

ANNUAL REPORT 2024

Rolls-Royce Holdings plc





“What we delivered in 2024 is important but equally important is how we delivered it. Our goal is to create a sustainably distinctive business that benefits all of our stakeholders. We are doing this with pace and intensity, taking the business to a place in which it can do things tomorrow that are not possible today.”

Tufan Erginbilgic
Chief Executive



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Use of underlying performance measures in the Annual Report

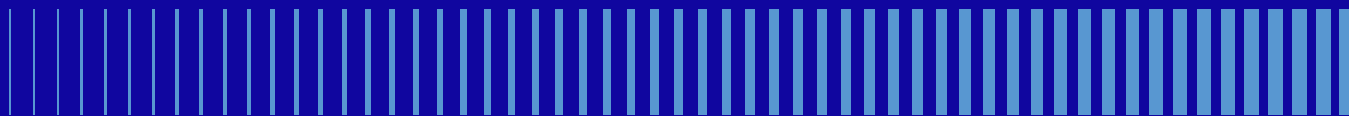
All figures in the narrative of the Strategic Report are underlying unless otherwise stated. We believe this is the most appropriate basis to measure our in-year performance as this reflects the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which lock in transactions at predetermined exchange rates. In addition, underlying results exclude the accounting impact of business acquisitions and disposals, certain impairment charges and exceptional items. A full definition of underlying and the reconciliation to the statutory figures can be found on pages 215 to 219. All references to organic change are at constant translational currency.

Forward-looking statements

This Annual Report contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and guidance may be updated from time to time. This report is intended to provide information to shareholders and is not designed to be relied upon by any other party or for any other purpose. The Company and its Directors accept no liability to any other person other than that required under English law. Latest information will be made available on the Group's website. By their nature, these statements involve risk and uncertainty and a number of factors could cause material differences to the actual results or developments.

Throughout this Annual Report, the information we disclose is in accordance with our reporting obligations as a UK registered company listed on the London Stock Exchange.

Group at a glance



UNDERLYING REVENUE ¹

£17,848m

2023: £15,409m

STATUTORY REVENUE ¹

£18,909m

2023: £16,486m

FREE CASH FLOW ¹

£2,425m

2023: £1,285m

STATUTORY CASH FLOWS FROM
OPERATING ACTIVITIES

£3,782m

2023: £2,485m

UNDERLYING OPERATING PROFIT ¹

£2,464m

2023: £1,590m

STATUTORY OPERATING PROFIT ¹

£2,906m

2023: £1,944m

UNDERLYING OPERATING MARGIN

13.8%

2023: 10.3%

STATUTORY OPERATING MARGIN

15.4%

2023: 11.8%

UNDERLYING PROFIT
BEFORE TAX ¹

£2,293m

2023: £1,262m

STATUTORY PROFIT
BEFORE TAX ¹

£2,234m

2023: £2,427m

TOTAL UNDERLYING CASH COSTS
AS A PROPORTION OF UNDERLYING
GROSS MARGIN ^{1, 2}

0.47

2023: 0.59

RETURN ON CAPITAL ^{1, 3, 4}

13.8%

2023: 11.3%

UNDERLYING EARNINGS
PER SHARE ^{1, 4}

20.29p

2023: 13.75p

STATUTORY EARNINGS
PER SHARE

30.05p

2023: 28.85p

NET CASH/(DEBT)

£475m

2023: £(1,952)m

LIQUIDITY ⁵

£8.1bn

2023: £7.2bn

ORDER BACKLOG ⁶

£82.1bn

2023: £68.5bn

GROSS R&D EXPENDITURE ^{1, 7}

£1.5bn

2023: £1.4bn

COUNTRIES WITH A ROLLS-ROYCE
PRESENCE

48

2023: 48


PEOPLE (MONTHLY AVERAGE) ⁸

42,400

2023: 41,400



- 1 A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 215 to 219
- 2 Total underlying cash costs as a proportion of underlying gross margin is defined on page 219 and is abbreviated to TCC/GM
- 3 Adjusted return on capital is defined on page 219 and is abbreviated to return on capital
- 4 Underlying profit after tax has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses. See note 5, on page 148 for further details
- 5 Liquidity is defined as cash and cash equivalents plus any undrawn facilities, as listed on page 61
- 6 See note 2 on page 142
- 7 See note 3 on page 144 for a reconciliation of gross R&D expenditure to total R&D expenditure
- 8 See note 8 on page 150

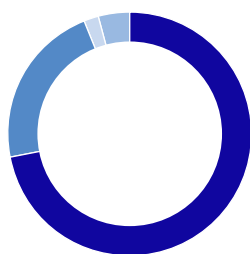
 See note 2 on page 142 for a reconciliation between underlying and statutory results

OUR DIVISIONS IN 2024



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

Underlying revenue



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

UNDERLYING REVENUE

£9,040m

2023: £7,348m

UNDERLYING OPERATING PROFIT

£1,505m

2023: £850m

UNDERLYING OPERATING MARGIN

16.6%

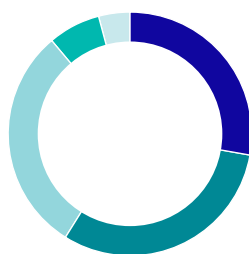
2023: 11.6%

See page 25 for the Civil Aerospace divisional review



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

Underlying revenue



- Transport – 28%
- Combat – 31%
- Submarines – 30%
- Naval² – 7%
- Helicopters – 4%

UNDERLYING REVENUE

£4,522m

2023: £4,077m

UNDERLYING OPERATING PROFIT

£644m

2023: £562m

UNDERLYING OPERATING MARGIN

14.2%

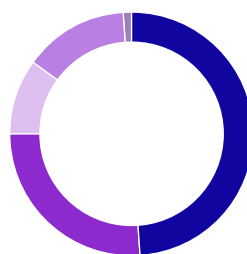
2023: 13.8%

See page 27 for the Defence divisional review



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

Underlying revenue



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

UNDERLYING REVENUE

£4,271m

2023: £3,968m

UNDERLYING OPERATING PROFIT

£560m

2023: £413m

UNDERLYING OPERATING MARGIN

13.1%

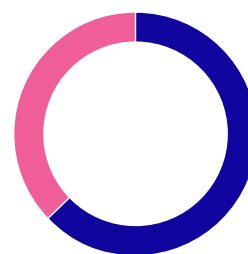
2023: 10.4%

See page 29 for the Power Systems divisional review



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

R&D expenditure¹



- Rolls-Royce SMR – 63%
- Rolls-Royce Electrical³ – 37%

UNDERLYING REVENUE

£3m

2023: £4m

UNDERLYING OPERATING LOSS

£(177)m

2023: £(160)m

UNDERLYING OPERATING MARGIN

n/a

2023: n/a

See page 31 for the New Markets divisional review

¹ Total R&D expenditure for New Markets in 2024 was £(133)m (2023: £(137)m)

² In September 2024, an agreement to sell the naval propulsors & handling business was announced

³ In 2023, we made the decision to exit our electrical business and in September 2024 we announced the closure of our advanced air mobility activities

Chair's statement



Dame Anita Frew Chair

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

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

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

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

Financial strength and shareholder distributions

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

Advancing our transformation and culture

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

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

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

Engaging with our stakeholders

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

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

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

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

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

Sustainability and innovation

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

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

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

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

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

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

Board and Executive Team

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

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

Looking forward

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

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

Dame Anita Frew
Chair

Chief Executive's review



Tufan Erginbilgic Chief Executive

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

Our delivery in 2024

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

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

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

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

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

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

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

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

Our transformation

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

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

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

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

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

"Safety is the first and most important priority for every one of us at Rolls-Royce."

Now let's turn to our progress in delivering on our transformation programme.

Progress on our strategic framework

Portfolio choices and partnerships

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

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

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

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

Strategic initiatives

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

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

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

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

OUR STRATEGIC FRAMEWORK

Portfolio choices and partnerships

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

Strategic initiatives

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

Efficiency and simplification

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

Lower carbon and digitally enabled businesses

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

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

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

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

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

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

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

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

Efficiency and simplification

Significantly improving our cost base means that our commercial improvements and therefore gross margin increases, flow directly to our bottom line. At our CMD, we set out a target of delivering £400m-£500m of efficiency and simplification benefits across the Group to make us more competitively advantaged, resilient and fit for the future. This target included annualised benefits of approximately £200m from our organisational design programme, reducing layers, removing duplication and driving synergies across the Group to enable simpler, more agile ways of working. To date, we have delivered efficiency and simplification benefits of more than £350m. By the end of 2025, we expect to deliver benefits of more than £500m, two years earlier than planned.

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

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

Lower carbon and digitally enabled businesses

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

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

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

Looking ahead to the mid-term

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

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

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

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

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

Beyond the mid-term

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

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

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

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

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

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

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

Tufan Erginbilgic
Chief Executive

Our purpose, vision and behaviours

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

OUR PURPOSE

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

OUR VISION

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

OUR STRATEGY

A strategic framework to build a sustainably distinctive and leading business

1

Portfolio choices and partnerships

2

Strategic initiatives

3

Efficiency and simplification

4

Lower carbon and digitally enabled businesses

OUR BEHAVIOURS



Put safety first

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



Do the right thing

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



Keep it simple

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



Make a difference

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

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

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

10

ROLLS-ROYCE HOLDINGS PLC ANNUAL REPORT 2024

Strategy

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

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

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

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

The Rolls-Royce proposition

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

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

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

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

OUR TRANSFORMATION

STRATEGIC FRAMEWORK

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

DELIVER AS ONE ROLLS-ROYCE

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



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

GROWING SUSTAINABLE FREE CASH FLOWS

STRONG BALANCE SHEET AND GROWING SHAREHOLDER RETURNS

OUR STRATEGIC FRAMEWORK: DELIVERING SUSTAINABLE GROWTH THROUGH TRANSFORMATION


1. Portfolio choices and partnerships	<p>We have made choices about the markets in which to operate, where to invest and the partnerships that will help create winning positions, based on clear criteria. We only invest where the market is attractive and growing, where we can build an advantaged position, differentiated through strong customer relationships and competitive technology, and where there are high barriers to entry. This allows us to allocate resources more effectively and drive profitable growth.</p> <p>In Civil Aerospace, we successfully tested our UltraFan demonstrator and continue development to position us as a strong partner for the next generation of narrowbody aircraft. In SMR, we have reached an agreement with the ČEZ Group to deploy up to 3GW of capacity in the Czech Republic and work together to develop projects across Europe. We agreed to sell our US-based naval propulsors & handling business to Fairbanks Morse Defense; completed the sale of Power Systems' lower power range engines business to Deutz; and completed the sale of our direct air capture assets. We also took the decision to close our advanced air mobility activities.</p>	<table><tr><td>B</td><td>C</td><td>D</td><td>E</td></tr><tr><td>F</td><td>G</td><td>H</td><td>I</td></tr><tr><td>K</td><td>M</td><td></td><td></td></tr></table> <table><tr><td>1</td><td>3</td><td>4</td><td>5</td></tr><tr><td>6</td><td>7</td><td>8</td><td>9</td></tr><tr><td>10</td><td>11</td><td></td><td></td></tr></table>	B	C	D	E	F	G	H	I	K	M			1	3	4	5	6	7	8	9	10	11						
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2. Strategic initiatives	<p>Enhancing our competitiveness, expanding our earnings potential and sustainably improving our performance relies on the successful implementation of our strategic initiatives. The initiatives are owned by our teams and the process we have put in place ensures that every employee knows their role in delivering against the targets, creating complete alignment with the Rolls-Royce strategy.</p> <p>We are making good progress against our strategic initiatives. Delivery against these is helping to drive change across the Group, increasing value through top- and bottom-line actions. In Civil Aerospace, we have made significant technical progress in improving time on wing, strengthening our position in large engine aircraft. We further solidified our leadership in business aviation with the G700 entry into service and first flight of the Pearl 10X for our new customer Dassault. In Defence, we made progress on our strategy to grow our combat business, as well as commencing work to double the size of the Rolls-Royce Submarines site in Raynesway, Derby, UK. In Power Systems, actions on pricing and cost control have enhanced margins, allowing for profitable growth. We are particularly well-positioned to benefit from the rapidly growing data centre and governmental markets.</p>	<table><tr><td>A</td><td>B</td><td>C</td><td>D</td></tr><tr><td>E</td><td>F</td><td>G</td><td>H</td></tr><tr><td>I</td><td>K</td><td>L</td><td>M</td></tr></table> <table><tr><td>1</td><td>3</td><td>4</td><td>5</td></tr><tr><td>6</td><td>7</td><td>8</td><td>9</td></tr><tr><td>10</td><td>11</td><td></td><td></td></tr></table>	A	B	C	D	E	F	G	H	I	K	L	M	1	3	4	5	6	7	8	9	10	11						
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3. Efficiency and simplification	<p>Our Group-wide focus to drive synergies is making us more competitive by delivering significant and recurring operating cost reductions. Key levers include a more efficient and simplified operating model, a refreshed organisational design, changed ways of working, improved investment discipline, as well as more focused management of third-party costs. We now expect to achieve cumulative savings of over £500m in 2025.</p> <p>By the end of 2024, we had delivered more than £350m of cumulative benefits, well on track to deliver our target. Clear priorities on capital allocation, driven through a rigorous centralised process, have allowed us to be more focused and enabled investment in key initiatives. We have introduced a new purpose and behaviours, the foundations on which we are building a performance management culture. This is complemented by our new organisational design, which came into effect in the middle of 2024, creating an organisation that is leaner, more focused and with fewer layers.</p>	<table><tr><td>A</td><td>B</td><td>C</td><td>D</td></tr><tr><td>E</td><td>F</td><td>G</td><td>H</td></tr><tr><td>I</td><td>J</td><td>K</td><td>L</td></tr><tr><td>M</td><td></td><td></td><td></td></tr></table> <table><tr><td>1</td><td>2</td><td>3</td><td>4</td></tr><tr><td>5</td><td>6</td><td>7</td><td>8</td></tr><tr><td>9</td><td>10</td><td>11</td><td></td></tr></table>	A	B	C	D	E	F	G	H	I	J	K	L	M				1	2	3	4	5	6	7	8	9	10	11	
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4. Lower carbon and digitally enabled businesses	<p>We are committed to reaching net zero by the end of 2050, with an interim target of reducing Scope 1 + 2 emissions by 46% by the end of 2030 against a 2019 baseline. We support our customers in achieving their ambitions by improving the efficiency of our products, which serve some of the hardest to decarbonise sectors.</p> <p>Digital technology will play an increasingly important role throughout our value chain. We already use data from products in service to create value for ourselves and for our customers. We focus on four areas: enhancing the customer experience; accelerating product design; improving manufacturing; and empowering our people.</p> <p>Through our UltraFan demonstrator, we are advancing our technologies to improve fuel efficiency. In Defence, having supported the RAF in its testing of SAF blends in Typhoon refuelling missions, the RAF this year began using a blend of SAF with normal jet fuel on routine Typhoon operations for the first time. We have successfully tested our gas variant of the popular <i>mtu</i> Series 4000 engine with 100% hydrogen fuel; and by the end of the year we had been awarded hydrogen-readiness certification by international technical inspection specialists TÜV Süd for our current <i>mtu</i> Series 4000 gas engines. The Rolls-Royce SMR design also entered the final stage of the regulatory licencing process, having completed step 2 in August 2024, which we believe gives us a significant advantage to our competitors.</p>	<table><tr><td>B</td><td>C</td><td>D</td><td>E</td></tr><tr><td>F</td><td>G</td><td>H</td><td>I</td></tr><tr><td>J</td><td>K</td><td>L</td><td>M</td></tr></table> <table><tr><td>2</td><td>3</td><td>4</td><td>5</td></tr><tr><td>6</td><td>7</td><td>8</td><td>10</td></tr><tr><td>11</td><td></td><td></td><td></td></tr></table>	B	C	D	E	F	G	H	I	J	K	L	M	2	3	4	5	6	7	8	10	11							
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Link to KPIs


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

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

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

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

 For more information, see Our divisions on pages 25 to 31

 For more information, see Sustainability on pages 32 to 51

Link to risk

- 1 Safety
- 2 Compliance
- 3 Strategy
- 4 Execution

- 5 Business interruption
- 6 Energy transition
- 7 Information & data
- 8 Market & financial shock

- 9 Political
- 10 Talent & capability
- 11 Technology

External environment

Geopolitical and policy uncertainty

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

Rolls-Royce response

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

Economic outlook

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

Rolls-Royce response

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

Supply chain challenge

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

Rolls-Royce response

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

Long-term trends

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

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

Rolls-Royce response

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

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

Business model

OUR COMMON DRIVERS FOR SUCCESS

Advantaged businesses with strong positions in attractive and growing markets

OUR CORE DIVISIONS

CIVIL AEROSPACE

OUR ROLE IN SOCIETY

Connect

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

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

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

>350m

Link to risk

1 3 4 6 9 11

OUR BUSINESS MODEL DRIVERS

Differentiated services

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

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

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

CUSTOMERS ON LONG-TERM SERVICE AGREEMENTS

3 out of 5

Link to risk

1 2 3 4 5 6 7 8 9 10 11

OUR UNIQUENESS

Trusted partner

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

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

NEW GENERATION WIDEBODY AIRCRAFT POWERED BY ROLLS-ROYCE

4 out of 5

Link to risk

1 3 5 6 7 10 11

WHAT WE WILL ACHIEVE

A HIGH-PERFORMING, COMPETITIVE, RESILIENT AND GROWING BUSINESS

Link to risk

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

ONE ROLLS-ROYCE

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



DEFENCE

Protect

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

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

YEARS OF PROVIDING GAS TURBINE POWER FOR DEFENCE CUSTOMERS

>80

POWER SYSTEMS

Power

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

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

EXPECTED ANNUAL GROWTH RATE ACROSS OUR POWER GENERATION MARKETS

>10%

Customer-funded growth

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

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

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

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

>15

One core solution addressing multiple markets

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

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

NUMBER OF \$4000 ENGINES SOLD ACROSS DIVERSE MARKETS

60k

Global access, local presence

We support over 160 customers in over 100 countries.

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

HOME NATIONS WITH WHOLE ENGINE CAPABILITY

3

Structural advantage

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

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


MARKET SHARE IN GOVERNMENTAL BUSINESS


>30%




DRIVEN BY COMMITTED EMPOWERED PEOPLE
OPERATING IN A PERFORMANCE CULTURE

UNDERPINNED BY OUR
PURPOSE AND BEHAVIOURS

 Read more about our strategy on pages 11 to 12

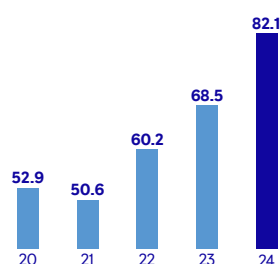
 Read more about our KPIs on pages 16 to 18

 Read more about our principal risks on pages 52 to 60

Key performance indicators

FINANCIAL PERFORMANCE INDICATORS ¹

Order backlog (£bn)



HOW WE DEFINE IT

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

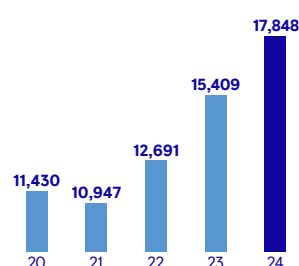
WHY IT IS IMPORTANT

Order backlog provides visibility of future business activity.

LINK TO REMUNERATION

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

Underlying revenue (£m)



HOW WE DEFINE IT

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

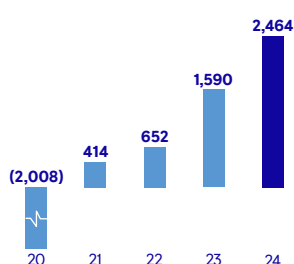
WHY IT IS IMPORTANT

Underlying revenue provides a measure of business growth and activity.

LINK TO REMUNERATION

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

Underlying operating profit/(loss) (£m)



HOW WE DEFINE IT

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

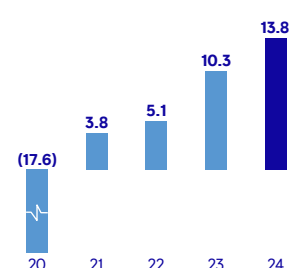
WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Underlying operating margin (%)



HOW WE DEFINE IT

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

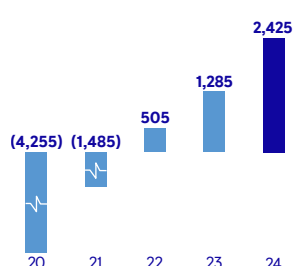
WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Free cash flow (£m)



HOW WE DEFINE IT

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

WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

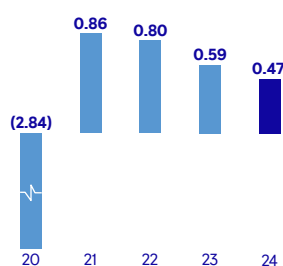
¹ 2023, 2022 and 2021 figures represent the results of continuing operations. 2020 figures have been restated, where relevant, to show ITP Aero as a discontinued operation in line with 2021 reporting



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

FINANCIAL PERFORMANCE INDICATORS CONTINUED

TCC/GM (ratio)



HOW WE DEFINE IT

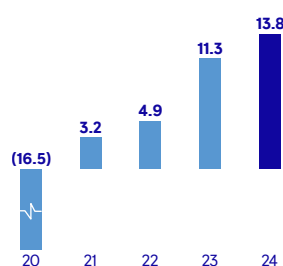
TCC is defined as total underlying cash costs during the year (represented by underlying R&D and underlying C&A) as a proportion of underlying gross profit.

WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Return on capital (%)²

HOW WE DEFINE IT

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

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

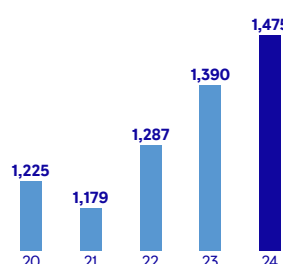
WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Gross R&D expenditure (£m)



HOW WE DEFINE IT

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

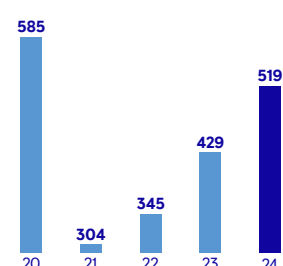
WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Gross capital expenditure (£m)



HOW WE DEFINE IT

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

WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

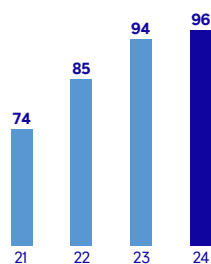
² Return on capital has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses. See note 5 on page 148 for more details



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

NON-FINANCIAL PERFORMANCE INDICATORS

Safety index (%)



HOW WE DEFINE IT

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

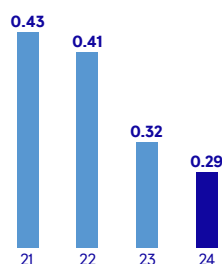
WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Total reportable injuries rate



HOW WE DEFINE IT

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

WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

Employee engagement (%) ³

HOW WE DEFINE IT

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

WHY IT IS IMPORTANT

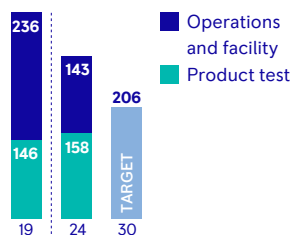
Our people are crucial to delivering our strategy. The Our Voices survey is now the cornerstone of our listening strategy, providing insights into employee engagement, culture and alignment with our strategic objectives.

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

LINK TO REMUNERATION

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

Sustainability



HOW WE DEFINE IT

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

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

WHY IT IS IMPORTANT

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

LINK TO REMUNERATION

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

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

For more information on our strategic framework, see page 12

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

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



Helen McCabe Chief Financial Officer

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

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

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

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

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

1. Integrated performance management

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

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

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

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

2. Commercial and cost optimisation

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

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

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

3. Working capital optimisation

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

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

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

4. Capital framework

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

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

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

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

2024 financial performance

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

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

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

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

— **Shareholder distributions:** In line with our capital framework, now that the balance sheet is being strengthened, we are reinstating shareholder dividends in respect of the full year 2024. The cash dividend of 6p per share represents a 30% pay-out ratio of underlying profit after tax¹ and will be paid subject to shareholder approval at our AGM on 1 May 2025. We are also pleased to announce a £1bn share buyback to be completed over the course of 2025.

2025 outlook

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

Upgraded mid-term targets

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

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

¹ In 2024, the Group recognised a net £346m credit to underlying profit after tax (PAT), primarily in respect of deferred tax assets on UK tax losses. This £346m credit has been adjusted in the calculation of the proposed dividend per share. For further details, see note 5, page 148

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

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

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

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

Helen McCabe
Chief Financial Officer

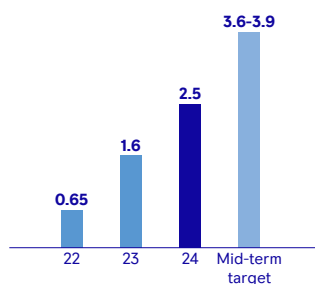
GROUP MID-TERM TARGETS

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

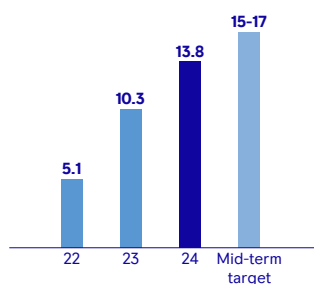
We defined the mid-term as a 2027 timeframe and our guided 2025 operating profit and free cash flow are within the CMD mid-term target ranges two years earlier than planned. This shows that we have materially increased the potential of the business. We have, therefore, upgraded our mid-term targets,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

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

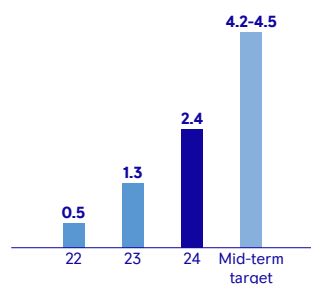
Operating profit (£bn)



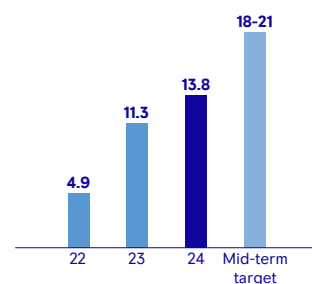
Operating margin (%)



Free cash flow (£bn)



Return on capital (%)



Statutory and underlying Group financial performance

£ million	2024				2023	
	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

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

² Statutory taxation includes the recognition of a deferred tax asset on UK tax losses of £1,033m (of which £508m is included in underlying) and the de-recognition of the deferred tax asset relating to advance corporation tax of £(162)m (of which £(162)m is included in underlying), see note 5, page 148 for further details

³ In 2024, the underlying profit attributable to ordinary shareholders has been adjusted for the one-off non-cash impact of £346m related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 148 for further details

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

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

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

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

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

Free cash flow

£ million	2024				2023	
	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

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 RRSA 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

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, 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.

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	

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

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

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

Key drivers of balance sheet movements were:

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

Civil Aerospace LTSA: The £(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.

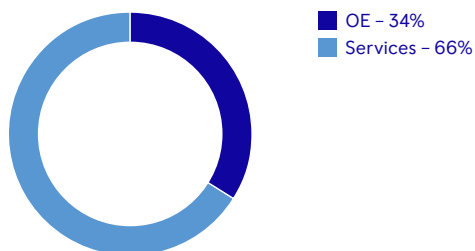
Our divisions



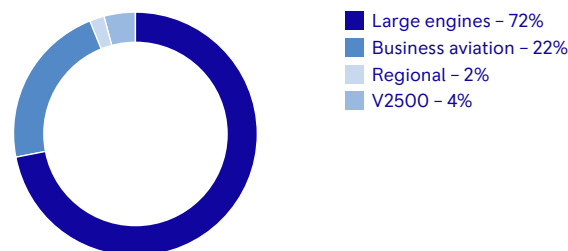
CIVIL AEROSPACE

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

Underlying revenue mix



Underlying revenue mix by sector



UNDERLYING REVENUE

£9,040m

2023: £7,348m

UNDERLYING OPERATING PROFIT

£1,505m

2023: £850m

UNDERLYING OPERATING MARGIN

16.6%

2023: 11.6%

ORDER BACKLOG

£59.9bn

2023: £55.2bn

Market overview

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

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

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

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

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

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

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

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

Financial performance

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

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

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

Financial overview

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

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

Key operational metrics

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

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

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

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

Operational and strategic progress

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

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

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

The transition to lower carbon energy and the reduction of emissions in our markets is of paramount importance. Ensuring the maximum efficiency of our current fleet is a vital first step, as many of these engines will remain in service for decades to come. All of our in-production civil aero engines have been proven to be 100% compatible with sustainable aviation fuels. This year we saw another step towards greater efficiency with the certification of our XWB-84 EP variant, which when it enters into service in 2025 will deliver a 1% fuel efficiency improvement, as well as improving its durability and reducing CO₂ emissions.

Outlook

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

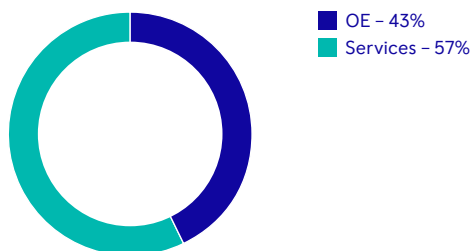
Beyond the mid-term, we are strategically positioned to continue to outgrow the market in widebody and business aviation due to our strong positions on leading platforms, with UltraFan uniquely placed for the next generation of narrowbody and widebody aircraft. Rising LTSA margins will be supported by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



DEFENCE

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

Underlying revenue mix

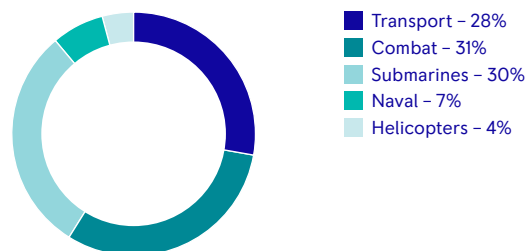


UNDERLYING REVENUE

£4,522m

2023: £4,077m

Underlying revenue mix by sector



UNDERLYING OPERATING PROFIT

£644m

2023: £562m

UNDERLYING OPERATING MARGIN

14.2%

2023: 13.8%

ORDER BACKLOG

£17.4bn

2023: £9.2bn

Market overview

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

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

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

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

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

Financial performance

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

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

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

Operational and strategic progress

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

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

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

Financial overview

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

	2024	2023	Change
Trading cash flow	591	511	80

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

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

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

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

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

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

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

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

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

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

Outlook

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

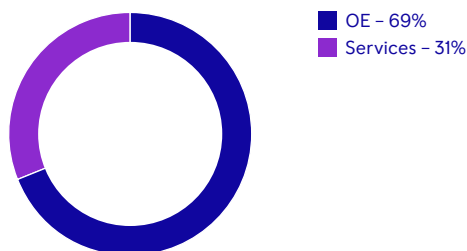
Beyond the mid-term, growth will be driven by new platforms, which will ramp up from 2029 and remain in service for decades to come. These include AUKUS, B-52, Future Long-Range Assault Aircraft (FLRAA), Global Combat Air Programme (GCAP) and MQ-25. Furthermore, we anticipate extended demand for our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



POWER SYSTEMS

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

Underlying revenue mix

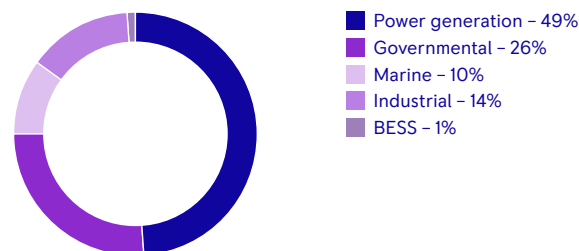


UNDERLYING REVENUE

£4,271m

2023: £3,968m

Underlying revenue mix by sector



UNDERLYING OPERATING PROFIT

£560m

2023: £413m

UNDERLYING OPERATING MARGIN

13.1%

2023: 10.4%

ORDER BACKLOG

£4.8bn

2023: £4.1bn

Market overview

Our Power Systems business serves five distinct end markets.

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

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

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

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

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

In 2024, order intake in Power Systems was £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%.

Financial performance

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

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

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

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

Operational and strategic progress

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

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

Financial overview

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

	2024	2023	Change
Trading cash flow	452	461	(9)

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

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

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

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

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

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

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

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

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

Outlook

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

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



NEW MARKETS

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

Market overview

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

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

Financial performance

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

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

Operational and strategic progress

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

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

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

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

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

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

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

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

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

Outlook

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

Financial overview

£ million	2024	Organic change ¹	FX	2023	Change	Organic change ¹
Underlying revenue	3	(1)	–	4	(1)	(25)%
Underlying OE revenue	3	1	–	2	1	50%
Underlying services revenue	–	(2)	–	2	(2)	(100)%
Underlying gross (loss)/profit	(4)	(5)	–	1	(5)	nm
Gross margin %	(133.3)%			25.0%		(158.3)pt
Commercial and administrative costs	(40)	(17)	1	(24)	(16)	71%
Research and development costs	(133)	3	1	(137)	4	(2)%
Joint ventures and associates	–	–	–	–	–	–
Underlying operating loss	(177)	(19)	2	(160)	(17)	12%
	2024	2023	Change			
Trading cash flow	(181)	(63)	(118)			

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

Sustainability

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


NON-FINANCIAL AND SUSTAINABILITY INFORMATION STATEMENT

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


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

Relevant information

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

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

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

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

2024 HIGHLIGHTS

- Launched our new purpose and behaviours
- Completed the first phase of the sustainability strategic review
- Announcement of Rolls-Royce as part of a landmark UK-Qatar climate technology partnership

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

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

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

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

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

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

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

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

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

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

ROLLS-ROYCE IS A FORCE FOR PROGRESS

WE ARE COMMITTED TO		FIND OUT MORE	UN SDG ALIGNMENT
Energy transition and climate	Helping the world do things tomorrow that cannot be done today and play our part in the energy transition for a more sustainable world	Pages 34 to 35	<div><div>7 AFFORDABLE AND CLEAN ENERGY</div><div>12 RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div>13 CLIMATE ACTION</div></div>
People and culture	Being socially responsible: creating a positive impact for our people and our stakeholders	Pages 46 to 50	<div><div>3 GOOD HEALTH AND WELL-BEING</div><div>4 QUALITY EDUCATION</div><div>5 GENDER EQUALITY</div><div>8 DECENT WORK AND ECONOMIC GROWTH</div></div>
Ethics and compliance	Operating ethically: living our behaviours in accordance with our Group policies	Page 51	<div><div>16 PEACE, JUSTICE AND STRONG INSTITUTIONS</div></div>

Energy transition and climate

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

OUR PROGRESS IN 2024

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

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

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

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

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

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

Our strategy focuses on four pillars:

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

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

Decarbonising our operations, facilities, product testing and business activities

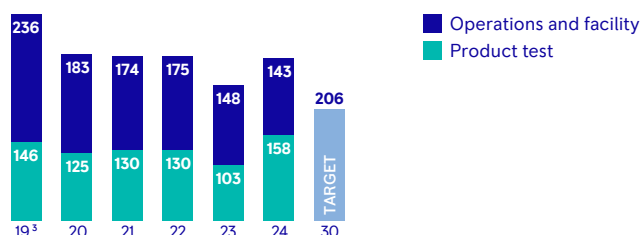
Playing our part in the energy transition means reducing energy consumption and decarbonising operations and product testing. This will help ensure our facilities and internal supply chains remain resilient in a changing external environment. We continue to make progress in decarbonising our global operations. Our total annual Scope 1 + 2 emissions, those associated with our operations, facilities, testing and business activities, comprised 301 ktCO₂e in 2024, a 50 ktCO₂e increase compared to 2023.

These emissions included 143 ktCO₂e from facilities and operations and 158 ktCO₂e from testing activity. We continued to reduce our operational emissions by a further 5 ktCO₂e, a 3% improvement compared with 2023. The overall increase in total Scope 1 + 2 emissions was driven by an increase in product development testing, 55 ktCO₂e.

The additional testing was in support of Trent XWB-84 EP certification. The main tests completed were a cyclic development test and a 150 hours certification test. The Trent XWB-84 EP achieved certification in December 2024 and builds on the proven track record of the Trent XWB-84, already celebrated as the world's most efficient large aero engine in service. Cutting-edge advances in aerodynamics and engine design allow us to further optimise performance, unleashing a 1% improvement in fuel efficiency and CO₂ emissions, whilst further advancing our industry-leading reliability and durability.

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

Operations, facility, and product test emissions (ktCO₂e)^{1,2}



1 External assurance over Scope 1 + 2 data is provided by Bureau Veritas. See page 211 for their sustainability assurance statement

2 Data has been reported in accordance with our basis of reporting, available at www.rolls-royce.com/sustainability

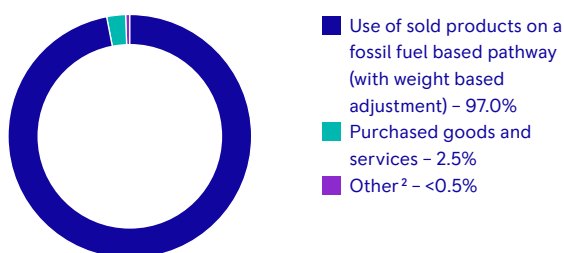
3 2019 baseline

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

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

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

Part of the next phase of our sustainability strategic review will include emissions sources beyond those within our immediate control (Scope 3). The emissions in our supply chain (Scope 3, category 1, purchased goods and services) account for approximately 2.5% of our total emissions and, as such, are our second largest emission category after the emissions from our products in operation (Scope 3, category 11, use of sold products emissions). Our Scope 3, category 1 emissions were estimated as 2.18 MtCO₂e in 2024.

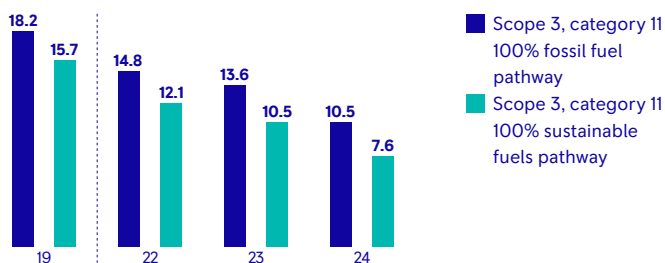
Total emissions footprint percentage split¹ (%)

1 Data has been reported in accordance with our basis of reporting, available at www.rolls-royce.com/sustainability

2 Other emissions calculated based on Scope 1 + 2 actuals for 2024 and Scope 3 estimations from 2019

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

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

Use of sold products emissions intensity with weight based adjustment (ktCO₂e/£m OE revenue)^{3,4}

3 Absolute Scope 3, category 11 emissions are available on page 42

4 Data has been reported in accordance with our basis of reporting, available at www.rolls-royce.com/sustainability

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

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

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

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

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

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

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

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

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

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

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

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

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

Task Force on Climate-related Financial Disclosures statement

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

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

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

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

Strategy C – resilience of the organisation's strategy

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

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

Metrics and targets C – presence of targets

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

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

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

TCFD recommendations

	RECOMMENDATION	CONSISTENCY	PAGE	CA 414CB ¹
Governance	A Board oversight of climate-related risks and opportunities	✓	37	CA s414CB(a)
	B Management's role in assessing and managing climate-related risks and opportunities	✓	37	CA s414CB(a)
Strategy	A The organisation's identification of climate risks and opportunities it faces over the short, medium and long term	✓	38	CA s414CB(d)
	B Consideration of the impact of climate risks and opportunities on the organisation's business, strategy and financial planning	✓	38	CA s414CB(e)
	C Resilience of the organisation's strategy, taking into consideration different climate-related scenarios	✓	40	CA s414CB(f)
Risk management	A Presence of the organisation's processes for identifying and assessing climate-related risks	✓	38	CA s414CB(b)
	B Processes for managing climate-related risks including prioritisation methods	✓	38	CA s414CB(b)
	C Processes for identifying, assessing and managing climate-related risks are integrated into overall risk management	✓	38	CA s414CB(c)
Metrics and targets	A Disclosure of metrics used to assess climate risks and opportunities in line with strategy and risk management processes	✓	42	CA s414CB(h)
	B Disclosure of material greenhouse gas emissions and the associated risks	✓	42	–
	C Presence of targets used to manage climate-related risks and opportunities and performance against such targets	✓	42	CA s414CB(g)

¹ Companies Act 2006, s414CB(2a)-(2h)

Governance

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

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

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

Board

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

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

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

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

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

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

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

Management

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

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

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

Sustainability governance structure



Assessing strategic resilience

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

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

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

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

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

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

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

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

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

Climate-related risks and opportunities

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

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

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

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

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

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

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

Climate scenarios assessment¹

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

The scenarios we use are based on independent external climate scenarios² and are consistent with representative concentration pathways (RCPs). We use additional supplementary data from third-party sources, such as carbon pricing and GDP, to support our modelling and financial impact assessments.

Modelling the potential impact

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

¹ Under each scenario our modelling considers both physical and transition-related elements

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

Key climate-related risks and opportunities

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

Climate scenarios: summary and key assumptions¹

	DESCRIPTION
Baseline	The world follows a path in which social, economic and technological trends do not shift markedly from historical patterns. Global and national institutions work toward achieving sustainability goals but make slow progress. Environmental systems experience further degradation, despite gradual improvement in energy and resource intensity. Global population growth is moderate and levels off in the second half of this century. Economic development proceeds unevenly. Income inequality persists or improves only slowly and challenges to reducing vulnerability to societal and environmental changes remain.
Net zero scenario (Accelerated transition) ($< 1.5^{\circ}\text{C}$ by 2100)	The world shifts gradually, but pervasively, toward a more sustainable path, emphasising more inclusive development that respects perceived environmental boundaries. Resulting global temperature rise plateaus at 1.5°C . Educational and health investments accelerate the demographic transition and the emphasis on economic growth shifts toward a broader emphasis on human wellbeing. Driven by an increasing commitment to achieving development goals, inequality is reduced both across and within countries. Consumption is oriented towards low material growth and lower resource and energy intensity.
High temperature scenario (Accelerated physical) (3.5°C by 2100)	Expanding fossil fuel demand and government failure to meet stated commitments leads to higher emissions. The expected expansion towards renewables is cut short causing global emissions to rise significantly. Global warming rises to 2.1°C by 2050, on track to hit 3.5°C of global temperature rise by 2100. This causes significant physical disruption and damage that accelerates as the scenario progresses. Fossil fuel supply is slower to adjust than demand as existing resources are strained and further exploration is needed. This causes spot prices to rise contributing to inflationary pressure in both energy and consumer sectors.
Disruptive scenario (Delayed disruption) (1.7°C by 2100)	Increasing fossil fuel demand and delay of climate policies until 2030 leads to higher emissions. Stronger policy actions are necessary to compensate for time lost. Global warming can be contained to 1.7°C but the sudden shift in the energy mix causes more economic and environmental damage than in the baseline. Aggressive and uncertain carbon taxation policies cause substantial inflationary pressures, stranded assets and financial instability. Frictions in the shift towards renewables and more limited carbon capture availability than in the accelerated transition scenario require vast gains in energy efficiency to bring down emissions and therefore global warming by 2050.

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

CLIMATE RISK SUMMARY

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

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

	NET ZERO <1.5°C				HIGH TEMP 3.5°C				DISRUPTIVE 1.7°C				TIMING OF HIGHEST EXPOSURE
	CA	D	PS	NM	CA	D	PS	NM	CA	D	PS	NM	
Changing customer demand	(1.0)	(0.1)	(0.3)	0.0	(0.5)	0.7	(0.2)	0.0	(0.3)	(0.2)	0.0	0.0	10yrs+
Change in costs due to carbon pricing	(2.1)	0.3	(0.5)	(0.2)	(0.6)	(0.3)	0.4	0.0	(0.9)	(0.1)	0.2	(0.2)	5-10yrs
Change in costs due to commodity pricing	1.0	0.0	0.1	0.0	(0.7)	0.1	(0.1)	(0.3)	0.1	(0.1)	0.4	0.0	5-10yrs
Changing investment requirement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10yrs+
Facility disruption	(0.3)	(0.3)	(0.3)	0.0	(0.3)	(0.3)	(0.3)	0.0	(0.3)	(0.3)	(0.3)	0.0	10yrs+
Supply chain disruption	(1.1)	(0.3)	(0.2)	0.0	(1.1)	(0.2)	(0.3)	0.0	(1.0)	(0.3)	(0.2)	0.0	10yrs+
Impact on product performance	0.0	0.0	0.0	0.0	(0.4)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10yrs+
Total	(3.5)	(0.4)	(1.2)	(0.2)	(3.6)	0.0	(0.5)	(0.3)	(2.4)	(1.0)	0.1	(0.2)	

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

CLIMATE RISK SUMMARY CONTINUED

Transition risks and opportunities

Changing customer demand	<p>2025-2034: In the markets we serve, overall demand is expected to be robust in each scenario although product mix may change with customer requirements, particularly in Power Systems where we would see a stronger market for zero emissions solutions. We expect demand in Civil Aerospace to be strong, driven by clear demographic trends; enabled by a continued focus on efficiency and the introduction of sustainable fuels. We would expect climate stress to create opportunities in Defence; both in security and humanitarian response. We see significant opportunity to accelerate the growth of SMR in the medium term in the net zero and disruptive scenarios.</p> <p>2035-2050: Longer term, we expect these trends to broadly continue.</p>
Change in costs due to carbon pricing	<p>2025-2034: Guided by our Scope 1 + 2 targets based on science, we are taking steps to reduce our exposure to carbon pricing by decarbonising our own operations and encouraging our suppliers to do the same.</p> <p>2035-2050: Our long-term Scope 1 + 2 targets are based on science and therefore aligned with a net zero scenario. An acceleration of our decarbonisation plan would be needed in the disruptive scenario where carbon pricing is modelled to rapidly escalate in the 2030s.</p>
Change in costs due to commodity pricing	<p>2025-2034: Our markets can sustain the commodity price changes assumed in each scenario. There is medium-term risk in the high temperature scenario in Civil Aerospace and Power Systems where existing contracts may limit our ability to pass through higher than expected costs, negatively impacting profits. Future contracts with both suppliers and customers need to minimise and mitigate our potential exposure.</p> <p>2035-2050: Longer term, we expect future contracts to mitigate the risk associated with the high temperature scenario.</p>
Changing investment requirement	<p>2025-2034: In both civil and defence aerospace markets, new products are expected in the mid-2030s. High carbon pricing could increase the level of technology required but would also delay new programme launch, allowing resources to be reallocated and presenting an upside opportunity for current product lines. In Power Systems the net zero and disruptive scenarios would require an acceleration of investment in new technologies.</p> <p>2035-2050: Longer term, we see demand continuing for fuel efficiencies, compatibility with sustainable fuels and low and zero emission solutions.</p>

Physical risks

Facility disruption	<p>2025-2034: Quantification of potential impact is based on business continuity analysis performed by each division. Future site strategy, investment in existing facilities and development of new footprint options, needs to continue considering climate risk.</p> <p>2035-2050: Longer-term facility disruption is expected to stabilise in the net zero and disruptive scenarios with the greatest risk in the high temperature scenario where climate adaption will increasingly be required. Our business resilience activity will consider physical climate risk as a driver.</p>
Supply chain disruption	<p>2025-2034: Quantification of potential impact is based on business continuity analysis performed by each division. Future supply chain decisions, including the need for dual sourcing, need to continue considering climate risk.</p> <p>2035-2050: Longer-term supply chain disruption is expected to stabilise in the net zero and disruptive scenarios with the greatest risk in the high temperature scenario where climate adaption will increasingly be required. Our supply chain resilience activity will consider physical climate risk as a driver both directly to our suppliers' facilities and also logistics.</p>
Impact on product performance	<p>2025-2034: Over the next decade the temperature differences between scenarios is relatively limited and therefore impact on product performance is minimal.</p> <p>2035-2050: Out to 2050 the risk is relatively stable in the net zero and disruptive scenarios. The greatest increase is in the high temperature scenario with Civil Aerospace seeing a low percentage increase in shop visits and costs and Power Systems seeing additional cooling needs across the portfolio.</p>

Metrics and targets

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

Scope 1 + 2 emissions

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

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

2 Scope 2 emissions are market-based

Scope 3, category 1 emissions

EMISSION SOURCE ³	2019 ⁴	2020 ⁴	2021 ⁴	2022 ⁴	2023 ⁴	2024
Emissions from purchased goods and services, by spend	–	–	–	–	–	2.18 MtCO ₂ e

3 Our Scope 3, category 1 calculation has been calculated using spend emission factors. Working with our vendors, we will seek to mature this approach from 2025

4 Reporting of Scope 3, category 1 started in 2024 and so no data is available for prior years

Scope 3, category 11 emissions

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

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

6 Reporting of Scope 3, category 11 started in 2022 and so no data is available for interim years

7 Weight based adjustment is not applied to the Power Systems portfolio due to the complexity and variety of product applications. It is not appropriate for all applications such as stationary power generation

Scope 3, category 11 emissions

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

Transition plan

Ambition

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

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

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

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

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

Action plan

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

	SHORT TERM		MEDIUM TERM		LONG TERM			
	2025-2029		2030-2034		2035-2040	2041-2045	2046-2050	
Scope 1 + 2			<div>2030</div> <div>46% reduction in Scope 1 + 2 emissions</div>					<div>2050</div> <div>Net zero operations</div>
	Continuous reduction of energy consumption							
	Continued use of sustainable fuels in our product testing							
	Focus of decarbonising electricity and heating	Decarbonisation of complex process heat, decarbonisation of generation assets and securing long-term supply of zero carbon electricity						
Scope 3, category 11								<div>2050</div> <div>All products are compatible with net zero operation by 2050</div>
	Continuous product efficiency improvements (new product development and existing product upgrades)							
	Continued product compatibility with sustainable fuels							
	SMR first orders	SMR design manufacture and build first units	SMR ramp up volumes					
				New Power Systems products	Next gen Civil Aerospace engines	New nuclear products	New Defence products	
Other	Develop low/zero carbon solutions such as battery storage systems, hydrogen reciprocating engines and microreactors							
	Engagement/advocacy with relevant governments, policymakers and stakeholders on the energy transition							
	Further expansion of sustainability topics							

Decarbonising our operations, facilities, product testing and business activities

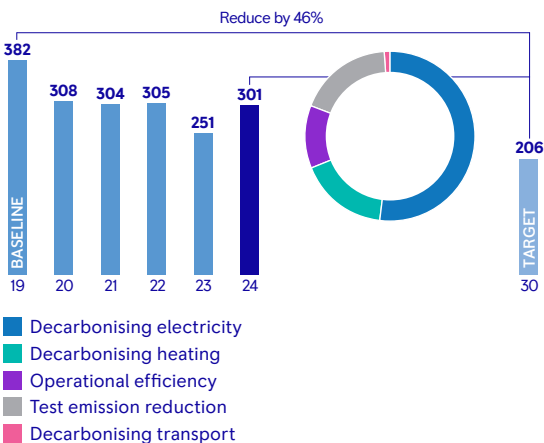
We have a detailed plan to achieve our 2030 Scope 1 + 2 target. There are five main areas of focus between now and 2030:

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

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

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

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



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

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

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

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

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

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

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

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

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

Responsible consumption

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

OUR PROGRESS IN 2024

Tornado 2 Tempest circular economy pilot completed

Every drop counts innovation portal challenge

Value chain engagement on new legislation

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

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

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

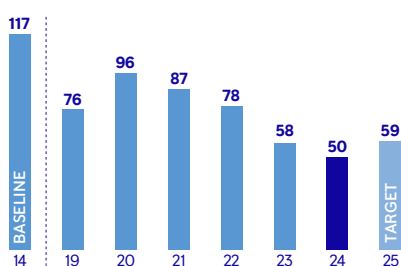
opportunities to the local environment. We identified our highest water consuming industrial processes and mapped them to the relevant facilities. The every drop counts innovation portal challenge was launched internally which focused on reducing freshwater usage in manufacturing processes and will help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

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

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

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

Energy consumption (MWh/£m)

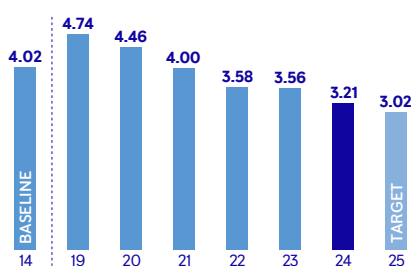


Target

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

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

Total solid and liquid waste (t/£m)

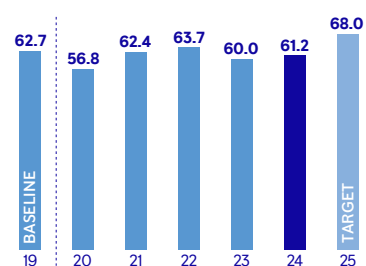


Target

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

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

Recycling and recovery rate (%)



Target

Increase the recycling and recovery rate to 68% by 2025.^{1,2}

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

¹ External assurance over selected sustainability data is provided by Bureau Veritas. See page 211 for their sustainability assurance statement

² Data has been calculated in accordance with our basis of reporting. This and further data is available at www.rolls-royce.com

³ Energy and waste data are normalised by Group revenue (£m)

People and culture

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

Tufan Erginbilgic

OUR PROGRESS IN 2024

Launched our new purpose and behaviours

Introduced Our Voices, a new colleague survey

Launched Your Shares: Gifted, a global employee share plan

Changing the way we work, think and behave

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

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

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

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

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

Purpose driven leadership

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

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

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

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

Change makers

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

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

Put safety first

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

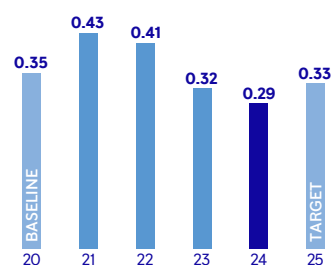
Employee health and wellbeing, both physical and mental, directly impact the safety of our people, products and processes. We support colleagues in leading healthy lifestyles and maintaining overall wellbeing. We believe all incidents are preventable, focusing on proactive risk management as the foundation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

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

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

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

TRI rate (per 100 employees)¹



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

Supporting colleagues to LiveWell

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

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

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

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

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

A skills-powered organisation

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

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

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

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

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

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

Driving a culture of high performance and engagement

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

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

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

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

“Leaders play a critical role in managing and supporting good mental health at work and we make mental health training a requirement for our leadership roles.”

- Continued emphasis on health, safety and wellbeing, fostering a strong speak-up culture. In 2024, 21,000 colleagues engaged in world mental health day sessions. We achieved a 96% safety index score, surpassing our 94% target and improving by 2% from 2023. Our TRI rate dropped to 0.29, a 12% improvement from 2023.

Enabling high performance

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

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

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

Your Shares: Gifted

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

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




Sharing in our success

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

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

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

Our total reward philosophy is built on five key principles:

	Differentiated for our employees – we seek to offer flexible, merit-based choices to support our workforce and promote inclusion
	A great colleague experience – we aim to be simple, engaging, valued, fair and understood
	Attractively positioned – to ensure we retain core competencies and support the growth of skills and capabilities required for the future
	Clearly aligned to delivering high performance – rewarding achievement of ambitious short-term and long-term targets
	Broader than financial reward – we care about employee wellbeing, creating an environment where everyone can be at their best with career development and recognition

Community and STEM outreach

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

In 2024, our STEM ambassadors supported programmes worldwide:

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

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



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

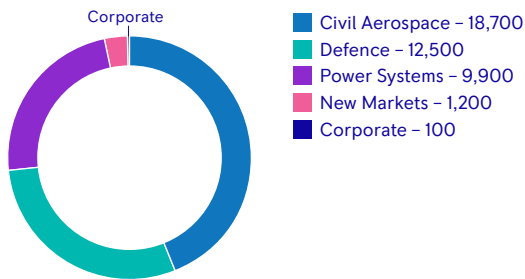
Looking ahead

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

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

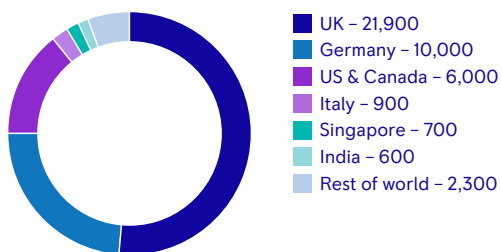
People metrics

42,400 employees total (monthly average)¹



¹ Segments are defined in note 2 on page 137

Employees in 48 countries (monthly average)²



² Employee headcount data represents permanent employees and excludes contractors

Our diversity metrics at 31 December 2024³

Female diversity percentage tracking and 2025 targets

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

Ethnic diversity percentage tracking and 2025 targets for UK and US⁶

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

Gender diversity

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

³ The data for diversity information is showing permanent employee year-end actuals

⁴ The Board diversity policy aims for gender parity

⁵ Senior leaders are defined in the Companies Act 2006 (those who have responsibility for planning and directing or controlling the activities of the entity or a strategically significant part of it). We do not include all subsidiary directors in the definition of senior leaders as this would not accurately reflect the leadership pipeline. We have a large number of small and dormant subsidiaries and the composition of these Boards reflects their level of activity. Accordingly, senior leaders refers to the Executive Team and the ELG

⁶ For ethnicity information, we are only able to monitor and track this in the UK and US and, therefore, this only includes businesses in these locations. The population is only those who have chosen to disclose this information

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

Ethics and compliance

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

OUR PROGRESS IN 2024

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

Increased maturity in fraud risk assessment and incident management

Launch of corporate contributions reporting and approval

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

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

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

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

Supply chain due diligence

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

Anti-bribery and corruption

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

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

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

Human rights and anti-slavery

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

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

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

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

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

Principal risks

The Rolls-Royce risk management and internal control framework

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

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

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

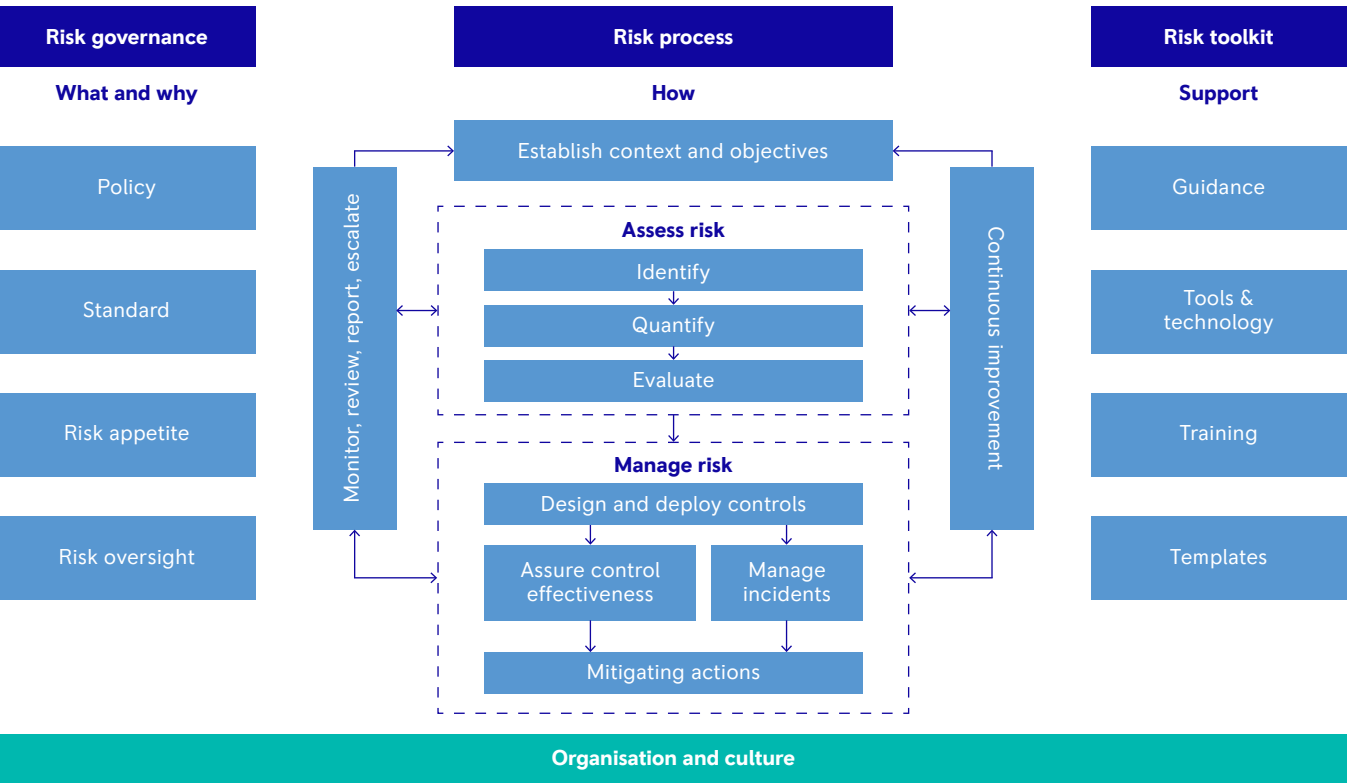
1. How effective the framework was at managing the principal risks:
 - Individual principal risks with reports throughout the year at the appropriate Board Committee, led by the risk owner (with a focus on controls in place to manage the risk and mitigating actions required to close any gaps). See pages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

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

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

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

The risk management framework



How Rolls-Royce uses the framework to manage risk

Risk governance

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

Risk process

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

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

Risk toolkit

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

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

Risk maturity and continuous improvement

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

Improvements in 2024

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

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

2025 and beyond

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

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

Examples of our new emerging risks

EMERGING RISK TITLE AND DESCRIPTION	POTENTIAL IMPACT TO ROLLS-ROYCE	OUR RESPONSE
Demands on fuel stocks: competing use for feed stocks (for example, food versus fuel), cross-sector demands for feed fuel and the expansion of AI increasing demand on base energy requirements.	Threats: – Reduce our access to fuel sources and supplies – Hinders our ability to achieve decarbonisation across the full portfolio	Investigate and monitor: – Continue to horizon scan and explore alternatives – Monitor demand in the aviation sector as part of strategic planning – Continue to develop our technology portfolio
Alternative fuel sources: development of alternative fuel sources, such as: – Carbon-based liquid fuels – Ammonia (carbon free fuel) – Methanol – Hydrogen	Opportunities (varying according to fuel): – Low cost/high power solutions – Potential for net zero carbon emissions – Improved air quality	Investigate and monitor: – Studies underway – Pilots in development – Technologies being mapped to better understand the threats and opportunities
Societal polarisation from increased access to propaganda (also linked to misinformation and disinformation).	Threats: – Increase in conflict and division in the workplace – Increased shareholder activism – Increased insider threat risks	Manage according to our risk framework: Resources are now required and in place for additional monitoring, such as insider threats and likelihood of action.

Emerging risks

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

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

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

Principal risks

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

Changes to the principal risks profile in 2024

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

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

Changes in overall risk levels

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

Board confirmation

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

PRINCIPAL RISKS – PILLARS

Change in risk level: Increased Static Decreased

Safety

PRINCIPAL RISK DESCRIPTION		CONTROLS AND MITIGATING ACTIONS	
<p>People: Failure to create a place to work which minimises the risk of harm to our people, those who work with us and the environment would adversely affect our reputation and long-term sustainability</p> <p>Product: Failure to provide safe products</p>		<p>People:</p> <ul style="list-style-type: none">– Our HSE management system includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant company, legal, regulatory and industry requirements– Crisis management framework in place <p>Product:</p> <ul style="list-style-type: none">– Our safety assurance framework includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant company, legal, regulatory and industry requirements– We verify and approve product design– We test adherence to quality standards during manufacturing– We validate conformance to specification for our own products and those of our suppliers– We mandate safety awareness training– We use engine health monitoring to provide early warning of product issues– We take out relevant and appropriate insurance	
ASSURANCE ACTIVITIES AND PROVIDERS		OVERSIGHT FORUM(S)	BUSINESS MODEL
<p>People</p> <ul style="list-style-type: none">– Safety case interventions– HSE audit team <p>Product</p> <ul style="list-style-type: none">– Product safety assurance team– Technical product lifecycle audits– Product safety board		<ul style="list-style-type: none">– Safety, Energy Transition & Tech Committee– Executive Team	<ul style="list-style-type: none">– Our role in society– Our business model drivers– Our uniqueness
WHAT HAS CHANGED IN 2024?			
<p>This risk has improved during 2024, due to the strengthening of controls around people safety. However, safety is one of our core behaviours (see page 10) and the first priority for all our colleagues. We continue to prioritise action plans to improve people and product safety.</p> <p>People safety related metrics and more information on how we are reducing safety risks can be found on page 18.</p>			

PRINCIPAL RISKS – PILLARS CONTINUED

Change in risk level:  Increased  Static  Decreased**Compliance** 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Compliance teams
- Financial controls team

OVERSIGHT FORUM(S)

- Audit Committee
- Board
- Nominations, Culture & Governance Committee
- Executive audit committee

BUSINESS MODEL

- Our business model drivers

WHAT HAS CHANGED IN 2024?

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

Read more about ethics and compliance on page 51.

Strategy 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Group strategy team
- Challenge from external advisers

OVERSIGHT FORUM(S)

- Board
- Executive Team
- Investment committee

BUSINESS MODEL

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

WHAT HAS CHANGED IN 2024?

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

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

PRINCIPAL RISKS – PILLARS CONTINUED

Change in risk level:  Increased  Static  Decreased**Execution** 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Executive Team monitoring of execution

OVERSIGHT FORUM(S)

- Board
- Executive Team
- Investment committee

BUSINESS MODEL

- Our role in society
- Our business model drivers

WHAT HAS CHANGED IN 2024?

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

Business interruption 

PRINCIPAL RISK DESCRIPTION

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

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Investment reviews
- Supplier strategy and sourcing reviews
- Group security and resilience team

OVERSIGHT FORUM(S)

- Audit Committee
- Executive audit committee

BUSINESS MODEL

- Our business model drivers
- Our uniqueness

WHAT HAS CHANGED IN 2024?

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

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

PRINCIPAL RISKS – DRIVERS

Change in risk level:  Increased  Static  Decreased**Energy transition** 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

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

OVERSIGHT FORUM(S)

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

BUSINESS MODEL

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

WHAT HAS CHANGED IN 2024?

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

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

Information & data (including cyber) 

PRINCIPAL RISK DESCRIPTION

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

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Group cyber security team
- Group security and resilience team

OVERSIGHT FORUM(S)

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

BUSINESS MODEL

- Our business model drivers
- Our uniqueness

WHAT HAS CHANGED IN 2024?

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

PRINCIPAL RISKS – DRIVERS CONTINUED

Change in risk level:  Increased  Static  Decreased**Market & financial shock** 

PRINCIPAL RISK DESCRIPTION

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

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Five-year and strategic planning processes
- Strategy reviews

OVERSIGHT FORUM(S)

- Audit Committee
- Board
- Financial and operating drivers review

BUSINESS MODEL

- Our business model drivers

WHAT HAS CHANGED IN 2024?

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

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

Political 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

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

OVERSIGHT FORUM(S)

- Board
- Executive Team

BUSINESS MODEL

- Our role in society
- Our business model drivers

WHAT HAS CHANGED IN 2024?

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

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

PRINCIPAL RISKS – DRIVERS CONTINUED

Change in risk level:  Increased  Static  Decreased**Talent & capability** 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

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

OVERSIGHT FORUM(S)

- Nominations, Culture & Governance Committee
- People committee

BUSINESS MODEL

- Our business model drivers
- Our uniqueness

WHAT HAS CHANGED IN 2024?

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

Technology 

PRINCIPAL RISK DESCRIPTION

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

CONTROLS AND MITIGATING ACTIONS

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

ASSURANCE ACTIVITIES AND PROVIDERS

- Strategy reviews
- Investment reviews
- Technology reviews

OVERSIGHT FORUM(S)

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

BUSINESS MODEL

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

WHAT HAS CHANGED IN 2024?

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

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

Going concern and viability statements

Going concern statement

Overview

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

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

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

Forecasts

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

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

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

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

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

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

Liquidity and borrowings

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

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

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

£ million	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 refinanced £2.5bn revolving credit facility matures in November 2027 with a one-year extension option (currently undrawn)

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

Conclusion

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

Viability statement

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

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

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

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

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

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

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

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

- e. \$1bn bond maturing in 2027
- f. £545m bond maturing in 2027
- g. €550m bond maturing in 2028
- h. New bonds assumed to be issued as planned: £0.2bn in 2026, £1.3bn in 2027 and £0.5bn in 2028

2. The Group has access to global debt markets and expects to be able to refinance these debt facilities on commercially acceptable terms;
3. That implausible scenarios do not occur. Implausible scenarios include either multiple risks impacting at the same time or where management actions do not mitigate an individual risk to the degree assumed; and
4. That in the event of one or more risks occurring (which has a particularly severe effect on the Group) all potential actions (such as but not limited to restricting capital and other expenditure to only committed and essential levels, reducing or eliminating discretionary spend, reinstating pay deferrals, raising additional funds through debt or equity raises, executing disposals, undertaking further restructuring and pausing distributions) would be taken on a timely basis.

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

PRINCIPAL RISK	SCENARIO ASSUMPTIONS AND IMPACTS
Safety (product)	Civil Aerospace product safety event resulting in aircraft being grounded, lower engine flying hour (EFH) revenues, commercial penalties and additional costs (for example, unplanned shop visits). The grounding time and number of shop visits required to exceed headroom are considered remote.
Compliance	A compliance breach resulting in fines and loss of new business with governments and state-owned companies. The probability of triggering the size of fine required to exceed headroom is considered remote.
Execution	A programme issue on a major programme of the same (proportionate) scale as Trent 1000. The extent to which engine life would need to be impacted to breach headroom is considered remote.
Business interruption	<ol style="list-style-type: none"> a) The loss of a key element of our supply chain resulting in an inability to fulfil Civil Aerospace large engine orders for 12 months (whatever is more demanding). Reverse stress testing would require the time over which orders could not be fulfilled to be extended beyond what we consider plausible. b) A test bed event that disrupts US Defence deliveries. c) An event in our Power Systems business that results in no deliveries over a period of time. d) A pandemic with similar impact to the COVID-19 pandemic with significant engine flying hour reduction in Civil Aerospace that require multiple years to recover to pre-pandemic levels and also impact on sales volumes especially in Civil Aerospace and the Power Generation businesses.
Energy transition (previously climate change)	Transition risk from our 1.5°C TCFD scenario where we receive lower revenues from existing Civil Aerospace and Power Systems products coupled with a business interruption at one of our facilities. The extent of time over which orders cannot be fulfilled in order to breach headroom is considered not plausible.
Information & data (cyber)	A cyber-attack resulting in loss and corruption of data and resulting in business disruption, loss of EFHs, compliance concerns due to disclosure of data and potentially trigger debarment from government contracts. The time period over which EFHs would need to be affected to breach headroom is not considered plausible.
Market & financial – market shock	Plausible downside scenario to model lower demand than our base case, with Civil EFHs held at Q4 2024 levels, as well as modelling 'worst case' inflation, interest rate and GDP taken from Bloomberg data.
Political	Sanctions imposed between major trading blocs resulting in supply chain disruption and a loss of sales in impacted markets. Reverse stress testing showed that sanctions would need to persist over a period of time beyond what is considered plausible.

Section 172 statement

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

The likely consequences of any decision in the long term	<p>During the year, the Directors considered the Group's strategic direction and were regularly updated on progress with the divestment programme. This, in turn, creates long-term value for shareholders, recognising that the longer-term success of our business depends on the effects of our business activities on wider society. The Board also discussed the framework for shareholder returns (see page 20).</p> <p>During 2024, Board discussions included a focus on the new organisational design and how we operate to enable a simpler, more efficient and effective organisation.</p> <p>Further information on the launch of our multi-year transformation programme and new organisational design can be found on pages 11 and 12 in the Strategic report and page 75 in our Board focus.</p>
The interests of the Company's employees	<p>The Directors recognise that the success of our business depends on attracting, retaining and motivating talented people. The Directors consider and assess the implications of decisions on our people, where relevant and feasible. Our focus on our people continued during 2024 and we launched our new purpose and behaviours during the second half of the year. Further information can be found on page 10 and in our People and culture section on page 46.</p> <p>Additionally, at the 2024 AGM, a new share plan, the Rolls-Royce Global Employee Share Purchase Plan (GESPP) was approved, enabling the Group to gift all colleagues globally 150 Rolls-Royce shares (or cash equivalent where share allotment was not permitted). Further information on the GESPP can be found on page 48.</p>
The need to foster the Company's business relationships with suppliers, customers and others	<p>Delivering our strategy requires a strong, mutual and beneficial relationship with suppliers, customers, governments and joint venture partners. The Directors receive updates on engagement across the Group at Board meetings and the Board supports our Executive Team who work collaboratively with our suppliers and partners to continue to improve operational performance. During 2024, various Board and Executive Team members met with several of our key suppliers and customers. Further information can be found on page 64 of our Stakeholder engagement section.</p>
The impact of the Company's operations on the community and the environment	<p>Recognising the role we play in the global energy transition, the Board approved our refreshed sustainability strategy following an in-depth review by the Safety, Energy Transition & Tech Committee, see page 34 for information on our progress in advancing the strategy and progress against our targets in 2024.</p> <p>The Board receives information through reports from the Chief Executive and Group-level reviews on various topics to help the Directors make decisions relating to net zero ambitions and proposals to divest or invest. In November, members of the Board attended the Rolls-Royce Schools Prize for Science & Technology 2022-2024 held in Derby, UK. Further information on this event can be found on page 65 of our Stakeholder engagement section.</p>
The desirability of the Company maintaining a reputation for high standards of business conduct	<p>The Board reviews and approves our ethics and compliance frameworks and the General Counsel provides regular updates to the Board on compliance with regulation. This, in conjunction with the Board monitoring compliance with governance standards, helps to ensure that Board-level decisions and the actions of our subsidiaries promote high standards of business conduct. Our Code and Group policies, supplier code and modern slavery statements ensure high standards are approved and can be found on www.rolls-royce.com</p>
The need to act fairly between members of the Company	<p>After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long term, taking into consideration the effect on the Group's stakeholders.</p>

Stakeholder engagement

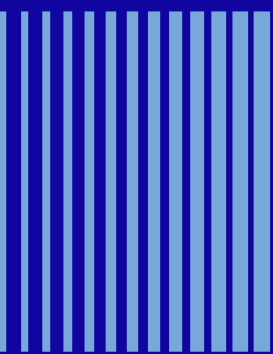
Consistent communication with stakeholders is a priority for the Board and Executive Team who maintain regular touchpoints with stakeholders to remain updated on their views and interests. The points identified through this engagement influence both Board decision making and long-term strategy.

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

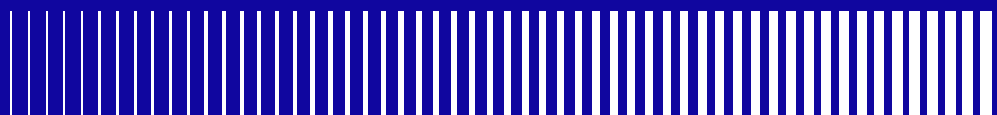
STAKEHOLDER ENGAGEMENT CONTINUED		
STAKEHOLDER	ENGAGEMENT	REFERENCE
Communities 	<p>The Board recognises the importance of our communities and understands that everything we do can have an impact on our local and global communities. The Group's charitable contributions and sponsorships committee continued to identify causes for donation and partnership. During 2024, our focus was supporting young people, particularly those disadvantaged in our communities, to overcome barriers to participation, especially through STEM learning opportunities.</p> <p>In November, Paulo Cesar Silva, Helen McCabe and members of the Executive Team attended the Rolls-Royce Schools Prize for Science & Technology 2022-2024 which was held in Derby, UK with approximately 150 attendees (see page 49). Our Group Director of Engineering, Technology & Safety acknowledged the valuable contribution that school teachers provide to inspire the future generations to participate in STEM learning. As part of the event, five finalist school teaching teams were hosted in Derby, UK, for the day with visits to the Rolls-Royce Heritage Centre and apprentice workshop.</p>	 See page 46 People and culture
Governing bodies and regulators 	<p>The Board recognises the importance of governments and regulators as stakeholders. Not only are governments across the world customers but they also support the Group's investment in infrastructure and technology. During 2024, the Chair and Chief Executive held meetings with UK Government ministers and senior officials on topics including the Atlantic Declaration, AUKUS and the SMR programme. Following the division of the UK BEIS Department, the Board engaged with and briefed the new post-holders on the Group's strategy and performance. The Board is updated on engagement with tax authorities and the related regulatory landscape. The General Counsel provides regular updates to the Board on compliance with regulation.</p> <p>In 2024, the Chair and members of the Executive Team met with UK Government ministers and senior officials on topics including investment, defence and energy security. As 2024 was a general election year in the UK, meetings extended to members of the Shadow Cabinet, including the then Leader of the Opposition and Shadow Chancellor, at our Civil Aerospace campus in Derby, UK. Following the election, our Chief Executive met the Prime Minister at the Farnborough Airshow, UK, and Rolls-Royce business leaders have met and engaged with other members of the UK cabinet and ministers, including the Chancellor, Business and Trade Secretary and Defence Secretary. In addition, during the year, our Chair was appointed as a member of the industrial strategy advisory council established by the UK Government in December.</p>	 See page 25 Our divisions
Investors 	<p>The investor relations team is the key interface between the investment community and the Board, providing frequent dialogue and feedback. The Chair and members of the Board make themselves available to meet with institutional investors and seek to understand and prioritise the issues that matter most. In addition, the Chief Executive and Chief Financial Officer, supported by members of the Executive Team and the investor relations team, interact regularly with investors, most notably after our financial results, capital markets events, site visits and at conferences.</p> <p>We set ambitious targets for the mid-term at our Capital Markets Day in November 2023 (see page 21). Our engagement with investors has continued throughout the year, including meeting with investors on post-results roadshows in London, UK and Boston, New York, Miami, San Francisco and Los Angeles, US. Key investor conferences during the year included the Bank of America Global Industrials Conference (UK), BNP Paribas Exane CEO Conference (Paris) and JPMorgan European Capital Goods Conference (UK).</p> <p>During 2024, the Chairs of each Committee and the governance team engaged with shareholders and proxy advisers on proposals ahead of the 2024 AGM.</p>	 See page 11 Strategy  See page 86 Remuneration Committee report

Strategic Report signed
on behalf of the Board

Tufan Erginbilgic
Chief Executive
27 February 2025



GOVERNANCE REPORT



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Chair's introduction

As Chair of the Board, I am pleased to introduce our governance report for 2024.

At Rolls-Royce, we believe that good governance is the foundation of sustainable success. In 2024, we continued to build on our solid bases of leadership, oversight and accountability. In a period of significant change for the Group, the Board has remained committed to guiding this transformation while upholding the highest standards of governance.

Strengthened governance structures

Our 2023 Annual Report described the introduction of a new Board committee, the Safety, Energy Transition and Tech (SETT) Committee. The alignment of the committee structures of both the Board and the Executive Team is working well and has enabled appropriate focus, oversight and delivery of our transformation programme. For example, during 2024, the SETT Committee looked in depth at our revised sustainability strategy before it was considered and approved by the Board. Their insights contributed to better discussions and output. A full report of the SETT Committee's activities during the year is set out on page 111.

At the Nominations, Culture & Governance Committee, we are regularly updated on the succession pipeline and associated development initiatives for our senior leaders. In 2024, this included considering our talent programmes (see People and culture, page 46). A full report of the Nominations, Culture & Governance Committee can be found on page 80.

To ensure compliance with the revised 2024 Code, we will ensure our governance framework evolves not only to meet the regulatory requirements but also to uphold the highest possible standards of transparency and stewardship relevant to the Group.

Board effectiveness

We have undertaken a review of the performance of the Board and its Committees in 2024 to enable us to continuously improve as a Board (see page 77). Overall, the outcome of the review was positive with encouraging feedback about the effectiveness of the Board and its Committees. The areas of oversight which had improved during 2024 were recognised, such as risk management and recognition was given to the new Safety, Energy Transition & Tech Committee which worked well. A number of areas for continuing focus in 2025 were also identified for the Board and its Committees which you can read about on page 77 and in the individual Committee reports.

Engaging with our stakeholders

We take every opportunity to engage with our stakeholders where appropriate, recognising the importance of consistent communication to remain updated on their views and interests. Our engagement has influenced the Board over the course of the year in our discussions and decision-making. I have highlighted below how we have interacted with our people and our shareholders during 2024. Our full stakeholder engagement report on pages 64 and 65 provides more detail.

Our people

My Board colleagues and I value the opportunity to meet and hear from our people across the Group and two particularly important initiatives support the Board in ensuring they hear the employee voice:

- Firstly, the Meet the Board events which, in 2024, were held in Derby, UK in May and in Indianapolis, US in September. These events allow our people across the business to engage directly with my fellow Board Directors, encouraging open dialogue on issues that matter to them.
- Secondly, our Employee Champions, Bev Goulet and Wendy Mars, play a critical role in reaching out to our colleagues. Through site visits and engagement forums, they gather feedback and ensure that any concerns are raised in the boardroom.

Alongside these opportunities, members of the Board also engaged with our people at site visits to Reston, Washington, US and to Friedrichshafen, Germany during 2024.

In 2024, we introduced our new purpose and behaviours. My Board colleagues and I look forward to engaging with our people during 2025, supporting them in their understanding of how their actions bring our values to life and support the Group with the delivery of our strategy. For more information on Our purpose, see page 10.

Our shareholders

During the year, I met with several of our major institutional investors to understand their views of Rolls-Royce and in May we held our AGM.

Our 2024 AGM was fully hybrid, allowing shareholders to participate virtually or in person. This approach reflects our commitment to leverage technology to strengthen engagement and create opportunities for shareholders to connect directly with the Board. We will use this hybrid format again for our 2025 AGM to be held on 1 May 2025. I look forward to engaging with our shareholders in person and virtually at this time. Details of the AGM will be available to our shareholders in mid-March 2025.

Looking forward







Our focus for 2025 will include succession planning and talent and development, continuously strengthening our governance framework and supporting a culture that empowers our people to excel.



I would like to thank my fellow Directors for their unwavering commitment and invaluable counsel. I am confident that the combination of experienced leadership, diverse thinking and transparent governance makes us well positioned to navigate the opportunities and challenges ahead.

Dame Anita Frew

Chair

Board of Directors

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









Position	Board skills and competencies	Key external appointments
 <p>LORD JITESH GADHIA Independent Non-Executive Director Chair, Remuneration Committee</p> <p>Appointed to the Board on 1 April 2022</p>	<p>Lord Jitesh brings a wealth of complex advisory and transactional experience to the Board, having spent nearly 25 years in the banking and private equity sector. He has extensive remuneration experience, earned from both listed companies and UK Government Investments and UK Financial Investments, where he played a key role in compensation discussions about the Government's investments in some of the UK's biggest companies. This, together with his broad industry experience, is an asset to the Board and the Remuneration Committee.</p>	<p>Current</p> <ul style="list-style-type: none"> – Taylor Wimpey plc, SID – Compare the Market Limited, NED – Intas Pharmaceuticals, NED – Court of Directors of the Bank of England, NED <p>Past</p> <ul style="list-style-type: none"> – UK Government Investments, NED – Blackstone Group, senior MD
 <p>BEVERLY GOULET Independent Non-Executive Director Rolls-Royce North America Holdings, Inc., board member. Lead Employee Champion</p> <p>Appointed to the Board on 3 July 2017</p>	<p>Having spent a considerable amount of her career in the airline industry, Bev brings valuable knowledge and operational experience to the Board. She has significant expertise in finance, treasury, strategy, legal and governance matters. She has the expertise and experience to be able to confidently contribute to decision-making and actively take part in developing and strengthening our businesses.</p>	<p>Current</p> <ul style="list-style-type: none"> – Xenia Hotels & Resorts, Inc., NED – Answer ALS Foundation, foundation board chair <p>Past</p> <ul style="list-style-type: none"> – American Airlines, Inc., various executive roles – American Airlines Federal Credit Union, chair – Atlas Air Worldwide Holdings, Inc., NED
 <p>NICK LUFF Independent Non-Executive Director Chair, Audit Committee</p> <p>Appointed to the Board on 3 May 2018</p>	<p>Nick is an experienced finance executive having been chief financial officer of a number of listed companies across a variety of industries. He has broad financial skills and a track record of driving business performance. His extensive non-executive and audit committee experience, together with both financial and accounting expertise and a passion for engineering, is crucial in his role as Chair of the Audit Committee and is invaluable to the Board.</p>	<p>Current</p> <ul style="list-style-type: none"> – RELX plc, CFO <p>Past</p> <ul style="list-style-type: none"> – Centrica plc, CFO – Lloyds Banking Group plc, NED – QinetiQ Group plc, NED
 <p>WENDY MARS Independent Non-Executive Director Chair, Safety, Energy Transition & Tech Committee. Employee Champion</p> <p>Appointed to the Board on 8 December 2021</p>	<p>As a leader, Wendy has overseen diverse teams across sales, engineering and innovation in 123 countries. She brings experience and insight across hardware, software and services with a deep understanding of technological transformation of complex global organisations. Wendy's knowledge of both the technical steps needed to foster innovation in a technology company as well as the challenging realities of its implementation in organisations at different stages of their transformation journey is invaluable to the Board and the Group as a whole. Technology can play a significant role in helping businesses to achieve their sustainability objectives; Wendy brings this experience to the Board.</p>	<p>Past</p> <ul style="list-style-type: none"> – Cisco Systems, Inc., president Europe, Middle East and Africa region (EMEA) – ThruPoint, Inc., various executive roles
 <p>DAME ANGELA STRANK Independent Non-Executive Director</p> <p>Appointed to the Board on 1 May 2020</p>	<p>Dame Angela brings a wealth of corporate experience to the Board and a proven track record in managing engineering operations and driving technology, science and engineering research programmes. Having actively worked in climate research and pioneering women in STEM careers, sustainability and corporate ethics are key areas of interest. As a member of the Safety, Energy Transition & Tech Committee, Dame Angela brings invaluable expertise to the Group's development of its safety and sustainability strategy, drawing on her experience from serving on the sustainability committee of two other listed companies.</p>	<p>Current</p> <ul style="list-style-type: none"> – Mondi plc, NED – SSE plc, NED – Rio Tinto innovation advisory committee <p>Past</p> <ul style="list-style-type: none"> – Severn Trent plc, NED – BP p.l.c., various executive roles

Compliance with the Code

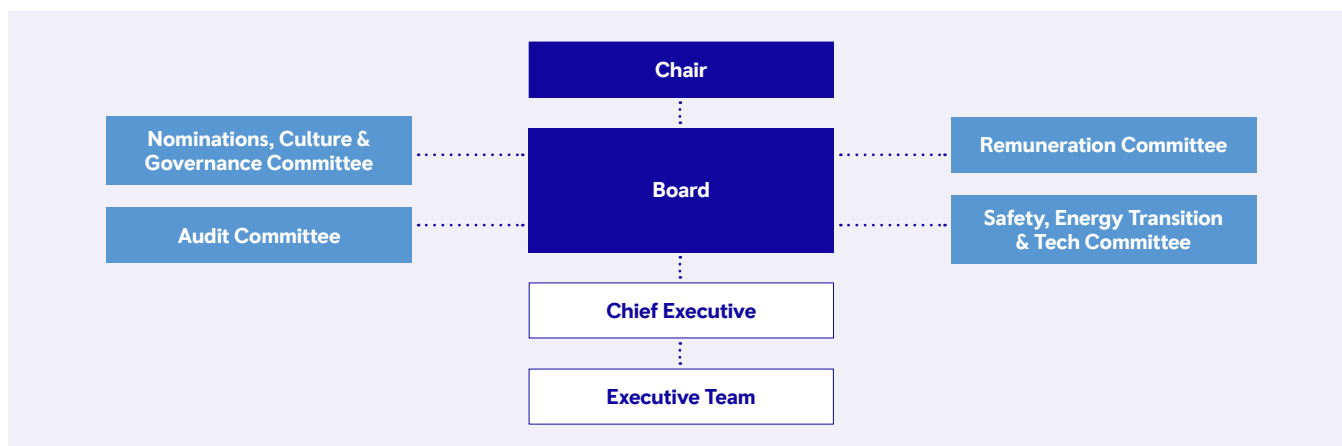
COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE

The Company is subject to the principles and provisions of the 2018 UK Corporate Governance Code (the Code), a copy of which is available at www.frc.org.uk. For the year ended 31 December 2024, the Board considers that it has applied the principles and complied in full with the provisions of the Code.

During 2024, we carried out a review of the 2024 UK Corporate Governance Code (the 2024 Code) ahead of our reporting for the year ended 31 December 2025.

Board leadership and company purpose	<ul style="list-style-type: none"> – Our Governance Report provides examples of our leadership and our Strategic Report sets out how we have engaged with our key stakeholders – Throughout the year, the Board has provided oversight of the ongoing Group-wide transformation programme which included the launch of the new purpose and behaviours for the Group 	 See page 64 Stakeholder engagement  See page 10 Our purpose
Division of responsibilities	<ul style="list-style-type: none"> – We clearly define the roles of the Chair and the Chief Executive and fully support the separation of the two roles – The Board believes it operates effectively with the appropriate balance of independent Non-Executive Directors and Executive Directors – The Board regularly considers the time commitments of our Non-Executive Directors – Prior Board approval is required for any Director's external appointments to ensure there is no conflict or compromise on their time – The quality of information and resources available to the Board has enabled us to operate effectively and efficiently throughout the year 	 See page 68 Board of Directors  See page 80 Nominations, Culture & Governance Committee report
Composition, succession and evaluation	<ul style="list-style-type: none"> – Our Board comprises a combination of broad skills, experience and knowledge – We have a clear process when considering appointments to the Board and maintain effective succession planning – For 2024, we carried out an internal evaluation of the Board and its Committees, supported by Independent Audit Ltd. The methodology and outcomes can be found on page 77 	 See page 68 Board of Directors  See page 73 Board composition
Audit, risk and internal control	<ul style="list-style-type: none"> – We recognise the importance and benefits of ensuring the internal audit function and the external auditors remain independent – The Board presents a fair, balanced and understandable assessment of the Group's position and its prospects – Our risk and control environment is reviewed by the Audit Committee. The Board considered both emerging and principal risks during the year – The Audit Committee also considers the information & data principal risk, including cyber risk 	 See page 82 Audit Committee report
Remuneration	<ul style="list-style-type: none"> – The Remuneration Committee, comprising only Non-Executive Directors, is responsible for developing the policy and determining executive and senior management remuneration – No Director is involved in deciding their own remuneration outcome – The Remuneration Committee engaged with investors on the remuneration policy which was approved by shareholders at the 2024 AGM – In 2024, the Remuneration Committee carried out a review of performance of WTW as the independent adviser to the Committee – An updated remuneration policy is being proposed to shareholders for approval at the 2025 AGM. We are not proposing any material changes to the current policy but are seeking shareholder support for two minor amendments following the publication of the updated Investment Association principles of remuneration. Further detail on these amendments can be found in the Remuneration report on page 86 	 See page 86 Remuneration Committee report

Corporate governance



THE ROLE OF THE BOARD

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

The Board has established certain principal committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas (see page 72). The chair of each committee reports to the Board on the Committee's activities after each meeting.

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

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

Roles and responsibilities

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

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

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

Directors' independence

We continue to monitor and note potential conflicts of interest that each Director may have and recommend to the Board whether these should be authorised and if any conditions should be attached to such authorisations. The Directors are regularly reminded of their continuing obligations in relation to conflicts and are required to review and confirm their external interests at least annually. This helps us to consider whether each of them continues to be independent.

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

Key matters reserved for the Board

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

See page 78 for information about the Executive Team

THE ROLE OF EACH COMMITTEE

Nominations, Culture & Governance

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

Oversee the development of a diverse pipeline for succession

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

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

Oversee the Group's global diversity and inclusion strategy and its implementation

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

Principal risks: compliance; talent & capability

See page 80 for the Nominations, Culture & Governance Committee report

Remuneration

Determine a policy for executive director remuneration capable of attracting and retaining individuals necessary for business success

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

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

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

Oversee any major changes in remuneration

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

See page 86 for the Remuneration Committee report

Audit

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

Oversight of climate change reporting

Review the internal financial controls and the risk management and internal control systems and review any concerns of financial fraud

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

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

Principal risks: compliance, business interruption; energy transition; information & data including cyber; market & financial shock

See page 82 for the Audit Committee report

Safety, Energy Transition & Tech

Provide oversight in respect of:

- people safety (occupational health and safety, process safety, maintenance of facilities, asset integrity and personnel security)
- product safety
- environment and energy transition, including progress and delivery against agreed metrics, targets and objectives

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

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

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

See page 111 for the Safety, Energy Transition & Tech Committee report

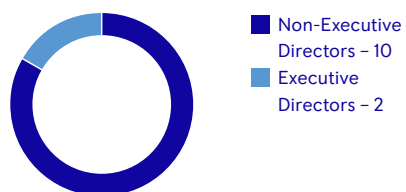
Committee membership

	Nominations, Culture & Governance	Audit	Remuneration	Safety, Energy Transition & Tech
Dame Anita Frew				
Birgit Behrendt				
Stuart Bradie				
Paulo Cesar Silva				
George Culmer				
Lord Jitesh Gadhia				
Beverly Goulet				
Nick Luff				
Wendy Mars				
Dame Angela Strank				
Female representation	50%	25%	50%	60%

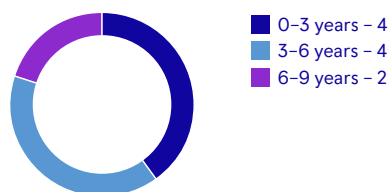
■ Chair of the Committee ■ Member of the Committee □ Not a member of the Committee

COMPOSITION OF THE BOARD AT 27 FEBRUARY 2025

Balance of the Board



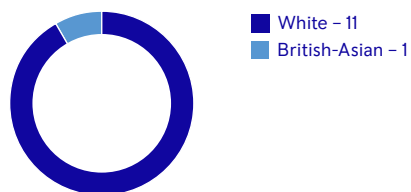
Non-Executive Directors' tenure



Board members by gender



Board members by ethnicity

Board members by nationality¹

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

Non-Executive Directors' skills and experience at 27 February 2025

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

Board and Committee attendance in 2024

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

¹ Joined the Remuneration Committee in May 2024

The table above sets out the Directors' attendance at Board and Committee meetings throughout 2024.

Board members' attendance was once again high in 2024. However, Directors are sometimes unable to participate in certain Board and Committee meetings. In September, Birgit Behrendt was not able to attend the Board meeting due to prior business commitments. In this situation, the Directors provide feedback on the matters under consideration to the Chair of the Board and the Committee chair, where relevant.

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

In support of the Board and committees' work, where there is a requirement for greater, in-depth discussion, we hold deep dives into specific areas of focus outside the meeting schedule. In 2024, the Safety, Energy Transition & Tech Committee held two deep dives relating to our SMR and UltraFan technologies. All members of the Board are invited to join these sessions.

Where legislation and regulation has changed that impacts the directors' duties, we provide in-depth training as part of our Nominations, Culture & Governance Committee's programme. In December, our General Counsel provided an overview of the Economic Crime (Transparency and Enforcement) Act and the failure to prevent fraud offences.

Site visits

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

- In May, following the 2024 AGM, we held a Meet the Board event where Board members engaged with many of our apprentices at the Learning and Development Centre in Derby, UK. The afternoon consisted of breakout sessions where Board members could talk about their experiences and career progression, while the apprentices were given the opportunity to ask the Board members questions on a variety of topics (see page 64 for more information)
- In June, the Safety, Energy Transition & Tech Committee visited the Power Systems division in Friedrichshafen, Germany. The visit focused on people and product safety on the first day and energy transition and technology on the second day. Both days allowed scheduled time for the Committee members to tour the site and meet with our people.
- In September, the Board visited the Defence division in the US. Board meetings took place throughout the week and Board members met with employees during a Meet the Board event at our facilities in Indianapolis, US. Various site tours were held. In addition, the Board engaged in a geopolitical roundtable with external advisers.
- In November, the Chair, SID and other members of the Board visited Raynesway, UK, to learn more about our submarines business.

BOARD FOCUS THROUGHOUT 2024

IN-YEAR PRIORITIES

Transformation

Following the launch of a multi-year transformation programme in 2023, progress during 2024 was reviewed regularly by the Board. The success of the transformation programme and progress of the strategic initiatives is evident in the Group's financial performance.

The new organisational design, aligned to the transformation programme, was implemented on 1 June 2024. The Board continued to track progress against delivery of the target of £200m of annualised savings by the end of 2025. The focus now is on how we operate, to enable a simpler, more efficient and effective organisation. Achieving our vision is underpinned by our purpose and behaviours transformation workstream, reviewed by the Nominations, Culture & Governance Committee in May and launched in September.

 See page 10 for Our purpose



Strategy

The Board continued to track progress against the four strategic pillars: portfolio choices and partnerships; strategic initiatives; efficiency and simplification; and lower carbon and digitally enabled businesses.


 See page 11 for our Strategy



FINANCIAL

Group budget and five-year plan


The Chief Financial Officer presents a financial performance update at every Board meeting. At the December meeting, the Board considered the five-year plan and 2025 budget.

 See page 19 for the Financial review



Viability statement

The Board agreed the viability statement period to be reported in the Annual Report. The Audit Committee assessed the Group's viability, with scenarios created based on the principal risks and modelled by the divisions as part of the five-year forecasts.

 See page 61 for the Viability statement



Reports and regulatory reporting


On the recommendation of the Audit Committee, the Board approved the 2023 full-year results announcement, 2023 Annual Report and Accounts, 2024 half-year results announcement and the trading updates issued during the year.



RISK MANAGEMENT

Review of effectiveness of risk management and internal controls

The Audit Committee and Board assessed the effectiveness of the risk management and internal controls framework in place across the Group. The Board confirms that, where weaknesses in the Group's internal control environment were identified, plans for remediation were implemented and aligned to an appropriate timeframe.

 See page 52 for Principal risks and page 82 for our Audit Committee report



Safety risk

In June, members of the Safety, Energy Transition & Tech (SETT) Committee visited our Power Systems division in Friedrichshafen, Germany, for two safety-focused visits. As part of the visit, safety in relation to our people and products was considered.

At each SETT meeting, safety is reviewed and at every Board meeting our Chief Executive reports on the safety agenda.

 See page 52 for Principal risks



Key stakeholders



BOARD FOCUS THROUGHOUT 2024 CONTINUED

RISK MANAGEMENT CONTINUED

Principal risk review

To discharge their responsibilities under the 2018 Code, throughout the year the Board and its Committees considered the principal risks as part of its review of the risk management framework and the Board also discussed emerging risks. The Audit Committee reported to the Board that a robust assessment of the principal risks had been undertaken.

 See page 52 for Principal risks



SUSTAINABILITY AND ENVIRONMENTAL

TCFD and climate change

The Audit Committee and SETT Committee both considered our sustainability reporting, including the TCFD recommendations and the Scope 3 emissions calculations. During the year, the Audit Committee also reviewed the controls in relation to the data to gain greater oversight of the metrics used in relation to Scope 3 emissions.

 See page 32 for Sustainability



Sustainability strategy

The SETT Committee considered the Group's sustainability strategy including updates of the activities of the Executive-level energy transition & technology committee. The Board approved the refreshed sustainability strategy in July.

 See page 32 for Sustainability



CULTURE

People and culture

The Nominations, Culture & Governance (NCG) Committee received an update from the Chief People Officer on people and culture, including progress against our People strategy. In July, the Committee carried out a review of the succession plan for the Executive Team and the Group's approach to developing successors. A focus was put on both internal succession and external market mapping for key positions.

 See page 46 for People and culture



Talent & capability

The NCG Committee reviewed the principal risk, talent and capability, and any impact of the new organisational design. Recognising the importance to future-proof the skills and capabilities of the Group to enable the success of the strategic plan, the NCG Committee reviewed the organisational capability and discussed the initiatives that had been identified to drive continuous capability improvement. The NCG Committee continued to review progress against the strategic pillars of our inclusion strategy. Performance against the 2025 diversity targets continued to be kept under review (see page 50).

 See page 46 for People and culture


 See page 52 for Principal risks



GOVERNANCE, LEGAL AND REGULATORY

Board effectiveness review

An internal review of the effectiveness of the Board and its Committees was supported by Independent Audit Ltd. In addition, the Chair met with each of the Non-Executive Directors separately to discuss their individual performance and give feedback on the Board and Committee evaluation.

 See page 77 for our Board effectiveness review



Legal and regulatory update

The Board regularly receives a legal and regulatory update from the General Counsel. In December, the Board received training in relation to the recent Economic Crime (Transparency and Enforcement) Act.



Key stakeholders



BOARD EFFECTIVENESS

Review of the Board and Committees

Having undertaken an externally facilitated board effectiveness review in 2023, this year we carried out an internal review of our Board's effectiveness, supported by Independent Audit Ltd. We took a questionnaire-based approach and focused on Board composition and dynamics; the Board's role; and the Board at work. Independent Audit Ltd has not provided any other service to the Company during the year and have agreed this disclosure.

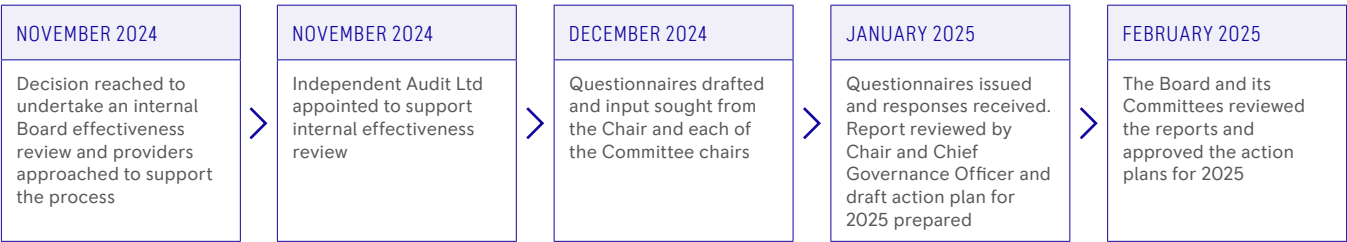
The review took the form of an online questionnaire and the scope was agreed with the Chair and Chief Governance Officer in advance. Independent Audit Ltd provided an anonymised report and the Chair and Chief Governance Officer, in discussion with the Board, have agreed an action plan for 2025. Each Committee chair considers feedback for the Committees for which they are responsible.

In addition to this review, during a private meeting of the Non-Executive Directors, the Senior Independent Director led a review of the Chair's performance without the Chair present. The Nominations, Culture & Governance Committee has an item at the end of each agenda without any management present and, during these sessions, they discuss the performance of the Chief Executive throughout the year. The Chair also conducted the Chief Executive's annual performance review having sought feedback on his performance from the Board. These meetings concluded that both the Chair and the Chief Executive were effective and feedback was shared with each of them. In addition, the Chair met with each of the Non-Executive Directors separately to discuss their individual performance and gather feedback on the Board and Committee evaluation.

AREAS OF FOCUS

2024 FOCUS	PROGRESS IN 2024	FOCUS IN 2025
Board structure, composition and dynamics Review Board inductions and ongoing training	The Nominations, Culture & Governance Committee appointed Wendy Mars as a member of the Remuneration Committee with effect from 24 May. Wendy was appointed to ensure a link between remuneration and non-financial key performance indicators. Following her appointment, Wendy received an induction from the reward team	To consider succession planning for the Non-Executive Directors who are due to retire in the near term and consider longer-term succession planning for the Executive Team
The Board's role Continued focus on strategic progress, ambitions and options Oversight of the continuing transformation particularly around culture, people and succession Focus on risk management as the Group continues to change and respond to the external environment	At each meeting, the Board considers the progress of the strategy programme outlined in the Capital Markets Day in 2023 and in May and December, reviewed progress on the strategic initiatives Purpose and culture was one of the transformation workstreams. The proposed new purpose, culture and behaviours was presented to the Nominations, Governance & Culture Committee in May and launched globally in September The Board focused on principal risks such as compliance including anti-bribery and corruption and received regular updates from the chairs of the committees regarding the principal risks discussed during their meetings	Continued focus on strategic focus, ambitions and future growth opportunities Focus on emerging technologies including digital and AI and their associated risks and opportunities Continue to focus on areas of risk and challenge to the business, for example, supply chain and cyber security
The Board at work Board site visits and deep dives to continue to build on Directors' induction, training and development	The Board continued to build on Directors' induction, training and development throughout the year through site visits and Meet the Board events at different Rolls-Royce locations globally. In Derby, UK in May, a Meet the Board event took place after the AGM. In June, members of the Safety, Energy Transition & Tech Committee visited Power Systems in Friedrichshafen, Germany and, in September, the Board visited our facilities in Washington and Indianapolis, US. Individual directors have continued to visit various sites, including Raynesway, UK	Board site visits and deep dives for opportunities to meet with our people and observe how our new purpose and behaviours are being received in the business

STAGES OF THE BOARD EFFECTIVENESS REVIEW



Executive Team



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

2. NICOLA GRADY-SMITH
Chief Transformation Officer

3. DR ROB WATSON
President – Civil Aerospace

4. HELEN MCCABE
Chief Financial Officer

5. CHRIS CHOLERTON
Group President

6. TUFAN ERGINBILGIC
Chief Executive

7. SARAH ARMSTRONG
Chief People Officer

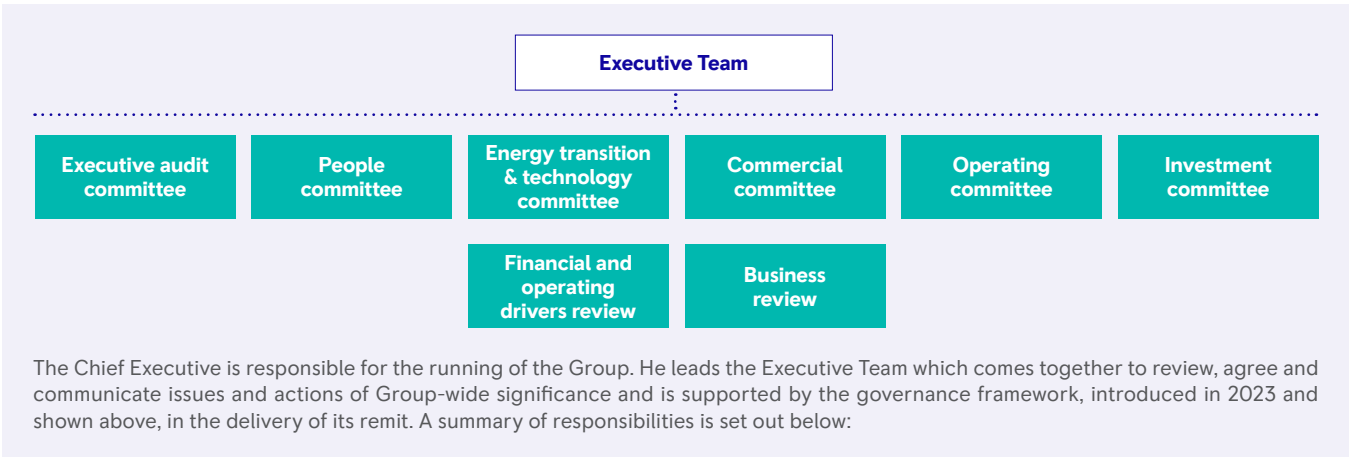
8. MARK GREGORY
General Counsel

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

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



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



Executive audit committee

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

People committee

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

Energy transition & technology committee

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

Commercial committee

- to develop Group-wide pricing strategy and commercial capability
- to identify and deliver pricing actions and capability improvements to enable a step change in performance

Operating committee

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

Investment committee

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

Financial and operating drivers review

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

Business review

- to review performance by division, focusing on in-year and five-year horizons
- includes financial and operational performance, people and talent, strategic initiatives, principal risks and engagement with our people

Nominations, Culture & Governance Committee report

KEY AREAS OF FOCUS IN 2024

Launch of our new purpose and behaviours

Update to Our Code and Group policies

Executive Team and key role succession planning

I am pleased to present the 2024 report of the Nominations, Culture & Governance Committee which provides an overview of our key areas of focus during 2024.

Composition of the Board and its committees

The Committee is responsible for keeping the structure, size and composition of the Board and its committees under review. In 2024, there were no changes to the composition of the Board. During the year, the Committee considered my re-appointment and that of Wendy Mars, each for a three-year term. As all Non-Executive Directors are appointed annually once they have served six years on the Board, Nick Luff and Bev Goulet were reappointed for a further one-year term.

During May, Wendy Mars was appointed to the Remuneration Committee to ensure a link between remuneration and the topics that underpin the non-financial key performance indicators which are considered by the Safety, Energy Transition & Tech Committee.

The role of each committee is set out on page 72. The full terms of reference and terms of reference applicable to all Committees can be found at www.rolls-royce.com. See page 72 for our current Board committee membership.

Summary biographies for the Directors can be found on pages 68 to 69. Full biographies can be found at www.rolls-royce.com

Board appointment, induction and development

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

The Chief Governance Officer arranges a comprehensive, tailored induction programme for newly-appointed Non-Executive Directors, which includes dedicated time with the Executive Team and senior management and scheduled trips to business operations. The programme is tailored based on the experience and background of the individual and the requirements of the role including the role they will be taking up or the Board Committees they will join. All Directors visit the Group's main operating sites as part of their induction and are encouraged to make at least one visit to other sites every year. Site visits are an important part of the induction process, as well as for continuing education. They help Directors understand the Group's activities through the direct experience of seeing our facilities and operations and by having discussions with a diverse group of our people. Information on our site visits during the year can be found on page 74.

It is important that the Directors continue to develop and refresh their understanding of the Group's activities and, where necessary, they will deep dive into specific areas (see page 74). In addition to understanding the Group, it is equally important that Directors continue to update their skills and knowledge and receive relevant training where necessary as well as ensuring there is an appropriate focus on the Group's different stakeholders. The Board's engagement with its stakeholders is set out on pages 64 to 65.

My fellow Directors and I also attend relevant external seminars, conferences and training events to keep up-to-date on developments in key areas. In December, we received training in relation to the recent Economic Crime (Transparency and Enforcement) Act.

People and culture

During 2024, the Committee received reports from the speak up line and updates from our Employee Champions. We reviewed key trends in the 2024 speak up report. Information on the speak up line can be found on page 51.

"The development of our leaders is critical to ensuring the right culture and behaviours are embedded Group-wide and to ensure we maintain the right skills and capabilities to meet our strategic plan."

The Committee discussed human rights related issues across the Group and received regular updates on the purpose and culture transformation workstream, which included the new purpose statement and behaviours. In addition, during 2024 Our Code and Group policies were refreshed to ensure alignment with the purpose and culture transformation workstream outputs.

The Board diversity policy aims to maintain gender parity. As there were no changes to the Board during 2024, we continued to meet the Board's ambition in this regard. With my position as Chair of the Board and with Helen McCabe as our Chief Financial Officer, we continue to exceed the Board's intention that at least one senior Board member will be a woman. In addition, one of our Board members, Lord Jitesh Gadhia, is from a non-white ethnic minority background. The Board diversity policy is available at www.rolls-royce.com

The Committee continued to receive regular updates on progress with our diversity, inclusion and belonging strategy across the Group and received updates on progress against key metrics and targets during 2024.

During 2024, the Committee noted that significant progress had been made in fostering inclusion and belonging, demonstrated by increased engagement and participation across various initiatives in the Group (see the People and culture section on page 46).

Diversity in our Executive Team continues to stand at 30%. The Committee supports and monitors Group activities to ensure that women and other under-represented groups have equal opportunities to progress to the senior management population (see page 50). We recognise that there is still more to do. Improvements in ethnicity balance are beginning to be seen in the wider Group across the graduate and high potential populations.

Creating a high-performing merit-based organisation, where everyone, regardless of their identity feels able to thrive and belong remains a priority and we continue to track progress against our 2025 targets (for more information see page 50). The Board recognises that this is an area subject to changing laws and regulations and that the policies and processes within Rolls-Royce must also evolve and adapt. Disclosures under UK Listing Rule 6.6.6 can be found on page 222.

Succession planning

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

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

Principal risk review

The Committee considers the principal risk of talent and capability as part of the regular discussion on succession planning and, in 2024, the discussions related to the transformation and the new organisational design for the Group. The development of our leaders is critical to ensuring the right culture and behaviours are embedded Group-wide and to ensure we maintain the right skills and capabilities to meet our strategic plan.

Directors' conflicts of interest

As required under the Code, any additional external appointments taken up by Directors during the year are considered by the Committee and approved by the Board prior to the Directors accepting such appointments. The Committee considers any conflicts that may arise as a result of any external appointments taken up by the Directors and the Board monitors the extent of those interests and the time commitment required to fulfil them to ensure that effectiveness is not compromised. As part of the Committee's discussions, external appointments are considered against the parameters set by ISS. The Committee has found this to be a useful gauge when discussing whether there is potentially any impact on Directors' time commitments when taking on additional external appointments.

Members	All Non-Executive Directors
	Biographies are on pages 68 and 69
Remit	See page 72

In 2024, the Directors demonstrated a strong commitment to the Company, as shown by their high levels of attendance at all our meetings (see page 74). During the year, the Board considered an external appointment for Paulo Cesar Silva as an adviser to Electra.Aero. The Committee noted that although the appointment may represent a potential conflict of interest, the Committee agreed appropriate mechanisms to manage the potential conflict and concluded that the external appointment was not considered time restrictive. In addition, the appointment of Lord Jitesh Gadhia as senior independent director at Taylor Wimpey, where Jitesh has been a non-executive director, was considered and approved, recognising that the time commitment of a senior independent director can be greater than that of a non-executive director. In December, the Committee considered and approved my appointment to the Industrial Advisory Council established by the UK Government.

Engagement with shareholders

For information on how the Board has engaged with stakeholders during the year, see pages 64 to 65.

Corporate governance

Throughout 2024, we have continued to watch the evolving agenda in the UK on audit and corporate governance reform. We will continue to keep good governance at the core of all we do and are pleased to report another full year of compliance with the 2018 Code, as reported on page 70. During 2025, we will continue to work on our internal governance arrangements to ensure they are aligned with our organisational design, in addition to ensuring compliance with the revised 2024 Code.

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

Summary

The work of the Committee in 2024 was rated highly in our Committee evaluation report and I would like to thank my Board colleagues for their support and counsel during 2024. The evaluation clearly identified those areas for focus in 2025. In particular, we will focus on succession planning for those Non-Executive Directors who will retire in the near-term, namely Bev Goulet and Nick Luff. We will also consider longer-term succession planning for members of the Executive Team. I look forward to working with my fellow Directors in 2025 on these and other important topics within the remit of the Committee.

Dame Anita Frew

Chair of the Nominations, Culture & Governance Committee

Audit Committee report

KEY AREAS OF FOCUS IN 2024

Ensured our business performance is fairly presented with equal prominence of statutory and alternative performance measures

Reporting of climate change and environmental data and the interaction with accounting assumptions and financial reporting

Continued oversight of internal controls improvement programmes and of effectiveness of risk management with a focus on cyber security and business continuity

I am pleased to present the 2024 report of the Audit Committee, which provides an overview of the areas of focus for the Committee during the year, as well as its key activities and the framework within which it operates.

The composition of the Committee has not changed during 2024 and the membership is set out on page 72. George Culmer, Bev Goulet and I have recent and relevant financial experience. The Board remains confident that the Committee members have the appropriate knowledge, skills and experience to fulfil the duties delegated to the Committee and that the Committee as a whole has the competence relevant to the sectors in which the Group operates.

At the 2024 AGM, we were pleased to have the opportunity to meet with several shareholders in person as well as to hear from shareholders virtually. We were able to answer questions both in person and via the live stream of the meeting.

This report sets out the work of the Committee in 2024 with a focus on the issues relevant to the Group's financial reporting, considering how business performance is reflected in financial reporting, assessing key accounting judgements and ensuring ongoing quality of the related disclosures. In our meetings, we have robust conversations to ensure management are challenged, to satisfy ourselves that the judgements taken and the disclosures made are appropriate for the Group.

We have continued to support the Board in its considerations of climate change risks and opportunities. The Committee has reviewed and approved the TCFD recommendations (see page 36) and noted the progress during the year as the disclosures were being prepared for the 2024 Annual Report. We have continued to ensure that the impact of climate change, where material, is reflected in the financial statements and disclosed accordingly, including the assumptions used in the forecasts for the assessment of going concern and viability, long-term contract accounting, impairment testing and deferred tax asset recognition.

The Committee undertook deep dives of the principal risks we oversee, including on business interruption and on cyber security.

We also meet regularly with the head of tax to review the management of tax and customs risks. The Committee approves annually our tax policy to ensure it remains appropriate for the Group and we receive updates on its application as well as changes to relevant laws and regulations. We are cognisant of the changing external reporting requirements and discussed the Group's approach.

The Committee continues to oversee the assurance activity conducted by internal audit. The Committee monitored delivery of their 2024 internal audit plan, considered the findings from internal audit reports and reviewed the implementation of identified actions. We also approved the 2025 internal audit plan, confirming the focus on key risks and adequate cover of all material operations and appropriate geographical coverage. We undertook an external, independent assessment of internal audit, noting the positive assessment and agreeing the actions recommended for further improvement.

Financial reporting

The Group has complex long-term contract accounting and every year the Committee spends much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In 2024, we considered the implications of our assumptions and key accounting judgements on the improved financial performance of the Group and the Group-wide transformation programme, as well as changes in the global macro-economic and political environment. We have ensured that the disclosures in respect of all key areas of judgement are appropriate and balanced. We assess and consider the sensitivity of the estimates to changes in key assumptions which are summarised in note 1 of the Consolidated Financial Statements on page 122.

Fair, balanced and understandable

As part of its review of the 2024 Annual Report, the Committee considered whether the report, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. In so doing, the Committee considered the financial reporting procedures and internal controls in place in preparing the report. There is a robust governance framework with well documented planning and procedures for the preparation of the report and a collaborative approach across all those who contribute to the report. The Committee concluded that the basis of preparation was consistent with financial reporting throughout the year and that all significant issues had been considered. The Committee was satisfied that the process was effective and that the messaging was consistent, particularly the narrative reflecting the financials. It was confirmed to the Board that, when taken as a whole, the Annual Report is fair, balanced and understandable.

Significant issues relating to the 2024 financial statements:

A summary of the principal matters we considered in respect of the 2024 Consolidated Financial Statements is set out below.

AREA OF FOCUS	CONSIDERATIONS
Long-term contract accounting	The Committee considered the assessment of estimates of future revenue and costs on the Group's long-term contractual arrangements. This has continued to be a particular focus for the Committee due to the complex nature of long-term contract accounting, the changing macro-economic conditions with supply chain challenges leading to some disruption in respect of parts availability and the implications of this on forecasting future costs and capacity output. As part of our considerations, we reviewed onerous contracts given their sensitivity to changes in revenue and cost assumptions. We also reviewed catch-ups to understand the changes to revenue and cost assumptions driving them. We reviewed the disclosures and concluded these, together with the assessments, were appropriate. See note 1 in the Consolidated Financial Statements.
Tax accounting	The Committee discussed the recoverability of deferred tax assets and the forecasts, assumptions and sensitivities applied in order to ascertain the recognition and recoverability of the deferred tax assets. The Committee discussed the basis for the recognition of the UK deferred tax assets and considered the judgements and estimates necessary to assess the recoverability of those deferred tax assets. This was particularly important during 2024 due to the improving financial performance and the delivery against our mid-term targets. We considered the recognition of the UK deferred tax assets in light of the requirements set out in IAS 12 <i>Income Taxes</i> to assess probable profits. We considered the recoverability of advance corporation tax in light of the Group's plans for shareholder distributions. We confirmed the approach, which remained consistent with that taken in 2023, together with the disclosures set out in notes 1 and 5 to the Consolidated Financial Statements.
Transformation programme	The Committee considered the impact of the transformation programme, including the organisational design, on the assumptions and accounting judgements and monitored whether the criteria required for a restructuring and transformation provision had been met. The Committee also considered whether excluding these costs from the underlying results was appropriate in light of the Group's definition of underlying results. The Committee concluded that the treatment of these costs as non-underlying was appropriate.
Going concern and viability	As in previous years, the Committee reviewed the information, underlying assumptions and downside risks modelled and presented in support of the going concern and viability assessment. The Committee concluded that the Group has a strong liquidity position over the going concern period and that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years.
Non-financial reporting and assurance requirements, including sustainability	<p>The Committee has received updates on the development of non-financial reporting and assurance requirements in respect of sustainability. This has included updates on climate disclosures under the existing TCFD recommendations and disclosures, our preparedness for new EU reporting requirements set out in the Corporate Sustainability Reporting Directive (CSRD), EU Taxonomy, Corporate Sustainability Due Diligence Directive (CSDDD) and new UK reporting requirements in the International Sustainability Standards Board (ISSB).</p> <p>The Committee also received updates on the improving internal controls in relation to process and data and considered progress made with the Group's reporting. The Committee has ensured it understands and has continued to challenge the assumptions in the climate scenarios used by management in respect of viability, long-term contract accounting, impairment assessments and deferred tax asset recognition. See note 1 in the Consolidated Financial Statements.</p>
Alternative performance measures (APMs)	As in previous years, the Committee reviewed the clarity of the definitions and the reconciliation of each APM to its statutory equivalent. The Committee concluded that there was no undue prominence of the APMs in the Annual Report. See page 215 for a reconciliation of APMs to their statutory equivalents.

Risk management and the internal control environment

Our risk management and internal control framework is described in the Principal Risks section on page 52. During 2024, the Committee reviewed the effectiveness of risk controls and their assurance, ensuring actions to mitigate where needed and to manage risks in relation to our appetite for taking risk as described on page 52. We will continue to focus on risk mitigation controls and risk appetite in 2025, embedding these more firmly as part of our routine processes and decision making, including in relation to strategic planning.

We also satisfied ourselves that the processes for identifying and managing risks are appropriate and that all principal risks and mitigating actions had been subject, during the year, to a detailed review by the Board or an appropriate Board Committee. Based on this and on our other activities, including consideration of the work of internal and external audit and attendance at the Committee meetings by divisional and functional risk owners, the Board confirmed that a robust assessment of the principal risks and emerging risks facing the

Group had been undertaken. Details of our principal risks are set out on pages 55 to 60. The Board has allocated certain principal risks to the Committee and we considered these in detail throughout the year, as described below.

From our discussions, we are satisfied that the principal risks that we oversee have received appropriate management attention during 2024:

- **Business interruption:** the Committee received updates on the status of the Group's continuity risk management and specifically reviewed internal facilities' resilience.
- **Information and data, including cyber:** the Committee reviewed the cyber security risk, including details of controls and comprehensive mitigation plans, as well as an assessment of risk management effectiveness.

Internal controls over financial reporting

The Committee specifically reviews the Group's internal controls over financial reporting (see page 52). During 2024, we received an update on the risk assessment to identify the controls considered to be material and in-scope from a financial reporting perspective. We monitored progress against the 2024 financial controls programme to strengthen the financial reporting and compliance controls. We confirmed completion of identified key activities. We also considered the external auditor's observations on the financial control environment.

Effectiveness of risk management and internal control systems

The Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process. We consider that our review of the risk management and internal control systems, in place throughout 2024 and up to the date of this report, satisfies the requirements of the Code, the DTR and the FRC's guidance on risk management. To support this:

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

During the course of the financial year, any control weaknesses identified through the operation of our risk management and internal control processes were subject to monitoring and resolution in line with our normal business operations. In 2024, no significant weaknesses were identified. To further support the enhancement of the existing internal control environment:

- risk management specialists have been assigned to review and monitor the implementation of actions, to ensure these remain appropriate and aligned to the risks to which they relate;
- policies and procedures are subject to review and are updated to align with changes in the underlying control environment; and
- risk owners are accountable for managing these risks.

In addition, and on an ongoing basis, the Board reviews the effectiveness of the Group's risk management and internal control system and continues to:

- monitor reports from the Executive Team, relating to their assessment of risks and internal control systems;
- monitor assurance received from the Executive Team regarding compliance with relevant policies;
- monitor assurance received on the effectiveness of the Group's internal control environment;
- review reports from this Committee, the Internal Audit function and the external auditor;

- review the Group's response to incidents and threats, including those related to cyber security and safety; and
- review information gathered from the Group's formal whistleblowing process where issues relate to financial misconduct.

Where opportunities for improvement were identified, action plans have been put in place and progress is monitored by the Committee.

Going concern and viability statements

Having regard to the net liability position on the Group's 2024 balance sheet, we paid particular attention to the going concern and viability statement. With consideration to the available information, the Committee confirms it maintains a reasonable expectation that the Group is able to continue to meet its liabilities as these fall due, over the next five years.

We reviewed the processes and assumptions underlying the going concern and viability statements set out on pages 61 and 62, considering in particular:

- the Group's forecast funding position over the next five years;
- the forecasts for material subsidiaries making up this position;
- an analysis of impacts of severe but plausible risk scenarios, ensuring that these included relevant principal risks;
- the impact of multiple risks occurring simultaneously;
- additional mitigating actions that could be taken in extreme circumstances; and
- the current borrowing facilities in place and the availability of future facilities.

As a result, we are satisfied that the going concern and viability statements have been prepared on an appropriate basis.

Internal audit

The head of internal audit regularly attends and reports to the Committee on internal audit matters including:

- identifying key trends and headline findings from internal audit reports issued in the period;
- details of any specific significant findings raised by internal audit that warrant the Committee's attention;
- status of agreed actions arising from internal audit work;
- progress against the current year's internal audit plan and any changes to the plan; and
- the plan of internal audit work for the following year.

I meet the head of internal audit regularly during the year to discuss the nature of internal audit findings in more depth. We continue to focus on the nature of issues raised by internal audit and the timescales to complete the related actions. The future work plan is risk-based, including risks to both short- and longer-term objectives while balancing principal risk areas with business-as-usual transactional activity where controls are understood to be mature and established. Internal audit also considers the activities of our second line assurance functions in their approach.

We undertook an external, independent review of the effectiveness of the Group's internal audit function. This included an assessment of the function's resources, methodologies, plans, performance, reporting and quality assurance. Based on the report received, we are satisfied that the scope, extent and effectiveness of internal audit are appropriate for the Group and that there is a suitable plan in place to sustain this. Specific actions for further improvement were identified, the implementation of which will be monitored during 2025.

External audit

PwC were appointed as the Group’s external auditor for the financial year, commencing on 1 January 2018, following a formal tender process in 2016. As required by audit partner rotation rules, Ian Morrison took over as lead audit partner for the 2023 audit, replacing Ian Chambers who was required to rotate after five years. Other key audit partners are also required to rotate every five years.

The external audit contract will be put out to tender at least every ten years. Any future audit tenders will be carried out in line with the FRC’s practice aid for audit committees. The Committee currently expects to undertake an audit tender during 2026, with a view to a new audit firm, if there is a change from PwC, being appointed as external auditor for the financial year commencing 1 January 2028. We believe that this timing for the audit tender strikes an appropriate balance between continuity for the current audit firm and consideration of alternative firms.

Other than the services detailed below, PwC have no other connection with the Company or its Directors.

During 2024, the Company complied with the relevant provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

2024 audit

PwC presented its audit plan to the Committee, providing its assessment of the key audit risks and the proposed scope of audit work. Reflecting on findings from the half-year review and the developments in the Group, we agreed the approach and scope of work to be undertaken. Key risks and the audit approach to these risks are discussed in the Independent Auditor’s Report (pages 198 to 210), which also highlights the other risks that PwC drew to our attention.

As part of the reporting of the half-year and full-year results, in August 2024 and February 2025 PwC reported to the Committee on its assessment of the Group’s judgements and estimates in respect of these risks and the adequacy of the reporting. Where effective to do so, PwC also reported on its assessment of the Group’s controls.

I meet with the lead partner regularly throughout the year and the whole Committee has a private meeting with PwC at least once a year.

The Committee reviewed the quality of the external audit throughout the year and considered the performance of PwC. To support this, the Committee members and senior finance personnel undertake annually an internal evaluation, focusing on a range of factors we consider relevant to audit quality. The findings from the 2024 audit evaluation and agreed actions were reviewed and approved by the Committee in February 2025. Feedback was also received from the auditors on their performance against their own objectives.

During 2024, the Audit Quality Review Team (AQRT) of the FRC conducted a review of PwC’s audit of the Group’s Financial Statements for the year ended 31 December 2023. In September, the AQRT provided their final report and, as Chair of the Committee, I acknowledged the findings with the FRC and discussed them with the audit partner. The report assessed the audit as good, the highest rating achievable, with no reportable findings from the AQRT’s inspection.

From its own reviews, the Committee concluded that there had been appropriate focus and challenge by PwC on the primary areas of the audit and that they had applied robust challenge and appropriate scepticism throughout the audit. Based on this, and taking into account the AQRT report, the Committee has recommended to the Board that PwC be reappointed as external auditors at the 2025 AGM.

Members

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

Biographies are on pages 68 and 69

Remit

See page 72

Non-audit services

To safeguard the auditor’s independence and objectivity, and in accordance with the FRC’s ethical standard, we do not engage PwC for any non-audit services, except where it is work that they must, or are clearly best-suited to, perform. Accordingly, our policy for the engagement of the auditor to undertake non-audit services broadly limit these to audit-related services such as reporting to lenders and grant providers, where there is a requirement by law or regulation for the auditors to perform the work. All other non-audit services are considered on a case-by-case basis in light of the requirements of the FRC’s ethical standards and in compliance with our own policy.

Fees paid to PwC are set out in note 7 to the Consolidated Financial Statements on page 149. All proposed services must be pre-approved in accordance with the policy which is reviewed and approved annually. Above defined levels, my approval is also required before PwC is engaged. We also review the non-audit fees charged by PwC on a quarterly basis. Our non-audit services policy can be found at www.rolls-royce.com

Non-audit related fees paid to the auditor during the year were £0.8m (2023: £0.9m), representing 6% (2023: 7%) of the audit fee. This included £0.7m (2023: £0.7m) relating to the review of the half-year results. Our annual review of the external auditor takes into account the nature and level of all services provided.

Based on our review of the services provided by PwC and discussion with the lead audit partner, we concluded that neither the nature nor the scale of the non-audit services gave any concerns regarding the objectivity or independence of PwC.

Summary

This report provides an understanding of the Committee’s work over the past year and I would like to thank my fellow colleagues on the Committee for their support during the year. Our evaluation noted that the Committee is operating well. Our focus in 2025, in addition to our oversight of the reporting environment, will include the control framework and risks and the role of both the risk and internal audit teams to ensure compliance with the 2024 UK Code.

Nick Luff

Chair of the Audit Committee

Remuneration Committee report

KEY AREAS OF FOCUS IN 2024

Implementation of our new remuneration policy following approval by shareholders

Delivering a new global share plan for the wider workforce

Developing refreshed financial and non-financial performance metrics to ensure alignment with our strategy, ongoing transformation agenda and new purpose and behaviours

Review of remuneration policy following publication of updated Investment Association principles of remuneration

I am pleased to present my third report as Chair of the Committee and would like to thank our shareholders for the support provided at our AGM for our new remuneration policy. Over 95% of votes cast supported the new policy, which enabled us to return to a conventional remuneration structure with an increased emphasis on long-term performance metrics aligned to our transformation. We are very appreciative of this strong level of shareholder support.

I am delighted to welcome Wendy Mars who joined the Committee in May. Wendy is Chair of our Safety, Energy Transition & Tech Committee and provides very welcome insight, including on our non-financial key performance metrics.

This letter outlines the key decisions taken by the Committee during 2024 and two proposed minor amendments to the policy for which we are seeking shareholder approval at the 2025 AGM.

Business context for 2024

At the Capital Markets Day in November 2023, shareholders were presented with a clear vision for Rolls-Royce to become a high-performing, competitive, resilient and growing business. There has been excellent progress made against these medium-term targets. Tufan Erginbilgic and the Executive Team have delivered continued improvement in performance levels with impressive progress made on the Group's transformation, generating real value for shareholders. Achievement of the medium-term guidance will take Rolls-Royce significantly beyond any previously achieved level of financial performance and we are on track to deliver the commitments ahead of schedule. We are determined to incentivise the management to build upon the progress made and maintain momentum. Success will require continued and intense focus from management to embed the transformation and deliver a sustained cultural shift in performance.

Implementation and amendment of the remuneration policy

Following shareholder approval, we have now returned to a more conventional remuneration structure and this has been cascaded through all leadership levels. There is strong incentive alignment between the Executive Directors and the wider workforce with clear, forward-looking, stretching targets aligned to our medium-term ambition. However, since the policy was approved, the Investment Association has issued revised principles of remuneration which have prompted us to request two minor amendments to the policy. The amendments are to enable a higher proportion of annual incentive to be paid in cash rather than deferred shares, where an Executive Director has already established a very significant level of share interest relative to salary, and to strengthen post-cessation shareholding requirements to align with the recommendations of the Investment Association.

Sustainability

We are sensitive to our responsibilities in reducing global carbon emissions. In 2024, there was a full strategic review of sustainability, and a granular plan, with defined metrics and targets, has been approved by the Board. Accordingly, we are now in a position to incorporate specific performance measures aligned to the strategic review within the Long-Term Incentive Plan, focusing on a reduction in Scope 1 + 2 emissions.

The 2024 annual incentive scorecard continued to be partly assessed against safety, our number one priority, in addition to employee engagement. For 2025, we are introducing further refinements to both of these metrics to ensure that they drive the behaviours which are expected from our people.

Remuneration decisions related to 2024

The current remuneration policy was agreed by shareholders at the AGM in 2024. Key features of the policy can be found on page 88 and how it operated during 2024 on pages 88 and 89.

Annual incentive outturn in respect of 2024

The annual incentive outturns for 2024 are above target, and align well with the wider stakeholder experience. The performance measures for 2024 were weighted 80% towards Group performance and 20% towards personal performance. At Group level, both free cash flow of £2,468m and underlying operating profit of £2,565m were significantly ahead of the original targets and maximum threshold for performance. This is exceptional performance relative to target and to prior years and rightly reflects maximum outturns for these elements. The scorecard continued to include two strategic measures to incentivise quality of financial performance. Underlying operating margin performance of 13.8% was ahead of the level required to trigger maximum payout, reflecting very significant year-on-year improvement. Operating cost performance was also ahead of target, with this portion vesting at 100% of maximum.

Non-financial performance metrics for 2024 related to safety and colleague engagement. A new survey was implemented in 2024 to provide a refreshed way of listening to our people and measuring both engagement plus the experience of our people in specific areas relevant to our new purpose and behaviours. For 2024, incentive targets were linked to colleague engagement relative to a global manufacturing peer group. For future years, we will have a baseline to track progress, with greater emphasis on behaviours relevant to our own purpose and transformation agenda. For 2024, the engagement score was above the external manufacturing peer group index but below the level necessary to achieve a maximum outturn. An outturn of 62.5% of maximum vesting was achieved. Colleague safety performance relative to target was strong with this portion vesting at 83.3% of maximum. In reviewing incentive outturns, the Committee considered the experience of internal and external stakeholder groups, in particular our employees and shareholders.

Our global incentive arrangements include strong alignment in targets throughout the Group which means that our wider workforce benefit from the excellent performance achieved in 2024. We are delighted with the continued positive experience for our shareholders given the market reactions to our 2024 half-year results and our strategic progress. In this context, the Committee is pleased to recognise this excellent performance in an overall outturn of 100% of maximum for Tufan Erginbilgic and 100% of maximum for Helen McCabe. In line with the new policy, half of the awards will be delivered in shares which will be granted in March 2025, using the share price at that time. These shares will be deferred for three years.

Long-term incentive plan (LTIP)

Under the new policy, we have reinstated an LTIP for Executive Directors and their first awards were granted in May 2024. No standard awards vested for the performance period ended 31 December 2024. However, under the terms of the buyout awards agreed for Helen McCabe on joining, some performance shares were granted with equivalent vesting terms to those which were forfeited upon Helen's resignation from her previous employer. The performance conditions for these shares will deliver a vesting level of 98% based upon financial performance over the period 1 January 2022 to 31 December 2024.

Wider workforce context

In parallel with the implementation of our new remuneration policy, we launched a new all-employee share plan for the wider workforce. We previously offered tax approved ShareSave and SharePurchase plans in the UK and a cash settled phantom ShareSave plan for colleagues outside the UK.

Coincident with our mid-year results, we announced a one-off award of 150 shares for all global colleagues. 'Your Shares: Gifted' has resulted in over 99% of our global workforce being directly invested in our purpose and strategy. In 2025, we will introduce an ongoing global SharePurchase plan 'Your Shares: Matched' which will allow our colleagues to continue to share in our success, enabled by affordable share ownership.

Global inflationary pressures have started to reduce across most of our locations worldwide but wage inflation remains elevated in most of the talent markets in which we operate. In 2024, the median base pay increase in the UK was 5%, with an average increase across the UK workforce of 4.69%. We have agreed a multi-year pay deal with our main UK trade union represented colleagues to cover the period up to 28 February 2027. This includes a total average increase of 5.5% in 2025.

Looking ahead – summary implementation of the remuneration policy in 2025

Salary

The Committee has reviewed the salaries for the Chief Executive and Chief Financial Officer and has concluded to make an award of 5% for both Tufan Erginbilgic and Helen McCabe effective 1 March 2025. This is below the median increase for the broader UK population for 2025 of 5.5%, and reflects their performance in role and wider market context for executive roles in multinational corporations of similar size and complexity.

We explained last year that our policy was benchmarked in mid-2023 against typical FTSE 50 levels. The progress that is being delivered by our Executive Team has taken the organisation into the FTSE 15 for most of 2024. We are committed to ensuring that we are able to attract and retain global leaders of the calibre required of our organisation and market context and continue to pay close attention to this area of our responsibility.

Annual incentive

The 2025 annual incentive measures and weightings will be slightly updated from 2024 to reflect our evolving priorities. The measures will include: free cash flow (40%); operating profit (30%); strategic objectives of customer delivery (5%) and operating profit margin (15%); people (5%) which includes engagement and colleague experience supporting the behaviours that we are seeking to embed in our organisation; and safety (5%) which remains the number one priority for all of our people.

Members	Lord Jitesh Gadhia (Chair) George Culmer Beverly Goulet Wendy Mars (joined May 2024)
	Biographies are on pages 68 and 69
Remit	See page 72

Long-term incentive plan

The LTIP award will be 375% of salary for the Chief Executive and 275% for the Chief Financial Officer. Following the three-year performance period, any vesting will be subject to a mandatory two-year holding period. The LTIP measures will include: free cash flow (30%); operating profit margin (30%); Scope 1 + 2 emissions (10%); and relative TSR (30%); assessed in equal parts against the FTSE 100 and the S&P Global Industrials index constituents.

Chair and Non-Executive Director fees

The Committee review the fees paid to the Chair and the Chair, together with the Executive Directors, review the fees paid to the Non-Executive Directors. It was agreed in 2023 to review fees annually, although not necessarily to increase them, to ensure that they remain consistent with market practice and reflect any changes in the responsibility, complexity and time commitment of the role. Having reviewed external benchmarking reports and in order to ensure the fees do not fall behind our peer group, an increment of 5% was recommended from 1 March 2025. See page 109.

Remuneration Committee advisers

During 2024, the Committee had access to advice from WTW. WTW were appointed by the Committee following a formal tender process in 2021. Total fees for the advice provided to the Committee during the year by WTW were £99,850 (2023: £174,500). Fees are based on a time and materials basis. WTW also provided human capital and benefits services to the Group. No Directors have a connection to WTW.

The Committee requests that WTW attend meetings periodically during the year. The Committee is exclusively responsible for reviewing, selecting and appointing its advisers and is satisfied that the advice it has received has been objective and independent and that there is no conflict of interest associated with any advice provided. WTW is a member of the remuneration consulting group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

In 2024, the Committee carried out a review of the performance of WTW. This focused on the strength of the WTW team, treatment of sensitive topics and their awareness of Rolls-Royce and its stakeholders in the context of remuneration. The findings from this review and agreed actions were approved by the Committee.

Summary

I am delighted with the progress that is being made on the transformation programme and the impact that this is having for shareholders. We are pleased with the level of alignment we have managed to achieve between shareholders, management and the wider workforce. I am excited about the role that the Committee can continue to play in reinforcing the performance culture that we are building.

Lord Jitesh Gadhia

Chair of the Remuneration Committee

Remuneration at a glance

This section provides a summary of the current remuneration policy and its implementation that was approved by a binding shareholder vote at the AGM on 23 May 2024 (see page 110). The full policy can be found on the corporate governance section at www.rolls-royce.com

Summary of our current remuneration policy

<div>Fixed pay</div> <div>Base salary</div> <div>Benefits</div> <div>Retirement</div>	<div>Variable pay</div> <table><tr><td><div>Annual Incentive</div><div>80% Group performance + 20% individual performance</div><div><div>Financial</div><div>– Cash</div><div>– Profit</div><div>– Margin</div><div>Non-financial</div><div>– Safety</div><div>– Engagement</div><div>– Customer</div></div></td><td colspan="4"><div>Long-term incentive plan</div><div><div>30% free cash flow</div><div>30% operating margin</div><div>30% relative TSR</div><div>10% return on capital¹</div></div><div><div>50% deferral for three years</div><div>Three-year performance period plus two-year holding period</div></div></td></tr></table> <div><div>1</div> Return on capital will be replaced by Scope 1 + 2 greenhouse gas emission targets for the LTIPs awarded from 2025</div> <div><div>Malus and clawback</div> – Incentive awards are subject to malus and clawback provisions where there has been: a material misstatement of audited results; serious financial irregularity; material financial downturn or an event causing a material negative impact on the value of the Group; material failure of risk management; a serious breach of Our Code; individual misconduct or actions that materially damage the Group; a breach of or inadequate response to a significant HSE or other environmental issue; failure to adequately manage/supervise others which in turn led to one of the above triggers; and/or materially incorrect calculation of an award. For awards issued under the incentive plan these provisions apply from the start of the performance period to three years after the date of grant or the settlement date, if later.</div> <div><div>Shareholding requirement</div> – in line with the Rolls-Royce shareholding requirements policy, Executive Directors are required to establish and maintain a level of share ownership in proportion to a percentage of base salary. The shareholding requirement is 400% for the Chief Executive and 300% for the Chief Financial Officer. Executive Directors are also required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for 12 months after leaving and then half of that amount for the following 12 months. This requirement will be further strengthened through the changes proposed at the 2025 AGM.</div>	<div>Annual Incentive</div> <div>80% Group performance + 20% individual performance</div> <div><div>Financial</div><div>– Cash</div><div>– Profit</div><div>– Margin</div><div>Non-financial</div><div>– Safety</div><div>– Engagement</div><div>– Customer</div></div>	<div>Long-term incentive plan</div> <div><div>30% free cash flow</div><div>30% operating margin</div><div>30% relative TSR</div><div>10% return on capital¹</div></div> <div><div>50% deferral for three years</div><div>Three-year performance period plus two-year holding period</div></div>			
<div>Annual Incentive</div> <div>80% Group performance + 20% individual performance</div> <div><div>Financial</div><div>– Cash</div><div>– Profit</div><div>– Margin</div><div>Non-financial</div><div>– Safety</div><div>– Engagement</div><div>– Customer</div></div>	<div>Long-term incentive plan</div> <div><div>30% free cash flow</div><div>30% operating margin</div><div>30% relative TSR</div><div>10% return on capital¹</div></div> <div><div>50% deferral for three years</div><div>Three-year performance period plus two-year holding period</div></div>					

Executive Directors summary policy and implementation table 2024

Base salary	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to companies of a similar size, complexity and international reach.
Implementation in 2024	<p>A salary increase of 4.5% was awarded to Tufan Erginbilgic and to Helen McCabe effective 1 March 2024. This increase was in line with the average increase for the UK management population and lower than the average increase for the wider workforce.</p> <p>In line with the previous policy, a proportion of salary paid up to 31 May 2024 was deferred into shares for two years (30% for the Chief Executive and 20% for the Chief Finance Officer). This arrangement ceased from 1 June 2024.</p>
Benefits	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Benefits may include car allowance and related costs, financial planning assistance, private medical insurance, life assurance and other appropriate benefits at the discretion of the Committee.
Implementation in 2024	No changes to benefits.

Executive Directors summary policy and implementation table 2024 continued

Retirement	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	<p>Executive Directors are offered membership of a defined contribution plan. A cash allowance may be payable in lieu of contributions to the defined contribution plan.</p> <p>The maximum contribution is 12% of base salary only, in line with the rate offered to the wider UK workforce.</p>
Implementation in 2024	Contribution/allowance of 12%, in line with the rate for the wider UK workforce.
Annual incentive	
Purpose and link to strategy	We reward annual performance against stretching financial, strategic and individual targets aligned to delivery of the Group's strategy. Mandatory deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.
Key features of current policy	<p>An annual award which may be based on a combination of financial, operational or individual performance measures aligned to the Group's strategy. At least half the incentive awarded in any year will be deferred into shares, normally for a period of three years. Vesting of deferred shares is dependent on continued employment or good leaver status. The Committee may apply discretion to adjust any formulaic outturn. Malus and clawback provisions apply.</p> <p>Maximum annual opportunity: 200% of base salary.</p>
Implementation in 2024	An outturn of 195.7% of target (97.8% of maximum) for Tufan Erginbilgic and 195.7% of target (97.8% of maximum) for Helen McCabe.
Long-term incentive plan	
Purpose and link to strategy	We incentivise the execution of strategy, driving long-term value creation and sustainable long-term returns to shareholders.
Key features of current policy	<p>Awards are subject to performance targets normally assessed over three financial years. The number of shares will be adjusted to reflect performance on the third anniversary of the grant. The shares will vest on the five-year anniversary of the grant, after a two-year holding period.</p> <p>The Committee may apply discretion to adjust any formulaic outturn. Malus and clawback provisions apply.</p> <p>The maximum long-term incentive award for Executive Directors is 375% of base salary.</p>
Implementation in 2024	<p>Awards were made in May 2024 for the performance period ending 31 December 2026.</p> <p>There were no standard awards vesting during the year. However, 452,953 shares awarded to Helen McCabe under the terms of the buyout of awards forfeited from her previous employer vested in February 2024. Full details of the buyout were included in the 2023 remuneration report.</p>
Shareholding requirement	
Purpose and link to strategy	To align the interests of Executive Directors to those of shareholders by requiring Executive Directors to build a high level of personal shareholding in the Company during their employment and for a specified post-employment holding period.
Key features of current policy	<p>The shareholding requirement is 400% of base salary for Tufan Erginbilgic and 300% of base salary for Helen McCabe.</p> <p>Executive Directors are required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for 12 months after leaving and then half of that amount for the following 12 months.</p>
Planned implementation in 2024	<p>Shareholdings as a % of salary as at 31 December 2024:</p> <p>Chief Executive – 2,468.7%</p> <p>Chief Financial Officer – 911.2%</p>

Alignment with shareholders

The policy ensures alignment with shareholders through a significant part of the overall reward package being delivered in shares with long holding periods. This alignment will remain the case if shareholders approve the proposed amendments to the current policy at the 2025 AGM (see page 90).

Remuneration policy

Introduction

The policy will take effect from immediately after the AGM to be held on 1 May 2025, subject to shareholder approval.

Key policy themes

At the 2024 AGM, shareholders approved a new remuneration policy with a vote of 95.6% in support for the resolution. We are not proposing any material changes to the current policy but are seeking shareholder support for two minor amendments which are detailed below. The amendments are proposed in light of the following:

1. Since the existing policy was approved, the Investment Association has issued revised principles of remuneration which acknowledge the competitive pressures facing UK listed businesses operating within a global talent market. As is evidenced by recent appointments to the Executive Team, we consider that Rolls-Royce is participating in a global talent market and we need to ensure that we have flexibility to attract and retain the right international leadership; and
2. Both Executive Directors are personally invested in Rolls-Royce through significant share interests which has created strong alignment with shareholders. Tufan Erginbilgic and Helen McCabe have fully satisfied their shareholding requirement under the current policy. As at 31 December 2024, Tufan Erginbilgic had achieved a shareholding interest of 2,468.7% of salary against a guideline of 400% of salary and Helen McCabe had achieved a shareholding interest of 911.2% against a guideline of 300% of salary. The driver of this shareholding position relative to salary has been the growth in shareholder value the Executive Team has created in recent years.

Changes to policy design

1. Tiered approach to annual incentive deferral linked to achievement of the shareholding guideline

An adjustment to the annual incentive deferral policy is proposed by introducing a tiered approach to mandatory deferral into shares, linked to the achievement of the in-employment shareholding guideline.

Under the proposed policy, the current level of annual incentive deferral would remain at 50% of salary for Executive Directors who have not achieved the shareholding guideline. If the Executive Director has exceeded their in-employment shareholding guideline but has not achieved a level of double the shareholding guideline, the level of deferral into shares reduces from 50% to 25% of salary. Should the Executive Director achieve double the shareholding guideline then the annual incentive would pay out fully in cash. There is no proposed change to the length of the deferral period which will remain at three years.

Chief Executive	Proportion of annual incentive paid as cash	Proportion of annual incentive paid as shares (deferred for 3 years)
Share interests are below 400% of salary	50%	50%
Share interests are between 400% to 800% of salary	75%	25%
Share interests are over 800% of salary	100%	–

Chief Financial Officer	Proportion of annual incentive paid as cash	Proportion of annual incentive paid as shares (deferred for 3 years)
Share interests are below 300% of salary	50%	50%
Share interests are between 300% to 600% of salary	75%	25%
Share interests are over 600% of salary	100%	–

This tiered deferral is proposed to balance the need to encourage Executive Directors with limited shareholdings to build a material holding over time, while acknowledging that mandatory annual incentive deferral may not significantly enhance shareholder alignment for those with substantial existing shareholdings and, in fact, may inadvertently encourage Executive Directors to sell down shareholdings to realise cash.

Should shareholders approve the revised policy, this change will take effect for the annual bonus payable for the performance period ending 31 December 2025, and thereafter.

2. Enhanced post-cessation shareholding requirements

We are proposing enhanced post-cessation shareholding requirements to strengthen protection for shareholders. This would require our Executive Directors to hold the lower of their actual shareholding at leaving or 100% of the share ownership guideline for the full two years post-cessation, as opposed to the current requirement to hold the lower of their actual shareholding at leaving or 100% of the share ownership guideline for the first year following termination of employment and 50% for the second year. This proposal would align the Group's policy with the Investment Association's recommendation.

Period	Chief Executive (current)	Chief Executive (proposed)	Chief Financial Officer (current)	Chief Financial Officer (proposed)
First year following termination of employment	400% of base salary	400% of base salary	300% of base salary	300% of base salary
Second year following termination of employment	200% of base salary	400% of base salary	150% of base salary	300% of base salary

There are no further changes proposed to the policy.

No Executive Director or Executive Team member was present during discussion of his or her own remuneration package and they were not involved in the final approval of the new remuneration policy design.

Consideration of shareholder feedback

During the policy review, we have consulted with our largest shareholders to provide context for the proposed minor adjustments to our policy. We have been pleased that the feedback that we have received has been substantially positive with shareholders supporting the rationale for the adjustments proposed.

Remuneration policy table

The table below sets out each element of the Executive Directors' remuneration, which is subject to shareholder approval at the AGM to be held in May 2025.

Base salary	
Purpose and link to strategy	We provide competitive salaries to attract and retain individuals of the highest calibre to develop and execute the business strategy.
Operation	<p>Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to:</p> <ul style="list-style-type: none"> – companies of a similar size, complexity and international reach; – size and scope of the role; – skills and experience of the individual; – market competitiveness of the broader remuneration package; – performance of the Group and individual; – wider market and economic conditions; and – increases made across the Group. <p>The Committee has the flexibility to set the salary of a new hire at a discount to the market and to realign it in subsequent years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience that is critical to the delivery of the Group's strategy.</p> <p>No recovery or withholding applies.</p>
Maximum opportunity	There is no formal maximum. Any salary increases will be assessed annually and will not normally exceed average increases for employees in other appropriate parts of the Group. Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances, including but not limited to: where there is a significant change in the scale, scope or responsibility of a role; where the organisation has undergone significant change; development within a role; and/or significant market movement.
Performance measures	Not applicable, although overall individual and business performance is considered when setting and reviewing base salary.
Benefits	
Purpose and link to strategy	We provide competitive benefits suitable to attract and retain individuals of the right calibre to develop and execute the business strategy and support wellbeing.
Operation	<p>A range of benefits may be provided including, but not limited to, provision of a company car or car allowance; financial planning and tax assistance; private medical insurance; life assurance; and other appropriate benefits at the discretion of the Committee.</p> <p>Relocation support or support for accommodation and travel may be offered to executives where necessary. Executive Directors may participate in the Group's all-employee share plans.</p> <p>No recovery or withholding applies.</p>
Maximum opportunity	<p>There is no formal maximum. The cost of benefits is not predetermined, reflecting the need to allow for increases associated with the provision of benefits. Benefit costs are reviewed regularly to ensure they remain cost-effective.</p> <p>Participation in any tax advantaged share schemes is capped at the same level as other participants which is determined by the Group within the bounds of any applicable legislation which may change from time to time.</p>
Performance measures	Not applicable.

Remuneration policy table continued

Retirement	
Purpose and link to strategy	We provide a competitive retirement savings plan suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.
Operation	<p>Executive Directors are offered membership of a retirement savings plan. A cash allowance may be payable in lieu of contributions to the plan.</p> <p>In certain jurisdictions it may be more appropriate to offer more bespoke retirement arrangements. The Committee will give due consideration to local employment legislation, market practices and the cost of the plan.</p>
Maximum opportunity	The maximum employer contribution for the Executive Directors is aligned with that made available to the wider workforce, being 12% of base salary.
Performance measures	Not applicable.
Annual incentive	
Purpose and link to strategy	<p>We reward annual performance against stretching financial, strategic and individual targets aligned to delivery of the Group's strategy.</p> <p>Mandatory deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.</p>
Operation	<p>The Group operates an annual incentive plan which may be based on a combination of financial, operational or individual performance measures aligned to the Group's strategy.</p> <p>At least half the annual incentive awarded in any year will be deferred into shares for Executive Directors who have not achieved the shareholding guideline. If the Executive Director has exceeded their in-employment shareholding guideline, but has not achieved a level of double the shareholding guideline, the level of annual incentive deferral into shares reduces from 50% to 25% of salary. Should the Executive Director achieve double the shareholding guideline then the annual incentive would pay out fully in cash. The deferral period will normally be for a period of three years. The Committee has discretion to permit a dividend equivalent amount to accrue on shares delivered under the deferred annual incentive arrangement. Vesting of deferred shares is dependent on continued employment or good leaver status, as described in the notes to the policy table on page 95.</p> <p>The Committee retains the discretion, acting fairly and reasonably, to alter the annual incentive outcome in light of the underlying performance of the Group, taking account of any factors it considers relevant. Clawback will apply to cash incentive paid and to any deferred shares within the three-year deferral period.</p>
Maximum opportunity	The maximum annual incentive opportunity for the Executive Directors is 200% of base salary.
Performance measures	<p>The incentive may be based on a combination of financial, operational and individual measures which the Committee will review on an annual basis. The precise allocation between financial and non-financial measures, as well as weightings within these metrics, will depend on the strategic focus of the Group from year-to-year. At least 50% of the performance measures will be financial.</p> <p>Up to 25% of the maximum incentive opportunity is paid for achieving a threshold level of performance and the maximum incentive is paid for delivering stretching levels of business performance and outstanding personal performance. No incentive is payable if threshold levels of performance are not achieved.</p>

Remuneration policy table continued

Long-term incentive plan	
Purpose and link to strategy	We incentivise the execution of strategy and seek to drive long-term value creation and alignment with long-term returns to shareholders.
Operation	<p>Awards under the LTIP are conditional rights to receive shares subject to continued employment or good leaver status and the achievement of any relevant performance conditions.</p> <p>Awards are subject to performance targets normally assessed over three financial years. The number of shares will be adjusted to reflect performance on the third anniversary of the grant. The shares will vest on the five-year anniversary of the grant, after a two-year holding period. The Committee has discretion to set different performance periods if it considers appropriate.</p> <p>The Committee shall determine the extent to which the performance measures have been met. The Committee may make adjustments to performance targets if an event occurs or circumstances arise which causes the Committee to determine that performance conditions are no longer appropriate. The performance targets will be at least as challenging as the ones originally set.</p> <p>The Committee has discretion to permit a dividend equivalent amount to accrue on shares during the holding period under the LTIP. Awards under the LTIP are subject to the malus and clawback policy which takes account of exceptional and adverse circumstances as described in the notes to the policy table (see page 95).</p> <p>The Committee has the ability to exercise discretion in adjusting the formulaic outcome of incentives to ensure the outcome is reflective of the performance of the Group and the individual over the performance period.</p>
Maximum opportunity	The maximum long-term incentive award for Executive Directors is 375% of base salary.
Performance measures	<p>The Committee determines performance measures each year and will ensure that the targets are stretching and support value creation for shareholders while remaining motivational for management. The precise measures and weightings will be determined by the Committee on an annual basis and will depend on the strategic focus of the Group year-to-year. A minimum of 90% of measures will be financial.</p> <p>Measures for the 2024 award included: free cash flow (30%); operating margin % (30%); relative total shareholder return (30%); and return on capital % (10%). Return on capital will be replaced by Scope 1 + 2 greenhouse gas emission targets for the LTIPs awarded from 2025. For each performance element, achievement of the threshold performance level will result in no more than 20% of the maximum award paying out. For achievement of the maximum performance level, 100% of the maximum pays out. Normally, there is straight-line vesting between these points. No amount is payable if threshold levels of performance are not achieved.</p>
Share ownership	
Purpose and link to strategy	Ensures alignment with shareholders' interests.
Operation	<p>Executive Directors are required to build a holding of beneficially-owned shares equivalent in value to a percentage of their base salary. For the Chief Executive this requirement is 400% of salary and for the Chief Financial Officer and any other Executive Director this requirement is 300% of base salary. Where requirements are not met, Executive Directors must retain at least one half of after-tax shares released from the legacy single incentive plan, the deferred bonus arrangements and the LTIP until this requirement is met.</p> <p>Post-cessation, Executive Directors are normally required to retain the lower of the shareholding requirement or their actual shareholding at leaving date for 24 months.</p>
Maximum opportunity	Not applicable.
Performance measures	Not applicable.

Remuneration policy table continued

The table below sets out the main elements of Non-Executive Directors' remuneration.

Fees	
Purpose and link to strategy	To reward individuals for fulfilling their role and attract individuals of the skills and calibre required.
Operation	<p>The Committee makes recommendations to the Board on the Chair's remuneration. The Chair and the Executive Directors determine the remuneration of the Non-Executive Directors.</p> <p>The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary skills and experience. Fees are periodically reviewed to ensure they remain appropriate in the context of: the role scope; company size, complexity and global breadth; and wider market conditions.</p> <p>The Chair is normally paid a single fee which reflects the commitment, demands and responsibility of the role and may be paid in either cash or shares or a combination of both.</p> <p>Other Non-Executive Directors are normally paid a base fee and additional fees for Board Committee chairmanship and membership responsibilities. The Senior Independent Director and Employee Champions receive an additional fee for these additional duties. Non-Executive Director fees may be paid in either cash or shares or a combination of both.</p> <p>Non-Executive Directors are not eligible to participate in the annual bonus or LTIP.</p>
Maximum opportunity	The current limit on the aggregate fees is set out in the Articles of Association which may be amended by a shareholder vote.
Performance measures	Not applicable.

Benefits	
Purpose and link to strategy	To reimburse Non-Executive Directors for reasonable expenses incurred fulfilling the duties of their role.
Operation	Reimbursement for expenses that may include, but are not limited to, travel, hotel and subsistence incurred when attending meetings. The Group may provide support with tax matters for Non-Executive Directors based outside the UK. The Chair may have occasional use of chauffeur services. The Group may pay tax on benefits provided to Non-Executive Directors.
Maximum opportunity	Not applicable.
Performance measures	Not applicable.

Remuneration policy – worked examples for 2025

The tables below provide an illustration of what could be received by each Executive Director for the 2025 performance year, assuming minimum, on-target and maximum levels of performance. The maximum with share price increase scenario shows the impact of a 50% share price growth on the LTIP shares.

Tufan Erginbilgic Chief Executive £000

Minimum	100%	£1,566
On-target	26% 23% 51%	£6,024
Maximum	17% 29% 54%	£9,453
Maximum assuming 50% increase in share price	13% 23% 43% 21%	£12,024

■ Fixed pay ■ Annual incentive ■ LTIP ■ Share price increase

Helen McCabe Chief Financial Officer £000

Minimum	100%	£921
On-target	30% 26% 43%	£3,029
Maximum	20% 34% 47%	£4,700
Maximum assuming 50% increase in share price	16% 27% 38% 19%	£5,794

Minimum	Fixed remuneration (salary, retirement, benefits)
On-target	Fixed remuneration, on-target annual incentive (equivalent to 100% of salary for both the Chief Executive and Chief Financial Officer) and 60% vesting of the LTIP (equivalent to 225% for the Chief Executive and 165% for the Chief Financial Officer)
Maximum	Fixed remuneration, maximum annual incentive (equivalent to 200% of salary for both the Chief Executive and Chief Financial Officer) and 100% vesting of the LTIP (equivalent to 375% for the Chief Executive and 275% for the Chief Financial Officer)
Maximum assuming 50% increase in share price	All elements are the same as the maximum but assumes a 50% increase in the share price from the date that the shares are granted

Alignment with shareholders

The table below illustrates how the policy aligns the interests of Executive Directors with the long-term interests of shareholders. A significant portion of the total compensation package will be delivered in shares. 50% of the annual bonus will be deferred into shares for a period of three years and the long-term incentive plan will have a three-year performance period followed by a two-year holding period.

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay (salary and benefits)					
Annual bonus	One year performance period. 50% in cash	50% in shares deferred for three years. ¹ No further performance conditions attached to the award			
LTIP	Three-year performance period			Two-year holding period	

¹ Deferral of 50% of the annual bonus will apply unless an Executive Director has satisfied at least their minimum shareholding requirement. 25% of the annual bonus will be deferred if the shareholding requirement is met in full. No deferral will apply where an Executive Director holds over 200% of their shareholding requirement

Notes to the policy table

Performance measure selection and setting

The annual bonus measures are determined annually to reflect matters which the Committee considers to be areas of specific focus for the Executive Directors over the short term. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group's strategic objectives.

The Committee sets performance conditions relating to the LTIP awards which are designed to align the interests of management and shareholders, incentivise management to deliver the Group's strategic objectives and reward performance over the longer term.

Targets for the annual bonus and performance measures for the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points, including strategic plans and analyst consensus to reflect market expectations where available. The Committee intends that the targets will be stretching and will align management's interests with those of shareholders. The measurement of performance is at the Committee's discretion, which may include appropriate adjustments to financial or non-financial elements and/or consideration of overall performance in the round. Adjustments may be either upwards or downwards.

In exceptional circumstances, performance conditions may also be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate.

Malus and clawback provisions

A malus provision applies to awards granted under the LTIP and to unvested awards under the Incentive Plan which were granted under the previous policy, to new awards granted under the proposed policy and the mandatory bonus deferral arrangements. This would allow the Committee, in its absolute discretion, to determine at any time prior to the vesting of an award, to reduce or cancel the award in certain circumstances, including:

- a material misstatement of audited results;
- serious financial irregularity;
- material financial downturn or an event causing a material negative impact on the value of the Group;
- material failure of risk management;
- a serious breach of Our Code;
- individual misconduct or actions that materially damage the Group;
- acting in a way which has materially damaged the reputation of the Group or any member of the Group;
- a breach of or inadequate response to a significant HSE or other environmental issue;
- materially incorrect calculation of an award; and/or
- failure to adequately manage/supervise others which in turn led to one of the above triggers and/or materially incorrect calculation of an award.

A clawback provision applies to vested awards granted under the LTIP, the mandatory bonus deferral arrangements and deferred shares granted under the Incentive Plan, as well as annual bonuses paid previously. This would allow the Committee, in its absolute discretion, to claw back from individuals some or all of the vested awards or paid bonus in the circumstances described above.

The malus provisions apply from the date of grant until the settlement date. The clawback period extends for a further three years, up to six years, from the date of grant.

Policy on new appointments

The Board will appoint new Executive Directors with a reward package recommended by the Committee that is in line with the remuneration policy. Base salary may be set at a higher or lower level than the previous incumbent. The maximum incentive opportunity on appointment will be no higher than the maximum of the shareholder approved remuneration policy, which is 200% of the annual bonus and 375% for the LTIP.

Remuneration forfeited on resignation from a previous employer may be compensated. This will be considered on a case-by-case basis and may comprise cash or shares. In general:

- if such remuneration was in the form of shares, compensation will be in the Company's shares;
- if remuneration was subject to achievement of performance conditions, compensation will, where possible, be subject to performance (either Rolls-Royce performance conditions or actual/forecast performance outturns from the previous company); and
- the timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited.

Legacy terms for internal appointments may be honoured, including any outstanding incentive awards. If an Executive Director is appointed following a merger or an acquisition of a company by Rolls-Royce, legacy terms and conditions may be honoured.

Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide reasonable relocation assistance and other allowances including expatriate assistance. Global relocation support and any associated costs or benefits (including but not limited to housing, school fees, tax preparation and filing assistance and flights back to the home country) may also be provided if business needs require it. Should the Executive's employment be terminated without cause by the Group, repatriation costs may be met by the Group.

The Company may agree to pay the reasonable legal fees incurred by a new appointee for advice received in relation to their contract of employment or service agreement.

Wider workforce considerations

The Committee has responsibility for overseeing pay arrangements of all our people and reviews broader workforce policies and practices in order to support decisions on executive pay. When setting remuneration for Executive Directors and senior management, the Committee carefully considers wider remuneration across the Group, including salary increases, bonus awards, share plan participation and pay ratios between Executive Directors and employees.

Paying our people fairly relative to their role, skills, experience and contribution is central to our approach to remuneration. The Group's reward framework and policies fundamentally support this. The remuneration policy for senior executives and other employees is determined based on similar principles to Executive Directors. For roles below the Board, the exact structure and balance are tailored based on various factors including the scale, scope or responsibility of the role, development within the role and local market practice.

We drive alignment through the organisation with our incentives and our all-employee share plans. The annual bonus plan metrics cascade from Executive Directors to the vast majority of our wider workforce and our LTIP plan cascades to a large proportion of our global management population as well as our key talent groups (approximately 12% of the global workforce). This drives alignment of organisational and individual objectives, ensuring that the wider workforce is driving the key metrics which will help us to continue to deliver a step change in our performance and enable future strategy.

The Committee is supportive of providing all employees with the opportunity to become shareholders, again aligning the interests of the wider workforce, the Executive Directors and our shareholders. In 2024, we implemented a new all-employee share plan, moving from a ShareSave plan which is cash settled outside of the UK, to a global purchase plan where the Company has the opportunity to match personal investment up to a certain value each month. Our new plan enables share ownership from the outset, driving engagement with both business and share price performance and reinforcing the message that we all benefit if the business succeeds.

Input on the 2024 remuneration policy was sought from employee groups at all levels within the organisation, including the European works council and representatives of our global management population. Input was received by both face-to-face and virtual meetings. We shared how reward packages for Executive Directors are typically structured and received input on appropriate performance measures to determine pay outcomes and how incentive structures should cascade to the wider organisation.

Share plans

The Committee retains a number of discretions consistent with the relevant share plan rules. For example, in the event of any variation in the share capital of the Company, a demerger, special dividend, distribution or any other transaction which will materially affect the value of shares, the Committee may make an adjustment to the number or class of shares subject to awards.

The treatment of leavers in all of our share plans are covered by the respective plan rules. Change of control provisions in respect of employee share plans are set out overleaf.

Service contracts

A summary of the key elements of the Executive Directors' service agreements as they relate to remuneration are as follows:

Contract duration	No fixed term.
Notice period	12 months' notice both to and from the Executive Director.
Payment in lieu of notice (PILON)	<p>Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, retirement contributions or allowance, car allowance and a sum representing the cost of private medical insurance. The Company may elect to provide private medical insurance and/or to allow an Executive Director to retain his or her company car through the notice period, or the balance of it, as an alternative to making cash payments.</p> <p>The Company is entitled to make the PILON on a phased basis, subject to mitigation, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.</p>
Change of control	If there is a change of control of the Company or other specified Company events, the relevant plan rules contain details on the impact for awards. In most cases, this is likely to result in the awards vesting early but subject to still meeting any applicable performance conditions, as decided by the Committee, who may have regard to projected performance over the whole period, and applying time pro-rating. Alternatively, awards may be exchanged for new awards over shares in the acquiring company in some circumstances.
Other entitlements on termination	<p>There is no contractual entitlement to notice or any other payments in respect of the period after cessation of employment if the individual is summarily dismissed.</p> <p>Please see payments for loss of office below for a summary of other entitlements which may be due upon termination and which relate to remuneration.</p>

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

The relevant share plan rules govern the treatment of in-flight share awards when an Executive Director leaves. The table below summarises leaver provisions for good leavers.

Good leavers are those who have left the Group due to death: ill-health, injury or disability; redundancy; retirement with the agreement of the Group; the sale or transfer of the business in which the Executive Director is employed to a Company which is not a member of the Group; the participant's employing company ceasing to be a member of the Group; and other such circumstances approved by the Committee.

All awards will normally lapse if an individual leaves the Company for any reason other than a good leaver reason.

The Committee will not exercise discretion where a participant is dismissed for gross misconduct.

Component	Approach
Annual incentive	<p>Individuals who are determined by the Committee to be good leavers may be considered for an annual incentive in relation to the year in which their active employment ceases.</p> <p>When deciding whether to exercise its discretion to allow a payment in respect of an annual incentive (and, if so, its amount and the terms on which it may be paid), the Committee will consider such factors as it considers to be appropriate, including performance against targets, the performance of the individual and the Group in general and the circumstances in which the individual is leaving office. Any payment to a good leaver in respect of an annual bonus will typically be made at the same time as annual bonuses are paid to other employees. Clawback will continue to apply to the cash element of any payment made in respect of an annual bonus. The Committee will determine if it is appropriate in the particular circumstances to apply bonus deferral.</p> <p>Deferred shares allocated in part satisfaction of annual incentives shall vest in full on the vesting date if an individual is determined by the Committee to be a good leaver unless the Committee, in its absolute discretion, determines that an award will vest on such earlier date on or following the date of such cessation as it may specify. Otherwise, they will lapse on exit.</p>
Long-term incentive plan	If an individual is determined by the Committee to be a good leaver, LTIP awards will normally continue to vest on the original vesting date and any holding period will normally still apply (subject to the satisfaction of performance conditions and unless the Committee exercised its discretion to waive time pro-rating, which will apply to reflect the period worked). If an individual leaves during the holding period for any reason (except summary dismissal) the award will not lapse or be pro-rated for time but the holding period will normally remain in force.
SIP and SAYE schemes	The Executive Directors are subject to the same leaver provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.

Legacy commitments

Any remuneration payments and/or payments for loss of office made under legacy arrangements prior to the approval of the remuneration policy may be paid out subject to the terms of the remuneration policy in place at the time they were agreed. For these purposes, payments include satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment will be agreed at the time the award is granted. Unvested incentive plan awards issued under the previous policy, along with any salary that was deferred into shares, will vest on the usual vesting dates, consistent with the terms of that policy. LTIPs granted under previous policies remain in place, consistent with the terms of that policy.

Minor amendments

The Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval.

Provision 40, section 41 disclosures

When developing the proposed remuneration policy and considering its implementation, the Committee was mindful of the Code and considers that the executive remuneration framework appropriately addresses the following factors:

Clarity	We provide open and transparent disclosures regarding our remuneration arrangements for Executive Directors. We have explained the changes to our proposed remuneration policy in a way that highlights alignment to both our vision and strategy as well as the provisions of the Code.
Simplicity	Remuneration arrangements for our Executive Directors and our wider workforce are simple in nature and well understood by both participants and shareholders.
Predictability	Our remuneration policy contains details of maximum opportunity levels for each component of pay, with actual incentive outcomes varying depending on the level of performance achieved against specific measures.
Proportionality, risk and alignment to culture	<p>The metrics used to measure performance for incentive awards drive behaviours that are closely aligned to our vision and strategy. In particular, our variable pay arrangements continue to focus on delivering an unprecedented level of transformation.</p> <p>The Committee considers that our variable pay structures do not encourage inappropriate risk-taking.</p> <p>The incentives are subject to the achievement of stretching performance targets and the Committee's holistic assessment of performance that can result in the application of discretion.</p> <p>The use of holding periods and our shareholding requirements, including after leaving employment with the Group, provide a clear link to the ongoing performance of the business and, therefore, alignment with shareholders.</p> <p>Malus and clawback provisions also apply to the Incentive Plans.</p>

Implementation of remuneration policy for 2025

Base salary	A salary increase of 5% for the Chief Executive and 5% for the Chief Financial Officer is proposed. This takes into account their performance and the wider market for executive roles in multinational corporations of similar size and complexity. Median base pay increases for the wider UK workforce will be 5.5%.
Benefits	There will be no change to our approach to benefits in 2025, which includes car allowance, financial planning assistance, insurances and other benefits.
Retirement	The cash allowance for Tufan Erginbilgic and Helen McCabe is 12% of salary, in line with the rate made available to the wider UK workforce.
Annual incentive	In line with the proposed policy, the annual incentive for 2025 will be based on 80% Group performance and 20% individual performance, with a maximum opportunity for both Tufan Erginbilgic and Helen McCabe of 200% of salary. Subject to the amendments proposed for shareholder approval at the 2025 AGM, 50% of any incentive payable would be delivered in shares which will vest after three years.

The performance metrics have been reviewed and updated for 2025 to reflect key strategic priorities for the Group.

The metrics and associated weightings will be:

Metric	Weighting	Link to strategy
Free cash flow	40%	A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.
Operating profit	30%	Indicates how the effect of growing revenue and control of our costs delivers value for shareholders.
Strategic objectives (split 5% customer and 15% operating profit margin)	20%	Incentivises the delivery of key annual objectives linked to the transformation. Customer delivery and continuing focus on margin improvement are both critical to increasing the quality and sustainability of financial returns.
Safety	5%	Safety is the Group's licence to operate and is the number one priority for all of our people.
People	5%	Employee engagement is an objective way of assessing how engaged our employees are with the business and its leaders.

Where targets are set with a one-year performance period and are considered to be commercially sensitive, they will be disclosed following the end of the performance period, along with performance against targets and the details and context for the assessment of performance.

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to apply discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

Implementation of remuneration policy for 2025 continued

Long-term incentive plan

The long-term incentive has a three-year performance period and a two-year holding period, with a maximum opportunity of 375% of salary for Tufan Erginbilgic and 275% for Helen McCabe.

For each performance element, achievement of threshold will result in no more than 20% of the maximum pay out and no amount payable for an element if the threshold is not met. Achievement of the maximum performance would result in 100% of the maximum award paying out.

Metrics	Weighting	Threshold ¹ (20% vesting)	Maximum ¹ (100% vesting)	Link to strategy
Free cash flow (three-year cumulative)	30%	£9,234m	£10,434m	A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.
Operating margin % (average over three-year performance period)	30%	13.8%	15.5%	Reflects the quality of performance and will encourage continued cost focus across the Group.
Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P global industrials index constituents)	30%	Median	Upper quartile	Closely aligns executive pay outcomes with the shareholder experience, a measure favoured by a large proportion of our shareholder base.
Progress against our science aligned target to reduce Scope 1 + 2 greenhouse gas emissions (1 January 2025 to 31 December 2027 total cumulative emissions)	10%	925 kTCO ₂ e	757 kTCO ₂ e	Aligns executive pay outcomes with our commitment to reduce Scope 1 + 2 greenhouse gas emissions by 46% by 2030 (against a 2019 baseline).

¹ Outturn between threshold and maximum will be calculated on a straight line sliding scale

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to apply discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

The long-term incentive opportunities and time horizons will operate in accordance with the remuneration policy.

2024 remuneration report

Executive Directors' remuneration

The following pages show how we have applied our remuneration policy during 2024 and disclose all elements of remuneration received by our Executive Directors.

Executive Directors' single figure of remuneration (audited)

	Tufan Erginbilgic		Helen McCabe ¹		Panos Kakoullis ¹	
	2024 £000	2023 £000	2024 £000	2023 £000	2024 £000	2023 £000
Salary (a)	1,136	875	690	242	–	395
Salary as deferred shares	160	375	62	60	–	84
Benefits (b)	105	29	29	13	–	16
Annual Incentive Plan (c)	2,556	4,680	1,483	908	–	1,430
Long-Term Incentive Plan	–	–	–	–	–	–
Retirement Allowance (d)	156	150	90	36	–	57
Previous employer buyouts (e)	–	7,500	–	2,537	–	–
Total remuneration	4,113	13,609	2,354	3,796	–	1,982
Total fixed remuneration	1,557	1,429	871	465	–	552
Total variable remuneration	2,556	12,180	1,483	3,331	–	1,430

1 Helen McCabe was appointed on 1 August 2023. Panos Kakoullis stepped down from the Board on 4 August 2023

a) Salary (audited)

The Company provides suitable competitive salaries to attract and retain individuals of the right calibre to develop and execute the business strategy.

Discrepancies between single figure of remuneration salary and base salary:

- from the date of their appointments until 31 May 2024, 30% of Tufan Erginbilgic's salary and 20% of Helen McCabe's salary was deferred into shares for two years. From June 2021, 20% of Panos Kakoullis' salary was deferred into shares for two years. The shares are not subject to performance conditions nor conditional on continued employment. However, if the Executive Director is summarily dismissed as a result of their actions or the result of actions of others acting under their instruction, the shares will immediately lapse.

In February 2025, the Committee reviewed the base salaries of Tufan Erginbilgic and Helen McCabe and agreed an increase of 5%. This reflects prevailing wage inflation for executive roles.

	Base salary as at 1 March 2025	Base salary as at 1 March 2024
Tufan Erginbilgic	£1,371,563	£1,306,250
Helen McCabe	£795,506	£757,625

b) Benefits (audited)

Benefits are provided to ensure that remuneration packages remain sufficiently competitive to attract and retain individuals of the right calibre to develop and execute the business strategy and to enable them to devote themselves fully to their roles. The value of all taxable benefits paid to Executive Directors is shown below.

	Car or car allowance £000		Medical insurance £000		Travel and subsistence £000		Tax benefit £000		Total £000	
	2024	2023	2024	2023	2024	2023	2024	2023	2024	2023
Tufan Erginbilgic	15	15	64	–	26	14	–	–	105	29
Helen McCabe	15	6	2	1	11	6	–	–	28	13
Panos Kakoullis	–	10	–	1	–	4	–	1	–	16

c) Annual Incentive Plan (audited)

The Annual Incentive Plan is designed to incentivise the execution of the business strategy, delivery of financial targets and the achievement of personal objectives. Incentive awards are made in March each year, following the prior calendar year performance period. Half of the incentive is deferred into shares for three years and includes the right to receive an amount equal in value to any shareholder distributions issued during the deferral period. The shares are conditional on continued employment but do not have further performance conditions. The annual maximum for the Chief Executive and the Chief Financial Officer is 200% of base salary.

- 80% of the award is based on Group performance; and
- 20% of the award is based on individual performance.

The Committee reviewed the 2024 outturn against the performance measures.

2024 annual incentive performance outturns

	Weighting	Threshold (50% outturn) ¹	Target (100%)	Maximum (200%) ¹	Performance pre-adjustments	Performance post-adjustments	% of target	% of maximum
Annual targets:								
Free cash flow ²	40%	1,600	1,800	2,000	2,452	2,468	200%	100%
		Actual £2,468m						
Operating profit ³	20%	1,600	1,800	2,050	2,501	2,565	200%	100%
		Actual £2,565m						
People ⁴	10%							
– Our Voices survey	5%	75%	n/a	81%	125%	125%	125%	62.5%
		Actual 78%						
– Safety index score	2.5%	92%	94%	96%	200%	200%	200%	100%
		Actual 96%						
– Total Reported Injuries	2.5%	0.33%	0.3%	0.27%	133%	133%	133%	66.5%
		0.29%						
Key strategic objectives ⁵	30%							
– Operating cost ⁶	15%	6,769	6,619	6,469	6,576	6,368	200%	100%
		Actual £6,368m						
– Operating profit margin ³	15%	10.3%	10.7%	12.3%	13.8%	14.2%	200%	100%
		Actual 14.2%						
Outcome							194.6%	97.3%

1 Payout between threshold and target and target and maximum is calculated on a straight line sliding scale

2 Free cash flow has been adjusted to account for FX changes in order to ensure that targets and assessments are measured on a like-for-like basis

3 Operating profit has been adjusted to account for FX changes (see footnote 2)

4 The people objective was weighted 50% to the Gallup engagement score and 50% to safety measures

5 Key strategic objectives aligned to the broader transformation objectives and were weighted 50% to operating cost and 50% to operating profit margin

6 Operating cost has been adjusted to reflect FX changes (see footnote 2) and discretion has been applied to neutralise the impact of costs directly linked to fully funded customer business, above target incentive accruals and unbudgeted gains from employee share plans

The Committee considered adjustments to targets resulting from events which were not anticipated at the time the targets were set, to ensure that targets and assessments are measured on a like-for-like basis. The details of the adjustments are included in the footnotes above.

As a result of these adjustments, the incentive plan outturns are 194.6% of target and 97.3% of maximum.

	Tufan Erginbilgic	Helen McCabe
Group performance (% of maximum) – weighting 80%	97.3%	97.3%
Individual performance (% of maximum) – weighting 20%	100%	100%
Actual award – % of maximum	97.8%	97.8%
Actual award – % of salary	195.7%	195.7%
Actual award – £000	£2,556	£1,483

Half of the annual incentive award will be delivered in deferred shares for three years which will vest subject to continued employment. No further performance conditions are attached.

Definitions used for performance measures:

Operating profit – adjusted Group underlying operating profit before tax for 2024.

Free cash flow – adjusted Group free cash flow.

Operating cost – adjusted Group operating costs (which exclude direct procurement of parts and components).

Operating profit margin – adjusted Group underlying operating profit margin.

People – weighted 50% to the Our Voices survey and 50% to internal safety measures (the safety index and total reported injury rates). 2024 was the first year our people used the Our Voices survey, which enables peer comparisons against a global manufacturing peer group. The safety index is an established internal KPI used by all divisions and was included for the first time as an incentive metric for 2023.

Individual performance

Subject to achievement of a minimum financial threshold, the Executive Directors have 20% of their incentive based on the achievement of their personal objectives. The financial threshold for 2024 was to deliver a Group free cash flow of a minimum of £900m. Personal performance objectives are set at the beginning of the year and are aligned with the Group's priorities.

Objective	Measure	Assessment against objective
Chief Executive: Tufan Erginbilgic		
Safety	Ensure focus on safety of our people, measured by ensuring total reportable injuries rate remains below 0.3, and maintaining world-class performance of product safety.	Safety culture consistently reinforced at every level in the organisation and embedded in the new behaviours. Our Voices employee listening results demonstrated safety is understood by all layers of the organisation as our number one priority. Total reportable injuries rate reduced year-on-year to 0.29. Strong performance maintained in respect of product-related safety management.
Financials	Deliver free cash flow of £1,800m; deliver operating profit of £1,800m; deliver operating margin of 10.7%; and deliver operating cost of no more than £6,619m.	Significant and sustainable progress made on all KPIs enabling updated mid-term guidance to be delivered.
Strategic milestones	Embed a multi-year transformation programme that will eliminate aircraft on ground and deliver a step change in original equipment performance and commercial capability across the Group. Embed third-party cost savings to deliver £1bn of savings over the mid-term. Secure strategic partnership for Rolls-Royce SMR.	Zero-based budgeting having significant impact across the Group, with targeted opportunities for 2025. Significant progress on onerous contract renegotiation and commercial optimisation. CEZ deal executed for Rolls-Royce SMR. Plan developed and in progress to address aircraft on ground and original equipment performance in 2025.
People	Implement the new organisational design to deliver £200m of annualised savings by the end of 2025. Deliver reduced layers, increased spans of control and retain key diverse talent. Maintain strong engagement scores measured by Our Voices in 2024.	New organisational design went live on 1 June and is on track to deliver targeted savings with improved spans and layers.

Overall personal performance assessment: 200%

Chief Financial Officer:

Helen McCabe

Safety	Continue to build a culture that puts safety at the heart of everything we do. Ensure robust compliance and controls environment.	Internal controls and compliance processes and culture strengthened across the Group. Consistent and effective advocate for safety culture.
Financials	Deliver free cash flow of £1,800m; deliver operating profit of £1,800m; deliver operating margin of 10.7%; and deliver operating cost of no more than £6,619m.	Significant out performance across all financial KPIs enabling updated mid-term guidance to be delivered. Improved quality of delivery with: a) working capital targets met; b) total cash costs/gross margin ratio of 0.47 (2022: 0.8 and 2023: 0.59); and c) efficiency and simplification delivery and significant progress on procurement third-party costs delivery. Net cash/EBITDA X: 0.1 significant improvement year-on-year.
Strategic milestones	Achieve investment grade credit rating with all three agencies; embed zero-based budgeting across the Group; reset and strengthen performance management processes throughout the Group; and develop and move to implement IT & Digital and Group Business Services (GBS) strategies.	Investment grade ratings achieved with all three credit rating agencies, with positive outlook maintained. Capital frame structured to enable shareholder payments to resume. New performance management processes embedded throughout the Group. Zero-based budgeting having significant impact with targeted opportunities for 2025. IT & Digital and GBS strategies defined and moving to implementation.
People	Implement new organisational design in Finance, GBS, IT & Digital. Strengthen talent pipeline for critical roles.	New organisational design implemented, including refreshed finance leadership team.

Overall personal performance assessment: 200%

d) Retirement (audited)

Executive Directors are offered membership of a defined contribution plan with a maximum employer contribution of 12% of salary (or cash allowance of equivalent value). This aligns to the average rate for the UK workforce.

In 2024, Tufan Erginbilgic and Helen McCabe received a cash allowance in lieu of employer contributions.

e) Compensation for remuneration forfeited from previous employment (audited)

Chief Financial Officer

As disclosed in the previous report, Helen McCabe has been compensated for remuneration forfeited from previous employment. This included 452,953 shares which vested in February 2024 and a cash payment of £113,750 in March 2024.

Malus and clawback

Awards to compensate for remuneration forfeited from previous employment for both Tufan Erginbilgic and Helen McCabe are subject to the Rolls-Royce malus and clawback policy.

Payments to past directors (audited)

Jasmin Staiblin stepped down as a Non-Executive Director from the Board on 13 May 2021. Jasmin was appointed as a member of the supervisory board of Rolls-Royce Power Systems AG on 10 June 2021 and as chair of their supervisory board, executive committee, audit committee and mediation committee on 11 June 2021. Payments of £259,905 have been made to Jasmin in 2024 in relation to her appointment (2023: £270,948). No other payments have been made to past directors during the year.

Payments for loss of office (audited)

It was announced on 31 March 2023 that Panos Kakoullis would leave the business. He stepped down from the Board on 4 August 2023 and left the Group on 31 August 2023. The Committee agreed that Panos would receive a payment in lieu of notice for the seven unworked months of his 12-month notice period, reflecting base pay, a cash allowance in lieu of employer contributions to a defined contribution plan and the cost of providing benefits. A pay in lieu of notice of £483,221 was, therefore, paid to Panos on 31 August 2023. Panos was deemed a good leaver in respect of his unvested incentive plan awards from 2021 and 2022, all of which were delivered in shares in March 2022 and March 2023, and which will vest in accordance with the original vesting schedule between March 2025 and March 2027.

Executive Directors' shareholdings and share interests**Executive Directors' share interests (audited)**

The Directors and their connected persons hold the following interests in the ordinary shares of the Company:

	Ordinary shares owned outright		Conditional shares not subject to performance conditions (salary as deferred shares)		Conditional shares not subject to performance conditions		Conditional shares subject to performance conditions		Shares subject to purchase plan (Share Purchase Plan)	
	27 February 2025	31 December 2024	27 February 2025	31 December 2024	27 February 2025	31 December 2024	27 February 2025	31 December 2024	27 February 2025	31 December 2024
Tufan Erginbilgic	14,568	–	232,047	259,584	9,534,752	9,534,752	1,129,193	1,129,193	–	–
Helen McCabe	239,638	239,638	42,801	42,801	1,145,243	1,145,243	697,652	697,652	416	365

Executive Directors' share awards (audited)

The following sets out details of share awards that were granted, outstanding and vested during the year. See above for compensation for remuneration forfeited from previous employment in respect of the LTIP grants made during 2023 for Tufan Erginbilgic and Helen McCabe.

	Balance at 31 December 2023	Granted during the year	Vested during the year	Lapsed during the year	Balance at 31 December 2024	Date of grant	Market price at date of grant (p)	Date of vest/lapse	Market price at date of vest/lapse (p)	Face value of award (£000)
Tufan Erginbilgic										
LTIP (buyout) ¹	4,128,138	–	–	–	4,128,138	08/03/2023	90.84	08/03/2027	n/a	3,750
LTIP (buyout) ¹	4,128,138	–	–	–	4,128,138	08/03/2023	90.84	08/03/2028	n/a	3,750
2024 LTIP ²	–	1,129,193	–	–	1,129,193	28/05/2024	433.80	24/05/2029	n/a	4,898
Incentive Plan ¹	–	511,390	–	–	511,390	01/03/2024	366.10	01/03/2027	n/a	1,872
Incentive Plan ¹	–	767,086	–	–	767,086	01/03/2024	366.10	01/03/2028	n/a	2,808
Salary as deferred shares	217,547	42,037	–	–	259,584	28/05/2024	Various	28/05/2026	n/a	535

	Balance at 31 December 2023	Granted during the year	Vested during the year	Lapsed during the year	Balance at 31 December 2024	Date of grant	Market price at date of grant (p)	Date of vest/lapse	Market price at date of vest/lapse (p)	Face value of award (£000)
Helen McCabe										
LTIP (buyout) ¹	452,953	–	452,953	–	–	29/11/2023	153.00	29/02/2024	3.66	1,659
LTIP (buyout) ¹	734,968	–	–	–	734,968	29/11/2023	153.00	08/03/2025	n/a	1,148
LTIP (buyout) ²	118,156	–	–	–	118,156	29/11/2023	153.00	08/03/2025	n/a	181
LTIP (buyout) ²	99,212	–	–	–	99,212	29/11/2023	153.00	08/03/2026	n/a	152
LTIP (buyout) ¹	162,337	–	–	–	162,337	29/11/2023	153.00	08/03/2026	n/a	248
2024 LTIP ²	–	480,284	–	–	480,284	24/05/2024	433.80	24/05/2029	n/a	2,084
Incentive Plan ¹	–	99,175	–	–	99,175	01/03/2024	366.10	01/03/2027	n/a	363
Incentive Plan ¹	–	148,763	–	–	148,763	01/03/2024	366.10	01/03/2028	n/a	545
Salary as deferred shares	26,548	16,253	–	–	42,801	Various	Various	Various	n/a	122

¹ Shares are not subject to performance conditions

² Shares are subject to performance conditions

Salary as deferred shares	<p>Until 31 May 2024, 30% of Tufan Erginbilgic's salary and 20% of Helen McCabe's salary was deferred into shares for two years. During 2024, shares were awarded on a monthly basis from January to May at market price under the rules of the incentive plan (the date of grant in the table above is the last grant made in 2024). These shares will vest on a monthly basis from January 2025 (the date of vest/lapse in the table above is the vest date of the last grant made in 2024). The face value has been determined using the market price of each monthly award in 2024 set out below. The shares are not subject to performance conditions nor conditional on continued employment. However, if the Executive Director is summarily dismissed as a result of their actions or the result of actions of others acting under their instruction, the shares will immediately lapse.</p> <table><tr><th>Jan</th><th>Feb</th><th>Mar</th><th>Apr</th><th>May</th></tr><tr><td>£3.065</td><td>£3.586</td><td>£4.220</td><td>£4.057</td><td>£4.448</td></tr></table>	Jan	Feb	Mar	Apr	May	£3.065	£3.586	£4.220	£4.057	£4.448
Jan	Feb	Mar	Apr	May							
£3.065	£3.586	£4.220	£4.057	£4.448							
Incentive Plan	<p>Both Tufan Erginbilgic and Helen McCabe were granted an award of deferred shares under the Incentive Plan in March 2024 in respect of the 2023 financial year. The average closing share price in the three days prior to the award was used to calculate the number of shares awarded. 40% of each award was deferred for three years, vesting in March 2026 and 60% of the shares will vest in March 2027. These are the final awards to be made under the hybrid incentive plan which operated for performance periods covering 1 January 2021 to 31 December 2023.</p>										
2024 LTIP	<p>In line with our new policy, Tufan Erginbilgic and Helen McCabe were granted an award of performance shares in May 2024 which are subject to performance conditions measured over 2024, 2025 and 2026, and will be subject to a further two years' deferral requirement from May 2027 until May 2029.</p>										

Executive Directors' shareholding requirements (audited)

In line with our shareholding requirements policy, Executive Directors are required to establish and maintain a level of share ownership in proportion to a percentage of base salary. The shareholding requirement is 400% for the Chief Executive and 300% for the Chief Financial Officer. Share interests that are included in the shareholding requirements are as follows: shares vested from Company share plans; shares held in the individual's own name or by a nominee; shares held by a person closely associated (PCA) (as defined by UK Market Abuse Regulation) where the PCA has given express permission; shares held as part of the SharePurchase Plan; and, the estimated net-of-tax shares held in trust as part of unvested awards under the incentive plan where the awards are not subject to any performance conditions.

Individuals are expected to meet the shareholding requirement within five years of being subject to the policy. Where the shareholding requirements are not met, individuals may only dispose of shares in the following circumstances: to cover taxation; to cover any costs associated with the vesting or exercise of a share award; up to 50% of any shares acquired following the vesting of an award under the incentive plan; in connection with the operation of the malus and clawback policy; or where the Committee determines there are exceptional circumstances.

At 31 December 2024, Tufan Erginbilgic's shareholding represented 2,468.7% of his base salary and Helen McCabe's shareholding represented 911.1% of her base salary. They have been subject to the policy since January and August 2023 respectively. These percentages have been calculated by reference to the three-month average share price to 31 December 2024, being the last working day of the year.

At the date of this report, the Executive Directors are also required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for 12 months after leaving and then half of that amount for the following 12 months. Warren East and Panos Kakoullis have agreed to hold shares in accordance with the shareholding requirements policy until December 2024 and August 2025, respectively.

Executive Directors' contractual arrangements

Each Executive Director has a service agreement that sets out their contract with the Company.

	Effective date of contract	Notice period from Company	Notice period from individual
Tufan Erginbilgic	1 January 2023	12 months	12 months
Helen McCabe	4 August 2023	12 months	12 months

Pay across the organisation

This section of the report enables our remuneration arrangements to be seen in context by providing:

- a comparison of the percentage change in our Directors' remuneration with the change in our UK employees' average remuneration over two years;
- a ten-year history of our Chief Executive's remuneration;
- our TSR performance over the same period;
- an indication of the ratio between our Chief Executive's remuneration and the remuneration of employees;
- gender pay reporting; and
- a year-on-year comparison of the total amount spent on employment costs across the Group and shareholder payments.

Percentage change in Directors' remuneration

The following table compares the percentage change in each of the Director's salary/fees, benefits and incentive to the average percentage change in salary, benefits and incentive for all UK employees for the past five years. This is reported only for Directors who have served two full years.

	2023-2024			2022-2023			2021-2022			2020-2021			2019-2020		
	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %
Dame Anita Frew	16.73	40.00	n/a	n/a	(61.54)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tufan Erginbilgic	3.68	262.07	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Helen McCabe ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Birgit Behrendt ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stuart Bradie ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Paulo Cesar Silva ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
George Culmer ²	48.24	(60.00)	n/a	n/a	6.25	n/a	14.29	150	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lord Jitesh Gadhia	32.22	–	n/a	38.46	(50)	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Beverly Goulet ³	48.24	(26.87)	n/a	6.25	28.85	n/a	14.29	1,633.33	n/a	7.69	–	n/a	(7.5)	(72.27)	n/a
Nick Luff ⁴	18.95	–	n/a	n/a	–	n/a	5.56	–	n/a	38.46	–	n/a	(7.5)	–	n/a
Wendy Mars	54.22	(37.50)	n/a	18.57	60	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Dame Angela Strank ⁵	16.88	(50.00)	n/a	(14.44)	(50)	n/a	8.43	300	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK employees average ^{6,7}	4.69	(9.80)	(2.75)	5.77	(1.87)	25.42	5.71	3.8	3	1.03	(9.13)	1,435	1.96	2.23	(89.94)

1 Appointed during 2023 and therefore unable to provide percentage change for a full year's remuneration

2 George Culmer was appointed Senior Independent Director (SID) on 12 May 2022 and received an increase in fees

3 Beverly Goulet was appointed Lead Employee Champion on 12 May 2022 and received an increase in fees

4 Nick Luff was appointed Chair of the Audit Committee on 13 May 2021 and received an increase in fees

5 Dame Angela Strank was appointed Chair of the Safety, Ethics & Sustainability (SES) Committee on 13 May 2021 and received an increase in fees. She stepped down as Chair of the SES Committee on 11 May 2023

6 UK employees were chosen as a comparator group in order to avoid the impact of exchange rate movements over the year. UK employees including apprentices, graduates and interns make up 50% of the total employee population and are employed by Rolls-Royce plc or its relevant subsidiaries. Rolls-Royce Holdings plc has no employees

7 There was an incentive award for only a very small population in 2020, hence the significant increase in 2021

Chief Executive pay

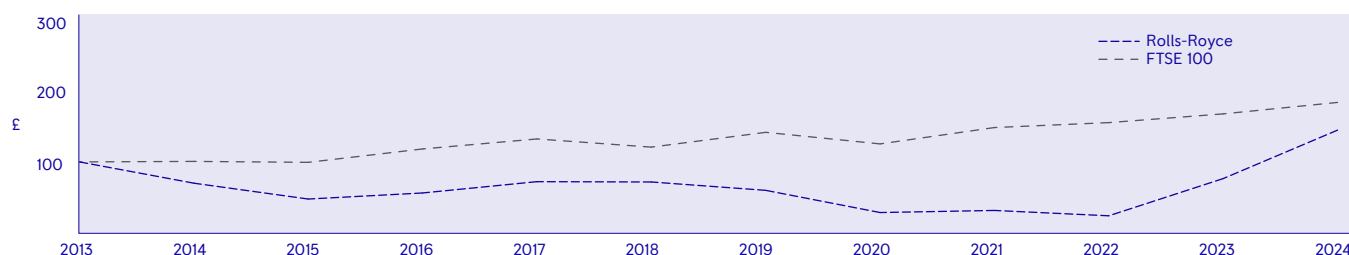
Year	Chief Executive	Single figure of total remuneration £000	Incentive award as a % of maximum	LTIP as a % of maximum
2024	Tufan Erginbilgic	4,113	97	–
2023	Tufan Erginbilgic	13,610	97	–
2022	Warren East	3,835	74	–
2021	Warren East	3,950	79.7	–
2020	Warren East	1,110	–	–
2019	Warren East	2,528	52	53
2018	Warren East	4,075	60	100
2017	Warren East	2,331	68	–
2016	Warren East	2,089	55	–
2015	Warren East	543	–	–
	John Rishton	754	–	–

John Rishton retired on 2 July 2015 and Warren East was appointed as Chief Executive on 3 July 2015.

Warren East retired on 31 December 2022 and Tufan Erginbilgic was appointed as Chief Executive on 1 January 2023. Tufan received compensation for remuneration forfeited from previous employment in 2023.

TSR performance

The Company's TSR performance over the previous ten years compared to a broad equity market index is shown in the graph below. The FTSE 100 has been chosen as the comparator because it contains a broad range of other UK-listed companies. The graph shows the change in value of a hypothetical £100 holding in the Company's ordinary shares over ten years (prior years adjusted for the rights issue), relative to the FTSE 100 index.



Chief Executive pay ratio

The Committee is mindful of the relationship between the remuneration of the Chief Executive and the wider employee population. This is the seventh year that we have published our Chief Executive pay ratio and we have continued to use option A. We believe that this is the most accurate and robust methodology because it relies on calculating actual full time equivalent remuneration for all relevant employees rather than rely on data collected for other purposes. We have used the full time equivalent total remuneration of all UK employees at 31 December 2024.

Year	Method	25th percentile	Median	75th percentile
2024	Option A	74:1	64:1	54:1
2023 ¹	Option A	254:1	219:1	185:1
2022	Option A	75:1	64:1	55:1
2021	Option A	88:1	76:1	63:1
2020	Option A	26:1	22:1	19:1
2019	Option A	66:1	56:1	48:1
2018	Option A	92:1	77:1	66:1

For 2024, the salary and total remuneration for the three employees identified at the 25th, median and 75th percentiles are as follows:

Year	25th percentile	Median	75th percentile
Salary ²	£44,585	£54,587	£64,687
Total remuneration	£55,219	£63,976	£76,643

¹ The 2023 pay ratio was elevated primarily by the award of shares valued at £7.5m at the time of grant to the Chief Executive as compensation for remuneration forfeited from previous employment. If this value was removed from the calculation the median pay ratio would have been 98:1

² Calculated using base pay as at 31 December 2024

There is good alignment between the reward structure for the Chief Executive and that of the wider workforce, with the majority of employees participating in an incentive plan with aligned financial metrics. We also encourage all eligible employees to join our all-employee share plans, with over 99% of our global population receiving an award of shares in 2024 under our Your Shares: Gifted plan. Over 50% of our global population enrolled in our most recent ShareSave plan and approximately 35% of the UK population also participate in our SharePurchase Plan. In 2025, we will be launching Your Shares: Matched, a global purchase plan which will be structured to offer matching free shares for every share purchased up to maximum monthly limit. This aligns to our broader strategy to increase employee share ownership and links directly to the transformation programme.

Relative importance of spend on pay

The following chart sets out the percentage change in payments to shareholders and overall expenditure on pay across the Group.

Payment to shareholders (£m)

(Consolidated cash flow statement)

2024	0 (0%)
2023	0 (0%)

Group employment costs (£m)

(Note 8, employee information – see page 150)

2024	3,951 (4.9%)
2023	3,768 (8.7%)

Gender pay reporting

In accordance with The Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, we published our UK gender pay gap in February 2025, which is available at www.rolls-royce.com:

Median gender pay gap across all employees in the UK

2024	4.4%
2023	3.7%

Mean gender pay gap across all employees in the UK

2024	1.6%
2023	1.2%

The slightly increased pay gap in the UK is a consequence of changing levels of representation of women within our workforce. For example, while never compromising on our merit-based approach, we have hired a higher proportion of female graduates and apprentices over recent years which skews the proportion of female employees with below average earnings in the near term. Women are currently less well represented in the middle two quartiles of our UK workforce due to proportionately more men being in professional level roles which are dominated by engineering or shop floor populations which attract a premium for working shifts.

Non-Executive Directors' remuneration**Non-Executive Directors' single figure of remuneration (audited)**

	Fees (£000)		Benefits (£000)		Total remuneration (£000)	
	2024	2023	2024	2023	2024	2023
Dame Anita Frew	572	490	7	5	579	495
Birgit Behrendt ¹	90	45	5	10	95	55
Stuart Bradie ¹	90	45	3	1	93	46
Paulo Cesar Silva ²	90	23	5	8	95	31
George Culmer	126	85	2	5	128	90
Lord Jitesh Gadhia	119	90	1	1	120	91
Beverly Goulet	126	85	49	67	175	152
Nick Luff	113	95	–	–	113	95
Wendy Mars ³	128	83	5	8	133	91
Dame Angela Strank ⁴	90	77	1	2	91	79
Paul Adams ⁵	n/a	54	n/a	6	n/a	60
Mike Manley ⁶	n/a	26	n/a	3	n/a	29
Sir Kevin Smith ⁶	n/a	26	n/a	1	n/a	27
Total	1,544	1,224	78	117	1,622	1,341

1 Birgit Behrendt and Stuart Bradie were appointed as Non-Executive Directors on 11 May 2023

2 Paulo Cesar Silva was appointed as a Non-Executive Director on 1 September 2023

3 Wendy Mars was appointed Chair of the Safety, Energy Transition & Tech Committee on 11 May 2023 and a member of the Remuneration Committee on 23 May 2024

4 Dame Angela Strank stepped down as Chair of the Safety, Ethics & Sustainability Committee on 11 May 2023

5 Paul Adams stepped down as Chair of the Science & Technology Committee on 11 May 2023 and from the Board on 1 September 2023

6 Mike Manley and Sir Kevin Smith stepped down from the Board on 11 May 2023

Non-Executive Directors' fees

The Chair's fee is reviewed by the Board as a whole on the recommendation of the Committee. The review of the other Non-Executive Directors' base fees is reviewed by the Chair and Executive Directors. No individual may be involved in setting his or her own fee. In December 2023, the Chair's fee and those of the other Non-Executive Directors were reviewed and it was agreed to change these with effect from 1 June 2024. No changes had been made to the Non-Executive Directors' fees since June 2014. Fees from 1 June 2024 are set out in the table below. Fees were reviewed further in 2025. Changes were approved effective 1 March 2025, as set out below, representing a 5% increase in line with the awards to our executive directors (see page 87).

	1 March 2025 £000	1 June 2024 £000	2023 £000
Chair	662	630	490
Other Non-Executive Directors base	95	90	70
Chair of the Audit Committee	37	35	25
Chair of the Remuneration Committee	37	35	20
Chair of the Safety, Energy Transition & Tech Committee	37	35	–
Chair of the Safety, Ethics & Sustainability Committee	–	–	20
Chair of the Science & Technology Committee	–	–	20
Committee member	16	15	–
Senior Independent Director	37	35	15
Lead Employee Champion	21	20	15
UK Employee Champion	16	15	–
North American board member	16	15	–

Non-Executive Directors' benefits (audited)

The benefits for Non-Executive Directors relate predominantly to travel, hotel and subsistence incurred in attending meetings and site visits.

For Non-Executive Directors based outside the UK, the Company may also pay towards tax advice and the cost of making tax filings.

Non-Executive Directors' share interests (audited)

The Non-Executive Directors are not eligible to participate in any of the Group's share schemes, incentive arrangements or pension schemes.

A facility is in place which enables Non-Executive Directors, who reside in a permitted dealing territory, to use some or all of their fees, after the appropriate statutory deductions, to make market purchases of shares in the Company on a monthly basis. Wendy Mars and Birgit Behrendt use this facility.

The Non-Executive Directors and their connected persons hold the following interests in the ordinary shares of the Company:

	27 February 2025	31 December 2024	23 February 2024	31 December 2023
Dame Anita Frew	350,000	350,000	350,000	350,000
Birgit Behrendt ¹	3,816	3,441	1,092	379
Stuart Bradie ¹	95,437	95,437	95,437	95,437
Paulo Cesar Silva ²	94,546	94,546	94,546	94,546
George Culmer	37,960	37,960	37,960	37,960
Lord Jitesh Gadhia	50,000	50,000	50,000	50,000
Beverly Goulet	40,972	40,972	40,972	40,972
Nick Luff	120,000	120,000	120,000	120,000
Wendy Mars	48,942	48,318	34,339	33,155
Dame Angela Strank	70,653	70,653	60,583	60,583

¹ Birgit Behrendt and Stuart Bradie were appointed as Non-Executive Directors on 11 May 2023

² Paulo Cesar Silva was appointed as a Non-Executive Director on 1 September 2023. He holds a percentage of his share interests as American Depositary Receipts

Non-Executive Directors' letters of appointment

Our Non-Executive Directors serve two, three-year terms followed by three, one-year terms (nine years in total).

	Original appointment date	Current letter of appointment end date
Dame Anita Frew	1 July 2021	30 June 2027
Birgit Behrendt	11 May 2023	10 May 2026
Stuart Bradie	11 May 2023	10 May 2026
Paulo Cesar Silva	1 September 2023	31 August 2026
George Culmer	2 January 2020	1 January 2026
Lord Jitesh Gadhia	1 April 2022	31 March 2025
Beverly Goulet	3 July 2017	2 July 2025
Nick Luff	3 May 2018	2 May 2025
Wendy Mars	8 December 2021	7 December 2027
Dame Angela Strank	1 May 2020	30 April 2026

Shareholder voting

The remuneration policy was last approved by shareholders at our 2024 AGM held on 23 May 2024 and the remuneration report was last approved by shareholders at our 2024 AGM held on 23 May 2024. Details of voting are shown in the table below. Withheld votes are not counted towards the total percentage of votes cast.

	For	% For	Against	% Against	Withheld
Approval of the remuneration policy (2024)	4,984,345,255	95.59	230,098,759	4.41	6,268,408
Approval of the remuneration report (2024)	5,114,309,895	97.99	104,645,100	2.00	1,753,668

Statutory requirements

The Committee's composition, responsibilities and operation comply with the principles of good governance, as set out in the Code, the UK Listing Rules (of the Financial Conduct Authority) and the Companies Act 2006. The Directors' remuneration report has been prepared on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Remuneration Report, comprising the Remuneration Committee report, the remuneration policy and the 2024 remuneration report, has been approved by the Board and signed on its behalf by:

Lord Jitesh Gadhia
Chair of the Remuneration Committee
27 February 2025

Safety, Energy Transition & Tech Committee report

KEY AREAS OF FOCUS IN 2024

Principal risk reviews and deep dives into people and product safety. Site visit with safety focus to Power Systems in Friedrichshafen, Germany

Review of progress of the energy transition and climate agendas; review of the sustainability report for recommendation to the Board

Review of Group-wide improvement programmes for people safety

Technology and product roadmap timeline; deep dives focused on SMR and UltraFan programmes

I am pleased to present the 2024 report of the Safety, Energy Transition & Tech (SETT) Committee. The SETT Committee focuses on safety and the energy transition agenda and provides oversight and assurance of the Group's scientific and technological strategy, processes and investments. A summary of the SETT Committee's remit can be found on page 72. The Committee members, all Non-Executive Directors, bring deep experience in the Committee's areas of focus which they have gained in their various external executive roles. This is invaluable to the Committee in its oversight role and enables appropriate and robust challenge.

The Committee has met three times in 2024, with the February meeting focused on reporting only. After each meeting, the Committee meets without management present. During the year, the Committee members visited our Power Systems division in Friedrichshafen, Germany, where they met with key management and discussed safety, both people and product, and energy transition.

The Committee is supported at executive-level by the Director of Engineering, Technology & Safety and the Chief Transformation Officer, who have responsibility for the energy transition strategy and the Executive-level energy transition & technology committee. The Group's chief engineer is invited to attend every meeting of the Committee.

Safety

Safety, both people and product, is the first priority for the Group.

People safety updates were received at the two main meetings, including a summary of performance in 2024 and the associated action plans for 2025 to ensure continuous improvement towards embedding Group-wide standards and policies.

During 2024, we reviewed the updated product safety policy and considered in detail the product safety principal risk. The Committee reviewed reports regarding product safety risk management effectiveness from the Group's director of technical & safety assurance. In addition, any emerging factors identified as risk areas and the proposed improvements, including recommending increases in the audit of processes, were discussed. The Committee also reviewed relevant internal audit reports in relation to product safety.

In June 2024, members of the Committee visited Friedrichshafen, Germany, to meet different teams across the Power Systems division and to learn at first hand the management and importance of both people and product safety. We gained insight into the Power Systems business, including the latest reporting on safety metrics. We also took part in a round-table discussion with colleagues to discuss more broadly both product safety and the energy transition agenda.

Members Wendy Mars (Chair)
Birgit Behrendt
Stuart Bradie
Paulo Cesar Silva
Dame Angela Strank

Biographies are on pages 68 and 69

Remit See page 72

As part of the visit, the Committee was also taken on a tour of the manufacturing site. This focused on people safety and the division's journey to Zero Harm. The Committee also visited the training centre to gain an insight into the services operations. The Committee members were encouraged by the demonstrable commitment to the continuous improvement to the safety agenda.

Energy Transition

An area of focus for the Committee is to provide oversight of the Group's energy transition strategy and to receive progress reports against policies, strategies, KPIs, plans, capability, process and systems. During the year, we reviewed progress made in 2024 with Scope 1 + 2 emissions reduction plans and the Scope 3, category 11 (use of sold products) emissions reporting (see page 42). The Committee reviewed the proposed sustainability strategy ahead of its approval by the Board in July and, together with the Audit Committee, the Group's readiness for compliance reporting with the new regulations from 2026 onwards.

At our meeting in February 2025, as part of the year-end reporting, the Committee reviewed the Sustainability report set out on pages 32 to 45 and recommended it to the Board for approval.

Tech

In May 2024, the Group Director of Engineering, Technology & Safety presented the timeline for the product and technology roadmaps.

The Committee held two deep dives during the year which the full Board was invited to attend. During October, the Committee held a deep dive on the Rolls-Royce SMR programme. An update was presented on the development programme and completed work to date, with all our commitments and targets having been met to date. The Committee discussed the challenge of nuclear new build and support for decarbonising the industry. In November, a deep dive was held on UltraFan which covered an update of the programme, how UltraFan will contribute towards net zero and the next generation of advanced technology. In addition, a discussion took place on the UltraFan demonstrator which was delivering in line with expectations.

Summary

2024 was our first full year as the SETT Committee and I would like to thank my colleagues on the Committee for their engagement and support during the year. Our evaluation noted that this Committee had made a strong start. There is, however, more to do in 2025 in all areas of our remit. We will maintain a robust oversight of safety, both people and product, and the delivery of the sustainability strategy. The Committee are keen to learn more in respect of the technology agenda in 2025, including digital and AI, and how these impact the future of our technologies. We will continue to visit sites to ensure we can see at first-hand the progress being made.

Wendy Mars

Chair of the Safety, Energy Transition & Tech Committee

Responsibility statements

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group Financial Statements in accordance with UK-adopted international accounting standards and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 *Reduced Disclosure Framework* and applicable law).

Under company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

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

- so far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

By order of the Board

Claire-Marie O'Grady
Chief Governance Officer
27 February 2025

FINANCIAL STATEMENTS

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Consolidated income statement

Year ended 31 December 2024

	Notes	2024 £m	2023 £m
Revenue	2	18,909	16,486
Cost of sales ^{1,2}		(14,688)	(12,866)
Gross profit	2	4,221	3,620
Commercial and administrative costs	2	(1,284)	(1,110)
Research and development costs ²	2, 3	(203)	(739)
Share of results of joint ventures and associates	12	172	173
Operating profit		2,906	1,944
Gain arising on disposal of businesses	27	16	1
Profit before financing and taxation		2,922	1,945
Financing income	4	536	1,163
Financing costs	4	(1,224)	(681)
Net financing (costs)/income³		(688)	482
Profit before taxation		2,234	2,427
Taxation	5	250	(23)
Profit for the year		2,484	2,404
Attributable to:			
Ordinary shareholders		2,521	2,412
Non-controlling interests (NCI)		(37)	(8)
Profit for the year		2,484	2,404
Other comprehensive income/(expense) (OCI)		50	(171)
Total comprehensive income for the year		2,534	2,233
Earnings per ordinary share attributable to ordinary shareholders:	6		
Basic		30.05p	28.85p
Diluted		29.87p	28.70p

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

2 The impact of an exceptional impairment reversal relating to a Civil Aerospace programme impairment that was recognised in 2020 is included within cost of sales, £132m, and research and development, £413m. Further details can be found in notes 2, 3 and 9

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

Consolidated statement of comprehensive income

Year ended 31 December 2024

	Notes	2024 £m	2023 £m
Profit for the year		2,484	2,404
Other comprehensive income/(expense) (OCI)			
Actuarial movements on post-retirement schemes	22	22	116
Revaluation to fair value of other investments	12	(2)	(4)
Share of OCI of joint ventures and associates	12	(1)	1
Related tax movements	5	61	(43)
Items that will not be reclassified to profit or loss		80	70
Foreign exchange translation differences on foreign operations		(29)	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		-	1
Movement on fair values charged to cash flow hedge reserve		(17)	(82)
Reclassified to income statement from cash flow hedge reserve		22	61
Share of OCI of joint ventures and associates	12	(3)	1
Related tax movements	5	(3)	4
Items that will be reclassified to profit or loss		(30)	(241)
Total other comprehensive income/(expense)		50	(171)
Total comprehensive income for the year		2,534	2,233
Attributable to:			
Ordinary shareholders		2,571	2,241
NCI		(37)	(8)
Total comprehensive income for the year		2,534	2,233

Consolidated balance sheet

At 31 December 2024

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

The Financial Statements on pages 114 to 186 were approved by the Board on 27 February 2025 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Consolidated cash flow statement

Year ended 31 December 2024

	Notes	2024 £m	2023 £m
Reconciliation of cash flows from operating activities			
Operating profit		2,906	1,944
Loss on disposal of property, plant and equipment		32	18
Loss on disposal of intangible assets		6	–
Share of results of joint ventures and associates	12	(172)	(173)
Dividends received from joint ventures and associates	12	77	54
Amortisation and impairment of intangible assets	9	(120)	272
Depreciation and impairment of property, plant and equipment	10	400	423
Depreciation and impairment of right-of-use assets	11	265	334
Adjustment of amounts payable under residual value guarantees within lease liabilities	18	(6)	(10)
Impairment of and other movements on investments	12	4	–
Decrease in provisions		(56)	(325)
Increase in inventories		(323)	(200)
Movement in trade receivables/payables and other assets/liabilities		833	(1,346)
Movement in contract assets/liabilities		752	2,703
Cash flows on other financial assets and liabilities held for operating purposes ¹		(676)	(845)
Cash flows on settlement of excess derivative contracts ²		(146)	(389)
Interest received		269	159
Net defined benefit post-retirement cost recognised in profit before financing	22	56	41
Cash funding of defined benefit post-retirement schemes	22	(74)	(69)
Share-based payments	24	136	66
Net cash inflow from operating activities before taxation		4,163	2,657
Taxation paid		(381)	(172)
Net cash inflow from operating activities		3,782	2,485
Cash flows from investing activities			
Movement in other investments	12	–	1
Additions of intangible assets	9	(367)	(284)
Disposals of intangible assets		5	4
Purchases of property, plant and equipment		(519)	(429)
Disposals of property, plant and equipment		5	10
Acquisition of businesses		–	(14)
Disposal of businesses (including cash flows on disposals in prior periods)	27	62	(4)
Movement in investments in joint ventures and associates	12	(17)	(9)
Movement in short-term investments		–	11
Cash flows on other financial assets and liabilities held for non-operating purposes		–	(12)
Net cash outflow from investing activities		(831)	(726)
Cash flows from financing activities			
Repayment of loans		(475)	(1)
Settlement of swaps hedging fixed rate borrowings		(11)	–
Proceeds from increase in loans		7	2
Capital element of lease payments		(299)	(291)
Net cash flow from decrease in borrowings and lease liabilities		(778)	(290)
Interest paid		(200)	(196)
Interest element of lease payments		(83)	(85)
Fees paid on undrawn facilities		(15)	(52)
Transactions with NCI ³		33	77
Dividends to NCI		(3)	(2)
Redemption of C Shares		(1)	(1)
Net cash outflow from financing activities		(1,047)	(549)

Consolidated cash flow statement continued

Year ended 31 December 2024

	Notes	2024 £m	2023 £m
Change in cash and cash equivalents		1,904	1,210
Cash and cash equivalents at 1 January		3,731	2,605
Exchange losses on cash and cash equivalents		(62)	(84)
Cash and cash equivalents at 31 December ⁴		5,573	3,731

1 Predominately relates to cash settled on derivative contracts held for operating purposes

2 In 2020, the Group took action to reduce the size of the USD hedge book by \$11.8bn across 2020-2026 to reflect the fact that at that time, future operating cash flows were no longer forecast to materialise. To achieve the necessary reduction in the hedge book, a separate and distinct set of foreign exchange derivative instruments were entered into to buy \$11.8bn which had the impact of fixing the fair value of the over-hedged position and provided certainty over when the cash flows to settle the position would occur in future periods. The associated cash outflow of these transactions is £1,674m and occurs over the period 2020-2026. During the year, the Group incurred a cash outflow of £146m (2023: £389m) and estimates that future cash outflows of £148m will be incurred during 2025 and £27m during 2026

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

4 The Group considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement

In deriving the consolidated cash flow statement, movement in balance sheet items have been adjusted for non-cash items. The cash flow in the year includes the sale of goods and services to joint ventures and associates – see note 26.

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

Consolidated cash flow statement continued

Year ended 31 December 2024

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

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

¹ Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net cash/(debt) therefore includes the fair value of derivatives included in fair value hedges (2024: £62m, 2023: £34m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (2024: £(29)m, 2023: £(11)m)

Consolidated statement of changes in equity

Year ended 31 December 2024

The following describes the nature and purpose of each reserve within equity:

Share capital – The nominal value of ordinary shares of 20p each in issue.

Share premium – Proceeds received in excess of the nominal value of ordinary shares issued, less the costs of issue.

Capital redemption reserve – Amounts transferred from accumulated losses on the repurchase of ordinary shares or the redemption of C Shares. In Rolls-Royce Holdings plc's own Financial Statements, C Shares are issued from the merger reserve. This reserve was created by a scheme of arrangement in 2011. As this reserve is eliminated on consolidation in the Consolidated Financial Statements, the C Shares are shown as being issued from the capital redemption reserve.

Hedging reserves – Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges and cost of hedging reserve.

Merger reserve – The premium on issuing shares to acquire a business where merger relief in accordance with the Companies Act 2006 applies.

Translation reserve – Gains and losses arising on retranslating the net assets of overseas operations into sterling.

Accumulated losses – All other net gains and losses and transactions with owners not recognised elsewhere and ordinary shares held for the purpose of share-based payment plans.

Non-controlling interests – The share of net assets or liabilities of subsidiaries held by third parties.

		Attributable to ordinary shareholders								
	Notes	Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Translation reserve £m	Accumulated losses ¹ £m	Total £m	NCI £m	Total equity £m
At 1 January 2024		1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)
Profit/(loss) for the year		-	-	-	-	-	2,521	2,521	(37)	2,484
Foreign exchange translation differences on foreign operations		-	-	-	-	(29)	-	(29)	-	(29)
Actuarial movements on post-retirement schemes	22	-	-	-	-	-	22	22	-	22
Fair value movement on cash flow hedges		-	-	-	(17)	-	-	(17)	-	(17)
Reclassified to income statement from cash flow hedge reserve		-	-	-	22	-	-	22	-	22
Revaluation to fair value of other investments	12	-	-	-	-	-	(2)	(2)	-	(2)
OCI of joint ventures and associates	12	-	-	-	(3)	-	(1)	(4)	-	(4)
Related tax movements	5	-	-	-	(1)	(2)	61	58	-	58
Total comprehensive income/(expense) for the year		-	-	-	1	(31)	2,601	2,571	(37)	2,534
Issues of ordinary shares		17	-	-	-	-	-	17	-	17
Redemption of C Shares	20	-	-	1	-	-	(1)	-	-	-
Shares issued to employee share trust		-	-	-	-	-	(17)	(17)	-	(17)
Share-based payments – direct to equity ²		-	-	-	-	-	95	95	-	95
Dividends to NCI		-	-	-	-	-	-	-	(3)	(3)
Transactions with NCI ³		-	-	-	-	-	32	32	19	51
Related tax movements		-	-	-	-	-	71	71	-	71
Other changes in equity in the year		17	-	1	-	-	180	198	16	214
At 31 December 2024		1,701	1,012	168	13	603	(4,409)	(912)	31	(881)

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

Consolidated statement of changes in equity continued

Year ended 31 December 2023

	Notes	Attributable to ordinary shareholders						Total £m	NCI £m	Total equity £m
		Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Trans- lation reserve £m	Accum- ulated losses ¹ £m			
At 1 January 2023		1,674	1,012	166	26	861	(9,789)	(6,050)	34	(6,016)
Profit/(loss) for the year		–	–	–	–	–	2,412	2,412	(8)	2,404
Foreign exchange translation differences on foreign operations		–	–	–	–	(226)	–	(226)	–	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		–	–	–	–	1	–	1	–	1
Actuarial movements on post-retirement schemes	22	–	–	–	–	–	116	116	–	116
Fair value movement on cash flow hedges		–	–	–	(82)	–	–	(82)	–	(82)
Reclassified to income statement from cash flow hedge reserve		–	–	–	61	–	–	61	–	61
Revaluation to fair value of other investments	12	–	–	–	–	–	(4)	(4)	–	(4)
OCI of joint ventures and associates	12	–	–	–	2	(1)	1	2	–	2
Related tax movements	5	–	–	–	5	(1)	(43)	(39)	–	(39)
Total comprehensive income/(expense) for the year		–	–	–	(14)	(227)	2,482	2,241	(8)	2,233
Issue of ordinary shares		10	–	–	–	–	–	10	–	10
Redemption of C shares	20	–	–	1	–	–	(1)	–	–	–
Shares issued to employee share trust		–	–	–	–	–	(10)	(10)	–	(10)
Share-based payments – direct to equity ²		–	–	–	–	–	49	49	–	49
Dividends to NCI		–	–	–	–	–	–	–	(2)	(2)
Transactions with NCI ³		–	–	–	–	–	57	57	28	85
Related tax movements		–	–	–	–	–	22	22	–	22
Other changes in equity in the year		10	–	1	–	–	117	128	26	154
At 31 December 2023		1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)

- 1 At 31 December 2024, 106,066,831 ordinary shares with a net book value of £26m (2023: 52,912,406 ordinary shares with a net book value of £22m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:
- 35,117,065 ordinary shares with a net book value of £14m (2023: 7,875,240 ordinary shares with a net book value of £15m) vested in share-based payment plans;
 - the Company issued 88,200,000 (2023: 49,100,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £17m (2023: £10m); and
 - the Company acquired none (2023: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 71,490 (2023: 284,850) of its ordinary shares through purchases on the London Stock Exchange
- 2 Share-based payments – direct to equity is the share-based payment charge for the year less actual cost of vesting excluding those vesting from own shares and cash received on share-based schemes
- 3 Relates to NCI investment received in the year in respect of Rolls-Royce SMR Limited

1 Accounting policies

The Company and the Group

Rolls-Royce Holdings plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in England in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2024 consist of the audited consolidation of the Financial Statements of the Company and its subsidiaries (together referred to as the Group) together with the Group's interest in jointly controlled and associated entities.

Basis of preparation and statement of compliance

The Company has elected to prepare its individual Company Financial Statements under FRS 101 *Reduced Disclosure Framework*. They are set out on pages 187 to 191 with the associated accounting policies from page 189.

The Consolidated Financial Statements have been prepared in accordance with UK adopted International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 and interpretations issued by the IFRS Interpretations Committee (IFRS IC) applicable to companies reporting under UK adopted IFRS.

The Consolidated Financial Statements have been prepared on a going concern basis as described on page 61. The historical cost basis has been used except where IFRS require the revaluation of financial instruments to fair value and certain other assets and liabilities on an alternative basis, most significantly post-retirement scheme obligations are valued on the basis required by IAS 19 *Employee Benefits*.

The Consolidated Financial Statements are presented in sterling which is the Company's functional currency.

The preparation of the Consolidated Financial Statements requires management to make judgements and estimates that affect the statutory amounts of assets and liabilities at the date of the Consolidated Financial Statements and the statutory amounts of revenue and expenses during the reporting period. Actual future outcomes could differ from those estimates.

Going concern

The Directors have undertaken a comprehensive going concern review. In adopting the going concern basis for preparing these Consolidated and Company Financial Statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of possible risks and uncertainties over an 18-month period from the balance sheet date to June 2026. The Directors have determined that the period to 30 June 2026 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short- to medium-term cash flow forecasts and available liquidity. Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have considered two forecasts in the assessment of going concern, along with a likelihood assessment of these forecasts, being:

- base case, which reflects the Directors' current expectations of future trading; and
- a downside forecast, which envisages severe but plausible downside risks.

Further details are given in the going concern review on page 61. After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and downside forecast, the Directors consider that the Group has sufficient liquidity to continue in operational existence over the going concern period to 30 June 2026 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Climate change

In preparing the Consolidated Financial Statements the Directors have considered the potential impact of climate change, particularly in the context of the disclosures included in the 2024 Strategic Report that set out climate-related commitments, targets and the four pillars of the Rolls-Royce energy transition strategy which are:

- decarbonising operations, facilities, product testing and business activities. This will be met through a combination of procuring clean energy, reducing overall energy demand, and clean power generation. An estimate of the investment required to meet Scope 1 + 2 emission improvements is included in the forecasts that support these Consolidated Financial Statements;
- enabling customers to operate their products in a way that is compatible with low or net zero carbon emissions. The Group is working with customers to enable them to operate products in a way that is compatible with net zero emissions. This means further the advancing the efficiency and environmental performance of the Group's engine and technology portfolio and ensuring compatibility with sustainable fuels. Within Power Systems, 80% of the Group's portfolio is compatible with alternative and sustainable fuels. The Group has demonstrated that all the commercial aero engines it produces are compatible for use with sustainable fuels and is also working with its armed forces customers, such as the RAF, on the use of SAF blends;
- delivering new products and solutions that can accelerate the global energy transition. This includes the development and deployment of small modular reactors (SMRs) and, in Power Systems, battery energy storage solutions is a growth area. In 2024, research and development (R&D) costs of £133m (2023: £137m) within New Markets included investment to successfully complete Step 2 of the Generic Design Assessment (GDA) by the UK nuclear industry's independent regulators and movement into the third and final step. Future investment required to deliver these technologies is included in the forecasts that support the Consolidated Financial Statements; and by
- supporting the necessary enabling environment, with public and policy support, to achieve collective climate goals. This involves actively engaging with policy makers, regulators and others to advocate for the necessary policy and economic support we have identified.

1 Accounting policies continued

Climate change continued

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risk have continued to develop over the last year as set out in our Strategic Review. The scenarios are used to help assess the Group's strategic resilience to climate change and the energy transition. Consideration is made of how each of them impacts: the life of assets; future revenue projections; future profitability; and whether additional costs may occur. There remains inherent uncertainty around how the scenarios will impact the Group. The Directors assess the assumptions on a regular basis to ensure that they are consistent with the risk management activities and the commitments made to investors and other stakeholders.

Based on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, the Group assesses the potential impact of climate-related risks which cover transition and physical risks and opportunities. The Group has identified four key transition risks (relating to changing customer demand, changes in cost due to carbon pricing, changes in cost due to commodity price changes and change in investment requirements) and three key physical risks (relating to facility disruption, supply chain disruption and impact on product performance) which may arise from the energy transition. The transition risks are the most likely to have an impact on the Consolidated Financial Statements, as exposure to physical risks will be greater in the longer term.

The key sources of estimation uncertainty at the balance sheet date are set out on page 125 and the Directors have considered the impact of climate change on those estimates. The key assumptions used in this assessment are consistent with those used in the climate scenarios presented in the Strategic Review. A summary of the assessment is set out below.

Risk	How reflected in the Financial Statements	Impact on Civil Aerospace LTSA's	Impact on impairment of non-financial assets	Impact on UK deferred tax asset recoverability
Changing customer demand	Overall forecast demand is expected to be robust in each scenario, although product mix may change with customer requirements.	Forecast EFH are based on customer and market data and therefore already include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 1% change in EFH forecasts over the remaining term of Civil LTSA contracts is disclosed on page 128.	Given the level of headroom in the programme intangible assets and Power Systems and Rolls-Royce Deutschland goodwill, the potential impact of a change in customer demand does not indicate any potential impact.	Forecast EFH are based on customer and market data and therefore include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 5% change in margin or shop visits is disclosed on page 130.
Changes in costs due to carbon pricing ¹ and commodity price changes ²	The potential impact of carbon pricing has been estimated by applying carbon prices to the forecast emissions generated by the Group and its supply chain. This impact, together with that from estimated commodity prices under each scenario, have been added/deducted to forecast costs in the base forecasts. The analysis reflects that: decarbonisation activities will occur in both the Group and its supply chain; and that some supplier contracts offer protection from cost increases in the short to medium term where pricing is fixed or subject to capped escalation clauses.	The increase in the cost base of the current Civil LTSA contracts due to carbon and commodity prices is estimated to be around 1% (2023: 1%) with the incremental cost included in the cost to complete estimates that drive revenue recognition. Changes in estimates have not had a material impact on revenue catch-ups or contract loss provisions in the year (2023: not material). A sensitivity disclosing the impact of a 2% change in shop visit costs over the remaining term of Civil LTSA contracts is disclosed on page 128.	Given the level of headroom in the programme intangible assets and Power Systems and Rolls-Royce Deutschland goodwill, the potential impact of the cost increases in the scenarios does not indicate any potential impact. The assessment has considered each of the Group's climate scenarios.	The forecast of probable future taxable profits reflects the increase in the cost base that could arise from carbon and commodity prices consistent with the methodology applied for Civil Aerospace LTSA. Disclosed on page 130 is the impact of changing the proportion of cost increases that can be passed onto customers following the expiry of existing LTSAs.
Change in investment required	Changing investment requirements may arise due to the introduction/acceleration of new technologies. Research is expensed and development costs capitalised as incurred.	No impact to existing LTSAs.	Impairment tests are either: performed on a value in use basis and the investment associated with new products is required to be excluded; or have sufficient headroom such that the estimated investment requirement is not significant.	Given the UK deferred tax asset recoverability is largely dependent on Civil and Defence aerospace markets, the increase in research and development expenditure required under this scenario does not have a material impact.

1 Based on the IEA Net Zero by 2050 scenario (\$71 per tonne of carbon in 2024 to \$250 in 2050)

2 Commodity prices from the Oxford Economics, Global Climate Service and Databank

1 Accounting policies continued

Climate change continued

Items that may be impacted by climate-related risks, but which are not considered to be key areas of judgements or sources of estimation uncertainty in the current financial year are outlined on below.

Useful lives of assets – The useful lives of property, plant and equipment and right-of-use assets could be reduced by climate-related matters, for example, as a result of physical risks, obsolescence or legal restrictions. The change in useful lives would have a direct impact on the amount of depreciation or amortisation recognised each year from the date of reassessment. The Directors' review of useful lives has taken into consideration the impacts of the Group's decarbonisation strategy and has not had a material impact on the results for the year. The Directors have also considered the remaining useful economics lives of material intangible assets, including the £2,001m and £632m capitalised development spend associated with the Trent and business aviation programmes disclosed in note 9. Given the measures the Group is taking, including demonstration that all the commercial aero-engines and 80% of the portfolio in Power Systems are compatible with alternative and sustainable fuels, the Directors judge that no adjustment is required to the useful economic lives.

Inventory valuation – Climate-related matters may affect the value of inventories as a result of a decline in selling prices or could become obsolete due to a reduction in demand. After consideration of the typical stock-turns of the inventory in relation to the rate of change in the market the Directors consider that inventory is appropriately valued.

Recoverability of trade receivables and contract assets – The impact of climate-related matters could have an impact on the Group's customers in the future, especially those customers in the Civil Aerospace business. No material climate-related issues have arisen during the year that have impacted the assessment of the recoverability of receivables. The Group's expected credit loss (ECL) provision uses credit ratings which inherently will include the market's assessment of the climate change impact on credit risk of the counter parties. Given the maturity time of trade receivables and the majority of contract assets, climate change is unlikely to cause a material increase on counter party credit risk in that time.

Share-based payments – The Group is committed to achieving net zero by 2050. The first phase of a sustainability strategic review was completed during 2024 and the Group has committed to reduce the total Scope 1 + 2 greenhouse gas emissions from its facilities, operations and testing by 46% by the end of 2030 (against a baseline of 2019). This metric accounts for 10% of the long-term incentive plan for awards granted from 2025, with performance measured against three-year cumulative targets.

Defined benefit pension plans – Climate-related risks could affect the financial position of defined benefit pension plans. As a result, this could have implications on the expected return on plan assets and measurement of defined benefit liabilities in future years. The Trustee of the Rolls-Royce UK Pension Fund meet the climate-related regulatory requirements. When making decisions about the plan, its analysis is carried out in a way consistent with TCFD. The Trustee has set a net zero target for the plan assets by 2050. Having assessed the risks and opportunities of climate change and considered the nature of the assets of the fund, climate change is unlikely to have a material impact on the position in the Consolidated Financial Statements.

Going concern – Given the short-term nature of the Group's going concern assessment, the impact of climate change does not have a significant impact. The Directors have considered the level of liquidity available, and the potential impact of the climate change risks, in making their assessment.

Presentation of underlying results

The Group measures financial performance on an underlying basis and discloses this information as an alternative performance measure (APM). This is consistent with the way that financial performance is measured by the Directors and reported to the Board in accordance with IFRS 8 *Operating Segments*. The Group believes this is the most appropriate basis to measure the in-year performance, as underlying results reflect the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which economically hedge net foreign currency cash flows at predetermined exchange rates. In addition, underlying results exclude the accounting impact of acquisition accounting and business disposals, impairment charges where the reasons are outside of normal operating activities, exceptional items, and certain other items which are market driven and outside of the control of management. Further details are given in note 2. A reconciliation of APMs to the statutory equivalent is provided on pages 215 to 219.

Revisions to IFRS applicable in 2024

Supplier Finance Arrangements

New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk. The Group's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements have necessitated some additional information being disclosed on page 164 in relation to the value of trade payables that were within the scope of such arrangements. This has been presented alongside the value of received payments which suppliers had drawn, this being information which the Group has already disclosed in its Annual Report.

Other

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

1 Accounting policies continued

Key areas of judgement and sources of estimation uncertainty

The determination of the Group's accounting policies requires judgement. The subsequent application of these policies requires estimates, and the actual outcome may differ from that calculated. The key judgements and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are summarised below. Further details, together with sensitivities for key sources of estimation uncertainty where appropriate and practicable, are included within the significant accounting policies section of this note.

Area	Key judgements	Key sources of estimation uncertainty	Page ref
Revenue recognition and contract assets and liabilities	<ul style="list-style-type: none"> Whether Civil Aerospace OE and aftermarket contracts should be combined. How performance on long-term aftermarket contracts should be measured. Whether long-term aftermarket contracts contain a significant financing component. Whether any costs should be treated as wastage. Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 <i>Revenue from Contracts with Customers</i>. Whether sales of spare engines to joint ventures are at fair value. When revenue should be recognised in relation to spare engine sales. 	<ul style="list-style-type: none"> Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change. 	127
Risk and revenue sharing arrangements (RRSAs)	<ul style="list-style-type: none"> Determination of the nature of entry fees received. 		129
Taxation		<ul style="list-style-type: none"> Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised. 	130
Research and development	<ul style="list-style-type: none"> Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation. Determination of the basis for amortising capitalised development costs. 		132
Leases	<ul style="list-style-type: none"> Determination of the lease term. 		133
Impairment of non-current assets	<ul style="list-style-type: none"> Determination of cash-generating units for assessing impairment of goodwill. 		134
Provisions	<ul style="list-style-type: none"> Whether any costs should be treated as wastage. Whether the criteria to recognise a transformation and restructuring provision has been met. 	<ul style="list-style-type: none"> Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts. Estimates of the future revenues and costs to fulfil onerous contracts. Assumptions implicit within the calculation of discount rate. 	135
Post-retirement benefits		<ul style="list-style-type: none"> Estimates of the assumptions for valuing the net defined benefit obligation. 	136

Material accounting policies

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

Basis of consolidation

The Consolidated Financial Statements include the Company Financial Statements and its subsidiary undertakings, together with the Group's share of the results in joint arrangements and associates made up to 31 December.

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over an entity so as to affect the Company's returns. Subsidiaries are consolidated in accordance with IFRS 10 *Consolidated Financial Statements*.

1 Accounting policies continued

Basis of consolidation continued

A joint arrangement is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other investors under a contractual arrangement. Joint arrangements may be either joint ventures or joint operations. Joint ventures are accounted for using the equity method of accounting and joint operations are accounted for using proportionate accounting.

An associate is an entity that is neither a subsidiary nor a joint arrangement, in which the Group holds a long-term interest and where the Group has a significant influence. The results of associates are accounted for using the equity method of accounting.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with joint arrangements and associates to the extent of the Group's interest in the entity. Transactions with non-controlling interests are recorded directly in equity.

Any subsidiary undertaking, joint arrangement or associate sold or acquired during the year are included up to, or from, the date of change of control. Details of transactions in the year are set out in note 27.

Revenue recognition and contract assets and liabilities

Revenue recognised comprises sales to the Group's customers after discounts and amounts payable to customers. Revenue excludes value added taxes. The transaction price of a contract is typically clearly stated within the contract, although the absolute amount may be dependent on escalation indices and long-term contracts that require the key estimates highlighted below to be made. Refund liabilities, where sales are made with a right of return, are not typical in the Group's contracts. Where they do exist, and consideration has been received, a portion based on an assessment of the expected refund liability is recognised within other payables. The Group has elected to use the practical expedient not to adjust revenue for the effect of financing components where the expectation is that the period between the transfer of goods and services to customers and the receipt of payment is less than a year. Consideration is received in the form of deposits and payments for completion of milestones or performance obligations. LTSA cash receipts are typically received based on EFHs.

Sales of standard OE, spare parts and time and material (T&M) overhaul services are generally recognised on transfer of control to the customer. This is generally on delivery to the customer, unless the specific contractual terms indicate a different point. The Directors consider whether there is a need to constrain the amount of revenue to be recognised on delivery based on the contractual position and any relevant facts, however, this is not typically required.

Sales of OE and services that are specifically designed for the contract (most significantly in the Defence business) are recognised by reference to the progress towards completion of the performance obligation, using the cost method described in the key judgements, provided the outcome of contracts can be assessed with reasonable certainty.

The Group generates a significant portion of its revenue on aftermarket arrangements arising from the installed OE fleet. As a consequence, in particular in the Civil Aerospace large engine business, the Group will often agree contractual prices for OE deliveries that take into account the anticipated aftermarket arrangements. Sometimes this may result in losses being incurred on OE. As described in the key judgements, these contracts are not combined. The consideration in the OE contract is therefore allocated to OE performance obligations and the consideration in the aftermarket contract to aftermarket performance obligations.

Key areas of the accounting policy are:

- Future variable revenue from long-term contracts is constrained to take account of the risk of non-recovery of resulting contract balances from reduced utilisation e.g. EFHs, based on historical forecasting experience and the risk of aircraft being parked by the customer.
- A significant amount of revenue and cost related to long-term contract accounting is denominated in currencies other than that of the relevant Group undertaking, most significantly USD transactions in sterling and euro denominated undertakings. These are translated at estimated long-term exchange rates.
- The assessment of stage of completion is generally measured for each contract. However, in certain cases, such as for CorporateCare agreements, where there are many contracts covering aftermarket services each for a small number of engines, the Group accounts for a portfolio of contracts together, as the effect on the Consolidated Financial Statements would not differ materially from applying the standard to the individual contracts in the portfolio. When accounting for a portfolio of LTSAs, the Group uses estimates and assumptions that reflect the size and composition of the portfolio.
- A contract asset/liability is recognised where payment is received in arrears/advance of the revenue recognised in meeting performance obligations.
- Contract modifications of LTSAs can be accounted for as separate contracts, termination of the existing contract and the creation of a new contract, or as part of the existing contract. The treatment is dependent on whether the change in scope is because of the addition of promised goods or services that are distinct and whether the price increases by an amount that reflects their standalone selling prices.
- Where material, wastage costs (see key judgements on page 127) are recorded as an expense and excluded from the measure of progress of LTSA contracts.
- The Group recognises a liability for their obligation to repurchase parts it has sold to the maintenance, repair and overhaul bases who overhaul the Group's customers' engines.

If the expected costs to fulfil a contract exceed the expected revenue, a contract loss provision is recognised for the excess costs.

The Group pays participation fees to airframe manufacturers, its customers for OE, on certain programmes. Amounts paid are initially treated as contract assets and subsequently charged as a reduction to the OE revenue when the engines are transferred to the customer.

The Group has elected to use the practical expedient to expense as incurred any incremental costs of obtaining or fulfilling a contract if the amortisation period of an asset created would have been one year or less. Where costs to obtain a contract are recognised in the balance sheet, they are amortised over the performance of the related contract (ten to 36 years).

1 Accounting policies continued

Key judgement – Whether Civil Aerospace OE and aftermarket contracts should be combined

In the Civil Aerospace business, OE contracts for the sale of engines to be installed on new aircraft are with the airframers, while the contracts to provide spare engines and aftermarket goods and services are with the aircraft operators, although there may be interdependencies between them. IFRS 15 *Revenue from Contracts with Customers* includes guidance on the combination of contracts, in particular that contracts with unrelated parties should not be combined. Notwithstanding the interdependencies, the Directors consider that the engine contract should be considered separately from the aftermarket contract. In making this judgement, they also took account of industry practice.

Key judgement – How performance on long-term aftermarket contracts should be measured

The Group generates a significant proportion of its revenue from aftermarket arrangements. These aftermarket contracts, such as TotalCare and CorporateCare agreements in the Civil Aerospace business, cover a range of services and generally have contractual terms covering more than one year. Under these contracts, the Group's primary obligation is to maintain customers' engines in an operational condition. This is achieved by undertaking various activities, such as maintenance, repair and overhaul, and engine monitoring over the period of the contract. Revenue on these contracts is recognised over the period of the contract and the basis for measuring progress is a matter of judgement. The Directors consider that the stage of completion of the contract is best measured by using the actual costs incurred to date compared to the estimated costs to complete the performance obligations, as this reflects the extent of completion of the activities to be performed.

Key judgement – Whether long-term aftermarket contracts contain a significant financing component

Long-term aftermarket contracts typically cover a period of eight to 15 years. Their pricing is the subject of negotiation with individual customers under competitive circumstances. It is the Directors' judgement that the consideration received approximates to the cash selling price and any timing difference between consideration being received and the supply of goods and services is typical of the industry and arises for reasons other than to provide financing. The customers typically pay on an 'as used' basis (e.g. USD/EFH) which reflects the wear and tear of the engine as it flies and aligns to the customer's own revenue streams. An adjustment to the transaction price is therefore not required.

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Examples include technical issues that: require resolution to meet regulatory requirements; have a wide-ranging impact across a product type; and cause significant operational disruption to customers. Similarly, in these rare circumstances, significant disruption costs to support customers resulting from the actual performance of a delivered good or service may be treated as a wastage cost. Provision is made for any costs identified as wastage when the obligation to incur them arises – see note 21.

Key judgement – Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 Revenue from Contracts with Customers

The Group has considered whether these arrangements are insurance contracts as defined in IFRS 17 *Insurance Contracts*. While they may transfer an element of insurance risk, they relate to warranty and service type agreements that are entered into in connection with the Group's sales of its goods or services and therefore continue to be accounted for under the existing revenue and provisions standards. The Directors have judged that such arrangements entered into after the original equipment sale remain sufficiently related to the sale of the Group's goods and services to allow the contracts to continue to be measured under IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

Key judgement – Whether sales of spare engines to joint ventures are at fair value

The Civil Aerospace business maintains a pool of spare engines to support its customers. Some of these engines are sold to, and held by, joint venture companies. The assessment of whether the sales price reflects fair value is a key judgement. The Group considers that based upon the terms and conditions of the sales, and by comparison to the sales price of spare engines to other third parties, the sales made to joint ventures reflect the fair value of the goods sold. See note 26 for the value of sales to joint ventures during the year.

Key judgement – When revenue should be recognised in relation to spare engine sales

Revenue is recognised at the point in time when a customer obtains control of a spare engine. The customer could be a related party, an external operator or a spare engine service provider. Depending on the contractual arrangements, judgement is required on when the Group relinquishes control of spare engines and, therefore, when the revenue is recognised. The point of control passing has been concluded to correspond to the point of legal sale, even for instances where the customer is contracted to provide some future spare engine capacity to the Group to support its installed engine base. In such cases, the customer has responsibility for generating revenue from the engines and exposure to periods of non-utilisation; exposure to risk of damage or loss, risk from residual value movements, and will determine if and when profits will be made from disposal. The spare engine capacity that will be made available to the Group in the future does not consist of identified assets and the provider retains a substantive right to substitute the asset through the Group's period of use. It is, therefore, appropriate to recognise revenue from the sale of the spare engines at the point that title transfers. During 2024, of the total 57 (2023: 53) large spare engine sales delivered, 20 (2023: 27) engines were sold to customers where contractual arrangement allows for some future spare engine capacity to be used by the Group. These sales contributed £399m (2023: £578m) to revenue for the year.

1 Accounting policies continued

Key estimate – Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change

The Group has long-term contracts that fall into different accounting periods and which can extend over significant periods (generally up to 25 years), the most significant of these are LTSAs in the Civil Aerospace business, with contracts typically covering a period of eight to 15 years. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess: EFHs, time on wing and other operating parameters; the pattern of future maintenance activity and the costs to be incurred; lifecycle cost improvements over the term of the contracts; and escalation of revenue and costs (that includes the impact of inflation). The impact of climate change on EFHs and costs is also considered when making these estimates. Industry and customer data on expected levels of utilisation is included in the forecasts used. Across the length of the current Civil Aerospace LTSA contracts, allowance has been made for around a 1% (2023: 1%) projected cost increase resulting from carbon pricing and commodity price changes.

The sensitivities below demonstrate how changes in assumptions (including as a result of climate change) could impact the level of revenue recognised were assumptions to change. The Directors believe that the estimates used to prepare the Consolidated Financial Statements take account of the inherent uncertainties, constraining the expected level of revenue as appropriate.

Estimates of future LTSA revenue within Civil Aerospace are based upon future EFH forecasts. Finally, many of the revenues and costs are denominated in currencies other than that of the relevant group undertaking. These are translated at an estimated long-term exchange rate, based on historical trends and economic forecasts.

During the year, changes to the estimate in relation to the Civil Aerospace LTSA contracts resulted in favourable catch-up adjustments to revenue of £311m (2023: adverse catch-up adjustment of £104m).

Based upon the stage of completion of all LTSA contracts within Civil Aerospace as at 31 December 2024, the following reasonably possible changes in estimates would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates):

- A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an in-year impact of around £20m. This would be expected to be seen as a catch-up change in revenue or, to the extent it impacts onerous contracts, within cost of sales.
- A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £340m.
- A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £90m.

Risk and revenue sharing arrangements (RRSAs)

Cash entry fees received are initially deferred on the balance sheet as deferred receipts from RRSA workshare partners within trade payables and other liabilities. The cash entry fee is a transaction with a supplier and is recognised as a reduction in cost of sales incurred. Individual programme amounts are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then recognised on a 15-year straight-line basis.

The payments to suppliers of their shares of the programme cash flows for their production components are charged to cost of sales when OE sales are recognised or as LTSA costs are incurred. These prepayments are initially recognised within trade receivables and other assets.

The Group also has arrangements with third parties who invest in a programme and receive a return based on its performance, but do not undertake development work or supply parts. Such arrangements (financial RRSAs) are financial instruments as defined by IAS 32 *Financial Instruments: Presentation* and are accounted for using the amortised cost method.

1 Accounting policies continued

Key judgement – Determination of the nature of entry fees received

RRSAs with key suppliers (workshare partners) are a feature of the civil aviation industry. Under these contractual arrangements, the key commercial objectives are that: (i) during the development phase the workshare partner shares in the risks of developing an engine by performing its own development work, providing development parts, and paying a non-refundable cash entry fee; and (ii) during the production phase the workshare partner supplies components in return for a share of the programme cash flows as a 'life of type' supplier (i.e. as long as the engine remains in service).

The non-refundable cash entry fee is considered to be one element of a long-term supply agreement. These receipts are deferred on the balance sheet and recognised against the cost of sales over the estimated number of units to be delivered on a similar basis to the amortisation of development costs – see page 132.

Government grants

Government grants received are varied in nature and are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure. Non-monetary grants are recognised at fair value.

Interest

Interest receivable/payable is credited/charged to the income statement using the effective interest method. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

Taxation

The tax charge/credit on the profit or loss for the year comprises current and deferred tax:

- Current tax is the expected tax payable for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for tax purposes and is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. In the UK, the deferred tax liability on the pension scheme surplus is recognised consistently with the basis for recognising the surplus i.e. at the rate applicable to refunds from a trust.

Tax is charged or credited to the income statement or OCI as appropriate, except when it relates to items credited or charged directly to equity in which case the tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognised on taxable temporary differences arising on the initial recognition of goodwill or for temporary differences arising from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits, which include the reversal of taxable temporary differences, will be available against which the assets can be utilised. Further details on the Group's tax position can be found on pages 145 to 148.

1 Accounting policies continued

Taxation continued

Key estimate – Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised

Deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilised. On this basis a deferred tax asset of £629m is not recognised in respect of UK tax losses. Further details are included in note 5.

In addition to taking into account a severe but plausible downside forecast (see below), the climate-related estimates and assumptions (set out on pages 122 to 124) have also been considered when assessing the recoverability of the deferred tax assets. Recognising the longer terms over which these assets will be recovered, the Group has considered the risk that regulatory changes could materially impact demand for our products and shifting investment focus towards more sustainable products and solutions. The climate scenarios prepared do not indicate a significant deterioration in demand or profitability for Civil Aerospace programmes given that all commercial aero-engines are compatible with sustainable fuels.

While carbon and commodity pricing may put pressure on costs, decarbonisation and new supplier and customer contracts offer the opportunity to receive value for more efficient and sustainable products.

Macro-economic factors continue to result in uncertainty across the civil aviation industry in particular in respect of prolonged supply chain challenges. As explained in note 5, a 25% probability of there being a severe but plausible downside forecast in relation to the civil aviation industry has been taken into account in the assessment of the recovery of the UK deferred tax assets.

The estimates take account of the inherent uncertainties constraining the expected level of profit as appropriate. Changes in these estimates will affect future profits and, therefore, the recoverability of the deferred tax assets. The following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets.

- A 5% change in margin in the main Civil Aerospace large engine programmes.
- A 5% change in the number of shop visits driven by EFHs.
- Assumed future cost increases from climate change expected to pass through to customers at 100% are restricted to 90% pass through.

All of these could be driven by a number of factors, including ongoing supply chain challenges, the impact of climate change as explained on pages 122 to 124 and changes in foreign exchange rates.

A 5% change in margin or shop visits (which could be driven by fewer EFHs as a result of the factors as set out above) would result in an increase/decrease in the deferred tax asset of around £110m.

If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £10m, and if carbon prices were to double, this would be £70m.

1 Accounting policies continued

Foreign currency translation

Transactions denominated in currencies other than the functional currency of the transacting group undertaking are translated into the functional currency at the average monthly exchange rate when the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rate prevailing at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of monetary assets and liabilities into functional currencies at the rate prevailing at the year end are included in profit/(loss) before taxation.

The trading results of Group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates prevailing at the year end. Exchange adjustments arising from the retranslation of the opening net assets, and from the translation of the profits or losses at average rates, are recognised in OCI.

Discontinued operations and business disposals

A discontinued operation is defined in IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* as a component of an entity that has been disposed of or is classified as held for sale, represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are required to be presented separately in the income statement.

Assets and businesses are classified as held for sale when their carrying amounts will be recovered through sale rather than through continuing use.

Financial instruments – Classification and measurement

Financial assets primarily include trade receivables and other non-derivative financial assets, cash and cash equivalents, short-term investments, derivatives (foreign exchange, commodity and interest rate contracts), and listed and unlisted investments.

- Trade receivables and other assets are classified either as held to collect and measured at amortised cost, or as held to collect and sell and measured at fair value, with movements in fair value recognised through other comprehensive income (FVOCI). The Group may sell trade receivables due from certain customers before the due date. Any trade receivables from such customers that are not sold at the reporting date are classified as 'held to collect and sell'.
- Cash and cash equivalents (consisting of balances with banks and other financial institutions, money-market funds, short-term deposits) and short-term investments are subject to low market risk. Cash balances, short-term deposits (with a maturity of primarily three months or less) and short-term investments are measured at amortised cost. Money market funds are measured at fair value, with movements in fair value recognised in the income statement as a profit or loss (FVPL).
- Derivatives and unlisted investments are measured at FVPL. The Company has elected to measure its listed investments at FVOCI.

Financial liabilities primarily consist of trade payables and other non-derivative financial liabilities, borrowings, derivatives, financial RRSAs and C Shares.

- Derivatives are classified and measured at FVPL.
- All other financial liabilities are classified and measured at amortised cost.

Financial instruments – Impairment of financial assets and contract assets

IFRS 9 *Financial Instruments* sets out the basis for the accounting of ECLs on financial assets and contract assets resulting from transactions within the scope of IFRS 15 *Revenue from Contracts with Customers*. The Group has adopted the simplified approach to provide for ECLs, measuring the loss allowance at a probability weighted amount that considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions of customers. These are incorporated in the simplified model adopted by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information. The ECLs are updated at each reporting date to reflect changes in credit risk since initial recognition. ECLs are calculated for all financial assets in scope, regardless of whether or not they are overdue.

Financial instruments – Hedge accounting

Forward foreign exchange contracts and commodity swaps (derivative financial instruments) are held to manage the cash flow exposures of forecast transactions denominated in foreign currencies or in commodities respectively. Derivative financial instruments qualify for hedge accounting when: (i) there is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge at the inception of the hedge; and (ii) the hedge is expected to be effective. In general, the Group has chosen to not apply hedge accounting in respect of these exposures.

The Group economically hedges the fair value and cash flow exposures of its borrowings. Cross-currency interest rate swaps are held to manage the fair value or cash flow exposures of borrowings denominated in foreign currencies and are designated as fair value hedges or cash flow hedges as appropriate. Interest rate swaps are held to manage the interest rate exposures of fixed and floating rate borrowings and may be designated as fair value hedges or cash flow hedges as appropriate. If the swaps are not designated as fair value or cash flow hedges, the economic effect is included in the underlying results – see note 2.

Changes in the fair values of derivatives that are designated as fair value hedges are recognised directly in the income statement. The fair value changes of effective cash flow hedge derivatives are recognised in OCI and subsequently recycled to the income statement in the same period or periods during which the hedged cash flows affect profit or loss. Any ineffectiveness in the hedging relationship is included in the income statement.

1 Accounting policies continued

Financial instruments – Hedge accounting continued

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised, or no longer qualifies for hedge accounting. At that time, for cash flow hedges and, if the forecast transaction remains probable, any net cumulative gain or loss on the hedging instrument recognised in the Statement of Changes in Equity (SOCIE) is retained until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss is recycled to the income statement.

Business combinations and goodwill

Goodwill recognised represents the excess of the fair value of the purchase consideration over the fair value to the Group of the net of the identifiable assets acquired and the liabilities assumed. On transition to IFRS on 1 January 2004, business combinations were not retrospectively adjusted to comply with UK-adopted International Accounting Standards and goodwill was recognised based on the carrying value under the previous accounting policies. Goodwill, in respect of the acquisition of a subsidiary, is recognised as an intangible asset. Goodwill arising on the acquisition of joint arrangements and associates is included in the carrying value of the investment.

Customer relationships

The fair value of customer relationships recognised as a result of a business combination relate to the acquired company's established relationships with its existing customers that result in repeat purchases and customer loyalty. Amortisation is charged on a straight-line basis over its useful economic life, up to a maximum of 15 years.

Certification costs

Costs incurred in respect of meeting regulatory certification requirements for new Civil Aerospace aero-engine/aircraft combinations, including payments made to airframe manufacturers for this, are recognised as intangible assets to the extent that they can be recovered out of future sales. They are charged to the income statement over the programme life. Individual programme assets are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then charged on a 15-year straight-line basis.

Research and development

Expenditure incurred on research and development is distinguished as relating either to a research phase or to a development phase. All research phase expenditure is charged to the income statement. Development expenditure is recognised as an internally generated intangible asset (programme asset) only if it meets strict criteria, relating in particular to technical feasibility and generation of future economic benefits. More specifically, development costs are capitalised from the point at which the following conditions have been met:

- the technical feasibility of completing the programme and the intention and ability (availability of technical, financial and other resources) to complete the programme asset and use or sell it;
- the probability that future economic benefits will flow from the programme asset; and
- the ability to measure reliably the expenditure attributable to the programme asset during its development.

Capitalisation continues until the point at which the programme asset meets its originally contracted technical specification (defined internally as the point at which the asset is capable of operating in the manner intended by the Directors). Subsequent expenditure is capitalised where it enhances the functionality of the programme asset and demonstrably generates an enhanced economic benefit to the Group. All other subsequent expenditure on programme assets is expensed as incurred.

Individual programme assets are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then charged on a 15-year straight-line basis. In accordance with IAS 38 *Intangible Assets*, the basis on which programme assets are amortised is assessed annually.

Key judgement – Determination of the point in time when costs incurred on an internal programme development meet the criteria for capitalisation

The Group incurs significant research and development expenditure in respect of various development programmes. Determining when capitalisation should commence and cease is a key judgement, as is the determination of when subsequent expenditure on the programme assets should be capitalised. During the year, £263m (2023: £192m) of development expenditure was capitalised.

Within the Group there are established processes in place e.g., the Product Introduction and Lifecycle Management process (PILM), to consider technical feasibility, commercial viability and financial assessment of the programme at certain milestones. When these are met, development expenditure is capitalised. Prior to this, expenditure is expensed as incurred.

The Group continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years. During 2024, no development costs incurred within New Markets were capitalised.

Subsequent expenditure after entry into service which enhances the performance of the engine and the economic benefit to the Group is capitalised. This expenditure is referred to as enhanced performance and is governed by the PILM process referred to above. All other development costs are expensed as incurred.

Key judgement – Determination of the basis for amortising capitalised development costs

The economic benefits of the development costs are primarily those cash inflows arising from LTSAs, which are expected to be relatively consistent for each engine within a programme. Amortisation of development costs is recognised on a straight-line basis over the estimated period of operation of the engine by its initial operator.

1 Accounting policies continued

Software

Software that is not specific to an item of property, plant and equipment is classified as an intangible asset, recognised at its acquisition cost and amortised on a straight-line basis over its useful economic life, up to a maximum of ten years. The amortisation period of software assets is reviewed annually. The cost of internally developed software includes direct labour and an appropriate proportion of overheads.

Other intangible assets

These include intangible assets arising on acquisition of businesses, such as technology which is amortised on a straight-line basis over a maximum of 15 years and trademarks which are not amortised. They also include the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance, which are amortised on a straight-line basis over a maximum of 15 years.

Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and any provision for impairment in value. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of overheads and, where appropriate, interest.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives. No depreciation is recorded on assets in the course of construction. Estimated useful lives are reassessed annually and are as follows:

- Land and buildings, as advised by the Group's professional advisers:
 - freehold buildings – three to 50 years (average 24 years); and
 - no depreciation is provided on freehold land.
- Plant and equipment – two to 27 years (average 11 years).
- Aircraft and engines – five to 20 years (average 17 years).

Leases

Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for termination of the lease, if the lease term reflects the Group exercising that option.

Where leases commenced after the initial IFRS 16 *Leases* transition date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Where appropriate, lease liabilities are revalued at each reporting date using the spot exchange rate.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability or a revaluation of the liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Group, in which case the asset is depreciated to the end of the useful life of the asset.

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases and low-value leases are recognised on a straight-line basis as an expense in the income statement.

Key judgement – Determination of lease term

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Certain land and building leases have renewal options although none due in the next 12 months would have a material impact. Other renewals are evenly spread between 2028 to 2033 and then post 2038. The Group reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities.

1 Accounting policies continued

Impairment of non-current assets

Impairment of non-current assets is considered in accordance with IAS 36 *Impairment of Assets*. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit (CGU) to which the asset belongs. Goodwill, indefinite life intangible assets and intangible assets not yet available for use are tested for impairment annually. Other intangible assets (including programme-related intangible assets), property, plant and equipment, right-of-use assets and investments are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

If the recoverable amount of an asset (or CGU) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss is recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs of disposal. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset (or CGU). Fair value less costs of disposal (FVLCD) reflects market inputs or inputs based on market evidence if readily available. If these inputs are not readily available, the fair value is estimated by discounting future cash flows modified for market participants views. The relevant local statutory tax rates have been applied in calculating post-tax to pre-tax discount rates.

Key judgement – Determination of CGUs for assessing impairment of goodwill

The Group conducts impairment reviews at the CGU level. As permitted by IAS 36 *Impairment of Assets*, impairment reviews for goodwill are performed at the groups of CGUs level, representing the lowest level at which the Group monitors goodwill for internal management purposes and no higher than the Group's operating segments. The main CGUs for which goodwill impairment reviews have been performed are Rolls-Royce Deutschland Ltd & Co KG and at an aggregated Rolls-Royce Power Systems AG level.

Inventories

Inventories are valued on a first-in, first-out basis, at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those direct and indirect overheads, including depreciation of property, plant and equipment, that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling prices less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. All inventories are classified as current as it is expected that they will be used in the Group's operating cycle, regardless of whether this is expected to be within 12 months of the balance sheet date.

Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, investments in money-market funds and short-term deposits with a maturity of three months or less on inception. The Group considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement. Where the Group operates pooled banking arrangements across multiple accounts, these are presented on a net basis when it has both a legal right and intention to settle the balances on a net basis.

The Group's suppliers have access to a supply chain financing (SCF) programme through partnership with banks. This is to enable smaller suppliers, including joint ventures (90-day standard payment terms), who are on our standard 75 day or more payment terms to receive their payment sooner. The election to utilise the programme is the sole decision of the supplier. As the Group continues to have a contractual obligation to pay its suppliers under commercial terms, which are unaffected by any utilisation of the programme, and it does not retain any ongoing involvement in the SCFs, the related payables are retained on the Group's balance sheet and classified as trade payables. Further details are disclosed in note 19.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are discounted to present value where the effect is material.

The principal provisions are recognised as follows:

- onerous contracts based on an assessment of whether the direct costs to fulfil a contract are greater than the expected revenue;
- warranty and guarantees based on an assessment of future claims with reference to past experience and recognised at the earlier of when the underlying products and services are sold and when the likelihood of a future cost is identified;
- Trent 1000 in-service issues when wastage costs are identified as described on page 127; and
- transformation and restructuring when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has created a valid expectation to those affected.

1 Accounting policies continued

Key judgement – Whether any costs should be treated as wastage

As described further on page 127, in rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Provision is made for any costs identified as wastage when the obligation to incur them arises.

Specifically for the Trent 1000 wastage costs, provision has been made as the Group is an owner of an engine Type Certificate under which it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Group is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSA's, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. These requirements cannot be met without the Group incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Group in designing and overhauling aero engines it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

Key judgement – Whether the criteria to recognise a transformation and restructuring provision has been met

On 17 October 2023, the Group announced plans for a simpler, more streamlined, organisation as part of its multi-year transformation.

IAS 19 *Employee Benefits* requires that a liability and expense for termination benefits should be recognised at the earlier of: (a) when an offer of those benefits can no longer be withdrawn; and (b) when the cost for a restructuring that is within the scope of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* that involves the payment of termination benefits is recognised. The Directors have considered whether the Group's communications to employees during 2023 and 2024 have led to an offer of benefits that could no longer be withdrawn. Significant progress has been made on transformation activities with clear and extensive communication to affected employees, many of whom have already left the business. The remaining provision relates to roles where the function, location, expected completion date, and type and amount of benefits is known. It is expected to be utilised by 31 December 2025.

Key estimates – Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts.

The Group has provisions for Trent 1000 wastage costs at 31 December 2024 of £36m (2023: £116m). These represent the Directors' best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates take account of information available and different possible outcomes.

The Group considers that at 31 December 2024 the Trent 1000 onerous contract provisions are most sensitive to changes in estimates. Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the second half of 2025 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £30m to £50m charge.

Key estimates – Estimates of the future revenues and costs to fulfil onerous contracts

The Group has provisions for onerous contracts at 31 December 2024 of £1,433m (2023: £1,472m). An increase in Civil Aerospace large engine estimates of LTSA costs of 1% over the remaining term of the contracts could lead to around a £60m to £80m increase in the onerous contract provisions across all programmes.

Key estimates – Assumptions implicit within the calculation of discount rates

The onerous contract provisions are sensitive to changes in the discount rate used to value the provisions. The rate used for each contract is derived from bond yields (i.e. risk-free rates) with a similar duration and currency to the contract that they are applied to. The rate is adjusted to reflect the specific inflation characteristics of the contracts. The forecast rates are determined from third-party market analysis and average 5%. A 1% change in the discount rates used could lead to around a £40m to £50m change in the provision.

Customer financing support

In connection with the sale of its products, the Group will, on occasion, provide financing support for its customers. Credit-based guarantees are disclosed as commitments or contingent liabilities dependent on whether aircraft have been delivered or not. As described on page 183, the Directors consider the likelihood of crystallisation in assessing whether provision is required for any contingent liabilities.

The Group's contingent liabilities relating to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio and are reported on a discounted basis.

1 Accounting policies continued

Post-retirement benefits

Pensions and similar benefits (principally healthcare) are accounted for under IAS 19 *Employee Benefits*.

For defined benefit plans obligations are measured at discounted present value using a discount rate derived from high-quality corporate bonds denominated in the currency of the plan, whilst plan assets are recorded at fair value. Surpluses in schemes are recognised as assets only if they represent economic benefits available to the Group in the future. Actuarial gains and losses are recognised immediately in OCI. The service and financing costs of such plans are recognised separately in the income statement:

- current service costs are spread systematically over the lives of employees;
- past-service costs and settlements are recognised immediately; and
- financing costs are recognised in the periods in which they arise.

UK pension obligations include the estimated impact of the obligation to equalise defined benefit pensions and transfer values for men and women.

Payments to defined contribution schemes are charged as an expense as they fall due.

Key estimate – Estimates of the assumptions for valuing the net defined benefit obligation

The Group's defined benefit pension schemes and similar arrangements are assessed annually in accordance with IAS 19 *Employee Benefits*. The valuations, which are based on assumptions determined with independent actuarial advice, resulted in a net deficit of £191m before deferred taxation being recognised on the balance sheet at 31 December 2024 (2023: deficit of £253m). The size of the net surplus/deficit is sensitive to the actuarial assumptions which include the discount rate, price inflation, pension and salary increases, longevity and, in the UK, the number of plan members who take the option to transfer their pension to a lump sum on retirement or who choose to take the Bridging Pension Option. Following consultation, the UK scheme closed to future accrual on 31 December 2020.

A reduction in the discount rate of 0.25% from 5.50% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £145m. This would be expected to be broadly offset by changes in the value of scheme assets as the scheme's investment policies are designed to mitigate this risk.

An increase in the assumed rate of inflation of 0.25% (RPI of 3.30% and CPI of 2.90%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m.

A one-year increase in life expectancy from 20.8 years (male aged 65) and from 21.5 years (male aged 45) would increase the defined benefit obligations of the RRUKPF by approximately £125m.

Further details and sensitivities are included in note 22.

Share-based payments

The Group provides share-based payment arrangements to certain employees. These are principally equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest based on expected performance, except where additional shares vest as a result market-based performance conditions, such as the total shareholder return (TSR) performance condition in the long-term incentive plan (LTIP), where no adjustment is required as allowance for these performance conditions are included in the initial fair value.

Cash-settled share options (grants in the International ShareSave plan) are measured at fair value at the balance sheet date. The Group recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that are expected to vest and the relative completion of the vesting period. Changes in the value of this liability are recognised in the income statement for the year.

The cost of shares of Rolls-Royce Holdings plc held by the Group for the purpose of fulfilling obligations in respect of employee share plans is deducted from equity in the consolidated balance sheet. See note 24 for a further description of the share-based payment plans.

Revisions to IFRS not applicable in 2024

Standards and interpretations issued by the IASB are only applicable if endorsed by the UK. Other than IFRS 18 *Presentation and Disclosure in Financial Statements* described below, the Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements.

1 Accounting policies continued

IFRS 18 *Presentation and Disclosure in Financial Statements*

The IASB issued a new Standard, *IFRS 18 Presentation and Disclosure in Financial Statements*, on 9 April 2024 that will replace *IAS 1 Presentation of Financial Statements*. The purpose of the new standard is to provide more consistent presentation of financial information across preparers as it is acknowledged that existing standards have given flexibility to present information in different ways. *IFRS 18 Presentation and Disclosure in Financial Statements* will not impact the recognition or measurement of items in the financial statements. Many of the existing presentation principles in *IAS 1 Presentation of Financial Statements* are retained, but there are some more specific requirements that will require the Group to make some changes in its future Annual Reports and Interim Financial Statements.

The new Standard is not yet endorsed by the UK Endorsement Board (UKEB) but is expected to be applicable for reporting periods beginning on or after 1 January 2027. Comparative information for 2026 will need to be restated when subsequent financial statements are published. The Group has performed an initial review of the Standard and expects changes to the presentation of the income statement and the Group's reported operating profit (driven by required changes such as the 'Share of results of joint ventures and associates' being required to be presented in a new investing category which will no longer form part of operating profit in the Statutory Consolidated Income Statement). The process of assessing the financial impact on the Consolidated Financial Statements will continue during 2025. The Group does not anticipate its early adoption of the new Standard.

Other

IBOR reform transition

A number of the Group's lease liabilities have been based on a USD LIBOR index. The majority of contracts in which the Group is a lessee have been amended. These have been amended to USD Term Secure Overnight Financing Rate (SOFR) plus credit adjustment spread (CAS), and the impact to the Financial Statements is not material. The Group has taken the practical expedient available to account for the lease modification required by the IBOR reform by applying IFRS 16 *Leases* paragraph 42.

Post balance sheet events

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

2 Segmental analysis

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

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

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

Underlying results

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

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

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

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

2 Segmental analysis continued

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by \$11.8bn across 2020-2026 to reflect the fact that, at that time, future operating cash flows were no longer forecast to materialise. An underlying charge of £1.7bn was recognised within the underlying finance costs in 2020 and the associated cash settlement costs occur over the period 2020-2026. The derivatives relating to this underlying charge have been subsequently excluded from the hedge book, and therefore are also excluded from the calculation of the average exchange rate achieved in the current and future periods.

Underlying performance also excludes the following:

- the effect of acquisition accounting and business disposals;
- impairment of goodwill, other non-current and current assets where the reasons for the impairment are outside of normal operating activities;
- exceptional items; and
- certain other items which are market driven and outside of the control of management.

Subsequent changes in items excluded from underlying performance in a prior period will also be excluded from underlying performance. All other changes will be recognised within underlying performance.

Acquisition accounting, business disposals and impairment

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

Exceptional items

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

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

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

Other items

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

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

The following analysis sets out the results of the Group's divisions on the basis described above and also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

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

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

2 Segmental analysis continued

Reconciliation to statutory results

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
Year ended 31 December 2024			
Revenue from sale of original equipment	8,005	384	8,389
Revenue from aftermarket services	9,843	677	10,520
Total revenue	17,848	1,061	18,909
Gross profit	4,091	130	4,221
Commercial and administrative costs	(1,197)	(87)	(1,284)
Research and development costs	(605)	402	(203)
Share of results of joint ventures and associates	175	(3)	172
Operating profit	2,464	442	2,906
Gain arising on the disposal of businesses	–	16	16
Profit before financing and taxation	2,464	458	2,922
Net financing	(171)	(517)	(688)
Profit/(loss) before taxation	2,293	(59)	2,234
Taxation	(282)	532	250
Profit for the year	2,011	473	2,484
Attributable to:			
Ordinary shareholders	2,048	473	2,521
NCI	(37)	–	(37)
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 revenue²	9,040	4,522	4,271	3	12	–	17,848
Year ended 31 December 2023							
Original equipment recognised at a point in time	2,703	632	2,611	2	–	–	5,948
Original equipment recognised over time	–	1,134	50	–	12	–	1,196
Aftermarket services recognised at a point in time	1,227	854	1,206	2	–	–	3,289
Aftermarket services recognised over time	3,335	1,457	101	–	–	–	4,893
Total underlying customer contract revenue	7,265	4,077	3,968	4	12	–	15,326
Other underlying revenue ¹	83	–	–	–	–	–	83
Total underlying revenue²	7,348	4,077	3,968	4	12	–	15,409

¹ Includes leasing revenue

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

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

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

2 Segmental analysis continued

Analysis by geographical destination

The Group's revenue by destination of the ultimate operator is as follows:

	2024 £m	2023 £m
United Kingdom	2,642	2,230
Germany	1,048	1,035
Switzerland	440	379
France	332	351
Ireland	324	504
Italy	318	282
Turkey	307	399
Spain	282	290
Poland	141	50
Netherlands	130	149
Portugal	121	110
Norway	96	71
Belgium	78	27
Israel	73	51
Rest of Europe	239	180
Europe	6,571	6,108
United States	5,477	4,668
Canada	462	430
North America	5,939	5,098
South America	336	230
Central America	169	106
Saudi Arabia	428	394
United Arab Emirates	255	148
Qatar	196	128
Rest of Middle East	301	200
Middle East	1,180	870
China	1,400	1,263
Japan	634	586
Singapore	506	437
South Korea	359	303
Taiwan	211	113
India	147	221
Thailand	138	132
Philippines	130	121
Indonesia	125	129
Rest of Asia	243	166
Asia	3,893	3,471
Africa	406	313
Australasia	415	290
	18,909	16,486

2 Segmental analysis continued

Order backlog

Contracted consideration, translated at the estimated long-term exchange rates, that is expected to be recognised as revenue when performance obligations are satisfied in the future (referred to as order backlog) is as follows:

	2024			2023		
	Within five years £bn	After five years £bn	Total £bn	Within five years £bn	After five years £bn	Total £bn
Civil Aerospace	29.7	30.2	59.9	28.4	26.8	55.2
Defence	14.0	3.4	17.4	8.3	0.9	9.2
Power Systems	4.7	0.1	4.8	3.9	0.2	4.1
New Markets	-	-	-	-	-	-
Other businesses	-	-	-	-	-	-
	48.4	33.7	82.1	40.6	27.9	68.5

The parties to these contracts have approved the contract and customers do not have a unilateral enforceable right to terminate the contract without compensation. The Group excludes Civil Aerospace OE orders (for deliveries beyond the next seven to 12 months) that customers have placed where they retain a right to cancel. The Group's expectation based on historical experience is that these orders will be fulfilled. The main reason for the increase in the order backlog within Defence is the signature of a multi-year Submarines contract with the MoD. This contract (Unity) encompasses: research and technology, design, manufacture and in-service support of the nuclear reactors that power the Royal Navy's fleet of submarines. Within the five years category, contracted revenue in Defence will largely be recognised in the next three years and Power Systems will be recognised over the next two years as it is a short cycle business.

Underlying adjustments

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

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

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

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

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

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

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

6 The Group has assessed the carrying value of its assets and reviewed for potential impairment and impairment reversal triggers. As a result, there has been an impairment reversal of an intangible asset of £413m, a contract asset of £132m in relation to Civil Aerospace programme assets and £2m of other impairment reversals during the year. Details on other impairments and impairment reversals are provided in notes 9 and 15

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

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

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

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

2 Segmental analysis continued

Balance sheet analysis

	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)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	650	164	198	13	1,025
Depreciation, amortisation and impairment	210	85	199	55	549
At 31 December 2023					
Segment assets	17,718	3,517	3,814	115	25,164
Interests in joint ventures and associates	444	7	28	–	479
Segment liabilities	(24,447)	(3,376)	(1,765)	(88)	(29,676)
Net (liabilities)/assets	(6,285)	148	2,077	27	(4,033)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	562	176	160	17	915
Depreciation, amortisation and impairment	719	105	194	9	1,027

Reconciliation to the balance sheet

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

The carrying amounts of the Group's non-current assets including investments but excluding financial instruments, deferred tax assets and post-retirement scheme surpluses/(deficits), by the geographical area in which the assets are located, are as follows:

	2024 £m	2023 £m
United Kingdom	4,968	4,981
Germany	2,326	2,052
United States	1,481	1,414
Other	709	705
	9,484	9,152

3 Research and development

	2024 £m	2023 £m
Gross research and development expenditure	(1,475)	(1,390)
Contributions and fees ¹	700	548
Net expenditure in the year	(775)	(842)
Capitalised as intangible assets	263	192
Amortisation and impairment of capitalised costs ^{2,3}	309	(89)
Net amount recognised in the income statement	(203)	(739)
Underlying adjustments ³	(402)	–
Net underlying cost recognised in the income statement	(605)	(739)

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

2 See note 9 for analysis of amortisation and impairment

3 Underlying adjustments include impact of acquisition accounting, foreign exchange and an impairment reversal of £413m (2023: £nil). See note 2 and note 9 for more information

4 Net financing

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

1 See note 2 for definition of underlying results

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

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

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

5 Taxation

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

Other tax (charges)/credits

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified		2024 £m	2023 £m
	2024 £m	2023 £m	2024 £m	2023 £m		
Deferred tax:						
Movement in post-retirement schemes	61	(43)	–	–	–	–
Cash flow hedge	–	–	(1)	5	–	–
Net investment hedge	–	–	(2)	(1)	–	–
Share-based payments – direct to equity	–	–	–	–	71	22
Other tax credits/(charges)	61	(43)	(3)	4	71	22

Tax reconciliation

	2024 £m	2023 £m
Profit before taxation	2,234	2,427
Less share of profits of joint ventures and associates (note 12)	(137)	(139)
Profit before taxation excluding joint ventures and associates	2,097	2,288
Nominal tax charge at UK corporation tax rate 25.0% (2023: 23.5%)	524	538
UK tax rate differential ¹	–	16
Overseas rate differences ²	27	(5)
US state taxes	23	14
Tax de-grouping charge ³	102	–
Other permanent differences ⁴	12	–
Benefit to deferred tax from previously unrecognised tax losses and temporary differences ⁵	–	(57)
Tax losses and other temporary differences not recognised in deferred tax ⁶	3	9
Derecognition of deferred tax	30	–
Benefit arising from previously unrecognised tax losses ⁷	(42)	(85)
Recognition of deferred tax ⁸	(1,033)	(406)
Adjustments in respect of prior years	(48)	(1)
Derecognition of advance corporation tax ⁹	162	–
Decrease in deferred taxes resulting from a change in the UK tax rate ¹⁰	(10)	–
	(250)	23
Underlying items (note 2)	282	120
Non-underlying items	(532)	(97)
	(250)	23

1 The UK tax rate differential in 2023 arises on the difference between the deferred tax rate and the statutory tax rate

2 Overseas rate differences mainly relate to tax on profits or losses in countries such as Germany

3 The tax de-grouping charge arises on the dilution of the shareholding in Rolls-Royce SMR Limited to below 75%

4 Includes £2m relating to Pillar two income taxes

5 Benefit to deferred tax from previously unrecognised tax losses and temporary differences in 2023 relates to foreign exchange derivatives

6 Relates to tax losses not recognised

7 Relates to foreign exchange derivatives

8 The recognition of deferred tax relates to UK tax losses

9 Advance corporation tax has been derecognised on the basis that payment of cash dividends will prevent the utilisation

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

5 Taxation continued

Deferred taxation assets and liabilities

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

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

The analysis of the deferred tax position is as follows:

	At 1 January £m	Recognised in income statement £m	Recognised in OCI £m	Recognised in equity £m	Disposals and acquisition related activity £m	Exchange differences £m	At 31 December £m
2024							
Intangible assets	(431)	(191)	–	–	–	9	(613)
Property, plant and equipment	229	(87)	–	–	–	–	142
Other temporary differences ¹	752	77	(3)	62	–	(14)	874
Net contract liabilities	60	3	–	–	–	–	63
Pensions and other post-retirement scheme benefits	(123)	10	61	–	–	(2)	(54)
Foreign exchange and commodity financial assets and liabilities	451	40	–	–	–	(3)	488
Losses	1,489	984	–	9	–	(1)	2,481
R&D credit	79	(31)	–	–	–	–	48
Advance corporation tax ²	162	(162)	–	–	–	–	–
	2,668	643	58	71	–	(11)	3,429
2023							
Intangible assets	(436)	6	–	–	(1)	–	(431)
Property, plant and equipment	230	(7)	–	–	–	6	229
Other temporary differences ¹	650	88	4	22	–	(12)	752
Net contract liabilities	64	(4)	–	–	–	–	60
Pensions and other post-retirement scheme benefits	(57)	(15)	(43)	–	–	(8)	(123)
Foreign exchange and commodity financial assets and liabilities	693	(243)	–	–	–	1	451
Losses	1,072	417	–	–	–	–	1,489
R&D credit	67	12	–	–	–	–	79
Advance corporation tax ²	162	–	–	–	–	–	162
	2,445	254	(39)	22	(1)	(13)	2,668

¹ Other temporary differences mainly relate to the deferral of relief for interest expenses and share based payments in the UK and revenue recognised earlier under local GAAP compared to IFRS in Germany

² Prior to 1999, advance corporation tax was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities. The balance has been de-recognised in 2024 following the Group's announcement to reinstate shareholder distributions via cash dividends, which will prevent utilisation of the surplus advance corporation tax balance

5 Taxation continued

Unrecognised deferred tax assets

	2024 £m	2023 £m
Advance corporation tax	181	19
UK losses	629	1,635
Foreign exchange and commodity financial assets and liabilities	27	69
Losses and other unrecognised deferred tax assets	47	34
Deferred tax not recognised on unused tax losses and other items on the basis that future economic benefit is uncertain	884	1,757

Gross amount and expiry of losses and other deductible temporary differences for which no deferred tax asset has been recognised.

	2024				2023			
	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m
Expiry within five years	75	–	–	75	81	–	–	81
Expiry within six to 30 years	218	–	–	218	216	–	–	216
No expiry	2,698	2,515	107	76	6,891	6,537	275	79
	2,991	2,515	107	369	7,188	6,537	275	376

In addition to the gross balances shown above, advance corporation tax of £181m (2023: £19m) has not been recognised. Advance corporation tax has no expiry.

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

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

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

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

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

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

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

5 Taxation continued

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

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

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks have continued to develop over the last year. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Group has demonstrated that all the commercial aero engines it produces are compatible with sustainable fuels. The impact that climate change could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, the Group has recognised a total UK deferred tax asset of £3,099m, which includes the recognition of a further £1,033m (of which £525m is non-underlying and £508m is underlying) deferred tax asset relating to UK tax losses. This reflects the conclusions that:

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

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

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

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

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

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

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

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

6 Earnings per ordinary share

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

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

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

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

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

7 Auditors' remuneration

	2024 £m	2025 £m
Fees payable to the Company's auditor for the audit of the Company's annual Financial Statements	3.9	3.6
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	8.6	8.6
Total fees payable for audit services	12.5	12.2
Fees payable to the Company's auditor and its associates for other services:		
Audit related assurance services ¹	0.7	0.7
Other assurance services ²	0.1	0.2
Total fees payable to the Company's auditor and its associates³	13.3	13.1
Fees payable in respect of the Group's pension schemes:		
Audit	0.1	0.1

1 This includes £0.7m (2023: £0.7m) for the review of the half-year report

2 This includes £0.1m (2023: £0.1m) in respect of agreed upon procedures in respect of levies payable and £nil for sustainability assurance work (2023: £0.1m)

3 Audit fees for overseas entities are reported at the average exchange rate for the year

8 Employee information

	2024 Number ¹	2023 Number ¹
United Kingdom	21,900	20,900
Germany	10,000	10,000
United States	5,300	5,300
Italy	900	900
Singapore	700	700
Canada	700	700
India	600	600
China	500	600
Israel	300	200
France	200	200
Rest of world	1,300	1,300
Monthly average number of employees	42,400	41,400
Civil Aerospace	18,700	18,300
Defence	12,500	12,000
Power Systems	9,900	9,800
New Markets	1,200	1,200
Corporate ²	100	100
Monthly average number of employees	42,400	41,400
	2024 Total £m	2023 Total £m
Wages, salaries and benefits	3,056	2,940
Social security costs	369	416
Share-based payments (note 24)	136	66
Pensions and other post-retirement scheme benefits (note 22)	387	346
Group employment costs³	3,948	3,768

1 Employee numbers have been rounded to the nearest thousand

2 Corporate consists of employees who do not provide a shared service to the segments. Where corporate functions provide such a service, employees have been allocated to the segments on an appropriate basis

3 Remuneration of key management personnel is shown in note 26

9 Intangible assets

	Goodwill £m	Certification costs £m	Development expenditure £m	Customer relationships £m	Software ¹ £m	Other ² £m	Total £m
Cost:							
At 1 January 2023	1,135	935	3,604	512	978	886	8,050
Additions	-	-	192	-	79	13	284
Acquisition of businesses	8	-	-	2	-	-	10
Transferred to assets held for sale ³	(10)	-	-	-	-	(185)	(195)
Transferred to current assets ⁴	-	-	-	-	(23)	-	(23)
Disposals	-	(4)	-	-	(27)	(2)	(33)
Reclassifications ⁵	-	-	(1)	-	3	(1)	1
Exchange differences	(32)	(1)	(32)	(16)	(6)	(12)	(99)
At 31 December 2023	1,101	930	3,763	498	1,004	699	7,995
Additions	-	-	263	-	96	8	367
Transferred to assets held for sale ³	(25)	-	(4)	(4)	(1)	-	(34)
Disposals ⁶	-	-	(3)	(13)	(77)	(2)	(95)
Exchange differences	(31)	(1)	(63)	(12)	(4)	(17)	(128)
At 31 December 2024	1,045	929	3,956	469	1,018	688	8,105
Accumulated amortisation and impairment:							
At 1 January 2023	36	447	1,912	406	675	476	3,952
Charge for the year ⁷	-	24	89	41	84	41	279
Impairment	-	-	-	-	-	(7)	(7)
Transferred to assets held for sale ³	-	-	-	-	-	(144)	(144)
Transferred to current assets ⁴	-	-	-	-	(14)	-	(14)
Disposals	-	(4)	-	-	(23)	(2)	(29)
Reclassifications ⁵	-	-	-	-	1	(1)	-
Exchange differences	(1)	-	(25)	(14)	(5)	(6)	(51)
At 31 December 2023	35	467	1,976	433	718	357	3,986
Charge for the year ⁷	-	27	96	35	78	19	255
Impairment ⁸	13	-	(405)	-	-	17	(375)
Transferred to assets held for sale ³	(12)	-	(4)	(4)	(1)	-	(21)
Disposals ⁶	-	-	-	(13)	(69)	(2)	(84)
Exchange differences	-	(1)	(37)	(10)	(3)	(7)	(58)
At 31 December 2024	36	493	1,626	441	723	384	3,703
Net book value at:							
At 31 December 2024	1,009	436	2,330	28	295	304	4,402
At 31 December 2023	1,066	463	1,787	65	286	342	4,009

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

2 Other intangibles includes trademarks, brands and the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance which will improve reliability and enable the Group to reduce the costs of meeting LTSA obligations

3 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 27 for further detail

4 During 2023, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that were to be derecognised were transferred to trade receivables and other assets to reflect the nature of these assets as current assets

5 Includes reclassifications within intangible assets or from property, plant and equipment when available for use

6 During the year, the Group disposed of its lower power range engines business based in Power Systems. See note 27 for further detail

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

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

At 31 December 2024, the Group had expenditure commitments for software of £28m (2023: £30m).

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

9 Intangible assets continued

Goodwill

In accordance with the requirements of IAS 36 *Impairment of Assets*, goodwill is allocated to the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as follows:

Cash-generating unit (CGU) or group of CGUs

	Primary operating segment	2024 £m	2023 £m
Rolls-Royce Power Systems AG	Power Systems	779	798
Rolls-Royce Deutschland Ltd & Co KG	Civil Aerospace	226	237
Other	Various	4	31
		1,009	1,066

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

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

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

The principal assumptions for goodwill balances considered to be individually significant are:

Rolls-Royce Power Systems AG

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

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

9 Intangible assets continued

Rolls-Royce Deutschland Ltd & Co KG

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

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

Other CGUs

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

Material intangible assets (excluding goodwill)

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

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

1 Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 132, the amortisation period of 15 years will commence on those assets which are not being amortised as the units are delivered

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

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

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

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

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and
- The key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates consistent with the assumptions above.

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

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

9 Intangible assets continued

An intangible asset impairment reversal of £413m was recognised in research and development costs together with a participation fee contract asset impairment reversal of £132m (see note 15) being recognised in cost of sales in the period as follows:

	Impairment reversal			Pre-tax nominal discount rate at 30 June 2024 ¹
	Intangible Assets £m	Contract Assets £m	Total £m	
Civil Aerospace – Business Aviation programme assets²	413	132	545	13.9%

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

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

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

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

10 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2023	1,936	5,225	999	400	8,560
Additions	19	147	34	223	423
Transferred to current assets ¹	(90)	(93)	–	(43)	(226)
Disposals/write-offs	(19)	(309)	(33)	(9)	(370)
Reclassifications ²	69	78	13	(146)	14
Exchange differences	(32)	(86)	(7)	(13)	(138)
At 31 December 2023	1,883	4,962	1,006	412	8,263
Additions	21	129	108	245	503
Transferred to assets held for sale ³	(33)	(51)	–	(2)	(86)
Disposals/write-offs	(23)	(142)	(17)	(4)	(186)
Reclassifications ²	46	67	3	(116)	–
Reclassification from right-of-use assets	11	–	–	–	11
Exchange differences	(23)	(55)	(1)	–	(79)
At 31 December 2024	1,882	4,910	1,099	535	8,426
Accumulated depreciation and impairment:					
At 1 January 2023	695	3,507	413	9	4,624
Charge for the year ⁴	70	296	40	–	406
Impairment ⁵	4	6	1	6	17
Transferred to current assets ¹	(48)	(61)	–	–	(109)
Disposals/write-offs	(18)	(299)	(25)	–	(342)
Reclassifications ²	17	(9)	8	(7)	9
Exchange differences	(11)	(56)	(3)	–	(70)
At 31 December 2023	709	3,384	434	8	4,535
Charge for the year ⁴	77	249	49	–	375
Impairment ⁵	2	23	–	–	25
Transferred to assets held for sale ³	(11)	(24)	–	–	(35)
Disposals/write-offs	(16)	(123)	(10)	–	(149)
Reclassifications ²	16	(16)	–	–	–
Exchange differences	(9)	(39)	(1)	–	(49)
At 31 December 2024	768	3,454	472	8	4,702
Net book value:					
At 31 December 2024	1,114	1,456	627	527	3,724
At 31 December 2023	1,174	1,578	572	404	3,728

1 During 2023, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that were derecognised were transferred to trade receivables and other assets to reflect the nature of these assets as current assets

2 Includes reclassifications of assets under construction to the relevant classification in property, plant and equipment when available for use

3 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 27 for further detail

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

5 The carrying values of property, plant and equipment have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. As a result of this assessment, there are no (2023: none) individually material impairment charges or reversals in the year

10 Property, plant and equipment continued

Property, plant and equipment includes:

	2024			2023		
	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m
Assets held for use in leases where the Group is the lessor:						
Cost	6	36	861	6	38	760
Depreciation	(4)	(22)	(372)	(4)	(21)	(348)
Net book value	2	14	489	2	17	412

	2024 £m	2023 £m
Capital expenditure commitments	177	222
Cost of fully depreciated assets	2,286	2,084

The Group's share of equity accounted entities' capital commitments is £69m (2023: £16m).

11 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2023	506	162	1,827	2,495
Additions/modification of leases	38	56	104	198
Acquisition of businesses	2	–	–	2
Disposals	(6)	(22)	(54)	(82)
Transferred to current assets ¹	(4)	–	–	(4)
Reclassifications to PPE	(5)	–	(10)	(15)
Exchange differences	(18)	(2)	(3)	(23)
At 31 December 2023	513	194	1,864	2,571
Additions/modification of leases	28	73	37	138
Transferred to assets held for sale ²	(2)	(1)	–	(3)
Disposals	(8)	(17)	–	(25)
Reclassifications to PPE	(11)	–	–	(11)
Exchange differences	(3)	(3)	(4)	(10)
At 31 December 2024	517	246	1,897	2,660

Accumulated depreciation and impairment:

At 1 January 2023	230	84	1,120	1,434
Charge for the year ³	42	42	179	263
Impairment ⁴	3	6	62	71
Disposals	(6)	(22)	(54)	(82)
Reclassifications to PPE	(1)	–	(8)	(9)
Exchange differences	(9)	(1)	(1)	(11)
At 31 December 2023	259	109	1,298	1,666
Charge for the year ³	42	43	172	257
Impairment ⁴	3	2	3	8
Transferred to assets held for sale ²	(2)	–	–	(2)
Disposals	(7)	(17)	–	(24)
Exchange differences	(1)	(2)	(3)	(6)
At 31 December 2024	294	135	1,470	1,899

Net book value:

At 31 December 2024	223	111	427	761
At 31 December 2023	254	85	566	905

Right-of-use assets held for use in operating leases where the Group is the lessor:

Cost	18	–	1,897	1,915
Depreciation	(8)	–	(1,470)	(1,478)
Net book value at 31 December 2024	10	–	427	437
Cost	6	–	1,864	1,870
Depreciation	(3)	–	(1,298)	(1,301)
Net book value at 31 December 2023	3	–	566	569

1 During 2023, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that were derecognised were transferred to trade receivables and other assets to reflect the nature of these assets

2 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. See note 27 for further detail

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

4 The carrying values of right-of-use assets have been assessed during the year in line with IAS 36 *Impairment of Assets*. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). As a result of this assessment, the carrying values of assets, where a trigger was identified, have been assessed by reference to value in use considering assumptions such as estimated future cash flows, product performance related estimates and climate-related risks. During the year to 31 December 2024, an impairment charge of £8m has been recognised (2023: £71m)

12 Investments

Composition of the Group

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

Where the Group does not own 100% of the shares of an undertaking, there are a number of arrangements with the other shareholder(s) that give the Group the option or potential obligation to acquire the third parties' shares. These arrangements have been assessed and are not considered to have a significant value, individually or in aggregate.

The Group does not have any non-wholly owned subsidiaries that have a material non-controlling interest.

Equity accounted and other investments

	Equity accounted	Other ¹
	Joint ventures	
	£m	£m
At 1 January 2023	422	36
Additions	9	–
Disposals	(5)	(1)
Share of retained profit ²	119	–
Reclassification of deferred profit to deferred income ³	(18)	–
Revaluation of other investments accounted for as FVOCI	–	(4)
Exchange differences	(50)	–
Share of OCI	2	–
At 1 January 2024	479	31
Additions ⁴	17	–
Impairment	(4)	–
Share of retained profit ²	95	–
Reclassification of deferred profit to deferred income ³	(2)	–
Revaluation of other investments accounted for as FVOCI	–	(2)
Revaluation of other investments accounted for as FVTPL ⁵	–	(24)
Exchange differences	11	–
Share of OCI	(4)	–
At 31 December 2024	592	5

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

2 See table below

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

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

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

Reconciliation of share of retained profit to the income statement and cash flow statement:

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

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

12 Investments continued

The following joint ventures are considered to be individually material to the Group:

	Principal location	Activity	Ownership interest
Alpha Partners Leasing Limited (APL)	UK	Aero-engine leasing	50.0%
Hong Kong Aero Engine Services Limited (HAESL)	Hong Kong	Aero-engine repair and overhaul	50.0%
Singapore Aero Engine Services Pte Limited (SAESL)	Singapore	Aero-engine repair and overhaul	50.0%

Summarised financial information of the Group's individually material joint ventures is as follows:

	APL		HAESL		SAESL	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Revenue	400	371	4,017	3,214	2,469	2,224
Profit and total comprehensive income for the year	114	106	70	73	46	29
Dividends paid during the year	(63)	(5)	(69)	(67)	-	-
Profit for the year included the following:						
Depreciation and amortisation	(150)	(166)	(11)	(11)	(18)	(20)
Interest income	12	15	-	-	8	7
Interest expense	(112)	(122)	(8)	(4)	(1)	(2)
Income tax expense	(41)	(37)	(17)	(14)	(3)	(2)
Current assets	345	336	1,129	1,103	1,154	954
Non-current assets	3,506	3,048	100	93	133	130
Current liabilities	(360)	(261)	(895)	(886)	(950)	(790)
Non-current liabilities	(2,662)	(2,358)	(95)	(73)	(8)	(8)
Net assets	829	765	239	237	329	286
Included in the above:						
Cash and cash equivalents	190	223	4	12	129	99
Current financial liabilities ¹	(244)	(165)	(10)	-	-	-
Non-current financial liabilities ¹	(2,134)	(1,914)	(86)	(66)	(8)	(8)
Reconciliation to the carrying amount recognised in the Consolidated Financial Statements						
Ownership interest	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Group share of net assets above	415	383	120	119	165	143
Goodwill	-	-	37	36	11	11
Adjustments for intercompany trading	(386)	(383)	(7)	-	(4)	(4)
Included in the balance sheet	29	-	150	155	172	150

¹ Excluding trade payables and other liabilities

The summarised aggregated results of the Group's share of equity accounted investments is as follows:

	Individually material joint ventures (above)		Other joint ventures		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Profit and total comprehensive income for the year	115	104	18	37	133	141
Assets:						
Non-current assets	1,870	1,637	245	159	2,115	1,796
Current assets	1,314	1,197	632	359	1,946	1,556
Liabilities: ¹						
Current liabilities	(1,102)	(969)	(536)	(264)	(1,638)	(1,233)
Non-current liabilities	(1,382)	(1,220)	(86)	(43)	(1,468)	(1,263)
Group adjustment for goodwill	48	47	-	-	48	47
Adjustment for intercompany trading	(397)	(387)	(14)	(37)	(411)	(424)
Included in the balance sheet	351	305	241	174	592	479
¹ Liabilities include borrowings of:	(1,241)	(1,076)	(113)	(60)	(1,354)	(1,136)

13 Inventories

	2024 £m	2023 £m
Raw materials	544	516
Work in progress	1,715	1,679
Finished goods	2,833	2,653
	5,092	4,848
Inventories stated at net realisable value	232	187
Amount of inventory write-down	56	79
Reversal of inventory write-down	15	21

14 Trade receivables and other assets

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

Trade receivables and other assets are analysed as follows:

Financial instruments (note 20):

Trade receivables and similar items	5,188	4,857
Other non-derivative financial assets	366	332
Non-financial instruments	3,159	2,934
	8,713	8,123

- 1 Trade receivables and other assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure is included in the table above and relates to amounts not expected to be received in the next 12 months, in line with specific customer payment arrangements, including customers on payment plans
- 2 These amounts reflect the contractual share of EFH flows from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £(262)m (2023: £(211)m) has been recognised in cost of sales in relation to parts supplied and used in the year
- 3 These are amortised over the term of the related contract in line with engine deliveries, resulting in amortisation of £8m (2023: £9m) in the year. There were no impairment losses
- 4 Other receivables includes unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

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

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

The assumptions and inputs used for the estimation of the ECLs are disclosed in the table below:

	2024			2023		
	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %
Credit rating C and above	2,179	(74)	3%	1,744	(102)	6%
Credit rating below C	28	(4)	14%	80	(6)	8%
Without credit rating	3,586	(161)	4%	3,607	(134)	4%
	5,793	(239)	4%	5,431	(242)	4%

14 Trade receivables and other assets continued

The movements of the Group ECLs provision are as follows:

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

15 Contract assets and liabilities

	Current		Non-current ¹		Total ²	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Contract assets						
Contract assets with customers	886	534	598	481	1,484	1,015
Participation fee contract assets	38	26	291	201	329	227
	924	560	889	682	1,813	1,242

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

2 Contract assets are classified as non-financial instruments

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

Participation fee contract assets have increased by £102m (2023: decreased by £16m) primarily due to the Civil Aerospace programme asset impairment reversal of £132m (2023: £nil) referred to in note 9, offset by amortisation of £23m (2023: £15m) and foreign exchange on consolidation of £7m (2023: £1m).

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

	Current		Non-current		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Contract liabilities	6,309	6,098	9,447	8,438	15,756	14,536
Contract liabilities are analysed as follows:						
Financial instruments (note 20)					1,280	1,358
Non-financial instruments					14,476	13,178
					15,756	14,536

During the year, £5,048m (31 December 2023: £3,813m) of the opening contract liability was recognised as revenue.

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

16 Cash and cash equivalents

	2024 £m	2023 £m
Cash at bank and in hand	714	739
Money-market funds	1,900	1,077
Short-term deposits	2,961	1,968
Cash and cash equivalents per the balance sheet	5,575	3,784
Overdrafts (note 17)	(2)	(53)
Cash and cash equivalents per cash flow statement (page 118)	5,573	3,731

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

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

17 Borrowings and lease liabilities

	Current		Non-current		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Unsecured						
Overdrafts	2	53	–	–	2	53
Bank loans	4	3	3	–	7	3
0.875% Notes 2024 €550m ¹	–	475	–	–	–	475
3.625% Notes 2025 \$1,000m ¹	795	–	–	770	795	770
3.375% Notes 2026 £375m ²	–	–	364	361	364	361
4.625% Notes 2026 €750m ³	–	–	620	649	620	649
5.75% Notes 2027 \$1,000m ³	–	–	795	782	795	782
5.75% Notes 2027 £545m	–	–	543	542	543	542
1.625% Notes 2028 €550m ¹	–	–	442	455	442	455
Other loans	–	–	9	9	9	9
Total unsecured	801	531	2,776	3,568	3,577	4,099
Lease liability – Land and buildings	44	42	405	382	449	424
Lease liability – Aircraft and engines	209	203	784	949	993	1,152
Lease liability – Plant and equipment	43	33	70	51	113	84
Total lease liabilities	296	278	1,259	1,382	1,555	1,660
Total borrowings and lease liabilities	1,097	809	4,035	4,950	5,132	5,759

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

- These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay floating rates of GBP interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss
- These notes are the subject of interest rate swap agreements under which the Group has undertaken to pay floating rates of interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss
- These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay fixed rates of GBP interest, which form a cash flow hedge

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

17 Borrowings and lease liabilities continued

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

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

Further details can be found in the going concern and liquidity statements on page 61.

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

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

18 Leases

Leases as lessee

The net book value of right-of-use assets at 31 December 2024 was £761m (2023: £905m), with a lease liability of £1,555m (2023: £1,660m), per notes 11 and 17, respectively. Leases that have not yet commenced to which the Group is committed have a future liability of £2m and consist of mainly plant and equipment and properties. The consolidated income statement shows the following amounts relating to leases:

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

1 Included in cost of sales and commercial and administration costs depending on the nature and the use of the right-of-use asset

2 Included in cost of sales, commercial and administration costs, or research and development depending on the nature and use of the right-of-use asset

3 Included in cost of sales

4 Where the cost of meeting residual value guarantees is less than that previously estimated, as costs have been mitigated or liabilities waived by the lessor, the lease liability has been remeasured. Where the value of this remeasurement exceeds the value of the right-of-use asset, the reduction in the lease liability is credited to cost of sales

5 Variable lease payments primarily arise on a small number of contracts where engine lease payments are dependent upon utilisation rather than a periodic charge

6 Included in financing costs

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

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

18 Leases continued

Leases as lessor

The Group acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessees provide protection over the assets. Usage in excess of specified limits and damage to the engine while on lease are covered by variable lease payment structures. Lessee bankruptcy risk is managed through ongoing monitoring of airline credit rating and, where applicable, the Cape Town Convention on International Interests in Mobile Equipment (including a specific protocol relating to aircraft equipment); an international treaty that creates common standards for the registration of lease contracts and establishes various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws. Engines are only leased once the Group confirm that appropriate insurance documentation is established that covers the engine assets to pre-agreed amounts. All such contracts are operating leases. The Group also leases out a small number of properties, or parts of properties, where there is excess capacity under operating leases.

	2024 £m	2023 £m
Operating lease income ^{1, 2}	99	104

1 Includes variable lease payments received of £83m (2023: £87m) that do not depend on an index or a rate

2 Items of property, plant and equipment subject to an operating lease are disclosed in note 10

Total non-cancellable future operating lease rentals (undiscounted) are £71m (2023: £91m) with £10m (2023: £12m) due within one year, £38m (2023: £43m) between one to five years and £23m (2023: £36m) after five years.

In a limited number of circumstances, the Group sublets properties that are treated as a finance lease when the arrangement transfers substantially all the risks and rewards of ownership of the asset. At 31 December 2024, the total undiscounted lease payments receivable is £37m (2023: £35m) on annual lease income of £5m (2023: £4m). The discounted finance lease receivable at 31 December 2024 is £29m (2023: £28m). There was £nil (2023: £nil) finance income recognised during the year.

19 Trade payables and other liabilities

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

Trade payables and other liabilities are analysed as follows:

Financial instruments (note 20):

Trade payables and similar items	6,205	5,091
Other non-derivative financial liabilities	2,642	2,521
Non-financial instruments	1,127	1,211
	9,974	8,823

1 Customer discounts include customer concession credits. Revenue recognised comprises sales to the Group's customers after such items. Customer concession credits are discounts given to a customer upon the sale of goods or services. A liability is recognised to correspond with the recognition of revenue when the performance obligation is met, as set out on page 126. The largest element of the balance, approximately £1.4bn (2023: £1.2bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

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

3 Other payables includes payroll liabilities and HM Government UK levies

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

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

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

20 Financial instruments

Carrying values and fair values of financial instruments

	Notes	Basis for determining fair value	Assets			Liabilities		Total
			FVPL £m	FVOCI £m	Amortised cost £m	FVPL £m	Other £m	£m
2024								
Other non-current asset investments	12	A	–	5	–	–	–	5
Trade receivables and similar items	14	B/C	–	9	5,179	–	–	5,188
Other non-derivative financial assets	14	B	–	–	366	–	–	366
Other assets		D/F	21	–	16	–	–	37
Derivative financial assets ¹		C	298	–	–	–	–	298
Cash and cash equivalents	16	B	1,900	–	3,675	–	–	5,575
Borrowings	17	E/F	–	–	–	–	(3,577)	(3,577)
Lease liabilities	17	G	–	–	–	–	(1,555)	(1,555)
Derivative financial liabilities ¹		C	–	–	–	(2,054)	–	(2,054)
Financial RRSA's		H	–	–	–	–	(7)	(7)
Other liabilities		H	–	–	–	–	(198)	(198)
C Shares		B	–	–	–	–	(23)	(23)
Trade payables and similar items	19	B	–	–	–	–	(6,205)	(6,205)
Other non-derivative financial liabilities	19	B	–	–	–	–	(2,642)	(2,642)
Contract liabilities	15	B	–	–	–	–	(1,280)	(1,280)
			2,219	14	9,236	(2,054)	(15,487)	(6,072)
2023								
Other non-current asset investments	12	A	24	7	–	–	–	31
Trade receivables and similar items	14	B/C	–	9	4,848	–	–	4,857
Other non-derivative financial assets	14	B	–	–	332	–	–	332
Other assets		D/F	32	–	12	–	–	44
Derivative financial assets ¹		C	350	–	–	–	–	350
Cash and cash equivalents	16	B	1,077	–	2,707	–	–	3,784
Borrowings	17	E/F	–	–	–	–	(4,099)	(4,099)
Lease liabilities	17	G	–	–	–	–	(1,660)	(1,660)
Derivative financial liabilities ¹		C	–	–	–	(2,228)	–	(2,228)
Financial RRSA's		H	–	–	–	–	(17)	(17)
Other liabilities		H	–	–	–	–	(163)	(163)
C Shares		B	–	–	–	–	(23)	(23)
Trade payables and similar items	19	B	–	–	–	–	(5,091)	(5,091)
Other non-derivative financial liabilities	19	B	–	–	–	–	(2,521)	(2,521)
Contract liabilities	15	B	–	–	–	–	(1,358)	(1,358)
			1,483	16	7,899	(2,228)	(14,932)	(7,762)

¹ In the event of counterparty default relating to derivative financial assets, derivative financial liabilities and £125m of cash and cash equivalents, offsetting would apply and financial assets and liabilities held with the same counterparty would net off. If this occurred with every counterparty, total financial assets would be £26m (2023: £3m) and liabilities £1,657m (2023: £1,881m)

20 Financial instruments continued

Fair values equate to book values for both 2024 and 2023, with the following exceptions:

	Basis for determining fair value	2024		2023	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Other assets	F	16	16	12	12
Borrowings	E	(3,559)	(3,540)	(4,034)	(3,977)
Borrowings	F	(18)	(21)	(65)	(67)
Financial RRSAs	H	(7)	(7)	(17)	(16)

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

- A These primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology
- B Fair values are assumed to approximate to cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months. Money market funds are valued using Level 1 methodology
- C Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves. For commodity derivatives, forward commodity prices are used to determine expected future cash flows. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2)
- D Other assets are included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/Level 3). At 31 December 2024, Level 3 assets totalled £14m (2023: £25m)
- E Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1)
- F Other assets and borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows. (Level 2)
- G The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2)
- H The fair value of RRSAs and other liabilities are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3)

IFRS 13 *Fair Value Measurement* defines a three level valuation hierarchy:

Level 1 – quoted prices for similar instruments

Level 2 – directly observable market inputs other than Level 1 inputs

Level 3 – inputs not based on observable market data

Carrying values of other financial assets and liabilities

	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts ¹ £m	Total derivatives £m	Financial RRSAs £m	Other £m	C Shares £m	Total £m
2024								
Non-current assets	10	1	110	121	–	5	–	126
Current assets	25	4	148	177	–	32	–	209
Assets	35	5	258	298	–	37	–	335
Current liabilities	(539)	(18)	–	(557)	–	(62)	(23)	(642)
Non-current liabilities	(1,364)	(22)	(111)	(1,497)	(7)	(136)	–	(1,640)
Liabilities	(1,903)	(40)	(111)	(2,054)	(7)	(198)	(23)	(2,282)
	(1,868)	(35)	147	(1,756)	(7)	(161)	(23)	(1,947)
2023								
Non-current assets	72	–	254	326	–	34	–	360
Current assets	10	6	8	24	–	10	–	34
Assets	82	6	262	350	–	44	–	394
Current liabilities	(351)	(10)	(13)	(374)	(10)	(41)	(23)	(448)
Non-current liabilities	(1,766)	(15)	(73)	(1,854)	(7)	(122)	–	(1,983)
Liabilities	(2,117)	(25)	(86)	(2,228)	(17)	(163)	(23)	(2,431)
	(2,035)	(19)	176	(1,878)	(17)	(119)	(23)	(2,037)

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

20 Financial instruments continued

Derivative financial instruments

The Group uses various financial instruments to manage its exposure to movements in foreign exchange rates. The Group uses commodity swaps to manage its exposure to movements in the price of commodities (jet fuel, base metals, gas and power). To hedge the currency risk associated with a borrowing denominated in a foreign currency, the Group has currency derivatives designated as part of fair value or cash flow hedges. The Group uses interest rate swaps and forward rate agreements to manage its exposure to movements in interest rates.

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

	Foreign exchange instruments		Commodity instruments		Interest rate instruments – hedge accounted ¹		Interest rate instruments – non-hedge accounted		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
At 1 January	(2,035)	(3,851)	(19)	62	45	125	131	213	(1,878)	(3,451)
Movements in fair value hedges	–	–	–	–	(32)	(71)	–	–	(32)	(71)
Movements in cash flow hedges	–	–	–	–	(23)	(78)	–	–	(23)	(78)
Movements in other derivative contracts ²	(631)	574	(18)	(60)	–	–	40	1	(609)	515
Contracts settled	798	1,242	2	(21)	64	69	(78)	(83)	786	1,207
At 31 December	(1,868)	(2,035)	(35)	(19)	54	45	93	131	(1,756)	(1,878)

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

² Included in net financing

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

The Group has financial liabilities arising from financial RRSAs that are valued at each reporting date using the amortised cost method. This involves calculating the present value of the forecast cash flows of the arrangements using the internal rate of return at the inception of the arrangements as an appropriate discount rate. Other liabilities includes royalties payable to airframers where the present value of the liability is calculated using the Group's average borrowing rate as that reflects the nature of the balance in line with the effective interest method. In each case below, the fair value of the assets and liabilities reflect a level 3 valuation.

Movements in the carrying values were as follows:

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

¹ Included in net financing

20 Financial instruments continued

Effect of hedging instruments on the financial position and performance

To manage the risk of changes in the fair values of fixed rate borrowings (the hedged items), the Group has entered into fixed-to-floating interest rate swaps and cross currency interest rate swaps (the hedging instruments), which, for accounting purposes, are designated as fair value hedges. The impact of fair value hedges on the financial position and performance of the Group is as follows:

	Hedged item ¹				Hedging instrument ²						
	Nominal £m	FV adjustment in the period £m	FV adjustment since inception £m	Carrying amount £m	Nominal £m	Carrying amount asset £m	Carrying amount liability £m	FV movement in the period £m	Hedge ineffect- iveness in the period ³ £m	Weighted average FX rate	Weighted average interest rate
At 31 December 2024											
Sterling	(375)	(3)	11	(364)	375	–	(12)	3	–	1.00	SONIA + 0.89
USD	(658)	(25)	(137)	(795)	658	128	–	25	–	1.52	SONIA + 1.47
Euro	(484)	13	42	(442)	484	–	(54)	(11)	2	1.14	SONIA + 1.09
At 31 December 2023											
Sterling	(375)	(10)	14	(361)	375	–	(14)	10	–	1.00	SONIA + 0.89
USD	(658)	31	(112)	(770)	658	104	–	(30)	1	1.52	SONIA + 1.47
Euro	(968)	(14)	37	(931)	968	–	(56)	16	2	1.14	SONIA + 0.92

1 Hedged items are included in borrowings in the balance sheet

2 Hedging instruments are included in other financial assets or liabilities in the balance sheet

3 Hedge ineffectiveness is included in net financing in the income statement

To manage the foreign exchange rate risk in cash flows on fixed rate non-GBP borrowings (the hedged items), the Group has entered into fixed-to-fixed cross-currency interest rate swaps (the hedging instruments) to hedge the cash flows into GBP, which, for accounting purposes, are designated as cash flow hedges.

The impact of cash flow hedges on the financial position and performance of the Group is as follows:

	Hedged item			Hedging instrument ¹					Hedging reserves		
	Nominal £m	FV movement in the period £m	Nominal £m	Carrying amount asset/ (liability) £m	FV movement in the period £m	Hedge ineffect- iveness in the period ² £m	Weighted average FX rate	Weighted average interest rate	Amount recognised in OCI £m	Recycled to net financing £m	Closing cash flow hedge reserve £m
At 31 December 2024											
USD	(772)	(15)	772	37	9	(6)	1.29	5.33	(19)	15	(9)
Euro	(677)	28	677	(45)	(28)	–	1.11	5.45	36	(38)	(10)
At 31 December 2023											
USD	(772)	65	772	28	(62)	3	1.29	5.33	61	(41)	(5)
Euro	(677)	14	677	(17)	(14)	–	1.11	5.45	21	(20)	(8)

1 Hedging instruments are included in other financial assets or liabilities in the balance sheet

2 Hedge ineffectiveness is included in net financing in the income statement

20 Financial instruments continued

Risk management policies and hedging activities

The principal financial risks to which the Group is exposed are: foreign currency exchange rate risk; liquidity risk; credit risk; interest rate risk; and commodity price risk. The Board has approved policies for the management of these risks.

Foreign currency exchange rate risk – The Group has significant cash flows (most significantly USD, followed by the euro) denominated in currencies other than the functional currency of the relevant trading entity. To manage its exposures to changes in values of future foreign currency cash flows, so as to maintain relatively stable long-term foreign exchange rates on settled transactions, the Group enters into derivative forward foreign currency transactions. In addition, the Group enters in to fixed-to-floating cross-currency interest rate swaps to manage its exposure to changes in fair value as a result of foreign exchange risk. See below.

The Group economically hedges its GBP/USD exposure by forecasting highly probable net USD receipts up to five years forward. Hedges are taken out within prescribed maximum and minimum hedge positions set out in the Group FX Policy. The maximum and minimum policy bands decline gradually over the five-year horizon and are calculated as a percentage of forecast net income. A similar policy is operated for the Group's EUR/USD exposure. For accounting purposes, these derivative contracts are not designated in hedging relationships.

The Group also has exposures to cash flows on EUR and USD denominated fixed rate borrowings. To manage its exposures to changes in values of future foreign currency cash flows, the Group has entered into fixed-to-fixed cross-currency interest rate swaps, which, for accounting purposes, are designated as cash flow hedges. The swaps have similar critical terms to the hedged items, such as the initial exchange amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the cash flow hedge relationship are changes in the credit risk of either party to the interest rate swap. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example, in the event of a partial repayment of hedged debt prior to its maturity.

The Group regards its interests in overseas subsidiary companies as long-term investments. The Group aims to match its translational exposures by matching the currencies of assets and liabilities.

Liquidity risk – The Group's policy is to hold financial investments and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term capital and funding obligations and to meet any unforeseen obligations and opportunities. The Group holds cash and short-term investments, which, together with the undrawn committed facilities, enable the Group to manage its liquidity risk.

Credit risk – The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The effective monitoring and controlling of credit risk is a key component of the Group's risk management activities. The Group has credit policies covering both trading and financial exposures. Credit risks arising from treasury activities are managed by a central treasury function in accordance with the Group credit policy. The objective of the policy is to diversify and minimise the Group's exposure to credit risk from its treasury activities by ensuring the Group transacts strictly with 'BBB' or higher rated financial institutions based on pre-established limits per financial institution. At the balance sheet date, there were no significant concentrations of credit risk to individual customers or counterparties. The Group's revenue is generated from customers located across multiple geographical locations (see note 2). These customers are typically: airframers and airline operators relating to Civil Aerospace; government defence departments for the UK and US; and multiple smaller entities for Power Systems. Whilst there are a limited number of customers related to Civil Aerospace and Defence, they are spread across various geographical locations. The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of each financial asset, including derivative financial instruments.

Interest rate risk – The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk), floating rate borrowings and cash and cash equivalents (cash flow risk). Interest rate derivatives are used to manage the overall interest rate profile of the Group. The fixed or floating rate interest rate decision on long-term borrowings is determined for each new agreement at the point it is entered into. The aggregate interest rate position of the Group is reviewed regularly and can be revised at any time in order to react to changes in market conditions or circumstances.

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR, GBP and USD fixed rate borrowings. To manage the risk of changes in these fair values, the Group has entered into fixed-to-floating interest rate swaps and cross-currency interest rate swaps, which, for accounting purposes, are designated as fair value hedges. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the fair value hedge relationship are changes in the credit risk of either party to the interest rate swap and, for cross-currency interest rate swaps, the cross-currency basis risk as this risk is present in the hedging instrument only. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example in the event of a partial repayment of hedged debt prior to its maturity.

The Group has exposure to changes in cash flows due to changes in interest rates. To manage this risk, the Group has entered into floating-to-fixed interest rate swaps to hedge a proportion of its floating rate exposure to fixed rates. The swaps have similar critical terms to the floating leg of swaps that form part of the fair value hedges, such as the reference rate, reset dates, notional amounts, payment dates and maturities. For accounting purposes, these derivative contracts are generally not designated as hedging instruments.

Commodity price risk – The Group has exposures to the price of jet fuel, base metals, gas and power arising from business operations. To minimise its cash flow exposures to changes in commodity prices, the Group enters into derivative commodity transactions. The commodity hedging policy is similar to the Group FX policy, in that the Group forecasts highly probable exposures to commodities, and takes out hedges within prescribed maximum and minimum levels as set out in the policy. The maximum and minimum policy bands decline gradually over time. For accounting purposes, these derivative contracts are generally not designated in hedging relationships.

Other price risk – The Group's cash equivalent balances represent investments in money-market instruments, with a term of up to three months. The Group does not consider that these are subject to significant price risk.

20 Financial instruments continued

Derivative financial instruments

The nominal amounts, analysed by year of expected maturity, and fair values of derivative financial instruments are as follows:

	Nominal amount £m	Expected maturity			Fair value	
		Within one year £m	Between one and two years £m	Between two and five years £m	Assets £m	Liabilities £m
At 31 December 2024						
Foreign exchange contracts:						
Non-hedge accounted	20,728	8,018	5,781	6,929	35	(1,903)
Interest rate contracts:						
Fair value hedges	1,517	658	375	484	128	(66)
Cash flow hedges	1,449	–	677	772	37	(45)
Non-hedge accounted	1,517	658	375	484	93	–
Commodity contracts:						
Non-hedge accounted	330	137	108	85	5	(40)
	25,541	9,471	7,316	8,754	298	(2,054)
At 31 December 2023						
Foreign exchange contracts:						
Non-hedge accounted	15,972	6,965	4,341	4,666	82	(2,117)
Interest rate contracts:						
Fair value hedges	2,001	484	658	859	103	(69)
Cash flow hedges	1,449	–	–	1,449	28	(17)
Non-hedge accounted	2,001	484	658	859	131	–
Commodity contracts:						
Non-hedge accounted	257	102	73	82	6	(25)
	21,680	8,035	5,730	7,915	350	(2,228)

As described above, all derivative financial instruments are entered into for risk management purposes, although these may not be designated into hedging relationships for accounting purposes.

Currency analysis

Foreign exchange contracts are denominated in the following currencies:

	Nominal amount of currencies purchased forward				
	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2024					
Currencies sold forward:					
Sterling	–	882	41	59	982
USD	14,654	–	4,419	287	19,360
Euro	35	290	–	26	351
Other	3	1	31	–	35
At 31 December 2023					
Currencies sold forward:					
Sterling	–	1,573	–	115	1,688
USD	11,389	–	2,316	303	14,008
Euro	53	171	–	21	245
Other	6	3	22	–	31

The nominal value of interest rate and commodity contracts are denominated in the following currencies:

	2024 £m	2023 £m
Sterling	1,915	2,376
USD	1,719	1,671
Euro	1,179	1,661

20 Financial instruments continued

Non-derivative financial instruments are denominated in the following currencies:

	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2024					
Other non-current asset investments	–	5	–	–	5
Trade receivables and similar items	301	4,346	460	81	5,188
Other non-derivative financial assets	73	242	40	11	366
Other assets	–	21	16	–	37
Cash and cash equivalents	2,251	1,283	1,867	174	5,575
Assets	2,625	5,897	2,383	266	11,171
Borrowings	(908)	(1,594)	(1,072)	(3)	(3,577)
Lease liabilities	(237)	(1,074)	(49)	(195)	(1,555)
Financial RRSA's	–	(6)	(1)	–	(7)
Other liabilities	(39)	(159)	–	–	(198)
C Shares	(23)	–	–	–	(23)
Trade payables and similar items	(1,006)	(4,701)	(423)	(75)	(6,205)
Other non-derivative financial liabilities	(350)	(2,084)	(158)	(50)	(2,642)
Contract liabilities	–	(1,280)	–	–	(1,280)
Liabilities	(2,563)	(10,898)	(1,703)	(323)	(15,487)
	62	(5,001)	680	(57)	(4,316)
At 31 December 2023					
Other non-current asset investments	10	21	–	–	31
Trade receivables and similar items	219	4,039	513	86	4,857
Other non-derivative financial assets	94	163	58	17	332
Other assets	–	22	22	–	44
Cash and cash equivalents	1,242	869	1,463	210	3,784
Assets	1,565	5,114	2,056	313	9,048
Borrowings	(904)	(1,605)	(1,590)	–	(4,099)
Lease liabilities	(195)	(1,222)	(45)	(198)	(1,660)
Financial RRSA's	–	(7)	(10)	–	(17)
Other liabilities	(32)	(131)	–	–	(163)
C Shares	(23)	–	–	–	(23)
Trade payables and similar items	(976)	(3,561)	(493)	(61)	(5,091)
Other non-derivative financial liabilities	(334)	(2,008)	(134)	(45)	(2,521)
Contract liabilities	–	(1,358)	–	–	(1,358)
Liabilities	(2,464)	(9,892)	(2,272)	(304)	(14,932)
	(899)	(4,778)	(216)	9	(5,884)

20 Financial instruments continued

Currency exposures

The Group's actual currency exposures on financial instruments after taking account of derivative foreign currency contracts, which are not designated as hedging instruments for accounting purposes are as follows:

Functional currency of Group operations	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2024					
Sterling	–	–	–	1	1
USD	(11)	–	–	(2)	(13)
Euro	–	7	–	15	22
Other	55	37	68	–	160
At 31 December 2023					
Sterling	–	–	–	5	5
USD	(6)	–	1	–	(5)
Euro	1	4	–	(2)	3
Other	109	38	40	–	187

Ageing beyond contractual due date of financial assets

	Within terms £m	Up to three months overdue £m	Between three months and one year overdue £m	More than one year overdue £m	Total £m
At 31 December 2024					
Other non-current asset investments	5	–	–	–	5
Trade receivables and similar items	4,738	324	82	44	5,188
Other non-derivative financial assets	331	32	–	3	366
Other assets	28	9	–	–	37
Derivative financial assets	298	–	–	–	298
Cash and cash equivalents	5,575	–	–	–	5,575
	10,975	365	82	47	11,469
At 31 December 2023					
Other non-current asset investments	31	–	–	–	31
Trade receivables and similar items	4,054	650	87	66	4,857
Other non-derivative financial assets	328	–	4	–	332
Other assets	44	–	–	–	44
Derivative financial assets	350	–	–	–	350
Cash and cash equivalents	3,784	–	–	–	3,784
	8,591	650	91	66	9,398

20 Financial instruments continued

Contractual maturity analysis of non-derivative financial liabilities

	Gross values				Carrying value £m
	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	
At 31 December 2024					
Borrowings	(961)	(1,109)	(1,893)	(16)	(3,577)
Lease liabilities	(365)	(324)	(533)	(1,189)	(1,555)
Financial RSSAs	(1)	–	(1)	(4)	(7)
Other liabilities	(61)	(11)	(25)	(101)	(198)
C Shares	(23)	–	–	–	(23)
Trade payables and similar items	(6,054)	(21)	(67)	(63)	(6,205)
Other non-derivative financial liabilities	(1,700)	(316)	(297)	(329)	(2,642)
Contract liabilities	(1,280)	–	–	–	(1,280)
	(10,445)	(1,781)	(2,816)	(1,702)	(15,487)
At 31 December 2023					
Borrowings	(694)	(943)	(3,042)	(14)	(4,099)
Lease liabilities	(358)	(366)	(697)	(735)	(1,660)
Financial RSSAs	(10)	–	(1)	(4)	(17)
Other liabilities	(42)	(6)	(25)	(90)	(163)
C Shares	(23)	–	–	–	(23)
Trade payables and similar items	(4,952)	(15)	(47)	(77)	(5,091)
Other non-derivative financial liabilities	(1,646)	(235)	(267)	(373)	(2,521)
Contract liabilities	(1,358)	–	–	–	(1,358)
	(9,083)	(1,565)	(4,079)	(1,293)	(14,932)

Expected maturity analysis of derivative financial instruments

	Gross values			
	Within one year £m	Between one and two years £m	Between two and five years £m	Carrying value £m
At 31 December 2024				
Derivative financial assets:				
Cash inflows	1,940	605	1,089	
Cash outflows	(1,780)	(592)	(1,054)	
Other net cash flows ¹	66	25	24	
	226	38	59	298
Derivative financial liabilities:				
Cash inflows	6,988	5,866	7,154	
Cash outflows	(7,959)	(6,524)	(7,850)	
Other net cash flows ¹	(30)	(11)	(11)	
	(1,001)	(669)	(707)	(2,054)
At 31 December 2023				
Derivative financial assets:				
Cash inflows	2,024	1,943	2,333	
Cash outflows	(2,021)	(1,805)	(2,311)	
Other net cash flows ¹	88	43	33	
	91	181	55	350
Derivative financial liabilities:				
Cash inflows	5,535	3,296	4,377	
Cash outflows	(6,418)	(4,027)	(5,189)	
Other net cash flows ¹	(21)	(13)	(3)	
	(904)	(744)	(815)	(2,228)

¹ Derivative financial assets and liabilities that are settled on a net cash basis

20 Financial instruments continued

Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates. The value shown is the carrying amount before taking account of swaps.

	2024			2023		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Cash and cash equivalents ¹	–	5,575	5,575	–	3,784	3,784
Borrowings	(3,563)	(14)	(3,577)	(4,036)	(63)	(4,099)
Lease liabilities	(1,298)	(257)	(1,555)	(1,269)	(391)	(1,660)
	(4,861)	5,304	443	(5,305)	3,330	(1,975)
Weighted average interest rates						
Borrowings	4.0%	5.0%		3.7%	5.9%	
Lease liabilities ²	4.9%	5.8%		4.6%	6.8%	

¹ Cash and cash equivalents comprises bank balances and term deposits and earn interest based on short-term floating market interest rates

² Interest rates for lease liabilities are considered to be the discount rates at the balance sheet date

None (2023: none) of the Group's borrowings are subject to financial covenants and there are no rating triggers contained in any of the Group's facilities that could require the Group to accelerate or repay any facility for a given movement in the Group's credit rating.

£106m (2023: £105m) of the Group's lease liabilities include a customary loan-to-value covenant. The Group has several contractual cures available in the event the stipulated loan-to-value ratio is exceeded. Failure by the Group to satisfy its contractual obligations under the covenant gives rights to the lessor to terminate its lease and claim termination amounts for the outstanding lease balance. At 31 December 2024 none (2023: none) of these were in breach.

Sensitivity analysis

Sensitivities at 31 December (all other variables held constant) – impact on profit after tax and equity	2024 £m	2023 £m
Sterling 10% weaker against the USD	(1,506)	(1,207)
Sterling 10% stronger against the USD	1,232	988
Euro 10% weaker against the USD	(358)	(176)
Euro 10% stronger against the USD	293	144
Sterling 10% weaker against the Euro	(27)	(17)
Sterling 10% stronger against the Euro	22	14
Commodity prices 10% lower	(20)	(17)
Commodity prices 10% higher	20	17
Interest rates 50 basis points lower	(40)	(43)
Interest rates 50 basis points higher	39	42

C Shares and payments to shareholders

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

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

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

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

21 Provisions for liabilities and charges

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

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

Onerous contracts

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

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

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

Warranty and guarantees

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

Trent 1000 wastage costs

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

Employer liability claims

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

Transformation and restructuring

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

21 Provisions for liabilities and charges continued

Tax related interest and penalties

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

Claims and litigation

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

The balance also includes the best estimate of any retained exposure by the Group's captive insurance company for any claims that have been incurred but not yet reported to the Group, as that entity retains a portion of the exposures it insures on behalf of the remainder of the Group. Such exposures include policies for aviation claims, employer liabilities and healthcare claims. Significant delays can occur in the notification and settlement of claims, and judgement is involved in assessing outstanding liabilities, the ultimate cost and timing of which cannot be known with certainty at the balance sheet date. The insurance provisions are based on information currently available, however, it is inherent in the nature of the business that ultimate liabilities may vary if the frequency or severity of claims differs from estimated.

Other

Other items are individually immaterial. The value of any remaining provisions reflects the single most likely outcome in each case.

22 Post-retirement benefits

The Group operates a number of defined benefit and defined contribution schemes:

- The UK defined benefit scheme is funded, with the assets held in a separate UK trust. The scheme closed to future accrual on 31 December 2020 for all active members and there are no new defined benefit accruals in the UK scheme. As at 31 December 2024, the scheme was estimated to be funded at 119% on the Technical Provisions basis.
- The Group also operates a large trust-based defined contribution scheme for current employees in the UK (Rolls-Royce Retirement Savings Trust). Pension contributions are generally paid as a salary sacrifice under which employees agree to a reduction in gross contractual pay in return for the Group making additional pension contributions on their behalf. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £88m (2023: £72m) in the year.
- Overseas defined benefit schemes are a mixture of funded and unfunded plans and provide benefits in line with local practice. Additionally, in the US, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. These healthcare schemes are unfunded.

The valuations of the defined benefit schemes are based on the results of the most recent funding valuation from 31 March 2023, where relevant, updated by the scheme actuaries to 31 December 2024.

Other

Virgin Media

The Group is aware of a UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, which decided that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgment delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, this judgment will need to be reviewed for its relevance to the RRUKPF scheme, and other UK schemes. A high-level review has been undertaken of the UK Schemes which concluded that there is a very low risk of any historic plan amendments being found to be invalid. The Company's pension advisers have not completed detailed numerical analysis and no adjustments have been made to the Consolidated Financial Statements at 31 December 2024. There is a separate legal case which is due to be taken to the High Court in early 2025, this is expected to provide further clarification on several outstanding points of detail relevant to this case.

Barber adjustment

In 2018, an estimated cost of equalising normal retirement ages between men and women arising from the Barber judgement in 1990 was recognised. While the Rolls-Royce schemes were equalised under these principles in the period after the original Barber ruling, further work has been carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments. This work has resulted in a past service charge of £14m being recognised in the income statement of the Consolidated Financial Statements at 31 December 2024.

22 Post-retirement benefits continued

Amounts recognised in the income statement

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Defined benefit schemes:						
Current service cost and administrative expenses	5	37	42	8	35	43
Past-service cost/(credit) and settlement loss	14	–	14	–	(2)	(2)
	19	37	56	8	33	41
Defined contribution schemes	228	101	329	195	98	293
Operating cost	247	138	385	203	131	334
Net financing (credit)/charge in respect of defined benefit schemes	(35)	37	2	(29)	41	12
Total income statement charge	212	175	387	174	172	346

The operating cost is charged as follows:

	Defined benefit		Defined contribution		Total	
	2024 £m	2023 £m	2024 £m	2023 £m	2024 £m	2023 £m
Cost of sales	30	33	227	211	257	244
Commercial and administrative costs	20	2	51	41	71	43
Research and development costs	6	6	51	41	57	47
	56	41	329	293	385	334

Net financing comprises:

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Financing on scheme obligations	200	61	261	218	66	284
Financing on scheme assets	(235)	(24)	(259)	(247)	(25)	(272)
Net financing (income)/charge in respect of defined benefit schemes	(35)	37	2	(29)	41	12
Financing income on scheme surpluses	(35)	(2)	(37)	(29)	(1)	(30)
Financing cost on scheme deficits	–	39	39	–	42	42

Amounts recognised in OCI in respect of defined benefit schemes

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Actuarial gains and losses arising from:						
Demographic assumptions ¹	19	(10)	9	180	–	180
Financial assumptions ²	617	56	673	(132)	(63)	(195)
Experience adjustments ³	(8)	(14)	(22)	116	1	117
Return on scheme assets excluding financing income ²	(633)	(5)	(638)	(12)	26	14
	(5)	27	22	152	(36)	116

¹ For the UK Scheme, this reflects latest available CMI mortality projections and an update of the post-retirement mortality assumptions based on an analysis prepared for the 31 March 2023 funding valuation

² Actuarial gains and losses arising from financial assumptions arise primarily due to changes in discount rate and inflation

³ This reflects an experience gain as a result of allowance for updated membership data following the valuation during the year offset by realised inflation being higher than expected in the period

22 Post-retirement benefits continued

Amounts recognised in the balance sheet in respect of defined benefit schemes

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	(3,958)	(986)	(4,944)	(4,537)	(993)	(5,530)
Fair value of scheme assets	4,737	531	5,268	5,304	520	5,824
Net asset/(liability) on funded schemes	779	(455)	324	767	(473)	294
Present value of unfunded obligations	–	(515)	(515)	–	(547)	(547)
Net asset/(liability) recognised in the balance sheet	779	(970)	(191)	767	(1,020)	(253)
Post-retirement scheme surpluses ¹	779	11	790	767	15	782
Post-retirement scheme deficits	–	(981)	(981)	–	(1,035)	(1,035)

¹ The surplus in the UK scheme is recognised as on an ultimate wind-up when there are no longer any remaining members, any surplus would be returned to the Group, which has the power to prevent the surplus being used for other purposes in advance of this event

Overseas schemes are located in the following countries:

	2024			2023		
	Assets £m	Obligations £m	Net £m	Assets £m	Obligations £m	Net £m
Canada	193	(225)	(32)	199	(239)	(40)
Germany	56	(664)	(608)	31	(679)	(648)
US pension schemes	282	(297)	(15)	290	(301)	(11)
US healthcare schemes	–	(312)	(312)	–	(318)	(318)
Other	–	(3)	(3)	–	(3)	(3)
Net asset/(liability) recognised in the balance sheet	531	(1,501)	(970)	520	(1,540)	(1,020)

Defined benefit schemes

Assumptions

Significant actuarial assumptions for UK schemes at the balance sheet date were as follows:

	2024	2023
Discount rate	5.50%	4.50%
Inflation assumption (RPI)	3.30%	3.30%
Inflation assumption (CPI)	2.90%	2.85%
Transfer take-up assumption (employed deferred/deferred)	20%/15%	35%/25%
Bridging Pension Option (BPO) assumption (employed deferred/deferred)	40%/25%	30%/30%
Life expectancy from age 65: current male pensioner	20.8 years	20.8 years
future male pensioner currently aged 45	21.5 years	21.5 years
current female pensioner	22.8 years	22.8 years
future female pensioner currently aged 45	24.1 years	24.1 years

Discount rates are determined by reference to the market yields on AA rated corporate bonds. The rate is determined by using the profile of forecast benefit payments to derive a weighted average discount rate from the yield curve.

The inflation assumption is determined by the market-implied assumption based on the yields on long-term index-linked government securities.

The mortality assumptions adopted for the UK pension schemes are derived from the SAPS S3 'All' actuarial tables, with future improvements in line with the CMI 2023 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience and actuarial advice.

Other assumptions have been set on advice from the actuary, having regard to the latest trends in scheme experience and the assumptions used in the most recent funding valuation. The rate of increase of pensions in payment is based on the rules of the scheme, combined with the inflation assumption where the increase is capped.

22 Post-retirement benefits continued

Assumptions for overseas schemes are less significant and are based on advice from local actuaries. The principal assumptions are:

	2024	2023
Discount rate	4.50%	4.20%
Inflation assumption	2.10%	1.60%
Long-term healthcare cost trend rate	4.75%	4.75%
Male life expectancy from age 65: current pensioner	20.5 years	20.5 years
future pensioner currently aged 45	22.5 years	22.4 years

Changes in present value of defined benefit obligations

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	(4,537)	(1,540)	(6,077)	(4,621)	(1,507)	(6,128)
Exchange differences	–	38	38	–	54	54
Current service cost	–	(37)	(37)	(4)	(33)	(37)
Past-service cost	(14)	–	(14)	–	2	2
Finance cost	(200)	(61)	(261)	(218)	(66)	(284)
Contributions by employees	–	(13)	(13)	–	(9)	(9)
Benefits paid out	165	80	245	142	80	222
Actuarial gains/(losses)	628	32	660	164	(61)	103
Transfers	–	–	–	–	(2)	(2)
Transferred to held for sale	–	–	–	–	2	2
At 31 December	(3,958)	(1,501)	(5,459)	(4,537)	(1,540)	(6,077)
Funded schemes	(3,958)	(986)	(4,944)	(4,537)	(993)	(5,530)
Unfunded schemes	–	(515)	(515)	–	(547)	(547)

The defined benefit obligations are in respect of:

Active plan participants ¹	(1,277)	(731)	(2,008)	(1,584)	(731)	(2,315)
Deferred plan participants	(1,064)	(98)	(1,162)	(1,287)	(100)	(1,387)
Pensioners	(1,617)	(672)	(2,289)	(1,666)	(709)	(2,375)
Weighted average duration of obligations (years)	14	12	13	16	12	15

¹ Although the UK scheme closed to future accrual on 31 December 2020, members who became deferred as a result of the closure and remain employed by the Group retain some additional benefits compared to other deferred members. The obligations for these members are shown as active plan participants

Changes in fair value of scheme assets

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	5,304	520	5,824	5,215	493	5,708
Exchange differences	–	(13)	(13)	–	(21)	(21)
Administrative expenses	(5)	(1)	(6)	(4)	(1)	(5)
Financing	235	24	259	247	25	272
Return on plan assets excluding financing	(633)	(5)	(638)	(12)	26	14
Contributions by employer	1	73	74	–	69	69
Contributions by employees	–	13	13	–	9	9
Benefits paid out	(165)	(80)	(245)	(142)	(80)	(222)
At 31 December	4,737	531	5,268	5,304	520	5,824
Total return on scheme assets	(398)	19	(379)	235	51	286

22 Post-retirement benefits continued

Fair value of scheme assets at 31 December

	2024			2023		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Sovereign debt	3,335	140	3,475	3,259	118	3,377
Corporate debt instruments	1,860	248	2,108	1,996	270	2,266
Interest rate swaps	197	–	197	170	–	170
Inflation swaps	92	–	92	86	–	86
Cash and similar instruments ¹	(1,176)	–	(1,176)	(892)	–	(892)
Liability driven investment (LDI) portfolios²	4,308	388	4,696	4,619	388	5,007
Listed equities	–	54	54	–	69	69
Unlisted equities	25	–	25	32	–	32
Synthetic equities ³	–	–	–	20	–	20
Corporate debt instruments	379	–	379	630	–	630
Cash	25	11	36	–	10	10
Other	–	78	78	3	53	56
At 31 December	4,737	531	5,268	5,304	520	5,824

1 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £(1,203)m (2023: £(993)m). The latest maturity date for these short-term borrowings is June 2025

2 A portfolio of gilt and swap contracts, backed by investment-grade credit instruments and diversified liquidity funds, that is designed to hedge the majority of the interest rate and inflation risks associated with the schemes' obligations

3 Portfolios of swap contracts designed to provide investment returns in line with global equity markets. The maximum exposure (notional value and accrued returns) on the portfolios was £nil (2023: £379m)

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group (2023: none).

Future contributions

The Group expects to contribute approximately £76m to its overseas defined benefit schemes in 2025 (2024: £73m).

In the UK, any cash funding of RRUKEPF is based on a statutory triennial funding valuation process. The Group and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting 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 RRUKEPF was estimated to be 115% funded on the Technical Provisions basis (estimated to be 119% at 31 December 2024). All cash due has been paid in full and the current SoC does not currently require any cash contributions to be made by the Group.

22 Post-retirement benefits continued

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2024, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

For the most significant funded schemes, the investment strategies hedge the risks from interest rates and inflation measured on a proxy solvency basis.

For the UK scheme, the interest rate and inflation hedging is currently based on UK Government bond yields without any adjustment for any credit spread. The sensitivity analysis set out below has been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

		2024 £m	2023 £m
Reduction in the discount rate of 0.25% ¹	Obligation	(145)	(185)
	Plan assets (LDI portfolio)	179	204
Increase in inflation of 0.25% ¹	Obligation	(55)	(75)
	Plan assets (LDI portfolio)	73	77
Increase of 1% in transfer value assumption	Obligations	(25)	(30)
One year increase in life expectancy	Obligations	(125)	(155)

¹ The differences between the sensitivities on obligations and plan assets arise largely due to differences in the methods used to value the obligations for accounting purposes and the adopted proxy solvency basis

23 Share capital

	Non-equity		Equity	
	Special Share of £1	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid				
At 1 January 2023	1	–	8,368	1,674
Shares issued to employee share trust	–	–	49	10
At 31 December 2023	1	–	8,417	1,684
Shares issued to employee share trust	–	–	88	17
At 31 December 2024	1	–	8,505	1,701

The rights attaching to each class of share are set out on pages 220 to 221.

In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 20. In addition, rights to C share holders are included on page 220.

24 Share-based payments

Effect of share-based payment transactions on the Group's results and financial position

	2024 £m	2023 £m
Total expense recognised for equity-settled share-based payments transactions	95	49
Total cost recognised for cash-settled share-based payments transactions	41	17
Share-based payments recognised in the consolidated income statement	136	66
Liability for cash-settled share-based payment transactions	59	18

A description of the share-based payment plans is included in the Directors' Remuneration Report on pages 86 to 110.

Movements in the Group's share-based payment plans during the year

	ShareSave		Free Shares	LTIP	Incentive Plan
	Number Millions	Weighted average exercise price Pence	Number Millions	Number Millions	Number Millions
Outstanding at 1 January 2023	65.6	127	–	93.0	12.2
Granted	0.1	115	–	44.7	7.0
Forfeited	(12.3)	203	–	(29.1)	(1.9)
Exercised	–	–	–	(7.6)	(0.1)
Outstanding at 31 December 2023	53.4	107	–	101.0	17.2
Granted	–	–	6.2	22.8	5.0
Forfeited	(2.3)	110	(0.2)	(5.7)	(0.5)
Exercised	(0.5)	104	–	(25.4)	(5.6)
Outstanding at 31 December 2024	50.6	107	6.0	92.7	16.1
Exercisable at 31 December 2024	0.1	–	–	–	–
Exercisable at 31 December 2023	–	–	–	–	–

The weighted average share price at the date share options were exercised was 420p (2023: 159p). The closing price at 31 December 2024 was 569p (2023: 300p).

The weighted average remaining contractual life for the share options as at 31 December 2024 was one month (2023: one year) as the majority of shares are due to vest in early 2025 and the range of exercise prices for the share options as at 31 December 2024 was 97p to 232p.

Fair values of share-based payment plans

The weighted average fair value per share of equity-settled share-based payment plans granted during the year, estimated at the date of grant, are as follows:

	2024	2023
Free Shares	494p	–
Long-term incentive plan	361p	216p
Incentive Plan	378p	157p

Long-term incentive plan

The fair value of shares awarded is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 and S&P Global Industrials Index companies and which incorporates into the valuation the interdependency between share price performance and TSR vesting where market-based conditions are applicable. This adjustment decreases the fair value of the award relative to the share price at the date of grant.

ShareSave

The fair value of the options granted is calculated using a pricing model that assumes that participants will exercise their options at the beginning of the six-month window if the share price is greater than the exercise price. Otherwise, it assumes that options are held until the expiration of their contractual term. This results in an expected life of the mid-point between the start of the exercise window and the date of expiration.

Incentive Plan

The fair value of shares awarded is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Free Shares

During the year, every Rolls-Royce employee was gifted 150 shares. The awards were granted under two plans; the 'Rolls-Royce Share Purchase Plan' for UK employees and the 'Rolls-Royce Global Employee Share Purchase Plan' for non-UK employees; both being equity-settled schemes. The fair value of shares awarded under the free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

25 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the Serious Fraud Office and the US Department of Justice and a leniency agreement with the Ministério Público Federal, the Brazilian federal prosecutor. The terms of both DPAs have now expired. The Company has also met all its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to the same historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitoring. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Group or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Group. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date, but cannot anticipate all the possible actions that may be taken or their potential consequences.

The Group has, in the normal course of business, entered into arrangements in respect of export finance, performance bonds, grant funding, countertrade obligations and minor miscellaneous items, which could result in potential outflows if the requirements related to those arrangements are not met. Various Group undertakings are party to legal actions and claims (including with tax authorities) which arise in the ordinary course of business, some of which are for substantial amounts.

In connection with the sale of its products, the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of \$405m (2023: \$857m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately \$100m could be called during 2025). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

Customer financing provisions would be made to cover guarantees provided for asset value and/or financing were it probable that a payment would be made. These would be measured on a discounted basis at the Group's borrowing rate to reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 31 December 2024 or 31 December 2023.

The Group has responded appropriately to the Russia-Ukraine conflict to comply with international sanctions and export control regime, and to continue to implement the business decision to exit from Russia. The Group could be subject to action by impacted customers, suppliers and other contract parties.

While the outcome of the above matters cannot precisely be foreseen, the Directors do not expect any of these arrangements, legal actions or claims, after allowing for provisions already made, to result in significant loss to the Group.

26 Related party transactions

	2024 £m	2023 £m
Sales of goods and services ¹	7,702	6,700
Purchases of goods and services ¹	(8,725)	(7,471)
Lease payments to joint ventures and associates	(241)	(244)
Guarantees of joint arrangements' and associates' borrowings	-	2
Guarantees of non-wholly owned subsidiaries' borrowings	4	3
Dividends received from joint ventures and associates	77	54
Other income received from joint ventures and associates	7	6

¹ Sales of goods and services to related parties and purchases of goods and services from related parties, including joint ventures and associates, are included at the average exchange rate, consistent with the statutory income statement

Included in sales of goods and services to related parties are sales of spare engines amounting to £48m (2023: £48m). Profit recognised in the year on such sales amounted to £62m (2023: £88m), including profit on current year sales and recognition of profit deferred on similar sales in previous years. Cash receipts relating to the sale of spare engines amounted to £48m (2023: £73m).

Included in cost of sales in the income statement are interest costs of £9m (2023: £34m) incurred during the year which have been settled by the Group on behalf of joint ventures.

The aggregated balances with joint ventures are shown in notes 14 and 19. Transactions with Group pension schemes are shown in note 22.

26 Related party transactions continued

Key management personnel are deemed to be the Directors (pages 68 to 69) and the members of the Executive Team (described on page 78). Remuneration for key management personnel is shown below:

	2024 £m	2023 £m
Salaries and benefits	29	26
Included in the above:		
Post-retirement schemes	1	–
Share-based payments	13	15

During the year, no Directors (2023: one) received termination benefits. For further detail, see the Remuneration Report.

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plan is shown in the Remuneration Report on pages 86 to 110. The charge for share-based payments above is based on when the award is charged to the income statement in accordance with IFRS 2 *Share-Based Payments*, rather than when the shares vest, which is the basis used in the Remuneration Report.

27 Business disposals and businesses held for sale

Disposals

At 31 December 2023, the Group had classified the assets and liabilities related to part of the Power Systems' lower power range engines business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. A disposal agreement was signed with Deutz AG on 28 March 2024 and the disposal completed on 31 July 2024 for cash consideration of £62m. The carrying value of the net assets derecognised was £42m, with a £16m profit on disposal after costs.

	2024 £m
Proceeds	
Net cash consideration at prevailing exchange rate and at effective hedged rate	62
Cash flow on disposal of business per cash flow statement	62
Intangible assets	49
Inventory	4
Provisions for liabilities and charges	(6)
Contract liabilities	(4)
Post-retirement scheme deficits	(1)
Less: Net assets disposed	42
Profit on disposal before disposal costs and accounting adjustments	20
Disposal costs	(4)
Profit on disposal of business before and after taxation	16
Profit on disposal of businesses per income statement	16

27 Business disposals and businesses held for sale continued

Businesses held for sale

At 31 December 2024, the Group had classified the assets and liabilities related to its naval propulsors & handling business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. On 18 September 2024, the Group and Fairbanks Morse Defense signed a sale and disposal agreement, with completion anticipated during 2025.

At 31 December 2023, assets and liabilities related to part of Power Systems' lower power range engines business were held for sale, as set out above this sale completed on 31 July 2024.

Assets held for sale are measured at the lower of their carrying value or fair value less costs to sell. Assets and liabilities held for sale are summarised in the table below.

	2024 £m	2023 £m
Intangible assets	13	51
Property, plant and equipment	51	–
Right-of-use assets	1	–
Inventory	24	11
Trade receivables and other assets	64	47
Assets held for sale	153	109
Trade payables and other liabilities	(96)	(41)
Contract liabilities	–	(4)
Provisions for liabilities and charges	(3)	(8)
Borrowings and lease liabilities	(1)	–
Post-retirement scheme deficits	–	(2)
Liabilities associated with assets held for sale	(100)	(55)
Net assets held for sale	53	54

28 Derivation of summary funds flow statement

	2024				2023	
	Cash flow £m	Impact of hedge book £m	Impact of acquisition accounting £m	Impact of other non- underlying items £m	Funds flow £m	Funds flow £m
Operating profit/(loss)	2,906	(191)	45	(296)	2,464	1,590
Loss on disposal of property, plant and equipment ¹	32	–	–	–	32	18
Loss on disposal of intangible assets ¹	6	–	–	–	6	–
Joint venture trading ¹	(95)	–	–	–	(95)	(119)
Depreciation, amortisation and impairment	543	–	(45)	355	853	978
Movement in provisions	(56)	(56)	–	(55)	(167)	(258)
(Increase)/decrease in inventories ²	(323)	–	–	–	(323)	(200)
Movement in prepayments to RRSAs for LTSA parts	(348)	129	–	–	(219)	(252)
Movement in cost to obtain contracts	(19)	1	–	–	(18)	(40)
Movement in trade receivables/payables and other assets/liabilities ²	524	(341)	–	(17)	166	(2,251)
Revaluation of trading assets ²	24	(38)	–	–	(14)	196
Realised derivatives in financing	652	–	–	–	652	853
Movement in Civil LTSA balance	1,193	(283)	–	–	910	1,331
Movement in contract assets/liabilities (excluding Civil LTSA) ²	(441)	108	–	132	(201)	1,046
Settlement of excess derivatives	(146)	–	–	–	(146)	(389)
Interest received	269	–	–	–	269	159
Contributions to defined benefit schemes in excess of underlying operating profit charge ¹	(18)	–	–	(13)	(31)	(26)
Cash flows on other financial assets and liabilities held for operating purposes	(676)	652	–	–	(24)	8
Share-based payments ¹	136	–	–	–	136	66
Other ¹	–	(5)	–	–	(5)	(7)
Income tax	(381)	–	–	–	(381)	(172)
Cash from operating activities	3,782	(24)	–	106	3,864	2,531
Capital element of lease payments	(299)	24	–	–	(275)	(270)
Capital expenditure	(876)	–	–	–	(876)	(695)
Investments	16	–	–	–	16	69
Interest paid	(298)	–	–	–	(298)	(333)
Other (M&A, restructuring and exceptional transformation costs)	100	–	–	(106)	(6)	(17)
Free cash flow	2,425	–	–	–	2,425	1,285

¹ Included in other operating cash flows in the summarised free cash flow on page 23

² Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 23

The comparative information to 31 December 2024 has been presented in a different format to align to the current year presentation. In some instances, the groupings of items may have changed.

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is defined as cash flows from operating activities including capital expenditure and movements in investments, capital elements of lease payments, interest paid, amounts paid relating to the settlement of excess derivatives and excluding amounts spent or received on activity related to business acquisitions or disposals and other material exceptional or one-off cash flows. The Board considers that free cash flow reflects cash generated from the Group's underlying trading.

Cash flow from operating activities is determined to be the nearest statutory measure to free cash flow. The reconciliation between free cash flow and cash flow from operating activities can be found on page 218.

Company balance sheet

At 31 December 2024

	Notes	2024 £m	2023 £m
ASSETS			
Investments – subsidiary undertakings	2	14,905	14,810
Non-current Assets		14,905	14,810
Cash and cash equivalents		1	–
Current Assets		1	–
NET ASSETS	6	14,906	14,810
LIABILITIES			
Trade payables and other liabilities	3	(337)	(336)
Other financial liabilities	4	(22)	(23)
Current liabilities		(359)	(359)
NET ASSETS	6	14,547	14,451
EQUITY			
Called-up share capital	5	1,701	1,684
Share premium		1,012	1,012
Merger reserve		6,962	6,962
Capital redemption reserve		2,750	2,749
Other reserve		493	397
Retained earnings		1,629	1,647
TOTAL EQUITY		14,547	14,451

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company income statement. The result for the Company for the year was nil (2023: nil).

The Financial Statements on pages 187 to 191 were approved by the Board on 27 February 2025 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Company's registered number: 7524813

Company statement of changes in equity

For the year ended 31 December 2024

	Attributable to ordinary shareholders						
	Share capital £m	Share premium £m	Merger reserve ¹ £m	Capital redemption reserve £m	Other reserve ² £m	Retained earnings ^{3, 4} £m	Total equity £m
At 1 January 2023	1,674	1,012	6,962	2,748	349	1,658	14,403
Arising on issues of ordinary shares	10	–	–	–	–	(10)	–
Redemption of C Shares	–	–	–	1	–	(1)	–
Share-based payments – direct to equity	–	–	–	–	48	–	48
At 1 January 2024	1,684	1,012	6,962	2,749	397	1,647	14,451
Arising on issues of ordinary shares	17	–	–	–	–	(17)	–
Redemption of C Shares	–	–	–	1	–	(1)	–
Share-based payments – direct to equity	–	–	–	–	96	–	96
At 31 December 2024	1,701	1,012	6,962	2,750	493	1,629	14,547

1 The Company's merger reserve was created as a result of a High Court approved scheme of arrangement in 2011, when the Company became the holding company for the Rolls-Royce Group

2 Other reserve represents the value of the share-based payments in respect of employees of subsidiary undertakings for which payment has not been received

3 The reserves, which are distributable to the Company's equity shareholders, are determined with reference to the Companies Act 2006 and requires judgement in determining the amount available for distribution. Further guidance is given in the Institute of Chartered Accountants in England and Wales technical release 02/17BL in relation to what profits can be treated as distributable. At 31 December 2024, all the Company's retained earnings are distributable, however, the available amount may be different at the point any future distributions are made

4 At 31 December 2024, 106,066,831 ordinary shares with a net book value of £26m (31 December 2023: 52,912,406 ordinary shares with a net book value of £22m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:

- 35,117,065 ordinary shares with a net book value of £14m (31 December 2023: 7,875,240 ordinary shares with a net book value of £15m) vested in share-based payment plans;
- the Company issued 88,200,000 (31 December 2023: 49,100,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £18m (31 December 2023: £10m); and
- the Company acquired none (31 December 2023: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 71,490 (31 December 2023: 284,850) of its ordinary shares through purchases on the London Stock Exchange

1 Accounting policies

Basis of accounting

Rolls-Royce Holdings plc (the Company) is a public company limited by shares incorporated and domiciled in England in the United Kingdom. These Financial Statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* on the historical cost basis.

These financial statements have been prepared on a going concern basis. Further details are given in the Going Concern Statement on page 61. After due consideration, the Directors consider that the Group has sufficient liquidity to continue in operational existence over the going concern period to 30 June 2026 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Company Financial Statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of Financial Reporting Standard 101 *Reduced Disclosure Framework*:

- a cash flow statement and related notes;
- comparative period reconciliation for investments and financial liabilities;
- comparative period reconciliation for share capital;
- the effects of new, but not yet effective accounting standards; and
- the requirements of IAS 24 *Related Party Disclosures* and has, therefore, not disclosed transactions between the Company and its wholly-owned subsidiaries.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

There were no changes to accounting standards that had a material impact on these Financial Statements. The Company's Financial Statements are presented in sterling, which is the Company's functional currency.

As permitted by section 408 of the Companies Act 2006, a separate income statement for the Company has not been included in these Financial Statements. As permitted by the audit fee disclosure regulations, disclosure of non-audit fees information is not included in respect of the Company.

Key areas of judgement and sources of estimation uncertainty

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies. The Directors have not identified any critical estimates or judgements where there is a significant risk of material change in the next 12 months at 31 December 2024.

Material accounting policies

Investments in subsidiary undertakings

Investments included in assets are investments in subsidiary companies, and these are held at historical cost less impairments which is considered annually by the Directors.

Trade payables

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Financial instruments

In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's C Shares are classified as financial liabilities and held at amortised cost from the date of issue until redeemed.

Equity

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. The cost of issuing ordinary shares are charged to the share premium account.

Share-based payments

As described in the Remuneration Report on pages 86 to 110, the Company grants awards of its own shares to employees of its subsidiary undertakings (see note 24 of the Consolidated Financial Statements). The costs of share-based payments in respect of these awards are accounted for, by the Company, as an additional investment in its subsidiary undertakings. The costs are determined in accordance with IFRS 2 *Share-based Payment*. Any payments made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment.

1 Accounting policies continued

Insurance contracts

The Company enters into: financial guarantees where the Company guarantees payment in case of its subsidiary defaulting on a debt; and performance guarantees where the Company guarantees certain subsidiaries performance to a customer. The Company has reviewed and concluded that its arrangements meet the accounting definition of an insurance contract under IFRS 17 *Insurance Contracts*. The Company has elected to apply IFRS 17 *Insurance Contracts* (rather than IFRS 9 *Financial Instruments*) to all currently issued financial guarantee contracts.

At 31 December 2024, financial guarantees of borrowings amounted to £6,094 (2023: £7,601m) of which the total amount of debt drawn is £3,594m (2023: £4,101m). Under IFRS 17 *Insurance Contracts*, the Company must recognise any obligation at the inception of the contract for the expected fulfilment cash flows under the contract on a best estimate basis (liability for remaining coverage). The Company has assessed the probability of losses on its financial and performance guarantees and has determined that the probability is remote after consideration of both historical and forward-looking triggers and as such the estimated liability is immaterial. As the estimated liability is immaterial at 31 December 2024, no liability has been recognised in the Company Financial Statements.

2 Investments – subsidiary undertakings

	£m
Cost:	
At 1 January 2024	14,810
Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments	95
At 31 December 2024	14,905

Details of the Company's subsidiary undertakings and joint venture and associates undertakings are listed on pages 192 to 197.

The carrying value of the Company's investments in subsidiary undertakings has been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. No indicators of impairment were identified at 31 December 2024.

3 Trade payables and other liabilities

	2024 £m	2023 £m
Amounts owed to – subsidiary undertakings	337	336

Amounts owed to subsidiary undertakings are interest-free and repayable on demand.

4 Financial liabilities

C Shares

Movements during the year were as follows:

	C Shares of 0.1p millions	Nominal value £m
At 1 January 2024	23,152	23
Redeemed	(647)	(1)
At 31 December 2024	22,505	22

The rights attaching to C Shares are set out on page 220.

5 Share capital

	Non-equity			Equity	
	Special Share of £1	Preference shares of £1 each	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid					
At 1 January 2024	1	–	–	8,417	1,684
Shares issued to employee share trust	–	–	–	88	17
At 31 December 2024	1	–	–	8,505	1,701

The rights attaching to each class of share are set out on pages 220 to 221.

In accordance with IAS 32 *Financial Instruments: Presentation*, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 4.

6 Reconciliation of net assets between Rolls-Royce Holdings plc Group and Company

As at 31 December 2024, Rolls-Royce Holdings plc consolidated group had net liabilities of £881m (2023: £3.6bn) compared to £14.5bn (2023: £14.5bn) of net assets of the Company. The Company is a holding company and does not trade in its own right. The Company was incorporated in 2011 and became the Rolls-Royce holding company through a Scheme of Arrangement. On becoming the Rolls-Royce holding company, the value of the Company's investment in subsidiaries was based on the market capitalisation of the Rolls-Royce group at that time. There was an increase in the investment as a result of a capital injection to Rolls-Royce Group Limited during 2020. The Group's consolidated financial statements are prepared on a historical cost basis except where UK adopted international accounting standards requires a valuation basis to be applied (see page 189 for further details). As different principles are applied in preparing the Company and consolidated group balance sheets there is a difference in the financial position reported. Examples of such differences include the following items that are in the Consolidated balance sheet but not reflected in the Company's balance sheet: net contract liabilities of £13.9bn (2023: £13.3bn) as a result of IFRS 15 *Revenue from Contracts with Customers*; and net financial liabilities of £1.9bn (2023: £2.0bn) arising from the recognition at fair value of foreign exchange derivatives held to manage exposure on the Group's future trading.

7 Contingent liabilities

For further details on action related to historical matters that could have an impact on the Company, see page 183.

8 Other information

Employees

The Company had no employees in 2024 (2023: none).

Share-based payments

Shares in the Company have been granted to employees of the Group as part of share-based payment plans, and are charged in the employing company.

Emoluments of Directors

The remuneration of the Directors of the Company is shown below, further information is in the Remuneration Report on pages 86 to 110.

The total amount of remuneration paid to Directors for the year ended 31 December 2024 was £7,670,542 (2023: £10,130,000). £4,078,266 of this was attributed to the highest paid Director (2023: £5,960,000). A cash allowance in lieu of company contributions to a pension scheme was also paid to two Directors (2023: three), which totalled £245,888 (2023: £244,000). No Directors exercised share options during the year (2023: none) nor received vested shares under the long-term incentive plan (2023: none). No Directors received payments for loss of office (2023: one Director totalling £483,000).

No Director accrued any retirement benefits in the year (2023: none).

Subsidiaries

As at 31 December 2024, the companies listed below and on the following pages are indirectly held by Rolls-Royce Holdings plc, except Rolls-Royce Group Limited, which is 100% directly owned by Rolls-Royce Holdings plc and Rolls-Royce plc which Rolls-Royce Holdings plc directly owns 3.54%. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Address	Class of shares	% of class held
Aerospace Transmission Technologies GmbH ¹	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50
Amalgamated Power Engineering Limited ²	London ³	Deferred Ordinary	100
Bristol Siddeley Engines Limited ²	London ³	Ordinary	100
Brown Brothers & Company, Limited ⁴	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife KY11 9JT, Scotland	Ordinary	100
C A Parsons & Company Limited ⁴	London ³	Ordinary	100
Derby Specialist Fabrications Limited ²	London ³	Ordinary	100
Europea Microfusioni Aerospaziali S.p.A.	Zona Industriale AS1, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Heaton Power Limited ²	London ³	Ordinary	100
John Thompson Cochran Limited ²	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife KY11 9JT, Scotland	6% Cumulative Preference Ordinary	100
Karl Maybach-Hilfe GmbH i.L. ⁹	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Kinolt Immo SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Immobilien SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Sistemas de UPS SpA	Bucarest No 17 Oficina, No 33, Previdencia, Santiago, Chile	Ordinary	100
Kinolt UK Limited ²	London ³	Ordinary	100
LLC Rolls-Royce Solutions Rus ²	Shabolovka Street 2, 119049, Moscow, Russian Federation	Ordinary	100
MTU Cooltech Power Systems Co., Limited ¹	Building No 2, No 1633 Tianchen Road, Qingpu District, Shanghai, China	Equity	50
MTU India Private Limited ⁶	6th Floor, RMZ Galleria, S/Y No. 144 Bengaluru, Bangalore, Kamataka 560,064, India	Ordinary	100
MTU Polska Sp. z o.o.	ul. Hoża 86, lokal 410, 00-682 Warsaw, Poland	Ordinary	100
NEI International Combustion Limited ²	London ³	Ordinary	100
NEI Mining Equipment Limited ²	London ³	Ordinary	100
NEI Nuclear Systems Limited ²	London ³	Ordinary	100
NEI Parsons Limited ²	London ³	Ordinary	100
NEI Peebles Limited ²	London ³	Ordinary	100
NEI Power Projects Limited ²	London ³	Ordinary	100
Nightingale Insurance Limited	PO Box 33, Dorey Court, Admiral Park, St Peter Port GY1 4AT, Guernsey	Ordinary	100
No-Break Power Limited ²	London ³	Ordinary	100
Powerfield Limited ²	Derby ⁷	Ordinary	100
PT Rolls-Royce	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
PT Rolls Royce Solutions Indonesia	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
Rolls-Royce (Ireland) Unlimited Company ²	Ulster International Finance, 1st Floor IFSC House, IFSC Dublin, Dublin, County Dublin, DO1R 2P9, Ireland	Ordinary	100
Rolls-Royce (Thailand) Limited	989 Floor 12A, Unit B1, B2, Siam Piwat Tower, Rama 1, Pathumwan, Bangkok, 10330, Thailand	Ordinary	100
Rolls-Royce Aero Engine Services Limited ²	London ³	Ordinary	100
Rolls-Royce Australia Pty Limited	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Australia Services Pty Limited	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Brasil Limitada	Rua Jose Versolato, No. 111, Torre B, Sala 2502, Centro, São Bernardo do Campo, São Paulo, CEP 09750-730, Brazil	Quotas	100
Rolls-Royce Canada Limited	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common Stock	100
Rolls-Royce Chile SpA	Rosario Norte #407 Depto. #1601 Comuna Las Condes Ciudad Santiago, Chile	Ordinary	100
Rolls-Royce China Holding Limited	305 Indigo Building 1, 20 Jiuxianqiao Road, Beijing, 100016, China	Ordinary	100
Rolls-Royce Commercial Aero Engines Limited ²	London ³	Ordinary	100
Rolls-Royce Controls and Data Services Limited ²	London ³	Ordinary	100
Rolls-Royce Controls and Data Services (NZ) Limited	Deloitte Centre, Level 20, 1 Queen Street, Auckland, 10103, New Zealand	Ordinary	100
Rolls-Royce Controls and Data Services (UK) Limited ⁴	Derby ⁷	Ordinary	100

Company name	Address	Class of shares	% of class held
Rolls-Royce Corporation	Wilmington ⁸	Common Stock	100
Rolls-Royce Crosspointe LLC	Wilmington ⁸	Partnership (no equity held)	100
Rolls-Royce Defense Products and Solutions Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Defense Services Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Deutschland Ltd & Co KG	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Partnership (no equity held)	100
Rolls-Royce Electrical Norway AS	Jarleveien 8A, 7041, Trondheim, Norway	Ordinary	100
Rolls-Royce Energy Angola, Limitada ²	Casa no. 174, Largo Leite Duarte, Bairro Miramar, Luanda, Municipality of Ingombota, Angola	Quota	100
Rolls-Royce Energy Systems Inc. ²	Wilmington ⁸	Common Stock	100
Rolls-Royce Engine Services Holdings Co.	Wilmington ⁸	Common Stock	100
Rolls-Royce Engine Services Limitada Inc. ⁹	Bldg. 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone, Clark, Pampanga, Philippines	Capital Stock	100
Rolls-Royce Erste Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100
Rolls-Royce Finance Company Limited ²	London ³	Deferred Ordinary	100
Rolls-Royce Finance Holdings Co.	Wilmington ⁸	Common Stock	100
Rolls-Royce Fuel Cell Systems Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce General Partner (Ireland) Limited	29 Earlsfort Terrace, Dublin 2, Dublin D02 AY28, Ireland	Ordinary	100
Rolls-Royce General Partner Limited ²	London ³	Ordinary	100
Rolls-Royce Group Limited ¹³	London ³	Ordinary Ordinary A	100
Rolls-Royce High Temperature Composites Inc.	Corporation Service Company, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833, United States	Ordinary	100
Rolls-Royce Holdings Canada Inc.	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common C	100
Rolls-Royce Hungary Kft	Gizella U. 51-57, 1143 Budapest, Hungary	Cash shares	100
Rolls-Royce India Limited ^{2,6,10}	Derby ⁷	Ordinary	100
Rolls-Royce India Private Limited ⁶	Birla Tower West, 2nd Floor 25, Barakhamba Road, New Delhi, 110001, India	Equity	100
Rolls-Royce Industrial & Marine Power Limited ⁴	London ³	Ordinary	100
Rolls-Royce Industrial Power (India) Limited ^{2,6,10}	Derby ⁷	Ordinary	100
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce Industries Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce International Limited	Derby ⁷	Ordinary	100
Rolls-Royce Japan Co., Limited	31st Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-Ku, Tokyo, 100-6031, Japan	Ordinary	100
Rolls-Royce Leasing Limited	Derby ⁷	Ordinary	100
Rolls-Royce Malaysia Sdn. Bhd.	Unit A-3-6 TTDI Plaza, Jalan Wan Kadir 3, Taman Tun Dr Ismail, 6000 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Marine North America Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Military Aero Engines Limited ^{2,6,10}	London ³	Ordinary	100
Rolls-Royce New Zealand Limited	Deloitte Centre, Level 20, 1 Queen Street, Auckland, 10103, New Zealand	Ordinary	100
Rolls-Royce North America (USA) Holdings Co.	Wilmington ⁸	Common Stock	100
Rolls-Royce North America Holdings Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce North America Ventures Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce North America Inc.	Wilmington ⁸	Common Stock	100

SUBSIDIARIES

Company name	Address	Class of shares	% of class held
Rolls-Royce North American Technologies Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Oman LLC	Bait Al Reem, Business Office #131, Building No 81, Way No 3409, Block No 234, Al Thaqafa Street, Al Khuwair, PO Box 20, Postal Code 103, Oman	Ordinary	100
Rolls-Royce Operations (India) Private Limited ^{2,6}	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India	Ordinary	100
Rolls-Royce Overseas Holdings Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce Overseas Investments Limited ⁴	Derby ⁷	Ordinary A	100
Rolls-Royce Placements Limited ²	London ³	Ordinary	100
Rolls-Royce plc	London ³	Ordinary	100
Rolls-Royce Power Engineering Limited	Derby ⁷	Ordinary	100
Rolls-Royce Power Systems AG	Maybachplatz 1, 88045, Friedrichshafen, Germany	Ordinary	100
Rolls-Royce Retirement Savings Trust Limited ^{2,6}	Derby ⁷	Ordinary	100
Rolls-Royce Saudi Arabia Limited	3010 – Al Arid, Riyadh 13332 – 7663, Saudi Arabia	Cash shares	100
Rolls-Royce Singapore Pte. Ltd.	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100
Rolls-Royce SMR Limited	Derby ⁷	Ordinary	70.5
Rolls-Royce Solutions (Suzhou) Co. Ltd	9 Long Yun Road, Suzhou Industrial Park, Suzhou 215024, Jiang Su, China	Ordinary	100
Rolls-Royce Solutions Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Capital Stock	100
Rolls-Royce Solutions America Inc.	100 West Tenth Street, Wilmington – Delaware DE 19808, United States	Ordinary	100
Rolls-Royce Solutions Asia Pte. Limited	10 Tukang Innovation Drive, Singapore 618302	Ordinary	100
Rolls-Royce Solutions Augsburg GmbH	Dasinger Strasse 11, 86165, Augsburg, Germany	Capital Stock	100
Rolls-Royce Solutions Benelux B.V.	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	Ordinary	100
Rolls-Royce Solutions Brasil Limitada	Via Anhanguera, KM 29203, 05276-000 São Paulo – SP, Brazil	Quotas	100
Rolls-Royce Solutions Enerji Deniz Ve Savunma Anonim Şirketi	Hatıra Sokak, No. 5, Ömerli Mahellesi, 34555 Arnavutköy, Istanbul, Turkey	Ordinary	100
Rolls-Royce Solutions France S.A.S.	Immeuble Colorado, 8/10 rue de Rosa Luxembourg-Parc des Bellevues 95610, Erangy-sur-Oise, France	Ordinary	100
Rolls-Royce Solutions GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Rolls-Royce Solutions Hong Kong Limited	14/F, Chinabest International Centre, 8 Kwai On Road, Kwai Chung, N.T., Hong Kong	Ordinary	100
Rolls-Royce Solutions Ibérica s.l.u.	Paseo de las Flores 46, 28823 Coslada, Madrid, Spain	Ordinary	100
Rolls-Royce Solutions Israel Limited	6 Meir Ariel St., Natanya, Israel	Ordinary	100
Rolls-Royce Solutions Italia S.r.l.	Via Aurelia Nord, 328, 19021 Arcola (SP), Italy	Capital Stock	100
Rolls-Royce Solutions Japan Co. Limited	14-3, Nishitenma 4-chome, Kita-ku, Osaka 530-0047, Japan	Ordinary	100
Rolls-Royce Solutions Korea Limited	Unit 301, The Square, 9 Mulgeum-ro, Mulgeum-eup, Yangsan-si, Gyeongsangnam-do 50657, Republic of Korea	Ordinary	100
Rolls-Royce Solutions Liège Holding S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Liège S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Magdeburg GmbH	Friedrich-List-Strasse 8, 39122 Magdeburg, Germany	Capital Stock	100
Rolls-Royce Solutions Malaysia Sdn. Bhd.	Office no. B329, Spaces Platinum Sentral, Lot G02-G07, Level 3 Platinum Sentral, Jalan Stesen Sentral 2, 50470 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Solutions Mexico City S.A. de C.V.	Xochicalco 620, Colonia Letran Valle, Delegacion Benito Juarez, Mexico City 03650, Mexico	Common Shares	100
Rolls-Royce Solutions Middle East FZE	S3B5SR06, Jebel Ali Free Zone, South P.O. Box 61141, Dubai, United Arab Emirates	Ordinary	100
Rolls-Royce Solutions Ruhstorf GmbH	Rotthofer Strasse 8, 94099 Ruhstorf a.d. Rott, Germany	Capital Stock	100
Rolls-Royce Solutions South Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Ordinary	100
Rolls-Royce Solutions Trading and Contracting LLC ⁵	REGUS Service Office, Office No. 1034, Shoumoukh Tower, 10th Floor, Tower B, C-Ring Road, Al Sadd, PO Box 207207, Doha, Qatar	Ordinary	49
Rolls-Royce Solutions UK Limited	Derby ⁷	Ordinary	100
Rolls-Royce Solutions Willich GmbH	Konrad-Zuse-Str. 3, 47877, Willich, Germany	Capital Stock	100
Rolls-Royce Sp z.o.o.	Opolska 100 31-323, Krakow, Poland	Ordinary	100
Rolls-Royce Submarines Limited	Atlantic House, Raynesway, Derby, Derbyshire DE21 7BE, United Kingdom	Ordinary	100

Company name	Address	Class of shares	% of class held
Rolls-Royce Technical Support Sarl	Site Motoristes Vendor-Village, 46 avenue Jean Monnet, 31770, Colomiers, France	Ordinary	100
Rolls-Royce Total Care Services Limited ⁴	Derby ⁷	Ordinary	100
Rolls Royce Turkey Güç Çözümleri San. ve Tic.Ltd.Şti.	Cumhuriyet Mah. Yakacık D-100 Kuzey Yanyol Cad. No: 25 Kartal, İstanbul, Türkiye	Cash shares	100
Rolls-Royce UK Pension Fund Trustees Limited ²	Derby ⁷	Ordinary	100
Rolls-Royce Zweite Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100
Ross Ceramics Limited ⁴	Derby ⁷	Ordinary	100
Servowatch Systems Limited ⁴	London ³	Ordinary	100
Sharing in Growth UK Limited ¹¹	Moor Lane, Allenton, Derby DE24 9HY, United Kingdom	Limited by guarantee	100
Spare IPG 20 Limited ⁴	London ³	Ordinary	100
Spare IPG 21 Limited ²	London ³	Ordinary	100
Spare IPG 24 Limited ⁴	London ³	Ordinary	100
Spare IPG 32 Limited ⁴	London ³	Ordinary	100
Spare IPG 4 Limited ²	London ³	Ordinary	100
Team Italia Marine S.R.L.	Kampanien, Via Luigi Einaudi 114/B, 61032 Fano, Pesaro and Urbino, Italy	Ordinary	100
The Bushing Company Limited ⁴	London ³	Ordinary	100
Timec 1487 Limited ²	London ³	Ordinary	100
Turbine Surface Technologies Limited ¹	Unit 13a, Little Oak Drive, Sherwood Park, Annesley, Nottinghamshire NG15 0DR, United Kingdom	Ordinary A Ordinary B	Nil 100
Vessel Lifter Inc. ²	Corporation Service Company, 1201 Hays Street, Tallahassee, Florida 32301, United States	Common Stock	100
Vinters Defence Systems Limited ²	London ³	Ordinary	100
Vinters Engineering Limited	Derby ⁷	Ordinary	100
Vinters International Limited ⁴	Derby ⁷	Ordinary	100
Vinters Limited ⁴	Derby ⁷	Ordinary	100
Vinters-Armstrongs (Engineers) Limited ²	London ³	Ordinary	100
Vinters-Armstrongs Limited ²	London ³	Ordinary B	100
Yocova Private Ltd	London ³	Ordinary	100
Yocova PTE. Ltd. ²	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100

1 Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

2 Dormant entity

3 Kings Place, 90 York Way, London N1 9FX, United Kingdom

4 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2024. Rolls-Royce plc will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

5 Although the interest held is 49%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

6 Reporting year end is 31 March 2025

7 Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom

8 Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States

9 Entity in liquidation

10 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2025. Rolls-Royce plc will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

11 The entity is not included in the consolidation, as Rolls-Royce plc does not have a beneficial interest in the net assets of the entity

12 The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)

13 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2025. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

14 Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity

Joint ventures and associates

Company name	Address	Class of shares	% of class held	Group interest held %
Aero Gearbox International SAS ¹²	18 Boulevard Louis Sequin, 92700 Colombes, France	Ordinary	50	50
Airtanker Services Limited	Airtanker Hub, RAF Brize Norton, Carterton, Oxfordshire OX18 3LX, United Kingdom	Ordinary	23.5	23.5
Alpha Leasing (US) (No.2) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.4) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.5) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.6) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.7) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Leasing (US) (No.8) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Leasing (US) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Alpha Partners Leasing Limited	1 Brewer's Green, London SW1H 0RH, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Beijing Aero Engine Services Company Limited	No. 12 Jinhang Middle Road, Shunyi District, (Tianzhu Comprehensive Bonded Zone Bonded Function Zone 2), Beijing, China	Capital	50	50
CFMS Limited	43 Queen Square, Bristol BS1 4QP, United Kingdom	Limited by guarantee	–	33.3
Clarke Chapman Portia Port Services Limited ²	Maritime Centre, Port of Liverpool, Liverpool L21 1LA, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Egypt Aero Management Services ⁹	Maintenance and Technical Works Company Building, Room No. 204, Second Floor, Airport Road, El Nozha, Cairo	Ordinary	50	50
EPI Europrop International GmbH	Pelkovenstr. 147, 80992 München, Germany	Capital Stock	28	28
Eurojet Turbo GmbH	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Ordinary	33	33
Force MTU Power Systems Private Limited	Mumbai Pune Road, Akurdi, Pune, Maharashtra 411035, India	Capital Stock	49	49
Genistics Holdings Limited	Derby ⁷	Ordinary A Ordinary B	100 Nil	50
Global Aerospace Centre for Icing and Environmental Research Inc. ¹²	1000 Marie-Victorin Boulevard, Longueuil Québec J4G 1A1, Canada	Ordinary	50	50
Hoeller Electrolyzer GmbH ¹⁴	Alter Holzhafen, 23966 Wismar, Germany	Ordinary	54.2	54.2
Hong Kong Aero Engine Services Limited	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	Ordinary	50	50
International Aerospace Manufacturing Private Limited ^{6,12}	Survey No. 3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	Ordinary	50	50
ITP Next Generation Turbines SL	Parque Tecnológico Edificio 300, 48170, Zamudio, Vizcaya, Spain	Ordinary A Ordinary B	Nil 100	25
Light Helicopter Turbine Engine Company (unincorporated partnership)	Suite 119, 9238 Madison Boulevard, Madison, Alabama 35758, United States	Partnership (no equity held)	–	50
Manse Opus Management Company Limited ⁶	Third Floor Queensberry House, 3 Old Burlington Street, London W1S 3AE, United Kingdom	Limited by guarantee	33.3	33.3
MEST Co., Limited	97 Bukjeonggongdan 2-gil, Yangsan-si, Gyeongsangnam-do, 50571, Republic of Korea	Normal	46.8	46.8
MTU Power Systems Sdn. Bhd.	32 Floor, UBN Tower, 20 Jalan P Ramlee, 50250 Kuala Lumpur, Malaysia	Ordinary A Ordinary B	100 Nil	49
MTU Turbomeca Rolls-Royce ITP GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	25	25
MTU Turbomeca Rolls-Royce GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	33.3	33.3
MTU Yuchai Power Company Limited	No 7 Danan Road, Yuzhou, Yulin, Guangxi, China, 537005, China	Capital Stock	50	50
N3 Engine Overhaul Services GmbH & Co KG	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
N3 Engine Overhaul Services Verwaltungsgesellschaft MbH	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
Rolls Laval Heat Exchangers Limited ²	Derby ⁷	Ordinary	50	50
Rolls-Royce & Partners Finance (US) (No 2) LLC	Wilmington ⁸	Partnership (no equity held)	–	50
Rolls-Royce & Partners Finance (US) LLC	Wilmington ⁸	Partnership (no equity held)	–	50

Company name	Address	Class of shares	% of class held	Group interest held %
SAFYRR Propulsion Limited ²	Derby ⁷	A Shares B Shares	Nil 100	50
Singapore Aero Engine Services Private Limited	11 Calshot Road, 509932, Singapore	Ordinary	50	50
Taec Ucak Motor Sanayi AS ²	Levent Mahallesi Prof. Ahmet Kemal Aru Sk. No: 4/1, Beşiktaş, Turkey	Cash Shares	49	49
Techjet Aerofoils Limited ¹²	Tefen Industrial Zone, PO Box 16, 24959, Israel	Ordinary A Ordinary B	50 50	50
TRT Limited	2 Bramble Way, Clover Nook Industrial Estate Somercotes, Derbyshire DE55 4RH, United Kingdom	Ordinary A Ordinary B 1C	Nil 100 Nil	50
Turbo-Union GmbH	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Capital Stock	40	40
X R Aero Components Limited ¹²	Xujiawan, Beijiao, Xian 710021, Shaanxi, China	Ordinary	49	49

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- 4 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2024. Rolls-Royce plc will issue a guarantee pursuant to s479A in relation to the liabilities of the entity
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- 7 Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom
- 8 Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19809, United States
- 9 Entity in liquidation
- 10 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2025. Rolls-Royce plc will issue a guarantee pursuant to s479A in relation to the liabilities of the entity
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- 13 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2024. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity
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Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ROLLS-ROYCE HOLDINGS PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Rolls-Royce Holdings plc's consolidated financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2024 and of the group's profit and the group's cash flows for the year then ended;
- the consolidated financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report, which comprise: the consolidated and company balance sheets as at 31 December 2024; the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated and company statements of changes in equity for the year then ended; and the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 7, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Following our assessment of the risks of material misstatement of the financial statements, including the impact of climate change, we subjected 32 individual components (including three joint ventures) to full scope audits for group reporting purposes, which, with an element of sub-consolidation, equates to 15 group reporting opinions. In addition, 13 components performed targeted specified audit procedures contributing to audit coverage.
- The group engagement team audited the company and other centralised functions and balances including those covering the group treasury operations, corporate taxation, post-retirement benefits, and certain goodwill and intangible asset impairment assessments. The group engagement team performed audit procedures over the group consolidation and financial statements disclosures.
- The components on which we performed full scope audit procedures, together with the work performed by the group engagement team as identified above, accounted for 92% of revenue and 79% of profit before taxation.
- For non-full scope components, which were not considered inconsequential components, we either performed audit procedures over specific account balances or targeted risk assessment procedures.
- Some centralised audit testing was performed for certain reporting components who are supported by the group's Finance Service Centres (FSCs).
- As part of the group audit supervision process, the group engagement team met with and discussed the approach and results of audit procedures with component teams and reviewed their audit files and final deliverables. In person site visits to components in the UK, Germany, US, Hong Kong and Singapore were also performed.

Key audit matters

- Long-term contract accounting and associated provisions (group)
- Deferred tax asset recognition and recoverability (group)
- Translation of foreign currency denominated transactions and balances (group)
- Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)
- Recoverability of the company's investments in subsidiary undertakings (company)

Materiality

- Overall group materiality: £178m (2023: £93m) based on approximately 1.0% of underlying revenue (2023: approximately 0.6% of underlying revenue).
- Overall company materiality: £149m (2023: £147m) based on approximately 1.0% of total assets.
- Performance materiality: £110m (2023: £70m) (group) and £111m (2023: £110m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter

Long-term contract accounting and associated provisions (group)

Audit Committee report and note 1 to the consolidated financial statements – Accounting policies – Revenue recognition and contract assets and liabilities

The Civil Aerospace and Defence businesses operate primarily with long-term customer contracts that span multiple periods. These long-term contracts require a number of assumptions to be made in order to determine the expected lifetime revenue and costs of the contract and the amounts of revenue and profit/loss that are recognised in each reporting period.

Small adjustments in assumptions can have a significant impact on the results of an individual financial year. Changes to the profile of shop visits or operating conditions of engines can result in different performance assumptions and hence cost profiles. Some contracts include inflation linked price escalations which require judgement to determine the extent to which future price increases are highly probable not to reverse and therefore can be recognised. These changes to forecasts can result in revisions to the revenue previously recognised.

For Defence, long-term contracts tend to be for a fixed price or based on a cost plus or target cost reimbursement for qualifying costs and there are also some flying hours arrangements. For Civil Aerospace aftermarket contracts, income is earned based on engine flying hours (EFH). Management is required to estimate this to determine the total income expected over the life of a contract. The group expects large engine EFH to grow to 110-115% of pre-pandemic levels during 2025.

In addition, the profitability of Civil Aerospace aftermarket contracts typically assumes that there will be significant cost improvements over the lifetime (eight to 15 years) of the contracts. Significant assumptions need to be made in determining time-on-wing, whether incremental costs should be treated as wastage or are part of the ongoing cost of servicing a contract, future exchange rates used to translate foreign currency income and costs and other operating parameters used to calculate the projected life cycle. These future costs are also risk adjusted to take into account forecasting accuracy which represents an additional judgement.

At the development stage of a programme, agreements are entered into with certain Civil Aerospace suppliers to share in the risk and rewards of the contracts (Risk and Revenue Sharing Agreements – 'RRSA'). This can involve upfront participation fees from the RRSA that are amortised over the engine production phase. In addition, certain revenue and costs are recorded in the consolidated income statement net of the amounts received from the RRSA.

The nature of the Civil Aerospace business gives rise to a number of contractual guarantees, warranties and potential claims, including the in-service issues of the Trent 1000 programme. The accounting for these can be complex and judgemental and may impact the consolidated income statement immediately or over the life of the contract. The valuation of provisions for the associated amounts are judgemental and need to be considered on a contract by contract basis.

How our audit addressed the key audit matter

We focused our work on a number of contracts where we consider there to be the highest degree of management judgement or estimation and designed specific procedures over the long-term contract accounting targeted at the associated risks. We also sample tested the remaining population of contracts. The audit procedures performed included:

- We attended meetings with Civil Aerospace and Defence engine programme and customer contract managers in order to understand the operational matters impacting the performance of specific contracts and any amendments to contractual arrangements that could have an impact on performance;
- We obtained and read the relevant sections of a sample of contracts to understand the key terms including performance obligations and pricing structures;
- We assessed how management had forecast engine flying hours including by considering the downside scenarios modelled and comparing the assumptions to industry data;
- We challenged management's judgments and associated risk adjustments relating to the risk of engine flying hours, costs and technical items;
- We re-performed the calculations used to determine the degree of completion for a sample of contracts and this was also used in assessing the magnitude of any catch-up adjustments;
- We compared the previously forecast results of a sample of contracts with the actual results to assess the performance of the contract and the historical accuracy of forecasting;
- We verified a sample of costs incurred to third party documentation to assess the validity of the forecast costs to complete;
- We assessed the assumptions relating to life cycle cost reductions to determine the likelihood of realisation and where relevant the speed at which they would be achieved, including the impact on the number of shop visits, validating these assumptions directly with the senior programme engineers;
- We obtained support for the risk adjustments made in respect of future costs and challenged management's assumptions through assessment against historical performance, known technical issues and the stage of completion of the programme;
- We recalculated the price escalation included within the contracts;
- We challenged the assessment of provisions for onerous contracts to determine the completeness of the unavoidable costs to fulfil the contractual obligations. We also validated the rates used to discount the future cash flows;
- We assessed the sensitivity of the Trent 1000 programme to reasonable changes in estimates, particularly in respect of the repair and overhaul facility capacity, technical cost creep on the known issues and cost outturns against previous similar matters, including whether any costs should be treated as wastage, in determining whether the judgements were supportable;
- We read and understood the key terms of a sample of RRSA contracts to assess whether revenue and costs had been appropriately reflected, net of the share attributable to the RRSA in the consolidated income statement;

Key audit matter	How our audit addressed the key audit matter
<p>Long-term contract accounting and associated provisions (group) continued</p> <p>Management have modelled the potential impact of climate change on its forecasts and has incorporated these estimates into the long-term contracts for Civil Aerospace, which is the business with the highest expected exposure to the impact of climate change. This included incorporating the potential impact of carbon prices on the group's direct emissions including engine testing and those of its suppliers and the potential impact of climate change on commodity prices in cost estimates. The impact of climate change on long-term contracts is highly uncertain and requires estimates on carbon prices, the cost and speed of decarbonisation, the ability of the group and its suppliers to pass on incremental costs and assessing the associated impact on aviation demand.</p>	<ul style="list-style-type: none"> – With assistance from our valuation experts, we considered the appropriateness of the key assumptions used by management to model the impact of climate change, including deploying valuation experts to benchmark the carbon and commodity price forecasts utilised. We validated management's assertions on the ability of suppliers and the group to pass on incremental costs by reviewing supplier and customer contracts for price change mechanisms. Where appropriate we performed independent sensitivity analysis to determine to what extent reasonably possible changes in these assumptions could result in material changes to the revenue recorded in the year and assessed the appropriateness of the associated disclosures; – We read and challenged management's accounting papers that were prepared to explain the positions taken in respect of their key contract judgements; – We considered whether there were any indicators of management bias in arriving at their reported position; and – We assessed the adequacy of disclosures in note 1 of the key judgements and estimates involved in long-term contract accounting. <p>Based on the work performed, we concur that management's estimates for long-term contract accounting and associated provisions are materially appropriate, in the context of the financial statements taken as a whole.</p>
<p>Deferred tax asset recognition and recoverability (group)</p> <p><i>Audit Committee report, note 1 to the consolidated financial statements – Accounting policies – Taxation and note 5 to the consolidated financial statements – Taxation</i></p> <p>The recognition and recoverability of deferred tax assets in Rolls-Royce plc, where there have been significant taxable losses in the past, is based on a number of significant assumptions. Deferred tax assets can be recognised in relation to these losses to the extent it is probable that there will be sufficient future taxable profits to utilise them. Significant deferred tax assets have been recognised relating to Rolls-Royce plc on the basis of expected future levels of profitability. The magnitude of the assets recognised necessitates the need for a number of assumptions in assessing the future levels of profitability in the UK over an extended period. This requires assumptions on future profits from the group's aftermarket and original equipment sales including EFH, associated costs and the future exchange rates used to translate foreign currency denominated amounts.</p> <p>At 31 December 2024, the group recognised £3,099m (2023: £2,399m) of deferred tax assets in the UK of which £2,472m (2023: £1,476m) relate to tax losses. £1,033m of additional deferred tax assets related to tax losses have been recognised in the year as a result of the latest assessment which incorporates the impact of Civil Aerospace large engine orders in 2024, the outcomes of strategic initiatives, continued growth in Civil Aerospace flying hours and other macro-economic factors. £629m of potential deferred tax assets in relation to UK losses remain unrecognised on the basis that management have judged there are not yet sufficient probable future taxable profits for them to be utilised against.</p>	<p>We evaluated management's methodology for assessing the recognition and recoverability of deferred tax assets, which remains consistent with the prior year, including the ability to offset certain deferred tax liabilities and deferred tax assets. Where recognition is supported by the availability of sufficient probable taxable profits in future periods against which brought forward tax losses can be utilised, our evaluation of these future profits considered both the business model and the applicable UK tax legislation.</p> <p>We assessed the future profit forecasts of the UK tax group and the underpinning assumptions including management's risk weighting of particular profit streams in Rolls-Royce plc and tested that the assumptions, including the forecasts for periods beyond the normal five year forecasting horizon, were reasonable. In doing this, we verified that the forecasts did not include taxable profit growth that could not be demonstrated as probable.</p> <p>Where applicable we assessed the consistency of the forecasts used to justify the recognition of deferred tax assets to those used elsewhere in the business, including for long-term contract accounting, for the going concern assessment and longer term viability statement. We also assessed the risk adjustments applied by management to these profit forecasts to future periods that are significantly further in time than the group's normal five year forecasting process and considered whether these appropriately reflect the estimation risk in the longer term forecasts.</p>

Key audit matter	How our audit addressed the key audit matter
<p>Deferred tax asset recognition and recoverability (group) continued</p> <p>The existence of tax losses brought forward from prior periods and other deductible temporary differences in Rolls-Royce plc, combined with the impact of climate change on future forecasts, presents a heightened risk that deferred tax assets previously recognised may not be recoverable. Since the recognised deferred tax asset is recoverable over a long period, management have reflected their assessment of the impact of climate change within the model forecasting probable taxable profits. This incorporates multiple assumptions including future carbon prices, commodity prices, the impact of government action on aviation demand, the cost and speed of decarbonisation and the ability of suppliers and Rolls-Royce plc to pass on price changes. To assess the impact of inherent uncertainty management have performed sensitivities over key estimates.</p>	<p>We considered the appropriateness of the climate change assumptions modelled as part of their probability weighted scenarios to forecast probable profit levels and performed consistent procedures to those set-out in the long-term contract accounting and associated provisions key audit matter.</p> <p>We also performed additional sensitivity analysis to understand whether reasonably possible changes to these assumptions could lead to a material change in the recognised asset and where appropriate ensured that adequate disclosure was provided.</p> <p>We also assessed the adequacy of disclosures over this area, particularly the impact of changes in key estimates of the asset recognised and this has been disclosed in notes 1 and 5.</p> <p>We did not identify any material uncorrected exceptions from our audit work.</p>
<p>Translation of foreign currency denominated transactions and balances (group)</p> <p><i>Note 1 to the consolidated financial statements – Accounting policies – Foreign currency translation</i></p> <p>Foreign exchange rate movements influence the reported consolidated income statement, the consolidated cash flow statement and consolidated balance sheet. One of the group's primary accounting systems that is used by a number of their subsidiaries translates transactions and balances denominated in foreign currencies at a fixed budget rate for management information purposes. Foreign currency denominated transactions and balances are then re-translated to actual average and closing spot rates through manual adjustments. Due to the manual nature of the process and significance of the recurring adjustments needed there is a risk that transactions and balances denominated in foreign currencies are incorrectly translated in the consolidated financial statements.</p>	<p>We performed the following specific audit procedures over this area:</p> <ul style="list-style-type: none"> – Obtained an understanding of the process employed by management to correctly record the translation of foreign currency balances and transactions; – Tested system reports identifying transactions and balances in transaction currency by agreeing these to general ledger balances; – Tested, on a sample basis, the manual calculations of the adjustment needed to correctly record the translation of the foreign currency denominated transactions and balances; – Sampled balances and transactions requiring adjustment by transaction currency and tested to source data and assessed the completeness of these balances and transactions; – Performed procedures at a group level to understand the work undertaken by management to identify any unusual movements or balances; and – Agreed the exchange rates used in management's translation adjustments to an independent source. <p>There were no material uncorrected errors from our audit work.</p>

Key audit matter

Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)

Note 1 to the consolidated financial statements – Accounting policies – Presentation of underlying results, note 2 to the consolidated financial statements – Segmental analysis and note 28 to the consolidated financial statements – Derivation of summary funds flow statement

In addition to the performance measures prescribed by International Financial Reporting Standards, the group also presents their results on an underlying basis, as the Directors believe this better reflects the performance of the group during the year. The group also presents a free cash flow metric which the Directors believe reflects the cash generated from underlying trading. This differs from the cash flows presented in the consolidated cash flow statement.

The underlying results differ significantly from the reported statutory results and are used extensively to explain performance to shareholders. Alternative performance measures can provide investors with additional understanding of the group's performance if consistently calculated, properly used and presented. However, when improperly used and presented, these non-GAAP measures can mislead investors and may mask the real financial performance and position. There is judgement in determining whether items should be excluded from underlying profit or free cash flow.

A key adjustment between the statutory results and the underlying results relates to the foreign exchange rates used to translate foreign currency transactions and balances. The underlying results reflect the achieved rate on foreign currency derivative contracts settled in the period and retranslates assets and liabilities at the foreign currency rates at which they are expected to be realised or settled in the future. As the group can influence which derivative contracts are settled in each reporting period it has the ability to influence the achieved rate and hence the underlying results.

One of the items excluded from underlying profit is exceptional restructuring costs associated with the transformation programme. Judgement is required to determine what costs are related to this programme to warrant exclusion from underlying profit.

Recoverability of the company's investments in subsidiary undertakings (company)

Note 2 to the company financial statements – Investments – subsidiary undertakings

Investments in subsidiary undertakings of £14,905m (2023: £14,810m) are accounted for at cost less provision for impairment in the company balance sheet at 31 December 2024.

Investments are tested for impairment if impairment indicators exist. If such indicators exist, the recoverable amounts of the investments in subsidiaries are estimated in order to determine the extent of the impairment loss, if any. Any such impairment loss is recognised in the income statement.

A review of potential indicators of impairment was performed by management focusing on the developments in the year, concluding that no such indicators were present and therefore that the investments' carrying values remain recoverable.

How our audit addressed the key audit matter

We have considered the judgements taken by management to determine what should be treated as an exceptional item and the translation of foreign currency amounts and obtained corroborative evidence for these.

We also considered whether there were items that were recorded within underlying profit that are exceptional in nature and should be reported as an exceptional item. No such material items were identified. As part of this assessment we challenged management's rationale for the designation of certain items as exceptional or one-off and assessed such items against the group's accounting policy, considering the nature and value of those items.

Within underlying results, foreign currency transactions are presented at rates achieved on derivative contracts hedging the net operating cash flows of the group and monetary assets and liabilities are retranslated at rates forecast to be achieved on derivative contracts when the associated cash flows occur. We have agreed these forecast rates to the profile of the derivatives that are expected to mature in the future and tested their application to the relevant monetary assets and liabilities.

We tested the reconciling items between the underlying operating profit and free cash flow disclosed in note 28 including verifying that the items adjusted for are consistent with the prior year. This included validating a sample of restructuring costs and verifying that the costs were sufficiently related to the transformation programme. We also considered whether free cash flow contains material one-off items which require further disclosure.

We assessed the appropriateness and completeness of disclosures of the impact of one-off or non-underlying items primarily in notes 1, 2 and 28 to the consolidated financial statements and found them to be appropriate. This included assessing the explanations management provided on the reconciling items between underlying performance and statutory performance in note 2.

Overall we found that the classification judgements made by management were in line with their policy for underlying results and exceptional items, had been consistently applied and there are no material uncorrected misstatements resulting from our testing.

We have evaluated management's assessment around recoverability of the investment in subsidiary undertakings. In doing so we have considered whether any potential indicators of impairment existed at 31 December 2024. In doing this, we considered the market capitalisation of the company at 31 December 2024, which exceeded the carrying value of investments in subsidiary undertakings. We have compared the performance of the group against the 2023 forecasts.

Overall, we found that management's judgement that there has been no indicator of potential impairment to be appropriate.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the group consolidation. Of the group's approximately 350 reporting components, 32 individual components (including three joint ventures) were subject to full scope audits, which, with an element of sub-consolidation, equates to 15 group reporting opinions; 13 components performed targeted specified audit procedures contributing to audit coverage.

Under our audit methodology, we test both the design and operation of relevant business process controls over significant risks and perform substantive testing over each financial statement line item.

The group operates Finance Service Centres (FSCs) to bulk process financial transactions in Derby (UK), Indianapolis (US) and Bengaluru (India). Based on our assessment it is not possible to fully test revenue and profit centrally as certain key processes, such as long-term contracting, remain within the business due to their nature and are not handled by the FSCs.

Further specific audit procedures over central functions, the group consolidation and areas of significant judgement (including corporate taxation, certain goodwill balances and intangible assets, treasury and post-retirement benefits) were performed by the group audit team.

This scope of work, together with the additional procedures performed at a group level as identified above, covered 92% of revenue and 79% of profit before tax.

Where work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The group engagement team also reviewed selected audit working papers for certain component teams to evaluate the sufficiency of audit evidence obtained and fully understand the matters arising from the component audits.

In addition, senior members of the group engagement team have visited component teams across all the group's major segments in the UK, Germany, US, Hong Kong and Singapore. These visits were in person for these locations. They included meetings with the component auditor and with local management.

Reflective of its nature, our audit of the company financial statements focused on the investments in subsidiary undertakings and validating amounts owed to subsidiary undertakings.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they adopted to assess the extent of the potential impact of climate risk on the group's and company's financial statements and to support the disclosures made within the Sustainability section of the Strategic report. In addition to enquiries with management, we understood the governance process in place to assess climate risk, reviewed the group's assessment of climate related risk including both physical and transition risks and read additional reporting made on climate related matters, including its CDP public submission and the group's disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.

We held meetings with management including the group's sustainability team to consider the completeness of management's climate risk assessment and its consistency with internal climate plans and board minutes, including whether the time horizons management have used take account of all relevant aspects of climate change such as transition risks. We also considered the consistency with the group's communications on climate related impacts. We challenged how management had considered longer term physical risks such as severe weather related impacts, and shorter-term transitional risks such as the introduction of carbon taxes.

We considered the following areas which depend on medium to long-term profit or cash flow forecasts to potentially be materially impacted by climate risk and consequently we focused our audit work in these areas: long-term contract accounting in the UK Civil business (including contract loss provisions); the recoverability of deferred tax assets in the UK and the recoverability of the carrying value of goodwill and certain intangible assets. Our findings were reported to and discussed with the Audit Committee and management. Where significant, further details of how climate change has been considered in these areas and our audit response is given in the key audit matters above.

To respond to the audit risks identified in these areas we tailored our audit approach to address these, in particular, we:

- Deployed our valuation experts to benchmark carbon pricing and key commodity price forecasts against forecasts of future prices and found them to be materially reasonable. These have been incorporated by management in their forecasts of the group's future cost base for long-term contract accounting and associated provisions as well as scenarios utilised in assessing the recoverability of deferred tax assets, goodwill and other assets;
- Considered the reasonableness of management's assertion that climate change is unlikely to have a material impact on aviation demand by comparing management's EFH forecasts against other industry benchmarks and considering the sensitivity of EFH to different GDP growth rates expected under differing climate scenarios;
- Verified that estimates of capital and cash costs from reductions to the group's scope 1 and scope 2 emissions have been incorporated in the group's forecasts including those used for going concern and the disclosures around the viability of the group that are included in the Strategic Report;
- Validated management's judgement that climate change is unlikely to have a material impact on other estimates at 31 December 2024 including the recoverability of inventory or the expected credit loss provision associated with trade receivables and contract assets by considering the short timeframe these assets are expected to be utilised in compared to the period over which transition and physical risks are expected to arise; and
- Where appropriate, performed independent sensitivity analysis to determine to what extent reasonably possible changes in the climate related assumptions in the group's forecasts could result in material changes to the impacted balances and assessed the appropriateness of the associated disclosures.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Sustainability section of the Strategic Report) within the Annual Report and our knowledge obtained from our audit. This included considering the models management used in the TCFD scenario analysis and if the assumptions in those models are consistent with the assumptions used elsewhere in the financial statements.

As disclosed within the Sustainability section of the Strategic Report the achievement of net zero by 2050 will require significant change across the aviation sector in particular, including widespread adoption of Sustainable Aviation Fuels or other alternative fuel sources. Management have not included the incremental cost of this in its longer term forecasts, based on the assumptions that such costs can be passed onto customers and will occur after the average life of the current existing contracts.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole for the year ended 31 December 2024. The future estimated financial impacts of climate risk are clearly uncertain given the medium to long-term time frames involved and their dependency on how governments, global markets, corporations and society respond to the issue of climate change and the speed of technological advancements that may be necessary. Accordingly, financial statements cannot capture all possible future outcomes as these are not yet known.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements – group	Financial statements – company
Overall materiality	£178m (2023: £93m).	£149m (2023: £147m).
How we determined it	Approximately 1.0% of underlying revenue (2023: approximately 0.6% of underlying revenue)	Approximately 1.0% of total assets
Rationale for benchmark applied	We have consistently used underlying revenue to determine materiality as opposed to a profit based benchmark. This is because there is considerable volatility in profit before tax as a result of revenue recognition under IFRS 15 and from the fair value movement in the group's derivatives. Underlying revenue continues to be a key performance metric for the group and is more stable than the profit metric. We have increased the percentage revenue measure used to determine materiality to 1.0% compared to 0.6% for 2023. This reflects the growth in the business following the post-COVID 19 pandemic recovery and further stabilisation of the industry. This is also a commonly used benchmark level for revenue based materiality. In conjunction with this increase we reduced our performance materiality level to 62.5% (2023: 75%) in order to limit the impact of the overall materiality increase on the extent of our detailed audit testing.	We determined our materiality based on total assets, which is more applicable than a performance-related measure as the company is an investment holding company for the group.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £6m and £75m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 62.5% (2023: 75%) of overall materiality, amounting to £110m (2023: £70m) for the group financial statements and 75% (2023: 75%) of overall materiality, amounting to £111m (2023: £110m) for the company financial statements.

In determining the performance materiality, we considered a number of factors – the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls – and concluded that an amount in the middle of our normal range was appropriate.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £7m (group audit) (2023: £3m) and £7m (company audit) (2023: £7m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the model used for management's going concern assessment which is primarily a liquidity assessment given there are no significant financial covenants in its committed debt facilities. Management's assessment covered the 18 months from the balance sheet date to 30 June 2026. We focused on this period and also considered the subsequent six months to the end of 2026;
- Management's base case forecasts are based on its normal budget and forecasting process for each of its businesses for the next five years. We understood and assessed this process by business including the assumptions used for 2025 and 2026 and assessed whether there was adequate support for these assumptions. We also considered the reasonableness of the monthly phasing of cash flows. A similar assessment was performed on the downside cash flows, including understanding of the scenarios modelled by management, how they were quantified and the resultant monthly phasing of the downside cash flow forecast;
- We have read and understood the key terms of all committed debt facilities to understand any terms, covenants or undertakings that may impact the availability of the facility;
- Using our knowledge from the audit and assessment of previous forecasting accuracy we conducted our own stress tests to apply to management's cash flow forecasts. We overlaid these tests on management's forecasts to form our own view on management's downside forecasts. This included consideration of management's assessment of the impact of climate change and the likelihood of any downside risks crystallising in the period to 30 June 2026;
- We considered the potential mitigating actions that management may have available to it to reduce costs, manage cash flows or raise additional financing and assessed whether these were within the control of management and possible in the period of the assessment; and
- We assessed the adequacy of disclosures in the Going concern statement and statements in note 1 of the consolidated and company financial statements and found these appropriately reflect the key areas of uncertainty identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

In relation to the directors' reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2024 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Directors' Remuneration

In our opinion, the part of the Remuneration Committee report to be audited has been properly prepared in accordance with the Companies Act 2006.

Corporate governance statement

The Listing Rules require us to review the directors' statements in relation to going concern, longer-term viability and that part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for our review. Our additional responsibilities with respect to the corporate governance statement as other information are described in the Reporting on other information section of this report.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement, included within the governance report is materially consistent with the financial statements and our knowledge obtained during the audit, and we have nothing material to add or draw attention to in relation to:

- The directors' confirmation that they have carried out a robust assessment of the emerging and principal risks;
- The disclosures in the Annual Report that describe those principal risks, what procedures are in place to identify emerging risks and an explanation of how these are being managed or mitigated;
- The directors' statement in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- The directors' explanation as to their assessment of the group's and company's prospects, the period this assessment covers and why the period is appropriate; and
- The directors' statement as to whether they have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due over the period of its assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Our review of the directors' statement regarding the longer-term viability of the group and company was substantially less in scope than an audit and only consisted of making inquiries and considering the directors' process supporting their statement; checking that the statement is in alignment with the relevant provisions of the UK Corporate Governance Code; and considering whether the statement is consistent with the financial statements and our knowledge and understanding of the group and company and their environment obtained in the course of the audit.

In addition, based on the work undertaken as part of our audit, we have concluded that each of the following elements of the corporate governance statement is materially consistent with the financial statements and our knowledge obtained during the audit:

- The directors' statement that they consider the Annual Report, taken as a whole, is fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position, performance, business model and strategy;
- The section of the Annual Report that describes the review of effectiveness of risk management and internal control systems; and
- The section of the Annual Report describing the work of the Audit Committee.

We have nothing to report in respect of our responsibility to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules for review by the auditors.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to the regulations of country aviation authorities such as the Civil Aviation Authority, import and export restrictions including sanctions, and the UK Bribery Act, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Listing Rules of the UK Financial Conduct Authority, the Companies Act 2006 and tax legislation. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to (1) posting inappropriate journal entries to manipulate financial results; (2) management bias in significant accounting estimates such as long-term contract accounting and associated provisions; (3) the sale of Civil engines to joint ventures for no clear commercial purpose or above market prices; and (4) inappropriately including or excluding transactions from the group's underlying or free cash flow alternative performance metrics. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- Discussions throughout the year with management, internal audit, the group's legal counsel, and the head of ethics and compliance, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Reading the minutes of the group's Safety, Energy Transition & Tech Committee and assessment of 'speak-up' matters reported through the group's Ethics Line and the results of management's investigation of such matters;
- Verifying sales of spare engines to joint ventures are in line with the approved timetable and are at a price supported by external valuation;
- Reading the minutes of Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing legal expense accounts to identify significant legal spend that may be indicative of non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias), in particular in relation to long-term contract accounting and associated provisions,
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations, and testing all material consolidation journals; and
- Challenging why certain items are excluded or included from underlying profit or free cash flow and review of disclosures included in the Annual Report explaining and reconciling alternative performance measures to statutory metrics.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements and the part of the Remuneration Committee report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 3 May 2018 to audit the financial statements for the year ended 31 December 2018 and subsequent financial periods. The period of total uninterrupted engagement is seven years, covering the years ended 31 December 2018 to 31 December 2024.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R – 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Ian Morrison (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
27 February 2025

Sustainability assurance statement

Independent assurance report

To the stakeholders of Rolls-Royce Holdings plc

1. Introduction and objectives of work

Bureau Veritas UK Limited (Bureau Veritas) has been engaged by Rolls-Royce Holdings plc (Rolls-Royce) to provide limited assurance of its selected sustainability performance indicators for inclusion in its 2024 Annual Report (the 'Report'). The objective is to provide assurance to Rolls-Royce and its stakeholders over the accuracy and reliability of the reported information and data.

2. Scope of work

The scope of our work was limited to assurance over the following information included within the Report for the period 1 January to 31 December 2024 (the 'Selected Information'):

- Total Energy Consumption;
- Total Scope 1 and 2 Greenhouse Gas (GHG) Emissions (market based): Operations, Facility, and Product Testing activities;
- Total Solid and Liquid Waste Generated;
- Recycling and Recovery Rate (%);
- Number of Total Reportable Injuries;
- Number of People Reached Through Science, Technology, Engineering, and Mathematics (STEM) Education Outreach Programmes; and
- Employee Engagement Score – % Response Rate.

3. Reporting criteria

The Selected Information needs to be read and understood together with the Rolls-Royce 'Sustainability Data Basis of Reporting', as set out at <https://www.rolls-royce.com/sustainability/performance/reporting-approach.aspx>. These internal definitions draw on externally available guidance, the Greenhouse Gas Protocol Corporate Accounting and Reporting standard (revised edition).

4. Limitations and exclusions

Excluded from the scope of our work is assurance of information relating to:

- Activities outside the defined assurance period;
- Positional statements of a descriptive or interpretative nature, or of opinion, belief, aspiration or commitment to undertake future actions; and
- Other information included in the Report other than the Selected Information, including but not limited to normalised figures, total reportable injury rate etc.

The following limitations should be noted:

- This limited assurance engagement relies on a risk based selected sample of sustainability data and the associated limitations that this entails.
- The reliability of the reported data is dependent on the accuracy of metering and other production measurement arrangements employed at site level, not addressed as part of this assurance.
- This independent statement should not be relied upon to detect all errors, omissions or misstatements that may exist.

5. Responsibilities

This preparation and presentation of the Selected Information in the Report are the sole responsibility of the management of Rolls-Royce.

Bureau Veritas was not involved in the drafting of the Report or of the Reporting Criteria. Our responsibilities were to:

- obtain limited assurance about whether the Selected Information has been prepared in accordance with the Reporting Criteria;
- form an independent conclusion based on the assurance procedures performed and evidence obtained; and
- report our conclusions to the Directors of Rolls-Royce.

6. Assessment standard

We performed our work to a limited level of assurance in accordance with International Standard on Assurance Engagements (ISAE) 3000 Revised, Assurance Engagements Other than Audits or Reviews of Historical Financial Information (effective for assurance reports dated on or after December 15, 2015), issued by the International Auditing and Assurance Standards Board.

7. Summary of work performed

As part of our independent assurance, our work included:

1. Conducting interviews with relevant personnel of Rolls-Royce – including the central corporate team and representatives from a selection of sites;
2. Reviewing the data collection and consolidation processes used to compile Selected Information, including assessing assumptions made, and the data scope and reporting boundaries;

3. Reviewing documentary evidence provided by Rolls-Royce;
4. Agreeing a selection of the Selected Information to the corresponding source documentation;
5. Reviewing Rolls-Royce systems for quantitative data aggregation and analysis;
6. Assessing the disclosure and presentation of the Selected Information to ensure consistency with assured information;
7. Carrying out 6 remote site visits to Inchinnan Scotland, Oberursel Germany, Cypress USA, Indianapolis Test Cell #157 USA, Turkey, Liege Belgium, and three physical site visits to Bristol UK, Friedrichshafen Germany, and Augsburg Germany, selected on a risk-based basis, following discussion between Bureau Veritas and Rolls-Royce, with consideration of the contribution to assured data, geographical contribution, and type of operations;
8. Reperforming a selection of aggregation calculations of the Selected Information; and
9. Reperforming greenhouse gas emissions conversions calculations.

A 5% materiality threshold was applied to this assurance. It should be noted that the procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

8. Conclusion

On the basis of our methodology and the activities and limitations described above nothing has come to our attention to indicate that the Selected Information is not fairly stated in all material respects.

KPI	Value
Total Energy Consumption (MWh)	1,624,298
Total Scope 1 Greenhouse Gas (GHG) Emissions (tCO ₂ e)	235,170
Total Scope 2 Greenhouse Gas (GHG) Emissions, market-based (tCO ₂ e)	65,941
Total Solid and Liquid Waste ('000 metric tonnes)	60.8
Recycling and Recovery Rate (%)	61.2
Number of Total Reportable Injuries	126
Number of People Reached Through STEM Education Outreach Programmes	1,026,401
Employee Engagement Score – Response Rate (%)	74

9. Statement of independence, integrity and competence

Bureau Veritas is an independent professional services company that specialises in quality, environmental, health, safety and social accountability with over 190 years history. Its assurance team has extensive experience in conducting verification over environmental, social, ethical and health and safety information, systems and processes.

Bureau Veritas operates a certified¹ Quality Management System which complies with the requirements of ISO 9001:2015, and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards, quality reviews and applicable legal and regulatory requirements which we consider to be equivalent to ISQM 1 & 2².

Bureau Veritas has implemented and applies a Code of Ethics, which meets the requirements of the International Federation of Inspections Agencies (IFIA)³, across the business to ensure that its employees maintain integrity, objectivity, professional competence and due care, confidentiality, professional behaviour and high ethical standards in their day-to-day business activities. We consider this to be equivalent to the requirements of the IESBA code⁴. The assurance team for this work does not have any involvement in any other Bureau Veritas projects with Rolls-Royce.



Bureau Veritas UK Ltd
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Registered Office: Suite 206 Fort Dunlop, Fort Parkway,
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London, 25 February 2025

- 1 Certificate available on request
- 2 International Standard on Quality Management 1 (Previously International Standard on Quality Control 1) & International Standard on Quality Management 2
- 3 International Federation of Inspection Agencies – Compliance Code – Third Edition
- 4 Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants

Greenhouse gas emissions

In 2024, our total gross Scope 1 + 2 greenhouse gas (GHG) emissions were 384,561 tonnes of carbon dioxide equivalent (tCO₂e). This represents an increase of 17% compared with 327,875 tCO₂e in 2023.

Aspect	tCO ₂ e	2019	2020	2021	2022	2023	2024
Emissions from activities for which the Company own or control including the combustion of fuel and operation of facilities. [Direct GHG Emissions (Scope 1)]	Global (excluding UK)	137,504	129,050	139,360	123,807	106,275	99,924
	UK	90,522	84,606	72,279	101,987	72,238	135,246
	Total	228,027	213,656	211,639	225,794	178,513	235,170
Emissions from the purchase of electricity, heat, steam and cooling purchased for our own use. [Indirect GHG Emissions (Scope 2) location-based]	Global (excluding UK)	170,526	145,140	115,421	97,612	91,176	90,319
	UK	80,023	60,568	53,210	52,762	58,185	59,071
	Total	250,549	205,708	168,631	150,374	149,361	149,391
Total gross GHG emissions (Scope 1 + Scope Location Based)	Global (excluding UK)	308,031	274,190	254,781	221,420	197,451	190,243
	UK	170,545	145,175	125,489	154,749	130,424	194,317
	Total	478,576	419,365	380,270	376,168	327,875	384,561
Energy consumption used to calculate above emissions – kWh	Global (excluding UK)	1,084,719,815	985,357,932	954,056,653	856,063,249	781,982,344	750,899,511
	UK	738,001,393	655,550,629	590,689,817	732,077,990	648,552,229	873,398,863
	Total	1,822,721,208	1,640,908,561	1,544,746,470	1,588,141,239	1,430,534,573	1,624,298,374
Intensity Ratio (total GHG emissions per £m revenue)	Total	29.9	36.5	33.9	27.9	19.9	20.3
Emissions from the purchase of electricity, heat, steam and cooling purchased for our own use. [Indirect GHG Emissions (Scope 2) market-based]	Global (excluding UK)	132,030	92,249	90,871	77,578	70,598	41,673
	UK	21,594	1,628	1,484	1,293	1,365	24,268
	Total	153,624	93,877	92,355	78,871	71,963	65,941
Total gross GHG emissions (Scope 1 + Scope Market Based)	Global (excluding UK)	269,535	221,299	230,232	201,386	176,872	141,547
	UK	112,116	86,235	73,763	103,280	73,603	159,514
	Total	381,651	307,534	303,995	304,665	250,476	301,061
Outside of Scopes	Global (excluding UK)	4,329	–	–	1,350	42	2,898
	UK	–	–	–	–	7,712	991
	Total	4,329	–	–	1,350	7,754	3,889
Additional supporting information Electricity purchased from renewable sources – kWh	Global (including UK)	321,775,488	379,246,175	303,672,640	301,419,960	315,822,645	285,504,613
Energy generated on-site from renewable sources – kWh	Global (including UK)	6,791,044	6,730,570	8,237,037	8,120,644	6,313,137	9,524,077

The numbers included in this table in respect of our greenhouse gas emissions for the years 2019 to 2023 have been re-presented following the identification of a miscalculation of some of the data previously reported. The impact is on voluntary Scope 2 market-based emissions data only, and has required minor updates to other figures in this table. The information presented in this table can be compared to the table on page 210 of the 2023 Annual Report. The mandatory reported emissions data disclosed in the strategic report for the relevant years on progress against Scope 1 + 2 targets are unaffected and remain accurate. There has been no impact to tax liabilities.

The above figures include 285,504,613 kWh of renewable energy purchases either backed by the Renewable Energy Guarantees of Origin (REGO) scheme in the UK or the Guarantees of Origin (GoO) from a relevant EU Member State. This energy is used by the majority of our facilities in the UK, US and Germany. Our EACs have been sourced mainly from solar and wind with some hydro included for EU locations. In addition, the above figures include 9,524,077 kWh of electricity and heat generated on-site from renewable energy sources, including solar panels and ground source heat pumps.

We include the reporting of fugitive emissions of hydrofluorocarbons (HFCs), associated with air conditioning equipment, into our GHG emissions figures. In 2024, these emissions have been included from our global portfolio.

With the exceptions noted above, we have reported on the underlying energy use and emission sources required under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) as of 31 December 2014 utilising the operational control approach, supplemented by the GHG Reporting Guidance for the Aerospace Industry (version 3) and emission factors from the UK Government's GHG Conversion Factors for Company Reporting 2024. We report our emissions of: carbon dioxide, methane, nitrous oxide, hydrofluorocarbons and perfluorocarbons on a carbon dioxide equivalent basis. We have no emissions of sulphur hexafluoride or nitrogen trioxide.

Further details on our methodology for reporting and the criteria used can be found within our basis of reporting, available at www.rolls-royce.com

Other financial information

Foreign exchange

Foreign exchange rate movements influence the reported income statement, the cash flow and closing net cash/(debt) balance. The average and spot rates for the principal trading currencies of the Group are shown in the table below:

		2024	2023	Change
USD per GBP	Year-end spot rate	1.25	1.27	-2%
	Average spot rate	1.28	1.24	+3%
EUR per GBP	Year-end spot rate	1.21	1.15	+5%
	Average spot rate	1.18	1.15	+3%

The Group's global corporate income tax contribution

The Group's total corporation tax payments in 2024 were £380m. Around 95% of this was paid in the US, Germany, UK, Singapore and Canada. The balance of tax payments were made in around 40 other countries.

In common with most multinational groups, the total profits for corporate income tax purposes are not the same as the consolidated profit before taxation reported on page 114.

The main reasons for this are:

- (i) the consolidated income statement is prepared under IFRS, whereas the corporate income tax profits and losses for each company are determined by local tax accounting rules;
- (ii) accounting rules require certain income and costs relating to our commercial activities to be eliminated from, or added to, the aggregate of all the profits of the Group companies when preparing the consolidated income statement (consolidation adjustments); and
- (iii) specific tax rules including exemptions or incentives as determined by the tax laws in each country.

In most cases, paragraphs (i) and (ii) above are only a matter of timing and therefore tax will be paid in an earlier or later year. The impact of paragraph (iii) above will often be permanent, depending on the relevant tax law. Further information on the tax position of the Group can be found as follows:

- Audit Committee Report (page 82) – updates given to the Audit Committee during the year;
- note 1 to the Consolidated Financial Statements (page 130) – details of key areas of uncertainty and accounting policies for tax;
- note 5 to the Consolidated Financial Statements (pages 145 to 148); and
- Details of the tax balances in the Consolidated Financial Statements together with a tax reconciliation. This explains the main drivers of the tax rate and the impact of our assessment on the recovery of UK deferred tax assets.

Information on the approach to managing the Group's tax affairs can be found at www.rolls-royce.com

Investments and capital expenditure

The Group subjects all major investments and capital expenditure to a rigorous examination of risks and future cash flows. Investments and capital expenditure must align to the Group's strategy and create shareholder value. All major investments, including the launch of major programmes, require Board approval.

The Group has a portfolio of projects at different stages of their lifecycles. All of our major investments and projects are assessed using a range of financial metrics, including discounted cash flow and return on investment.

Financial risk management

The Board has established a structured approach to financial risk management. The Financial risk committee (Frc) is accountable for managing, reporting and mitigating the Group's financial risks and exposures. These risks include the Group's principal counterparty, currency, interest rate, commodity price, liquidity and credit rating risks outlined in more depth in note 20. The Frc is chaired by the Chief Financial Officer. The Group has a comprehensive financial risk policy that advocates the use of financial instruments to manage and hedge business operations risks that arise from movements in financial, commodities, credit or money markets. The Group's policy is not to engage in speculative financial transactions. The Frc sits quarterly to review and assess the key risks and agree any mitigating actions required.

Capital structure

£m	2024	2023
Total equity	(881)	(3,629)
Cash flow hedges	(13)	(12)
Group capital	(894)	(3,641)
Net cash/(debt)	475	(1,952)

Operations are funded through various shareholders' funds, bank borrowings, bonds and notes. The capital structure of the Group reflects the judgement of the Board as to the appropriate balance of funding required. Funding is secured by the Group's continued access to the global debt markets. Borrowings are funded in various currencies using derivatives where appropriate to achieve a required currency and interest rate profile. The Board's objective is to retain sufficient financial investments and undrawn facilities to ensure that the Group can both meet its medium-term operational commitments and cope with unforeseen obligations and opportunities.

The Group holds cash and short-term investments which, together with the undrawn committed facilities, enable it to manage its liquidity risk.

During the year to 31 December 2024, the Group repaid a €550m bond at its maturity and cancelled its £1bn undrawn UKEF-supported loan facility, which was due to mature in 2027. This facility had remained undrawn during the year. In addition, the Group extended 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.

At the year end, the Group retained aggregate liquidity of £8.1bn, including cash and cash equivalents of £5.6bn and undrawn borrowing facilities of £2.5bn.

The Group has one material debt maturity in October 2025. The maturity profile of the borrowing facilities is regularly reviewed to ensure that refinancing levels are manageable in the context of the business and market conditions. There are no rating triggers in any borrowing facility that would require the facility to be accelerated or repaid due to an adverse movement in the Group's credit rating. The Group conducts some of its business through a number of joint ventures. A major proportion of the debt of these joint ventures is secured on the assets of the respective companies and is non-recourse to the Group. This debt is further outlined in note 17.

Credit rating

£m	Rating	Outlook
Moody's Investors Service	Baa3	Positive
Standard & Poor's	BBB	Positive
Fitch	BBB-	Positive

The Group subscribes to Moody's, Standard & Poor's and Fitch for independent long-term credit ratings, with the ratings in the table above being applicable at the date of this report.

Accounting

The Consolidated Financial Statements have been prepared in accordance with IFRS, as adopted by the UK.

New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk. The Group's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements have necessitated some additional information being disclosed on page 164 in relation to the value of trade payables that were within the scope of the Group offered SCF scheme. 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.

There are no other new standards or interpretations issued by the IASB that had a significant impact on the Consolidated Financial Statements.

The Group does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements in 2024.

Reconciliation of alternative performance measures

Alternative performance measures (APMs)

Business performance is reviewed and managed on an underlying basis. These alternative performance measures reflect the economic substance of trading in the year. In addition, a number of other APMs are utilised to measure and monitor the Group's performance.

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 31 December 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 reversal	(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 reversal	(2)	(8)
Other underlying adjustments	17	(2)
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/(loss) 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 148 for further details

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

Trading cash flow

Trading cash flow is defined as free cash flow (as defined on page 218) 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 in excess of contributions to defined benefit schemes	(31)	(26)
Tax ¹	(381)	(172)
Free cash flow	2,425	1,285

¹ See page 117 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

Group R&D expenditure

In year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year. For further detail, see note 3.

Gross capital expenditure

Gross capital expenditure during the year 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

Key performance indicators

The following measures are key performance indicators and are calculated using alternative performance measures or statutory results. See below for calculation of these amounts.

Order backlog

Total value of firm orders placed by customers for delivery of products and services where there is no right to cancel. Further details are included in note 2 of the Consolidated Financial Statements.

Adjusted return on capital (abbreviated to return on capital)

Return on capital is defined as net operating profit after tax (NOPAT) as a percentage of average invested capital. NOPAT is defined as underlying net profit excluding net finance costs and the tax shield on net finance costs. Invested capital is defined as current and non-current assets less current liabilities. It excludes pension assets, cash and cash equivalents, and borrowings and lease liabilities. Return on capital assesses the efficiency in allocating capital to profitable investments.

	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 related to the net recognition of deferred tax assets on UK tax losses, see note 5, page 148 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

Directors' report

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Board of Directors

The Directors of the Company who were in office during the year and up to the date of signing the financial statements were Dame Anita Frew, Tufan Erginbilgic, Helen McCabe, Birgit Behrendt, Stuart Bradie, Paulo Cesar Silva, George Culmer, Lord Jitesh Gadhia, Beverly Goulet, Nick Luff, Wendy Mars and Dame Angela Strank.

Directors' indemnities

The Directors have the benefit of an indemnity provision contained in the Articles. In addition, the Directors have been granted a qualifying third-party indemnity provision which was in force throughout the financial year and remains in force. Also, throughout the year, the Company purchased and maintained directors' and officers' liability insurance in respect of the Company and its subsidiaries for their directors and officers.

Share price

During the year, the share price increased by 90% from 300p to 569p, compared to a 34% increase in the FTSE aerospace and defence sector and a 6% increase in the FTSE 100. The Company's share price ranged from 295p in January 2024 to 595p in December 2024.

Share capital

On 31 December 2024, the Company's issued share capital comprised:

8,504,896,989	Ordinary shares	20p each
22,505,247,514	C shares	0.1p each
1	Special share	£1

The ordinary shares are listed on the London Stock Exchange.

The Company has previously issued non-cumulative redeemable preference shares (C shares) as an alternative to paying a cash dividend. Further information on payments to shareholders is on page 223.

Share class rights

The full share class rights are set out in the Company's Articles, which are available at www.rolls-royce.com. The rights are summarised below.

Ordinary shares

Each member has one vote for each ordinary share held. Holders of ordinary shares are entitled to: receive the Company's Annual Report; attend and speak at general meetings of the Company; appoint one or more proxies or, if they are corporations, corporate representatives; and exercise voting rights. Holders of ordinary shares may receive a bonus issue of C shares or a dividend and on liquidation may share in the assets of the Company.

C shares

C shares have limited voting rights and attract a preferential dividend, paid on a twice-yearly basis. On a return of capital on a winding-up, the holders of C shares shall be entitled, in priority to any payment to the holders of ordinary shares, to the repayment of the nominal capital paid-up or credited as paid-up on the C shares held by them, together with a sum equal to the outstanding preferential dividend which will have been accrued but not paid until the date of return of capital. The holders of C shares are only entitled to attend, speak and vote at a general meeting if a resolution to wind up the Company is to be considered, in which case they may vote only on that resolution.

The Company may elect, at its own discretion (and whether or not with the consent of the holders of C shares), to redeem all of the C shares then in issue at their nominal value each together with any accrued but unpaid C preferential dividend on such shares as at the day of redemption, if at any time the Board determines that it would be in the Company's interests to do so.

Special share

Certain rights attach to the special rights non-voting share (special share) issued to the UK Secretary of State for the Department of Business and Trade (special shareholder). These rights are set out in the Articles. Subject to the provisions of the Companies Act 2006 (the Act), the Treasury Solicitor may redeem the Special Share at par value at any time. The special share confers no rights to dividends but, in the event of a winding-up, it shall be repaid at its nominal value in priority to any other shares.

Certain provisions of the Articles (in particular those relating to the foreign shareholding limit, disposals and the nationality of the Company's Directors) that relate to the rights attached to the special share may only be altered with the consent of the special shareholder. The special shareholder is not entitled to vote at any general meeting or any other meeting of any class of shareholders.

Restrictions on transfer of shares and limitations on holdings

There are no restrictions on transfer or limitations on the holding of the ordinary shares or C shares other than under the Articles (as described here), under restrictions imposed by law or regulation (for example, UK Market Abuse Regulations) or pursuant to the Company's inside information and share dealing policy. The Articles provide that the Company should be and remain under UK control. As such, an individual foreign shareholding limit is set at 15% of the aggregate votes attaching to the share capital of all classes (taken as a whole) and capable of being cast on a poll and to all other shares that the Directors determine are to be included in the calculation of that holding. The Special Share may only be issued to, held by and transferred to the Special Shareholder or their successor or nominee.

Shareholder agreements and consent requirements

No disposal may be made to a non-Group member which, alone or when aggregated with the same or a connected transaction, constitutes a disposal of the whole or a material part of either the nuclear propulsion business or the assets of the Group as a whole, without the consent of the Special Shareholder.

Authority to issue shares

At the 2024 AGM, an ordinary resolution was passed authorising the Directors to allot new ordinary shares up to a nominal value of £561,113,133 equivalent to one-third of the issued share capital of the Company as at 21 February 2024. This resolution also authorised the Directors to allot up to two-thirds of the total issued share capital of the Company, although only in the case of a rights issue. A further special resolution was passed to effect a disapplication of pre-emption rights for a maximum of 5% of the issued share capital of the Company. These authorities are valid until the 2025 AGM or 30 June 2025, whichever is sooner. During the year, 88,200,000 ordinary shares were issued to the Employee Benefit Trust to satisfy awards under the Company's share plans. The Directors propose to renew each of these authorities at the 2025 AGM to be held on 1 May 2025. The Board believes that these authorities will allow the Company to retain flexibility to respond to circumstances and opportunities as they arise.

Authority to purchase own shares

At the 2024 AGM, the Company was authorised by shareholders to purchase up to 841,669,698 representing 10% of its issued ordinary share capital.

The authority for the Company to purchase its own shares expires at the conclusion of the 2025 AGM or 30 June 2025, whichever is sooner. A resolution to renew the authority will be proposed at the 2025 meeting.

The Company did not purchase any of its own ordinary shares under this authority during 2024.

Deadlines for exercising voting rights

Electronic and paper proxy appointments, together with voting instructions, must be received by the Registrar not less than 48 hours before a general meeting.

Voting rights for employee share plan shares

Shares are held in an employee benefit trust for the purpose of satisfying awards made under the various employee share plans. For shares held in a nominee capacity or if plan/trust rules provide the participant with the right to vote in respect of specifically allocated shares, the trustee votes in line with the participants' instructions. For shares that are not held absolutely on behalf of specific individuals, the general policy of the trustees, in accordance with investor protection guidelines, is to abstain from voting in respect of those shares.

Major shareholdings

At 31 December 2024, the following shareholders had notified an interest in the issued ordinary share capital of the Company in accordance with section 5.1.2 of the Disclosure and Transparency Rules. No notifications have been received in the period 1 January to 27 February 2025.

Shareholder	Date of change in interest	% of issued ordinary share capital
Blackrock, Inc.	18 December 2023	5.01
Bank of America Corporation	2 May 2024	2.56
Causeway Capital Management LLC	29 September 2023	4.99
Harris Associates L.P.	16 November 2020	4.99
Massachusetts Financial Services Company	28 March 2022	4.94
The Capital Group Companies, Inc.	8 April 2024	5.07

Changes to the Articles of Association

The Articles may be amended or new articles may be adopted by a special resolution of the Company's shareholders, subject to the provisions of the Act.

Change of control

Contracts and joint venture agreements

There are a number of contracts and joint venture agreements which would allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

Borrowings and other financial instruments

The Group has several borrowing facilities provided by various banks. These facilities generally include provisions which may require any outstanding borrowings to be repaid or the alteration or termination of the facility upon the occurrence of a change of control of the Company. At 31 December 2024, these facilities were 44% drawn (2023: 36%).

The Group has entered into a series of financial instruments to hedge its currency, interest rate and commodity exposures. These contracts provide for termination or alteration in the event that a change of control of the Company materially weakens the creditworthiness of the Group.

Employee share plans

In the event of a change of control of the Company, the effect on the employee share plans would be as follows:

- Incentive Plan – deferred share awards will normally vest immediately, and may be time pro-rated. The new controlling company might offer an award in exchange instead (normally on substantially equivalent terms to the existing award). Awards with performance conditions would normally vest on the change of control subject to the Remuneration Committee's judgement of performance and may be reduced pro rata to service in the vesting period.
- ShareSave – options would become exercisable immediately and can be exercised within six months following the change of control. The new controlling company might offer an equivalent option in exchange for cancellation of the existing option.
- SharePurchase Plan (SPP) – consideration received as shares would be held within the SPP, if possible, otherwise the consideration would be treated as a disposal from the SPP.
- LTIP – awards would vest on the change of control, subject to the Remuneration Committee's judgement of performance and may be reduced pro rata to service in the vesting period. Any applicable holding period will cease in the event of a change of control.
- Global Employee SharePurchase Plan (GESPP) – matching share awards would vest on the date of the change of control; free share awards would vest if and to the extent that the Remuneration Committee decides, and rights to purchase investment shares will lapse.

Political donations

The Company's policy is that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party. However, the Act defines political donations very broadly and so it is possible that normal business activities, such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties and support for bodies representing the business community in policy review or reform, which might not be thought of as political expenditure in the usual sense, could be captured. Activities of this nature would not be thought of as political donations in the

ordinary sense of those words. The resolution to be proposed at the 2025 AGM, authorising political donations and expenditure, is to ensure that the Group does not commit any technical breach of the Act.

During the year, expenses incurred by Rolls-Royce North America, Inc. in providing administrative support for the Rolls-Royce North America political action committee (PAC) was USD\$61,886.50 (2023: USD\$60,584.71). PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act. The PAC is independent of the Group and independent of any political party. The PAC funds are contributed voluntarily by employees and the Group cannot affect how they are applied, although under US law, the business expenses are paid by the employee's company. Such contributions do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at the 2025 AGM to renew the authority given at the 2024 AGM.

Disclosures in the Strategic Report

The Board has taken advantage of section 414C(11) of the Act to include disclosures in the Strategic Report including:

- employee involvement;
- the employment of disabled people;
- the future development, performance and position of the Group; and
- research and development activities.

Information required by UK Listing Rule (UKLR) 6.6.1

There are no disclosures to be made under UKLR 6.6.1.

Management report

The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the DTR.

By order of the Board

Claire-Marie O'Grady
Chief Governance Officer
27 February 2025

Disclosures required under UK Listing Rule 6.6.6 as at 31 December 2024

Gender identity

	Number of Board members	Percentage of the Board	Number of senior positions on the Board	Number in executive management	Percentage of executive management
Men	6	50%	Chief Executive, SID	7	70%
Women	6	50%	Chair, Chief Financial Officer	3	30%
Other categories	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Ethnic background

	Number of Board members	Percentage of the Board	Number of senior positions on the Board	Number in executive management	Percentage of executive management
White British or other White (including minority-white groups)	11	92%	Chair, Chief Executive, Chief Financial Officer, SID	10	100%
Mixed/multiple ethnic groups	–	–	–	–	–
Asian/Asian British	1	8%	–	–	–
Black/African/Caribbean/Black British	–	–	–	–	–
Other ethnic group, including Arab	–	–	–	–	–
Not specified/prefer not to say	–	–	–	–	–

Shareholder information

Managing your shareholding

Your shareholding is managed by Equiniti Limited (the Registrar). When making contact with the Registrar, please quote your shareholder reference number (SRN). This is an 11-digit number that can be found on your share certificate or on any other shareholder correspondence. You can manage your shareholding at www.shareview.co.uk, speak to the Registrar on +44 (0)371 384 2637 (8.30am to 5.30pm, Monday to Friday) or you can write to the Registrar at Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex BN99 6DA. If you hold your shares in a share dealing account (sometimes referred to as a nominee account) then you must contact your account provider with any questions about your shareholding.

Payments to shareholders

As announced on 27 February 2025, the Group is recommending 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 Trustees of the Rolls-Royce Employee Benefit Trust (the EBT) have waived their right to receive dividends over their holding of 106,066,831 shares as at 31 December 2024. 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.

Share dealing

The Registrar offers ordinary shareholders an internet dealing service at www.shareview.co.uk and a postal dealing service. Real-time dealing is available during market hours, 8.00am to 4.30pm, Monday to Friday excluding bank holidays. Orders can still be placed outside of market hours. The fee for internet dealing is 1.5% of the transaction value, subject to a minimum fee of £45. The fee for telephone dealing is 1.5% of the transaction value, subject to a minimum fee of £60. The fee for postal dealing is 1.9% of the transaction value, subject to a minimum fee of £70. This service is only available to shareholders resident in certain jurisdictions. Before you can trade you must register to use the service. Other share dealing facilities are available, but you should always use a firm regulated by the FCA (see register.fca.org.uk).

Your share certificate

Your share certificate is an important document. If you sell or transfer your shares you must make sure that you have a valid share certificate in the name of Rolls-Royce Holdings plc. If you place an instruction to sell your shares and cannot provide a valid share certificate, the transaction cannot be completed and you may be liable for any costs incurred by the broker. If you are unable to find your share certificate, please inform the Registrar immediately.

American Depositary Receipts (ADR)

ADR holders should contact the depository, JP Morgan, by calling +1(800) 990 1135 (toll free within the US) or +1(651) 453 2128 (outside the US) or via www.adr.com/contact/jpmorgan

Warning to shareholders – investment scams

We are aware that some of our shareholders have received unsolicited telephone calls or correspondence, offering to buy or sell their shares at very favourable terms. The callers can be very persuasive and extremely persistent and often have professional websites and telephone numbers to support their activities. They will sometimes imply a connection to Rolls-Royce and provide incorrect or misleading information. This type of call should be treated as an investment scam – the safest thing to do is hang up. Remember: if it sounds too good to be true, it probably is. You should always check that any firm contacting you about potential investment opportunities is properly authorised by the FCA. If you deal with an unauthorised firm you will not be eligible for compensation under the Financial Services Compensation Scheme. You can find out more about protecting yourself from investment scams by visiting the FCA's website at www.fca.org.uk/scamsmart, or by calling the FCA's consumer helpline on 0800 111 6768 (overseas callers dial +44 207 066 1000). If you have already paid money to share fraudsters, contact Action Fraud immediately on 0300 123 2040, whose website is www.actionfraud.police.uk

Visit Rolls-Royce online

Visit www.rolls-royce.com to find out more about the latest financial results, the share price, payments to shareholders, the financial calendar and shareholder services.

Communication preferences

You can sign up to receive the latest news updates to your phone or email by visiting www.rolls-royce.com and registering for our alert service. If you do not wish to receive a hard copy Annual Report in future, you can do this online at www.shareview.co.uk

Annual general meeting (AGM)

The 2025 AGM will be held at 11.00am on 1 May 2025 as a hybrid meeting. Full details are available on our website at www.rolls-royce.com

Analysis of ordinary shareholders at 31 December 2024

Type of holder	Number of shareholders	% of total shareholders	Number of shares	% of total shares
Individuals	149,908	98.64	169,785,298	2.00
Institutional and other investors	2,069	1.36	8,335,111,691	98.00
Total	151,977	100.00	8,504,896,989	100.00
Size of holding (number of ordinary shares)				
1 – 150	47,168	31.04	4,099,548	0.05
151 – 500	53,682	35.32	14,338,642	0.17
501 – 10,000	47,152	31.03	88,287,272	1.04
10,001 – 100,000	3,055	2.01	75,463,803	0.89
100,001 – 1,000,000	533	0.35	185,636,122	2.18
1,000,001 and over	387	0.25	8,137,071,602	95.67
Total	151,977	100.00	8,504,896,989	100.00

Glossary

AGM	annual general meeting
AI	artificial intelligence
APAC	Asia-Pacific
APM	alternative performance measure
Articles	Articles of Association of Rolls-Royce Holdings plc
AUKUS	Australia, United Kingdom, United States
BESS	battery energy storage system
bps	basis points
C&A	commercial and administrative
CDP	Carbon Disclosure Project
C shares	non-cumulative redeemable preference shares
Our Code	Global Code of Conduct
the Code	2018 UK Corporate Governance Code
the 2024 Code	2024 UK Corporate Governance Code
CMD	capital markets day
Company	Rolls-Royce Holdings plc
CRIP	C Share Reinvestment Plan
D&I	diversity and inclusion
DPAs	deferred prosecution agreements
DTR	the FCA's Disclosure Guidance and Transparency Rules
EFH	engine flying hours
ELG	Enterprise Leadership Group
EPS	earnings per share
ESG	environment, social, governance
ET&S	engineering, technology and safety
EU	European Union
EUR	euro
FCA	Financial Conduct Authority
FLRAA	Future Long Range Assault Aircraft
FPVL	fair value recognised in the income statement as a profit or loss
FRC	Financial Reporting Council
FTE	full time equivalent
FVOCI	fair value recognised through other comprehensive income
FX	foreign exchange
GBP	Great British pound or pound sterling
GCAP	Global Combat Air Programme
GDA	generic design assessment
GDP	gross domestic product
GESPP	Global Employee Share Purchase Plan
GHG	greenhouse gas
Group	Rolls-Royce Holdings plc and its subsidiaries
GW	gigawatt
HPT	high pressure turbine
HSE	health, safety and environment
HVO	hydrotreated vegetable oil
IASB	International Accounting Standards Board
ICAO	International Civil Aviation Organization

IFRS	International Financial Reporting Standards
ISS	Institutional Shareholder Services group of companies
KPIs	key performance indicators
ktCO ₂ e	kilotonnes of carbon dioxide equivalent
kW	kilowatts
LIBOR	London inter-bank offered rate
LTIP	long-term incentive plan
LTSA	long-term service agreement
M&A	mergers and acquisitions
MoU	memorandum of understanding
MRO	maintenance repair and overhaul
MtCO ₂ e	million tonnes of carbon dioxide equivalent
MWh	megawatt-hour
NCI	non-controlling interest
NED	Non-Executive Director
net zero company	net zero carbon emissions from our operations and facilities and our products are compatible with net zero operations by 2050
NOPAT	net operating profit after tax
OCI	other comprehensive income
OE	original equipment
OECD	Organisation for Economic Co-operation and Development
P&L	profit and loss
PBT	profit before tax
PPE	property, plant and equipment
R&D	research and development
Registrar	Equiniti Limited
RMS	risk management system
RRSAs	risk and revenue sharing arrangements
SAF	sustainable aviation fuel
SBTs	Science-Based Targets
Scope 1 + 2 emissions	Group Scope 1 + 2 greenhouse gas emissions
SETT	Safety, Energy Transition & Tech Committee
SID	Senior Independent Director
SMRs	small modular reactors
SPP	SharePurchase Plan
STEM	science, technology, engineering and mathematics
TCC	total cash costs
TCC/GM	total underlying cash costs as a proportion of underlying gross margin
TCFD	Task Force on Climate-related Financial Disclosures
TRI	total reportable injuries
TSR	total shareholder return
UKEF	UK Export Finance
UNSDG	United Nations Sustainable Development Goals
USD/US\$	United States dollar

Trade marks

The following trade marks which appear throughout this Annual Report are trade marks registered and owned by companies within the Rolls-Royce Group:

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 mtu®
 Pearl®
 TotalCare®
 Trent®
 UltraFan®

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DESIGN
GROUP**

Printed on Edixion which is FSC® certified paper. The pulps used are Totally Chlorine Free (TCF), and the manufacturing mill has ISO14001 environmental management certification. The material's carbon emissions have been measured and carbon balanced at source.

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 Rolls-Royce