



ROLLS-ROYCE HOLDINGS PLC – 2025 Full Year Results

Strong 2025 results; Upgraded mid-term guidance; Multi-year share buyback announced

- **Significant progress in 2025** driven by our transformation programme, which has also allowed us to capture profitable end market growth
- **Underlying operating profit** of £3.5bn with a margin of 17.3%, reflecting the impact of our strategic initiatives and commercial optimisation
- **Free cash flow** of £3.3bn driven by strong operating profit and continued LTSA balance growth, supporting a net cash balance of £1.9bn at 31 December 2025
- **2026 guidance** of £4.0bn-£4.2bn underlying operating profit and £3.6bn-£3.8bn free cash flow
- **Upgraded mid-term targets** of £4.9bn-£5.2bn underlying operating profit, 18%-20% operating margin, £5.0bn-£5.3bn free cash flow, and 23%-26% return on capital based on a 2028 timeframe
- **Final dividend of 5.0p per share**, taking the total dividend for 2025 to 9.5p; a 32% payout ratio of underlying profit after tax
- **£7bn - £9bn multi-year share buyback** across 2026-2028 following completion of the £1bn share buyback in 2025

Tufan Erginbilgic, CEO said: “Our transformation continues with pace and intensity. We are consistently achieving outcomes that were not possible before our transformation. With our new capabilities and mindset, we have navigated challenges from supply chain to tariffs, and delivered a strong performance in 2025, all while we built the foundations for significant growth for years to come.

Based on our 2026 guidance, we expect to deliver underlying operating profit within the prior mid-term guidance range two years earlier than planned. Our upgraded mid-term targets include underlying operating profit of £4.9bn-£5.2bn and free cash flow of £5.0bn-£5.3bn. Beyond the mid-term we continue to see significant growth from existing businesses as well as from new business opportunities.

With a strong balance sheet, significant investment to support our long-term growth, and confidence in the future, we are announcing a £7bn-£9bn share buyback for 2026-2028 with £2.5bn to be completed this year.”

Full Year 2025 Group Results

£ million	Underlying 2025 ¹	Underlying 2024 ¹	Statutory 2025	Statutory 2024
Revenue	20,059	17,848	21,207	18,909
Operating profit	3,462	2,464	4,468	2,906
Operating margin %	17.3%	13.8%	21.1%	15.4%
Profit before taxation	3,352	2,293	6,935	2,234
Basic earnings per share (pence) ²	29.55	20.29	69.41	30.05
Free cash flow	3,270	2,425		
Return on capital (%) ^{2,3}	18.9%	13.8%		
Net cash flow from operating activities			4,565	3,782
Net cash			1,895	475

¹ All underlying income statement commentary is provided on an organic basis unless otherwise stated. A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 52 to 55

² In 2025, the Group recognised a £277m credit to underlying profit after tax (PAT) in respect of deferred tax assets on UK tax losses. This £277m credit has been adjusted in the calculation of earnings per share, the proposed dividend payout ratio, and return on capital. For further details, see note 5, page 33

³ Adjusted return on capital is defined on page 55 and is abbreviated to return on capital

Full Year 2025 performance summary

- **Strategic delivery:** 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 £7bn-£9bn 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.

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 34

Transformation programme and strategic initiatives

Our strategic framework is founded on four strategic pillars. We have made significant progress against each of these pillars over the past three years, including in 2025.

– Portfolio choices & partnerships:

- ČEZ Group completed strategic investments in Rolls-Royce SMR, alongside a commitment for up to six units in the Czech Republic.
- We are continuing to expand our MRO capacity, which has supported a more than 50% increase in large engine shop visits over the past three years. In 2025, we added capacity in Derby, Dahlewitz, and Singapore. By the mid-term, we will increase our capacity by an additional 20% across the network to support long-term fleet growth. The Beijing Aero Engine Services Limited (BAESL) joint venture with Air China opened in December and will support up to 250 Trent XWB-84, Trent 1000, and Trent 700 overhauls per annum by the mid-2030s. In partnership with Turkish Technic, we announced the establishment of a state-of-the-art independent maintenance centre in Istanbul, targeted to be operational by the end of 2027, supporting up to 200 shop visits annually for Trent XWB-84, Trent XWB-97, and Trent 7000 engines.
- The 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 and the on-going finalisation of the certification reports for the European Union Aviation Safety Agency (EASA) is progressing to plan.
- In Power Systems, testing of our next-generation engines for power generation and governmental applications is progressing to plan. This includes our next generation Series 4000 engine, to be released in 2028, which targets the data centre market with a significantly improved power density, alongside the development of an upgraded military engine.
- We continue to invest in power generation, significantly increasing capacity in Germany and at our US sites in Aiken and Mankato to support growing demand, driven by data centres.
- In Defence, testing of the AE 1107 and F130 engines, which will power the MV-75 (Future Long-Range Assault Aircraft) and B-52 aircraft, is progressing to plan. We are supporting the ramp-up of these programmes with significant investments in the US, which totalled around \$1bn in Indianapolis alone over the past decade.
- 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.
- In July, we completed the sale of our naval propulsors business to Fairbanks Morse Defense.

– Advantaged businesses & strategic initiatives:

- In Civil Aerospace, we continued to increase the LTSA margins across our in-production widebody engines through improved commercial terms alongside operational improvements. As a result of our actions, the value of our LTSA contracts has increased significantly since 2022.
- Our time on wing programme now targets more than a 100% increase in durability across our in-production Trent engines by the end of 2027, with more than half of this improvement now delivered. The increase compared to our previous target of more than 80% is primarily driven by further life extensions for the Trent XWB-84, where we have refined and accelerated our programme to extend critical part lives. The life extension programme for the Trent XWB-84 will be completed in 2026. Building on this, the recently introduced Trent XWB-84EP improves fuel efficiency by over 1% and improves time on wing for new engines. In June, the Trent 1000 XE phase one HPT blade improvement was certified and is being fitted to new and in-service engines. In December, the phase two HPT blade was certified for the Trent 1000 XE and Trent 7000 engines and will begin to be incorporated into new and in-service engines in 2026. Durability upgrades for the Trent XWB-97 made significant progress through material, component, and cyclic engine testing in 2025, with time on wing improvements remaining on track for completion by the end of 2027. We are continually seeking to improve the time on wing of all our engines. For example, we also delivered durability enhancements for the Trent 900 engine which will yield up to a 30% time on wing improvement.
- In Power Systems, we are capturing profitable growth opportunities in power generation and governmental. In power generation, we announced a new fast-start gas generator product in October that will offer prime power for data centre customers who are awaiting grid connection, and which can later be switched to backup power generation once the data centre is connected to the grid. In governmental, we received a major order in December to supply more than 300 Leopard 2 engines.

- In Defence, demand for our products remains robust and we secured major orders in 2025. In the first half of the year, we secured key aftermarket contracts worth more than £1.5bn with the UK MoD and US DoW covering EJ200 and AE 2100 engines. 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. In September, on the Global Combat Air Programme (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.

– **Efficiency & simplification:**

- Our efficiency and simplification programme has delivered £0.6bn of savings since the start of 2022, above our target of £0.5bn by the end of 2025.
- We delivered £1.2bn of gross third-party procurement savings since the start of 2022, also above our target of £1.0bn by the end of 2025.
- We are driving further efficiencies to support disciplined growth across the Group, including scaling up our Group Business Services (GBS) capabilities in India and Poland, alongside growing our digital capabilities and the continued implementation of zero-based budgeting.
- We further improved our best-in-class TCC/GM ratio to 0.36x (2024: 0.47x), evidence of the continued strengthening of our competitive advantage and resilience.

– **Lower carbon & digitally enabled businesses:**

- In June, Rolls-Royce SMR was chosen as the sole provider in the Great British Energy - Nuclear (GBE-N) small modular reactors (SMR) competition to build three SMR units in the UK. In November, it was confirmed that the Wylfa site on the coast of Ynys Môn (Anglesey) will host three Rolls-Royce SMRs, with this site capable of taking eight units. In the Czech Republic, work began at the Temelin site. In August, Rolls-Royce SMR advanced to the final stage of the Swedish competition to select a nuclear technology partner, with Vattenfall moving ahead with small nuclear options only.
- We reached a key milestone with the launch of our AI platform, AiRR, with capabilities in generative and agentic AI. This sits at the core of our efforts to develop and deploy high-value AI capabilities across engineering, MRO, and the supply chain which are expected to reduce turnaround times and product and shop visit costs.
- In Power Systems, demand for battery energy storage systems (BESS) remains high, with major orders across Europe, including a large order in Lithuania that will provide approximately 600MWh of capacity to the grid. We continue to advance lower carbon propulsion. In October, we conducted the world's first successful test of a highspeed marine engine running on pure methanol, futureproofing our solutions for the marine sector.
- Rolls-Royce, together with Xanadu and Riverlane, demonstrated state-of-the-art quantum computing algorithms which can reduce airflow simulation times from weeks to less than an hour. As quantum computing matures, this technology has the potential to reduce prototyping runtimes by up to 1,000-fold in certain applications.

These strategic initiatives are continuing to expand the earnings and cash potential of the business.

Outlook and 2026 guidance

We expect significant further progress in 2026.

2026 financial guidance	
Underlying operating profit	£4.0bn-£4.2bn
Free cash flow	£3.6bn-£3.8bn

Our free cash flow guidance for full year 2026 includes a £150m-£200m cash impact related to the supply chain, similar to 2025, with parts availability improving but still constrained. We are actively managing these challenges and are working to mitigate the impacts.

In Civil Aerospace, 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. Our 2026 free cash flow guidance is based on Civil Aerospace net LTSA balance growth broadly similar to the prior year (2025: £0.6bn). Additional details are included in the results presentation and supplementary data slides.

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.

	Upgraded mid-term targets (2028)	Previous mid-term targets (2028)
Group targets:		
Underlying operating profit	£4.9bn-£5.2bn	£3.6bn-£3.9bn
Underlying operating margin	18%-20%	15%-17%
Free cash flow	£5.0bn-£5.3bn	£4.2bn-£4.5bn
Return on capital	23%-26%	18%-21%
Divisional margin targets:		
Civil Aerospace	21%-23%	18%-20%
Defence	14%-16%	14%-16%
Power Systems	18%-20%	14%-16%

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:

- **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 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 revenue 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.

Growth prospects beyond the mid-term

We see strong growth prospects from our existing businesses beyond the mid-term. These businesses are well positioned to benefit from key global trends, and we expect further performance improvement from self-help.

In Civil Aerospace, we have strong positions on leading platforms in both widebody and business aviation. With our young and growing widebody fleet, we see continued installed engine growth beyond the mid-term. Higher LTSA margins and continued LTSA balance growth will be supported by the full benefit of our strategic initiatives, notably the impact of our time on wing programme driving a proportionately lower number of shop visits, and a continued benefit from new, renewed, and renegotiated contracts with better terms. We also expect improving OE profitability, alongside further growth in business aviation. Our investment in UltraFan leaves us uniquely placed for the next generation of widebody aircraft.

In Defence, where 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.

In Power Systems, 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.

In addition, we see additional growth opportunities from new businesses, which our transformation has unlocked.

Our unique nuclear capabilities, alongside existing customer commitments, means that we are well-placed to become a market leader in SMRs. We see a significant value creation opportunity with our differentiated SMR offering and expect Rolls-Royce SMR to be profitable and free cash flow positive by 2030, with strong profit and cash flow growth thereafter. We see further opportunity in the adjacent Advanced Modular Reactor (AMR) market, with these smaller, more flexible powerplants having potential applications in defence and commercial power.

We also see an opportunity to re-enter the large and growing narrowbody market, which offers attractive synergies to our existing widebody and business aviation activities, based on our UltraFan technologies. We would look to address this opportunity through a partnership.

Financial performance by business

£ million	Underlying revenue	Organic change ¹	Underlying operating profit/(loss)	Organic change ¹	Underlying operating margin	Organic margin change ¹
Civil Aerospace	10,382	15%	2,130	41%	20.5%	3.9pt
Defence	4,772	8%	689	9%	14.4%	0.1pt
Power Systems	4,892	19%	852	60%	17.4%	4.5pt
All Other Businesses ²	13	nm ³	(140)	nm ³	nm ³	nm ³
Corporate/eliminations	-	nm ³	(69)	-3%	nm ³	nm ³
Total	20,059	14%	3,462	38%	17.3%	3.2pt

Trading cash flow

£ million	2025	2024
Civil Aerospace	2,512	2,030
Defence	745	591
Power Systems	658	452
All Other Businesses ²	9	(176)
Corporate/eliminations	(62)	(60)
Total trading cash flow	3,862	2,837
Underlying operating profit charge exceeded by contributions to defined benefit schemes	(37)	(31)
Taxation	(555)	(381)
Total free cash flow	3,270	2,425

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

² All Other Businesses include the financial results of Rolls-Royce SMR (also referred to as Rolls-Royce SMR Limited), electrical power solutions and the UK Civil Nuclear business (see note 2 for further details)

³ nm is defined as not meaningful

Civil Aerospace

2025 key Civil Aerospace operational metrics:	Large engine	Business aviation/ regional	Total	Change
OE deliveries	259	224	483	-9%
LTSA engine flying hours (millions)	17.0	3.0	20.0	+6%
Total LTSA shop visits	1,079	361	1,440	+10%
...of which major shop visits	517	330	847	+4%

Higher Civil Aerospace operating profit reflected stronger large engine aftermarket performance, contractual margin improvements and spare engine profitability.

In 2025, large engine EFH rose by 8% to 111% of 2019 levels, driven primarily by new aircraft deliveries. Business aviation and regional EFH were broadly unchanged in the year. A total of 638 large engines were ordered in 2025 (2024: 494) with a gross book-to-bill of 2.5x (2024: 1.8x). The Trent XWB-97 and Trent 7000 were our bestselling engines in the year, with 226 and 212 orders, respectively. Significant new orders included Riyadh Air, IndiGo, and IAG. As a result of strong order intake, our large engine order book increased by 20% and now stands at 2,207 engines at the end of December 2025.

Total OE deliveries of 483 engines (2024: 529) were aligned to airframer production schedules, reflecting the impact of industry-wide supply chain issues. Business aviation deliveries were 224 (2024: 251) and large engine deliveries were 259 (2024: 278), which includes a slightly lower number of spare engine deliveries. Total shop visits increased by 10% versus the prior year to 1,440 (2024: 1,313), including a step-up in Trent 1000 shop visits in the second half of the year. Of the total shop visits, 517 were large engine major shop visits (2024: 430).

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), 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.

Defence

Higher operating profit reflected stronger performance across transport and combat, partly offset by the absence of a one-off benefit in submarines in the prior year.

Defence's order intake was £5.5bn with a book-to-bill ratio of 1.1x. We captured growing demand for our mature products, including AE 2100 and the EJ200 engine for the Eurofighter. New Eurofighter aircraft orders from Italy, Germany and Spain, alongside the recent commitment from Türkiye, now provides visibility of EJ200 OE production into the 2030s. In addition, we saw strong order intake for new programmes, including GCAP and MV-75, that will support strong revenue growth from the late-2020s. Defence's 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.

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 year¹, 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.

Power Systems

Significantly higher operating profit was driven by power generation, where we have captured profitable growth in data centres, and governmental.

Order intake was £6.1bn, a 21% increase compared to the prior year, with a book-to-bill ratio of 1.2x. OE order coverage for 2026 is 79%. Demand remains particularly strong in power generation, where order intake rose by 31%, and governmental where order intake rose by 15%.

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.

¹ Defence revenue in 2024 included a c.£220m benefit of a one-off capital and lease transaction

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

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 include 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.

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 25, page 49

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 33 for further details

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

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.

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)

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 assets / (liabilities)	2,753	(881)	3,634
US\$ hedge book (US\$bn)	21	19	

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.

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

Results meeting and webcast

Our results presentation will be held at UBS, 5 Broadgate, London EC2M 2QS and webcast live at 09:00 (GMT) today. Attendance is by pre-registration only. Downloadable materials will also be available on the Investor Relations section of the Rolls-Royce website: <https://www.rolls-royce.com/investors/results-reports-and-presentations/financial-results.aspx>

To register for the webcast, including Q&A participation, please visit the following link: <https://app.webinar.net/jQRlpWE3moJ>

Please use this same link to access the webcast replay which will be made available shortly after the event concludes. Photographs and broadcast-standard video are available at www.rolls-royce.com.

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For retail shareholder queries, please contact governanceteam@rolls-royce.com.

Individual holders of ordinary shares can contact our Registrar, Equiniti for support with their shareholding. Contact details and FAQs are available on our website, www.rolls-royce.com/investors/investor-contacts.

The person responsible for arranging the release of this announcement on behalf of Rolls-Royce Holdings plc is Claire-Marie O'Grady, Chief Governance Officer.

This results announcement contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and will not be updated. By their nature, these statements involve risk and uncertainty, and a number of factors could cause material differences to the actual results or developments. This report is intended to provide information to shareholders, is not designed to be relied upon by any other party, or for any other purpose and Rolls-Royce Holdings plc and its directors accept no liability to any other person other than under English law.

LSE: RR.; ADR: RYCEY; LEI: 213800EC7997ZBLZJH69

Condensed Consolidated Financial Statements

Condensed consolidated income statement

For the 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	12	56	172
Operating profit		4,468	2,906
Gain arising on disposal of businesses ³	25	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 14

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 and 9

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 25

⁴ Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 20

Condensed consolidated statement of comprehensive income

For the 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 in post-retirement schemes ¹	22	(444)	22
Revaluation to fair value of other investments	12	(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	25	(23)	–
Movement on fair values charged to cash flow hedge reserve (CFHR)		(38)	(17)
Reclassified to income statement from cash flow hedge reserve (CFHR)		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 22 for further information

Condensed consolidated balance sheet

At 31 December 2025

	Notes	2025 £m	2024 £m
ASSETS			
Goodwill ¹	8	1,028	1,009
Intangible assets ¹	9	3,570	3,393
Property, plant and equipment	10	4,013	3,724
Right-of-use assets	11	759	761
Investments ²	12	1,289	597
Other financial assets	20	523	126
Deferred tax assets	5	3,460	3,660
Post-retirement scheme surpluses	22	286	790
Non-current assets		14,928	14,060
Inventories	13	5,728	5,092
Trade receivables and other assets	14	8,946	8,713
Contract assets	15	1,897	1,813
Taxation recoverable		75	71
Other financial assets	20	282	209
Cash and cash equivalents	16	6,244	5,575
Current assets		23,172	21,473
Assets held for sale	25	15	153
TOTAL ASSETS		38,115	35,686
LIABILITIES			
Borrowings and lease liabilities	17	(1,426)	(1,097)
Other financial liabilities	20	(293)	(642)
Trade payables and other liabilities	19	(8,863)	(8,009)
Contract liabilities	15	(7,832)	(6,309)
Current tax liabilities		(366)	(117)
Provisions for liabilities and charges	21	(507)	(589)
Current liabilities		(19,287)	(16,763)
Borrowings and lease liabilities	17	(2,846)	(4,035)
Other financial liabilities	20	(627)	(1,640)
Trade payables and other liabilities	19	(1,778)	(1,965)
Contract liabilities	15	(8,762)	(9,447)
Deferred tax liabilities	5	(101)	(231)
Provisions for liabilities and charges	21	(1,050)	(1,405)
Post-retirement scheme deficits	22	(892)	(981)
Non-current liabilities		(16,056)	(19,704)
Liabilities associated with assets held for sale	25	(19)	(100)
TOTAL LIABILITIES		(35,362)	(36,567)
NET ASSETS		2,753	(881)
EQUITY			
Called-up share capital ³		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)		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 25

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

Condensed consolidated cash flow statement

For the 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	12	(56)	(172)
Dividends received from joint ventures and associates	12	88	77
Impairment of goodwill	8	–	13
Amortisation and impairment of intangible assets	9	241	(133)
Depreciation and impairment of property, plant and equipment	10	338	400
Depreciation and impairment of right-of-use assets	11	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	22	42	56
Cash funding of defined benefit post-retirement schemes	22	(84)	(74)
Share-based payments		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	9	(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)	25	80	62
Movement in investments in joint ventures and associates	12	(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)
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 December ⁴		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

Condensed consolidated cash flow statement continued

For the year ended 31 December 2025

In deriving the condensed consolidated cash flow statement, movements in balance sheet line 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 24.

	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

The movement in net cash (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 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)
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 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)

Condensed consolidated statement of changes in equity

For the year ended 31 December 2025

		Attributable to ordinary shareholders									
Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Retained earnings / (accumulated losses) ¹ £m	Total £m	NCI £m	Total equity £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	25	–	–	–	(18)	–	(18)	–	(18)		
NCI disposed of on disposal of business	25	–	–	–	–	–	–	(23)	(23)		
Actuarial movements on post-retirement schemes ²	22	–	–	–	–	(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	12	–	–	–	–	(1)	(1)	–	(1)		
OCI of joint ventures and associates	12	–	–	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	20	–	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		

Condensed consolidated statement of changes in equity continued

For the year ended 31 December 2024

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	Accum- ulated 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	22	–	–	–	–	22	22	–	22	
Fair value movement on cash flow hedges	–	–	–	(17)	–	–	(17)	–	(17)	
Reclassified to income statement from cash flow hedge reserve	–	–	–	22	–	–	22	–	22	
Revaluation to fair value of other investments	12	–	–	–	–	(2)	(2)	–	(2)	
OCI of joint ventures and associates	12	–	–	(3)	–	(1)	(4)	–	(4)	
Related tax movements	5	–	–	(1)	(2)	61	58	–	58	
Total comprehensive income/(expense) for the year	–	–	–	1	(31)	2,601	2,571	(37)	2,534	
Issue of ordinary shares	17	–	–	–	–	–	17	–	17	
Redemption of C Shares	20	–	–	1	–	(1)	–	–	–	
Shares issued to employee share trust	–	–	–	–	–	(17)	(17)	–	(17)	
Share-based payments – direct to equity 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 22 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

Notes to the Condensed Consolidated Financial Statements

1 Basis of preparation and accounting policies

Reporting entity

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. These Condensed Consolidated Financial Statements of the Company for the year ended 31 December 2025 consist of the 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.

The Consolidated Financial Statements of the Group for the year ended 31 December 2025 (2025 Annual Report) are available upon request from the Company Secretary, Rolls-Royce Holdings plc, Kings Place, 90 York Way, London, N1 9FX.

Statement of compliance

These Condensed Consolidated Financial Statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) and interpretations issued by the IFRS Interpretations Committee applicable to companies reporting under UK-adopted IFRS. They do not include all the information required for full annual statements and should be read in conjunction with the 2025 Annual Report.

The Board of Directors approved the Condensed Consolidated Financial Statements on 26 February 2026. They are not statutory accounts within the meaning of section 435 of the Companies Act 2006.

The Group's Financial Statements for the year ended 31 December 2025 were approved by the Board on 26 February 2026. They have been reported on by the Group's auditors and will be delivered to the registrar of companies in due course. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The comparative figures for the financial year 31 December 2024 have been extracted from the Group's statutory accounts for that financial year. The Board of Directors approved the Group Financial Statements on 24 February 2025. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

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 Condensed 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 Condensed 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 the 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 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.

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 £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 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 21 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 31 December 2025 results as appropriate.

Basis of preparation and accounting policies continued

Climate change

In preparing the Condensed 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 the Condensed 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 Solutions 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 Condensed 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.

In this context the Directors have assessed the impact of climate change on a number of estimates, including those identified as being key sources of estimation uncertainty within the financial statements such as Civil Aerospace LTSA revenues.

When making these assessments the Directors include consideration of the risks associated with changing customer demand, changes in costs due to carbon pricing and commodity price changes and change in investment requirements. As details of what specific future intervention measures will be taken by governments are not yet available, carbon pricing has been used to quantify the potential impact of future policy changes on the Group. The approach is consistent with that disclosed in note 1 in the 2025 Annual Report.

There has been no material impact on the Group's financial reporting from changes in climate-related estimates in the year. The Group's assessment remains that climate change is not expected to have a significant impact on the Group's current going concern assessment nor on the viability of the Group over the next five years.

Going concern

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 48 to 56 of the Group's 2025 Annual Report, 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.

The Financial Review on pages 19 to 30 of the 2025 Annual Report 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 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 above.

Basis of preparation and accounting policies continued

Going concern continued

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.

Basis of preparation and accounting policies continued

Key areas of judgement and sources of estimation uncertainty

The determination of the Group's accounting policies requires judgement. The subsequent application of these policies requires estimates, and the actual outcome may differ from that calculated. The key judgements and sources of estimation uncertainty as at 31 December 2025, that were assessed as having a significant risk of causing material adjustments to the carrying amount of assets and liabilities, are set out in note 1 to the Consolidated Financial Statements in the 2025 Annual Report and are summarised below. Sensitivities for key sources of estimation uncertainty are disclosed where this is appropriate and practical.

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Revenue recognition and contract assets and liabilities	<p>Whether Civil Aerospace OE and aftermarket contracts should be combined.</p> <p>How performance on long-term aftermarket contracts should be measured.</p> <p>Whether long-term aftermarket contracts contain a significant financing component.</p> <p>Whether any costs should be treated as wastage.</p> <p>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>.</p> <p>Whether sales of spare engines to joint ventures are at fair value.</p> <p>When revenue should be recognised in relation to spare engine sales.</p>	<p>Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change.</p>	<p>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 FX rates):</p> <ul style="list-style-type: none"> - 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 impact of around £20m. - 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)	<p>Determination of the nature of entry fees received.</p>		
Research and development	<p>Determination of the point in time where development costs incurred on an internal programme meet the criteria for capitalisation.</p> <p>Determination of the basis for amortising capitalised development costs.</p>		
Leases	<p>Determination of the lease term.</p>		
Impairment of non-current assets	<p>Determination of cash-generating units (CGU's) for assessing impairment of goodwill.</p>		

Basis of preparation and accounting policies continued

Key areas of judgement and sources of estimation uncertainty continued

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Provisions	Whether any costs should be treated as wastage.	<p>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.</p> <p>Estimates of the future revenues and costs to fulfil onerous contracts.</p> <p>Assumptions implicit within the calculation of discount rates.</p>	<p>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.</p> <p>An increase in Civil Aerospace large engines estimates of LTSA costs of 1% over the remaining term of the contracts could lead to a around a £50m to £70m increase in the onerous contract provision across all programmes.</p> <p>A 1% change in the discount rates used could lead to around a £20m to £30m change in the onerous contract provision.</p>
Post-retirement benefits		<p>Estimates of the assumptions for valuing the net defined benefit obligation.</p>	<p>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.</p> <p>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.</p> <p>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.</p>

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 25 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 25) 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 divisions in accordance with IFRS 8 *Operating Segments* and consistently with the basis on which performance is communicated to the Board each month.

Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts 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 of GBP:USD 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 recognised in a prior period will also be excluded from underlying performance. All other changes will be recognised within underlying performance.

Acquisition accounting, business disposals and impairment

The Group exclude these from underlying results so that the current year and comparative results are directly comparable.

Exceptional items

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

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

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

2 Segmental analysis continued

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 condensed 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 25) 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 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 revenue ²	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 revenue ²	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

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 change to 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 condensed 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

¹ The impact of measuring revenues and costs at the average exchange rate during the year and the impact of valuation of assets and liabilities using the year end exchange rate rather than the achieved rate or the exchange rate that is expected to be achieved by the use of the hedge book increased statutory revenues by £1,148m (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

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

³ Includes net fair value loss of £4m (2024: gain of £40m) on any interest rate swaps not designated into hedging relationships for accounting purposes

⁴ 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

⁵ 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)

⁶ The Group has assessed the carrying value of its assets and reviewed 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 9, 10 and 11 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

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

⁸ 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

⁹ 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 25

¹⁰ 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

¹¹ 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)
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)

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 and short-term investments	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)

3 Research and development

	2025 £m	2024 £m
Gross research and development costs	(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 note 9 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 9

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 RSSAs	(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 receivable/(payable)	(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 condensed 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)

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

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;

5 Taxation continued

- consideration that although all Civil Aerospace large engines are now compatible with sustainable fuels, there is a risk that in the longer-term demand will shift towards more sustainable products and solutions;
- the long-term forecast profit and cost profile of the other parts of the UK business;
- taking into consideration past performance and experience, 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 (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.

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 or 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 UK deferred tax asset 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.

The advance corporation tax (ACT) balance of £181m was fully de-recognised from the balance sheet in 2024 following the Group's announcement to reinstatement shareholder distributions via cash dividends, which prevents utilisation of the surplus advance corporation tax balance within an appropriate timeframe to deem it reasonable that the balance would be recovered. The balance remains unrecognised at the year end 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 deferred tax asset on UK tax losses 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 share (EPS) is calculated by dividing the profit/(loss) attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held under trust, which have been treated as if they had been cancelled.

	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 tax (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 losses, see note 5 for further details

7 Dividends

	2025	2024
	£m	£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 6p 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 5p per share (2024: 6p), giving a total for the year of 9.5p (2024: 6p) 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 Goodwill

	Rolls-Royce Power Systems AG £m	Rolls-Royce Deutschland Ltd & Co KG £m	Other ¹ £m	Total £m
Cost:				
At 1 January 2025	779	229	37	1,045
Transferred from assets held for sale ²	–	–	2	2
Disposal 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 2025	–	3	33	36
Transferred from assets held for sale ²	–	–	2	2
Disposal of business	–	–	(2)	(2)
Disposals	–	–	(10)	(10)
At 31 December 2025	–	3	23	26
Net book value at:				
31 December 2025	787	237	4	1,028
1 January 2025	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 25 for further details

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.

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.

8 Goodwill continued

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%
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.

9 Intangible assets

	Certification costs £m	Development expenditure £m	Customer relationships £m	Software ¹ £m	Other ² £m	Total £m
Cost:						
At 1 January 2025	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 ⁴	–	(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 2025	493	1,626	441	723	384	3,667
Charge for the year ⁵	31	107	7	68	22	235
Impairment ⁶	(3)	(4)	–	–	13	6
Transferred from assets held for sale ³	–	3	4	–	(4)	3
Disposals ⁴	–	(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:						
31 December 2025	440	2,493	23	329	285	3,570
1 January 2025	436	2,330	28	295	304	3,393

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 us to reduce the costs of meeting our 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 25 for further details

⁴ During 2025 the majority of the disposals relate to the derecognition of assets that are fully amortised and where no future economic benefits are expected from their use or disposal

⁵ Charged to cost of sales and commercial and administrative costs except development costs, which are charged to research and development costs

⁶ 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

9 Intangible assets continued

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 intangible assets with indefinite useful lives.

Material intangible assets

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

	Residual life ¹	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. 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 changes with an adverse effect on a programme 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 was required the test 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 10) and a lease right-of-use asset impairment reversal of £129m (see note 11) being recognised in cost of sales (£179m) and research and development (£6m) in the year as follows:

	Impairment reversal				Pre-tax nominal discount rate at 30 June 2025 ¹
	Intangible assets £m	Property, plant and equipment £m	Right-of-use assets £m	Total £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).

10 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2025	1,882	4,910	1,099	535	8,426
Additions	56	178	163	273	670
Disposal of business/businesses	–	(5)	–	–	(5)
Disposals/write-offs	(19)	(284)	(5)	(8)	(316)
Reclassifications within PPE ¹	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 2025	768	3,454	472	8	4,702
Charge for the year ²	71	239	70	–	380
Impairment ³	–	2	(44)	–	(42)
Disposal of business/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:					
31 December 2025	1,139	1,487	759	628	4,013
1 January 2025	1,114	1,456	627	527	3,724

¹ Includes reclassifications from assets under construction into the other categories of property, plant and equipment when the assets become available for use

² Depreciation is charged to cost of sales and commercial and administrative costs or included in the cost of inventory as appropriate

³ The carrying values of property, plant and equipment have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. During the year, a partial impairment reversal of £46m has been recognised within cost of sales (2024: £nil), as outlined within notes 2 and 9

11 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2025	517	246	1,897	2,660
Additions/modification of leases	79	50	49	178
Disposals 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 2025	294	135	1,470	1,899
Charge for the year ¹	47	47	193	287
Impairment ²	–	–	(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
1 January 2025	223	111	427	761

¹ Depreciation is charged to cost of sales and commercial and administrative costs as appropriate

² The carrying values of right-of-use assets have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). 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 and 9

12 Investments

Equity accounted and other investments

	Equity accounted Joint ventures	Other ¹	Total
	£m	£m	£m
At 1 January 2025	592	5	597
Transfer from subsidiary to joint venture ²	732	–	732
Additions ³	56	–	56
Share of retained loss ⁴	(32)	–	(32)
Reclassification of deferred profit to deferred income ⁵	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 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 25 for further information

³ Additions relates to investments of £52m (2024: £nil) related to Rolls-Royce SMR Limited following its deconsolidation earlier in the year. 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 25. The remaining £4m (2024: £17m) of additions relates to the joint venture, Beijing Aero Engine Services Company Limited

⁴ See table below

⁵ 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

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 venture 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

13 Inventories

	2025	2024
	£m	£m
Raw materials	699	544
Work in progress	1,932	1,715
Finished goods	3,097	2,833
	5,728	5,092

14 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

¹ Trade receivables and other assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure is included in the table above and relates to amounts not expected to be received in the next 12 months, in line with specific customer payment arrangements, including customers on payment plans

² These amounts reflect the contractual share of EFH flows 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

³ 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

⁴ Other receivables includes unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

The Group has adopted the simplified approach to provide for expected credit losses (ECLs), measuring the loss allowance at a probability weighted amount incorporated by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information.

The ECLs for trade receivables and other financial assets has decreased by £7m to £232m (2024: decreased by £3m to £239m).

The movements of the Group's 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)

15 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) of 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

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, £5,652m (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 as 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.

16 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 17)	(3)	(2)
Cash and cash equivalents per cash flow statement (page 16)	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.

17 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
Loan notes	1,026	795	1,754	2,764	2,780	3,559
Other loans	–	–	10	9	10	9
Total unsecured	1,034	801	1,768	2,776	2,802	3,577
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

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:

	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 21

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.

18 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 11 and 17, 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 condensed 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 income statement	(241)	(359)

¹ Included in cost of sales and commercial and administration costs depending on the nature and 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

18 Leases continued

The total cash outflow for leases in 2025 was £354m (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.

19 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
Accruals	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

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. 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 supply chain financing (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.

20 Financial assets and liabilities

Carrying value of other financial assets and liabilities

	Derivatives							Total £m
	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts ¹ £m	Total derivatives £m	Financial RRSAs £m	Other £m	C Shares £m	
At 31 December 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)
At 31 December 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

Derivative financial instruments

Movements in fair value of derivative financial assets and liabilities were as follows:

	Year ended 31 December 2025					Year ended 31 December 2024	
	Foreign exchange instruments £m	Commodity instruments £m	Interest rate instruments – hedge accounted ¹ £m	Interest rate instruments – non-hedge accounted £m	Total £m	Total £m	Total £m
At 1 January	(1,868)	(35)	54	93	(1,756)		(1,878)
Movements in fair value hedges	–	–	(33)	–	(33)		(32)
Movements in cash flow hedges	–	–	(40)	–	(40)		(23)
Movements in other derivative contracts ²	1,335	(7)	–	(4)	1,324		(609)
Contracts settled	682	18	(50)	(52)	598		786
At 31 December	149	(24)	(69)	37	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

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

20 Financial assets and liabilities continued

Fair values of financial instruments equate to book values with the following exceptions:

	2025		2024	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Other assets – Level 2	14	15	16	16
Borrowings – Level 1	(2,780)	(2,778)	(3,559)	(3,540)
Borrowings – Level 2	(22)	(23)	(18)	(21)
Financial RRSAs – Level 3	(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:

- non-current asset investments primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology;
- money market funds, included within cash and cash equivalents, are valued using Level 1 methodology. Fair values are assumed to approximately equal 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;
- the fair values of held to collect trade receivables and similar items, trade payables and other similar items, other non-derivative financial assets and liabilities, short-term investments and cash and cash equivalents 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;
- fair values of derivative financial assets and liabilities and trade receivable held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves or cost of borrowing, as appropriate. 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 as defined by IFRS 13 *Fair Value Measurement*);
- 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 as defined by IFRS 13 *Fair Value Measurement*) or by discounting contractual future cash flows (Level 2 as defined by IFRS 13 *Fair Value Measurement*);
- the fair values of RRSAs and other liabilities, which primarily includes royalties to be paid to airframers, 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 as defined by IFRS 13 *Fair Value Measurement*);
- 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);
- in addition, other assets can be included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/3 as defined by IFRS 13 *Fair Value Measurement*). At 31 December 2025, Level 3 assets totalled £11m (2024: £14m); and
- 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 as defined by IFRS 13 *Fair Value Measurement*).

21 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

21 Provisions for liabilities and charges continued

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 23.

22 Post-retirement benefits

The net post-retirement deficit as at 31 December 2025 is calculated on a year to date basis, using the latest funding valuation as at 31 March 2023 for the UK scheme, updated to 31 December 2025 for the principal schemes.

Amounts recognised in the balance sheet in respect of defined benefit schemes

	UK schemes £m	Overseas schemes £m	Total £m
At 1 January 2025	779	(970)	(191)
Exchange adjustments	–	(7)	(7)
Current service cost and administrative expenses	(6)	(42)	(48)
Past service (cost)/credit	(4)	10	6
Financing recognised in the income statement	32	(38)	(6)
Contributions by employer	–	84	84
Actuarial (losses)/gains recognised in OCI ¹	(33)	64	31
(Loss)/return on plan assets excluding financing recognised in OCI ²	(484)	9	(475)
At 31 December 2025	284	(890)	(606)
Post-retirement scheme surpluses – included in non-current assets ³	284	2	286
Post-retirement scheme deficits – included in non-current liabilities	–	(892)	(892)

¹ The actuarial loss of £(33)m relating to the UK scheme (Rolls-Royce UK Pension Fund – RRUKEPF) includes a charge of around £(100)m in respect of the Buy-in of the UK scheme detailed below

² 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

³ 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

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 judgement 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 RRUKEPF 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 Condensed 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 the 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.

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 RRUKEPF 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 RRUKEPF 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.

23 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the Serious Fraud Office and the US Department of Justice and a leniency agreement with the Ministério Público Federal, the Brazilian federal prosecutor. The terms of both DPAs have now expired. The Company has also met all its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to the same historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitorship. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Group or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Group. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, grant funding, countertrade obligations and minor miscellaneous items, which could result in potential outflows if the requirements related to those arrangements are not met. Various Group undertakings are party to legal actions and claims (including with tax authorities) which arise in the ordinary course of business, some of which are for substantial amounts.

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of \$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.

24 Related party transactions

	2025 £m	2024 £m
Sale 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.

25 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 and 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.

	2025 £m	2025 £m	2025 £m
	Naval Propulsors Business	Rolls-Royce SMR Limited	Total
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
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 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 disposal ¹	(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 condensed consolidated income statement

25 Business disposals and businesses held for sale continued

Businesses held for sale

At 31 December 2024, the Group had classified the assets and liabilities related to its naval propulsors & handling business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. On 18 September 2024, the Group and Fairbank 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

26 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 LTSA 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 54

² Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 54

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 54.

Reconciliation of Alternative Performance Measures (APMs) to their statutory equivalent

Alternative Performance Measures (APMs)

Business performance is reviewed and managed on an underlying basis. These alternative performance measures reflect the economic substance of trading in the year. In addition, a number of other APMs are utilised to measure and monitor the Group's performance.

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 31 December 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%
	2025	2024
	pence	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, page 33 for further details

Reconciliation of Alternative Performance Measures (APMs) to their statutory equivalent continued

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.

All amounts below are shown on an underlying basis and reconciled to the nearest statutory measure above on page 52. 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

Reconciliation of Alternative Performance Measures (APMs) to their statutory equivalent continued

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 51 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

Gross 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

Reconciliation of Alternative Performance Measures (APMs) to their statutory equivalent continued

Key performance indicators

The following measures are key performance indicators and are calculated using APMs 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 Condensed 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	13,116
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 33 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)

Principal risks and uncertainties

Our risk management framework is described on pages 48 to 49 of our 2025 Annual Report. It sets out requirements for managing risk across the organisation, in a continuous process where risk owners identify, quantify, evaluate, control, assure and act to mitigate risks, including ongoing monitoring and oversight.

Each principal risk is owned by one or more members of the Executive Team and managed in relation to achieving target risk appetite or better. The actions needed to achieve or maintain these target positions are also monitored. We continued to monitor our principal risks portfolio to ensure that it remains current and dynamic. All principal risks facing the Group are summarised below and reported in detail on pages 51 to 56 of our 2025 Annual Report.

Safety

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.

Product: Failure to meet the expectations of our customers to provide safe products which also meet the relevant regulations.

Compliance

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.

Strategy

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.

Execution

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.

Business interruption

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.

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.

Energy transition

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.

Information & data (including cyber-security)

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.

Market & financial shock

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.

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.

Political

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.

Talent & capability

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.

Technology

Failure to ensure products and services are based on competitive technology, leveraging substantial engineering and scientific challenges, adopting digital tools (such as AI) and/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.

Payments to shareholders

Subject to shareholder approval at the AGM to be held on 30 April 2026, the Board has recommended a final cash dividend of 5 pence per ordinary share for the year ended 31 December 2025, to 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.

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. Holders of C shares 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). For the avoidance of doubt, the C share reinvestment programme is no longer available; C shares can only be redeemed for cash. The payment of C Share redemption monies will be made on 16 July 2026. Any entitlement to interest payments by holders of C shares will also be paid on 1 July 2026 in accordance with the Company's articles of association.

Statement of Directors' responsibilities

The statements below have been prepared in connection with the Company's full Annual Report for the year ended 31 December 2025. Certain parts are not included in this announcement.

The Directors consider that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and 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 loss of the Group;
- the Company Financial Statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101 *Reduced Disclosure Framework*, give a true and fair view of the assets, liabilities, financial position of the Company;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces; and

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and Company's auditors are unaware; and
- they have taken all 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 or Company's auditor are aware of that information.

By order of the Board

Tufan Erginbilgic Helen McCabe
Chief Executive Chief Financial Officer

26 February 2026