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Rolls-Royce Holdings plc
27 February 2025

This announcement contains inside information

27 February 2025

ROLLS-ROYCE HOLDINGS PLC - 2024 Full Year Results

Strong 2024 results; Mid-term Guidance upgraded; £1bn share buyback in 2025

- **Significant transformation progress** as we expand the earnings and cash flow potential of the Group
- **Underlying operating profit** of £2.5bn with a margin of 13.8%, reflecting the impact of our strategic initiatives, commercial optimisation and cost efficiency benefits
- **Free cash flow** of £2.4bn driven by strong operating profit and continued LTSA balance growth supporting a net cash balance of £475m at the end of the year
- **Dividend of 6.0p per share** in respect of the full year 2024, based on a 30% payout ratio of underlying profit after tax [1,2]
- **2025 guidance** of £2.7bn-2.9bn underlying operating profit and £2.7bn-2.9bn free cash flow; delivering our Capital Markets Day mid-term targets two years earlier than planned
- **£1bn share buyback** to commence immediately for completion through 2025
- **Upgraded mid-term targets** of £3.6bn-£3.9bn underlying operating profit, 15%-17% operating margin, £4.2bn-£4.5bn free cash flow, and 18%-21% return on capital based on a 2028 timeframe

Tufan Erginbilgic, CEO said: "Strong 2024 results build on our progress last year, as we transform Rolls-Royce into a high-performing, competitive, resilient, and growing business. All core divisions delivered significantly improved performance, despite a supply chain environment that remains challenging.

We are moving with pace and intensity. Based on our 2025 guidance, we now expect to deliver underlying operating profit and free cash flow within the target ranges set at our Capital Markets Day, two years earlier than planned. Significantly improved performance and a stronger balance sheet gives us confidence to reinstate shareholder dividends and announce a £1bn share buyback in 2025.

Our upgraded mid-term targets include underlying operating profit of £3.6bn-£3.9bn and free cash flow of £4.2bn-£4.5bn. These mid-term targets are a milestone, not a destination, and we see strong growth prospects beyond the mid-term."

Full Year 2024 Group Results

£ million	Underlying 2024 [3]	Underlying 2023 [3]	Statutory 2024	Statutory 2023
Revenue	17,848	15,409	18,909	16,486
Operating profit	2,464	1,590	2,906	1,944
Operating margin %	13.8%	10.3%	15.4%	11.8%
Profit before taxation	2,293	1,262	2,234	2,427
Basic earnings per share (pence) [2]	20.29	13.75	30.05	28.85
Free cash flow	2,425	1,285		
Return on Capital (%) [2, 4]	13.8%	11.3%		
Net cash flow from operating activities			3,782	2,485
Net cash/(debt)			475	(1,952)

1 Subject to shareholder approval at the 2025 annual general meeting
2 In 2024, the Group recognised a net £346m credit to underlying profit after tax (PAT), primarily in respect of deferred tax assets on UK tax losses. This £346m credit has been adjusted in the calculation of the proposed dividend per share, earnings per share and return on capital. For further details, see note 5, page 32
3 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 49 to 52
4 Adjusted return on capital is defined on page 52 and is abbreviated to return on capital

Full year 2024 performance summary

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

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

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

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

- **Shareholder distributions:** In line with our capital framework, now that the balance sheet is being strengthened, we are reinstating shareholder dividends in respect of the full year 2024. The cash dividend of 6p per share represents a 30% pay-out ratio of underlying profit after tax and will be paid subject to shareholder approval at our annual general meeting on 1 May 2025[1]. We are also pleased to announce a £1bn share buyback to be completed over the course of 2025.

1 The dividend will be paid on 16 June 2025 to ordinary shareholders on the register on 22 April 2025. In addition to the cash dividend, shareholders will be offered a dividend reinvestment plan

Transformation programme and strategic initiatives 2022 - 2024

The success of our transformation programme and strategic initiatives is evident in our financial performance over the past two years. We have made good progress, and there is still more to do. Our strategy framework is founded on four pillars.

Portfolio choices & partnerships

- Rolls-Royce SMR was named the preferred supplier for the construction of Small Modular Reactors (SMRs) by the Government of the Czech Republic and the Czech State utility, ČEZ Group in late 2024. This is enabled by a strategic investment by ČEZ and an exclusive commitment to deploy up to 3GW of electricity in Czechia.

- In Civil Aerospace, we successfully tested our UltraFan demonstrator and are developing the next design of the engine that will position us strongly for a new generation of narrow and widebody aircraft.

- We have invested to grow capacity in Derby, Dahlewitz, and Singapore. This will allow us to deliver more new engines and, by the end of this year, perform an additional 50% more shop visits compared to 2023 to support rising aftermarket volumes. We also received the first Trent 1000 to our MRO facility in Dahlewitz.

- In business aviation, we certified and delivered Pearl 700 engines that will power the Gulfstream G700, which entered service in April 2024, and will also power the forthcoming G800. Our commercial optimisation actions mean that business aviation engine deliveries are now profitable.

- In Defence, we are expanding our submarines facilities in Raynesway, Derby, to support growth driven by the AUKUS programme.

- In Power Systems, we are investing in a next generation engine that will enter the market in 2028. This engine will offer best-in-class fuel efficiency and power density. We also expanded our JV in China with Yuchai to address the fast-growing Chinese market.

- We completed the disposals of our direct air capture assets, the lower power range engines business in Power Systems and agreed to sell our naval propulsors & handling business in Defence.

- We made the decision to close our advanced air mobility activities, alongside our electrolyser and fuel cells activities.

Strategic initiatives

- In Civil Aerospace, we have made strong progress renegotiating original equipment (OE) and aftermarket contracts that will deliver a significant benefit to underlying operating profit and cash flows to the mid-term and beyond. Our efforts to improve the commercial terms of our large engine LTSA aftermarket contracts supported a significant increase in total contract margins for our in-production engines over the last two years.

- At our CMD we set a mid-term target to improve the time on wing of our modern engines by an average of 40%. As a result of further initiatives, we now expect to improve this by an average of more than 80%. A significant portion of this will be delivered by the end of 2025.
    - On the Trent 1000 TEN, we successfully completed flight testing of the new HPT blade in January 2025. This blade, which we expect to be certified in the coming months, will more than double the time on wing of the engine. We have introduced the new blade into our production engines and expect to roll out the improvement across the existing fleet over the next two years.
    - In addition, we completed the design phase of further improvements for the Trent 1000 and Trent 7000 that will deliver an incremental 30% time on wing benefit by the end of 2025. Engine testing of the modification commences in April.
    - We certified the Trent XWB-84 EP, which further improves fuel efficiency and durability of the engine, and introduced a new coating for the Trent XWB-97 to improve its durability in harsh environments.
    - On the Trent XWB-84, a compressor blade modification to the engine combined with improved analysis of millions of hours of operating data will allow us to systematically raise the cycle limit of critical parts.
- Our market share of the widebody installed fleet has grown from 32% at the end of 2022 to 36% at the end of 2024, supported by our market share of more than 50% of new engine deliveries over the past two years.
- In business aviation, where we have almost a 70% market share on large cabin jets, operating profit has more than doubled over the last two years, with improvements across OE and aftermarket supported by commercial optimisation and cost efficiencies.
- In Defence, we won an eight year submarines contract worth c.£9bn with the UK Ministry of Defence, the Survivable Airborne Operations Center (SAOC) contract to deliver a replacement for the United States Air Force's current fleet of E-4B "Nightwatch" led by prime contractor SNC, and the TACAMO contract for Northrop Grumman.
- In Power Systems, we have restructured our Power Generation business model, which has resulted in a significant increase in profitability to capture strong profitable growth from the data centre market.

Efficiency & simplification

- In total, our efficiency & simplification programme delivered over £350m of savings by the end of 2024. We now expect to deliver benefits of over £500m in 2025, above our CMD target of £0.4-£0.5bn in 2027, and two years earlier than planned. Within this, we also remain on track to deliver c.£200m per annum of organisational design benefits by the end of 2025. Supporting our efficiency & simplification programme is the roll-out of zero-based budgeting across the Group. Pilots were completed in Civil Aerospace that demonstrated savings of 10-15% in third-party costs in the selected areas.
- We delivered more than £550m of cumulative gross third-party cost savings by the end of 2024 and now expect to deliver in excess of £1bn by the end of 2025 helping to offset inflationary pressures. This is also two years earlier than our previous CMD target of £1bn in 2027.
- We are executing on our new Group Business Services strategy, with a new centre opening in Poland and the expansion of our India centre, which will drive further efficiencies in the mid-term.
- TCC/GM improved to a best-in-class ratio of 0.47x in 2024 (2023: 0.59x).

Lower carbon & digitally enabled businesses

- Rolls-Royce SMR was shortlisted as one of four potential SMR providers by the UK Government and as one of two potential SMR providers in Sweden by Vattenfall. We remain the only SMR company in Step 3 of the UK's Generic Design Assessment, significantly ahead of the competition in the regulatory process.
- In Power Systems, we won major battery energy storage systems (BESS) contracts, including a contract with Latvia to install one of the largest BESS in the EU, and our BESS activities remain on track to break even in the near-term. We sold over 500 HVO (Hydrotreated Vegetable Oil) powered *mtu* generators to the data centre sector, representing nearly 1.3 gigawatt of standby power capacity.
- Across the Group, we are investing in our sales and operating planning systems, as well as upgrading the current engineering mainframe system.
- We are pioneering new tools and techniques in Civil Aerospace. For example, we have introduced machine learning and advanced imaging technologies to assist with the inspection of turbine blades, which we believe will extend time on wing.

We are working at pace on our Transformation Programme to further embed a high-performance culture across the Group. Our workforce is excited and energised by our Transformation and the progress we are making.

Outlook and 2025 guidance

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

2025 financial guidance

Underlying operating profit	£2.7bn-£2.9bn

Underlying operating profit	£2.7bn-£2.9bn
Free cash flow	£2.7bn-£2.9bn

Our free cash flow guidance for full year 2025 includes a £150-200m cash impact related to the supply chain, similar to 2024, with parts availability remaining constrained. We expect supply chain issues to persist for a further 12-18 months. We are actively managing these challenges and are working to mitigate the impacts.

In Civil Aerospace, we expect 2025 large EFH will grow to 110-115% of 2019 levels, alongside 540-570 total OE deliveries and 1,400-1,500 total shop visits. Our 2025 free cash flow guidance is based on Civil Aerospace net LTSA creditor growth at the lower end of the £0.8bn to £1.2bn guided range (2024: £0.7bn). Additional details are included in the results presentation and supplementary data slides.

Upgraded mid-term targets

Strong delivery in 2023 and 2024 gives us confidence to upgrade our mid-term targets.

	Upgraded mid-term targets (2028)	CMD mid-term targets (2027)
Group targets:		
Underlying operating profit	£3.6bn-£3.9bn	£2.5bn-£2.8bn
Underlying operating margin	15-17%	13-15%
Free cash flow	£4.2bn-£4.5bn	£2.8bn-£3.1bn
Return on capital	18-21%	16-18%
Divisional margin targets:		
Civil Aerospace	18-20%	15-17%
Defence	14-16%	14-16%
Power Systems	14-16%	12-14%

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

- **Civil Aerospace:** We target an 18-20% margin in the mid-term (2024: 16.6%). Higher operating profit will be driven by improved large engine LTSA aftermarket performance, with higher LTSA margins reflecting the benefits of our six levers (extending time on wing, lowering shop visit costs, reducing product costs, keeping engines earning, implementing value-driven pricing, and continuing to drive rigour on contractual terms and conditions). We expect improved large engine OE profitability, both in installed and spare engines, alongside further improvements in business aviation performance. These benefits will be partly offset by a reduced contribution from contractual margin improvements, as we anticipate completing the majority of our remaining onerous contract renegotiations in 2025 and 2026.
- **Defence:** We target a 14-16% margin in the mid-term (2024: 14.2%). Higher operating profit will be driven by stronger OE and aftermarket performance, reflecting commercial optimisation benefits supported by our actions taken over the past two years. These benefits will be partly offset by the impact of divestments.
- **Power Systems:** We target a 14-16% margin in the mid-term (2024: 13.1%). Higher operating profit will be driven principally by power generation, as we continue to capture profitable growth in the data centre market, alongside governmental, and BESS which we aim to be profitable in the near-term. We also expect continued growth in our marine and industrial businesses.

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

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

Further details on the actions and assumptions that underpin these targets are included in the results presentation and supplementary data slides.

Growth prospects beyond the mid-term

We see strong growth prospects beyond the mid-term across the Group.

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

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

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

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

Our investor presentation will provide more specific information on the above.

2024 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	9,040	24%	1,505	79%	16.6%	5.1pt
Defence	4,522	13%	644	16%	14.2%	0.4pt
Power Systems	4,271	11%	560	40%	13.1%	2.7pt
New Markets	3	nm[2]	(177)	12%	nm[2]	nm[2]
Other businesses	12	nm[2]	-	nm[2]	nm[2]	nm[2]
Corporate/eliminations	-	nm[2]	(68)	23%	nm[2]	nm[2]
Total	17,848	17%	2,464	57%	13.8%	3.5pt

Trading cash flow

£ million	2024	2023
Civil Aerospace	2,030	626
Defence	591	511
Power Systems	452	461
New Markets	(181)	(63)
Other businesses	5	5
Corporate/eliminations	(60)	(57)
Total trading cash flow	**2,837**	**1,483**
Underlying operating profit charge exceeded by contributions to defined benefit schemes	(31)	(26)
Taxation	(381)	(172)
Total free cash flow	**2,425**	**1,285**

1 Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2024. All underlying income statement commentary is provided on an organic basis unless otherwise stated
2 nm is defined as not meaningful

Civil Aerospace

2024 key Civil Aerospace operational metrics:	Large engine	Business aviation/ regional	Total	Change
OE deliveries	278	251	529	16%
LTSA engine flying hours (millions)	15.8	3.0	18.8	14%
Total LTSA shop visits	903	410	1,313	7%
…of which major shop visits	430	384	814	11%

Significantly improved Civil Aerospace profit reflected higher large engine aftermarket and business aviation performance, net contractual margin improvements, alongside the benefits from our cost efficiency actions.

Civil Aerospace large EFHs rose by 17% year on year to 103% of 2019 levels, reflecting continued strong demand for travel and our growing installed widebody fleet. Business aviation and regional EFH were unchanged versus the prior year. A total of 494 large engines were ordered with a gross book-to-bill of 1.8x in 2024. Significant new orders included IndiGo, Cathay Pacific, Korean Air and Delta, alongside an order for Trent 1000 engines from EL AL. As a result of strong order intake, our large engine order book increased by 13% to 1,843 engines at the end of the year.

Total OE deliveries rose by 16% to 529 engines, with 251 business aviation deliveries (2023: 196) and 278 total large engine deliveries (2023: 262), including 57 large spare engines (2023: 53) helping to support fleet health and resilience. Total shop visits increased by 7% versus the prior year to 1,313 (2023: 1,227), of these 430 were large engine major shop visits (2023: 368).

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

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

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

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

Defence

Higher operating profit in Defence was driven by aftermarket profit growth, submarines growth, and cost efficiencies across the business.

Demand remained very strong, with an order intake of £13.3bn in the year and a book-to-bill ratio of 2.9x, including an eight-year submarines contract worth c.£9bn with the UK Ministry of Defence. This order combines several current and upcoming contracts and underscores our unique nuclear capability. We were selected to form part of the team led by prime contractor SNC, to modernise and deliver a replacement for the United States Air Force's current fleet of E-4B "Nightwatch" aircraft as part of the SAOC contract. We were also selected by Northrop Grumman on the TACAMO contract, a key component of the U.S. nuclear triad. Our order backlog at the end of the year was £17.4bn, with order cover of 90% for 2025.

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

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

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

Power Systems

In Power Systems, stronger performance was primarily driven by power generation, alongside cost efficiency benefits.

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

Underlying revenue was £4.3bn, an increase of 11% versus the prior year, with particularly strong growth in power generation, where revenues grew by 25%, and by 46% for data centres. Revenue growth was also strong in governmental at 17%, reflecting continued demand for land defence and naval products. Industrial revenues were

20% lower, largely as a result of the disposal of the lower power range of off highway engines. Underlying OE revenues grew by 14% to £2.9bn. Underlying services revenue grew by 5% to £1.3bn.

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

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

New Markets

Rolls-Royce SMR was named in September as the preferred supplier for the construction of SMRs by the Government of the Czech Republic and the Czech State utility, ČEZ Group. This is enabled by a strategic investment by ČEZ into Rolls-Royce SMR and an exclusive commitment to deploy up to 3GW of electricity in the Czech Republic.

Rolls-Royce SMR has completed step two of the Generic Design Assessment (GDA) regulatory process in the UK and moved into the third and final step on 30 July 2024. Rolls-Royce is the only company to have reached this milestone, adding to our competitive advantage. First power is still planned in the early 2030s, which will be dependent on securing orders from the UK Government's SMR procurement process.

Rolls-Royce SMR is one of two companies that have been shortlisted by Vattenfall, to potentially deploy a fleet of SMRs in Sweden. The programme is part of Vattenfall's plans to meet the rising demand for electricity, adding nuclear capacity and helping Sweden to achieve its goal of creating a fossil free economy by 2045. Rolls-Royce SMR is also in a range of selection processes with a number of other counterparts.

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

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

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

Statutory and underlying Group financial performance

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

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

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

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

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

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

2 Statutory taxation includes the recognition of a deferred tax asset on UK tax losses of £1,033m (of which £508m is included in underlying) and the de-recognition of the deferred tax asset relating to advance corporation tax of £(162)m (of which £(162)m is included in underlying), see note 5, pages 31 to 32 for further details)

3 In 2024, the underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 32 for further details

Free cash flow

	2024					2023
£ million	**Cash flow**	**Impact of hedge book**	**Impact of acquisition accounting**	**Impact of other non-underlying items**	**Funds flow**	**Funds flow**
Operating profit	**2,906**	**(191)**	**45**	**(296)**	**2,464**	1,590
Depreciation, amortisation and impairment	**543**	**-**	**(45)**	**355**	**853**	978
Movement in provisions	**(56)**	**(56)**	**-**	**(55)**	**(167)**	(258)
Movement in Civil Aerospace LTSA balance	**1,193**	**(283)**	**-**	**-**	**910**	1,331
Movement in RRSA prepayments for LTSA parts	**(348)**	**129**	**-**	**-**	**(219)**	(252)
Movement in cost to obtain contracts	**(19)**	**1**	**-**	**-**	**(18)**	(40)
Settlement of excess derivatives	**(146)**	**-**	**-**	**-**	**(146)**	(389)
Interest received	**269**	**-**	**-**	**-**	**269**	159
Other operating cash flows [1]	**61**	**(5)**	**-**	**(13)**	**43**	(68)
Operating cash flow before working capital and income tax	**4,403**	**(405)**	**-**	**(9)**	**3,989**	3,051
Working capital [2]	**436**	**(271)**	**-**	**115**	**280**	(356)
Cash flows on other financial assets and liabilities held for operating purposes	**(676)**	**652**	**-**	**-**	**(24)**	8
Income tax	**(381)**	**-**	**-**	**-**	**(381)**	(172)
Cash from operating activities	**3,782**	**(24)**	**-**	**106**	**3,864**	2,531
Capital element of lease payments	**(299)**	**24**	**-**	**-**	**(275)**	(270)
Capital expenditure	**(876)**	**-**	**-**	**-**	**(876)**	(695)
Investments	**16**	**-**	**-**	**-**	**16**	69
Interest paid	**(298)**	**-**	**-**	**-**	**(298)**	(333)
Other	**100**	**-**	**-**	**(106)**	**(6)**	(17)
Free cash flow	**2,425**	**-**	**-**	**-**	**2,425**	1,285

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

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

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

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

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

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

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

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

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

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

Balance Sheet

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

Key drivers of balance sheet movements were:

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

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

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

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

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

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

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

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

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

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. Downloadable materials will also be available on the Investor Relations section of the Rolls-Royce website: https://www.rolls-royce.com/investors/results-and-events.aspx

To register for the webcast, including Q&A participation, please visit the following link:

https://app.webinar.net/a2OWERzEem5

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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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 2024

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

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

Earnings per ordinary share attributable to ordinary shareholders:	6		
Basic		**30.05p**	28.85p
Diluted		**29.87p**	28.70p

1 Cost of sales includes a net charge for expected credit losses (ECLs) of £14m (2023: net release of £48m). Further details can be found in note 12

2 The impact of an exceptional impairment reversal relating to a Civil Aerospace programme impairment that was recognised in 2020 is included within cost of sales, £132m, and research and development, £413m. Further details can be found in notes 2, 3 and 7

3 Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 18

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Profit for the year		**2,484**	2,404
Other comprehensive income/(expense) (OCI)			
Actuarial movements in post-retirement schemes	20	**22**	116
Revaluation to fair value of other investments	10	**(2)**	(4)
Share of OCI of joint ventures and associates		**(1)**	1
Related tax movements		**61**	(43)
Items that will not be reclassified to profit or loss		**80**	70
Foreign exchange translation differences on foreign operations		**(29)**	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		**-**	1
Movement on fair values charged to cash flow hedge reserve (CFHR)		**(17)**	(82)
Reclassified to income statement from cash flow hedge reserve (CFHR)		**22**	61
Share of OCI of joint ventures and associates		**(3)**	1
Related tax movements		**(3)**	4
Items that will be reclassified to profit or loss		**(30)**	(241)
Total other comprehensive income/(expense)		**50**	(171)
Total comprehensive income for the year		**2,534**	2,233
Attributable to:			
Ordinary shareholders		**2,571**	2,241
NCI		**(37)**	(8)
Total comprehensive income for the year		**2,534**	2,233

Condensed consolidated balance sheet

At 31 December 2024

	Notes	2024 £m	2023 £m
ASSETS			
Intangible assets	7	**4,402**	4,009
Property, plant and equipment	8	**3,724**	3,728
Right-of-use assets	9	**761**	905
Investments - joint ventures and associates	10	**592**	479
Investments - other	10	**5**	31
Other financial assets	18	**126**	360
Deferred tax assets	5	**3,660**	2,998
Post-retirement scheme surpluses	20	**790**	782
Non-current assets		**14,060**	13,292
Inventories	11	**5,092**	4,848
Trade receivables and other assets	12	**8,713**	8,123
Contract assets	13	**1,813**	1,242
Taxation recoverable		**71**	80
Other financial assets	18	**209**	34
Cash and cash equivalents	14	**5,575**	3,784
Current assets		**21,473**	18,111
Assets held for sale	23	**153**	109
TOTAL ASSETS		**35,686**	31,512
LIABILITIES			
Borrowings and lease liabilities	15	**(1,097)**	(809)
Other financial liabilities	18	**(642)**	(448)
Trade payables and other liabilities	17	**(8,009)**	(6,896)
Contract liabilities	13	**(6,309)**	(6,098)
Current tax liabilities		**(117)**	(143)

Provisions for liabilities and charges	19	**(589)**	(532)
Current liabilities		**(16,763)**	(14,926)
Borrowings and lease liabilities	15	**(4,035)**	(4,950)
Other financial liabilities	18	**(1,640)**	(1,983)
Trade payables and other liabilities	17	**(1,965)**	(1,927)
Contract liabilities	13	**(9,447)**	(8,438)
Deferred tax liabilities	5	**(231)**	(330)
Provisions for liabilities and charges	19	**(1,405)**	(1,497)
Post-retirement scheme deficits	20	**(981)**	(1,035)
Non-current liabilities		**(19,704)**	(20,160)
Liabilities associated with assets held for sale	23	**(100)**	(55)
TOTAL LIABILITIES		**(36,567)**	(35,141)
NET LIABILITIES		**(881)**	(3,629)
EQUITY			
Called-up share capital		**1,701**	1,684
Share premium		**1,012**	1,012
Capital redemption reserve		**168**	167
Cash flow hedge reserve		**13**	12
Translation reserve		**603**	634
Accumulated losses		**(4,409)**	(7,190)
Equity attributable to ordinary shareholders		**(912)**	(3,681)
Non-controlling interest (NCI)		**31**	52
TOTAL EQUITY		**(881)**	(3,629)

Condensed consolidated cash flow statement

For the year ended 31 December 2024

	Notes	2024 £m	2023 £m
Reconciliation of cash flows from operating activities			
Operating profit		**2,906**	1,944
Loss on disposal of property, plant and equipment		**32**	18
Loss on disposal of intangible assets		**6**	-
Share of results of joint ventures and associates	10	**(172)**	(173)
Dividends received from joint ventures and associates	10	**77**	54
Amortisation and impairment of intangible assets	7	**(120)**	272
Depreciation and impairment of property, plant and equipment	8	**400**	423
Depreciation and impairment of right-of-use assets	9	**265**	334
Adjustment of amounts payable under residual value guarantees within lease liabilities	16	**(6)**	(10)
Impairment of and other movements on investments	10	**4**	-
Decrease in provisions		**(56)**	(325)
Increase in inventories		**(323)**	(200)
Movement in trade receivables/payables and other assets/liabilities		**833**	(1,346)
Movement in contract assets/liabilities		**752**	2,703
Cash flows on other financial assets and liabilities held for operating purposes [1]		**(676)**	(845)
Cash flows on settlement of excess derivative contracts [2]		**(146)**	(389)
Interest received		**269**	159
Net defined benefit post-retirement cost recognised in profit before financing	20	**56**	41
Cash funding of defined benefit post-retirement schemes	20	**(74)**	(69)
Share-based payments		**136**	66
Net cash inflow from operating activities before taxation		**4,163**	2,657
Taxation paid		**(381)**	(172)
Net cash inflow from operating activities		**3,782**	2,485
Cash flows from investing activities			
Movement in other investments		**-**	1
Additions of intangible assets	7	**(367)**	(284)
Disposals of intangible assets		**5**	4
Purchases of property, plant and equipment		**(519)**	(429)
Disposals of property, plant and equipment		**5**	10
Acquisition of businesses		**-**	(14)
Disposal of businesses (including cash flows on disposals in prior periods)	23	**62**	(4)
Movement in investments in joint ventures and associates	10	**(17)**	(9)
Movement in short-term investments		**-**	11
Cash flows on other financial assets and liabilities held for non-operating purposes		**-**	(12)
Net cash outflow from investing activities		**(831)**	(726)
Cash flows from financing activities			
Repayment of loans		**(475)**	(1)
Settlement of swaps hedging fixed rate borrowings		**(11)**	-
Proceeds from increase in loans		**7**	2
Capital element of lease payments		**(299)**	(291)
Net cash flow from decrease in borrowings and lease liabilities		**(778)**	(290)
Interest paid		**(200)**	(196)
Interest element of lease payments		**(83)**	(85)
Fees paid on undrawn facilities		**(15)**	(52)
Transactions with NCI [3]		**33**	77
Dividends to NCI		**(3)**	(2)
Redemption of C Shares		**(1)**	(1)
Net cash outflow from financing activities		**(1,047)**	(549)
Change in cash and cash equivalents		**1,904**	1,210
Cash and cash equivalents at 1 January		**3,731**	2,605
Exchange losses on cash and cash equivalents		**(62)**	(84)

Cash and cash equivalents at 31 December [4]	**5,573**	3,731

[1] 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 £146m (2023: £389m) and estimates that future cash outflows of £148m will be incurred in 2025 and £27m will be incurred in 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 2024

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 22.

	2024 £m	2023 £m
Reconciliation of movements in cash and cash equivalents to movements in net cash/(debt)		
Change in cash and cash equivalents	**1,904**	1,210
Cash flow from decrease in borrowings and lease liabilities	**778**	290
Less: settlement of related derivatives included in fair value of swaps below	**(11)**	-
Cash flow from decrease in short-term investments	**-**	(11)
Change in net cash/(debt) resulting from cash flows	**2,671**	1,489
Lease additions, modifications and other non-cash adjustments on borrowings and lease liabilities	**(193)**	(191)
Exchange (losses)/gains on net cash/(debt)	**(50)**	57
Fair value adjustments	**(11)**	7
Movement in net cash/(debt)	**2,417**	1,362
Net (debt) at 1 January	**(1,975)**	(3,337)
Net cash/(debt) at 31 December excluding the fair value of swaps	**442**	(1,975)
Fair value of swaps hedging fixed rate borrowings	**33**	23
Net cash/(debt) at 31 December	**475**	(1,952)

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

	At 1 January £m	**Funds flow £m**	**Exchange differences £m**	**Fair value adjustments £m**	**Reclassifi-cations £m**	**Other movements £m**	**At 31 December £m**
2024							
Cash at bank and in hand	**739**	**(15)**	**(10)**	**-**	**-**	**-**	**714**
Money market funds	**1,077**	**841**	**(18)**	**-**	**-**	**-**	**1,900**
Short-term deposits	**1,968**	**1,027**	**(34)**	**-**	**-**	**-**	**2,961**
Cash and cash equivalents (per balance sheet)	**3,784**	**1,853**	**(62)**	**-**	**-**	**-**	**5,575**
Overdrafts	**(53)**	**51**	**-**	**-**	**-**	**-**	**(2)**
Cash and cash equivalents (per cash flow statement)	**3,731**	**1,904**	**(62)**	**-**	**-**	**-**	**5,573**
Other current borrowings	**(478)**	**471**	**-**	**(18)**	**(774)**	**-**	**(799)**
Non-current borrowings	**(3,568)**	**(3)**	**19**	**7**	**774**	**(5)**	**(2,776)**
Lease liabilities	**(1,660)**	**299**	**(7)**	**-**	**1**	**(188)**	**(1,555)**
Lease liabilities included within liabilities held for sale	**-**	**-**	**-**	**-**	**(1)**	**-**	**(1)**
Financial liabilities	**(5,706)**	**767**	**12**	**(11)**	**-**	**(193)**	**(5,131)**
Net cash/(debt) excluding fair value of swaps	**(1,975)**	**2,671**	**(50)**	**(11)**	**-**	**(193)**	**442**
Fair value of swaps hedging fixed rate borrowings [1]	**23**	**11**	**(18)**	**17**	**-**	**-**	**33**
Net cash/(debt)	**(1,952)**	**2,682**	**(68)**	**6**	**-**	**(193)**	**475**
2023							
Cash at bank and in hand	847	(79)	(29)	-	-	-	739
Money market funds	34	1,043	-	-	-	-	1,077
Short-term deposits	1,726	297	(55)	-	-	-	1,968
Cash and cash equivalents (per balance sheet)	2,607	1,261	(84)	-	-	-	3,784
Overdrafts	(2)	(51)	-	-	-	-	(53)
Cash and cash equivalents (per cash flow statement)	2,605	1,210	(84)	-	-	-	3,731
Short-term investments	11	(11)	-	-	-	-	-
Other current borrowings	(1)	(1)	-	(13)	(462)	(1)	(478)
Non-current borrowings	(4,105)	-	59	20	462	(4)	(3,568)
Lease liabilities	(1,847)	291	82	-	-	(186)	(1,660)
Financial liabilities	(5,953)	290	141	7	-	(191)	(5,706)
Net (debt) excluding fair value of swaps	(3,337)	1,489	57	7	-	(191)	(1,975)
Fair value of swaps hedging fixed rate borrowings [1]	86	-	(59)	(4)	-	-	23
Net (debt)	(3,251)	1,489	(2)	3	-	(191)	(1,952)

[1] Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net cash/(debt)

therefore includes the fair value of derivatives included in fair value hedges (2024: £62m, 2023: £34m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (2024: £(29)m, 2023: £(11)m)

Condensed consolidated statement of changes in equity

For the year ended 31 December 2024

		Attributable to ordinary shareholders								
	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Cashflow hedging reserve £m	Translation reserve £m	Accumulated losses [1] £m	Total £m	NCI £m	Total equity £m
At 1 January 2024		**1,684**	**1,012**	**167**	**12**	**634**	**(7,190)**	**(3,681)**	**52**	**(3,629)**
Profit/(loss) for the year		-	-	-	-	-	**2,521**	**2,521**	**(37)**	**2,484**
Foreign exchange translation differences on foreign operations		-	-	-	-	**(29)**	-	**(29)**	-	**(29)**
Actuarial movements on post-retirement schemes	20	-	-	-	-	-	**22**	**22**	-	**22**
Fair value movement on CFHR		-	-	-	**(17)**	-	-	**(17)**	-	**(17)**
Reclassified to income statement from CFHR		-	-	-	**22**	-	-	**22**	-	**22**
Revaluation to fair value of other investments	10	-	-	-	-	-	**(2)**	**(2)**	-	**(2)**
OCI of joint ventures and associates	10	-	-	-	**(3)**	-	**(1)**	**(4)**	-	**(4)**
Related tax movements		-	-	-	**(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		-	-	**1**	-	-	**(1)**	-	-	-
Shares issued to employee share trust		-	-	-	-	-	**(17)**	**(17)**	-	**(17)**
Share-based payments - direct to equity [2]		-	-	-	-	-	**95**	**95**	-	**95**
Dividends to NCI		-	-	-	-	-	-	-	**(3)**	**(3)**
Transactions with NCI [3]		-	-	-	-	-	**32**	**32**	**19**	**51**
Related tax movements	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)**

A final dividend in respect of the year ended 31 December 2024 of 6 pence per share, or approximately £504m, based on a 30% pay-out ratio of underlying profit after tax attributable to ordinary shareholders (adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 32 for further details), is to be recommended to shareholders for approval at the 2025 AGM. These financial statements do not reflect this proposed final dividend.

Condensed consolidated statement of changes in equity continued

For the year ended 31 December 2023

		Attributable to ordinary shareholders								
	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Cashflow hedging reserve £m	Translation reserve £m	Accumulated losses [1] £m	Total £m	NCI £m	Total equity £m
At 1 January 2023		1,674	1,012	166	26	861	(9,789)	(6,050)	34	(6,016)
Profit/(loss) for the year		-	-	-	-	-	2,412	2,412	(8)	2,404
Foreign exchange translation differences on foreign operations		-	-	-	-	(226)	-	(226)	-	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		-	-	-	-	1	-	1	-	1
Actuarial movements on post-retirement schemes		-	-	-	-	-	116	116	-	116
Fair value movement on CFHR		-	-	-	(82)	-	-	(82)	-	(82)
Reclassified to income statement from CFHR		-	-	-	61	-	-	61	-	61
Revaluation to fair value of other investments		-	-	-	-	-	(4)	(4)	-	(4)
OCI of joint ventures and associates		-	-	-	2	(1)	1	2	-	2
Related tax movements		-	-	-	5	(1)	(43)	(39)	-	(39)
Total comprehensive income/(expense) for the year		-	-	-	(14)	(227)	2,482	2,241	(8)	2,233
Issue of ordinary shares		10	-	-	-	-	-	10	-	10
Redemption of C Shares		-	-	1	-	-	(1)	-	-	-
Shares issued to employee share trust		-	-	-	-	-	(10)	(10)	-	(10)
Share-based payments - direct to equity [2]		-	-	-	-	-	49	49	-	49
Dividends to NCI		-	-	-	-	-	-	-	(2)	(2)

Transactions with NCI [3]		-	-	-	-	-	57	57	28	85
Related tax movements	5	-	-	-	-	-	22	22	-	22
Other changes in equity in the year		10	-	1	-	-	117	128	26	154
At 31 December 2023		1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)

1 At 31 December 2024, 106,066,831 ordinary shares with a net book value of £26m (2023: 52,912,406 ordinary shares with a net book value of £22m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:

- 35,117,065 ordinary shares with a net book value of £14m (2023: 7,875,240 ordinary shares with a net book value of £15m) vested in share-based payment plans;
- the Company issued 88,200,000 (2023: 49,100,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £17m (2023: £10m); and
- the Company acquired none (2023: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 71,490 (2023: 284,850) of its ordinary shares through purchases on the London Stock Exchange

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

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

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 the UK. These Condensed Consolidated Financial Statements of the Company as at and for the year ended 31 December 2024 consist of the consolidation of the financial statements of the Company and its subsidiaries (together referred to as the 'Group') and include the Group's interest in jointly controlled and associated entities.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2024 (2024 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 2024 Annual Report.

The Board of Directors approved the Condensed Consolidated Financial Statements on 27 February 2025. 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 2024 were approved by the Board on 27 February 2025. 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 2023 have been extracted from the Group's statutory accounts for that financial year. The Board of Directors approved the Group Financial Statements on 22 February 2024. 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 2024

Supplier Finance Arrangements

New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk. The Group's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements have necessitated some additional information being disclosed on page 41 in relation to the value of trade payables that were within the scope of such arrangements. This has been presented alongside the value of received payments which suppliers had drawn, this being information which the Group has previously disclosed in its Annual Reports.

Other

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

Post balance sheet events

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 31 December 2024

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 31 December 2024 results as appropriate.

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 2024 Strategic Report that set out climate-related commitments, targets and the four pillars of the Rolls-Royce energy transition strategy which are:

- decarbonising operations, facilities, product testing and business activities. This will be met through a combination of procuring clean energy, reducing overall energy demand, and clean power generation. An estimate of the investment required to meet Scope 1 + 2 emission improvements is included in the forecasts that support these Consolidated Financial Statements;
- enabling customers to operate their products in a way that is compatible with low or net zero carbon emissions. The Group is working with customers to enable them to operate products in a way that is compatible with net zero emissions. This means further advancing the efficiency and environmental performance of the Group's engine and technology portfolio and ensuring compatibility with sustainable fuels. Within Power Systems, 80% of the Group's portfolio is compatible with alternative and sustainable fuels. The Group has demonstrated that all the commercial aero engines it produces are compatible for use with sustainable fuels and is also working with its armed forces customers, such as the RAF, on the use of SAF blends;
- delivering new products and solutions that can accelerate the global energy transition. This includes the development and deployment of small modular reactors (SMRs) and, in Power Systems, battery energy storage solutions is a growth area. Future investment required to deliver these technologies is included in the forecasts that support the Consolidated Financial Statements; and by
- supporting the necessary enabling environment, with public and policy support, to achieve collective climate goals. This involves actively engaging with policy makers, regulators and others to advocate for the necessary policy and economic support we have identified.

The Directors have considered the impact of climate change on a number of key estimates within the financial statements. The climate-related estimates and assumptions that have been considered to be key areas of judgement or sources of estimation uncertainty for the year ended 31 December 2024 are those relating to:

- Civil Aerospace LTSA revenues;
- the estimates of future cash flows considered for trigger assessments or used in impairment assessments for non-financial asset impairments; and
- estimates of suitable taxable profits that will arise in the UK to utilise the deferred tax assets recognised.

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 2024 Annual Report.

There have been no significant changes to assumptions, including the potential impact of carbon prices on the Group's cost base, since the year ended 31 December 2023. This is consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to June 2026, nor on the viability of the Group over the next five years.

Going concern

Overview

In accordance with the requirements of the 2018 UK Corporate Governance Code, the Directors have assessed the prospects of the Group, taking into account its current position, the Group's principal risks which are described on pages 55 to 60 of the Group's 2024 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 pages 11 to 12 of the Strategic Report in the 2024 Annual Report.

The Financial Review on pages 19 to 24 of the 2024 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 2026. The Directors have determined that the period to June 2026 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short to medium-term cash flow forecasts and available liquidity.

Forecasts

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

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

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

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

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

Liquidity and borrowings

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

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

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

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

[1] The value of issued bond notes reflects the impact of derivatives on repayments of the principal amount of debt. The bonds mature by May 2028

[2] The £2.5bn revolving credit facility matures in November 2027 with a one-year extension option (currently undrawn)

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

Conclusion

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

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 areas of judgement and sources of estimation uncertainty as at 31 December 2024, 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 2024 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

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Revenue recognition and contract assets and liabilities	Whether Civil Aerospace OE and aftermarket contracts should be combined. How performance on long-term aftermarket contracts should be measured. Whether long-term aftermarket contracts contain a significant financing component. Whether any costs should be treated as wastage. Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 *Revenue from Contracts with Customers*. Whether sales of spare engines to joint ventures are at fair value. When revenue should be recognised in relation to spare engine sales.	Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change.	Based upon the stage of completion of all large engine LTSA contracts within Civil Aerospace as at 31 December 2024, the following changes in estimate would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying FX rates): - A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an 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 £340m. - A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £90m.
Risk and revenue sharing arrangements (RRSAs)	Determination of the nature of entry fees received.		
Taxation		Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised.	A 5% change in margin or shop visits (which could be driven by fewer EFHs as a result of number of factors, including climate change) would result in an increase/decrease in the deferred tax asset in respect of UK losses of around £110m. If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £10m, and if the potential impact of carbon prices on the Group's cost base was to double, the recoverable value of deferred tax assets would decrease by around £70m.
Research and development	Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation. Determination of the basis for amortising capitalised development costs.		
Leases	Determination of the lease term.		
Impairment of non-current assets	Determination of cash-generating units (CGUs) for assessing impairment of goodwill.		

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. Whether the criteria to recognise transformation and restructuring provisions have been met.	Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by ongoing supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts. Estimates of the future revenues and costs to fulfil onerous contracts.	Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the second half of 2025 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £30m to £50m charge. An increase in Civil Aerospace large engines estimates of LTSA costs of 1%

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
		Assumptions implicit within the calculation of discount rates.	over the remaining term of the contracts could lead to a £60m to 80m increase in the onerous contract provision across all programmes. A 1% change in the discount rates used could lead to around a £40m to £50m change in the onerous contract provision.
Post-retirement benefits		Estimates of the assumptions for valuing the net defined benefit obligation.	A reduction in the discount rate of 0.25% from 5.50% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £145m. This would be expected to be broadly offset by changes in the value of scheme assets, as the scheme's investment policies are designed to mitigate this risk. An increase in the assumed rate of inflation of 0.25% (RPI of 3.30% and CPI of 2.90%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m. A one-year increase in life expectancy from 20.8 years (male aged 65) and from 21.5 years (male aged 45) would increase the defined benefit obligations of the RRUKPF by approximately £125m.

2 Segmental analysis

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

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

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

Underlying results

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

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

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

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

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by 11.8bn across 2020-2026 to reflect the fact that, at that time, future operating cash flows were no longer forecast to materialise. 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 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 and 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 period 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 transformation and restructuring programmes and one-time past service charges and credits on post-retirement schemes.

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

Other items

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

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

2 Segmental analysis continued

The following analysis sets out the results of the Group's businesses on the basis described above and also includes a reconciliation of the underlying results to those reported in the Condensed Consolidated Income Statement.

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

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

2 Segmental analysis continued

Reconciliation to statutory results

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

2 Segmental analysis continued

Disaggregation of revenue from contracts with customers

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

time	3,335	1,457	101	-	-	-	4,893
Total underlying customer contract revenue	7,265	4,077	3,968	4	12	-	15,326
Other underlying revenue [1]	83	-	-	-	-	-	83
Total underlying revenue [2]	7,348	4,077	3,968	4	12	-	15,409

1 Includes leasing revenue

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

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

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

2 Segmental analysis continued

Underlying adjustments

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

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

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

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

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

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

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

6 The Group has assessed the carrying value of its assets and reviewed for potential impairment and impairment reversal triggers. As a result, there has been an impairment reversal of an intangible asset of £413m and of a contract asset of £132m in relation to Civil Aerospace programme assets and £2m of other impairment reversals during the year. Details on other impairments and impairment reversals are provided in notes 7 and 13

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

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

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

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

2 Segmental analysis continued

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Total reportable segments £m
At 31 December 2024					
Segment assets	**19,303**	**3,495**	**3,998**	**111**	**26,907**
Interests in joint ventures and associates	**550**	**9**	**33**	**-**	**592**
Segment liabilities	**(26,621)**	**(3,322)**	**(1,969)**	**(135)**	**(32,047)**
Net (liabilities)/assets	**(6,768)**	**182**	**2,062**	**(24)**	**(4,548)**
At 31 December 2023					
Segment assets	17,718	3,517	3,814	115	25,164
Interests in joint ventures and associates	444	7	28	-	479
Segment liabilities	(24,447)	(3,376)	(1,765)	(88)	(29,676)
Net (liabilities)/assets	(6,285)	148	2,077	27	(4,033)

Reconciliation to the balance sheet

	2024 £m	2023 £m
Total reportable segment assets (excluding assets held for sale)	**26,907**	25,164
Other businesses	**11**	8
Corporate and Inter-segment	**(2,227)**	(2,010)
Interests in joint ventures and associates	**592**	479
Assets held for sale	**153**	109
Cash and cash equivalents and short-term investments	**5,575**	3,784
Fair value of swaps hedging fixed rate borrowings	**154**	118
Deferred and income tax assets	**3,731**	3,078
Post-retirement scheme surpluses	**790**	782
Total assets	**35,686**	31,512
Total reportable segment liabilities (excluding liabilities held for sale)	**(32,047)**	(29,676)
Other businesses	**(65)**	(58)
Corporate and Inter-segment	**2,227**	2,010
Liabilities associated with assets held for sale	**(100)**	(55)
Borrowings and lease liabilities	**(5,132)**	(5,759)
Fair value of swaps hedging fixed rate borrowings	**(121)**	(95)
Deferred and income tax liabilities	**(348)**	(473)
Post-retirement scheme deficits	**(981)**	(1,035)
Total liabilities	**(36,567)**	(35,141)
Net liabilities	**(881)**	(3,629)

3 Research and development

	2024 £m	2023 £m
Gross research and development costs	**(1,475)**	(1,390)
Contributions and fees [1]	**700**	548
Expenditure in the year	**(775)**	(842)
Capitalised as intangible assets	**263**	192

Amortisation and impairment of capitalised costs [2,3]	**309**	(89)
Net cost recognised in the income statement	**(203)**	(739)
Underlying adjustments [3]	**(402)**	-
Net underlying cost recognised in the income statement	**(605)**	(739)

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

[2] See note 7 for analysis of amortisation and impairment

[3] Underlying adjustments include impact of acquisition accounting, foreign exchange and an impairment reversal of £413m (2023: £nil). See note 2 and note 7 for more information

4 Net financing

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

[1] See note 2 for definition of underlying results

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

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

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

5 Taxation

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

Deferred taxation assets and liabilities

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

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

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

- £2,472m (2023: £1,476m) relating to tax losses;
- £425m (2023: £412m) arising on unrealised losses on derivative contracts;
- £nil (2023: £162m) of advance corporation tax; and
- £202m (2023: £349m) relating to other deductible temporary differences, in particular tax depreciation and relief for interest expenses.

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

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

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

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

- using the most recent UK profit forecasts, covering the next five years which are consistent with external sources on market conditions;
- the long-term forecast profit profile of existing large engine programmes which are typically in excess of 30 years from initial investment to retirement of the fleet, including the aftermarket revenues earned from airline customers;
- the long-term forecast is adjusted to exclude engine programmes which are in the development stage with no confirmed orders;
- taking into account the risk that regulatory changes could materially impact demand for our products;
- consideration that although all Civil Aerospace large engines are now compatible with sustainable fuels, there is a risk that in the longer term demand will shift towards more sustainable products and solutions;
- the long-term forecast profit and cost profile of the other parts of the UK business;
- taking into consideration past performance and experience as well as a 25% probability of a severe but plausible downside forecast materialising in relation to the civil aviation industry; and
- consideration that the UK business returned to profitability in 2023.

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

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

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks have continued to develop over the last year. The scale up of sustainable and approach to managing climate-related risks have continued to develop over the last year. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Group has demonstrated that all the commercial aero engines it produces are compatible 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 £3,099m, which includes the recognition of a further £1,033m (of which £525m is non-underlying and £508m is underlying) deferred tax asset relating to UK tax losses. This reflects the conclusions that:

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

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

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

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

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

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

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

6 Earnings per ordinary share

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

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

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

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

Underlying EPS/Underlying profit attributable to ordinary shareholders	**20.29**	**1,702**	13.75	1,150
Diluted underlying EPS attributable to ordinary shareholders	**20.17**		13.68	

[1] Underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK losses, see note 5, page 32 for further details

7 Intangible assets

	Goodwill £m	Certification costs £m	Development expenditure £m	Customer relationships £m	Software [1] £m	Other [2] £m	Total £m
Cost:							
At 1 January 2024	**1,101**	**930**	**3,763**	**498**	**1,004**	**699**	**7,995**
Additions	**-**	**-**	**263**	**-**	**96**	**8**	**367**
Transferred to assets held for sale [3]	**(25)**	**-**	**(4)**	**(4)**	**(1)**	**-**	**(34)**
Disposals [4]	**-**	**-**	**(3)**	**(13)**	**(77)**	**(2)**	**(95)**
Exchange differences	**(31)**	**(1)**	**(63)**	**(12)**	**(4)**	**(17)**	**(128)**
At 31 December 2024	**1,045**	**929**	**3,956**	**469**	**1,018**	**688**	**8,105**
Accumulated amortisation and impairment:							
At 1 January 2024	**35**	**467**	**1,976**	**433**	**718**	**357**	**3,986**
Charge for the year [5]	**-**	**27**	**96**	**35**	**78**	**19**	**255**
Impairment [6]	**13**	**-**	**(405)**	**-**	**-**	**17**	**(375)**
Transferred to assets held for sale [3]	**(12)**	**-**	**(4)**	**(4)**	**(1)**	**-**	**(21)**
Disposals [4]	**-**	**-**	**-**	**(13)**	**(69)**	**(2)**	**(84)**
Exchange differences	**-**	**(1)**	**(37)**	**(10)**	**(3)**	**(7)**	**(58)**
At 31 December 2024	**36**	**493**	**1,626**	**441**	**723**	**384**	**3,703**
Net book value at:							
31 December 2024	**1,009**	**436**	**2,330**	**28**	**295**	**304**	**4,402**
1 January 2024	**1,066**	**463**	**1,787**	**65**	**286**	**342**	**4,009**

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

[2] Other intangibles includes trademarks, brands and the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance which will improve reliability and enable 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. See note 23 for further detail

[4] During the year, the Group disposed of its lower power range engines business based in Power Systems. See note 23 for further detail

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

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

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

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

- The carrying values of goodwill have been assessed by reference to the value in use.
- These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions. These forecasts generally cover the next five years. Growth rates for the period not covered by the forecasts are based on growth rates of 2% which reflects the products, industries and countries in which the relevant CGU or group of CGUs operate. Inflation has been included based on contractual commitments where relevant. Where general inflation assumptions have been required, these have been estimated based on externally sourced data. General inflation assumptions of 2% to 3% have been included in the forecasts, depending on the nature and geography of the flows.
- The key forecast assumptions for the impairment tests are the discount rate and the cash flow projections, in particular the programme assumptions (such as sales volumes and product costs), the impact of foreign exchange rates on the relationship between selling prices and costs, and growth rates. Impairment tests are performed using prevailing exchange rates.
- The Group believes there are significant business growth opportunities to come from Rolls-Royce playing a leading role in the transition to net zero as we develop and deliver the products that will support our customers through the energy transition across multiple markets. At the same time climate change poses potentially significant risks. The assumptions used by the Directors are based on past experience and external sources of information. Based on the climate scenarios prepared, the forecasts do not assume a significant deterioration of demand for Civil Aerospace (including Rolls-Royce Deutschland) programmes given that all commercial aero engines are compatible with sustainable fuels. Similarly, 80% of the portfolio in Power Systems is now compatible with alternative and more sustainable fuels. The investment required to ensure our new products will be compatible with net zero operation, and to achieve net zero Scope 1 + 2 GHG emission commitments is reflected in the forecasts used.

to achieve net zero Scope 1 + 2 GHG emission commitments is reflected in the forecasts used.

7 Intangible assets continued

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

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

Rolls-Royce Power Systems AG

- Trading assumptions (e.g. volume of equipment deliveries, pricing achieved and cost escalation) that are based on current and known future programmes, estimates of market share and long-term economic forecasts;
- Plausible downside scenario in relation to macro-economic factors included with a 25% weighting;
- Cash flows beyond the five-year forecasts are assumed to grow at 2.0% (2023: 2.0%); and
- Nominal pre-tax discount rate 10.2% (2023: 12.0%).

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

Rolls-Royce Deutschland Ltd & Co KG

- Trading assumptions (e.g. volume of engine deliveries, flying hours of installed fleet, including assumptions on the recovery of the aerospace industry, and cost escalation) that are based on current and known future programmes, estimates of market share and long-term economic forecasts;
- Plausible downside scenario in relation to macro-economic factors included with a 25% weighting;
- Cash flows beyond the five-year forecasts are assumed to grow at 2.0% (2023: 2.0%); and
- Nominal pre-tax discount rate 12.6% (2023: 14.4%).

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

Other CGU's

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

Material intangible assets (excluding goodwill)

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

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

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

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

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

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

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

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

7 Intangible assets continued

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

- The recoverable amount of programme assets has been estimated using a value in use calculation. This has been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and
- The key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share, pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates.

The intangible asset impairment reversal of £413m was recognised in research and development costs together with a participation fee contract asset impairment reversal of £132m (see note 13) being recognised in cost of sales in the period as follows:

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

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

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

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

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

8 Property, plant and equipment

	Land and buildings £m	**Plant and equipment £m**	**Aircraft and engines £m**	**In course of construction £m**	**Total £m**
Cost:					
At 1 January 2024	**1,883**	**4,962**	**1,006**	**412**	**8,263**
Additions	**21**	**129**	**108**	**245**	**503**
Transferred to assets held for sale [1]	**(33)**	**(51)**	**-**	**(2)**	**(86)**
Disposals/write-offs	**(23)**	**(142)**	**(17)**	**(4)**	**(186)**
Reclassifications [2]	**46**	**67**	**3**	**(116)**	**-**
Reclassification from right-of-use assets	**11**	**-**	**-**	**-**	**11**
Exchange differences	**(23)**	**(55)**	**(1)**	**-**	**(79)**
At 31 December 2024	**1,882**	**4,910**	**1,099**	**535**	**8,426**
Accumulated depreciation and impairment:					
At 1 January 2024	**709**	**3,384**	**434**	**8**	**4,535**
Charge for the year [3]	**77**	**249**	**49**	**-**	**375**
Impairment [4]	**2**	**23**	**-**	**-**	**25**
Transferred to assets held for sale [1]	**(11)**	**(24)**	**-**	**-**	**(35)**
Disposals/write-offs	**(16)**	**(123)**	**(10)**	**-**	**(149)**
Reclassifications [2]	**16**	**(16)**	**-**	**-**	**-**
Exchange differences	**(9)**	**(39)**	**(1)**	**-**	**(49)**
At 31 December 2024	**768**	**3,454**	**472**	**8**	**4,702**
Net book value at:					
31 December 2024	**1,114**	**1,456**	**627**	**527**	**3,724**
1 January 2024	**1,174**	**1,578**	**572**	**404**	**3,728**

[1] At 31 December 2024 the Group held for sale the assets and liabilities of its naval propulsors & handling business. See note 23 for further detail

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

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

[4] The carrying values of property, plant and equipment have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and

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 7. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. As a result of this assessment, there are no (2023: none) individually material impairment charges or reversals in the year

9 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2024	**513**	**194**	**1,864**	**2,571**
Additions/modification of leases	**28**	**73**	**37**	**138**
Transferred to assets held for sale [1]	**(2)**	**(1)**	**-**	**(3)**
Disposals	**(8)**	**(17)**	**-**	**(25)**
Reclassifications to PPE	**(11)**	**-**	**-**	**(11)**
Exchange differences	**(3)**	**(3)**	**(4)**	**(10)**
At 31 December 2024	**517**	**246**	**1,897**	**2,660**
Accumulated depreciation and impairment:				
At 1 January 2024	**259**	**109**	**1,298**	**1,666**
Charge for the year [2]	**42**	**43**	**172**	**257**
Impairment [3]	**3**	**2**	**3**	**8**
Transferred to assets held for sale [1]	**(2)**	**-**	**-**	**(2)**
Disposals	**(7)**	**(17)**	**-**	**(24)**
Exchange differences	**(1)**	**(2)**	**(3)**	**(6)**
At 31 December 2024	**294**	**135**	**1,470**	**1,899**
Net book value at:				
31 December 2024	**223**	**111**	**427**	**761**
1 January 2024	**254**	**85**	**566**	**905**

1 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 23 for further detail

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

3 The carrying values of right-of-use assets have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes - see potential triggers considered in note 7. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). As a result of this assessment, the carrying values of assets, where a trigger was identified, have been assessed by reference to value in use considering assumptions such as estimated future cash flows, product performance related estimates and climate-related risks. During the year to 31 December 2024, an immaterial impairment charge of £8m has been recognised (2023: £71m)

10 Investments

Equity accounted and other investments

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

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

2 Additions to investments of £17m (2023: £9m) relate to the joint venture Beijing Aero Engine Services Company Limited

3 See table below

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

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

Reconciliation of share of retained profit/(loss) to the income statement and cash flow statement:

2024 2023

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

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

11 Inventories

	2024 £m	2023 £m
Raw materials	**544**	**516**
Work in progress	**1,715**	**1,679**
Finished goods	**2,833**	**2,653**
	5,092	**4,848**

12 Trade receivables and other assets

	Current		Non-current [1]		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Trade receivables	**2,917**	2,724	**138**	40	**3,055**	2,764
Prepayments	**829**	1,032	**89**	102	**918**	1,134
RRSA prepayment for LTSA parts [2]	**486**	236	**1,182**	1,084	**1,668**	1,320
Receivables due on RRSAs	**1,118**	1,159	**119**	193	**1,237**	1,352
Amounts owed by joint ventures and associates	**894**	731	**2**	10	**896**	741
Other taxation and social security receivable	**215**	160	**2**	13	**217**	173
Costs to obtain contracts with customers [3]	**11**	7	**124**	109	**135**	116
Other receivables and similar assets [4]	**529**	478	**58**	45	**587**	523
	6,999	6,527	**1,714**	1,596	**8,713**	8,123

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

[2] These amounts reflect the contractual share of EFH flows from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £(262)m (2023: £(211)m) has been recognised in cost of sales in relation to parts supplied and used in the year

[3] These are amortised over the term of the related contract in line with engine deliveries, resulting in amortisation of £8m (2023: £9m) in the year. There were no impairment losses

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

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

The ECLs for trade receivables and other assets has decreased by £3m to £239m (2023: decreased by £104m to £242m).

The movements of the Group's ECLs provision are as follows:

	2024 £m	2023 £m
At 1 January	**(242)**	(346)
Increases in loss allowance recognised in the income statement during the year	**(130)**	(80)
Loss allowance utilised	**11**	34
Releases of loss allowance previously provided	**116**	128
Transferred to assets held for sale	**1**	-
Exchange differences	**5**	22
At 31 December	**(239)**	(242)

13 Contract assets and liabilities

	Current		Non-current [1]		Total [2]	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Contract assets						

Contract assets with customers	**886**	534	**598**	481	**1,484**	1,015
Participation fee contract assets	**38**	26	**291**	201	**329**	227
	924	560	**889**	682	**1,813**	1,242

1 Contract assets and contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities are further split according to when the related performance obligation is expected to be satisfied and, therefore, when revenue is estimated to be recognised in the income statement. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

2 Contract assets are classified as non-financial instruments

The balance includes £955m (2023: £494m) of Civil Aerospace LTSA assets and £381m (2023: £410m) Defence LTSA assets. The increase in the Civil Aerospace balance is driven by revenue recognised (when performance obligations have been completed during the year) being greater than the amount invoiced on those contracts that have a contract asset balance. Revenue recognised relating to performance obligations satisfied in previous years was £(42)m which reduced the contract asset (2023: £64m increased). No impairment losses in relation to these contract assets (2023: none) have arisen during the year.

Participation fee contract assets have increased by £102m (2023: decreased by £16m) primarily due to the Civil Aerospace programme asset impairment reversal of £132m (2023: £nil) referred to in note 7, offset by amortisation of £23m (2023: £15m) and foreign exchange on consolidation of £7m (2023: £1m).

The absolute value of ECLs for contract assets has increased by £5m to £11m (2023: decreased by £15m to £6m).

	Current		Non-current		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Contract liabilities	**6,309**	6,098	**9,447**	8,438	**15,756**	14,536

During the year, £5,048m (2023: £3,813m) of the opening contract liability was recognised as revenue.

Contract liabilities have increased by £1,220m. The movement in the Group balance is primarily as a result of an increase in Civil Aerospace of £1,179m. This is mainly as a result of growth in LTSA liabilities of £1,565m (2024: £11,139m, 2023: £9,574m) driven almost wholly by large engines, with customer invoicing in 2024 (based on EFH) being in advance of revenue recognised (based on costs incurred completing performance obligations). The contract liability movement includes a decrease of £(354)m (2023: £168m increase) as a result of revenue being recognised in relation to performance obligations satisfied in previous years. An increase in Power Systems of £67m is from the receipt of deposits in advance of performance obligations being completed.

14 Cash and cash equivalents

	2024 £m	2023 £m
Cash at bank and in hand	**714**	739
Money market funds	**1,900**	1,077
Short-term deposits	**2,961**	1,968
Cash and cash equivalents per the balance sheet	**5,575**	3,784
Overdrafts (note 15)	**(2)**	(53)
Cash and cash equivalents per cash flow statement (page 16)	**5,573**	3,731

Cash and cash equivalents at 31 December 2024 includes £245m (2023: £279m) that is not available for general use by the Group. This balance includes £40m (2023: £40m) which is held in an account that is exclusively for the general use of Rolls-Royce Submarines Limited and £160m (2023: £195m) which is held exclusively for the use of Rolls-Royce Saudi Arabia Limited. This cash is not available for use by other entities within the Group. The remaining balance relates to cash held in non-wholly owned subsidiaries and joint arrangements.

Balances are presented on a net basis when the Group has both a legal right of offset and the intention to either settle on a net basis or realise the asset and settle the liability simultaneously. There is no offsetting of financial instruments in the Group's statement of financial position as at 31 December 2024 and 2023.

15 Borrowings and lease liabilities

	Current		Non-current		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Unsecured						
Overdrafts	**2**	53	**-**	-	**2**	53
Bank loans	**4**	3	**3**	-	**7**	3
Loan notes	**795**	475	**2,764**	3,559	**3,559**	4,034
Other loans	**-**	-	**9**	9	**9**	9
Total unsecured	**801**	531	**2,776**	3,568	**3,577**	4,099
Lease liabilities	**296**	278	**1,259**	1,382	**1,555**	1,660

Total borrowings and lease liabilities	**1,097**	809	**4,035**	4,950	**5,132**	5,759

All outstanding items described as loan notes above are listed on the London Stock Exchange

During the year to 31 December 2024, the Group repaid a loan note of €550m in May 2024 in line with its maturity date.

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

	2024 £m	2023 £m
Expiring within one year	**-**	-
Expiring after one year	**2,500**	3,500
Total undrawn facilities	**2,500**	3,500

Further details can be found in the going concern statement on page 21

In May 2024, the Group cancelled its undrawn £1bn UKEF-supported loan facility which was due to expire in 2027. The facility had remained undrawn in the year.

In October 2024, the Group extended the maturity date of its undrawn £2.5bn revolving credit facility by one year to November 2027, with the Group having the option to exercise a further one-year extension option, subject to bank agreement at the time of exercise.

16 Leases

Leases as lessee

The net book value of right-of-use assets at 31 December 2024 was £761m (2023: £905m), with a lease liability of £1,555m (2023: £1,660m), per notes 9 and 15, respectively. Leases that have not yet commenced to which the Group is committed have a future liability of £2m and consist of mainly plant and equipment and properties. The condensed consolidated income statement shows the following amounts relating to leases:

	2024 £m	**2023 £m**
Land and buildings depreciation and impairment [1]	**(45)**	(45)
Plant and equipment depreciation and impairment [2]	**(45)**	(48)
Aircraft and engines depreciation and impairment [3]	**(175)**	(241)
Total depreciation and impairment charge for right-of-use assets	**(265)**	(334)
Adjustment of amounts payable under residual value guarantees within lease liabilities [3, 4]	**6**	10
Expense relating to short-term leases of 12 months or less recognised as an expense on a straight-line basis [2]	**(38)**	(49)
Expense relating to variable lease payments not included in lease liabilities [3, 5]	**(8)**	(5)
Total operating costs	**(305)**	(378)
Interest expense [6]	**(83)**	(85)
Total lease expense	**(388)**	(463)
Income from sub-leasing right-of-use assets	**29**	31
Total amount recognised in income statement	**(359)**	(432)

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. To the extent that 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 solely dependent upon utilisation rather than a periodic charge

6 Included in financing costs

16 Leases continued

The total cash outflow for leases in 2024 was £421m (2023: £429m). Of this, £375m related to leases reflected in the lease liability, £38m to short-term leases where lease payments are expensed on a straight-line basis and £8m for variable lease payments where obligations are only due when the assets are used. The timing difference between income statement charge and cash flow relates to costs incurred at the end of leases for residual value guarantees and restoration costs that are recognised within depreciation over the term of the lease, the most significant amounts relate to engine leases.

Engine leases in the Civil Aerospace business often include clauses that require the engines to be returned to the lessor with specific levels of usable life remaining or cash payments to the lessor. The costs of meeting these requirements are included in the lease payments. The amounts payable are calculated based upon an estimate of the utilisation of the engines over the lease term, whether the engine is restored to the required condition by performing an overhaul at our own cost or through the payments of amounts specified in the contract and any new contractual arrangements arising when the current lease contracts end. Amounts due can vary depending on the level of utilisation of the engines, overhaul activity prior to the end of the contract, and decisions taken on whether ongoing access to the assets is required at the end of the lease term. During the year, adjustments to return conditions at the end of leases resulted in a credit of £6m to the income statement. The lease liability at 31 December 2024 included £297m relating to the cost of meeting these residual value guarantees in the Civil Aerospace business. Up to £76m is payable in the next 12 months, £125m is due over the following four years and the remaining balance after five years.

17 Trade payables and other liabilities

	Current		Non-current		Total	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
Trade payables	**1,526**	1,608	**-**	-	**1,526**	1,608
Accruals	**2,552**	1,134	**109**	96	**2,661**	1,230
Customer discounts [1]	**1,035**	1,018	**866**	773	**1,901**	1,791
Payables due on RRSAs	**1,529**	1,713	**11**	-	**1,540**	1,713
Deferred receipts from RRSA workshare partners	**55**	56	**757**	774	**812**	830
Amounts owed to joint ventures and associates	**492**	542	**-**	-	**492**	542
Government grants [2]	**26**	30	**24**	54	**50**	84
Other taxation and social security	**54**	92	**-**	-	**54**	92
Other payables [3]	**740**	703	**198**	230	**938**	933
	8,009	6,896	**1,965**	1,927	**9,974**	8,823

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 £1.4bn (2023: £1.2bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

2 During the year, £102m, (2023: £74m) of government grants were released to the income statement

3 Other payables includes payroll liabilities and HM Government UK levies

The Group's payment terms with suppliers vary based on the products and services being sourced, the competitive global markets the Group operates in and other commercial aspects of suppliers' relationships. Industry average payment terms vary between 90 to 120 days. The Group offers reduced payment terms to its smaller suppliers, who are typically on 75-day payment terms, so that they are paid in 30 days.

In line with civil aviation industry practice, the Group offers a SCF programme in partnership with banks to enable suppliers (including joint ventures who are on 90-day standard payment terms) to receive their payments sooner. This SCF programme is available to suppliers at their discretion and does not change the Group's rights and obligations with the suppliers or the timing of payment by the Group to settle its liabilities arising from transactions with these suppliers.

At 31 December 2024, £594m of trade payables were within the scope of SCF arrangements of which suppliers had drawn £506m (2023: £418m), with £243m (2023: £154m) drawn by joint ventures. In some cases the Group settles the costs incurred by joint ventures as a result of them utilising SCF arrangements and, during the year to 31 December 2024, the Group incurred costs of £9m (2023: £28m). These were included within cost of sales.

18 Financial assets and liabilities

Carrying value of other financial assets and liabilities

	Derivatives							
	Foreign exchange contracts £m	**Commodity contracts £m**	**Interest rate contracts [1] £m**	**Total derivatives £m**	**Financial RRSAs £m**	**Other £m**	**C Shares £m**	**Total £m**
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)**

At 31 December

2023								
Non-current assets	72	-	254	326	-	34	-	360
Current assets	10	6	8	24	-	10	-	34
Assets	82	6	262	350	-	44	-	394
Current liabilities	(351)	(10)	(13)	(374)	(10)	(41)	(23)	(448)
Non-current liabilities	(1,766)	(15)	(73)	(1,854)	(7)	(122)	-	(1,983)
Liabilities	(2,117)	(25)	(86)	(2,228)	(17)	(163)	(23)	(2,431)
	(2,035)	(19)	176	(1,878)	(17)	(119)	(23)	(2,037)

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

Derivative financial instruments

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

	Year ended 31 December 2024 £m					Year ended 31 December 2023 £m
	Foreign exchange instruments £m	**Commodity instruments £m**	**Interest rate instruments - hedge accounted [1] £m**	**Interest rate instruments - non-hedge accounted £m**	**Total**	Total
At 1 January	**(2,035)**	**(19)**	**45**	**131**	**(1,878)**	(3,451)
Movements in fair value hedges	**-**	**-**	**(32)**	**-**	**(32)**	(71)
Movements in cash flow hedges	**-**	**-**	**(23)**	**-**	**(23)**	(78)
Movements in other derivative contracts [2]	**(631)**	**(18)**	**-**	**40**	**(609)**	515
Contracts settled	**798**	**2**	**64**	**(78)**	**786**	1,207
At 31 December	**(1,868)**	**(35)**	**54**	**93**	**(1,756)**	(1,878)

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

2 Included in net financing

Financial risk and revenue sharing arrangements (RRSAs) and other financial assets and liabilities

Movements in the carrying values were as follows:

	Financial RRSAs		Other - assets		Other - liabilities	
	2024 £m	2023 £m	**2024 £m**	2023 £m	**2024 £m**	2023 £m
At 1 January	**(17)**	(22)	**25**	25	**(163)**	(101)
Exchange adjustments included in OCI	**1**	1	**-**	-	**(5)**	2
Additions	**-**	-	**-**	-	**(34)**	(80)
Financing charge [1]	**-**	-	**(11)**	-	**(9)**	(8)
Excluded from underlying profit/(loss):						
Changes in forecast payments [1]	**-**	(1)	**-**	-	**-**	-
Cash paid	**9**	5	**-**	-	**12**	11
Other	**-**	-	**-**	-	**1**	13
At 31 December	**(7)**	(17)	**14**	25	**(198)**	(163)

1 Included in net financing

18 Financial assets and liabilities continued

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

	2024		2023	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Other assets - Level 2	**16**	**16**	12	12
Borrowings - Level 1	**(3,559)**	**(3,540)**	(4,034)	(3,977)
Borrowings - Level 2	**(18)**	**(21)**	(65)	(67)
Financial RRSAs - Level 3	**(7)**	**(7)**	(17)	(16)

The fair value of a financial instrument is the price at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction. There have been no transfers during the year from or to Level 3 valuation. Fair values have been determined with reference to available market information at the balance sheet date, using the methodologies described below.

- 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). At 31 December 2024, Level 3 assets totalled £14m (31 December 2023: £25m).
- 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*).

19 Provisions for liabilities and charges

	At 1 January 2024 £m	Charged to income statement [1] £m	Reversed £m	Utilised £m	Transfers to held for sale £m	Exchange differences £m	At 31 December 2024 £m
Onerous contracts	**1,472**	**558**	**(374)**	**(218)**	**(3)**	**(2)**	**1,433**
Warranty and guarantees	**306**	**158**	**(13)**	**(87)**	**-**	**(10)**	**354**
Trent 1000 wastage costs	**116**	**2**	**-**	**(82)**	**-**	**-**	**36**
Employer liability claims	**24**	**5**	**(1)**	**(2)**	**-**	**(1)**	**25**
Transformation and restructuring	**9**	**101**	**(12)**	**(35)**	**-**	**(1)**	**62**
Tax related interest and penalties	**22**	**3**	**(5)**	**(4)**	**-**	**-**	**16**
Claims and litigation	**43**	**1**	**(16)**	**(3)**	**-**	**-**	**25**
Other	**37**	**22**	**(2)**	**(13)**	**-**	**(1)**	**43**
	2,029	**850**	**(423)**	**(444)**	**(3)**	**(15)**	**1,994**
Current liabilities	**532**						**589**
Non-current liabilities	**1,497**						**1,405**

1 The charge to the income statement within net financing includes £47m (2023: £59m) as a result of the unwinding of the discounting of provisions previously recognised

19 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 and during the year £218m (2023: £185m) of the provisions have been utilised. Additional contract losses for the Group of £558m (2023: £500m) have been recognised. These are mainly a result of increases in the estimate of future LTSA costs due to prolonged supply chain challenges, inflationary cost increases and implementing required product modifications that could cause some disruption to the throughput of engine overhauls. Contract losses of £374m (2023: £433m) previously recognised have been reversed following improvements to the forecast revenue, cost estimates and time on wing across various engine programmes as a result of operational improvements, contractual renegotiations and extensions. The Group continues to monitor the onerous contract provision for changes in the market and revises the provision as required. The value of the remaining onerous contract provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 16 years.

IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* requires a company to recognise any impairment loss that has occurred on assets used in fulfilling the contract before recognising a separate provision for an onerous contract. No impairments were required for any of the assets used solely for the fulfilment of onerous contracts.

The Trent 1000 intangible assets (certification costs and development costs) and Trent 1000 spare engines (right-of-use and owned) are tested for impairment as part of the Trent 1000 CGU and no impairment was required.

Warranty and guarantees

Provisions for warranty and guarantees relate to products sold and are calculated based on an assessment of the remediation costs related to future claims based on past experience. The provision generally covers a period of up to three years.

Trent 1000 wastage costs

In November 2019, the Group announced the outcome of testing and a thorough technical and financial review of the Trent 1000 TEN programme, following technical issues which were identified in 2019, resulting in a revised timeline and a more conservative estimate of durability for the improved HP turbine blade for the TEN variant. During the year, the Group has utilised £82m (2023: £79m) of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs. During the year, a net charge to the provision of £2m (2023: £16m) has been recognised reflecting the discount unwind. The value of the remaining provision reflects the single most likely outcome and is expected to be utilised in 2025.

Employer liability claims

The provision relating to employer healthcare liability claims is as a result of an historical insolvency of the previous provider and is expected to be utilised over the next 30 years.

Transformation and restructuring

In 2023, the Group announced a major multi-year transformation programme consisting of seven workstreams, set out in the 2022 Annual Report. During the year, the Group made progress against those workstreams and as a result of the details communicated, a provision of £101m (2023: £2m) has been recorded and recognised in cost of sales and commercial and administration costs. During the year £35m (2023: £2m) was utilised and £12m reversed (2023: nil) as part of these plans and a further £2m (2023: £4m) has been charged directly to the income statement. The remaining provision is expected to be utilised by 31 December 2025.

Tax related interest and penalties

Provisions for tax related interest and penalties relate to uncertain tax positions in some of the jurisdictions in which the Group operates. Utilisation of the provisions will depend on the timing of resolution of the issues with the relevant tax authorities.

Claims and litigation

Provisions for claims and litigation represent ongoing matters where the outcome for the Group may be unfavourable.

The balance also includes the best estimate of any retained exposure by the Group's captive insurance company for any claims that have been incurred but not yet reported to the Group as that entity retains a portion of the exposures it insures on behalf of the remainder of the Group. Such exposures include policies for aviation claims, employer liabilities and healthcare claims. Significant delays can occur in the notification and settlement of claims and judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the balance sheet date. The insurance provisions are based on information currently available, however it is inherent in the nature of the business that ultimate liabilities may vary if the frequency or severity of claims differs from estimated.

Other

Other items are individually immaterial. The value of any remaining provisions reflects the single most likely outcome in each case.

20 Post-retirement benefits

The net post-retirement deficit as at 31 December 2024 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 2024 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 2024	**767**	**(1,020)**	**(253)**
Exchange adjustments	**-**	**25**	**25**
Current service cost and administrative expenses	**(5)**	**(38)**	**(43)**
Past service cost	**(14)**	**-**	**(14)**
Financing recognised in the income statement	**35**	**(37)**	**(2)**
Contributions by employer	**1**	**73**	**74**
Actuarial gains recognised in OCI [1]	**628**	**32**	**660**
Returns on plan assets excluding financing recognised in OCI [1]	**(633)**	**(5)**	**(638)**
At 31 December 2024	**779**	**(970)**	**(191)**

Post-retirement scheme surpluses - included in non-current assets [2]	779	11	790
Post-retirement scheme deficits - included in non-current liabilities	-	(981)	(981)

1 Actuarial gains and losses arising from financial assumptions arise primarily due to changes in discount rate and inflation

2 The surplus in the UK scheme is recognised as, on an ultimate wind-up when there are no longer any remaining members, any surplus would be returned to the Group, which has the power to prevent the surplus being used for other purposes in advance of this event

Other

Virgin Media

The Group is aware of a UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, which decided that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgment delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, this judgment will need to be reviewed for its relevance to the RRUKPF scheme, and other UK schemes. A high-level review has been undertaken of the UK Schemes which concluded that there is a very low risk of any historic plan amendments being found to be invalid. The Company's pension advisers have not completed detailed numerical analysis and no adjustments have been made to the Consolidated Financial Statements at 31 December 2024. There is a separate legal case which is due to be taken to the High Court in early 2025, this is expected to provide further clarification on several outstanding points of detail relevant to this case.

Barber adjustment

In 2018, an estimated cost of equalising normal retirement ages between men and women arising from the Barber judgement in 1990 was recognised. While the Rolls-Royce schemes were equalised under these principles in the period after the original Barber ruling, further work has been carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments. This work has resulted in a past service charge of £14m being recognised in the income statement of the Consolidated Financial Statements at 31 December 2024.

Future Contributions

The Group expects to contribute approximately £76m to its overseas defined benefit schemes in 2025 (2024: £73m).

In the UK, any cash funding of RRUKPF is based on a statutory triennial funding valuation process. The Group and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting are set out above. The assumptions used to value Technical Provisions must be prudent rather than a best estimate of the liability. Most notably, the Technical Provisions discount rate is currently based upon UK Government bond yields plus a margin (0.5% at the 31 March 2023 valuation) rather than being based on yields of AA corporate bonds. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis (estimated to be 119% at 31 December 2024). All cash due has been paid in full and the current SoC does not currently require any cash contributions to be made by the Group

21 Contingent liabilities

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

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

In connection with the sale of its products, the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of 405m (2023: 857m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately 100m could be called during 2025). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

Customer financing provisions would be made to cover guarantees provided for asset value and/or financing were it probable that a payment would be made. These would be measured on a discounted basis at the Group's borrowing rate to reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 31 December 2024 or 31 December 2023.

The Group has responded appropriately to the Russia-Ukraine conflict to comply with international sanctions and export control regime, and to continue to implement the business decision to exit from Russia. The Group could be subject to action by impacted customers, suppliers and other contract parties.

While the outcome of the above matters cannot precisely be foreseen, the Directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

22 Related party transactions

	2024 £m	2023 £m
Sale of goods and services [1]	**7,702**	6,700
Purchases of goods and services [1]	**(8,725)**	(7,471)
Lease payments to joint ventures and associates	**(241)**	(244)
Guarantees of joint arrangements' and associates' borrowings	**-**	2
Guarantees of non-wholly owned subsidiaries' borrowings	**4**	3
Dividends received from joint ventures and associates	**77**	54
Other income received from joint ventures and associates	**7**	6

[1] Sales of goods and services to related parties and purchases of goods and services from related parties, including joint ventures and associates, are included at the average exchange rate, consistent with the statutory income statement

Included in sales of goods and services to related parties are sales of spare engines amounting to £48m (2023: £48m). Profit recognised in the year on such sales amounted to £62m (2023: £88m), including profit on current year sales and recognition of profit deferred on similar sales in previous years. Cash receipts relating to the sale of spare engines amounted to £48m (2023: £73m).

Included in cost of sales in the income statement are interest costs of £9m (2023: £34m) incurred during the year which have been settled by the Group on behalf of joint ventures.

23 Business disposals and businesses held for sale

Disposals

At 31 December 2023, the Group classified the assets and liabilities related to part of the Power Systems' lower power range engines business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. A disposal agreement was signed with Deutz AG on 28 March 2024 and the disposal completed on 31 July 2024 for cash consideration of £62m. The carrying value of the net assets derecognised was £42m, with a £16m profit on disposal after costs.

	2024 £m
Proceeds	
Net cash consideration at prevailing exchange rate and at effective hedged rate	**62**
Cash flow on disposal of business per cash flow statement	**62**
Intangible assets	**49**
Inventory	**4**
Provisions for liabilities and charges	**(6)**
Contract liabilities	**(4)**
	(1)

Post-retirement scheme deficits	( )
Less: Net assets disposed	**42**
Profit on disposal before disposal costs and accounting adjustments	**20**
Disposal costs	**(4)**
Profit on disposal of business before and after taxation	**16**
Profit on disposal of businesses per income statement	**16**

Businesses held for sale

At 31 December 2024, the Group classified the assets and liabilities related to its naval propulsors & handling business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. On 18 September 2024, the Group and Fairbanks Morse Defense signed a sale and disposal agreement, with completion anticipated during 2025.

At 31 December 2023, assets and liabilities related to part of Power Systems' lower power range engines business were held for sale, as set out above, this sale completed on 31 July 2024.

Assets held for sale are measured at the lower of their carrying value or fair value less costs to sell. Assets and liabilities held for sale are summarised in the table below.

	2024 £m	2023 £m
Intangible assets	**13**	51
Property, plant and equipment	**51**	-
Right-of-use assets	**1**	-
Inventory	**24**	11
Trade receivables and other assets	**64**	47
Assets held for sale	**153**	109
Trade payables and other liabilities	**(96)**	(41)
Contract liabilities	**-**	(4)
Provisions for liabilities and charges	**(3)**	(8)
Borrowings and lease liabilities	**(1)**	-
Post-retirement scheme deficits	**-**	(2)
Liabilities associated with assets held for sale	**(100)**	(55)
Net assets held for sale	**53**	54

24 Derivation of summary funds flow statement

	2024					2023
	Cash flow £m	**Impact of hedge book £m**	**Impact of acquisition accounting £m**	**Impact of other non-underlying items £m**	**Funds flow £m**	Funds flow £m
Operating profit/(loss)	2,906	(191)	45	(296)	**2,464**	1,590
Loss on disposal of property, plant and equipment [1]	32	-	-	-	**32**	18
Loss on disposal of intangible assets [1]	6	-	-	-	**6**	-
Joint venture trading [1]	(95)	-	-	-	**(95)**	(119)
Depreciation, amortisation and impairment	543	-	(45)	355	**853**	978
Movement in provisions	(56)	(56)	-	(55)	**(167)**	(258)
Increase in inventories [2]	(323)	-	-	-	**(323)**	(200)
Movement in prepayments to RRSAs for LTSA parts	(348)	129	-	-	**(219)**	(252)
Movement in cost to obtain contracts	(19)	1	-	-	**(18)**	(40)
Movement in trade receivables/payables and other assets/liabilities [2]	524	(341)	-	(17)	**166**	(2,251)
Revaluation of trading assets [2]	24	(38)	-	-	**(14)**	196
Realised derivatives in financing	652	-	-	-	**652**	853
Movement in Civil LTSA balance	1,193	(283)	-	-	**910**	1,331
Movement in contract assets/liabilities (excluding Civil LTSA) [2]	(441)	108	-	132	**(201)**	1,046
Settlement of excess derivatives	(146)	-	-	-	**(146)**	(389)
Interest received	269	-	-	-	**269**	159
Contributions to defined benefit schemes in excess of underlying operating profit charge [1]	(18)	-	-	(13)	**(31)**	(26)
Cash flows on other financial assets and liabilities held for operating purposes	(676)	652	-	-	**(24)**	8
Share-based payments [1]	136	-	-	-	**136**	66
Other [1]	-	(5)	-	-	**(5)**	(7)
Income tax	(381)	-	-	-	**(381)**	(172)
Cash from operating activities	**3,782**	**(24)**	**-**	**106**	**3,864**	2,531
Capital element of lease payments	(299)	24	-	-	**(275)**	(270)
Capital expenditure	(876)	-	-	-	**(876)**	(695)
Investments	16	-	-	-	**16**	69
Interest paid	(298)	-	-	-	**(298)**	(333)

Interest paid	[illegible]				**[illegible]**	[illegible]
Other (M&A, restructuring and exceptional transformation costs)	100	-	-	(106)	**(6)**	(17)
Free cash flow	**2,425**	**-**	**-**	**-**	**2,425**	1,285

[1] Included in other operating cash flows in the summarised free cash flow on page 10

[2] Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 10

The comparative information to 31 December 2024 has been presented in a different format to align to the current year presentation. In some instances, the groupings of items may have changed.

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated with the Board. Free cash flow is defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows. The Board considers that free cash flow reflects cash generated from the Group's underlying trading.

Cash flow from operating activities is determined to be the nearest statutory measure to free cash flow. The reconciliation between free cash flow and cash flow from operating activities can be found on page 51.

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

Alternative Performance Measures (APMs)

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

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 31 December 2023.

Underlying results

Underlying results are presented by recording all relevant revenue and cost of sales transactions at the average exchange rate achieved on effective settled derivative contracts in the period that the cash flow occurs. Underlying results also exclude: the effect of acquisition accounting and business disposals, impairment of goodwill and other non-current assets where the reasons for the impairment are outside of normal operating activities, exceptional items and certain other items which are market driven and outside of managements control. Further detail can be found in note 2.

	2024 £m	2023 £m
Revenue		
Statutory revenue	**18,909**	16,486
Derivative and FX adjustments	**(1,061)**	(1,077)
Underlying revenue	**17,848**	15,409
Gross profit		
Statutory gross profit	**4,221**	3,620
Derivative and FX adjustments	**(186)**	(461)
Programme exceptional credits	**-**	(21)
Exceptional transformation and restructuring charges	**147**	55
Acquisition accounting and M&A	**43**	46
Impairment reversals	**(2)**	(8)
Civil Aerospace programme asset impairment reversal	**(132)**	-
Underlying gross profit	**4,091**	3,231
Commercial and administrative costs		
Statutory commercial and administrative (C&A) costs	**(1,284)**	(1,110)
Derivative and FX adjustments	**-**	1
Exceptional transformation and restructuring charges	**70**	47
Other underlying adjustments	**17**	(2)
Underlying C&A costs	**(1,197)**	(1,064)
Research and development costs		
Statutory research and development (R&D) costs	**(203)**	(739)
Derivative and FX adjustments	**(8)**	(4)
Exceptional transformation and restructuring charges	**17**	-
Acquisition accounting	**2**	4
Civil Aerospace programme asset impairment reversal	**(413)**	-
Underlying R&D costs	**(605)**	(739)
Operating profit		
Statutory operating profit	**2,906**	1,944
Derivative and FX adjustments	**(191)**	(475)
Programme exceptional credits	**-**	(21)
Exceptional transformation and restructuring charges	**234**	102
Acquisition accounting and M&A	**45**	50
Civil Aerospace programme asset impairment reversal	**(545)**	-
Impairment reversals	**(2)**	(8)
Other underlying adjustments	**17**	(2)
Underlying operating profit	**2,464**	1,590

Underlying operating profit	2,464	1,590
Underlying operating margin	**13.8%**	10.3%

	2024 pence	2023 pence
Basic EPS		
Statutory basic EPS	**30.05**	28.85
Effect of underlying adjustments to profit before tax	**0.70**	(13.94)
Related tax effects	**(6.34)**	(1.16)
Adjustment for net recognition of deferred tax assets [1]	**(4.12)**	-
Basic underlying EPS	**20.29**	13.75

[1] Underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 32 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 2023 average rates to 2024. The movement in underlying change to organic change is reconciled below.

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

Total Group income statement	**2024 £m**	2023 £m	**Change £m**	**FX £m**	**Organic Change £m**	**Organic Change %**
Underlying revenue	**17,848**	15,409	2,439	(245)	2,684	17%
Underlying gross profit	**4,091**	3,231	860	(67)	927	29%
Underlying operating profit	**2,464**	1,590	874	(35)	909	57%
Net financing costs	**(171)**	(328)	157	(1)	158	(48)%
Underlying profit before taxation	**2,293**	1,262	1,031	(36)	1,067	85%
Taxation	**(282)**	(120)	(162)	10	(172)	143%
Underlying profit for the year	**2,011**	1,142	869	(26)	895	78%

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

Defence	**2024 £m**	2023 £m	**Change £m**	**FX £m**	**Organic Change £m**	**Organic Change %**
Underlying revenue	**4,522**	4,077	445	(66)	511	13%
Underlying OE revenue	**1,943**	1,766	177	(24)	201	11%
Underlying services revenue	**2,579**	2,311	268	(42)	310	13%
Underlying gross profit	**908**	804	104	(12)	116	14%
Commercial and administrative costs	**(212)**	(173)	(39)	3	(42)	24%
Research and development costs	**(55)**	(72)	17	-	17	(24)%
Joint ventures and associates	**3**	3	-	-	-	-
Underlying operating profit	**644**	562	82	(9)	91	16%

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

New Markets	**2024 £m**	2023 £m	**Change £m**	**FX £m**	**Organic Change £m**	**Organic Change %**
Underlying revenue	**3**	4	(1)	-	(1)	(25)%
Underlying OE revenue	**3**	2	1	-	1	50%
Underlying services revenue	**-**	2	(2)	-	(2)	(100)%
Underlying gross (loss)/profit	**(4)**	1	(5)	-	(5)	(500)%
Commercial and administrative costs	**(40)**	(24)	(16)	1	(17)	71%
Research and development costs	**(133)**	(137)	4	1	3	(2)%
Underlying operating loss	**(177)**	(160)	(17)	2	(19)	12%

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.

	2024 £m	2023 £m
Civil Aerospace	**2,030**	626
Defence	**591**	511
Power Systems	**452**	461
New Markets	**(181)**	(63)
Total reportable segments trading cash flow	**2,892**	1,535
Other businesses	**5**	5
Corporate and Inter-segment	**(60)**	(57)
Trading cash flow	**2,837**	1,483
Underlying operating profit charge exceeded by contributions to defined benefit schemes	**(31)**	(26)
Tax [1]	**(381)**	(172)
Free cash flow	**2,425**	1,285

[1] See page 16 for tax paid in the statutory cash 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 defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows.

Free cash flow from cash flows from operating activities

	2024 £m	2023 £m
Statutory cash flows from operating activities	**3,782**	2,485
Capital expenditure	**(876)**	(699)
Investment (including investment from NCI and movement in joint ventures, associates and other investments)	**16**	69
Capital element of lease payments	**(299)**	(291)
Interest paid	**(298)**	(333)
Exceptional transformation and restructuring costs	**104**	69
M&A costs	**1**	2
Other	**(5)**	(17)
Free cash flow	**2,425**	1,285

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, excluding capital expenditure from discontinued operations. All proposed investments are subject to rigorous review to ensure that they are consistent with forecast activity and provide value for money. The Group measures annual capital expenditure as the cash purchases of PPE acquired during the year.

	2024 £m	2023 £m
Purchases of PPE (cash flow statement)	**519**	429

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 Consolidated Financial Statements included within the 2024 Annual Report.

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.

	2024 £m	2023 £m
Underlying operating profit	**2,464**	1,590
Less: taxation [1]	**(649)**	(151)
Underlying operating profit (post-taxation)	**1,815**	1,439
Total assets	**35,686**	31,512
Less: post-retirement scheme surpluses	**(790)**	(782)
Less: cash and cash equivalents	**(5,575)**	(3,784)
Current liabilities	**(16,860)**	(14,926)
Liabilities held for sale	**(100)**	(55)
Less: borrowings and lease liabilities	**1,097**	809
Invested capital (closing)	**13,458**	12,774
Invested capital (average)	**13,116**	12,722
Return on capital	**13.8%**	11.3%

[1] Excluding underlying taxation on underlying finance income/(costs) of £21m (2023: £31m) and adjusted for the one-off non-cash impact of £346m relating to the net recognition of deferred tax assets on UK tax losses, see note 5, page 32 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.

	2024 £m	2023 £m
Underlying R&D expenditure [1]	**745**	836
Underlying C&A	**1,197**	1,064
Total cash costs	**1,942**	1,900
Underlying gross profit	**4,091**	3,231
Total cash costs as a proportion of underlying gross profit	**0.47**	0.59

[1] Excludes £30m (2023: £6m) impact of acquisition accounting, exceptional transformation costs, derivatives and FX

Principal risks and uncertainties

Our risk management framework is described on pages 52 to 54 of our 2024 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.

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

Principal risks remain categorised as either a 'pillar' or a 'driver', with drivers being those risks that could cause one or more risk pillars to happen and/or make them worse if they do. All principal risks facing the Group are summarised below and reported in detail on pages 55 to 60 of our 2024 Annual Report.

Principal risk pillars

Safety

Failure to: i) 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 or ii) provide safe products.

Compliance

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

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 difficultdecisions 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, or falling significantly short of customer expectations, would reduce our resilience and have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.

Business interruption

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

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

Principal risk drivers

Energy transition

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

Information & data (including cyber)

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

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

Market & financial shock

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

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

Political

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

Talent & capability

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

Payments to shareholders

As announced on 27 February 2025, the Group is recommencing dividends and, subject to shareholder approval at the AGM to be held on 1 May 2025, the Directors recommend a final cash dividend of 6 pence per ordinary share for the year ended 31 December 2024, to be paid on 16 June 2025 to shareholders on the register on 22 April 2025. The total dividend for the year is 6 pence per ordinary share (2023: nil). The Company will be introducing a dividend reinvestment programme, further details can be obtained from 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. C shareholders wishing to redeem their existing C shares must lodge instructions with the Registrar to arrive no later than 5.00pm on 2 June 2025 (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 4 July 2025. Any entitlement to interest payments by C shareholders will also be paid on 4 July 2025 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 2024. 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 Chief Executive	Helen McCabe Chief Financial Officer
27 February 2025	27 February 2025

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