designated in hedging relationships.

The Group also has exposures to cash flows on EUR and USD denominated fixed rate borrowings. To manage its exposures to changes in values of future foreign currency cash flows, the Group has entered into fixed-to-fixed cross-currency interest rate swaps, which, for accounting purposes, are designated as cash flow hedges. The swaps have similar critical terms to the hedged items, such as the initial exchange amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the cash flow hedge relationship are changes in the credit risk of either party to the interest rate swap. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example, in the event of a partial repayment of hedged debt prior to its maturity.

The Group regards its interests in overseas subsidiary companies as long-term investments. The Group aims to match its translational exposures by matching the currencies of assets and liabilities.

Liquidity risk – The Group's policy is to hold financial investments and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term capital and funding obligations and to meet any unforeseen obligations and opportunities. The Group holds cash and short-term investments, which, together with the undrawn committed facilities, enable the Group to manage its liquidity risk.

Credit risk – The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The effective monitoring and controlling of credit risk is a key component of the Group's risk management activities. The Group has credit policies covering both trading and financial exposures. Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Group credit policy. The objective of the policy is to diversify and minimise the Group's exposure to credit risk from its treasury activities by ensuring the Group transacts strictly with 'BBB' or higher rated financial institutions based on pre-established limits per financial institution. At the balance sheet date, there were no significant concentrations of credit risk to individual customers or counterparties. The Group's revenue is generated from customers located across multiple geographical locations (see note 2). These customers are typically: airframers and airline operators relating to Civil Aerospace; government defence departments for the UK and US; and multiple smaller entities for Power Systems. Whilst there are a limited number of customers related to Civil Aerospace and Defence, they are spread across various geographical locations. The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of each financial asset, including derivative financial instruments.

Interest rate risk – The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk), floating rate borrowings and cash and cash equivalents (cash flow risk). Interest rate derivatives are used to manage the overall interest rate profile of the Group. The fixed or floating rate interest rate decision on long-term borrowings is determined for each new agreement at the point it is entered into. The aggregate interest rate position of the Group is reviewed regularly and can be revised at any time in order to react to changes in market conditions or circumstances.

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR, GBP and USD fixed rate borrowings. To manage the risk of changes in these fair values, the Group has entered into fixed-to-floating interest rate swaps and cross-currency interest rate swaps, which, for accounting purposes, are designated as fair value hedges. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the fair value hedge relationship are changes in the credit risk of either party to the interest rate swap and, for cross-currency interest rate swaps, the cross-currency basis risk as this risk is present in the hedging instrument only. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example in the event of a partial repayment of hedged debt prior to its maturity.

The Group has exposure to changes in cash flows due to changes in interest rates. To manage this risk, the Group has entered into floating-to-fixed interest rate swaps to hedge a proportion of its floating rate exposure to fixed rates. The swaps have similar critical terms to the floating leg of swaps that form part of the fair value hedges, such as the reference rate, reset dates, notional amounts, payment dates and maturities. For accounting purposes, these derivative contracts are generally not designated as hedging instruments.

Commodity price risk – The Group has exposures to the price of jet fuel, base metals, gas and power arising from business operations. To minimise its cash flow exposures to changes in commodity prices, the Group enters into derivative commodity transactions. During 2025, the Group entered into a Virtual Power Purchase Arrangement, which had a fair value of £3m at 31 December 2025. The commodity hedging policy is similar to the Group FX policy, in that the Group forecasts highly probable exposures to commodities, and takes out hedges within prescribed maximum and minimum levels as set out in the policy. The maximum and minimum policy bands decline gradually over time. For accounting purposes, these derivative contracts are generally not designated in hedging relationships.

22 Financial instruments continued

Other price risk – The Group's cash equivalent balances represent investments in money market instruments, with a term of up to three months. The Group does not consider that these are subject to significant price risk.

Derivative financial instruments

The nominal amounts, analysed by year of expected maturity and fair values of derivative financial instruments are as follows:

	Nominal amount £m	Expected maturity			Fair value		
		Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Assets £m	Liabilities £m
At 31 December 2025							
Foreign exchange contracts:							
Non-hedge accounted	21,850	7,559	5,516	8,775	-	724	(575)
Interest rate contracts:							
Fair value hedges	859	375	-	484	-	-	(26)
Cash flow hedges	1,449	677	772	-	-	-	(43)
Non-hedge accounted	859	375	-	484	-	37	-
Commodity contracts:							
Non-hedge accounted	392	146	110	126	10	12	(36)
	25,409	9,132	6,398	9,869	10	773	(680)
At 31 December 2024							
Foreign exchange contracts:							
Non-hedge accounted	20,728	8,018	5,781	6,929	-	35	(1,903)
Interest rate contracts:							
Fair value hedges	1,517	658	375	484	-	128	(66)
Cash flow hedges	1,449	-	677	772	-	37	(45)
Non-hedge accounted	1,517	658	375	484	-	93	-
Commodity contracts:							
Non-hedge accounted	330	137	108	85	-	5	(40)
	25,541	9,471	7,316	8,754	-	298	(2,054)

As described above, all derivative financial instruments are entered into for risk management purposes, although these may not be designated into hedging relationships for accounting purposes.

Currency analysis

Foreign exchange contracts are denominated in the following currencies:

	Nominal amount of currencies purchased forward				
	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2025					
Currencies sold forward:					
Sterling	-	149	39	7	195
USD	16,118	-	4,541	371	21,030
Euro	10	317	-	107	434
Other	4	4	176	7	191
At 31 December 2024					
Currencies sold forward:					
Sterling	-	882	41	59	982
USD	14,654	-	4,419	287	19,360
Euro	35	290	-	26	351
Other	3	1	31	-	35

The nominal value of interest rate and commodity contracts are denominated in the following currencies:

	2025 £m	2024 £m
Sterling	1,304	1,915
USD	1,063	1,719
Euro	1,192	1,179

22 Financial instruments continued

Non-derivative financial instruments are denominated in the following currencies:

	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2025					
Other non-current asset investments	-	4	-	-	4
Trade receivables and similar items	367	3,903	662	109	5,041
Other non-derivative financial assets	60	354	64	6	484
Other assets	-	18	14	-	32
Cash and cash equivalents	2,922	911	2,235	176	6,244
Assets	3,349	5,190	2,975	291	11,805
Borrowings	(918)	(746)	(1,133)	(5)	(2,802)
Lease liabilities	(251)	(976)	(45)	(198)	(1,470)
Financial RRSA's	-	(5)	-	-	(5)
Other liabilities	(31)	(183)	-	-	(214)
C Shares	(21)	-	-	-	(21)
Trade payables and similar items	(1,225)	(4,853)	(765)	(85)	(6,928)
Other non-derivative financial liabilities	(392)	(1,896)	(187)	(47)	(2,522)
Contract liabilities	-	(1,423)	-	-	(1,423)
Liabilities	(2,838)	(10,082)	(2,130)	(335)	(15,385)
	511	(4,892)	845	(44)	(3,580)
At 31 December 2024					
Other non-current asset investments	-	5	-	-	5
Trade receivables and similar items	301	4,346	460	81	5,188
Other non-derivative financial assets	73	242	40	11	366
Other assets	-	21	16	-	37
Cash and cash equivalents	2,251	1,283	1,867	174	5,575
Assets	2,625	5,897	2,383	266	11,171
Borrowings	(908)	(1,594)	(1,072)	(3)	(3,577)
Lease liabilities	(237)	(1,074)	(49)	(195)	(1,555)
Financial RRSA's	-	(6)	(1)	-	(7)
Other liabilities	(39)	(159)	-	-	(198)
C Shares	(23)	-	-	-	(23)
Trade payables and similar items	(1,006)	(4,701)	(423)	(75)	(6,205)
Other non-derivative financial liabilities	(350)	(2,084)	(158)	(50)	(2,642)
Contract liabilities	-	(1,280)	-	-	(1,280)
Liabilities	(2,563)	(10,898)	(1,703)	(323)	(15,487)
	62	(5,001)	680	(57)	(4,316)

22 Financial instruments continued

Currency exposures

The Group's actual currency exposures on financial instruments after taking account of derivative foreign currency contracts, which are not designated as hedging instruments for accounting purposes are as follows:

Functional currency of Group operations	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2025					
Sterling	-	-	1	3	4
USD	(7)	-	-	-	(7)
Euro	2	4	-	(3)	3
Other	33	36	78	-	147
At 31 December 2024					
Sterling	-	-	-	1	1
USD	(11)	-	-	(2)	(13)
Euro	-	7	-	15	22
Other	55	37	68	-	160

Ageing beyond contractual due date of financial assets

	Within terms £m	Up to three months overdue £m	Between three months and one year overdue £m	More than one year overdue £m	Total £m
At 31 December 2025					
Other non-current asset investments	4	-	-	-	4
Trade receivables and similar items	4,663	257	74	47	5,041
Other non-derivative financial assets	480	3	-	1	484
Other assets	25	-	7	-	32
Derivative financial assets	773	-	-	-	773
Cash and cash equivalents	6,244	-	-	-	6,244
	12,189	260	81	48	12,578
At 31 December 2024					
Other non-current asset investments	5	-	-	-	5
Trade receivables and similar items	4,738	324	82	44	5,188
Other non-derivative financial assets	331	32	-	3	366
Other assets	28	9	-	-	37
Derivative financial assets	298	-	-	-	298
Cash and cash equivalents	5,575	-	-	-	5,575
	10,975	365	82	47	11,469

22 Financial instruments continued

Contractual maturity analysis of non-derivative financial liabilities

	Gross values				Carrying value £m
	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	
At 31 December 2025					
Borrowings	(1,146)	(1,371)	(490)	(19)	(2,802)
Lease liabilities	(454)	(291)	(496)	(1,050)	(1,470)
Financial RRSA's	-	-	(1)	(3)	(5)
Other liabilities	(35)	(19)	(28)	(131)	(214)
C Shares	(21)	-	-	-	(21)
Trade payables and similar items	(6,745)	(71)	(56)	(56)	(6,928)
Other non-derivative financial liabilities	(1,806)	(131)	(294)	(291)	(2,522)
Contract liabilities	(1,423)	-	-	-	(1,423)
	(11,630)	(1,883)	(1,365)	(1,550)	(15,385)
At 31 December 2024					
Borrowings	(961)	(1,109)	(1,893)	(16)	(3,577)
Lease liabilities	(365)	(324)	(533)	(1,189)	(1,555)
Financial RRSA's	(1)	-	(1)	(4)	(7)
Other liabilities	(61)	(11)	(25)	(101)	(198)
C Shares	(23)	-	-	-	(23)
Trade payables and similar items	(6,054)	(21)	(67)	(63)	(6,205)
Other non-derivative financial liabilities	(1,700)	(316)	(297)	(329)	(2,642)
Contract liabilities	(1,280)	-	-	-	(1,280)
	(10,445)	(1,781)	(2,816)	(1,702)	(15,487)

Expected maturity analysis of derivative financial instruments

	Gross values				Carrying value £m
	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	
At 31 December 2025					
Derivative financial assets:					
Cash inflows	5,682	4,460	7,783	-	
Cash outflows	(5,433)	(4,260)	(7,505)	-	
Other net cash flows ¹	29	16	8	-	
	278	216	286	-	773
Derivative financial liabilities:					
Cash inflows	2,596	1,850	1,479	-	
Cash outflows	(3,001)	(2,059)	(1,552)	-	
Other net cash flows ¹	(24)	(11)	(6)	-	
	(429)	(220)	(79)	-	(680)
At 31 December 2024					
Derivative financial assets:					
Cash inflows	1,940	605	1,089	-	
Cash outflows	(1,780)	(592)	(1,054)	-	
Other net cash flows ¹	66	25	24	-	
	226	38	59	-	298
Derivative financial liabilities:					
Cash inflows	6,988	5,866	7,154	-	
Cash outflows	(7,959)	(6,524)	(7,850)	-	
Other net cash flows ¹	(30)	(11)	(11)	-	
	(1,001)	(669)	(707)	-	(2,054)

¹ Derivative financial assets and liabilities that are settled on a net cash basis

22 Financial instruments continued

Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates. The value shown is the carrying amount before taking account of swaps.

	2025			2024		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Cash and cash equivalents ¹	–	6,244	6,244	–	5,575	5,575
Borrowings	(2,785)	(17)	(2,802)	(3,563)	(14)	(3,577)
Lease liabilities	(1,237)	(233)	(1,470)	(1,298)	(257)	(1,555)
	(4,022)	5,994	1,972	(4,861)	5,304	443
Weighted average interest rates						
Borrowings	4.4%	4.7%		4.0%	5.0%	
Lease liabilities ²	4.8%	5.0%		4.9%	5.8%	

¹ Cash and cash equivalents comprises bank balances and term deposits and earn interest based on short-term floating market interest rates

² Interest rates for lease liabilities are considered to be the discount rates at the balance sheet date

None (2024: none) of the Group's borrowings are subject to financial covenants and there are no rating triggers contained in any of the Group's facilities that could require the Group to accelerate or repay any facility for a given movement in the Group's credit rating.

£99m (2024: £106m) of the Group's lease liabilities include a customary loan-to-value covenant that is applicable if the credit rating of Rolls-Royce Plc is sub-investment grade. The Group has several contractual cures available in the event the stipulated loan-to-value ratio is exceeded. Failure by the Group to satisfy its contractual obligations under the covenant gives rights to the lessor to terminate its lease and claim termination amounts for the outstanding lease balance. At 31 December 2025 none (2024: none) of these were in breach.

Sensitivity analysis

	2025 £m	2024 £m
Sensitivities at 31 December (all other variables held constant) – impact on profit after tax and equity		
Sterling 10% weaker against the USD	(1,598)	(1,506)
Sterling 10% stronger against the USD	1,307	1,232
Euro 10% weaker against the USD	(318)	(358)
Euro 10% stronger against the USD	260	293
Sterling 10% weaker against the Euro	(27)	(27)
Sterling 10% stronger against the Euro	22	22
Commodity prices 10% lower	(26)	(20)
Commodity prices 10% higher	26	20
Interest rates 50 basis points lower	(24)	(40)
Interest rates 50 basis points higher	24	39

C Shares and payments to shareholders

The Company has previously made payments to shareholders by issuing non-cumulative redeemable preference shares (C Shares) as an alternative to paying a cash dividend. As the C share reinvestment programme is no longer available, C shares can only be redeemed for cash. Any C Shares retained attract a dividend of Bank of England base rate on the 0.1p nominal value of each share, paid on a twice-yearly basis, and have limited voting rights. The Company has the option to compulsorily redeem the C Shares, at any time, if the aggregate number of C Shares in issue is less than 10% of the aggregate number of C Shares issued, or on the acquisition or capital restructuring of the Company.

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

	2025 Millions	2024 Millions
At 1 January	22,506	23,153
Redeemed	(1,199)	(647)
At 31 December	21,307	22,506

No distributions in the form of C shares have been made since 2019, payments to shareholders represent the value of C Shares redeemed within the year.

23 Provisions for liabilities and charges

	At 1 January 2025 £m	Charged to income statement ¹ £m	Reversed £m	Utilised £m	Exchange differences £m	At 31 December 2025 £m
Onerous contracts	1,433	433	(694)	(187)	1	986
Warranty and guarantees	354	179	(25)	(93)	7	422
Trent 1000 wastage costs	36	–	–	(35)	(1)	–
Employer liability claims	25	1	(4)	(2)	–	20
Transformation and restructuring	62	10	(16)	(35)	1	22
Tax related interest and penalties	16	2	(1)	–	–	17
Claims and litigation	25	30	(12)	(7)	–	36
Other	43	22	(3)	(7)	(1)	54
	1,994	677	(755)	(366)	7	1,557
Current liabilities	589					507
Non-current liabilities	1,405					1,050

¹ The charge to the income statement within net financing includes £27m (2024: £47m) as a result of the unwinding of the discounting of provisions previously recognised and £16m (2024: £36m) as a result of changes in discount rates during the year

Onerous contracts

Onerous contract provisions are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Onerous contract provisions are measured on a fully costed basis. During the year, additional contract losses for the Group of £433m (2024: £558m) have been recognised. These are mainly a result of increases in the estimate of future LTSA costs due to prolonged supply chain challenges and inflationary cost increases. Contract losses of £694m (2024: £374m) previously recognised have been reversed following improvements to the forecast revenue, cost estimates and time on wing across various engine programmes as a result of operational improvements, contractual renegotiations and extensions. During the year £187m (2024: £218m) of the provisions has been utilised. The Group continues to monitor onerous contract provisions for changes in the market and revises the provision as required. The value of the remaining onerous contract provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 15 years.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires a company to recognise any impairment loss that has occurred on assets used in fulfilling the contract before recognising a separate provision for an onerous contract. No impairments were required for any of the assets solely used in the fulfilment of onerous contracts.

Warranty and guarantees

Provisions for warranty and guarantees relate to products sold and are calculated based on an assessment of the remediation costs related to future claims based on past experience. The provision generally covers a period of up to three years.

Trent 1000 wastage costs

During the year, the Group has utilised the remaining £35m (2024: £82m) of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs.

Employer liability claims

The provision relating to employer healthcare liability claims is as a result of an historical insolvency of the previous provider and is expected to be utilised over the next 30 years.

Transformation and restructuring

The Group announced a major multi-year transformation programme in 2023. During the year £35m (2024: £35m) was utilised and £16m reversed (2024: £12m). As part of these plans a further £3m (2024: £2m) has been charged directly to the income statement that had not been provided for. The remaining provision is expected to be utilised by 31 December 2027.

Tax related interest and penalties

Provisions for tax related interest and penalties relate to uncertain tax positions in some of the jurisdictions in which the Group operates. Utilisation of the provisions will depend on the timing of resolution of these matters with the relevant tax authorities.

Claims and litigation

Provisions for claims and litigation represent ongoing matters where the outcome for the Group may be unfavourable.

The balance also includes the best estimate of any retained exposure by the Group's captive insurance company for any claims that have been incurred but not yet reported to the Group, as that entity retains a portion of the exposures it insures on behalf of the remainder of the Group. Such exposures include policies for aviation claims, employer liabilities and healthcare claims. Significant delays can occur in the notification and settlement of claims, and judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the balance sheet date. The insurance provisions are based on information currently available, however, it is inherent in the nature of the business that ultimate liabilities may vary if the frequency or severity of claims differs from estimated.

Other

Other items are individually immaterial. The value of any remaining provisions reflects the single most likely outcome in each case.

There were no provisions held for customer financing at 31 December 2025 (2024: £nil). Provisions are held to cover potential calls on guarantees provided over asset values and/or financing when it is considered probable by management that the exposure will crystallise. The Group discloses contingent liabilities for customer financing arrangements where the payment is not probable. See note 27.

24 Post-retirement benefits

The Group operates a number of defined benefit and defined contribution schemes:

- the UK defined benefit scheme is funded, with the assets held in a separate UK trust. The scheme closed to future accrual on 31 December 2020 for all active members and there are no new defined benefit accruals in the UK scheme. In August 2025 the scheme completed a Buy-in, with the purchase of a bulk insurance annuity policy, with the effect that the majority of scheme liabilities are now covered by this policy. See below for further details;
- the Group also operates a large trust-based defined contribution scheme for current employees in the UK (Rolls-Royce Retirement Savings Trust). Pension contributions are generally paid as a salary sacrifice under which employees agree to a reduction in gross contractual pay in return for the Group making additional pension contributions on their behalf. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £106m (2024: £88m) in the year; and
- overseas defined benefit schemes are a mixture of funded and unfunded plans and provide benefits in line with local practice. Additionally, in the US, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. These healthcare schemes are unfunded.

The valuations of the defined benefit schemes are based on the results of the most recent funding valuation from 31 March 2023, where relevant, updated by the scheme actuaries to 31 December 2025.

Virgin Media

A UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, found that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgment delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, its relevance and hence the potential impact of this to the RRU KPF scheme, and other UK schemes was unclear.

On 5 June 2025 the Government announced that in light of this uncertainty, it would introduce legislation to give potentially affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic rule amendments met the necessary standards. As a result of this Government intervention the Group does not anticipate any scheme amendments or additional liabilities.

Buy-in of Rolls-Royce UK Pension Fund

In August 2025, the Trustee of the Rolls-Royce UK Pension Fund entered into a Buy-in transaction with Pension Insurance Corporation plc (PIC), whereby the Fund purchased a bulk purchase annuity policy in exchange for consideration of £4.3bn. This was paid from the Fund's existing assets, with no additional funding required by the Group. This transaction resulted in substantially all the benefits and liabilities under the Fund being insured. The Buy-in was undertaken in anticipation of entering into a Buy-out during 2026, upon which the liabilities and management of bought out benefits will be transferred to PIC. A charge of £517m has been recognised within the line 'Actuarial gains/(losses) recognised in OCI' in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2025 comprising around £450m relating to the impact of the Buy-in.

Following the transaction, the bulk purchase annuity policy has been treated as an asset of the Fund and has been valued on the same basis as the liabilities to which it relates, as until a Buy-out takes place, the legal responsibility to pay benefits remains with the Trustee.

The Company and the Trustee of the UK pension scheme agreed on 2 February 2026 to terminate and wind up the UK scheme. See further details in Note 1.

Overseas schemes

During the year, Rolls-Royce Deutschland replaced a number of their existing defined benefit schemes with a new company pension scheme to offer payment options at time of retirement. The new system, which is similar in structure to the UK defined contribution scheme but with a guarantee from the Company regarding investment returns in accordance with German legislation, significantly reduces interest risks and longevity risks for the employer for future commitments. A past service credit of £10m has been recognised within non-underlying operating profit in respect of these changes.

Amounts recognised in the income statement

	2025			2024		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Defined benefit schemes:						
Current service cost and administrative expenses	6	42	48	5	37	42
Past-service cost/(credit) and settlement loss ¹	4	(10)	(6)	14	-	14
	10	32	42	19	37	56
Defined contribution schemes	251	104	355	228	101	329
Operating cost	261	136	397	247	138	385
Net financing (credit)/charge in respect of defined benefit schemes	(32)	38	6	(35)	37	2
Total income statement charge	229	174	403	212	175	387

¹ Following the signing of the framework agreement with PIC, adjustments have been made to align the methodology for the calculation of certain benefits with those required by the insurer. These have resulted in an additional past service charge of £(4)m being recognised in the income statement in 2025. A past service credit of £10m has also been recognised in the year in respect of the changes to the Rolls-Royce Deutschland schemes detailed above. In 2024 a past service charge of £14m was recognised in respect of the UK scheme as a result of further work carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments under the Barber judgement which sought to equalise normal retirement ages between men and women

24 Post-retirement benefits continued

The operating cost is charged as follows:

	Defined benefit		Defined contribution		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Cost of sales	37	30	252	227	289	257
Commercial and administrative costs	(3)	20	50	51	47	71
Research and development costs	8	6	53	51	61	57
	42	56	355	329	397	385

Net financing comprises:

	2025			2024		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Financing on scheme obligations	214	64	278	200	61	261
Financing on scheme assets	(246)	(26)	(272)	(235)	(24)	(259)
Net financing (income)/charge in respect of defined benefit schemes	(32)	38	6	(35)	37	2
Financing income on scheme surpluses	(32)	–	(32)	(35)	(2)	(37)
Financing cost on scheme deficits	–	38	38	–	39	39

Amounts recognised in OCI in respect of defined benefit schemes

	2025			2024		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Actuarial gains and losses arising from:						
Demographic assumptions ¹	(121)	–	(121)	19	(10)	9
Financial assumptions ²	97	63	160	617	56	673
Experience adjustments ³	(9)	1	(8)	(8)	(14)	(22)
(Loss)/return on scheme assets excluding financing income ^{2,4}	(484)	9	(475)	(633)	(5)	(638)
	(517)	73	(444)	(5)	27	22

1 For the UK Scheme, this reflects latest available CMI mortality projections, and a charge of around £100m in relation to the Buy-in of the UK scheme due to updates to the assumptions relating to transfer values, and alignments made to insurer factors post Buy-in

2 Actuarial gains and losses arising from financial assumptions arise primarily due to changes in discount rate and inflation

3 This reflects an experience loss as a result of realised inflation being higher than expected over the period meaning that actual and projected increases are now higher than previously expected

4 Includes an asset re-measurement loss estimated at £350m recognised in respect of the Buy-in of the UK Scheme that took place in the year

Amounts recognised in the balance sheet in respect of defined benefit schemes

	2025			2024		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	(4,040)	(987)	(5,027)	(3,958)	(986)	(4,944)
Fair value of scheme assets	4,324	560	4,884	4,737	531	5,268
Net asset/(liability) on funded schemes	284	(427)	(143)	779	(455)	324
Present value of unfunded obligations	–	(463)	(463)	–	(515)	(515)
Net asset/(liability) recognised in the balance sheet¹	284	(890)	(606)	779	(970)	(191)
Post-retirement scheme surpluses ²	284	2	286	779	11	790
Post-retirement scheme deficits	–	(892)	(892)	–	(981)	(981)

1 The surplus in the UK scheme is recognised as, on an ultimate wind-up when there are no longer any remaining members, the Group would be entitled to receive any surplus and, has the power to determine how any remaining surplus is used

2 The decrease in the net asset in the UK Scheme is largely as a result of the Buy-in of the scheme in August 2025, which has resulted in a charge estimated at £450m being recognised within the line 'Actuarial gains/(losses) recognised in OCI' in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2025

24 Post-retirement benefits continued

Overseas schemes are located in the following countries:

	2025			2024		
	Assets £m	Obligations £m	Net £m	Assets £m	Obligations £m	Net £m
Canada	189	(215)	(26)	193	(225)	(32)
Germany	98	(651)	(553)	56	(664)	(608)
US pension schemes	273	(295)	(22)	282	(297)	(15)
US healthcare schemes	-	(284)	(284)	-	(312)	(312)
Other	-	(5)	(5)	-	(3)	(3)
Net asset/(liability) recognised in the balance sheet	560	(1,450)	(890)	531	(1,501)	(970)

Defined benefit schemes

Assumptions

Significant actuarial assumptions for UK schemes at the balance sheet date were as follows:

	2025	2024
Discount rate	5.60%	5.50%
Inflation assumption (RPI)	3.05%	3.30%
Inflation assumption (CPI)	2.70%	2.90%
Transfer take-up assumption (employed deferred/deferred)	20%/15%	20%/15%
Bridging Pension Option take-up assumption (employed deferred/deferred)	40%/25%	40%/25%
Life expectancy from age 65: current male pensioner	21.1 years	20.8 years
future male pensioner currently aged 45	21.8 years	21.5 years
current female pensioner	23.0 years	22.8 years
future female pensioner currently aged 45	24.2 years	24.1 years

Discount rates are determined by reference to the market yields on AA rated corporate bonds. The rate is determined by using the profile of forecast benefit payments to derive a weighted average discount rate from the yield curve.

The inflation assumption is determined by the market-implied assumption based on the yields on long-term index-linked government securities.

The mortality assumptions adopted for the UK pension schemes are derived from the SAPS S3 'All' actuarial tables, with future improvements in line with the CMI 2024 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience, actuarial advice and updates required following the Buy-in of the scheme.

Other assumptions have been set on advice from the actuary, having regard to the latest trends in scheme experience, the assumptions used in the most recent funding valuation and any updates required to insurer factors. The rate of increase of pensions in payment is based on the rules of the scheme, combined with the inflation assumption where the increase is capped.

Assumptions for overseas schemes are based on advice from local actuaries. The principal assumptions are:

	2025	2024
Discount rate	4.70%	4.50%
Inflation assumption	2.00%	2.10%
Long-term healthcare cost trend rate	4.75%	4.75%
Male life expectancy from age 65: current pensioner	20.8 years	20.5 years
future pensioner currently aged 45	23.1 years	22.5 years

24 Post-retirement benefits continued

Changes in present value of defined benefit obligations

	2025			2024		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	(3,958)	(1,501)	(5,459)	(4,537)	(1,540)	(6,077)
Exchange differences	–	13	13	–	38	38
Current service cost	–	(41)	(41)	–	(37)	(37)
Past-service (cost)/credit ¹	(4)	10	6	(14)	–	(14)
Finance cost	(214)	(64)	(278)	(200)	(61)	(261)
Contributions by employees	–	(14)	(14)	–	(13)	(13)
Benefits paid out	169	83	252	165	80	245
Actuarial (losses)/gains ²	(33)	64	31	628	32	660
At 31 December	(4,040)	(1,450)	(5,490)	(3,958)	(1,501)	(5,459)
Funded schemes	(4,040)	(987)	(5,027)	(3,958)	(986)	(4,944)
Unfunded schemes	–	(463)	(463)	–	(515)	(515)

1 Following the signing of the framework agreement with the UK scheme's trustee, which was signed alongside the Buy-in agreement, adjustments have been made to align the methodology for the calculation of certain benefits with the pricing methodology used by the insurer. These have resulted in an additional past service charge of £4m being recognised in the income statement in 2025. A past service credit of £10m has also been recognised in the year in respect of the changes to the Rolls-Royce Deutschland schemes detailed above. In 2024 a past service charge of £14m was recognised in respect of the UK scheme as a result of further work carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments under the Barber judgement which sought to equalise normal retirement ages between men and women

2 The actuarial loss of £(33)m relating to the UK schemes includes a charge of around £(100)m in respect of the Buy-in of the UK scheme detailed above

The defined benefit obligations are in respect of:

	2025	2024
Active plan participants ¹	(1,243)	(731)
Deferred plan participants	(1,067)	(98)
Pensioners	(1,730)	(672)
Weighted average duration of obligations (years)	13	12

1 Although the UK scheme closed to future accrual on 31 December 2020, members who became deferred as a result of the closure and remain employed by the Group retain some additional benefits compared to other deferred members. The obligations for these members are shown as active plan participants

Changes in fair value of scheme assets

	2025			2024		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	4,737	531	5,268	5,304	520	5,824
Exchange differences	–	(20)	(20)	–	(13)	(13)
Administrative expenses	(6)	(1)	(7)	(5)	(1)	(6)
Financing	246	26	272	235	24	259
(Loss)/return on plan assets excluding financing ¹	(484)	9	(475)	(633)	(5)	(638)
Contributions by employer	–	84	84	1	73	74
Contributions by employees	–	14	14	–	13	13
Benefits paid out	(169)	(83)	(252)	(165)	(80)	(245)
At 31 December	4,324	560	4,884	4,737	531	5,268
Total (loss)/return on scheme assets	(238)	35	(203)	(398)	19	(379)

1 Includes an asset remeasurement net loss estimated at £350m recognised in respect of the Buy-in of the UK Scheme that took place in the year. For further details see page 171

24 Post-retirement benefits continued

Fair value of scheme assets at 31 December

	2025			2024		
	UK schemes ¹ £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Sovereign debt	–	143	143	3,335	140	3,475
Corporate debt instruments	–	237	237	1,860	248	2,108
Interest rate swaps	–	–	–	197	–	197
Inflation swaps	–	–	–	92	–	92
Cash and similar instruments ²	–	–	–	(1,176)	–	(1,176)
Liability driven investment (LDI) portfolios	–	380	380	4,308	388	4,696
Listed equities	–	52	52	–	54	54
Unlisted equities	4	1	5	25	–	25
Corporate debt instruments	–	–	–	379	–	379
Cash	280	8	288	25	11	36
Buy-in insurance policy ³	4,040	–	4,040	–	–	–
Other	–	119	119	–	78	78
At 31 December	4,324	560	4,884	4,737	531	5,268

1 Following the Buy-in in August 2025, described on page 171, the Group entered into a bulk purchase annuity policy with PIC for consideration of £4.3bn. The consideration was paid by transferring certain existing RRUKPF's assets and cash to PIC

2 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £nil (2024: £(1,203)m)

3 Following the transaction, the bulk purchase annuity policy has been treated as an asset of the scheme and has been valued on the same basis as the liabilities to which it relates, as until a Buy-out takes place, the legal responsibility to pay benefits remains with the Trustee

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group (2024: none).

Future contributions

The Group expects to contribute approximately £81m to its overseas defined benefit schemes in 2026 (2025: £84m).

In the UK, any cash funding of RRUKPF is based on a statutory triennial funding valuation process. The Group and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting set out above. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis. All cash due has been paid in full and the current SoC does not require any cash contributions to be made by the Group. Following the Buy-in of the scheme in August 2025 substantially all the scheme liabilities have been insured and it is expected that no further funding will be required by the Group: any further liabilities arising are expected to be funded from the scheme's existing assets.

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. A number of the overseas schemes are unfunded. For the most significant funded schemes, the investment strategies hedge the risks from interest rates and inflation measured on a proxy solvency basis.

UK Scheme

The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2025, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The UK scheme previously hedged interest rate and inflation risk based on UK Government bond yields without any adjustment for any credit spread, however as a result of the Buy-in that took place in August 2025, most of the scheme's assets were either liquidated or transferred to PIC during the year. The majority of the assets at 31 December 2025 represent the value of the bulk purchase annuity policy, which aligns exactly to the liabilities to which it relates, hence any movement in the assets will result in an equal and opposite movement in the liabilities.

The sensitivity analysis set out below has been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

24 Post-retirement benefits continued

		2025 £m	2024 £m
Reduction in the discount rate of 0.25% ¹	Obligations	(140)	(145)
	Plan assets (Buy-in policy)	140	-
	Plan assets (LDI portfolio)	-	179
Increase in inflation of 0.25% ¹	Obligations	(55)	(55)
	Plan assets (Buy-in policy)	55	-
	Plan assets (LDI portfolio)	-	73
Increase of 1% in transfer value assumption	Obligations	(20)	(25)
	Plan assets (Buy-in policy)	20	-
One year increase in life expectancy	Obligations	(125)	(125)
	Plan assets (Buy-in policy)	125	-

¹ The differences between the sensitivities on obligations and plan assets in 2024 arise largely due to differences in the methods used to value the obligations for accounting purposes and the adopted proxy solvency basis

Overseas Schemes

		2025 £m	2024 £m
Reduction in the discount rate of 0.25% ¹	Obligations	(40)	(46)
Increase in inflation of 0.25% ¹	Obligations	(9)	(10)

¹ Unlike the UK scheme, the benefits for the majority of the overseas schemes are not linked to inflation, hence the impact of a change in the inflation rate has a less significant impact on the defined benefit obligation than a change in the discount rate

25 Share capital

	Non-equity		Equity	
	Special Share of £1	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid				
At 1 January 2024	1	-	8,417	1,684
Shares issued to employee share trust	-	-	88	17
At 31 December 2024	1	-	8,505	1,701
Shares issued via a bonus issue ¹	-	-	-	6,962
Capital reduction ¹	-	-	-	(6,962)
Cancellation of shares ²	-	-	(61)	(12)
At 31 December 2025	1	-	8,444	1,689

¹ On 1 May 2025 Rolls-Royce Holdings plc performed a bonus issue of one share from its merger reserve for £6,962m. The Company subsequently performed a capital reduction against share capital, share premium, and capital redemption reserve

² During the year the Company cancelled 61,088,437 (2024: none) of its ordinary shares with a total nominal value of £12m in relation to the share buyback programme. Further details can be found within the Consolidated statement of changes in equity

The rights attaching to each class of share are set out on pages 212 to 213.

In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 22. In addition, rights to C share holders are included on page 212.

26 Share-based payments

Effect of share-based payment transactions on the Group's results and financial position

	2025 £m	2024 £m
Total expense recognised for equity-settled share-based payments transactions	98	95
Total cost recognised for cash-settled share-based payments transactions	6	41
Share-based payments recognised in the consolidated income statement	104	136
Liability for cash-settled share-based payment transactions	-	59

A description of the share-based payment plans is included in the Directors' Remuneration Report on pages 82 to 109.

Movements in the Group's share-based payment plans during the year

	ShareSave	Weighted average exercise price Pence	Free Shares	LTIP	Incentive Plan	Matching Shares
	Number Millions		Number Millions	Number Millions	Number Millions	Number Millions
Outstanding at 1 January 2024	53.4	107	-	101.0	17.2	-
Granted	-	-	6.2	22.8	5.0	-
Forfeited	(2.3)	110	(0.2)	(5.7)	(0.5)	-
Exercised	(0.5)	104	-	(25.4)	(5.6)	-
Outstanding at 31 December 2024	50.6	107	6.0	92.7	16.1	-
Granted	-	-	-	10.6	0.5	0.6
Forfeited	(0.2)	118	(0.7)	(3.7)	-	-
Exercised	(50.3)	107	(2.3)	(35.3)	(5.6)	-
Outstanding at 31 December 2025	0.1	111	3.0	64.3	11.0	0.6
Exercisable at 31 December 2025	-	-	-	-	-	-
Exercisable at 31 December 2024	0.1	-	-	-	-	-

The weighted average share price at the date share options were exercised was 728p (2024: 420p). The closing price at 31 December 2025 was 1,150p (2024: 569p).

The weighted average remaining contractual life for the share options as at 31 December 2025 was six months (2024: one month) and all outstanding share options have a maturity date in 2026.

Fair values of share-based payment plans

The weighted average fair value per share of equity-settled share-based payment plans granted during the year, estimated at the date of grant, are as follows:

	2025	2024
Free Shares	n/a	494p
LTIP	759p	361p
Incentive Plan	802p	378p
Matching Shares	1,089p	n/a

Vesting period of share-based payment plans

The vesting period for the share-based payment plans are between 6 months to 63 months. See the details below.

	Vesting period
LTIP	6 to 59 months
Incentive Plan	7 to 47 months
Sharesave	39 or 63 months
Free shares	12 or 36 months
Matching shares	24 or 36 months

Long-term incentive plans (LTIP)

The fair value of shares awarded is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 and S&P Global Industrials Index companies and which incorporates into the valuation the interdependency between share price performance and TSR vesting where market-based conditions are applicable. This adjustment decreases the fair value of the award relative to the share price at the date of grant.

26 Share-based payments continued

ShareSave

The fair value of the options granted is calculated using a pricing model that assumes that participants will exercise their options at the beginning of the six-month window if the share price is greater than the exercise price. Otherwise, it assumes that options are held until the expiration of their contractual term. This results in an expected life of the mid-point between the start of the exercise window and the date of expiration.

Incentive Plan

The fair value of shares awarded is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Free Shares

In 2024, every Rolls-Royce employee was gifted 150 shares. The awards were granted under two plans; the 'Rolls-Royce Share Purchase Plan' for UK employees and the 'Rolls-Royce Global Employee Share Purchase Plan' for non-UK employees; both being equity-settled schemes. The fair value of shares awarded under the free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Matching Shares

Rolls-Royce launched the 'Your Shares: Matched' plan during the year. Every participant receives the free matching shares with a value of up to £50 each month based on the number of investment shares they purchase. There are no performance conditions attached to the shares. The fair value of the free matching shares awarded under these plans is calculated using the share price on the date of the award. Non-vesting conditions are taken into consideration with a percentage discount applied based on the assumption of the expected forfeiture rates of the matching shares.

27 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the Serious Fraud Office and the US Department of Justice and a leniency agreement with the Ministério Público Federal, the Brazilian federal prosecutor. The terms of both DPAs have now expired. The Company has also met all its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to the same historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitoring. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Group or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Group. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, grant funding, countertrade obligations and minor miscellaneous items, which could result in potential outflows if the requirements related to those arrangements are not met. Various Group undertakings are party to legal actions and claims (including with tax authorities) which arise in the ordinary course of business, some of which are for substantial amounts.

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of \$339m (2024: \$405m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately \$67m could be called during 2026). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

Customer financing provisions would be made to cover guarantees provided for asset value and/or financing were it probable that a payment would be made. These would be measured on a discounted basis at the Group's borrowing rate to reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 31 December 2025 or 31 December 2024.

The Group has responded appropriately to the Russia-Ukraine conflict to comply with international sanctions and export control regime, and to continue to implement the business decision to exit from Russia. The Group could be subject to action by impacted customers, suppliers and other contract parties.

While the outcome of the above matters cannot precisely be foreseen, the Directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

28 Related party transactions

	2025 £m	2024 £m
Sales of goods and services ¹	8,679	7,702
Purchases of goods and services ¹	(9,141)	(8,725)
Lease payments to joint ventures and associates	(157)	(241)
Guarantees of non-wholly owned subsidiaries' borrowings	3	4
Dividends received from joint ventures and associates	88	77
Other income received from joint ventures and associates	38	7

¹ Sales of goods and services to related parties and purchases of goods and services from related parties, including joint ventures and associates, are included at the average exchange rate, consistent with the statutory income statement

Included in sales of goods and services to related parties are sales of spare engines amounting to £153m (2024: £48m). Profit recognised in the year on such sales amounted to £60m (2024: £62m), including profit on current year sales and recognition of profit deferred on similar sales in previous years. Cash receipts relating to the sale of spare engines amounted to £134m (2024: £48m).

Included in cost of sales in the income statement are interest costs of £9m (2024: £9m) incurred during the year which have been settled by the Group on behalf of joint ventures.

The aggregated balances with joint ventures are shown in notes 16 and 21. Transactions with Group pension schemes are shown in note 24.

Key management personnel are deemed to be the Directors (pages 64 to 65) and the members of the Executive Team (described on page 74). Remuneration for key management personnel is shown below:

	2025 £m	2024 £m
Salaries and benefits	35	29
Included in the above:		
Post-retirement schemes	1	1
Share-based payments	12	13

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the Remuneration Report on pages 82 to 109. The charge for share-based payments above is based on when the award is charged to the income statement in accordance with IFRS 2 *Share-based Payments*, rather than when the shares vest, which is the basis used in the Remuneration Report.

29 Business disposals and businesses held for sale

Disposals

Rolls-Royce SMR Limited

An investment from ČEZ Group (ČEZ) was received by Rolls-Royce SMR Limited on 4 March 2025 and Rolls-Royce Holdings plc's indirect shareholding in Rolls-Royce SMR Limited was diluted from 70.5% at 31 December 2024 to 61.7%. When the new investment was received the Group relinquished control of Rolls-Royce SMR Limited, as a result of changes in shareholder matters, and the subsidiary was deconsolidated. This followed detailed consideration of the criteria within IFRS 10 *Consolidated Financial Statements* in relation to the Group's ability to take decisions that affect the returns of the business without the support of other shareholders. The Group's investment in Rolls-Royce SMR Limited was recognised at its fair value of £732m on 4 March 2025 and a profit on disposal of £679m was recognised in the Group's income statement.

In July 2025, Rolls-Royce Holdings plc's indirect shareholding in Rolls-Royce SMR Limited was further diluted to 55.3%. This was due to a second equity investment being made by ČEZ into Rolls-Royce SMR Limited which resulted in an additional £15m profit on disposal being recognised in the year. In December 2025 the Group made a further investment into Rolls-Royce SMR Limited increasing Rolls-Royce Holdings plc's indirect shareholding to 57.8%.

Naval propulsors & handling business

On 18 September 2024, the Group signed a sale and disposal agreement for its naval propulsors & handling business with Fairbanks Morse Defense. On 1 July 2025 the sale of the naval propulsors business completed with the sale of the naval handling business anticipated in 2026.

29 Business disposals and businesses held for sale continued

	Naval propulsors business 2025 £m	Rolls-Royce SMR Limited 2025 £m	Total 2025 £m
Proceeds			
Net cash consideration at prevailing exchange rate and at effective hedged rate	172	–	172
Cash and cash equivalents disposed	–	(81)	(81)
Net cash consideration	172	(81)	91
Disposal costs paid	(7)	(4)	(11)
Net cash inflow/(outflow) on disposal per cash flow statement	165	(85)	80
Assets and liabilities disposed			
Goodwill	12	–	12
Property, plant and equipment	45	3	48
Right-of-use assets	1	1	2
Inventories	19	–	19
Trade receivables and other assets	62	47	109
Trade payables and other liabilities	(67)	(56)	(123)
Provisions for liabilities and charges	(3)	–	(3)
Borrowings and lease liabilities	(1)	–	(1)
Net assets/(liabilities) disposed	68	(5)	63
Profit/(loss) on disposal before disposal costs and accounting adjustments			
	104	(76)	28
Disposal costs	(7)	–	(7)
Derecognition of NCI	–	23	23
Accounting adjustment – recognition of Rolls-Royce SMR Limited at fair value	–	732	732
Accounting adjustment – dilution of the Group's share of Rolls-Royce SMR Limited	–	15	15
Cumulative currency translation gain	18	–	18
Profit on disposal of businesses per income statement	115	694	809
Taxation on disposal¹	(28)	–	(28)

¹ The deconsolidation of Rolls-Royce SMR Limited from the Group during 2025 is treated as non-taxable, following the tax de-grouping charge recognised in 2024 when the Group's shareholding fell below 75%. Taxation on disposal is included within taxation in the consolidated income statement

Businesses held for sale

At 31 December 2024, the Group had classified the assets and liabilities related to its naval propulsors & handling business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. On 18 September 2024, the Group and Fairbanks Morse Defense signed a sale and disposal agreement. On 1 July 2025 the sale of the naval propulsors business to Fairbanks Morse Defense took place.

At 31 December 2025 the assets and liabilities of the naval handling business continued to be disclosed as held for sale. They were measured at the lower of their carrying value or fair value less costs to sell as summarised below. The completion of the naval handling business disposal is anticipated in 2026.

The table below summarises the categories of assets and liabilities of the naval handling business classified as held for sale at 31 December 2025.

	2025 £m	2024 £m
Goodwill	–	13
Property, plant and equipment	3	51
Right-of-use assets	–	1
Inventories	1	24
Trade receivables and other assets	11	64
Assets held for sale	15	153
Trade payables and other liabilities	(19)	(96)
Provisions for liabilities and charges	–	(3)
Borrowings and lease liabilities	–	(1)
Liabilities associated with assets held for sale	(19)	(100)
Net (liabilities)/assets held for sale	(4)	53

30 Derivation of summary funds flow statement

	2025				2024	
	Cash flow £m	Impact of hedge book £m	Impact of acquisition accounting £m	Impact of other non- underlying items £m	Funds flow £m	Funds flow £m
Operating profit/(loss)	4,468	(797)	16	(225)	3,462	2,464
Loss on disposal of property, plant and equipment ¹	18	-	-	-	18	32
(Profit)/loss on disposal of intangible assets ¹	(2)	-	-	-	(2)	6
Joint venture trading ¹	32	-	-	-	32	(95)
Depreciation, amortisation and impairment	737	-	(16)	179	900	853
Movement in provisions	(486)	78	-	118	(290)	(167)
Increase in inventories ²	(685)	-	-	-	(685)	(323)
Movement in prepayments to RRSAs for parts	90	(19)	-	-	71	(219)
Movement in cost to obtain contracts	(44)	-	-	-	(44)	(18)
Movement in trade receivables/payables and other assets/liabilities ²	(29)	(166)	-	3	(192)	166
Revaluation of trading assets ²	214	(18)	-	-	196	(14)
Realised derivatives in financing	532	-	-	-	532	652
Movement in Civil LTSA balance	123	378	-	-	501	910
Movement in contract assets/liabilities (excluding Civil LTSA) ²	581	(11)	-	-	570	(201)
Settlement of excess derivatives	(148)	-	-	-	(148)	(146)
Interest received	270	-	-	-	270	269
Contributions to defined benefit schemes in excess of underlying operating profit charge ¹	(42)	-	-	5	(37)	(31)
Cash flows on other financial assets and liabilities held for operating purposes	(578)	532	-	-	(46)	(24)
Share-based payments ¹	104	-	-	-	104	136
Other ¹	-	-	-	-	-	(5)
Income tax	(590)	-	-	35	(555)	(381)
Cash from operating activities	4,565	(23)	-	115	4,657	3,864
Capital element of lease payments	(232)	23	-	-	(209)	(275)
Capital expenditure	(978)	-	-	-	(978)	(876)
Cash received on maturity of share-based payment schemes	40	-	-	-	40	-
Investments	(7)	-	-	37	30	16
Interest paid	(262)	-	-	-	(262)	(298)
Other ³	144	-	-	(152)	(8)	(6)
Free cash flow	3,270	-	-	-	3,270	2,425

1 Included in other operating cash flows in the summarised free cash flow on page 23

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

3 Other includes M&A related costs, exceptional transformation and restructuring costs

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid, cash received on maturity of share-based payment schemes and amounts paid relating to the settlement of excess derivatives. It excludes amounts spent/received on business acquisitions/disposals, and other material exceptional or one-off cash flows. Cash flows from operating activities is our statutory equivalent. The Board considers that free cash flow reflects cash generated from the Group's underlying trading.

The reconciliation between free cash flow and cash flow from operating activities can be found on page 210.

Company balance sheet

At 31 December 2025

	Notes	2025 £m	2024 £m
ASSETS			
Investments – subsidiary undertakings	2	15,003	14,905
Non-current assets		15,003	14,905
Cash and cash equivalents		–	1
Current assets		–	1
TOTAL ASSETS		15,003	14,906
LIABILITIES			
Trade payables and other liabilities	3	(2,201)	(337)
Other financial liabilities	4	(21)	(22)
Current liabilities		(2,222)	(359)
NET ASSETS		12,781	14,547
EQUITY			
Called-up share capital	5	1,689	1,701
Share premium		–	1,012
Merger reserve		–	6,962
Capital redemption reserve		6	2,750
Other reserve		591	493
Retained earnings		10,495	1,629
TOTAL EQUITY		12,781	14,547

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company income statement. The result for the Company for the year was nil (2024: nil).

The Financial Statements on pages 182 to 186 were approved by the Board on 26 February 2026 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Company's registered number: 7524813

Company statement of changes in equity

For the year ended 31 December 2025

	Attributable to ordinary shareholders						Total equity £m
	Share capital £m	Share premium £m	Merger reserve ¹ £m	Capital redemption reserve £m	Other reserve ² £m	Retained earnings ^{3,4} £m	
At 1 January 2024	1,684	1,012	6,962	2,749	397	1,647	14,451
Arising on issues of ordinary shares	17	-	-	-	-	(17)	-
Redemption of C Shares	-	-	-	1	-	(1)	-
Share-based payments - direct to equity	-	-	-	-	96	-	96
At 1 January 2025	1,701	1,012	6,962	2,750	493	1,629	14,547
Bonus issue ⁵	6,962	-	(6,962)	-	-	-	-
Capital Reduction ⁵	(6,962)	(1,012)	-	(2,757)	-	10,731	-
Share buyback programme ⁶	(12)	-	-	12	-	(1,019)	(1,019)
Redemption of C Shares	-	-	-	1	-	(1)	-
Share-based payments - direct to equity	-	-	-	-	98	-	98
ShareSave maturity	-	-	-	-	-	40	40
Dividend paid	-	-	-	-	-	(885)	(885)
At 31 December 2025	1,689	-	-	6	591	10,495	12,781

1 The Company's merger reserve was created as a result of a High Court approved scheme of arrangement in 2011, when the Company became the holding company for the Rolls-Royce Group

2 Other reserve represents the value of the share-based payments in respect of employees of subsidiary undertakings for which payment has not been received

3 The reserves, which are distributable to the Company's equity shareholders, are determined with reference to the Companies Act 2006 and requires judgement in determining the amount available for distribution. Further guidance is given in the Institute of Chartered Accountants in England and Wales technical release 02/17BL in relation to what profits can be treated as distributable. At 31 December 2025, £10,445m of the Company's retained earnings are distributable, however, the available amount may be different at the point any future distributions are made

4 At 31 December 2025, 69,290,662 ordinary shares with a net book value of £503m (2024: 106,066,831 ordinary shares with a net book value of £26m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:

- 81,979,149 ordinary shares with a net book value of £22m (2024: 35,117,065 ordinary shares with a net book value of £14m) vested in share-based payment plans;

- the Company issued no (2024: 88,200,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £nilm (2024: £18m);

- the Company, through the Employee Benefit Trust, acquired none (2024: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased none (2024: 71,490) of its ordinary shares through purchases on the London Stock Exchange

- the Employee Benefit Trust purchased 3,719,489 (2024: nil) ordinary shares with an aggregate value of £40m from the Company, the Company purchased these shares through the share buyback scheme and held them as Treasury shares

- the Company gifted 41,483,491 (2024: nil) ordinary shares with an aggregate value of £460m to the Employee Benefit Trust, the Company having previously purchased these shares through the share buyback scheme

5 On 1 May 2025 the Company performed a bonus issue of one share from its merger reserve for £6,962m. The Company subsequently performed a capital reduction against share capital, share premium, and capital redemption reserve

6 Following the announcement of the £1bn share buyback on 27 February 2025, during the year the Company purchased with cash 106,291,417 (2024: none) of its ordinary shares at a cost of £1bn. The Company also separately paid costs of £8m in relation to the programme. Of these ordinary shares purchased by the Company 61,088,437 shares at a cost of £500m were cancelled during the year. As detailed above, a further 3,719,489 shares at a cost of £40m were sold to the Employee Benefit Trust for consideration of £40m and in December 2025, the Company gifted the remaining treasury shares of 41,483,491 at a cost of £460m to the Employee Benefit Trust. As at 31 December 2025 the Company held nil (2024: nil) treasury shares

1 Accounting policies

Basis of accounting

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

These Financial Statements have been prepared on a going concern basis. Further details are given in the Going Concern Statement on page 57. After due consideration, the Directors consider that the Company has sufficient liquidity headroom to continue in operational existence for a period of at least 18 months from the balance sheet date and there are no material uncertainties that may cast doubt on the Company's going concern status, accordingly they are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Company Financial Statements.

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the UK (UK-adopted international accounting standards). The Company is included within the Consolidated Financial Statements of Rolls-Royce Holdings plc. The Consolidated Financial Statements are prepared in accordance with IFRS and are publicly available. In these Financial Statements, the Company is considered to be a qualifying entity and has applied the exemptions available under FRS101 in respect of the following disclosures:

- a cash flow statement and related notes;
- comparative period reconciliation for investments and financial liabilities;
- comparative period reconciliation for share capital;
- the effects of new, but not yet effective accounting standards; and
- the requirements of IAS 24 *Related Party Disclosures* and has, therefore, not disclosed transactions between the Company and its wholly owned subsidiaries.

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

There were no changes to accounting standards that had a material impact on these Financial Statements. The Company's Financial Statements are presented in sterling, which is the Company's functional currency.

As permitted by section 408 of the Companies Act 2006, a separate income statement for the Company has not been included in these Financial Statements. As permitted by the audit fee disclosure regulations, disclosure of non-audit fees information is not included in respect of the Company.

Key areas of judgement and sources of estimation uncertainty

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies. The Directors have not identified any critical estimates or judgements at 31 December 2025 where there is a significant risk of material change in the next 12 months.

Material accounting policies

Investments in subsidiary undertakings

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

Trade payables

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

Financial instruments

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

Equity

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

Share-based payments

As described in the Remuneration Report on pages 82 to 109, the Company grants awards of its own shares to employees of its subsidiary undertakings (see note 26 of the Consolidated Financial Statements). The costs of share-based payments in respect of these awards are accounted for, by the Company, as an additional investment in its subsidiary undertakings. The costs are determined in accordance with IFRS 2 *Share-based Payment*. Any payments made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment.

1 Accounting policies continued

Insurance contracts

The Company enters into: financial guarantees where the Company guarantees payment in case of its subsidiary defaulting on a debt; and performance guarantees where the Company guarantees certain subsidiaries' performance to a customer. The Company has reviewed and concluded that its arrangements meet the accounting definition of an insurance contract under IFRS 17 *Insurance Contracts*. The Company has elected to apply IFRS 17 *Insurance Contracts* (rather than IFRS 9 *Financial Instruments*) to all currently issued financial guarantee contracts.

At 31 December 2025, financial guarantees of borrowings amounted to £5,298m (2024: £6,094m) of which the total amount of debt drawn is £2,798m (2024: £3,594m). Under IFRS 17 *Insurance Contracts*, the Company must recognise any obligation at the inception of the contract for the expected fulfilment cash flows under the contract on a best estimate basis (liability for remaining coverage). The Company has assessed the probability of losses on its financial and performance guarantees and has determined that the probability is remote after consideration of both historical and forward-looking triggers and as such the estimated liability is immaterial. As the estimated liability is immaterial at 31 December 2025, no liability has been recognised in the Company Financial Statements.

Post balance sheet events

As part of an internal legal entity review programme the Company took out a loan of £1.9bn from its direct subsidiary, Rolls-Royce plc, on 1 January 2026. The funds were invested on the same day into a new direct subsidiary of the Company, Rolls-Royce US Holdings Limited, in return for shares. The funds enabled Rolls-Royce US Holdings Limited to acquire entities from Rolls-Royce plc.

On 1 January 2026, the Company received the remaining 96.46% shares of Rolls-Royce plc by way of distribution from its direct subsidiary Rolls-Royce Group Limited, bringing the Company's direct holding to 100%. Following this, on 8 January 2026, the Company contributed its 100% direct holding in Rolls-Royce Group Limited to Rolls-Royce plc. The carrying value of investments held by the Company was unchanged as a result of these transactions.

Following the completion in November 2025 of its £1bn share buyback programme for 2025, the Group announced in December 2025 that it was commencing a further share buyback programme of up to £200m in January 2026. This programme was completed in February 2026, with the Company having purchased 15,971,931 shares for consideration of £200m. These shares have all been cancelled.

On 26 February 2026, the Group announced a multi-year share buyback programme (see page 57 for further details).

2 Investments – subsidiary undertakings

	£m
Cost:	
At 1 January 2025	14,905
Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments	98
At 31 December 2025	15,003

Details of the Company's subsidiary undertakings and joint venture and associates undertakings are listed on pages 187 to 192.

The carrying value of the Company's investments in subsidiary undertakings has been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. No indicators of impairment were identified at 31 December 2025.

3 Trade payables and other liabilities

	2025 £m	2024 £m
Amounts owed to – subsidiary undertakings	2,191	337
Accruals ¹	10	–
	2,201	337

¹ During the year, the Company recognised an accrual which represents an estimate of the amount it was committed to purchase under the terms of its Share Purchase Agreement but as yet unpurchased at 31 December 2025

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

4 Financial liabilities

C Shares

Movements during the year were as follows, please see note 22 within the notes to the consolidated financial statements for further details:

	C Shares of 0.1p millions	Nominal value £m
At 1 January 2025	22,505	22
Redeemed	(1,198)	(1)
At 31 December 2025	21,307	21

The rights attaching to C Shares are set out on page 212.

5 Share capital

	Non-equity			Equity	
	Special Share of £1	Preference shares of £1 each	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid					
At 1 January 2025	1	–	–	8,505	1,701
Shares issued via a bonus issue ¹	–	–	–	–	6,962
Capital reduction ¹	–	–	–	–	(6,962)
Cancellation of shares ²	–	–	–	(61)	(12)
At 31 December 2025	1	–	–	8,444	1,689

1 On 1 May 2025 the Company performed a bonus issue of one share from its merger reserve for £6,962m. The Company subsequently performed a capital reduction against share capital, share premium, and capital redemption reserve. Further details can be found within the Consolidated statement of changes in equity

2 During the year the Company cancelled 61,088,437 (2024: none) of its ordinary shares at a cost of £12m in relation to the share buyback programme. Further details can be found within the Consolidated statement of changes in equity

The rights attaching to each class of share are set out on pages 212 to 213.

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

6 Contingent liabilities

For further details on action related to historical matters that could have an impact on the Company, see page 178.

7 Other information

Employees

The Company had no employees in 2025 (2024: none).

Share-based payments

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

Emoluments of Directors

The remuneration of the Directors of the Company is shown below, further information is in the Remuneration Report on pages 82 to 109.

The total amount of remuneration paid to Directors for the year ended 31 December 2025 was £10,834,729 (2024: £7,670,542). £5,819,361 of this was attributed to the highest paid Director (2024: £4,078,266). A cash allowance in lieu of company contributions to a pension scheme was also paid to two Directors (2024: two), which totalled £272,182 (2024: £245,888).

Subsidiaries

As at 31 December 2025, the companies listed below and on the following pages were indirectly held by Rolls-Royce Holdings plc, except Rolls-Royce Group Limited and Rolls-Royce US Holdings Limited, which were 100% directly owned by Rolls-Royce Holdings plc, and Rolls-Royce plc in which Rolls-Royce Holdings plc directly owned 3.54%. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Address	Class of shares	% of class held
Aerospace Transmission Technologies GmbH ¹	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50
Amalgamated Power Engineering Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Deferred Ordinary	100 100
Bristol Siddeley Engines Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Brown Brothers & Company, Limited ³	Inchinnan Drive, Inchinnan, United Kingdom, PA4 9AF	Ordinary	100
C A Parsons & Company Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Derby Specialist Fabrications Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Europea Microfusioni Aerospaziali S.p.A.	Zona Industriale ASI, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Heaton Power Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
John Thompson Cochran Limited ²	Inchinnan Drive, Inchinnan, United Kingdom, PA4 9AF	6% Cumulative Preference Ordinary	100 100
Karl Maybach-Hilfe GmbH i.L. ⁴	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Kinolt Immo SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Sistemas de UPS SpA	Bucarest No 17 Oficina, No 33, Previdencia, Santiago, Chile	Ordinary	100
Kinolt UK Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
LLC Rolls-Royce Solutions Rus ²	Shabolovka Street 2, 119049, Moscow, Russian Federation	Ordinary	100
MTU Cooltech Power Systems Co., Limited ¹	Building No 2, No 1633 Tianchen Road, Quingpu District, Shanghai, China	Equity	50
MTU India Private Limited ⁵	6th Floor, RMZ Galleria, S/Y No. 144 Bengaluru, Bangalore, Kamataka 560,064, India	Ordinary	100
MTU Polska Sp. z o.o.	ul. Hoza 86, lokal 410, 00-682 Warsaw, Poland	Ordinary	100
NEI International Combustion Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Mining Equipment Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Nuclear Systems Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Parsons Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Peebles Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Power Projects Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Nightingale Insurance Limited	PO Box 33, Dorey Court, Admiral Park, St Peter Port GY1 4AT, Guernsey	Ordinary	100
No-Break Power Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Powerfield Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
PT Rolls-Royce	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
PT Rolls Royce Solutions Indonesia	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
Rolls-Royce (Ireland) Unlimited Company	Ulster International Finance, 1st Floor IFSC House, IFSC Dublin, Dublin, County Dublin, DOIR 2P9, Ireland	Ordinary	100
Rolls-Royce (Thailand) Company Limited	101 True Digital Park, Pegasus Building, 5th Floor, Unit 558 Sukhumvit Road, Bangchak, Pharakhanong, Bangkok, 10260, Thailand	Ordinary	100
Rolls-Royce Aero Engine Services Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Australia Pty Limited	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Australia Services Pty Limited	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Brasil Limitada	Rua Jose Versolato, No. 111, Torre B, Sala 2502, Centro, São Bernardo do Campo, São Paulo, CEP 09750-730, Brazil	Quotas	100
Rolls-Royce Canada Limited	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common Stock	100
Rolls-Royce Chile SpA	Rosario Norte #407 Depto. #1601 Comuna Las Condes Ciudad Santiago, Chile	Ordinary	100
Rolls-Royce China Holding Limited	305 Indigo Building 1, 20 Jiuxianqiao Road, Beijing, 100016, China	Ordinary	100
Rolls-Royce Commercial Aero Engines Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Controls and Data Services Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Corporation	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Crosspointe LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	100

SUBSIDIARIES

Company name	Address	Class of shares	% of class held
Rolls-Royce Defense Products and Solutions Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Defense Services Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Deutschland Ltd & Co KG	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Partnership	100
Rolls-Royce Electrical Norway AS	Jarleveien 8A, 7041, Trondheim, Norway	Ordinary	100
Rolls-Royce Energy Angola, Limitada	Casa no. 174, Largo Leite Duarte, Bairro Miramar, Luanda, Municipality of Ingombota, Angola	Quota	100
Rolls-Royce Energy Systems Inc. ²	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Engine Services Holdings Co.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Engine Services Limitada Inc. ⁴	Bldg. 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone, Clark, Pampanga, Philippines	Capital Stock	100
Rolls-Royce Erste Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100
Rolls-Royce Finance Company Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Deferred Ordinary	100 100
Rolls-Royce Finance Holdings Co.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Fuel Cell Systems Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce General Partner (Ireland) Limited	29 Earlsfort Terrace, Dublin 2, Dublin D02 AY28, Ireland	Ordinary	100
Rolls-Royce General Partner Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Group Limited ^{3,6}	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce High Temperature Composites Inc.	Corporation Service Company, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833, United States	Ordinary	100
Rolls-Royce Holdings Canada Inc.	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common C	100
Rolls-Royce Hungary Kft. "v.a." ⁴	Kacs utca 15-23. 1. ép. Fsz., Budapest, 1027, Hungary	Cash shares	100
Rolls-Royce India Limited ^{5,7}	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce India Private Limited ⁵	Birla Tower West, 2nd Floor 25, Barakhamba Road, New Delhi, 110001, India	Equity	100
Rolls-Royce Industrial & Marine Power Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Industrial Power (India) Limited ^{5,7}	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Industries Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce International Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Japan Co., Limited	31st Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-Ku, Tokyo, 100-6031, Japan	Ordinary	100
Rolls-Royce Leasing Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Malaysia Sdn. Bhd.	Unit A-3-6 TTDI Plaza, Jalan Wan Kadir 3, Taman Tun Dr Ismail, 6000 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Military Aero Engines Limited ^{5,7}	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce New Zealand Limited	Deloitte Centre, Level 20, 1 Queen Street, Auckland, 10103, New Zealand	Ordinary	100
Rolls-Royce North America (USA) Holdings Co.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North America Holdings Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North America Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North America Ventures Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North American Technologies Inc.	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Oman LLC	Bait Al Reem, Business Office #131, Building No 81, Way No 3409, Block No 234, Al Thaqafa Street, Al Khuwair, PO Box 20, Postal Code 103, Oman	Ordinary	100
Rolls-Royce Operations (India) Private Limited ^{2,5}	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India	Ordinary	100

SUBSIDIARIES

Company name	Address	Class of shares	% of class held
Rolls-Royce Overseas Holdings Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary Ordinary A	100 100
Rolls-Royce Overseas Investments Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Placements Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce plc ⁸	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Power Engineering Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Power Systems AG	Maybachplatz 1, 88045, Friedrichshafen, Germany	Ordinary	100
Rolls-Royce Retirement Savings Trust Limited ^{2,5}	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Saudi Arabia Limited	3010 – Al Arid, Riyadh 13332 – 7663, Saudi Arabia	Cash shares	100
Rolls-Royce Singapore Pte. Ltd.	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100
Rolls-Royce Solutions (Suzhou) Co. Ltd	9 Long Yun Road, Suzhou Industrial Park, Suzhou 215024, Jiang Su, China	Ordinary	100
Rolls-Royce Solutions Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Capital Stock	100
Rolls-Royce Solutions America Inc.	100 West Tenth Street, Wilmington – Delaware DE 19808, United States	Ordinary	100
Rolls-Royce Solutions Asia Pte. Limited	10 Tukang Innovation Drive, Singapore 618302	Ordinary	100
Rolls-Royce Solutions Augsburg GmbH	Dasinger Strasse 11, 86165, Augsburg, Germany	Capital Stock	100
Rolls-Royce Solutions Benelux B.V.	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	Ordinary	100
Rolls-Royce Solutions Brasil Limitada	Via Anhanguera, KM 29203, 05276-000 São Paulo – SP, Brazil	Quotas	100
Rolls-Royce Solutions Enerji Deniz Ve Savunma Anonim Şirketi	Hatıra Sokak, No. 5, Ömerli Mahellesi, 34555 Arnavutköy, Istanbul, Türkiye	Ordinary	100
Rolls-Royce Solutions France S.A.S.	Immeuble Colorado, 8/10 rue de Rosa Luxembourg-Parc des Bellevues 95610, Erangy-sur-Oise, France	Ordinary	100
Rolls-Royce Solutions GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Rolls-Royce Solutions Hong Kong Limited	14/F, Chinabest International Centre, 8 Kwai On Road, Kwai Chung, N.T., Hong Kong	Ordinary	100
Rolls-Royce Solutions Ibérica s.l.u.	Paseo de las Flores 46, 28823 Coslada, Madrid, Spain	Ordinary	100
Rolls-Royce Solutions Israel Limited	6 Meir Ariel St., Natanya, Israel	Ordinary	100
Rolls-Royce Solutions Italia S.r.l.	Via Aurelia Nord, 328, 19021 Arcola (SP), Italy	Capital Stock	100
Rolls-Royce Solutions Japan Co. Limited	14-3, Nishitenma 4-chome, Kita-ku, Osaka 530-0047, Japan	Ordinary	100
Rolls-Royce Solutions Korea Limited	Unit 301, The Square, 9 Mulgeum-ro, Mulgeum-eup, Yangsan-si, Gyeongsangnam-do 50657, Republic of Korea	Ordinary	100
Rolls-Royce Solutions Liège Holding S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Liège S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Magdeburg GmbH	Friedrich-List-Strasse 8, 39122 Magdeburg, Germany	Capital Stock	100
Rolls-Royce Solutions Malaysia Sdn. Bhd.	Office no. B329, Spaces Platinum Sentral, Lot G02-G07, Level 3 Platinum Sentral, Jalan Stesen Sentral 2, 50470 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Solutions Mexico City S.A. de C.V. ²	Xochicalco 620, Colonia Letran Valle, Delegacion Benito Juarez, Mexico City 03650, Mexico	Common Shares	100
Rolls-Royce Solutions Middle East FZE	S3B5SR06, Jebel Ali Free Zone, South P.O. Box 61141, Dubai, United Arab Emirates	Ordinary	100
Rolls-Royce Solutions Ruhstorf GmbH	Rotthofer Strasse 8, 94099 Ruhstorf a.d. Rott, Germany	Capital Stock	100
Rolls-Royce Solutions South Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Ordinary	100
Rolls-Royce Solutions Trading and Contracting LLC ⁹	REGUS Service Office, Office No. 1034, Shoumoukh Tower, 10th Floor, Tower B, C-Ring Road, Al Sadd, PO Box 207207, Doha, Qatar	Ordinary	49
Rolls-Royce Solutions UK Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Solutions Willich GmbH	Konrad-Zuse-Str. 3, 47877, Willich, Germany	Capital Stock	100
Rolls-Royce Sp z.o.o.	Opolska 100 31-323, Krakow, Poland	Ordinary	100
Rolls-Royce Submarines Limited	Atlantic House, Raynesway, Derby, Derbyshire DE21 7BE, United Kingdom	Ordinary	100
Rolls-Royce Technical Support Sarl	Site Motoristes Vendor-Village, 46 avenue Jean Monnet, 31770, Colomiers, France	Ordinary	100
Rolls-Royce Total Care Services Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls Royce Turkey Güç Çözümleri San. ve Tic.Ltd.Şti.	Cumhuriyet Mah. Yakacak D-100 Kuzey Yanyol Cad. No: 25 Kartal, Istanbul, Türkiye	Cash shares	100
Rolls-Royce UK Pension Fund Trustees Limited ²	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100

SUBSIDIARIES

Company name	Address	Class of shares	% of class held
Rolls-Royce US Holdings Limited	Kings Place, 90 York Way, London, N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Zweite Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100
Ross Ceramics Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Servowatch Systems Limited ⁴	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Sharing in Growth UK Limited ¹⁰	Moor Lane, Allenton, Derby DE24 9HY, United Kingdom	Limited by guarantee	100
Spare IPG 20 Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 21 Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 24 Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 32 Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 4 Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Team Italia Marine S.R.L.	Kampanien, Via Luigi Einaudi 114/B, 61032 Fano, Pesaro and Urbino, Italy	Ordinary	100
The Bushing Company Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Timec 1487 Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Turbine Surface Technologies Limited ¹	Unit 13a, Little Oak Drive, Sherwood Park, Annesley, Nottinghamshire NG15 ODR, United Kingdom	Ordinary A Ordinary B	Nil 100
Vessel Lifter Inc. ²	Corporation Service Company, 1201 Hays Street, Tallahassee, Florida 32301, United States	Common Stock	100
Vinters Defence Systems Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Vinters Engineering Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Vinters International Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Vinters Limited ³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Vinters-Armstrongs (Engineers) Limited ²	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Vinters-Armstrongs Limited ³	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary B	100
Yocova Private Ltd	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Yocova PTE. Ltd. ²	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100

1 Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

2 Dormant entity

3 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2025. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

4 Entity in liquidation

5 Reporting year end is 31 March 2026

6 On 8 January 2026, the Company contributed its 100% direct holding in Rolls-Royce Group Limited to Rolls-Royce plc

7 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2026. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

8 On 1 January 2026, the Company received the remaining 96.46% shares of Rolls-Royce plc by way of distribution from its direct subsidiary Rolls-Royce Group Limited, bringing the Company's direct holding to 100%

9 Although the interest held is 49%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

10 The entity is not included in the consolidation, as the Company does not have a beneficial interest in the net assets of the entity

11 The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)

12 Reporting year end is 30 June 2026

13 Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity

Joint ventures and associates

Company name	Address	Class of shares	% of class held	Group interest held %
Aero Gearbox International SAS ¹¹	18 Boulevard Louis Sequin, 92700 Colombes, France	Ordinary	50	50
Airtanker Services Limited	Airtanker Hub, RAF Brize Norton, Carterton, Oxfordshire OX18 3LX, United Kingdom	Ordinary	23.5	23.5
Alpha Leasing (US) (No.2) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Leasing (US) (No.4) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Leasing (US) (No.5) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Leasing (US) (No.6) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Leasing (US) (No.7) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Leasing (US) (No.8) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Leasing (US) LLC	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	-	50
Alpha Partners Leasing Limited	1 Brewer's Green, London SW1H 0RH, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Beijing Aero Engine Services Company Limited	No. 12 Jinhang Middle Road, Shunyi District, (Tianzhu Comprehensive Bonded Zone Bonded Function Zone 2), Beijing, China	Capital	50	50
CFMS Limited	43 Queen Square, Bristol BS1 4QP, United Kingdom	Limited by guarantee	-	33.3
Clarke Chapman Portia Port Services Limited ²	Maritime Centre, Port of Liverpool, Liverpool L21 1LA, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Egypt Aero Management Services ⁴	Maintenance and Technical Works Company Building, Room No. 204, Second Floor, Airport Road, El Nozha, Cairo	Ordinary	50	50
EPI Europrop International GmbH	Pelkovenstr. 147, 80992 München, Germany	Capital Stock	28	28
Eurojet Turbo GmbH	Lilienthalstrasse 2b, 85399 Hallbergmoos, Germany	Ordinary	33	33
Force MTU Power Systems Private Limited	Mumbai Pune Road, Akurdi, Pune, Maharashtra 411035, India	Capital Stock	49	49
Genistics Holdings Limited ¹²	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Glacier L.P.	66 Wellington Street West, Toronto Dominion, Bank Tower, Suite 300, Toronto, ON M5K 1E6, Canada	Partnership	49.9	49.9
Global Aerospace Centre for Icing and Environmental Research Inc. ¹¹	1000 Marie-Victorin Boulevard, Longueuil Québec J4G 1A1, Canada	Ordinary	50	50
Hoeller Electrolyzer GmbH ^{4,15}	Alter Holzhafen, 23966 Wismar, Germany	Ordinary	54.2	54.2
Hong Kong Aero Engine Services Limited	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	Ordinary	50	50
International Aerospace Manufacturing Private Limited ^{5,11}	Survey No. 3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	Ordinary	50	50
ITP Next Generation Turbines SL	Parque Tecnológico Edificio 300, 48170, Zamudio, Vizcaya, Spain	Ordinary A Ordinary B	Nil 100	25
Light Helicopter Turbine Engine Company (unincorporated partnership)	Suite 119, 9238 Madison Boulevard, Madison, Alabama 35758, United States	Partnership	-	50
Manse Opus Management Company Limited ⁵	Third Floor Queensberry House, 3 Old Burlington Street, London W1S 3AE, United Kingdom	Limited by guarantee	33.3	33.3
MEST Co., Limited	97 Bukjeonggongdan 2-gil, Yangsan-si, Gyeongsangnam-do, 50571, Republic of Korea	Normal	46.8	46.8
MTU Power Systems Sdn. Bhd.	32 Floor, UBN Tower 20 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia	Ordinary A Ordinary B	100 Nil	49
MTU Turbomeca Rolls-Royce ITP GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	25	25
MTU Turbomeca Rolls-Royce GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	33.3	33.3
MTU Yuchai Power Company Limited	No 7 Danan Road, Yuzhou, Yulin, Guangxi, China, 537005, China	Capital Stock	50	50
N3 Engine Overhaul Services GmbH & Co KG	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
N3 Engine Overhaul Services Verwaltungsgesellschaft MbH	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
Rolls Laval Heat Exchangers Limited ²	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	50	50
Rolls-Royce & Partners Finance (US) (No 2) LLC	66 Wellington Street West, Toronto Dominion, Bank Tower, Suite 300, Toronto, ON M5K 1E6, Canada	Partnership	-	50

Company name	Address	Class of shares	% of class held	Group interest held %
Rolls-Royce & Partners Finance (US) LLC	66 Wellington Street West, Toronto Dominion, Bank Tower, Suite 300, Toronto, ON M5K 1E6, Canada	Partnership	-	50
Rolls-Royce SMR Limited ¹³	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	57.8	57.8
SAFYRR Propulsion Limited ²	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	A Shares B Shares	Nil 100	50
Singapore Aero Engine Services Private Limited	11 Calshot Road, 509932, Singapore	Ordinary	50	50
Techjet Aerofoils Limited ¹¹	Tefen Industrial Zone, PO Box 16, 24959, Israel	Ordinary A Ordinary B	50 50	50
TRT Limited	2 Bramble Way, Clover Nook Industrial Estate, Somercotes, Derbyshire, DE55 4RH, United Kingdom	Ordinary A Ordinary B 1C	Nil 100 Nil	50
Turbo-Union GmbH	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Capital Stock	40	40
X R Aero Components Limited ¹¹	Xujiawan, Beijiao, Xian 710021, Shaanxi, China	Ordinary	49	49

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Independent auditors' report

Independent auditors' report to the members of Rolls-Royce Holdings plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Rolls-Royce Holdings plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2025 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise:

- the consolidated and company balance sheets as at 31 December 2025;
- the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 8, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Following our assessment of the risks of material misstatement of the financial statements, including the impact of climate change, we subjected 31 individual components (including three joint ventures) to full scope audits for group reporting purposes, which, with an element of sub-consolidation, equates to 14 group reporting opinions. In addition, nine components performed targeted specified audit procedures contributing to audit coverage.

- The group engagement team audited the company and other centralised functions and balances, including those relating to group treasury operations, corporate taxation, post-retirement benefits, and certain goodwill and intangible asset impairment assessments. The group engagement team also performed audit procedures over the group consolidation and the financial statements disclosures.
- The components on which we performed full scope audit procedures, together with the work performed by the group engagement team as identified above, accounted for 93% of revenue and 79% of profit before taxation.
- For non-full scope components that were not considered inconsequential, we either performed audit procedures over specific account balances or targeted risk assessment procedures.
- Some centralised audit testing was performed for certain reporting components that are supported by Group Business Services (GBS).
- As part of the group audit supervision process, the group engagement team met with the component teams to discuss the approach and results of their audit procedures and reviewed their audit files and final deliverables. In person site visits to components in the UK, Germany and the US were also performed.

Key audit matters

- Long-term contract accounting and associated provisions (group)
- Translation of foreign currency denominated transactions and balances (group)
- Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)
- Recoverability of the company's investments in subsidiary undertakings (company)

Materiality

- Overall group materiality: £200m (2024: £178m) based on approximately 1.0% of underlying revenue.
- Overall company materiality: £150m (2024: £149m) based on approximately 1.0% of total assets.
- Performance materiality: £150m (2024: £110m) (group) and £112m (2024: £111m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Deferred tax asset recognition and recoverability (group), which was a key audit matter last year, is no longer included because of the full recognition of the deferred tax asset relating to UK tax losses in Rolls-Royce plc reflecting the sustained profitability of the group and an improved outlook. Accordingly, the recognition and recoverability of the deferred tax asset is no longer considered a significant risk. Otherwise, the key audit matters below are consistent with last year.

Key audit matter

Long-term contract accounting and associated provisions (group)

Audit Committee report and note 1 to the consolidated financial statements – Accounting policies – Revenue recognition and contract assets and liabilities, note 17 to the consolidated financial statements – Contract assets and liabilities and note 23 to the consolidated financial statements – Provisions for liabilities and charges

The Civil Aerospace and Defence businesses operate primarily with long-term customer contracts that span multiple periods. These long-term contracts require a number of assumptions to be made in order to determine the expected lifetime revenue and costs of the contract and the amounts of revenue and profit/loss that are recognised in each reporting period.

Small adjustments in assumptions can have a significant impact on the results of an individual financial year. Changes to the profile of shop visits or operating conditions of engines can result in different performance assumptions and hence cost profiles. Some contracts include inflation linked price escalations which require judgement to determine the extent to which future price increases are highly probable not to reverse and therefore can be recognised. These changes to forecasts can result in revisions to the revenue previously recognised.

For Defence, long-term contracts tend to be for a fixed price or based on a cost plus or target cost reimbursement for qualifying costs and there are also some flying hours arrangements. For Civil Aerospace aftermarket contracts, income is earned based on engine flying hours (EFH). Management is required to estimate this to determine the total revenue expected over the life of a contract.

In addition, the profitability of Civil Aerospace aftermarket contracts typically assumes that there will be lifecycle cost improvements over the term of the contracts. Significant assumptions need to be made in determining time-on-wing, whether incremental costs should be treated as wastage or are part of the ongoing cost of servicing a contract, future exchange rates used to translate foreign currency income and costs and other operating parameters used to calculate the projected life cycle. These future costs are also risk adjusted to take into account forecasting accuracy which represents an additional judgement.

At the development stage of a programme, agreements are entered into with certain Civil Aerospace suppliers to share in the risk and rewards of the contracts (Risk and Revenue Sharing Agreements – 'RRSA'). This can involve upfront participation fees from the RRSA that are amortised over the engine production phase. In addition, certain revenue and costs are recorded in the consolidated income statement net of the amounts received from the RRSA.

The nature of the Civil Aerospace business gives rise to a number of contractual guarantees, warranties and potential claims, including the in-service issues of the Trent 1000 programme. The accounting for these can be complex and judgemental and may impact the consolidated income statement immediately or over the life of the contract. The valuation of provisions for the associated amounts are judgemental and need to be considered on a contract by contract basis.

How our audit addressed the key audit matter

We focused our work on a number of contracts where we consider there to be the highest degree of management judgement or estimation and designed specific procedures over the long-term contract accounting targeted at the associated risks. We also sample tested the remaining population of contracts. The audit procedures performed included:

- We attended meetings with Civil Aerospace and Defence engine programme and customer contract managers in order to understand the operational matters impacting the performance of specific contracts and any amendments to contractual arrangements that could have an impact on performance;
- We obtained and read the relevant sections of a sample of contracts to understand the key terms including performance obligations and pricing structures;
- We assessed how management had forecast engine flying hours including by considering the downside scenarios modelled and comparing the assumptions to industry data;
- We challenged management's judgments and associated risk adjustments relating to the risk of engine flying hours, costs and technical items;
- We re-performed the calculations used to determine the degree of completion for a sample of contracts and this was also used in assessing the magnitude of any catch-up adjustments;
- We compared the previously forecast results of a sample of contracts with the actual results to assess the performance of the contract and the historical accuracy of forecasting;
- We verified a sample of costs incurred to third party documentation to assess the validity of the forecast costs to complete;
- We assessed the assumptions relating to life cycle cost reductions to determine the likelihood of realisation and where relevant the speed at which they would be achieved, including the impact on the number of shop visits, validating these assumptions directly with the senior programme engineers;
- We obtained support for the risk adjustments made in respect of future costs and challenged management's assumptions through assessment against historical performance, known technical issues and the stage of completion of the programme;
- We recalculated the price escalation included within the contracts;
- We challenged the assessment of provisions for onerous contracts to determine the completeness of the unavoidable costs to fulfil the contractual obligations. We also validated the rates used to discount the future cash flows;
- We assessed the sensitivity of the Trent 1000 programme to reasonable changes in estimates, particularly in respect of the repair and overhaul facility capacity, technical cost creep on the known issues and cost outturns against previous similar matters, including whether any costs should be treated as wastage, in determining whether the judgements were supportable;
- We read and understood the key terms of a sample of RRSA contracts to assess whether revenue and costs had been appropriately reflected, net of the share attributable to the RRSA in the consolidated income statement;

Key audit matter

How our audit addressed the key audit matter

Long-term contract accounting and associated provisions (group) continued

Management have modelled the potential impact of climate change on its forecasts and has incorporated these estimates into the long-term contracts for Civil Aerospace, which is the business with the highest expected exposure to the impact of climate change. This included incorporating the potential impact of carbon prices on the group's direct emissions including engine testing and those of its suppliers and the potential impact of climate change on commodity prices in cost estimates. The impact of climate change on long-term contracts is highly uncertain and requires estimates on carbon prices, the cost and speed of decarbonisation, the ability of the group and its suppliers to pass on incremental costs and assessing the associated impact on aviation demand.

- We considered the appropriateness of the key assumptions used by management to model the impact of climate change, including assessing the reasonableness of the carbon and commodity price forecasts utilised through sensitivity analysis. We validated management's assertions on the ability of suppliers and the group to pass on incremental costs by reviewing supplier and customer contracts for price change mechanisms. Where appropriate we performed independent sensitivity analysis to determine to what extent reasonably possible changes in these assumptions could result in material changes to the revenue recorded in the year and assessed the appropriateness of the associated disclosures;
- We read and challenged management's accounting papers that were prepared to explain the positions taken in respect of their key contract judgements;
- We considered whether there were any indicators of management bias in arriving at their reported position; and
- We assessed the adequacy of disclosures in note 1 of the key judgements and estimates involved in long-term contract accounting.

Based on the work performed, we concur that management's estimates for long-term contract accounting and associated provisions are materially appropriate, in the context of the financial statements taken as a whole.

Translation of foreign currency denominated transactions and balances (group)

Note 1 to the consolidated financial statements – Accounting policies – Foreign currency translation

Foreign exchange rate movements influence the reported consolidated income statement, the consolidated cash flow statement and consolidated balance sheet. One of the group's primary accounting systems that is used by a number of their subsidiaries translates transactions and balances denominated in foreign currencies at a fixed budget rate for management information purposes. Foreign currency denominated transactions and balances are then re-translated to actual average and closing spot rates through manual adjustments. Due to the manual nature of the process and significance of the recurring adjustments needed there is a risk that transactions and balances denominated in foreign currencies are incorrectly translated in the consolidated financial statements.

We performed the following specific audit procedures over this area:

- Obtained an understanding of the process employed by management to correctly record the translation of foreign currency balances and transactions;
- Obtained an understanding of the process employed by management at a group level to identify any unusual movements or balances;
- Tested the reports identifying transactions and balances in transaction currency by agreeing these to general ledger balances;
- Tested, on a sample basis, the manual calculations of the adjustment needed to correctly record the translation of the foreign currency denominated transactions and balances;
- Sampled balances and transactions requiring adjustment by transaction currency and tested to source data and assessed the completeness of these balances and transactions; and
- Agreed the exchange rates used in management's translation adjustments to an independent source.

There were no material uncorrected errors from our audit work.

Key audit matter

Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)

Note 1 to the consolidated financial statements – Accounting policies – Presentation of underlying results, note 2 to the consolidated financial statements – Segmental analysis and note 30 to the consolidated financial statements – Derivation of summary funds flow statement

In addition to the performance measures prescribed by International Financial Reporting Standards, the group also presents their results on an underlying basis, as the Directors believe this better reflects the performance of the group during the year. The group also presents a free cash flow metric which the Directors believe reflects the cash generated from underlying trading. This differs from the cash flows presented in the consolidated cash flow statement.

The underlying results differ significantly from the reported statutory results and are used extensively to explain performance to shareholders. Alternative performance measures can provide investors with additional understanding of the group's performance if consistently calculated, properly used and presented. However, when improperly used and presented, these non-GAAP measures can mislead investors and may mask the real financial performance and position. There is judgement in determining whether items should be excluded from underlying profit or free cash flow.

A key adjustment between the statutory results and the underlying results relates to the foreign exchange rates used to translate foreign currency transactions and balances. The underlying results reflect the achieved rate on foreign currency derivative contracts settled in the period and retranslates assets and liabilities at the foreign currency rates at which they are expected to be realised or settled in the future. As the group can influence which derivative contracts are settled in each reporting period it has the ability to influence the achieved rate and hence the underlying results.

One of the items excluded from underlying profit is exceptional restructuring costs associated with the transformation programme. Judgement is required to determine what costs are related to this programme to warrant exclusion from underlying profit.

Recoverability of the company's investments in subsidiary undertakings (company)

Note 2 to the company financial statements – Investments – subsidiary undertakings

Investments in subsidiary undertakings of £15,003m (2024: £14,905m) are accounted for at cost less provision for impairment in the company balance sheet at 31 December 2025.

Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement.

A review of potential indicators of impairment was performed by management focusing on the developments in the year, concluding that no such indicators were present and therefore that the investments' carrying values remain recoverable.

How our audit addressed the key audit matter

We have considered the judgements taken by management to determine what should be treated as an exceptional item and the translation of foreign currency amounts and obtained corroborative evidence for these.

We also considered whether there were items that were recorded within underlying profit that are exceptional in nature and should be reported as an exceptional item. No such material items were identified. As part of this assessment we challenged management's rationale for the designation of certain items as exceptional or one-off and assessed such items against the group's accounting policy, considering the nature and value of those items.

Within underlying results, foreign currency transactions are presented at rates achieved on derivative contracts hedging the net operating cash flows of the group and monetary assets and liabilities are retranslated at rates forecast to be achieved on derivative contracts when the associated cash flows occur. We have agreed these forecast rates to the profile of the derivatives that are expected to mature in the future and tested their application to the relevant monetary assets and liabilities.

We tested the reconciling items between the operating profit and free cash flow disclosed in note 30 including verifying that the items adjusted for are consistent with the prior year. This included validating a sample of restructuring costs and verifying that the costs were sufficiently related to the transformation programme. We also considered whether free cash flow contains material one-off items which require further disclosure.

We assessed the appropriateness and completeness of disclosures of the impact of one-off or non-underlying items primarily in notes 1, 2 and 30 to the consolidated financial statements and found them to be appropriate. This included assessing the explanations management provided on the reconciling items between underlying performance and statutory performance in note 2.

Overall we found that the classification judgements made by management were in line with their policy for underlying results and exceptional items, had been consistently applied and there are no material uncorrected misstatements resulting from our testing.

We have evaluated management's assessment around recoverability of the investment in subsidiary undertakings. In doing so we have considered whether any potential indicators of impairment existed at 31 December 2025. In doing this, we considered the market capitalisation of the company at 31 December 2025, which exceeded the carrying value of investments in subsidiary undertakings. We have compared the performance of the group against the 2024 forecasts.

Overall, we found that management's judgement that there has been no indicator of potential impairment to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the group consolidation. Of the group's approximately 350 reporting components, 31 individual components (including three joint ventures) were subject to full scope audits which, with an element of sub-consolidation, equates to 14 group reporting opinions. A further nine components performed targeted specified audit procedures contributing to audit coverage.

Under our audit methodology, we test both the design and operating effectiveness of relevant business process controls over significant risks and perform substantive testing over each financial statement line item.

The group operates Group Business Services (GBS) to bulk process financial transactions in Derby (UK), Indianapolis (US), Bengaluru (India) and Krakow (Poland). Based on our assessment it is not possible to fully test revenue and profit centrally as certain key processes, such as long-term contracting, remain within the business due to their nature and are not handled by GBS.

Further specific audit procedures over central functions, the group consolidation and areas of significant judgement, including group treasury operations, corporate taxation, post-retirement benefits, and certain goodwill balances and intangible assets impairment assessments, were performed by the group engagement team.

This scope of work, together with the additional procedures performed at a group level as identified above, covered 93% of revenue and 79% of profit before taxation.

Where work was performed by component auditors, we determined the level of involvement required in the audit work at those reporting units to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The group engagement team also reviewed selected audit working papers for certain component teams to evaluate the sufficiency of audit evidence obtained and to fully understand the matters arising from the component audits.

In addition, senior members of the group engagement team have visited component teams across all the group's major segments in the UK, Germany and the US. They included meetings with the component auditor and with local management.

Reflective of its nature, our audit of the company financial statements focused on the investments in subsidiary undertakings and validating amounts owed to subsidiary undertakings.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they adopted to assess the extent of the potential impact of climate risk on the group's and the company's financial statements and to support the disclosures made within the Sustainability section of the Strategic report. In addition to our enquiries with management, we understood the governance processes in place to assess climate risk, reviewed the group's assessment of climate-related risk including both physical and transition risks and read additional reporting made on climate related matters, including the group's disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.

We held meetings with management, including the group's sustainability team, to consider the completeness of management's climate risk assessment and its consistency with internal climate plans and board minutes, including whether the time horizons used by management take account of all relevant aspects of climate change, such as transition risks. We also considered the consistency of this assessment with the group's communications on climate-related impacts. We challenged management on the carbon prices used within their modelling and how these have been applied, as well as on the alignment of the longer-term forecast period to 2050 with the company's transition plan and its associated metrics and targets.

We considered the following areas, which depend on medium to long-term profit or cash flow forecasts to be potentially materially impacted by climate risk and consequently we focused our audit work in these areas: long-term contract accounting in the UK Civil business (including contract loss provisions); the recoverability of deferred tax assets in the UK and the recoverability of the carrying value of goodwill and certain intangible assets. Our findings were reported to and discussed with the Audit Committee and management. Where significant, further details of how climate change has been considered in these areas and our audit response is given in the key audit matters above.

To respond to the audit risks identified in these areas we tailored our audit approach to address these, in particular, we:

- Validated the carbon prices used by management by benchmarking them against external forecasts and performed sensitivity analysis over their application. The carbon prices have been incorporated by management in their forecasts of the group's future cost base for long-term contract accounting and associated provisions as well as scenarios utilised in assessing the recoverability of deferred tax assets, goodwill and other assets;
- Considered the reasonableness of management's assertion that climate change is unlikely to have a material impact on aviation demand by comparing management's EFH forecasts against other industry benchmarks and by considering the sensitivity of EFH to different GDP growth rates expected under differing climate scenarios;
- Verified that estimates of capital and cash costs from reductions to the group's scope 1 and scope 2 emissions have been incorporated in the group's forecasts including those used for going concern and the disclosures around the viability of the group that are included in the Strategic Report;
- Validated management's judgement that climate change is unlikely to have a material impact on other estimates at 31 December 2025, including the recoverability of inventory or the expected credit loss provision associated with trade receivables and contract assets, by considering the short timeframe these assets are expected to be utilised in compared to the period over which transition and physical risks are expected to arise; and
- Where appropriate, performed independent sensitivity analysis to determine to what extent reasonably possible changes in the climate related assumptions in the group's forecasts could result in material changes to the impacted balances and assessed the appropriateness of the associated disclosures.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Sustainability section of the Strategic Report) within the Annual Report and our knowledge obtained from our audit. This included considering the models management used in the TCFD scenario analysis and if the assumptions in those models are consistent with the assumptions used elsewhere in the financial statements.

As disclosed within the Sustainability section of the Strategic Report, the achievement of net zero by 2050 will require significant change across the aviation sector, including widespread adoption of Sustainable Aviation Fuels or other alternative fuel sources.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole for the year ended 31 December 2025. The future estimated financial impacts of climate risk are inherently uncertain given the medium to long-term time frames involved and their dependency on how governments, global markets, corporations and society respond to climate change, as well as the speed of technological advancements that may be required. Accordingly, financial statements cannot capture all possible future outcomes as these are not yet known.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£200m (2024: £178m).	£150m (2024: £149m).
How we determined it	Approximately 1.0% of underlying revenue	Approximately 1.0% of total assets
Rationale for benchmark applied	We have consistently used underlying revenue to determine materiality as opposed to a profit-based benchmark. This is because there is considerable volatility in profit before tax as a result of revenue recognition under IFRS 15 and from the fair value movement in the group's derivatives. Underlying revenue continues to be a key performance metric for the group and is more stable than the profit metric. We have applied a 1.0% revenue benchmark, consistent with prior year. This is also a commonly used benchmark for revenue based materiality.	We determined our materiality based on total assets, which is more applicable than a performance-related measure as the company is an investment holding company for the group.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £8m and £110m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2024: 62.5%) of overall materiality, amounting to £150m (2024: £110m) for the group financial statements and £112m (2024: £111m) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £8m (group audit) (2024: £7m) and £8m (company audit) (2024: £7m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the model used for management's going concern assessment which is primarily a liquidity assessment given there are no significant financial covenants in its committed debt facilities. Management's assessment covered the 18 months from the balance sheet date to 30 June 2027. We focused on this period and also considered the subsequent six months to the end of 2027;
- Management's base case forecasts are prepared through its normal budget and forecasting process for each of its businesses over the next five years. We understood and assessed this process including the assumptions used for 2026 and 2027 and assessed whether there was adequate support for these assumptions. A similar assessment was performed on the downside cash flows, including gaining an understanding of the scenarios modelled by management and how they were quantified in the downside cash flow forecast;
- We have read and understood the key terms of all committed debt facilities to understand any terms, covenants or undertakings that may impact the availability of the facility;
- We considered the potential mitigating actions available to management to reduce costs, manage cash flows, limit share buybacks or raise additional financing and assessed whether these were within management's control and feasible within the period of the assessment; and
- We assessed the adequacy of disclosures in the Going concern statement and statements in note 1 of the consolidated and company financial statements and found these appropriately reflect the key areas of uncertainty identified.

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

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

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

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

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

Reporting on other information

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

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

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

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

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the Governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the regulations of country aviation authorities such as the Civil Aviation Authority, import and export restrictions including sanctions, and the UK Bribery Act, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Listing Rules of the UK Financial Conduct Authority, the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to (1) posting inappropriate journal entries to manipulate financial results; (2) management bias in significant accounting estimates such as long-term contract accounting and associated provisions; (3) the sale of Civil engines to joint ventures for no clear commercial purpose or above market prices; and (4) inappropriately including or excluding transactions from the group's underlying or free cash flow alternative performance metrics. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions throughout the year with management, internal audit, the group's legal counsel, and the head of ethics and compliance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading the minutes of the group's Safety, Energy Transition & Tech Committee and assessment of 'speak-up' matters reported through the group's Speak Up Line and the results of management's investigation of such matters;

- Verifying sales of spare engines to joint ventures are in line with the approved timetable and are at a price supported by external valuation;
- Reading the minutes of Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing legal expense accounts to identify significant legal spend that may be indicative of non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias), in particular in relation to long-term contract accounting and associated provisions;
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations, and testing all material consolidation journals; and
- Challenging why certain items are excluded or included from underlying profit or free cash flow and review of disclosures included in the Annual Report explaining and reconciling alternative performance measures to statutory metrics.

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

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

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

Use of this report

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

Other required reporting

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

Appointment

We were first appointed by the company for the financial year ended 31 December 2018. Our uninterrupted engagement covers eight financial years.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R – 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Ian Morrison (Senior Statutory Auditor)

for and on behalf of
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2026

Independent limited assurance report

Independent limited assurance report to the Management of Rolls-Royce Holdings plc

DNV Business Assurance Services UK Limited ('DNV', 'us' or 'we') were commissioned by Rolls-Royce plc to provide limited assurance to Rolls-Royce Holdings plc ('Rolls-Royce') over Selected Information presented in the Annual Report 2025 (the 'Report') for the reporting year ended 31 December 2025.

Our conclusion: On the basis of the work undertaken, nothing came to our attention to suggest that the Selected Information is not fairly stated and has not been prepared, in all material respects, in accordance with the Criteria.

This conclusion relates only to the Selected Information, and is to be read in the context of this Independent limited assurance report, in particular the inherent limitations explained below.

Selected Information

The scope and boundary of our work are restricted to the key performance indicators (KPIs) included within pages 18, 35, 38 to 47, 204 and 205 of the Report for the year ended 31 December 2025 (the 'Selected Information'), listed below.

Key performance indicators	Reported value	Unit
Total group energy consumption (including product testing activities)	1,592,613,547	kWh
Total Scope 1 + 2 greenhouse gas (GHG) emissions) (market-based): operations and facility emissions (including product testing activities)	264,199	tCO ₂ e
Total solid and liquid waste generated	54.7	kt
Recycling and recovery rate	65.7	%
Total reportable injuries (TRI)	128	Number
Total reportable injuries (TRI) rate	0.29	Number per 100 employees
Number of people reached through the Science, Technology, Engineering and Mathematics (STEM) outreach programmes	823,797	Number
Employee engagement	81	%

To assess the Selected Information, which includes an assessment of the risk of material misstatement in the Report, we have used Rolls-Royce's Basis of Reporting: Sustainability (the 'Criteria') available at www.rolls-royce.com

We have not performed any work, and do not express any conclusion, on any other information that may be published in the Report or on Rolls-Royce's website for the current reporting period or for previous periods.

Standard and level of assurance

We performed a limited assurance engagement of specified data and information using the 'Greenhouse Protocol – A Corporate Accounting and Reporting Standard' (revised 2015) and international assurance best practice including the International Standard on Assurance Engagements (ISAE) 3000 – 'Assurance Engagements other than Audits and Reviews of Historical Financial Information' (revised) issued by the International Auditing and Assurance Standards Board. To ensure consistency in our assurance process, we conducted our work in accordance with DNV's assurance methodology, Verisustain™, applying only the pertinent sections of the protocol relevant to the specific purpose of the activity. This methodology ensures compliance with ethical requirements and mandates planning and execution of the assurance engagement to obtain the desired level of assurance.

DNV applies its own management standards and compliance policies for quality control, which are based on the principles enclosed within ISO IEC 17029:2019 – Conformity Assessment – General principles and

requirements for validation and verification bodies, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

The procedures performed in a limited assurance engagement vary in nature and are shorter in extent than for a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained if a reasonable assurance engagement had been performed.

Disclaimers

The assurance provided by DNV is limited to the selected indicators and information specified in the scope of the engagement. DNV has not conducted an assessment of the reporting organisation's overall adherence to reporting principles or the preparation of the Report. Therefore, no conclusions should be drawn regarding the reporting organization's compliance with reporting principles or the quality of the overall Report. The assurance provided by DNV is based on the selected indicators and information made available to us at the time of the engagement. DNV assumes no responsibility for any changes or updates made to the indicators or information after the completion of the assurance engagement.

Our competence, independence and quality control

DNV established policies and procedures are designed to ensure that DNV, its personnel and, where applicable, others are subject to independence requirements (including personnel of other entities of DNV) and maintain independence where required by relevant ethical requirements. This engagement work was carried out by an independent team of sustainability assurance professionals. DNV holds other audit and assurance contracts with Rolls-Royce, none of which, in our opinion, conflict with the scope of this work. Our multi-disciplinary team consisted of professionals with a combination of environmental and sustainability assurance experience.

Inherent limitations

DNV's assurance engagements are based on the assumption that the data and information provided by Rolls-Royce to us as part of our review have been provided in good faith, are true, and are free from material misstatements. Because of the selected nature (sampling) and other inherent limitation of both procedures and systems of internal control, there remains the unavoidable risk that errors or irregularities, possibly significant, may not have been detected. The engagement excludes the sustainability management, performance, and reporting practices of Rolls-Royce's suppliers, contractors, and any third parties mentioned in the Report. We did not interview external stakeholders as part of this assurance engagement. We understand that the reported financial data, governance and related information are based on statutory disclosures and audited financial statements, which are subject to a separate independent statutory audit process. We did not review financial disclosures and data as they are not within the scope of our assurance engagement.

The assessment is limited to data and information in scope within the defined reporting period. Any data outside this period is not considered within the scope of assurance. DNV expressly disclaims any liability or co-responsibility for any decision a person or an entity may make based on this Independent limited assurance report.

Basis of our conclusion

We are required to plan and perform our work in order to consider the risk of material misstatement of the Selected Information; our work included, but was not restricted to:

- conducting interviews with Rolls-Royce management to obtain an understanding of the key processes, systems and controls in place to generate, aggregate and report the Selected Information;
- site visits to Dahlewitz (Germany), Derby Fuel Farm (UK) and Mankato (US) to review process and systems for preparing site level data consolidated centrally. DNV were free to choose the sites on the basis of materiality to the company data;
- performing limited substantive testing on a selective basis of the Selected Information to check that data had been appropriately measured, recorded, collated and reported;
- reviewing that the evidence, measurements and their scope provided to us by Rolls-Royce for the Selected Information is prepared in line with the Criteria;
- assessing the appropriateness of the Criteria for the Selected Information; and
- reading the Report and narrative accompanying the Selected Information within it with regard to the Criteria.

In performing these activities, we did not come across limitations to the scope of the agreed assurance engagement.

We found a limited number of non-material errors and these were corrected prior to inclusion in the Report.

For and on behalf of DNV Business Assurance Services UK Limited

London, UK
26 February 2026

Shuhaib Maudarbaccus

Lead Verifier
DNV Business Assurance Services UK Limited

Paul O'Hanlon

Technical Reviewer
DNV Business Assurance Services UK Limited

DNV-2026-ASN-C772267

Responsibilities of the Management of Rolls-Royce and DNV

The Management of Rolls-Royce have sole responsibility for:

- preparing and presenting the Selected Information in accordance with the Criteria;
- designing, implementing and maintaining effective internal controls over the information and data, resulting in the preparation of the Selected Information that is free from material misstatements;
- measuring and reporting the Selected Information based on their established Criteria; and
- contents and statements contained within the Report and the Criteria.

Our responsibility is to plan and perform our work to obtain limited assurance about whether the Selected Information has been prepared in accordance with the Criteria and to report to Rolls-Royce in the form of an independent limited assurance conclusion, based on the work performed and the evidence obtained. Our Independent limited assurance report represents our independent conclusion and is intended to inform all stakeholders. DNV was not involved in the preparation of any statements or data included in the Report except for this Independent limited assurance report.

DNV Business Assurance Services UK Limited

DNV Business Assurance Services UK Limited is part of DNV – DNV is an independent assurance and risk management provider, operating in more than 100 countries, with the purpose of safeguarding life, property, and the environment. As a trusted voice for many of the world's most successful organisations, we help seize opportunities and tackle the risks arising from global transformations. We use our broad experience and deep expertise to advance safety and sustainable performance, set industry standards, and inspire and invent solutions.

Greenhouse gas emissions

In 2025, our total gross Scope 1 + 2 greenhouse gas (GHG) (location-based) emissions were 359,132 tonnes of carbon dioxide equivalent (tCO₂e). This represents a reduction of 6% compared with 382,155 tCO₂e in 2024.

Aspect	tCO ₂ e	2019	2021	2022	2023	2024	2025
Emissions from activities for which the Company own or control including the combustion of fuel and operation of facilities. [Direct GHG emissions (Scope 1)]	Global (excluding UK)	137,504	139,360	123,807	106,275	96,937	101,212
	UK	90,522	72,279	101,987	72,238	135,524	110,012
	Total	228,027	211,639	225,794	178,513	232,460	211,224
Emissions from the purchase of electricity, heat, steam and cooling purchased for our own use. [Indirect GHG emissions (Scope 2) location-based]	Global (excluding UK)	170,526	115,421	97,612	91,176	90,312	89,036
	UK	80,023	53,210	52,762	58,185	59,383	58,872
	Total	250,549	168,631	150,374	149,361	149,695	147,908
Total gross GHG emissions (Scope 1 + Scope 2 location-based)	Global (excluding UK)	308,031	254,781	221,420	197,451	187,249	190,248
	UK	170,545	125,489	154,749	130,424	194,906	168,884
	Total	478,576	380,270	376,168	327,875	382,155	359,132
Energy consumption used to calculate above emissions – kWh	Global (excluding UK)	1,084,719,815	954,056,653	856,063,249	781,982,344	750,082,091	787,204,764
	UK	738,001,393	590,689,817	732,077,990	648,552,229	879,615,727	805,408,783
	Total	1,822,721,208	1,544,746,470	1,588,141,239	1,430,534,573	1,629,697,818	1,592,613,547
Intensity ratio (total GHG emissions per £m revenue)	Total	29.9	33.9	27.9	19.9	20.2	16.9
Emissions from the purchase of electricity, heat, steam and cooling purchased for our own use. [Indirect GHG emissions (Scope 2) market-based]	Global (excluding UK)	132,030	90,871	77,578	70,598	41,323	36,928
	UK	21,594	1,484	1,293	1,365	24,631	16,047
	Total	153,624	92,355	78,871	71,963	65,954	52,975
Total gross GHG emissions (Scope 1 + Scope 2 market-based)	Global (excluding UK)	269,535	230,232	201,386	176,872	138,259	138,140
	UK	112,116	73,763	103,280	73,603	160,155	126,059
	Total	381,651	303,995	304,665	250,476	298,414	264,199
Outside of Scopes	Global (excluding UK)	4,329	-	1,350	42	2,799	5,944.06
	UK	-	-	-	7,712	997	6,121.65
	Total	4,329	-	1,350	7,754	3,795	12,065.71
Additional supporting information, electricity purchased from renewable sources – kWh	Global (including UK)	321,775,488	303,672,640	301,419,960	315,822,645	286,074,507	407,196,198
Energy generated onsite from renewable sources – kWh	Global (including UK)	6,791,044	8,237,037	8,120,644	6,313,137	9,524,077	9,980,271

The above figures include 407,196,198 kWh of renewable energy purchases either backed by the Renewable Energy Guarantees of Origin (REGO) scheme in the UK or the Guarantees of Origin (GoO) from a relevant EU Member State. This energy is used by the majority of our facilities in the UK, US and Germany. Our EACs have been sourced mainly from solar and wind with some hydro included for EU locations. In addition, the above figures include 9,980,271 kWh of electricity and heat generated onsite from renewable energy sources, including solar panels and ground source heat pumps.

We include the reporting of fugitive emissions of hydrofluorocarbons (HFCs), associated with air conditioning equipment, into our GHG emissions figures. These emissions have been included from our global portfolio.

With the exceptions noted above, we have reported on the underlying energy use and emission sources required under the Companies (Directors' report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) as of 31 December 2014 utilising the operational control approach, supplemented by the GHG Reporting Guidance for the Aerospace Industry (version 3) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2024. We report our emissions of carbon dioxide, methane, nitrous oxide, hydrofluorocarbons and perfluorocarbons on a carbon dioxide equivalent basis. We have no emissions of sulphur hexafluoride or nitrogen trioxide.

Further details on our methodology for reporting and the criteria used can be found within our basis of reporting, available at www.rolls-royce.com

GREENHOUSE GAS EMISSIONS

Aspect	MtCO ₂ e	2019	2021	2022	2023	2024	2025
Emissions from purchased goods and services, by spend (Scope 3, category 1)	Total	-	-	-	-	2.18	2.69
Use of sold products on a fossil fuel-based pathway with weight-based adjustment (Scope 3, category 11)	Total	93.9	-	-	75.9	72.5	69.8
Use of sold products on a fossil fuel-based pathway without weight-based adjustment (Scope 3, category 11)	Total	531.0	-	-	284.7	287.7	272.7
Use of sold products of a sustainable fuel-based pathway with weight-based adjustment (Scope 3, category 11)	Total	79.1	-	-	59.3	54.7	51.8
Use of sold products of a sustainable fuel-based pathway without weight-based adjustment (Scope 3, category 11)	Total	430.3	-	-	203.4	198.5	180.9

Other financial information

Foreign exchange

Foreign exchange rate movements influence the reported income statement, the cash flow and closing net cash/(debt) balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

		2025	2024	Change
USD per GBP	Year-end spot rate	1.35	1.25	+8%
	Average spot rate	1.32	1.28	+3%
EUR per GBP	Year-end spot rate	1.15	1.21	-5%
	Average spot rate	1.17	1.18	-1%

The Group's global corporate income tax contribution

The Group's total corporation tax payments in 2025 were £590m. Around 96% of this was paid in the US, Germany, UK, Singapore and Canada. The balance of tax payments were made in around 40 other countries.

In common with most multinational groups, the total profits for corporate income tax purposes are not the same as the consolidated profit before taxation reported on page 113.

The main reasons for this are:

- (i) the consolidated income statement is prepared under IFRS, whereas the corporate income tax profits and losses for each company are determined by local tax accounting rules;
- (ii) accounting rules require certain income and costs relating to our commercial activities to be eliminated from, or added to, the aggregate of all the profits of the Group companies when preparing the consolidated income statement (consolidation adjustments); and
- (iii) specific tax rules including exemptions or incentives as determined by the tax laws in each country.

In most cases, paragraphs (i) and (ii) above are only a matter of timing and therefore tax will be paid in an earlier or later year. The impact of the paragraph above will often be permanent, depending on the relevant tax law. Further information on the tax position of the Group can be found as follows:

- Audit Committee Report (page 78) – updates given to the Audit Committee during the year;
- note 5 to the Consolidated Financial Statements (pages 142 to 145); and
- details of the tax balances in the Consolidated Financial Statements together with a tax reconciliation. This explains the main drivers of the tax rate and the impact of our assessment on the recovery of UK deferred tax assets.

Information on the approach to managing the Group's tax affairs can be found at www.rolls-royce.com

Investments and capital expenditure

The Group subjects all major investments and capital expenditure to a rigorous examination of risks and future cash flows. Investments and capital expenditure must align to the Group's strategy and create shareholder value. All major investments, including the launch of major programmes, require Board approval.

The Group has a portfolio of projects at different stages of their lifecycles. All of our major investments and projects are assessed using a range of financial metrics, including discounted cash flow and return on investment.

Financial risk management

The Board has established a structured approach to financial risk management. The Financial risk committee (Frc) is accountable for managing, reporting and mitigating the Group's financial risks and exposures. These risks include the Group's principal counterparty, currency, interest rate, commodity price, liquidity and credit rating risks outlined in more depth in note 22. The Frc is chaired by the Chief Financial Officer. The Group has a comprehensive financial risk policy that advocates the use of financial instruments to manage and hedge business operations risks that arise from movements in financial, commodities, credit or money markets. The Group's policy is not to engage in speculative financial transactions. The Frc sits quarterly to review and assess the key risks and agree any mitigating actions required.

Capital structure

£m	2025	2024
Total equity	2,753	(881)
Cash flow hedges	(7)	(13)
Group capital	2,746	(894)
Net cash	1,895	475

Operations are funded through various shareholders' funds, bank borrowings, bonds and notes. The capital structure of the Group reflects the judgement of the Board as to the appropriate balance of funding required. Funding is secured by the Group's continued access to the global debt markets. Borrowings are funded in various currencies using derivatives where appropriate to achieve a required currency and interest rate profile. The Board's objective is to retain sufficient financial investments and undrawn facilities to ensure that the Group can both meet its medium-term operational commitments and cope with unforeseen obligations and opportunities.

The Group holds cash and short-term investments which, together with the undrawn committed facilities, enable it to manage its liquidity risk.

During the year to 31 December 2025, the Group repaid a \$1bn bond at its maturity and cancelled its undrawn £2.5bn revolving credit facility, which was due to mature in November 2027. This facility had remained undrawn during the year. The Group replaced this facility with a new £2.5bn revolving credit facility, maturing December 2030.

At the year end, the Group retained aggregate liquidity of £8.7bn, including cash and cash equivalents of £6.2bn and undrawn borrowing facilities of £2.5bn.

The Group has two material debt maturities in February and June 2026. The maturity profile of the borrowing facilities is regularly reviewed to ensure that refinancing levels are manageable in the context of the business and market conditions. There are no rating triggers in any borrowing facility that would require the facility to be accelerated or repaid due to an adverse movement in the Group's credit rating. The Group conducts some of its business through a number of joint ventures. A major proportion of the debt of these joint ventures is secured on the assets of the respective companies and is non-recourse to the Group. This debt is further outlined in note 19.

Credit rating

£m	Rating	Outlook
Moody's Investors Service	Baa1	Positive
Standard & Poor's	BBB+	Stable
Fitch	BBB+	Positive

The Group subscribes to Moody's, Standard & Poor's and Fitch for independent long-term credit ratings, with the ratings in the table above being applicable at the date of this report.

Reconciliation of alternative performance measures

Alternative performance measures (APMs)

Business performance is reviewed and managed on an underlying basis. These alternative performance measures reflect the economic substance of trading in the year. In addition, a number of other APMs are utilised to measure and monitor the Group's performance.

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 31 December 2024.

Underlying results

Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. Underlying results also exclude: the effect of acquisition accounting and business disposals, impairment of goodwill and other non-current assets where the reasons for the impairment are outside of normal operating activities, exceptional items and certain other items which are market driven and outside of management's control. Further detail can be found in note 2.

	2025 £m	2024 £m
Revenue		
Statutory revenue	21,207	18,909
Derivative and FX adjustments	(1,148)	(1,061)
Underlying revenue	20,059	17,848
Gross profit		
Statutory gross profit	6,175	4,221
Derivative and FX adjustments	(799)	(186)
Programme exceptional credits	(83)	-
Exceptional transformation and restructuring (credits)/charges	(9)	147
Acquisition accounting and M&A	14	43
Impairment charge/(reversal)	6	(2)
Civil Aerospace programme asset impairment reversal	(179)	(132)
Other underlying adjustments	1	-
Underlying gross profit	5,126	4,091
Commercial and administrative costs		
Statutory commercial and administrative (C&A) costs	(1,268)	(1,284)
Exceptional transformation and restructuring charges	53	70
Other underlying adjustments	(8)	17
Underlying C&A costs	(1,223)	(1,197)
Research and development costs		
Statutory research and development (R&D) costs	(495)	(203)
Derivative and FX adjustments	2	(8)
Exceptional transformation and restructuring charges	-	17
Acquisition accounting	2	2
Civil Aerospace programme asset impairment reversal	(6)	(413)
Underlying R&D costs	(497)	(605)
Operating profit		
Statutory operating profit	4,468	2,906
Derivative and FX adjustments	(797)	(191)
Programme exceptional credits	(83)	-
Exceptional transformation and restructuring charges	44	234
Acquisition accounting and M&A	16	45
Civil Aerospace programme asset impairment reversal	(185)	(545)
Impairment charge/(reversal)	6	(2)
Other underlying adjustments	(7)	17
Underlying operating profit	3,462	2,464
Underlying operating margin	17.3%	13.8%

Underlying results continued

	2025 pence	2024 pence
Basic EPS		
Statutory basic EPS	69.41	30.05
Effect of underlying adjustments to profit/(loss) before tax	(42.58)	0.70
Related tax effects	6.01	(6.34)
Adjustment for recognition of deferred tax assets ¹	(3.29)	(4.12)
Basic underlying EPS	29.55	20.29

¹ Underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £277m (2024: 346m) related to the recognition of deferred tax assets on UK tax losses, see note 5 of the consolidated financial statements for further details

Organic change

Organic change is the measure of change at constant translational currency applying full year 2024 average rates to 2025 and excludes M&A changes and business disposals. The movement in underlying change to organic change is reconciled below and on page 210.

All amounts below are shown on an underlying basis and reconciled to the nearest statutory measure above and on page 208. All comparative periods relate to the year ended 31 December 2024.

Total Group income statement

	2025 £m	2024 £m	Change £m	FX £m	M&A ¹ £m	Organic Change £m	Organic Change %
Underlying revenue	20,059	17,848	2,211	(115)	(164)	2,490	14%
Underlying gross profit	5,126	4,091	1,035	(16)	(22)	1,073	26%
Underlying operating profit	3,462	2,464	998	(21)	14	1,005	38%
Net financing costs	(110)	(171)	61	2	–	59	(35%)
Underlying profit before taxation	3,352	2,293	1,059	(19)	14	1,064	44%
Taxation	(593)	(282)	(311)	(5)	24	(330)	128%
Underlying profit for the year	2,759	2,011	748	(24)	38	734	34%

¹ During 2025, the sale of the naval propulsors business completed and the Group relinquished control of Rolls-Royce SMR Limited. As a result, organic change excludes these results from 2025 and 2024. During 2024, the sale of the lower power range engines business completed and the Group exited the advanced air mobility activities. As a result, organic change excludes these results from 2024

Civil Aerospace

	2025 £m	2024 £m	Change £m	FX £m	M&A £m	Organic Change £m	Organic Change %
Underlying revenue	10,382	9,040	1,342	16	–	1,326	15%
Underlying OE revenue	3,217	3,105	112	11	–	101	3%
Underlying services revenue	7,165	5,935	1,230	5	–	1,225	21%
Underlying gross profit	2,675	1,990	685	6	–	679	34%
Commercial and administrative costs	(432)	(396)	(36)	1	–	(37)	9%
Research and development costs	(267)	(252)	(15)	–	–	(15)	6%
Joint ventures and associates	154	163	(9)	(3)	–	(6)	(4%)
Underlying operating profit	2,130	1,505	625	4	–	621	41%

Defence

	2025 £m	2024 £m	Change £m	FX £m	M&A ¹ £m	Organic Change £m	Organic Change %
Underlying revenue	4,772	4,522	250	(71)	(48)	369	8%
Underlying OE revenue	2,228	1,943	285	(27)	(24)	336	18%
Underlying services revenue	2,544	2,579	(35)	(44)	(24)	33	1%
Underlying gross profit	933	908	25	(12)	(3)	40	4%
Commercial and administrative costs	(201)	(212)	11	2	(1)	10	(5%)
Research and development costs	(45)	(55)	10	1	–	9	(16%)
Joint ventures and associates	2	3	(1)	–	–	(1)	33%
Underlying operating profit	689	644	45	(9)	(4)	58	9%

¹ On 1 July 2025 the sale of the naval propulsors business completed. As a result, organic change excludes the naval propulsors results from 2025 and 2024

Power Systems

	2025 £m	2024 £m	Change £m	FX £m	M&A ¹ £m	Organic Change £m	Organic Change %
Underlying revenue	4,892	4,271	621	(60)	(113)	794	19%
Underlying OE revenue	3,433	2,942	491	(46)	(104)	641	23%
Underlying services revenue	1,459	1,329	130	(14)	(9)	153	12%
Underlying gross profit	1,522	1,199	323	(10)	(23)	356	30%
Commercial and administrative costs	(518)	(483)	(35)	-	3	(38)	8%
Research and development costs	(164)	(165)	1	(2)	-	3	(2%)
Joint ventures and associates	12	9	3	(1)	-	4	44%
Underlying operating profit	852	560	292	(13)	(20)	325	60%

1 On 31 July 2024 the sale of the lower power range engines business completed. As a result, organic change excludes the lower power range engines results from 2024

Trading cash flow

Trading cash flow is defined as free cash flow (as defined below) before the deduction of recurring tax and post-employment benefit expenses. Trading cash flow per segment is used as a measure of business performance for the relevant segments.

	2025 £m	2024 £m
Civil Aerospace	2,512	2,030
Defence	745	591
Power Systems	658	452
Total reportable segments trading cash flow	3,915	3,073
All Other Businesses ¹	9	(176)
Corporate and Inter-segment	(62)	(60)
Trading cash flow	3,862	2,837
Underlying operating profit charge exceeded by contributions to defined benefit schemes	(37)	(31)
Tax ²	(555)	(381)
Free cash flow	3,270	2,425

1 All Other Businesses include the financial results of small modular reactors, electrical power solutions and the UK Civil Nuclear business (see note 2 for further details)

2 See page 181 for tax paid in the derivation of summary funds flow statement

Free cash flow

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid, cash received on maturity of share-based payment schemes and amounts paid relating to the settlement of excess derivatives. It excludes amounts spent/received on business acquisitions/disposals, and other material exceptional or one-off cash flows. Cash flows from operating activities is our statutory equivalent.

	2025 £m	2024 £m
Statutory cash flows from operating activities	4,565	3,782
Capital expenditure	(978)	(876)
Cash received on maturity of share-based payment schemes	40	-
Investment (including investment from NCI and movement in joint ventures, associates and other investments)	(7)	16
Capital element of lease payments	(232)	(299)
Interest paid	(262)	(298)
Exceptional transformation and restructuring costs	78	104
M&A costs	70	1
Other	(4)	(5)
Free cash flow	3,270	2,425

Group R&D expenditure

In year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year. For further detail, see note 3.

Gross capital expenditure

Gross capital expenditure during the year. All proposed investments are subject to rigorous review to ensure that they are consistent with forecast activity and provide value for money. The Group measures annual capital expenditure as the cash purchases of PPE acquired during the year.

	2025 £m	2024 £m
Purchases of PPE (cash flow statement)	621	519

Key performance indicators

The following measures are key performance indicators and are calculated using alternative performance measures or statutory results. See below for calculation of these amounts.

Order backlog

Total value of firm orders placed by customers for delivery of products and services where there is no right to cancel. Further details are included in note 2 of the Consolidated Financial Statements.

Adjusted return on capital (abbreviated to return on capital)

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. Return on capital assesses the efficiency in allocating capital to profitable investments.

	2025 £m	2024 £m
Underlying operating profit	3,462	2,464
Less: taxation ¹	(889)	(649)
Underlying operating profit (post-taxation)	2,573	1,815
Total assets	38,115	35,686
Less: post-retirement scheme surpluses	(286)	(790)
Less: cash and cash equivalents	(6,244)	(5,575)
Current liabilities	(19,287)	(16,763)
Liabilities held for sale	(19)	(100)
Less: borrowings and lease liabilities	1,426	1,097
Invested capital (closing)	13,705	13,555
Invested capital (average)	13,630	13,166
Return on capital	18.9%	13.8%

¹ Excluding underlying taxation on underlying finance income of £19m (2024: £21m) and adjusted for the one-off non-cash impact of £277m in the year (2024: £346m) related to the recognition of deferred tax assets on UK tax losses, see note 5, page 145 for further details

Total underlying cash costs as a proportion of underlying gross margin (abbreviated to TCC/GM)

Total underlying cash costs during the year (represented by underlying research and development (R&D) expenditure and underlying commercial and administrative (C&A) costs) as a proportion of underlying gross profit. This measure provides an indicator of total cash costs relative to gross profit. A reduction in total cash costs relative to gross profit indicates how effective the business is at managing and/or reducing its costs.

	2025 £m	2024 £m
Underlying R&D expenditure ¹	598	745
Underlying C&A	1,223	1,197
Total cash costs	1,821	1,942
Underlying gross profit	5,126	4,091
Total cash costs as a proportion of underlying gross profit	0.36	0.47

¹ Excludes £4m derivatives and FX (2024: £30m impact of acquisition accounting, exceptional transformation costs, derivatives and FX)

Directors' report

For the purposes of the Companies Act 2006, the following are incorporated by reference and shall be deemed to form part of this Directors' report:

– Strategic report	2
– Corporate Governance section, which includes the Board of Directors, the Governance report and the Directors' remuneration report	62
– Directors' responsibility statement	111
– Note 1 to the Consolidated Financial Statements (Accounting policies)	121

– Note 1 to the Consolidated Financial Statements (Post-balance sheet events)	133
– Note 22 to the Consolidated Financial Statements (Financial instruments)	160
– Note 28 to the Consolidated Financial Statements (Related-party transactions)	179
– Subsidiaries, joint ventures and associates	187
– Greenhouse gas emissions disclosure	204
– Shareholder information	215

Board of Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements are set out on pages 64 and 65.

Directors' indemnities

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

Share capital

On 31 December 2025, the Company's issued share capital comprised:

8,443,808,552	Ordinary shares	20p each
21,306,466,168	C shares	0.1p each
1	Special share	£1

No shares are held in treasury. The ordinary shares are listed on the London Stock Exchange. The Company has previously issued non-cumulative redeemable preference shares (C shares) as an alternative to paying a cash dividend. Since the reintroduction of dividends on ordinary shares as announced on 27 February 2025, the Company no longer makes payments to shareholders in the form of C shares. Holders of C shares can either:

- redeem C shares for cash at their nominal value; or
- retain C shares and receive a coupon payment twice a year.

Further information on C shares can be found at www.rolls-royce.com

Share buyback programmes

During the year, 106,291,417 ordinary shares of 20p each (representing 1.26% of the ordinary shares in issue at 31 December 2025) were purchased by the Company for a total consideration of £1bn. A further 15,971,931 shares were purchased between 2 January 2026 and the date of this report. The purpose of the programmes was to reduce the Company's share capital and to meet obligations arising from its employee share plans. Shares purchased under the programmes were either cancelled, held in treasury or transferred to the Company's Employee Benefit Trust (EBT) for the purpose of satisfying awards under the Company's employee share plans.

On 6 November 2025, the Company transferred 3,719,489 ordinary shares held in treasury to the EBT and on 18 December 2025, gifted 41,483,491 ordinary shares held in treasury to the EBT. As at the date of this report, there are no shares held in treasury.

Dividends

A final dividend of 6p per share for the year ended 31 December 2024 was paid on 16 June 2025. An interim dividend of 4.5p per share was paid on 18 September 2025. The Directors have recommended a final dividend of 5.0p per share for the financial year ended 31 December 2025. This gives a total dividend of 9.5p per share for the financial year ending 31 December 2025 (2024: 6p).

Payment of this dividend is subject to shareholder approval at the 2026 AGM. The Trustees of the EBT have waived their right to receive dividends.

Further information on the Company's approach to dividends can be found on page 20 and the key dates for the final dividend can be found on page 215.

Changes to the Articles of Association

The Articles may be amended or new articles may be adopted by a special resolution of the Company's shareholders, subject to the provisions of the Companies Act 2006. The current Articles of the Company were adopted by special resolution on 23 May 2024.

Share class rights

The full share class rights are set out in the Company's Articles, which are available at www.rolls-royce.com. The rights are summarised below.

Ordinary shares

Each member has one vote for each ordinary share held. Holders of ordinary shares are entitled to: receive the Company's Annual Report; attend and speak at general meetings of the Company; appoint one or more proxies or, if they are corporations, corporate representatives; and exercise voting rights. Holders of ordinary shares may receive a dividend and on liquidation may share in the assets of the Company.

C shares

Since the reintroduction of dividends on ordinary shares as announced on 27 February 2025, the Company no longer makes payments to shareholders in the form of C shares. C shares have limited voting rights and attract a preferential dividend, paid on a twice-yearly basis. On a return of capital on a winding-up, the holders of C shares shall be entitled, in priority to any payment to the holders of ordinary shares, to the repayment of the nominal capital paid-up or credited as paid-up on the C shares held by them, together with a sum equal to the outstanding preferential dividend which will have been accrued but not paid until the date of return of capital. The holders of C shares are only entitled to attend, speak and vote at a general meeting if a resolution to wind up the Company is to be considered, in which case they may vote only on that resolution. The Company may elect, at its own discretion (and whether or not with the consent of the holders of C shares), to redeem all of the C shares then in issue at their nominal value each together with any accrued but unpaid C preferential dividend on such shares as at the day of redemption.

Special share

Certain rights attach to the special rights non-voting share (Special Share) issued to the UK Secretary of State for the Department of Business and Trade (Special Shareholder). Subject to the provisions of the Companies Act 2006, the Treasury Solicitor may redeem the Special Share at par value at any time. The Special Share confers no rights to dividends but, in the event of a winding-up, it shall be repaid at its nominal value in priority to any other shares.

Certain provisions of the Articles (in particular those relating to the foreign shareholding limit, disposals and the nationality of the Company's Directors) that relate to the rights attached to the Special Share may only be altered with the consent of the Special Shareholder. The Special Shareholder is not entitled to vote at any general meeting or any other meeting of any class of shareholders.

Restrictions on transfer of shares and limitations on holdings

There are no restrictions on transfer or limitations on the holding of the ordinary shares or C shares other than under the Articles (as described here) or, under restrictions imposed by law or regulation. The Articles provide that the Company should be and remain under UK control. As such, an individual foreign shareholding limit is set at 15% of the aggregate votes attaching to the share capital of all classes (taken as a whole) and capable of being cast on a poll and to all other shares that the Directors determine are to be included in the calculation of that holding. The Special Share may only be issued to, held by and transferred to the Special Shareholder or their successor or nominee.

Shareholder agreements and consent requirements

No disposal may be made to a non-Group member which, alone or when aggregated with the same or a connected transaction, constitutes a disposal of the whole or a material part of either the nuclear propulsion business or the assets of the Group as a whole, without the consent of the Special Shareholder.

Authority to issue shares

At the 2025 AGM, an ordinary resolution was passed authorising the Directors to allot new ordinary shares up to a nominal value of £566,993,133, equivalent to one-third of the issued share capital of the Company as at 22 February 2025. This resolution also authorised the Directors to allot up to a further one-third of the total issued share capital of the Company, although only in the case of a rights issue on a pre-emptive basis. A further special resolution was passed to authorise the disapplication of pre-emption rights in respect of an issue (or transfer out of treasury) of equity securities up to a nominal value of £85,048,970, equivalent to 5% of the issued share capital of the Company. These authorities are valid until the end of the 2026 AGM or 30 June 2026, whichever is sooner. The Directors propose to renew each of these authorities at the 2026 AGM to be held on 30 April 2026. In addition to these authorities, and to align with broader market practice, at the 2026 AGM the Company is seeking authority to disapply pre-emption rights in respect of an issue (or transfer out of treasury) of equity securities up to an aggregate nominal value representing an additional 5% of the issued share capital of the Company, which is only to be used for the purposes of an acquisition or specified capital investment. The Board believes that these authorities will allow the Company to retain flexibility to respond to circumstances and opportunities as they arise. The Directors have no present intention of using the authorities being sought for the disapplication of pre-emption rights.

Authority to purchase own shares

At the 2025 AGM, the Company was authorised by shareholders to purchase up to 850,489,698 ordinary shares representing 10% of its issued ordinary share capital as at 22 February 2025. The authority for the Company to purchase its own shares expires at the conclusion of the 2026 AGM or 30 June 2026, whichever is sooner. A resolution to renew this authority will be proposed at the 2026 AGM.

Deadlines for exercising voting rights

Electronic and paper proxy appointments, together with voting instructions, must be received by our Registrar, Equiniti Limited, not less than 48 hours before a general meeting.

Voting rights for employee share plan shares

Shares are held in an employee benefit trust for the purpose of satisfying awards made under the Company's various employee share plans. For shares held in a nominee capacity or if plan/trust rules provide the participant with the right to vote in respect of specifically allocated shares, the trustee votes in line with participant instructions. For shares that are not held absolutely on behalf of specific individuals, the general policy of the trustees, in accordance with investor protection guidelines, is to abstain from voting in respect of those shares.

Change of control

Contracts and joint venture agreements

There are a number of contracts and joint venture agreements which would allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are considered commercially confidential as their disclosure could be seriously prejudicial to the Company (or the Group).

Borrowings and other financial instruments

The Group has outstanding bonds, as well as a revolving credit facility provided by various banks. These generally include provisions which may require any outstanding borrowings to be repaid or the alteration or termination of the facility upon the occurrence of a change of control of the Company. At 31 December 2025, these facilities totalled £4.4bn, of which 44% was drawn (2024: 4.5bn, 44% drawn).

The Group has entered into a series of financial instruments to hedge its currency, interest rate and commodity exposures. These contracts provide for termination or alteration in the event that a change of control of the Company materially weakens the creditworthiness of the Group.

Major shareholdings

At 31 December 2025, the following shareholders had notified an interest in the issued ordinary share capital of the Company in accordance with section 5.1.2 of the Disclosure and Transparency Rules. No notifications have been received from 1 January 2026 to the date of this report.

Shareholder	Date of notification of change of interest	Number of ordinary shares	% of issued ordinary share capital as at date of disclosure	% of issued ordinary share capital as at 23 February 2026
Blackrock, Inc.	19 December 2023	476,330,141	5.65	5.65
Capital Group Companies Inc	9 April 2024	427,042,722	5.07	5.07

Employee share plans

In the event of a change of control of the Company, the effect on the employee share plans would be as follows:

- Annual Incentive Plan: deferred share awards will normally vest immediately, and may be time prorated. The new controlling company might offer an award in exchange instead (normally on substantially equivalent terms to the existing award). Awards with performance conditions would normally vest on the change of control subject to the Remuneration Committee's judgement of performance and may be reduced pro rata to service in the vesting period;
- ShareSave: options would become exercisable immediately and can be exercised within six months following the change of control. The new controlling company might offer an equivalent option in exchange for cancellation of the existing option;
- SharePurchase Plan (SPP): consideration received as shares would be held within the SPP, if possible, otherwise the consideration would be treated as a disposal from the SPP;
- LTIP: awards would vest on the change of control, subject to the Remuneration Committee's judgement of performance and may be reduced pro rata to service in the vesting period. Any applicable holding period will cease in the event of a change of control; and
- Global Employee SharePurchase Plan (GESPP): matching share awards would vest on the date of the change of control; free share awards would vest if and to the extent that the Remuneration Committee decides, and rights to purchase investment shares will lapse.

Political donations

The Company's policy is that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party. However, the Companies Act 2006 defines political donations very broadly and so it is possible that normal business activities, such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties and support for bodies representing the business community in policy review or

reform, which might not be thought of as political expenditure in the usual sense, could be captured. Activities of this nature would not be thought of as political donations in the ordinary sense of those words. The resolution to be proposed at the 2026 AGM, authorising political donations and expenditure, is to ensure that the Group does not commit any technical breach of the Act.

In accordance with the Federal Election Campaign Act in the US, eligible employees are able to make personal contributions to a US Political Action Committee (PAC). The PAC is not funded by Rolls-Royce Holdings plc and this separate fund is managed by a board of directors of participating employees from the Company's US operating company (Rolls-Royce North America Holdings Inc.) and makes contributions in connection with Federal elections. In 2025, a total of \$94,844.01 was donated to political organisations by the PAC. PAC contributions do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at the 2026 AGM to renew the authority given at the 2025 AGM.

Disclosures in the Strategic report

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic report including:

- employee involvement;
- the employment of disabled people;
- the future development, performance and position of the Group; and
- research and development activities.

Information required by UK Listing Rule (UKLR) 6.6.1

There are no disclosures to be made under UKLR 6.6.1.

Management report

The Strategic report and the Directors' report together form the management report for the purposes of compliance with the Disclosure Guidance and Transparency Rules 4.1.5R(2) and 4.1.8R.

Disclosures required under UK Listing Rule 6.6.6 as at 31 December 2025

Gender identity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board	Number in executive management	Percentage of executive management
Men	6	50%	Chief Executive, SID	7	70%
Women	6	50%	Chair, Chief Financial Officer	3	30%
Other categories	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	11	92%	Chair, Chief Executive, Chief Financial Officer, SID	10	100%
Mixed/multiple ethnic groups	–	–	–	–	–
Asian/Asian British	1	8%	–	–	–
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

By order of the Board

Claire-Marie O'Grady
Chief Governance Officer
26 February 2026

Shareholder information

Managing your shareholding

Your shareholding is managed by Equiniti Limited (the Registrar). When making contact with the Registrar, please quote your shareholder reference number (SRN). This is an 11-digit number that can be found on your share certificate or on any other shareholder correspondence. You can manage your shareholding at www.shareview.co.uk, speak to the Registrar on +44 (0)371 384 2637 (8.30am to 5.30pm, Monday to Friday) or you can write to the Registrar at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. If you hold your shares in a share dealing account (sometimes referred to as a nominee account) then you must contact your account provider with any questions about your shareholding.

Payments to shareholders

As announced on 26 February 2026, the Directors have recommended a final dividend of 5.0p per share, for the financial year ended 31 December 2025. Payment of this dividend is subject to approval at the 2026 AGM. Key dates relating to the final dividend are:

Ex-dividend date	23 April 2026
Record date	24 April 2026
Last day for DRIP elections	15 May 2026
AGM	30 April 2026
Payment date	3 June 2026

For further dividend information, please go to www.rolls-royce.com/investors

The Company has previously made payments to shareholders by issuing redeemable C shares of 0.1p each. No distributions in the form of C shares have been made since 2019. C shareholders wishing to redeem their existing C shares must lodge instructions with the Registrar to arrive no later than 5.00pm on 16 June 2026 (CREST holders must submit their election in CREST by 2.55pm). The payment of C share redemption monies will be made on 16 July 2026. Any entitlement to interest payments by C shareholders will also be paid on 1 July 2026 in accordance with the Company's Articles.

For the avoidance of doubt, the C share reinvestment programme is no longer available; C shares can only be redeemed for cash at their nominal value of 0.1p each.

Dividend reinvestment plan (DRIP)

The Company has a DRIP provided by Equiniti Financial Services Limited (Equiniti FS), which is a convenient, easy and cost-effective way to build a shareholding by using cash dividends to buy additional shares. Rather than having a bank account credited with a cash dividend, Equiniti FS will use the dividends payable to DRIP participants to purchase shares on your behalf in the market. Please go to www.shareview.co.uk for further information.

Analysis of ordinary shareholders at 31 December 2025

Type of holder	Number of shareholders	% of total shareholders	Number of shares	% of total shares
Individuals	140,782	98.70	155,299,638	1.84
Institutional and other investors	1,852	1.30	8,288,508,914	98.16
Total	142,634	100.00	8,443,808,552	100.00

Size of holding (number of ordinary shares)	Number of shareholders	% of total shareholders	Number of shares	% of total shares
1 – 150	44,794	31.40	3,842,620	0.04
151 – 500	50,163	35.17	13,416,742	0.16
501 – 10,000	43,779	30.69	81,779,412	0.97
10,001 – 100,000	2,882	2.02	73,466,682	0.87
100,001 – 1,000,000	587	0.42	213,508,110	2.53
1,000,001 and over	429	0.30	8,057,794,986	95.43
Total	142,634	100.00	8,443,808,552	100.00

American Depositary Receipts (ADR)

ADR holders should contact the depository, J.P. Morgan, by calling +1(800) 990 1135 (toll free within the US) or +1(651) 453 2128 (outside the US) or via www.adr.com/contact/jpmorgan

Warning to shareholders – investment scams

We are aware that some of our shareholders have received unsolicited telephone calls or correspondence, offering to buy or sell their shares at very favourable terms. The callers can be very persuasive and extremely persistent and often have professional websites and telephone numbers to support their activities. They will sometimes imply a connection to Rolls-Royce and provide incorrect or misleading information. This type of call should be treated as an investment scam – the safest thing to do is hang up. Remember: if it sounds too good to be true, it probably is. You should always check that any firm contacting you about potential investment opportunities is properly authorised by the FCA. If you deal with an unauthorised firm you will not be eligible for compensation under the Financial Services Compensation Scheme. You can find out more about protecting yourself from investment scams by visiting the FCA's website at www.fca.org.uk/scamsmart, or by calling the FCA's consumer helpline on 0800 111 6768 (overseas callers dial +44 207 066 1000). If you have already paid money to share fraudsters, contact Action Fraud immediately on 0300 123 2040, whose website is www.actionfraud.police.uk

Visit Rolls-Royce online

Visit www.rolls-royce.com to find out more about the latest financial results, the share price, payments to shareholders, the financial calendar and shareholder services.

Communication preferences

You can sign up to receive the latest news updates to your phone or email by visiting www.rolls-royce.com and registering for our alert service. If you do not wish to receive a hard copy Annual Report in future, you can notify us online at www.shareview.co.uk

Annual General Meeting

The 2026 AGM will be held on 30 April 2026, as a hybrid meeting. Full details will be set out in our Notice of Meeting which will be available at www.rolls-royce.com in mid-March 2026.

Glossary

AGM	annual general meeting
AI	artificial intelligence
APAC	Asia-Pacific
APM	alternative performance measure
Articles	Articles of Association of Rolls-Royce Holdings plc
AUKUS	Australia, United Kingdom, United States
BESS	battery energy storage system
C&A	commercial and administrative
CDP	Carbon Disclosure Project
C shares	non-cumulative redeemable preference shares
Our Code	Global Code of Conduct
Company	Rolls-Royce Holdings plc
DPAs	deferred prosecution agreements
DTR	the FCA's Disclosure Guidance and Transparency Rules
EFH	engine flying hours
ELG	Enterprise Leadership Group
EPS	earnings per share
ESG	environment, social, governance
ET&S	engineering, technology and safety
EU	European Union
EUR	euro
FCA	Financial Conduct Authority
FLRAA	Future Long Range Assault Aircraft
FPVL	fair value recognised in the income statement as a profit or loss
FRC	Financial Reporting Council
FTE	full time equivalent
FVOCI	fair value recognised through other comprehensive income
FX	foreign exchange
GBP	Great British pound or pound sterling
GCAP	Global Combat Air Programme
GDP	gross domestic product
GESPP	Global Employee Share Purchase Plan
GHG	greenhouse gas
Group	Rolls-Royce Holdings plc and its subsidiaries
GW	gigawatt
HPT	high-pressure turbine
HSE	health, safety and environment
HVO	hydrotreated vegetable oil
IASB	International Accounting Standards Board
ICAO	International Civil Aviation Organization
IFRS	International Financial Reporting Standards
ISS	Institutional Shareholder Services group of companies
KPIs	key performance indicators
ktCO ₂ e	kilotonnes of carbon dioxide equivalent
kW	kilowatts
LTIP	long-term incentive plan

LTSA	long-term service agreement
M&A	mergers and acquisitions
MoU	memorandum of understanding
MRO	maintenance repair and overhaul
MtCO ₂ e	million tonnes of carbon dioxide equivalent
MWh	megawatt-hour
NCI	non-controlling interest
NED	Non-Executive Director
net zero company	net zero carbon emissions from our operations and facilities and our products are compatible with net zero operations by 2050
NOPAT	net operating profit after tax
OCI	other comprehensive income
OE	original equipment
OECD	Organisation for Economic Co-operation and Development
P&L	profit and loss
PBT	profit before tax
PPE	property, plant and equipment
R&D	research and development
Registrar	Equiniti Limited
RMS	risk management system
Rolls-Royce SMR	Rolls-Royce SMR Limited
RRSAs	risk and revenue sharing arrangements
SAF	sustainable aviation fuel
SBTs	Science-Based Targets
Scope 1 + 2 emissions	Group Scope 1 + 2 greenhouse gas emissions
SETT	Safety, Energy Transition & Tech Committee
SID	Senior Independent Director
SMRs	small modular reactors
STEM	science, technology, engineering and mathematics
TCC	total cash costs
TCC/GM	total underlying cash costs as a proportion of underlying gross margin
TCFD	Task Force on Climate-related Financial Disclosures
TRI	total reportable injuries
TSR	total shareholder return
UKEF	UK Export Finance
UNSDG	United Nations Sustainable Development Goals
USD/US\$	United States dollar

Trade marks

The following trade marks which appear throughout this Annual Report are trade marks registered and owned by companies within the Rolls-Royce Group:

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 Pearl®
 TotalCare®
 Trent®
 UltraFan®

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