COMPANY NUMBER 01003142

ROLLS-ROYCE PLC

ANNUAL REPORT AND AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2025

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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 51 to 57. 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.

COMPANY INFORMATION

COMPANY NUMBER 01003142

Registered office	Kings Place 90 York Way London N1 9FX
Independent Auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

STRATEGIC REPORT

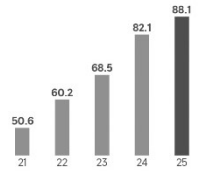
The Directors present their Strategic Report on the Rolls-Royce plc Group (the Group), together with the audited Financial Statements for the year ended 31 December 2025. Rolls-Royce plc (the Company) is a wholly-owned subsidiary of Rolls-Royce Holdings plc (RRH).

Rolls-Royce plc is a public company limited by shares and incorporated under the Companies Act 2006. It holds the Group's listed debt facilities and is one of the main trading companies of the Group.

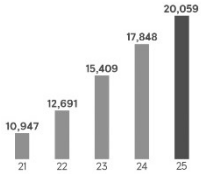
Key Performance Indicators

Financial Performance Indicators

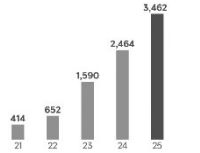
Order backlog (£bn)

	How we define it	Why is it important
	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 55 for more information.	Order backlog provides visibility of future business activity.

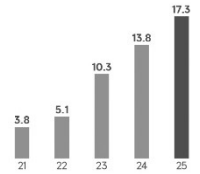
Underlying revenue (£m)

	How we define it	Why is it important
	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 54 for more information.	Underlying revenue provides a measure of business growth and activity.

Underlying operating profit (£m)

	How we define it	Why is it important
	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 52 for more information.	Underlying operating profit indicates how the effect of growing revenue and control of our costs delivers value for our shareholders.

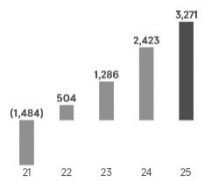
Underlying operating margin (%)

	How we define it	Why is it important
	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.	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.

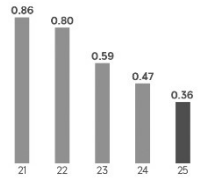
Key Performance Indicators *continued*

Financial Performance Indicators continued

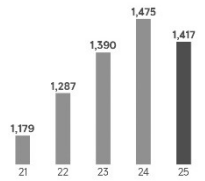
Free cash flow (£m)

	How we define it	Why is it important
	Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid, cash received on maturity of share-based payment schemes and amounts paid relating to the settlement of excess derivatives. It excludes amounts spent/received on business acquisitions/disposals, and other material exceptional or one-off cash flows. Cash flows from operating activities is our statutory equivalent. See note 28 on page 96 for more information.	Free cash flow is a key metric used to measure the performance of our business and how effectively we are creating value for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.

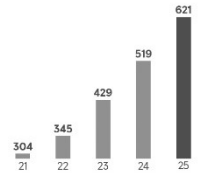
Total underlying cash costs as a proportion of underlying gross margin ratio (TCC) ratio

	How we define it	Why is it important
	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.	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.

Gross R&D expenditure (£m) [1]

	How we define it	Why is it important
	In-year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year.	This measure demonstrates the balance between long-term strategic investments and delivering short-term shareholder returns.

Gross capital expenditure (£m)

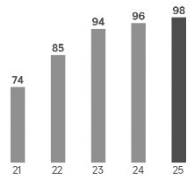
	How we define it	Why is it important
	In-year gross cash expenditure on capital excluding depreciation, impairments and write-offs during the year.	This measure demonstrates the balance between long-term strategic investments and delivering short-term shareholder returns.

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

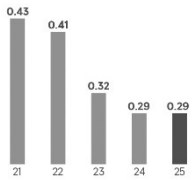
Key Performance Indicators *continued*

Non-financial Performance Indicators

Safety index (%)

	How we define it	Why is it important
	The safety index provides a composite score of five leading indicators: senior leadership safety walks; safety case improvement activity; HSE alert response, non-conformance close-out and accountable person engagement. Together, these measures reinforce proactive safety behaviours that improve the effectiveness of our controls.	With measures that mature year-on-year, the safety index facilitates the continuous improvement of our safety culture.

Total reportable injuries rate [1]

	How we define it	Why is it important
	This is a measure of total reportable injuries (TRI) rate per 100 employees.	This is a standard measure of actual safety experience which allows us to benchmark our performance against external peers and to measure progress against our ambition to zero harm. TRI events are shared widely to strengthen controls and reinforce a culture in which colleagues feel safe to speak up.

Employee engagement (%) [1]

	How we define it	Why is it important
	Our Voices: Big Picture has evolved over the past year and is now a core source for listening to our colleagues and taking action. Our Voices delivers insights on engagement, inclusion and employee experience relative to our targeted behaviours.	Our people are crucial to delivering our strategy. Our Voices: Big Picture is a key part of our listening strategy, providing a clear picture of our cultural progress, while also making clear where we must act with urgency.

Scope 1 + 2 greenhouse gas emissions [1]

	How we define it	Why is it important
	Total Scope 1 + 2 greenhouse gas emissions from facilities, operations and testing, measured in kilotonnes of carbon dioxide equivalent ($ktCO_2e$).	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.

[1] External assurance provided by DNV. See page 202 of the RRH Annual Report for their assurance statement

Financial review

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

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

The progress we have made is due to a One Rolls-Royce mindset and team effort. It could not have happened without the expertise, commitment and hard work of the teams across the Group. Teams across the organisation are delivering to an ever increasing standard as we transform Rolls-Royce into a high-performing, competitive, resilient and growing business.

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

The Company has four key areas of focus for financial performance: integrated performance management, commercial and cost optimisation, working capital optimisation, and capital framework. We continue to make good progress across all four as part of our transformation journey.

1. Integrated performance management

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

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

2. Commercial and cost optimisation

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

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

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

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

3. Working capital optimisation

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

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

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

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

4. Capital framework

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

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

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

Financial review *continued*

As our transformation programme continues, we look forward to making further progress in these four key priorities in 2026.

2025 financial performance

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

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

Sustainable free cash flow growth: Free cash flow of £3.3bn (2024: £2.4bn) was driven by strong operating profit, continued long-term service agreement (LTSA) balance growth, and a strong working capital performance offset by net investments. Civil Aerospace LTSA balance growth net of risk and revenue sharing arrangements (RRSAs) was £0.6bn (2024: £0.7bn), this was supported by 8% growth in large engine flying hours (EFH) and an improved EFH rate, partly offset by a higher number of shop visits and supply chain costs. Working capital was an inflow of £463m (2024: £278m), reflecting the continued benefits of our working capital initiatives. Net investments of £257m (2024: £282m) supported maintenance repair and overhaul (MRO) capacity growth in Civil Aerospace and additional capacity in Power Systems.

Building resilience: Net cash stood at £1.9bn at 31 December 2025 compared with £475m at the end of 2024, supported by continued strong cash flow delivery. Gross debt reduced to £2.8bn (2024: £3.6bn), as we repaid a $1bn bond in October from available cash, and lease liabilities stood at £1.5bn (2024: £1.6bn). Liquidity remained robust at £8.2bn (2024: £8.1bn), which included cash and cash equivalents of £5.7bn (2024: £5.6bn). Total underlying cash costs as a proportion of underlying gross margin (TCC/GM) further improved to 0.36x (2024: 0.47x), reflecting further cost discipline and operational efficiency. We are building a more resilient company with a less volatile free cash flow.

Statutory and underlying Group financial performance

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

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

[2] *For further information, see note 27, page 94*

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

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

Operating profit: Underlying operating profit of £3.5bn (17.3% margin) compared to £2.5bn (13.8% margin) in the prior year. Underlying operating profit was higher in all three core divisions, driven by our strategic initiatives, including commercial optimisation and cost efficiency benefits. The largest increase in underlying operating profit was in Civil Aerospace, driven by stronger large engine aftermarket performance, contractual margin improvements and spare engine profitability. Power Systems also delivered a significant increase in underlying operating profit, driven by continued profitable growth in power generation, notably in data centres, and governmental. Higher Defence profit reflected a stronger performance across transport and combat, partly offset by the absence of a one-off benefit in submarines. Statutory operating profit of £4.5bn compares to underlying profit of £3.5bn. The £(1)bn difference between statutory and underlying operating profit comprises a £(797)m negative impact from currency hedges in the underlying results alongside a net £(209)m of other adjustments to underlying operating profit. The £(209)m is made up of: impairment reversal of £(179)m related to a Civil Aerospace programme asset impairment previously recorded, £(83)m onerous provision release, £(6)m pension past service credit, £(1)m other credits, £44m of charges relating to transformation and restructuring costs and £16m amortisation of intangible assets arising on previous acquisitions.

Financial review *continued*

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

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

Free cash flow

	2025					2024
£ million	**Cash flow**	**Impact of hedge book**	**Impact of acquisition accounting**	**Impact of other non-underlying items**	**Funds flow**	**Funds flow**
Operating profit	**4,468**	**(797)**	**16**	**(225)**	**3,462**	2,464
Depreciation, amortisation and impairment	**737**	**–**	**(16)**	**179**	**900**	853
Movement in provisions	**(486)**	**78**	**–**	**118**	**(290)**	(167)
Movement in Civil Aerospace LTSA balance	**123**	**378**	**–**	**–**	**501**	910
Movement in RRSA prepayments for parts	**90**	**(19)**	**–**	**–**	**71**	(219)
Movement in cost to obtain contracts	**(44)**	**–**	**–**	**–**	**(44)**	(18)
Settlement of excess derivatives	**(148)**	**–**	**–**	**–**	**(148)**	(146)
Interest received	**269**	**–**	**–**	**–**	**269**	269
Other operating cash flows [1]	**110**	**–**	**–**	**5**	**115**	43
Operating cash flow before working capital and income tax	**5,119**	**(360)**	**–**	**77**	**4,836**	3,989
Working capital [2]	**615**	**(195)**	**–**	**43**	**463**	278
Cash flows on other financial assets and liabilities held for operating purposes	**(578)**	**532**	**–**	**–**	**(46)**	(24)
Income tax	**(590)**	**–**	**–**	**35**	**(555)**	(381)
Cash from operating activities	**4,566**	**(23)**	**–**	**155**	**4,698**	3,862
Capital element of lease payments	**(232)**	**23**	**–**	**–**	**(209)**	(275)
Capital expenditure	**(978)**	**–**	**–**	**–**	**(978)**	(876)
Investments	**(7)**	**–**	**–**	**37**	**30**	16
Interest paid	**(262)**	**–**	**–**	**–**	**(262)**	(298)
Other	**184**	**–**	**–**	**(192)**	**(8)**	(6)
Free cash flow	**3,271**	**–**	**–**	**–**	**3,271**	2,423

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

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

Free cash flow in the year was £3.3bn, £848m higher than the prior year driven by:

Underlying operating profit of £3.5bn was £1.0bn 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 £(290)m was primarily driven by a net release of onerous provisions.

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

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

Working capital inflow of £463m, compared to an inflow of £278m in the prior year. This reflected the continued benefits of our working capital initiatives, partly offset by investment to support growth across the Group. A net £1.1bn inflow from receivables, payables and contract liabilities, was partly offset by a £(684)m increase in inventory.

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

Capital expenditure of £(978)m includes £(621)m of property, plant and equipment additions and £(364)m of intangibles additions. The combined additions were higher than the prior year as a result of investment across the Group to support strategic growth and safety.

Financial review *continued*

Balance Sheet

£ million	2025	2024	Change
Intangible assets and goodwill	**2,346**	4,402	(2,056)
Property, plant and equipment	**2,198**	3,724	(1,526)
Right-of-use assets	**517**	761	(244)
Joint ventures and associates	**787**	597	190
Civil Aerospace LTSA [1]	**(10,397)**	(10,184)	(213)
RRSA prepayments for parts [1]	**1,771**	1,668	103
Costs to obtain contracts [1]	**–**	135	(135)
Working capital [1]	**467**	(1,393)	1,860
Provisions	**(995)**	(1,994)	999
Net cash [2]	**1,884**	475	1,409
Net financial assets and liabilities [2]	**135**	(1,957)	2,092
Net post-retirement scheme surpluses/(deficits)	**256**	(191)	447
Taxation	**2,886**	3,383	(497)
Net assets held for sale and distribution [3]	**3,122**	53	3,069
Net assets/(liabilities)	**4,977**	**(521)**	**5,498**
US$ hedge book (US$bn)	**21**	19	

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

[2] *Net cash includes £(77)m (2024: £33m) of the fair value of derivatives included in fair value hedges and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges and excludes £11m net cash and borrowings held for sale and distribution*

[3] *Net assets held for sale and distribution include the net assets of the naval handling business and the assets and liabilities of entities that are part of the Group's legal entity review programme as held for distribution. During the year, the Group disposed of the naval propulsors business to Fairbanks Morse Defence (FMD) that was held for sale in 2024*

Key drivers of balance sheet movements were:

Intangible assets, goodwill, property, plant and equipment and right-of-use assets: The net reduction of £(3.8)bn is primarily driven by the Group's legal entity review programme with £(4.3)bn of assets reclassified to held for distribution, partly offset by an increase of £483m relating to additions net of depreciation.

Joint ventures and associates: The £190m increase was largely a result of a £732m increase resulting from Rolls-Royce SMR being recognised at its fair value as an equity-accounted investment following the strategic investment by ČEZ Group (ČEZ) in Rolls-Royce SMR during the year partly offset by £(502)m of investments being reclassified to assets held for distribution.

Civil Aerospace LTSA: The £(213)m movement in the net liability balance was mainly driven by an increase in invoiced LTSA receipts exceeding revenue recognised in the year. This is especially prevalent on new contracts where the first shop visits do not occur for some time after the engine is delivered.

RRSA prepayments for parts: The £103m increase corresponds to the increase seen in the Civil Aerospace LTSA balance above. RRSA prepayments typically move in line with the Civil Aerospace LTSA balance as the RRSA prepayment represents amounts that we have paid to Risk and Revenue Share Partners for the parts that they will ultimately provide in support of our contracts.

Working capital: The £1.9bn movement was driven by an increase in net receivables of £1.3bn due to changes in operational volumes and timing of supplier payments; a £636m increase in inventory reflecting higher sales volumes and net liabilities of £477m reclassified to held for distribution. This was partly offset by an increase in net contract liabilities of £(541)m.

Provisions: The £999m net reduction in provisions included a net reduction of £437m due to onerous provision reversals and utilisation being greater than onerous provision charges in the year, supported by continued efforts to renegotiate our most significant onerous contracts and £562m reclassified to held for distribution.

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

Net financial assets and liabilities: A £2.1bn increase in the net financial assets primarily driven by fair value gains on foreign exchange and commodity contracts due to the impact on the movement in GBP:USD exchange rates.

Net post-retirement scheme surplus/(deficits): The £447m increase in the surplus is driven by £862m of pension deficits being reclassified to held for distribution, partly offset by a £415m net reduction largely from actuarial movements, primarily due to the Rolls-Royce UK Pension Fund entering into a Buy-in transaction in 2025, the buy-in was done in anticipation of entering into a full buy-out during 2026.

Financial review *continued*

Taxation: The net tax asset decrease of £(497)m was driven by a £156m decrease in deferred tax liabilities (primarily due to a reduction in the UK defined benefit pension surplus) and a £27m decrease in net current tax liabilities (driven by an increase due to timing of payments), offset by net current tax liabilities reclassified to net assets held for distribution. These were more than offset by a net reduction in the deferred tax asset of £(680)m which was driven by a £(480)m reduction in deferred tax assets reclassified to assets held for distribution, a £(504)m reduction in deferred tax related to foreign exchange derivatives, which moved from a net financial liability to a net financial asset position, a £(178)m reduction in other deferred tax assets driven by a reactivation of previously disallowed interest in the UK and asset impairment reversals, and other movements on UK tax losses of £(81)m. These were partly offset by the recognition of a £563m deferred tax asset relating to UK tax losses previously not recognised.

Business review

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.

Market overview

Civil Aerospace has two main areas of focus – large engine production, based in Derby, UK and business aviation, headquartered in Dahlewitz, Germany. We have 14,263 in-service engines and power four out of five in-production widebody aircraft. A majority of our engines are covered under long-term service agreements, and are supported by our global MRO network spanning 12 locations in 10 countries.

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

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

Business aviation engine deliveries were 224 in 2025 (2024: 251), of which a majority were Pearl engines, which saw a 26% increase year-on-year, offset by lower deliveries of legacy BR engines. At present, there are over 7,500 in-service Rolls-Royce business aviation engines across our Pearl, Tay, BR710, BR725 and AE 3007 families, which provide power to a range of platforms, including the Gulfstream and the Bombardier aircraft. There are over 1,600 BR725 and Pearl engines in service, which power the Gulfstream G650/G650ER/G700 and the Bombardier Global jets 5500/6500.

Large engine flying hours rose by 8% compared to the prior year to 111% of 2019 levels, driven by continued strong demand for travel and our growing installed large engine fleet. Business aviation and regional engine flying hours were broadly unchanged compared to 2024.

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

We have invested to grow capacity in Derby, UK, Dahlewitz, Germany, and Singapore. This has allowed us to deliver more new engines, and at the end of 2025, perform an additional 10% shop visits compared to 2024 to support rising aftermarket volumes.

Operational and strategic progress

We have made continued progress on our six levers to unlock value within Civil Aerospace: extend time on wing; lower shop visit costs; reduce product costs; keep engines earning for longer; implement value-based pricing; and drive contractual rigour.

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

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

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

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

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

The transition to lower-carbon energy and the reduction of emissions in our markets is important. Ensuring the maximum efficiency of our current fleet is a vital first step, as many of these engines will remain in service for decades to come. All of our in-production civil aero engines have been proven to be 100% compatible with sustainable aviation fuels. In May, the new Trent XWB-84EP engine variant entered into service delivering a 1% fuel efficiency improvement, as well as improved durability, reduced CO2 emissions, and further time on wing benefits.

Business review *continued*

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.

Market overview

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

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

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

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

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

Operational and strategic progress

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

In the first half, we agreed key aftermarket contracts worth more than £1.5bn with the UK MoD and the US DoW for the EJ200 and AE2100 engines.

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

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

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

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

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

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

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

Business review *continued*

Power Systems

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

Market overview

Our Power Systems business serves five distinct end markets.

In power generation, we offer dependable diesel and gas power solutions for mission-critical to everyday back-up and continuous power needs. We have a market share of 20% to 25% in our key markets of data centres and mission-critical back-up systems. Data centres now represent more than 80% of power generation revenue.

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

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

In industrial, we offer a broad range of highly reliable industrial diesel and hybrid solutions for a diverse range of requirements. We have a market share of 15% to 20% and our key markets are rail and mining.

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

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

Operational and strategic progress

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

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

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

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

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

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

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

Principal risks

Principal risks

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

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

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

Our risk management and internal control framework

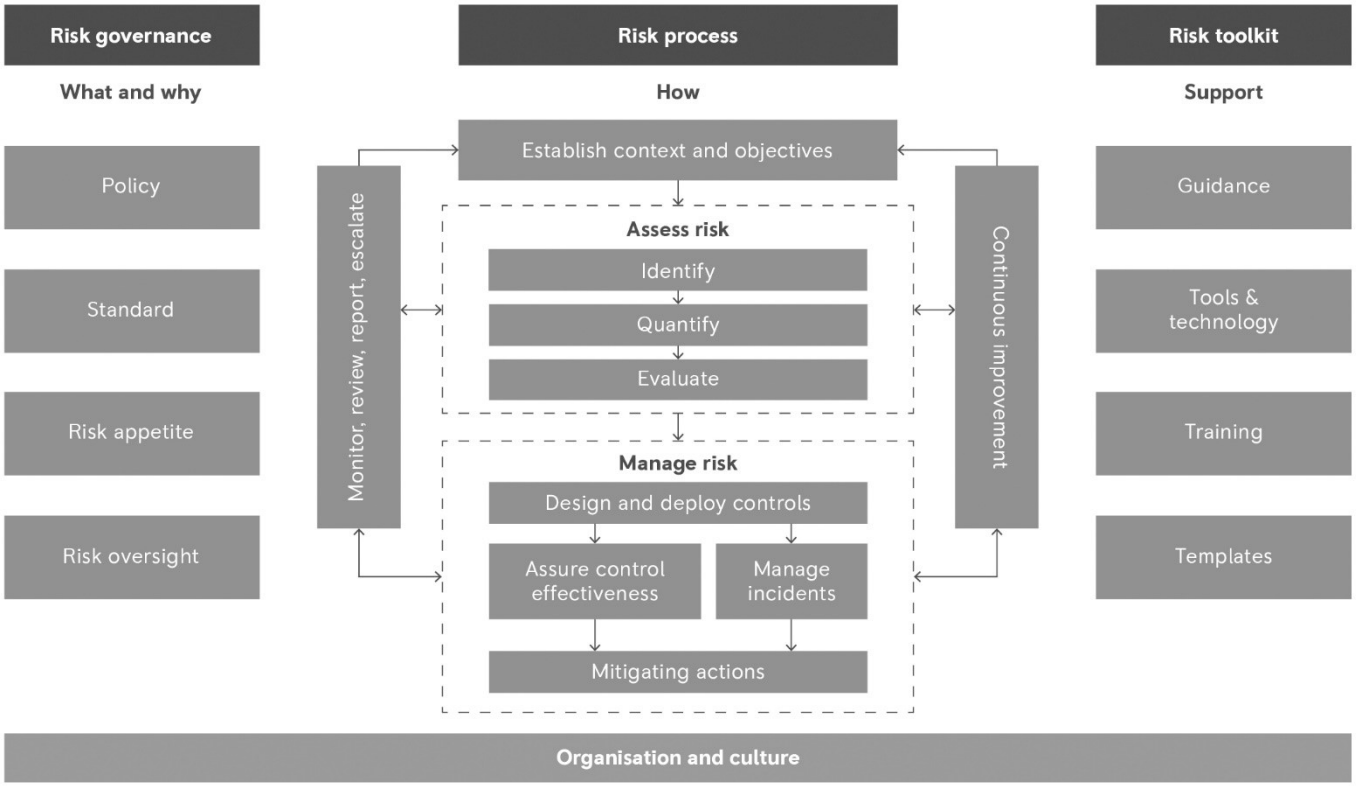
We have an established framework, shown in the diagram below, to support the delivery of effective risk management. It enables us to manage risks in an integrated, consistent way across the Group and is refreshed annually.

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

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

1. how effective the framework is at managing the principal risks;
2. the input from assurance providers listed in the principal risk tables from page 15, as well as the internal audit team. Risk-related findings are taken into account when considering how well risks are being managed; and
3. the Group's internal financial controls (at the RRH Audit Committee) with financial reporting controls being subject to periodic review by the internal controls team.

The risk management framework



Principal risks *continued*

How we use the framework to manage risk

Risk governance

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

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

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

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

Risk process

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

Identify	Risks can be identified by anyone across the Group. The risk process focuses on scanning the internal and external environment to monitor emerging trends, to identify and document what could hinder or accelerate the achievement of our strategic, operational and compliance objectives, or impact the sustainability of our business model.
Quantify and evaluate	Risk owners quantify the likelihood of a risk materialising and the potential impact if it does, considering current effective controls, and then deciding on a course of action to manage the risk.
Control and assure	Most risks are managed through the implementation of controls designed to prevent, detect or react to either the causes or impacts of a risk, which are then anchored in our processes. Risk owners must satisfy themselves that the controls are effective and that their opinion rests on assurance findings.
Act	Where a controls gap has been identified, or a risk is otherwise not currently within risk appetite, risk owners are responsible for implementing remediating action plans to reduce the current risk level. Any costs of remediation plans should be proportionate to the benefit provided.
Monitor, review and report	Risk owners report their assessment of current and target risk scores to local leadership as well as other review forums (including the RRH Board and its Committees and the Executive Team) as needed depending on the level of the risk, for support, challenge, escalation and oversight.

Risk toolkit

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

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

Principal risks

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

Changes to the principal risks profile in 2025

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

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

Details of these changes can be found in the tables starting on the following page, which outline the current principal risks together with how we manage and assure them in addition to internal audit and the oversight provided by the RRH Board and its Committees.

Principal risks *continued*

Principal risks

Safety

Change in risk level	Decreased
Principal risk description	People and process: Failure to create a place to work which minimises the risk of harm to our people, those who work with us, and the environment, would adversely affect our reputation and long-term sustainability. Product: Failure to meet the expectations of our customers to provide safe products which also meet the relevant regulations.

Controls	People and process:
	• Our HSE management and governance framework includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant Group, legal, regulatory and industry requirements
	• We have nuclear site licensing
	Product:
	• Our product safety management system includes controls designed to reduce our safety risks as far as is reasonably practicable and to meet or exceed relevant Group, legal, regulatory and industry requirements. As part of this we:
	  ○ verify and approve product design;
	  ○ test adherence to quality standards during manufacturing;
	  ○ validate conformance to specification for our own products and those of our suppliers;
	  ○ mandate safety awareness training; and
	  ○ use engine health monitoring to provide early warning of product issues.
	
	Our controls are underpinned by a strong safety culture, as detailed on page 35 of the RRH Annual Report.

Assurance activities and providers	People and process • Safety case interventions • HSE audit team Product • Product safety assurance board • Product safety assurance team • Technical product lifecycle audits
Oversight forum(s)	• RRH Safety, Energy Transition & Tech Committee • Executive Team
What has changed in 2025?	The level of safety risk has decreased during 2025, due to the strengthening of controls, with safety a focus for all colleagues, and we continue to prioritise action plans to improve people, process and product safety. People safety metrics, including the reported improvement in the safety index, along with further detail on the actions being taken to reduce these risks, can be found on page 35 of the RRH Annual Report.

Principal risks *continued*

Compliance

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

Controls	• Compliance risk framework which comprises:
	  ○ a comprehensive suite of mandatory policies and processes and controls;
	  ○ third-party due diligence;
	  ○ investigations into potential regulatory matters;
	  ○ digital screening and IT compliance tools;
	  ○ data classification to meet internal and external requirements and standards; and
	  ○ export control framework.
	• Speak up line and investigation of speak up cases

Assurance activities and providers	• Compliance teams • Financial controls team
Oversight forum(s)	• RRH Audit Committee • RRH Board • RRH Nominations, Culture & Governance Committee • Executive audit committee • RRH Disclosure Committee
What has changed in 2025?	Our compliance risk has remained stable in 2025 due to the ongoing effectiveness of our controls to manage the risks as well as our agility in responding to a changing regulatory landscape. Mitigating actions focused on the overarching compliance framework as well as specific key risk areas including, but not limited to, new export control requirements, failure to prevent fraud, human rights and modern slavery, competition, money laundering and data privacy. Read more about ethics and compliance on page 37 of the RRH Annual Report, which covers supply chain due diligence, anti-bribery and corruption, and human rights and anti-slavery in more detail.

Strategy

Change in risk level	Static
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	• Long-term planning including portfolio reviews • Strategic performance reviews • Integrated performance management To support these controls, we benchmark our capabilities and performance against our competitors, the market and other external metrics as well as horizon scan for competitive threats and opportunities, including patent searches.
Assurance activities and providers	• Challenge from external advisers
Oversight forum(s)	• RRH Board • Executive Team • Investment committee
What has changed in 2025?	Overall, this risk remained stable in 2025. We continued to iterate detailed strategies, including for other principal risks, such as energy transition and technology. Robust controls operate over our decision-making processes and integrated performance management also drives strategic priorities (such as through the five-year planning process).

Principal risks *continued*

Execution

Change in risk level	Static
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, and/or falling significantly short of customer expectations.
Controls	• Strategic performance reviews • Integrated performance management, including forecasting, budgeting, financial planning, and monitoring performance against plans • Investment committee
Assurance activities and providers	• Business reviews • Programme introduction and lifecycle management and the Project Assurance Review process.
Oversight forum(s)	• RRH Board • Executive Team • Investment committee
What has changed in 2025?	Overall, this risk remained stable in 2025. The potential impact of this risk materialising is high with a complex and competitive operating environment. However, we have focused on embedding strong performance management, including the effectiveness of our controls, to manage this risk, as well as robust Executive Team oversight. The outcome is reflected in our financial results (see pages 5 to 9), as well as enabling ongoing transformation and putting in place the foundations and sustainable change required to take advantage of future opportunities.

Business interruption

Change in risk level	Increased
Principal risk description	Failure to prevent a major disruption of our operations and ability to deliver our products, services and programmes could have an adverse impact on our people, internal facilities and/or external supply chain, which could result in failure to meet agreed customer commitments and damage our prospects of winning future orders. Disruption could be caused by a range of events, for example extreme weather or natural hazards (such as earthquakes or floods) which could increase in severity or frequency given the impact of climate change; political events; financial insolvency of a critical supplier; scarcity of materials; loss of data; fire; pandemic or other infectious disease.

Controls	• Clarity of which products, services and/or customers to prioritise following a disruption
	• Strategic decision-making on product and suppliers, including:
	  ○ supplier due diligence;
	  ○ dual sourcing of critical suppliers;
	  ○ identification of alternate suppliers;
	  ○ investment in capacity, equipment and facilities and in researching alternative materials; and
	  ○ holding surplus stock to offset future shortages.
	• Investment committee
	• Business continuity policy, including crisis management exercises
	• Relevant and appropriate insurance in place

Assurance activities and providers	• Supplier monitoring tools • Security and resilience team • External property risk assessments
Oversight forum(s)	• RRH Audit Committee • Executive audit committee
What has changed in 2025?	The probability of this risk materialising has increased in 2025 as the external environment remains uncertain, increasing the likelihood of external events which could disrupt our ability to deliver the business model. However, we continue to develop controls and mitigation programmes to keep pace and manage any potential impacts. Read more about how we are managing uncertainty in our supply chain on page 13 of the RRH Annual Report.

Principal risks *continued*

Energy transition

Change in risk level	Static
Principal risk description	Failure to reach net zero by 2050, and failure to leverage technology to transition from carbon-intensive products and services at pace could impact our ability to win future business; achieve operating results; attract and retain talent; secure access to funding; realise future growth opportunities; and/or force government intervention to limit emissions.
Controls	Sustainability governance framework which encompasses: • inclusion of sustainability criteria in our investment committee decision-making process to reduce the carbon impact of existing products and replace our existing products with zero-carbon technologies; • energy transition & technology committee; • sustainability steering committee which considers climate scenario modelling, physical risk impact assessments and emerging risk identification; • global supplier code of conduct; and • commercial agreements.
Assurance activities and providers	• Sustainability team • External verification of data and calculations
Oversight forum(s)	• RRH Board • RRH Audit Committee • RRH Safety, Energy Transition & Tech Committee • Executive audit committee • Executive energy, transition & technology committee
What has changed in 2025?	There has been no overall change in risk status. The likelihood of this risk materialising is driven by macro-economic, geopolitical and social factors, with our controls focused on mitigating their impact. Our focus for 2026 will include continued review of our sustainability strategy, the management of Scope 1 + 2 decarbonisation, a review of responsible consumption targets and product portfolio alignment. See pages 38 to 47 of the RRH Annual Report for more on sustainability and related key risks.

Information & data (including cyber)

Change in risk level	Decreased
Principal risk description	Failure to protect the integrity, confidentiality and availability of data, both physical and digital, systems, services or products from attempts to cause us and/or our customers harm, which could hinder data-driven decision-making, disrupt internal business operations and services for customers, or result in a data breach or non-compliance to regulatory requirements, all of which could damage our reputation, reduce resilience, and cause financial loss.
Controls	• The information security management system deploys multiple layers of controls, such as web and email gateways, intrusion detection, behavioural analytics and data loss prevention • Extensive maintenance and testing of hardware and software and systems • Access controls (employees and third parties) to our locations, infrastructure, systems, software and data • Control of the use of our systems • Application of our incidence response framework to govern our response to potential cyber-security incidents and significant IT disruption
Assurance activities and providers	• Cyber-security team • Security and resilience team
Oversight forum(s)	• RRH Safety, Energy Transition & Tech Committee • Executive audit committee
What has changed in 2025?	The risk level has reduced in 2025 due to the progress of our mitigation programmes putting in place additional effective controls. For example, we have put in place improvements in controls to address externally facing vulnerabilities and enhancements to other controls. However, the risk remains high due to external factors including the ongoing speed of evolution of cyber-security threats, with increasing sophistication and technological advancement of the threat actor groups. We continue to monitor the evolving external threat landscape, undertaking additional mitigating activities where needed.

Principal risks *continued*

Market & financial shock

Change in risk level	Static
Principal risk description	Failure to minimise our exposure to market and financial risks, some of which are of a macro-economic nature (e.g. economic growth rates, foreign currency, oil price, interest rates) and some of which are more specific to us (e.g. cyclical aviation industry, reduction in air travel or defence spending, disruption to other customer operations, liquidity, and credit risks). This could affect demand for our products and services. Significant extraneous market events could also materially damage our competitiveness and/or creditworthiness and our ability to access funding. This would affect operational results or the outcomes of financial transactions.

Controls	• Monitoring of trends, market demand and future market forecasts, adjusting business plans accordingly
	• Investment committee to ensure capital investments are in line with our strategy
	• Diverse and balanced portfolio
	• Financial risk committee which monitors financial risks and compliance with relevant policies including:
	  ○ group liquidity policy;
	  ○ credit risk policy;
	  ○ policies designed to hedge residual risks using financial derivatives covering foreign exchange, interest rates and commodity price risk; and
	  ○ maintaining strong access to debt and equity markets as a strategic lever to manage financial risk and safeguard capital resilience.
	• Treasury operates a system of confirmations, mandates, system access controls, segregation of duties, dual controls and checks to prevent and detect fraud and errors
	
	In addition, controls in place to manage business interruption and political risk, also address market shock risk.

Assurance activities and providers	• Strategy reviews • Group investments team • Treasury team
Oversight forum(s)	• RRH Board • RRH Audit Committee • Executive audit committee
What has changed in 2025?	The robust control environment we have in place has kept this risk stable in 2025. Uncertainty around external market volatility and significant shocks (such as global conflict or the repeat of a pandemic) is offset by our increasing ability to withstand these events through our greater business resilience. The RRH Board has continued to approve policies to manage financial risks, the Group's £2.5bn revolving credit facility was renewed in December 2025, and the control environment is underpinned by systemised segregation of duties and management review of controls.

Political

Change in risk level	Increased
Principal risk description	Failure to respond strategically and tactically to geopolitical developments and events, such as adverse changes in key political relationships, trade protectionism and conflicts, deteriorating tax or regulatory regimes, and armed conflict, would lead to an unfavourable business climate which could impact our short and/or long-term execution commitments.
Controls	Geopolitical insights capability, which includes: • development of Group and country strategies and maintaining our understanding of associated dependencies; • horizon scanning process; • Group crisis and incident management policy; and • diversification considerations built into our investment and procurement choices.
Assurance activities and providers	• Government relations teams • Country councils • Input from external advisers
Oversight forum(s)	• RRH Board • Executive audit committee
What has changed in 2025?	The probability of this risk arising has increased due to ongoing uncertainty in the external environment. The likelihood of emerging risks now materialising due to political developments globally, such as intensifying trade conflict and rising protectionism is higher than before (see page 13 of the RRH Annual Report). However, our ability to respond to geopolitical risks, such as tariffs, has kept pace with the external environment. We continue to build on our insights capabilities to further improve our adaptability.

Principal risks *continued*

Talent & capability

Change in risk level	Static
Principal risk description	Failure to attract, retain and develop the critical talent, skills and capabilities required to deliver our strategic priorities could threaten our ability to be a high-performing, competitive, resilient and growing business.
Controls	The People System includes controls to: • anticipate future requirements, strategically shaping future workforce composition and a differentiated workforce strategy; • attract and develop the best talent to increase talent density and bench strength; • drive high performance through a culture of regular and candid feedback and strong relative differentiation; • operate a differentiated and fair reward proposition to reflect strategic business impact and critical positions and difficult-to-hire capabilities; • improve future readiness of workforce through targeted learning, integrating learning into the flow of work through digital including delivering mandatory learning; • increase relevant talent supply through fit-for-purpose emerging talent programmes; and • embed and monitor a culture of belonging through defined standards, leadership accountability, and regular employee listening, ensuring equitable access to opportunity, equity in decision-making, and psychological safety.
Assurance activities and providers	• People leadership team • Leaders across Rolls-Royce • Employee opinion survey • External remuneration audits
Oversight forum(s)	• RRH Nominations, Culture & Governance Committee • People committee
What has changed in 2025?	The level of risk has remained steady this year through controls operating as part of the People System launched in 2024, with a focus in 2025 on performance management, employee engagement, reward, capability and skills, talent management and development, which you can read more about on pages 31 to 36 of the RRH Annual Report, as well as more information on people-related initiatives, such as the People Deal and Change Makers.

Technology

Change in risk level	Static
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/or new ways of working, could hinder our ability to accelerate product design and deliver a competitive offer that ensures superior performance; enhances the customer experience; drives the transition to lower carbon; improves productivity and reduces costs. This will negatively impact our competitiveness and market share.
Controls	• Horizon scanning process for emerging technology threats and opportunities, which includes the identification of business opportunities, providing technology intelligence, and performing early-stage technical assessments • The outputs are used to inform strategy and technology roadmaps as well as how we prioritise the research and technology portfolio
Assurance activities and providers	• Technical assurance team • Programme introduction and lifecycle management to prioritise investments and uphold uniform project management standards
Oversight forum(s)	• RRH Safety, Energy Transition & Tech Committee • Executive energy transition & technology committee
What has changed in 2025?	This risk has remained stable in 2025 due to the ongoing mitigating actions to manage this risk, including detailed technology roadmaps, robust horizon scanning and the work of the Group-wide research and technology organisation. New technologies are matured and vetted for industrialisation and customer interest during development and before integration into our systems. To further mitigate the impact of potential technological disruptions and align with broader strategy needs, we will continue to invest in emerging technology evaluation, accelerate innovation through data-driven approaches, and prioritise technology integration.

Going concern statement

Overview

In adopting the going concern basis for preparing the consolidated and Company financial statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of possible risks and uncertainties over an 18-month period from the balance sheet date to June 2027. The Directors have determined that the period to June 2027 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short to medium-term cash flow forecasts and available liquidity.

Forecasts

In modelling the cash flow forecasts for Rolls-Royce plc, the Directors have taken into account the legal entity review programme that is planned to complete during 2026 (see note 27 on page 95 for more details in respect of this programme) and consequently, only the cash flows relating to the Company and entities that are expected to remain within the Group have been included in the going concern assessment.

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

The base case forecast reflects the Directors' best estimation of how the business plans to perform over the going concern period. Macro-economic assumptions have been modelled using externally available data based on the most likely forecasts with general inflation at around 2%-3%, wage inflation at an average of 3%-4%, interest rates at around 2%-4% and GDP growth at around 2%-4%.

The downside forecast assumes Civil Aerospace large engine flying hours remain at average fourth quarter 2025 levels throughout the going concern period, reflecting slower GDP growth in this forecast when compared with the base case. It also assumes a more pessimistic view of general inflation at around 2%-3% higher than the base case covering a broad range of costs including product costs, energy, commodities and jet fuel. Wage inflation in the downside forecast is 1%-2% higher than the base case and interest rates are 1%-2% higher. These macro-economic pressures have been modelled across the whole going concern period.

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

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

The future impact of climate change on the Group has been considered through climate scenarios. The climate scenarios modelled do not have a material impact on either the base case or downside forecast over the going concern period. Further detail on these climate scenarios is set out on page 47 of the RRH Annual Report.

Liquidity and borrowings

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

At 31 December 2025, the Group had liquidity of £8.2bn including cash and cash equivalents of £5.7bn and undrawn facilities of £2.5bn. The going concern period includes the repayment of a €750m bond that matured in February 2026 and a £375m bond that is due to mature in June 2026. Given the Group's cash and liquidity position over the going concern period, the bond maturities in 2026 have been assumed to be repaid from cash, should the Group wish to not refinance.

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

(£m)	31 December 2025	30 June 2027
Issued Bond Notes [1]	**2,859**	1,806
Revolving Credit Facility (undrawn) [2]	**2,500**	2,500
Total committed borrowing facilities	**5,359**	**4,306**

[1] The value of Issued Bond Notes reflects the impact of derivatives on repayments of the principal amount of debt. The bonds mature by May 2028

[2] The £2.5bn Revolving Credit Facility matures in December 2030

Taking into account the maturity of these borrowing facilities, the Group has committed facilities of at least £4.3 bn available throughout the period to 30 June 2027. All facilities will continue to be held in the Group following the legal entity review programme that is planned to complete during 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 2027 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the financial statements.

Section 172 and stakeholder engagement

Section 172 statement

Section 172 of the Companies Act 2006 requires directors of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. To discharge their Section 172 duties the Directors had regard to the factors set out in the table below in making the principal decisions taken by the Company.

The Company's key stakeholders are its employees, and customers and suppliers worldwide. The Directors believe that, individually and together, they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006 in the decisions taken during the year ended 31 December 2025.

The Directors consider business relationships with the Company's wider stakeholders, the impact of Company operations on the environment and communities in which it operates is embedded in all Company decision-making and risk assessment made throughout the year. As a Group company, the Company complies and acts in accordance with the Group policies in relation to the safeguarding of human rights and community relationships as outlined in the RRH 2025 Annual Report.

The likely consequences of any decision in the long term	During the year, the Directors considered the Group's strategic direction. 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. During 2025, the Company invested in future growth for decades to come. Further information on key investments, the continuation of our multi-year transformation programme and initiatives to strengthen our financial position can be found in the Financial Review section.
The interests of the Company's employees	The Directors recognise that the success of our business depends on attracting, retaining and motivating talented people. The Directors consider and assess the implications of decisions on our people, where relevant and feasible. Building on the 2024 launch of our new purpose, vision and behaviours, in 2025, we introduced three new ways to make belonging a lived reality for our employees. Further information can be found on page 23.
The need to foster the Company's business relationships with suppliers, customers and others	Delivering our strategy requires a strong, mutual and beneficial relationship with suppliers, customers, governments and joint venture partners. The Directors receive updates on engagement across the Group and support our Executive Team who work collaboratively with our suppliers and partners to continue to improve operational performance. During 2025, various RRH Board and Executive Team members met with several of our key suppliers and customers. Further information can be found on pages 23 to 24.
The impact of the Company's operations on the community and the environment	Our people are the driving force behind our community programmes, contributing 72,163 hours (2024: 58,785) to community investment and education outreach in 2025, a testament to our growing impact. Further information can be found on page 24. We remain steadfast in delivering the technical solutions required to reduce the carbon emissions of the air transportation sector through our work in developing advanced aircraft and propulsion technologies that enable net zero carbon emissions while maintaining the safety and quality standards of our industry. This commitment underpins our strategy and ensures that our innovation aligns with the evolving needs of the markets in which we operate. Further information can be found on page 18.
The desirability of the Company maintaining a reputation for high standards of business conduct	The RRH Board reviews and approves our ethics and compliance frameworks and the General Counsel provides regular updates to the RRH Board on compliance with regulation. This, in conjunction with the RRH Board monitoring compliance with governance standards, helps to ensure that Board-level decisions and the actions of our subsidiaries promote high standards of business conduct. Our Code and Group policies, supplier code and modern slavery statements ensure high standards are approved and can be found on www.rolls-royce.com
The need to act fairly between members of the Company	After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long term, taking into consideration the effect on the Group's stakeholders.

Non-financial and sustainability information statement

The Company is a subsidiary of the Group and therefore the non-financial and sustainability information disclosures required in relation to both RRH and the Company have been included in the RRH 2025 Annual Report on page 38.

Climate-related corporate reporting

The Company adopts the policies and frameworks set by the Group which include the sustainability measures set out in the RRH 2025 Annual Report on pages 38 to 47. The Company is aligned to the objectives of the Group. The Directors fully recognise their responsibility to have regard to the impact of the Company's operations on the community and environment.

Streamlined Energy & Carbon Reporting (SECR)

The Company is a subsidiary of the Group and therefore the SECR disclosures required in relation to both RRH and the Company have been included in the RRH 2025 Annual Report on page 40. The RRH Annual Report has been prepared for the same financial year as the Company.

Section 172 and stakeholder engagement *continued*

Stakeholder engagement

Consistent communication with stakeholders is a priority for the Board, RRH Board and the Executive Team, who maintain regular touchpoints with stakeholders to keep apprised of their views and interests. The matters identified through this engagement influence Board decision-making in the short and medium-term and our long-term strategy.

Our people

Why they matter

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

How we engaged

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

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

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

Site visits remain an important opportunity for Board members to gain a deeper understanding of how the different divisions operate, and to meet individuals from those divisions.

Engagement outcomes

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

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

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

Customers

Why they matter

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

How we engaged

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

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

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

Section 172 and stakeholder engagement *continued*

Engagement outcomes

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

Suppliers and partners

Why they matter

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

How we engaged

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

Engagement outcomes

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

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

Communities

Why they matter

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

How we engaged

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

Engagement outcomes

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

Governing bodies and regulators

Why they matter

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

How we engaged

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

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

Engagement outcomes

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

Section 172 and stakeholder engagement *continued*

Strategic Report approved by the Board and signed on its behalf on 26 February 2026 by:

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Helen McCabe

Director

DIRECTORS' REPORT

The Directors present their Directors' Report on the Rolls-Royce plc Group (the Group), together with the audited consolidated financial statements for the year ended 31 December 2025.

Directors

The Directors who held office during the year and up to the date of signing the Financial Statements were as follows:

Tufan Erginbilgic

Mark Gregory

Sarah Armstrong

Helen McCabe

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 and for their Directors and officers.

Dividends

The Directors do not recommend the payment of a dividend (2024: £nil).

Corporate governance

The Directors are ultimately responsible for the direction, management, performance and long-term sustainable success of the Company. The Board of RRH 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 RRH Board has established certain principal committees to assist in fulfilling its oversight responsibilities, providing dedicated focus on particular areas. RRH is subject to the principles and provisions of the UK Corporate Governance Code 2024.

The Company operates in compliance with the Group's policies, procedures and governance framework. Details of RRH's compliance with the UK Corporate Governance Code 2024 and the Group's policies, procedures and governance framework are set out in the RRH Annual Report 2025.

Risk management and internal control

The RRH Audit Committee oversees the Group's financial reporting, considering key accounting judgements and estimates; disclosures; compliance with regulations; and whether the Annual Report is fair, balanced and understandable. The RRH Audit Committee also monitors the effectiveness of the Group's risk management and internal control environment.

In addition, the RRH Audit Committee provides oversight in respect of the scope, resources, results, and effectiveness of internal audit. It is responsible for the relationship with, and the effectiveness of, the external auditors as well as approving their terms of engagement and fees.

Financial reporting

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

Following an investment made by ČEZ Group (ČEZ), the Group relinquished control of Rolls-Royce SMR Limited (Rolls-Royce SMR) in the first half of 2025. Alongside the deconsolidation of Rolls-Royce SMR, the RRH Audit Committee determined that the New Markets operating segment that was previously reported at 31 December 2024 was no longer considered to meet the definition of an operating segment. The Group's share of the financial results of Rolls-Royce SMR have been included in 'All Other Businesses'. For further information on this change, see note 27 of the Consolidated Financial Statements on page 94.

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

The RRH Audit Committee has ensured that the disclosures in respect of all key areas of judgement are appropriate and balanced. It assesses and considers the sensitivity of the estimates to changes in key assumptions which are summarised in note 1 of the Consolidated Financial Statements on page 41.

A summary of the principal matters considered by the RRH Audit Committee in respect of the 2025 Consolidated Financial Statements is set out below.

Corporate governance *continued*

Area of focus	Considerations
Long-term contract accounting	The RRH Audit 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 RRH Audit Committee due to the complex nature of long-term contract accounting, ongoing geopolitical uncertainty and the potential implications of this on future costs, as well as the ongoing supply chain challenges and the implications of this on forecasting future costs and capacity output. Onerous contracts are particularly sensitive to changes in revenue as well as cost assumptions, therefore the RRH Audit Committee also focused on the impact of renegotiated onerous aftermarket contracts. It reviewed contract catch-ups to understand the changes to revenue and the cost assumptions driving them. Further, the RRH Audit Committee reviewed the disclosures and concluded these, together with the assessments, were appropriate. See note 1 in the Consolidated Financial Statements.
Tax accounting	The RRH Audit Committee discussed the recoverability of deferred tax assets and the forecasts, assumptions and sensitivities applied in order to ascertain the recognition and recoverability of them. It also discussed the basis for the recognition and considered the judgements and estimates necessary to assess their recoverability. This was particularly important during the year as we moved back to full recognition of the deferred tax asset related to UK tax losses. The RRH Audit Committee considered the recognition of the UK deferred tax assets in light of the requirements set out in IAS 12 *Income Taxes* to assess probable profits. It confirmed the approach, which remained consistent with that taken in 2024, together with the disclosures set out in notes 1 and 5 to the Consolidated Financial Statements on pages 45 and 62, respectively.
Deconsolidation of Rolls-Royce SMR Limited	The RRH Audit Committee discussed the deconsolidation of Rolls-Royce SMR Limited (Rolls-Royce SMR) arising from the new equity investment by ČEZ Group in March 2025 and reflecting the terms of the revised shareholder agreement which resulted in the Group relinquishing control of Rolls-Royce SMR. It also considered the accounting treatment of the deconsolidation and recognition of its investment in Rolls-Royce SMR at its fair value, and the resulting gain on disposal recognised in the year. The RRH Audit Committee concluded that it was appropriate to deconsolidate Rolls-Royce SMR during 2025 and recognise this gain on disposal. Further detail on the deconsolidation and resulting gain on disposal can be found in note 27 to the Consolidated Financial Statements on page 94.
Changes to the UK defined benefit pension scheme	The RRH Audit Committee considered the impact of the trustee of the Rolls-Royce UK Pension Fund entering into a Buy-in transaction with Pension Insurance Corporation plc. The RRH Audit Committee paid particular attention to asset re-measurement loss that arose as a result of this transaction, and whether that asset re-measurement loss should be recognised through the income statement or through other comprehensive income and expenses. It concluded that it was appropriate to recognise the asset remeasurement loss through other comprehensive income and expenses. See note 22 to the Consolidated Financial Statements on page 86.
Going concern	As in previous years, the RRH Audit Committee reviewed the information, underlying assumptions and downside risks modelled and presented in support of the going concern assessment. It concluded that the Group has a strong liquidity position over the going concern period and that there is a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the next five years. The Going concern statement is on page 21.
Alternative Performance Measures (APMs)	The RRH Audit Committee reviewed the clarity of the definitions and the reconciliation of each APM to its statutory equivalent. It concluded that there was no undue prominence of the APMs in the Annual Report. See page 137 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 13. During 2025, the RRH Audit 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 26.

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

The RRH Audit Committee is satisfied that the principal risks that it oversees have received appropriate management attention during 2025:

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

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

Corporate governance *continued*

Effectiveness of risk management and internal control systems

The RRH Audit Committee conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process. Where opportunities for improvement were identified, action plans have been put in place and progress is monitored by the RRH Audit Committee. In 2025, no significant weaknesses were identified.

Employment of disabled persons

We 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.

Employee engagement

Details of our employee engagement are set out in the Stakeholder Engagement section on page 23.

Financial instruments and risk management

Details of financial instruments and risk management are set out in note 20 to the Consolidated Financial Statements.

Post balance sheet events

Details of important events affecting the Group which have occurred since the end of the financial year are set out in note 1 to the Consolidated Financial Statements.

Related party transactions

Details of related party transactions are set out in note 26 to the Consolidated Financial Statements.

Disclosures in the Strategic Report

The Directors have taken advantage of section 414C(11) of the Act to include disclosures in the Strategic Report including:

- the future development, performance and position of the Group;
- research and development activities; and
- engagement with suppliers, customers and others.

Disclosures in the Rolls-Royce Holdings plc Annual Report

The following disclosures are provided in the Company's ultimate parent entity annual report:

- greenhouse gas emissions (page 204 of RRH Annual Report 2025); and
- political donations (page 214 of RRH Annual Report 2025); and
- non-financial sustainability information statement (see page 38 of RRH Annual Report 2025).

Management report

The Strategic Report and the Directors' Report together are the management report for the purposes of Rule 4.1.8R of the DTRs.

Responsibility statements

Statement of Directors' responsibilities in respect of the Financial Statements

The Directors are responsible for preparing the Annual Report and Audited 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 comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's Financial Statements published on the RRH website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

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 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.

Independent Auditors

The auditors, PriceWaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution for their re-appointment will be put to the 2026 annual general meeting.

Directors' Report approved by the Board and signed on its behalf on 26 February 2026 by:

.....

Tufan Erginbilgic

Director

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CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2025

	Notes	2025 £m	2024 £m
Revenue	2	**21,207**	18,909
Cost of sales [1, 2]		**(15,032)**	(14,688)
Gross profit	2	**6,175**	4,221
Commercial and administrative costs	2	**(1,268)**	(1,284)
Research and development costs [2]	2, 3	**(495)**	(203)
Share of results of joint ventures and associates	12	**56**	172
Operating profit		**4,468**	2,906
Gain arising on disposal of businesses [3]	27	**809**	16
Profit before financing and taxation		**5,277**	2,922
Financing income	4	**2,137**	536
Financing costs	4	**(479)**	(1,224)
Net financing income/(costs) [4]		**1,658**	(688)
Profit before taxation		**6,935**	2,234
Taxation	5	**(1,099)**	250
Profit for the year		**5,836**	2,484
Attributable to:			
Ordinary shareholders		**5,841**	2,521
Non-controlling interests (NCI)		**(5)**	(37)
Profit for the year		**5,836**	2,484
Other comprehensive (expense)/income (OCI)		**(545)**	50
Total comprehensive income for the year		**5,291**	2,534

1 Cost of sales includes a net charge for expected credit losses (ECLs) of £28m (2024: £14m). Further detail can be found in note 14

2 In the year ended 31 December 2025, the impact of an exceptional impairment reversal was included within both cost of sales, £179m (2024: £132m), and research and development, £6m (2024: £413m). Further details can be found in notes 2, 3, 8 and 9

3 In the year ended 31 December 2025, the Group completed the sale of the naval propulsors business and also recognised an exceptional gain on disposal as a result of the deconsolidation of Rolls-Royce SMR Limited during the year. Further details can be found in note 27

4 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

For the year ended 31 December 2025

	Notes	2025 £m	2024 £m
Profit for the year		**5,836**	2,484
Other comprehensive (expense)/income (OCI)			
Actuarial movements on post-retirement schemes [1]	22	**(444)**	22
Revaluation to fair value of other investments	12	**(1)**	(2)
Share of OCI of joint ventures and associates		**(1)**	(1)
Related tax movements	5	**115**	61
Items that will not be reclassified to profit or loss		**(331)**	80
Foreign exchange translation differences on foreign operations		**(169)**	(29)
Foreign exchange translation differences reclassified to income statement on disposal of businesses		**(18)**	–
NCI disposed through disposal of business	27	**(23)**	–
Movement on fair values charged to cash flow hedge reserve		**(38)**	(17)
Reclassified to income statement from cash flow hedge reserve		**27**	22
Share of OCI of joint ventures and associates		**2**	(3)
Related tax movements	5	**5**	(3)
Items that will be reclassified to profit or loss		**(214)**	(30)
Total other comprehensive (expense)/ income		**(545)**	50
Total comprehensive income for the year		**5,291**	2,534
Attributable to:			
Ordinary shareholders		**5,319**	2,571
NCI		**(28)**	(37)
Total comprehensive income for the year		**5,291**	2,534

1 This movement includes a charge of around £450m as a result of the agreement to transfer the future pension obligations in the UK scheme to Pension Insurance Corporation plc. See note 22 for further information

CONSOLIDATED BALANCE SHEET

As at 31 December 2025

	Notes	2025 £m	2024 £m
ASSETS			
Goodwill [1]	8	**3**	1,009
Intangible assets [1]	9	**2,343**	3,393
Property, plant and equipment	10	**2,198**	3,724
Right-of-use assets	11	**517**	761
Investments [2]	12	**787**	597
Other financial assets	20	**505**	126
Deferred tax assets	5	**2,980**	3,660
Post-retirement scheme surpluses	22	**286**	790
Non-current assets		**9,619**	14,060
Inventories	13	**2,848**	5,092
Trade receivables and other assets	14	**8,578**	9,051
Contract assets	15	**1,175**	1,813
Taxation recoverable		**45**	71
Other financial assets	20	**267**	209
Cash and cash equivalents	16	**5,718**	5,574
Current assets		**18,631**	21,810
Assets held for sale and distribution	27	**12,058**	153
TOTAL ASSETS		**40,308**	36,023
LIABILITIES			
Borrowings and lease liabilities	17	**(1,371)**	(1,097)
Other financial liabilities	20	**(268)**	(619)
Trade payables and other liabilities	19	**(6,716)**	(8,009)
Contract liabilities	15	**(5,450)**	(6,309)
Current tax liabilities		**(64)**	(117)
Provisions for liabilities and charges	21	**(240)**	(589)
Current liabilities		**(14,109)**	(16,740)
Borrowings and lease liabilities	17	**(2,386)**	(4,035)
Other financial liabilities	20	**(446)**	(1,640)
Trade payables and other liabilities	19	**(1,698)**	(1,965)
Contract liabilities	15	**(6,896)**	(9,447)
Deferred tax liabilities	5	**(75)**	(231)
Provisions for liabilities and charges	21	**(755)**	(1,405)
Post-retirement scheme deficits	22	**(30)**	(981)
Non-current liabilities		**(12,286)**	(19,704)
Liabilities associated with assets held for sale and distribution	27	**(8,936)**	(100)
TOTAL LIABILITIES		**(35,331)**	(36,544)
NET ASSETS/ (LIABILITIES)		**4,977**	(521)
EQUITY			
Called-up share capital	23	**338**	338
Share premium		**631**	631
Cash flow hedge reserve		**7**	13
Translation reserve		**418**	603
Retained earnings/(Accumulated losses)		**3,556**	(2,137)
Equity attributable to ordinary shareholders		**4,950**	(552)
Non-controlling interest (NCI)		**27**	31
TOTAL EQUITY		**4,977**	(521)

1 Goodwill has been disclosed separately from other intangible assets at 31 December 2025 (and its comparative represented) as such presentation is deemed relevant to an understanding of the Group's financial position

2 An equity-accounted investment was recognised at fair value on the balance sheet as a result of the deconsolidation of Rolls-Royce SMR Limited during the year. Further details can be found in note 27

The Financial Statements on pages 31 to 96 were approved by the Board and signed on its behalf on 26 February 2026 by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Office

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2025

	Notes	2025 £m	2024 £m
Reconciliation of cash flows from operating activities			
Operating profit		**4,468**	2,906
Loss on disposal of property, plant and equipment		**18**	32
(Profit)/loss on disposal of intangible assets		**(2)**	6
Share of results of joint ventures and associates	12	**(56)**	(172)
Dividends received from joint ventures and associates	12	**88**	77
Impairment of goodwill	8	**–**	13
Amortisation and impairment of intangible assets	9	**241**	(133)
Depreciation and impairment of property, plant and equipment	10	**338**	400
Depreciation and impairment of right-of-use assets	11	**158**	265
Adjustment of amounts payable under residual value guarantees within lease liabilities		**–**	(6)
Impairment of and other movements on investments		**–**	4
Decrease in provisions		**(486)**	(56)
Increase in inventories		**(684)**	(323)
Movement in trade receivables/payables and other assets/liabilities		**761**	831
Movement in contract assets/liabilities		**707**	752
Cash flows on other financial assets and liabilities held for operating purposes [1]		**(578)**	(676)
Cash flows on settlement of excess derivative contracts [2]		**(148)**	(146)
Interest received		**269**	269
Net defined benefit post-retirement cost recognised in profit before financing	22	**42**	56
Cash funding of defined benefit post-retirement schemes	22	**(84)**	(74)
Share-based payments	24	**104**	136
Net cash inflow from operating activities before taxation		**5,156**	4,161
Taxation paid		**(590)**	(381)
Net cash inflow from operating activities		**4,566**	3,780
Cash flows from investing activities			
Additions of intangible assets	9	**(364)**	(367)
Disposals of intangible assets		**5**	5
Purchases of property, plant and equipment		**(621)**	(519)
Disposals of property, plant and equipment		**2**	5
Disposal of businesses (including cash flows on disposals in prior periods)	27	**80**	62
Movement in investments in joint ventures and associates	12	**(41)**	(17)
Cash flows on amounts owed from parent undertakings		**(1,855)**	–
Net cash outflow from investing activities		**(2,794)**	(831)
Cash flows from financing activities			
Repayment of loans		**(927)**	(475)
Settlement of swaps hedging fixed rate borrowings		**93**	(11)
Proceeds from increase in loans		**177**	7
Capital element of lease payments		**(232)**	(299)
Net cash flow from decrease in borrowings and lease liabilities		**(889)**	(778)
Interest paid		**(180)**	(200)
Interest element of lease payments		**(74)**	(83)
Fees paid on undrawn facilities		**(8)**	(15)
Transactions with NCI [3]		**34**	33
Dividends to NCI		**(1)**	(3)
Net cash outflow from financing activities		**(1,118)**	(1,046)
Change in cash and cash equivalents		**654**	1,903
Cash and cash equivalents at 1 January		**5,572**	3,731
Exchange gains/(losses) on cash and cash equivalents		**15**	(62)
Cash and cash equivalents at 31 December [4]		**6,241**	5,572

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 £148m (2024: £146m) and estimates that future cash outflows of £27m will be incurred during 2026

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

4 The Group considers overdrafts (repayable on demand) to be an integral part of its cash management activities and these are included in cash and cash equivalents for the purposes of the cash flow statement

CONSOLIDATED CASH FLOW STATEMENT *CONTINUED*

For the year ended 31 December 2025

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.

	2025 £m	2024 £m
Reconciliation of movements in cash and cash equivalents to movements in net cash		
Change in cash and cash equivalents	**654**	1,903
Cash flow from decrease in borrowings and lease liabilities	**889**	778
Less: settlement of related derivatives included in fair value of swaps below	**93**	(11)
Change in net cash resulting from cash flows	**1,636**	2,670
Lease additions, modifications and other non-cash adjustments on borrowings and lease liabilities	**(232)**	(193)
Exchange gains/(losses) on net cash	**118**	(50)
Fair value adjustments	**8**	(11)
Net debt disposed of on disposal of businesses	**1**	–
Movement in net cash	**1,531**	2,416
Net cash/(debt) at 1 January excluding the fair value of swaps	**441**	(1,975)
Net cash at 31 December excluding the fair value of swaps	**1,972**	441
Fair value of swaps hedging fixed rate borrowings	**(77)**	33
Net cash at 31 December	**1,895**	474

CONSOLIDATED CASH FLOW STATEMENT *CONTINUED*

For the year ended 31 December 2025

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

	At 1 January £m	Funds flow £m	Net funds on disposal of businesses £m	Exchange differences £m	Fair value adjustments £m	Reclassi-fications £m	Other movements £m	At 31 December £m
2025								
Cash at bank and in hand	**713**	**183**	**–**	**(7)**	**–**	**(432)**	**–**	**457**
Money market funds	**1,900**	**484**	**–**	**40**	**–**	**(65)**	**–**	**2,359**
Short-term deposits	**2,961**	**(12)**	**–**	**(18)**	**–**	**(29)**	**–**	**2,902**
Cash and cash equivalents [1]	**5,574**	**655**	**–**	**15**	**–**	**(526)**	**–**	**5,718**
Cash and cash equivalents included within assets held for sale and distribution	**–**	**–**	**–**	**–**	**–**	**526**	**–**	**526**
Overdrafts	**(2)**	**(1)**	**–**	**–**	**–**	**3**	**–**	**–**
Overdrafts included within liabilities associated with assets held for sale and distribution	**–**	**–**	**–**	**–**	**–**	**(3)**	**–**	**(3)**
Cash and cash equivalents [2]	**5,572**	**654**	**–**	**15**	**–**	**–**	**–**	**6,241**
Other current borrowings	**(799)**	**750**	**–**	**(32)**	**40**	**(983)**	**(2)**	**(1,026)**
Non-current borrowings	**(2,776)**	**–**	**–**	**54**	**(32)**	**992**	**(2)**	**(1,764)**
Borrowings included within liabilities associated with assets held for sale and distribution	**–**	**–**	**–**	**–**	**–**	**(9)**	**–**	**(9)**
Lease liabilities	**(1,555)**	**232**	**–**	**81**	**–**	**503**	**(228)**	**(967)**
Lease liabilities included within liabilities associated with assets held for sale and distribution	**(1)**	**–**	**1**	**–**	**–**	**(503)**	**–**	**(503)**
Financial liabilities	**(5,131)**	**982**	**1**	**103**	**8**	**–**	**(232)**	**(4,269)**
Net cash/(debt) excluding the fair value of swaps	**441**	**1,636**	**1**	**118**	**8**	**–**	**(232)**	**1,972**
Fair value swaps hedging fixed rate borrowings [3]	**33**	**(93)**	**–**	**(22)**	**5**	**–**	**–**	**(77)**
Net cash/(debt)	**474**	**1,543**	**1**	**96**	**13**	**–**	**(232)**	**1,895**
2024								
Cash at bank and in hand	739	(16)	–	(10)	–	–	–	713
Money market funds	1,077	841	–	(18)	–	–	–	1,900
Short-term deposits	1,968	1,027	–	(34)	–	–	–	2,961
Cash and cash equivalents [1]	3,784	1,852	–	(62)	–	–	–	5,574
Overdrafts	(53)	51	–	–	–	–	–	(2)
Cash and cash equivalents [2]	3,731	1,903	–	(62)	–	–	–	5,572
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 associated with assets 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)	2,670	–	(50)	(11)	–	(193)	441
Fair value swaps hedging fixed rate borrowings[3]	23	11	–	(18)	17	–	–	33
Net cash/(debt)	(1,952)	2,681	–	(68)	6	–	(193)	474

1 Per balance sheet

2 Per cash flow statement

3 Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net cash/(debt) therefore includes the fair value of derivatives included in fair value hedges (2025: £(26)m, 2024: £62m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (2025: £(51)m, 2024: £(29)m)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2025

The following describes the nature and purpose of each reserve within equity:
Share capital – The nominal value of ordinary shares of 20p each in issue.
Share premium – Proceeds received in excess of the nominal value of ordinary shares issued, less the costs of issue.
Hedging reserves – Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges and cost of hedging reserve.
Translation reserve – Gains and losses arising on retranslating the net assets of overseas operations into sterling.
Retained earnings/accumulated losses – All other net gains and losses and transactions with owners not recognised elsewhere and ordinary shares held for the purpose of share-based payment plans.
Non-controlling interests – The share of net assets or liabilities of subsidiaries held by third parties.

		Attributable to ordinary shareholders							
	Notes	Share capital £m	Share premium £m	Cash flow hedging reserves [1] £m	Translation reserve £m	Retained earnings/ accumulated losses £m	Total £m	NCI £m	Total equity £m
At 1 January 2025		**338**	**631**	**13**	**603**	**(2,137)**	**(552)**	**31**	**(521)**
Profit/(loss) for the year		**–**	**–**	**–**	**–**	**5,841**	**5,841**	**(5)**	**5,836**
Foreign exchange translation differences on foreign operations		**–**	**–**	**–**	**(169)**	**–**	**(169)**	**–**	**(169)**
Foreign exchange translation differences reclassified to income statement on disposal of business	27	**–**	**–**	**–**	**(18)**	**–**	**(18)**	**–**	**(18)**
NCI disposed of on disposal of business	27	**–**	**–**	**–**	**–**	**–**	**–**	**(23)**	**(23)**
Actuarial movements on post-retirement schemes [2]	22	**–**	**–**	**–**	**–**	**(444)**	**(444)**	**–**	**(444)**
Fair value movement on cash flow hedges		**–**	**–**	**(38)**	**–**	**–**	**(38)**	**–**	**(38)**
Reclassified to income statement from cash flow hedge reserve		**–**	**–**	**27**	**–**	**–**	**27**	**–**	**27**
Revaluation to fair value of other investments	12	**–**	**–**	**–**	**–**	**(1)**	**(1)**	**–**	**(1)**
OCI of joint ventures and associates	12	**–**	**–**	**2**	**–**	**(1)**	**1**	**–**	**1**
Related tax movements	5	**–**	**–**	**3**	**2**	**115**	**120**	**–**	**120**
Total comprehensive income/(expense) for the year		**–**	**–**	**(6)**	**(185)**	**5,510**	**5,319**	**(28)**	**5,291**
Share-based payments – direct to equity [3]		**–**	**–**	**–**	**–**	**98**	**98**	**–**	**98**
Dividends to NCI		**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Transactions with NCI [4]		**–**	**–**	**–**	**–**	**9**	**9**	**25**	**34**
Related tax movements	5	**–**	**–**	**–**	**–**	**76**	**76**	**–**	**76**
Other changes in equity in the year		**–**	**–**	**–**	**–**	**183**	**183**	**24**	**207**
At 31 December 2025		**338**	**631**	**7**	**418**	**3,556**	**4,950**	**27**	**4,977**
At 1 January 2024		338	631	12	634	(4,936)	(3,321)	52	(3,269)
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
Share-based payments – direct to equity [3]		–	–	–	–	95	95	–	95
Dividends to NCI		–	–	–	–	–	–	(3)	(3)
Transactions with NCI [4]		–	–	–	–	32	32	19	51
Related tax movements	5	–	–	–	–	71	71	–	71
Other changes in equity in the year		–	–	–	–	198	198	16	214
At 31 December 2024		338	631	13	603	(2,137)	(552)	31	(521)

1 Hedging reserves includes the cash flow hedge reserve of £7m and the cost of the hedging reserve of £nil (2024: £13m and £nil respectively)

2 This movement includes a charge of around £450m as a result of the agreement to transfer the future pension obligations in the UK scheme to Pension Insurance Corporation plc. See note 22 for further information

3 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

4 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 plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in England in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2025 consist of the audited consolidation of the Financial Statements of the Company and its subsidiaries (together referred to as the Group) together with the Group's interest in jointly controlled and associated entities.

Basis of preparation and statement of compliance

The Company has elected to prepare its individual Company Financial Statements under FRS 101 *Reduced Disclosure Framework*. They are set out on page 99 with the associated accounting policies from page 100.

The Consolidated Financial Statements have been prepared in accordance with UK-adopted International Accounting Standards (IAS) in conformity with the requirements of the Companies Act 2006 and interpretations issued by the IFRS Interpretations Committee applicable to companies reporting under UK-adopted IFRS.

The Consolidated Financial Statements have been prepared on a going concern basis as described on page 21. The historical cost basis has been used except where IFRS require the revaluation of financial instruments to fair value and certain other assets and liabilities on an alternative basis, most significantly post-retirement scheme obligations are valued on the basis required by IAS 19 *Employee Benefits.*

The Consolidated Financial Statements are presented in sterling which is the Company's functional currency.

The preparation of the Consolidated Financial Statements requires management to make judgements and estimates that affect the statutory amounts of assets and liabilities at the date of the Consolidated Financial Statements and the statutory amounts of revenue and expenses during the reporting period. Actual future outcomes could differ from those estimates.

Going concern

The Directors have undertaken a comprehensive going concern review. In adopting the going concern basis for preparing these Consolidated and Company Financial Statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of possible risks and uncertainties over an 18-month period from the balance sheet date to June 2027. The Directors have determined that the period to 30 June 2027 ('the going concern period') is an appropriate timeframe over which to assess going concern as it considers the Group's short- to medium-term cash flow forecasts and available liquidity. Recognising the challenges of reliably estimating and forecasting the impact of external factors on the Group, the Directors have considered two forecasts in the assessment of going concern, along with a likelihood assessment of these forecasts, being:

— base case, which reflects the Directors' current expectations of future trading; and

— a downside forecast, which envisages severe but plausible downside risks.

Further details are given in the going concern review on page 21. After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and downside forecast, the Directors consider that the Group has sufficient liquidity to continue in operational existence over the going concern period to 30 June 2027 and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Consolidated Financial Statements.

Climate change

In preparing the Consolidated Financial Statements the Directors have considered the potential impact of climate change, particularly in the context of the disclosures included in the Strategic Report that set out climate-related commitments, targets and the pillars of the Rolls-Royce energy transition strategy which are:

- optimising our operations, including decarbonising operations, facilities, product testing and business activities. This will be met through a combination of procuring clean energy, reducing overall energy demand, and clean power generation. An estimate of the investment required to meet Scope 1 + 2 emission improvements is included in the forecasts that support these Consolidated Financial Statements;
- enabling our customers, by delivering innovative products and solutions that can accelerate the global energy transition. This includes the development and deployment of a future portfolio that includes the UltraFan engine in Civil Aerospace, Battery Energy Storage Systems in Power Systems and small modular reactors. An estimate of the investment required to deliver these technologies is included in the forecasts that support the Consolidated Financial Statements; and
- engaging and collaborating with customers, suppliers, industry and policymakers supporting the necessary enabling environment to achieve collective energy transition and climate goals.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risk have continued to develop over the last year as set out in the Strategic Report. The scenarios are used to help assess the Group's strategic resilience to climate change and the energy transition. Consideration is made of how each of them impacts: the life of assets; future revenue projections; future profitability; and whether additional costs may occur. There remains inherent uncertainty around how the scenarios will impact the Group. The Directors assess the assumptions on a regular basis to ensure that they are consistent with the risk management activities and the commitments made to investors and other stakeholders.

Based on the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations, the Group assesses the potential impact of climate-related risks which cover transition and physical risks and opportunities. The Group has identified four key transition risks (relating to changing customer demand, changes in cost due to carbon pricing, changes in cost due to commodity price changes and change in investment requirements) and three key physical risks (relating to facility disruption, supply chain disruption and impact on product performance) which may arise from the energy transition. The transition risks are the most likely to have an impact on the Consolidated Financial Statements, as exposure to physical risks will be greater in the longer term.

1 Accounting policies *continued*

Climate change (continued)

The key sources of estimation uncertainty at the balance sheet date are set out on page 41 and the Directors have considered the impact of climate change on those estimates. The key assumptions used in this assessment are consistent with those used in the climate scenarios presented in the Strategic Review. A summary of the assessment is set out below.

Risk	How reflected in the Financial Statements	Impact on Civil Aerospace LTSAs
Changing customer demand	The most likely assumptions are used in the estimates implicit in the preparation of the Financial Statements. The use of sensitivity analysis ensures that any impact of climate change on demand is immaterial.	Forecast EFH are based on customer and market data and therefore already include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 1% change in EFH forecasts over the remaining term of Civil LTSA contracts is disclosed on page 44.
Changes in costs due to carbon pricing[1] and commodity price changes[2]	The potential impact of carbon pricing has been estimated by applying carbon prices to the forecast emissions generated by the Group and its supply chain. This impact, together with that from estimated commodity prices under each scenario, have been added/deducted to forecast costs in the base forecasts. The analysis reflects that: decarbonisation activities will occur in both the Group and its supply chain; and that some supplier contracts offer protection from cost increases in the short- to medium-term where pricing is fixed or subject to capped escalation clauses.	The increase in the cost base of the current Civil LTSA contracts due to carbon and commodity prices is estimated to be around 1%. (2024: 1%) with the incremental cost included in the cost to complete estimates that drive revenue recognition. Changes in estimates have not had a material impact on revenue catch-ups or contract loss provisions in the year (2024: not material). A sensitivity disclosing the impact of a 2% change in shop visit costs over the remaining term of Civil LTSA contracts is disclosed on page 44.
Change in investment requirement	Changing investment requirements may arise due to the introduction /acceleration of new technologies. Research is expensed and development costs capitalised as incurred.	No impact to existing LTSAs.

1 Based on the Oxford Economics, Global Climate Service and Databank, with rates of $145 per tonne of carbon in 2025 increasing to c. $300 in 2030. Beyond 2030, the Group has considered a range of carbon pricing data sources with an assumed increase (in outturn economics) of c. 2% per annum to c. $475 per tonne by 2050

2 Commodity prices from the Oxford Economics, Global Climate Service and Databank

Items that may be impacted by climate-related risks, but which are not considered to be key areas of judgement or sources of estimation uncertainty in the current financial year are outlined below.

Carrying value of goodwill – The recoverable amount used in impairment testing is based on the cash flow projections of the CGUs to which the goodwill balances relate (with the material balances being disclosed as assets held for distribution at 31 December 2025). The projections include assumptions that are based on past experience and external sources of information in relation to sales volumes, product costs and the required level of investment that could all be impacted by climate change. The climate scenarios prepared do not show a significant deterioration of demand for Civil Aerospace (including Rolls-Royce Deutschland) programmes given that all commercial aero engines are compatible with sustainable fuels, similarly the majority of the portfolio in Power Systems is compatible with alternative and more sustainable fuels. The scenarios reflect the impact of a broad range of potential costs imposed by policy or regulatory interventions (through carbon pricing) and the investment required to ensure new products will be compatible with net zero operation, and to achieve net zero Scope 1 + 2 GHG emission commitments. The scenarios do not indicate the need for an impairment charge and the Directors do not consider that any reasonably possible changes in the climate related assumptions would cause the value in use of the goodwill to fall below its carrying value.

Recoverability of programme intangible assets - The recoverable amount used in impairment testing is based on the cash flow projections of the individual programmes. The projections include assumptions in relation to sales volumes and product costs that could be impacted by climate change. Given the level of headroom in the programme intangible assets, with most engines being compatible with alternative or more sustainable fuels, and with cost estimates including an allowance for the impact of carbon pricing, there is no indication of any potential impairment as a result of climate change.

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 climate-related matters have not had a material impact on the results for the year. The Directors have also considered the remaining useful economic lives of material intangible assets, including the £1,993m and £814m capitalised development spend associated with the Trent and business aviation programmes disclosed in note 9. Given the measures the Group is taking, including demonstration that all the commercial aero-engines and majority of the portfolio in Power Systems are compatible with alternative and sustainable fuels, the Directors judge that no adjustment is required to the useful economic lives.

Inventory valuation – Climate-related matters may affect the value of inventories as a result of a decline in selling prices or where items 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.

1 Accounting policies *continued*

Climate change (continued)

Recoverability of trade receivables and contract assets – The impact of climate-related matters could have an impact on the Group's customers in the future, especially those customers in the Civil Aerospace business. No material climate-related issues have arisen during the year that have impacted the assessment of the recoverability of receivables. The Group's expected credit loss (ECL) provision uses credit ratings which inherently will include the market's assessment of the climate change impact on credit risk of the counter parties. Given the maturity time of trade receivables and the majority of contract assets, climate change is unlikely to cause a material increase on counter party credit risk in that time.

Recoverability of deferred tax assets on UK tax losses – Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which the assets can be utilised. The deferred tax asset on UK tax losses primarily arises in Rolls-Royce plc and has been recognised based on the expectation that the business will generate taxable profits and tax liabilities in the future against which the losses and deductible temporary differences can be utilised. Recognising the longer term over which these assets will be recovered, the Group considers climate change scenarios that could impact future taxable profits through changes in demand for our products or their cost. The variability in taxable profits that could arise from changes in such estimates is not considered to be of sufficient magnitude that it would impact our judgement that there will be sufficient future taxable profits available against which the assets can be utilised.

Share-based payments – The Group is committed to achieving net zero by 2050. The Group has committed to reduce the total Scope 1 + 2 greenhouse gas emissions from its facilities, operations and testing by 46% by the end of 2030 (against a baseline of 2019). This metric accounts for 10% of the long-term incentive plan for awards granted in 2025, with performance measured against three-year cumulative targets.

Defined benefit pension plans – Having assessed the risks and opportunities of climate change and considered the nature of the assets of the fund, climate change is unlikely to have a material impact on the position in the Consolidated Financial Statements.

Going concern – Given the short-term nature of the Group's going concern assessment, the impact of climate change does not have a significant impact. The Directors have considered the level of liquidity available, and the potential impact of the climate change risks, in making their assessment.

Presentation of underlying results

The Group measures financial performance on an underlying basis and discloses this information as an alternative performance measure (APM). This is consistent with the way that financial performance is measured by the Directors and reported to the Board in accordance with IFRS 8 *Operating Segments*. The Group believes this is the most appropriate basis to measure the in-year performance, as underlying results reflect the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which economically hedge net foreign currency cash flows at predetermined exchange rates. In addition, underlying results exclude the accounting impact of acquisition accounting and business disposals, impairment charges where the reasons are outside of normal operating activities, exceptional items, and certain other items which are market driven and outside of the control of management. Further details are given in note 2. A reconciliation of APMs to the statutory equivalent is provided on pages 137 to 140.

Revisions to IFRS applicable in 2025

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

Revisions to IFRS not applicable in 2025

Standards and interpretations issued by the IASB are only applicable if endorsed by the UK. Other than IFRS 18 *Presentation and Disclosure in Financial Statements* described below, the Group does not consider that any other standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements.

IFRS 18 *Presentation and Disclosure* in Financial Statements

The IASB issued a new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, on 9 April 2025 that will replace IAS 1 *Presentation of Financial Statements*. The purpose of the new standard is to provide more consistent presentation of financial information across preparers as it is acknowledged that existing standards have given flexibility to present information in different ways. IFRS 18 *Presentation and Disclosure in Financial Statements* will not impact the recognition or measurement of items in the Financial Statements. Many of the existing presentation principles in IAS 1 *Presentation of Financial Statements* are retained, but there are some more specific requirements that will require the Group to make some changes in its future Annual Reports.

The new Standard was endorsed by the UK Endorsement Board (UKEB) and will be applicable for reporting periods beginning on or after 1 January 2027. The Group does not anticipate its early adoption of the new Standard. Comparative information for 2026 will need to be restated when subsequent Financial Statements are published. The Group has continued its implementation activities and expects the most significant changes post 2027 to be in relation to the presentation of items within the Statutory Consolidated Income Statement. The changes are expected to include: 'share of results of joint ventures and associates' being presented in the new investing category and included when arriving at a new subtotal 'operating profit including share of results of joint ventures and associates'; interest income will be reclassified from net financing into the new investing category; the majority of foreign exchange differences will be reclassified from net financing into the operating category; and fair value gains/(losses) related to foreign currency contracts and commodity contracts will be reclassified from net financing into the operating category. The process of assessing the financial impact on the Consolidated Financial Statements will continue during 2026.

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
Revenue recognition and contract assets and liabilities	— Whether Civil Aerospace OE and aftermarket contracts should be combined. — How performance on long-term aftermarket contracts should be measured. — Whether long-term aftermarket contracts contain a significant financing component. — Whether any costs should be treated as wastage. — Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15 *Revenue from Contracts with Customers.* — Whether sales of spare engines to joint ventures are at fair value. — When revenue should be recognised in relation to spare engine sales.	— Estimates of future revenue including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change.	43
Risk and revenue sharing arrangements (RRSAs)	— Determination of the nature of entry fees received.		44
Assets and liabilities associated with assets held for distribution	— Whether components of the legal entity review programme are considered a single integrated distribution transaction and hence disclosed as held for distribution.		45
Research and development	— Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation. — Determination of the basis for amortising capitalised development costs.		46
Leases	— Determination of the lease term.		47
Impairment of non-current assets	— Determination of cash-generating units for assessing impairment of goodwill.		48
Provisions	— Whether any costs should be treated as wastage.	— 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.	49
Post-retirement benefits		— Estimates of the assumptions for valuing the net defined benefit obligation.	49

Material accounting policies

The Group's significant accounting policies are set out on pages 42 to 50. These accounting policies have been applied consistently to all periods presented in these Consolidated Financial Statements.

1 Accounting policies *continued*

Basis of consolidation

The Consolidated Financial Statements include the Company Financial Statements and its subsidiary undertakings together with the Group's share of the results of joint arrangements and associates up to 31 December.

A subsidiary is an entity controlled by the Company. Control exists when the Company has power over an entity, exposure to variable returns from its involvement with an entity and the ability to use its power over an entity so as to affect the Company's returns. Subsidiaries are consolidated in accordance with IFRS 10 *Consolidated Financial Statements*.

A joint arrangement is an entity in which the Group holds a long-term interest and which is jointly controlled by the Group and one or more other investors under a contractual arrangement. Joint arrangements may be either joint ventures or joint operations. Joint ventures are accounted for using the equity method of accounting and joint operations are accounted for using proportionate accounting.

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 remaining goods and services are distinct and whether the price of the contract increases by an amount of consideration that reflects the standalone selling prices of any additional goods and services.
- Where material, wastage costs (see key judgements on page 43) are recorded as an expense and excluded from the measure of progress of LTSA contracts.
- The Group recognises a liability for their obligation to repurchase parts it has sold to the maintenance, repair and overhaul bases who overhaul the Group's customers' engines.

If the expected costs to fulfil a contract exceed the expected revenue, a contract loss provision is recognised for the excess costs.

The Group pays participation fees to airframe manufacturers, its customers for OE, on certain programmes. Amounts paid are initially treated as contract assets and subsequently charged as a reduction to the OE revenue when the engines are transferred to the customer.

The Group has elected to use the practical expedient to expense as incurred any incremental costs of obtaining or fulfilling a contract if the amortisation period of an asset created would have been one year or less. Where costs to obtain a contract are recognised in the balance sheet, they are amortised over the performance of the related contract (eight to 15 years).

1 Accounting policies *continued*

Revenue recognition and contract assets and liabilities (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 contacts 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 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 2025, of the total 52 (2024: 57) large spare engine sales delivered, 5 (2024: 20) engines were sold to customers where contractual arrangement allows for some future spare engine capacity to be used by the Group. These sales contributed £94m (2024: £399m) to revenue for the year.

1 Accounting policies *continued*

Revenue recognition and contract assets and liabilities (continued)

Key estimate - Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change
The Group has long-term contracts that fall into different accounting periods and which can extend over significant periods (generally up to 25 years), the most significant of these are LTSAs in the Civil Aerospace business, with contracts typically covering a period of eight to 15 years. The estimated revenue and costs are inherently imprecise and significant estimates are required to assess: EFHs, time on wing and other operating parameters; the pattern of future maintenance activity and the costs to be incurred; lifecycle cost improvements over the term of the contracts; and escalation of revenue and costs (that includes the impact of inflation). Many of the revenues and costs are denominated in currencies other than that of the relevant group undertaking, these are translated at an estimated long-term exchange rate, based on historical trends and economic forecasts.

The impact of climate change on EFHs and costs is also considered when making these estimates. Industry and customer data on expected levels of utilisation is included in the forecasts used. Across the length of the current Civil Aerospace LTSA contracts, allowance has been made for around a 1 % (2024: 1%) projected cost increase resulting from carbon pricing and commodity price changes.

During the year, changes to the estimate in relation to the Civil Aerospace long term contracts resulted in favourable catch-up adjustments to revenue of £253m (2024: favourable catch-up adjustments of £311m).

The sensitivities below demonstrate how changes in assumptions (including as a result of climate change) could impact the level of revenue recognised were assumptions to change. The Directors believe that the estimates used to prepare the Consolidated Financial Statements take account of the inherent uncertainties, constraining the expected level of revenue as appropriate. Based upon the stage of completion of all LTSA contracts within Civil Aerospace as at 31 December 2025, the following reasonably possible changes in estimates would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates):

- A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an impact of around £20m. This would be expected to be seen as a catch-up change in revenue or, to the extent it impacts onerous contracts, within cost of sales.
- A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £400m.
- A 2% increase or decrease in shop visit costs over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £120m.

Risk and revenue sharing arrangements (RRSAs)
Cash entry fees received are initially deferred on the balance sheet as deferred receipts from RRSA workshare partners within trade payables and other liabilities. The cash entry fee is a transaction with a supplier and is recognised as a reduction in cost of sales incurred. Individual programme amounts are allocated pro rata to the estimated number of units to be produced. Amortisation commences as each unit is delivered and then recognised on a 15-year straight-line basis.

The payments to suppliers of their shares of the programme cash flows for their production components are charged to cost of sales when OE sales are recognised or as LTSA costs are incurred. These prepayments are initially recognised within trade receivables and other assets.

The Group also has arrangements with third parties who invest in a programme and receive a return based on its performance, but do not undertake development work or supply parts. Such arrangements (financial RRSAs) are financial instruments as defined by IAS 32 *Financial Instruments*: *Presentation* and are accounted for using the amortised cost method.

Key judgement – Determination of the nature of entry fees received
RRSAs with key suppliers (workshare partners) are a feature of the civil aviation industry. Under these contractual arrangements, the key commercial objectives are that: (i) during the development phase the workshare partner shares in the risks of developing an engine by performing its own development work, providing development parts, and paying a non-refundable cash entry fee; and (ii) during the production phase the workshare partner supplies components in return for a share of the programme cash flows as a 'life of type' supplier (i.e. as long as the engine remains in service).

The non-refundable cash entry fee is considered to be one element of a long-term supply agreement. These receipts are deferred on the balance sheet and recognised against the cost of sales over the estimated number of units to be delivered on a similar basis to the amortisation of development costs (see page 47).

Government grants
Government grants received are varied in nature and are recognised in the income statement so as to match them with the related expenses that they are intended to compensate. Where grants are received in advance of the related expenses, they are initially recognised as liabilities within trade payables and other liabilities and released to match the related expenditure. Non-monetary grants are recognised at fair value.

Interest
Interest receivable/payable is credited/charged to the income statement using the effective interest method. Where borrowing costs are attributable to the acquisition, construction or production of a qualifying asset, such costs are capitalised as part of the specific asset.

1 Accounting policies *continued*

Taxation
The tax charge/credit on the profit or loss for the year comprises current and deferred tax:

- Current tax is the expected tax payable for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years; and
- Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for tax purposes and is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. In the UK, the deferred tax liability on the pension scheme surplus is recognised consistently with the basis for recognising the surplus i.e. at the rate applicable to refunds from a trust.

Tax is charged or credited to the income statement or OCI as appropriate, except when it relates to items credited or charged directly to equity in which case the tax is also dealt with in equity.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and joint arrangements, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax is not recognised on taxable temporary differences arising on the initial recognition of goodwill or for temporary differences arising from the initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits, which include the reversal of taxable temporary differences, will be available against which the assets can be utilised. Further details on the Group's tax position can be found on pages 59 to 62.

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.

Disposal group held for distribution to owners
A disposal group is classified as held for distribution to owners when the Group is committed to such a distribution. For this to be the case the disposal group must be available for immediate distribution in its present condition and the distribution must be highly probable.

Key judgement – Whether components of the legal entity review programme are considered a single integrated distribution transaction and hence disclosed as held for distribution.
A Group legal entity review programme is being executed through a series of transactions that are highly probable to complete during 2026. Having considered the nature of the programme, and the significant interdependencies between the steps, the Directors consider that all the transaction steps are components of a single plan for the distribution of entities under common control to the owner of the Group, Rolls-Royce Holdings plc.

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.

1 Accounting policies *continued*

Financial instruments – Impairment of financial assets and contract assets

IFRS 9 *Financial Instruments* sets out the basis for the accounting of ECLs on financial assets and contract assets resulting from transactions within the scope of IFRS 15 *Revenue from Contracts with Customers*. The Group has adopted the simplified approach to provide for ECLs, measuring the loss allowance at a probability weighted amount that considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions of customers. These are incorporated in the simplified model adopted by using credit ratings which are publicly available, or through internal risk assessments derived using the customer's latest available financial information. The ECLs are updated at each reporting date to reflect changes in credit risk since initial recognition. ECLs are calculated for all financial assets in scope, regardless of whether or not they are overdue.

Financial instruments – Hedge accounting

Forward foreign exchange contracts and commodity swaps (derivative financial instruments) are held to manage the cash flow exposures of forecast transactions denominated in foreign currencies or in commodities respectively. Derivative financial instruments qualify for hedge accounting when: (i) there is a formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge at the inception of the hedge; and (ii) the hedge is expected to be effective. In general, the Group has chosen to not apply hedge accounting in respect of these exposures.

The Group economically hedges the fair value and cash flow exposures of its borrowings. Cross-currency interest rate swaps are held to manage the fair value or cash flow exposures of borrowings denominated in foreign currencies and are designated as fair value hedges or cash flow hedges as appropriate. Interest rate swaps are held to manage the interest rate exposures of fixed and floating rate borrowings and may be designated as fair value hedges or cash flow hedges as appropriate. If the swaps are not designated as fair value or cash flow hedges, the economic effect is included in the underlying results - see note 20.

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.

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.

Accounting policies *continued*

Research and development (continued)

Key judgement – Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation
The Group incurs significant research and development expenditure in respect of various development programmes. Determining when capitalisation should commence and cease is a key judgement, as is the determination of when subsequent expenditure on the programme assets should be capitalised. During the year, £222m (2024: £263m) of development expenditure was capitalised.

Within the Group there are established processes in place e.g., the Product Introduction and Lifecycle Management process (PILM), to consider technical feasibility, commercial viability and financial assessment of the programme at certain milestones. When these are met, development expenditure is capitalised. Prior to this, expenditure is expensed as incurred.

The Group continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years.

Subsequent expenditure after entry into service which enhances the performance of the engine and the economic benefit to the Group is capitalised. This expenditure is referred to as enhanced performance and is governed by the PILM process referred to above. All other development costs are expensed as incurred.

Key judgement – Determination of the basis for amortising capitalised development costs
The economic benefits of the development costs are primarily those cash inflows arising from LTSAs, which are expected to be relatively consistent for each engine within a programme. Amortisation of development costs is recognised on a straight-line basis over the estimated period of operation of the engine by its initial operator.

Software
Software that is not specific to an item of property, plant and equipment is classified as an intangible asset, recognised at its acquisition cost and amortised on a straight-line basis over its useful economic life, up to a maximum of ten years. The amortisation period of software assets is reviewed annually. The cost of internally developed software includes direct labour and an appropriate proportion of overheads.

Other intangible assets
These include intangible assets arising on acquisition of businesses, such as technology which is amortised on a straight-line basis over a maximum of 15 years and trademarks which are not amortised. They also include the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance, which are amortised on a straight-line basis over a maximum of 15 years.

Property, plant and equipment
Property, plant and equipment are stated at acquisition cost less accumulated depreciation and any provision for impairment in value. The cost of self-constructed assets includes the cost of materials, direct labour, an appropriate proportion of overheads and, where appropriate, interest.

Depreciation is provided on a straight-line basis to write off the cost, less the estimated residual value, of property, plant and equipment over their estimated useful lives. No depreciation is recorded on assets in the course of construction. Estimated useful lives are reassessed annually and are as follows:

- Land and buildings, as advised by the Group's professional advisers:
  - No depreciation is provided on freehold land.
  - Freehold buildings - three to 50 years; and
- Plant and equipment – two to 25 years.
- Aircraft and engines – five to 20 years.

Leases
Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for termination of the lease, if the lease term reflects the Group exercising that option.

Where leases commenced after the initial IFRS 16 *Leases* transition date, the lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the Group's incremental borrowing rate is used, being the rate that the Group would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Where appropriate, lease liabilities are revalued at each reporting date using the spot exchange rate.

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.

1 Accounting policies *continued*

Leases (continued)

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 are due in the next 12 months that would have a material impact. Other renewals are evenly spread across 2029 to 2033 and then post 2038. The Group reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities.

Impairment of non-current assets

Impairment of non-current assets is considered in accordance with IAS 36 *Impairment of Assets*. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit (CGU) to which the asset belongs. Goodwill, indefinite life intangible assets and intangible assets not yet available for use are tested for impairment annually. Other intangible assets (including programme-related intangible assets), property, plant and equipment, right-of-use assets and investments are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

If the recoverable amount of an asset (or CGU) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss is recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs of disposal. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset (or CGU). Fair value less costs of disposal (FVLCOD) 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; 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*

Provisions (continued)

Key judgement – Whether any costs should be treated as wastage
In rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur. As the Group is an owner of an engine Type Certificate, it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Group is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSAs, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. Where Airworthiness Directives are issued, requirements cannot be met without the Group incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Group in designing and overhauling aero engines it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

During the year, the Group has utilised the remaining £35m of the Trent 1000 wastage costs provision.

Key estimates - Estimates of the time to incorporate required modified parts into the fleet to resolve technical issues on the Trent 1000, and the implications of this on forecast future costs when assessing onerous contracts
The Group considers that at 31 December 2025 the Trent 1000 onerous contract provisions are most sensitive to changes in estimates. Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the first half of 2026 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £20m to £30m charge.

Key estimates - Estimates of the future revenues and costs to fulfil onerous contracts
The Group has provisions for onerous contracts at 31 December 2025 of £914m (2024: £1,433m). An increase in Civil Aerospace large engine estimates of LTSA costs of 1% over the remaining term of the contracts could lead to around a £50m to £70m increase in the onerous contract provisions across all programmes.

Key estimates - Assumptions implicit within the calculation of discount rates
The onerous contract provisions are sensitive to changes in the discount rate used to value the provisions. The rate used for each contract is derived from bond yields (i.e. risk-free rates) with a similar duration and currency to the contract that they are applied to. The rate is adjusted to reflect the specific inflation characteristics of the contracts. The forecast rates are determined from third-party market analysis and average 5%. A 1% change in the discount rates used could lead to around a £20m to £30m change in the provision.

Customer financing support
In connection with the sale of its products, the Group will, on occasion, provide financing support for its customers. Credit-based guarantees are disclosed as commitments or contingent liabilities dependent on whether aircraft have been delivered or not. As described on page 93, 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.

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 surplus of £256m before deferred taxation being recognised on the balance sheet at 31 December 2025 (2024: deficit of £191m). The size of the net surplus/deficit is sensitive to the actuarial assumptions which include the discount rate, price inflation, pension and salary increases, longevity and, in the UK, the number of plan members who take the option to transfer their pension to a lump sum on retirement or who choose to take the Bridging Pension Option. Following consultation, the UK scheme closed to future accrual on 31 December 2020.

A reduction in the discount rate of 0.25% from 5.60% could lead to an increase in the defined benefit obligations of the Rolls-Royce UK Pension Fund (RRUKPF) of approximately £140m and an increase in the assumed rate of inflation of 0.25% (RPI of 3.05% and CPI of 2.70%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m. In August 2025 the scheme completed a Buy-in, with the purchase of a bulk insurance annuity policy, with the effect that the majority of scheme liabilities, and therefore these potential risks, are covered by this policy. See further details and overseas scheme sensitivities in note 22.

1 Accounting policies *continued*

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 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.

Post balance sheet events

Rolls-Royce plc and the Trustee of the UK pension scheme signed an agreement on 2 February 2026 triggering the wind up of the UK scheme. The Group's current expectation is that the residual surplus on the scheme will be shared between the Group and the scheme's members, and communications to this effect have been made to members. This is subject to a statutory consultation process between the Trustee and the members, expected to be completed in 2026. Subject to the outcome of that process, it is currently expected that this will result in a constructive obligation of around £100m being recognised as a past service charge in the income statement in 2026.

On 16 February 2026, the Group repaid €750m of borrowings on their contractual maturity date which, along with the associated cross currency interest rate swaps, resulted in a cash outflow of £677m.

As part of the Group's legal entity review programme, the Company sold its investment in Rolls-Royce Overseas Holdings Limited to Rolls-Royce US Holdings Limited (a subsidiary of Rolls-Royce Holdings plc) on 1 January 2026 for £4.4bn. The associated assets and liabilities were part of the disposal group held for distribution to owners on 31 December 2025. To facilitate the transaction, the Company issued two loans on 1 January 2026; these being £1.9bn to its ultimate parent company Rolls-Royce Holdings plc; and £2.5bn to Rolls-Royce US Holdings Limited.

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 2025 results as appropriate.

2 Segmental analysis

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

Civil Aerospace	development, manufacture, marketing and sales of commercial aero engines and aftermarket services
Defence	development, manufacture, marketing and sales of military aero engines, naval engines, submarine nuclear power plants and aftermarket services
Power Systems	development, manufacture, marketing and sales of integrated solutions for onsite power and propulsors

On 4 March 2025, an investment was received by Rolls-Royce SMR Limited from ČEZ Group (CEZ), as a result the Group relinquished control of Rolls-Royce SMR Limited and the subsidiary was deconsolidated (see note 27 for further details).

Following the decision in 2024 to exit the Group's advanced air mobility activities and the deconsolidation of Rolls-Royce SMR Limited on 4 March 2025 (see note 27) the New Markets operating segment that was reported at 31 December 2024 is no longer regularly reviewed by the Board as a basis for making decisions about the allocation of resources to the business or to assess its performance. In line with IFRS 8 *Operating Segments*, New Markets is no longer considered to meet the definition of an operating segment.

Revenue and expenses from new electrical power solutions and the Group's share of the financial results of Rolls-Royce SMR Limited have been included in 'All Other Businesses', which also includes the trading results of the UK Civil Nuclear business. The segmental analysis for 2024 has been restated to reflect the 2025 assessment of operating segments.

Underlying results

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

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

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

In the year to 31 December 2025, the Group was a net seller of USD at an achieved exchange rate GBP:USD of 1.44 (2024: 1.48) based on the USD hedge book.

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by $11.8bn across 2020-2026 to reflect the fact that, at that time, future operating cash flows were no longer forecast to materialise. An underlying charge of £1.7bn was recognised within the underlying finance costs in 2020 and the associated cash settlement costs occur over the period 2020-2026. The derivatives relating to this underlying charge have been subsequently excluded from the hedge book and therefore are also excluded from the calculation of the average exchange rate achieved in the current and future periods.

Underlying performance also excludes the following:

- the effect of acquisition accounting and business disposals;
- impairment of goodwill, other non-current and current assets where the reasons for the impairment are outside of normal operating activities;
- exceptional items; and
- certain other items which are market driven and outside of the control of management.

Subsequent changes in items excluded from underlying performance in a prior period will also be excluded from underlying performance. All other changes will be recognised within underlying performance.

Acquisition accounting, business disposals and impairment
The Group exclude these from underlying results so that the current year and comparative results are directly comparable.

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

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

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

Segmental analysis *continued*

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	All Other Businesses [1] £m	Corporate and Inter-segment [2] £m	Total Underlying £m
Year ended 31 December 2025						
Underlying revenue from sale of original equipment	**3,217**	**2,228**	**3,433**	**13**	**–**	**8,891**
Underlying revenue from aftermarket services	**7,165**	**2,544**	**1,459**	**–**	**–**	**11,168**
Total underlying revenue	**10,382**	**4,772**	**4,892**	**13**	**–**	**20,059**
Gross profit/(loss)	**2,675**	**933**	**1,522**	**(2)**	**(2)**	**5,126**
Commercial and administrative costs	**(432)**	**(201)**	**(518)**	**(5)**	**(67)**	**(1,223)**
Research and development costs	**(267)**	**(45)**	**(164)**	**(21)**	**–**	**(497)**
Share of results of joint ventures and associates	**154**	**2**	**12**	**(112)**	**–**	**56**
Underlying operating profit/(loss)	**2,130**	**689**	**852**	**(140)**	**(69)**	**3,462**
Year ended 31 December 2024						
Underlying revenue from sale of original equipment	3,105	1,943	2,942	15	–	8,005
Underlying revenue from aftermarket services	5,935	2,579	1,329	–	–	9,843
Total underlying revenue	9,040	4,522	4,271	15	–	17,848
Gross profit/(loss)	1,990	908	1,199	(3)	(3)	4,091
Commercial and administrative costs	(396)	(212)	(483)	(41)	(65)	(1,197)
Research and development costs	(252)	(55)	(165)	(133)	–	(605)
Share of results of joint ventures and associates	163	3	9	–	–	175
Underlying operating profit/(loss)	1,505	644	560	(177)	(68)	2,464

1 Following the decision to exit the Group's advanced air mobility activities in 2024 and the relinquishment of control of Rolls-Royce SMR Limited on 4 March 2025 (see note 27) the results of those activities in both 2024 and 2025 have been reported within All Other Businesses. The Group's income statement for 2025 includes two months of the results of Rolls-Royce SMR Limited as a subsidiary and ten months of the Group's share of the results of the equity-accounted investment

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

2 Segmental analysis *continued*

Reconciliation to statutory results

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
Year ended 31 December 2025			
Revenue from sale of original equipment	**8,891**	**212**	**9,103**
Revenue from aftermarket services	**11,168**	**936**	**12,104**
Total revenue	**20,059**	**1,148**	**21,207**
Gross profit	**5,126**	**1,049**	**6,175**
Commercial and administrative costs	**(1,223)**	**(45)**	**(1,268)**
Research and development costs	**(497)**	**2**	**(495)**
Share of results of joint venture and associates	**56**	**–**	**56**
Operating profit	**3,462**	**1,006**	**4,468**
Gain arising on the disposal of businesses	**–**	**809**	**809**
Profit before financing and taxation	**3,462**	**1,815**	**5,277**
Net financing	**(110)**	**1,768**	**1,658**
Profit before taxation	**3,352**	**3,583**	**6,935**
Taxation	**(593)**	**(506)**	**(1,099)**
Profit for the year	**2,759**	**3,077**	**5,836**
Attributable to:			
Ordinary shareholders	**2,764**	**3,077**	**5,841**
NCI	**(5)**	**–**	**(5)**
Year ended 31 December 2024			
Revenue from sale of original equipment	8,005	384	8,389
Revenue from aftermarket services	9,843	677	10,520
Total revenue	17,848	1,061	18,909
Gross profit	4,091	130	4,221
Commercial and administrative costs	(1,197)	(87)	(1,284)
Research and development costs	(605)	402	(203)
Share of results of joint venture and associates	175	(3)	172
Operating profit	2,464	442	2,906
Gain arising on the disposal of business	–	16	16
Profit before financing and taxation	2,464	458	2,922
Net financing	(171)	(517)	(688)
Profit/(loss) before taxation	2,293	(59)	2,234
Taxation	(282)	532	250
Profit for the year	2,011	473	2,484
Attributable to:			
Ordinary shareholders	2,048	473	2,521
NCI	(37)	–	(37)

2 Segmental analysis *continued*

Disaggregation of revenue from contracts with customers

Analysis by type and basis of recognition

	Civil Aerospace £m	Defence £m	Power Systems £m	All Other Businesses £m	Corporate and Inter-segment £m	Total Underlying £m
Year ended 31 December 2025						
Original equipment recognised at a point in time	**3,217**	**409**	**3,368**	**–**	**–**	**6,994**
Original equipment recognised over time	**–**	**1,819**	**65**	**13**	**–**	**1,897**
Aftermarket services recognised at a point in time	**1,617**	**735**	**1,348**	**–**	**–**	**3,700**
Aftermarket services recognised over time	**5,469**	**1,809**	**111**	**–**	**–**	**7,389**
Total underlying customer contract revenue	**10,303**	**4,772**	**4,892**	**13**	**–**	**19,980**
Other underlying revenue [1]	**79**	**–**	**–**	**–**	**–**	**79**
Total underlying revenue [2]	**10,382**	**4,772**	**4,892**	**13**	**–**	**20,059**
Year ended 31 December 2024						
Original equipment recognised at a point in time	3,105	562	2,871	3	–	6,541
Original equipment recognised over time	–	1,381	71	12	–	1,464
Aftermarket services recognised at a point in time	1,258	918	1,231	–	–	3,407
Aftermarket services recognised over time	4,594	1,661	98	–	–	6,353
Total underlying customer contract revenue	8,957	4,522	4,271	15	–	17,765
Other underlying revenue [1]	83	–	–	–	–	83
Total underlying revenue [2]	9,040	4,522	4,271	15	–	17,848

1 Includes leasing revenue

2 Includes £259m of revenue recognised in the year relating to performance obligations satisfied in previous years, of which £253m related to Civil Aerospace long term contracts (2024: £317m, of which £311m relates to Civil Aerospace long term contracts)

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results [1] £m
Year ended 31 December 2025			
Original equipment recognised at a point in time	**6,994**	**211**	**7,205**
Original equipment recognised over time	**1,897**	**1**	**1,898**
Aftermarket services recognised at a point in time	**3,700**	**123**	**3,823**
Aftermarket services recognised over time	**7,389**	**806**	**8,195**
Total customer contract revenue	**19,980**	**1,141**	**21,121**
Other revenue	**79**	**7**	**86**
Total revenue	**20,059**	**1,148**	**21,207**
Year ended 31 December 2024			
Original equipment recognised at a point in time	6,541	384	6,925
Original equipment recognised over time	1,464	–	1,464
Aftermarket services recognised at a point in time	3,407	163	3,570
Aftermarket services recognised over time	6,353	501	6,854
Total customer contract revenue	17,765	1,048	18,813
Other revenue	83	13	96
Total revenue	17,848	1,061	18,909

1 During the year to 31 December 2025, revenue recognised within Civil Aerospace, Defence and Power Systems of £2,034m (2024: £1,915m) was received from a single customer

2 Segmental analysis *continued*

Analysis by geographical destination

The Group's revenue by destination of the ultimate operator is as follows:

	2025 £m	2024 £m
United Kingdom	**3,103**	2,642
Germany	**1,225**	1,048
Türkiye	**442**	307
Spain	**410**	282
Switzerland	**362**	440
Italy	**357**	318
France	**327**	332
Ireland	**202**	324
Netherlands	**199**	130
Israel	**139**	73
Norway	**132**	96
Poland	**107**	141
Sweden	**95**	28
Portugal	**82**	121
Latvia	**54**	16
Rest of Europe	**192**	273
Europe	**7,428**	6,571
United States	**5,802**	5,477
Canada	**529**	462
North America	**6,331**	5,939
South America	**300**	336
Central America	**90**	169
United Arab Emirates	**543**	255
Saudi Arabia	**514**	428
Qatar	**374**	196
Rest of Middle East	**243**	301
Middle East	**1,674**	1,180
China	**1,500**	1,400
Japan	**733**	634
Singapore	**558**	506
South Korea	**404**	359
Indonesia	**199**	125
Philippines	**166**	130
India	**152**	147
Taiwan	**148**	211
Thailand	**140**	138
Rest of Asia	**380**	243
Asia	**4,380**	3,893
Africa	**587**	406
Australasia	**417**	415
	21,207	18,909

Order backlog

Contracted consideration, translated at the estimated long-term exchange rates, that is expected to be recognised as revenue when performance obligations are satisfied in the future (referred to as order backlog) is as follows:

	2025			2024		
	Within five years £bn	**After five years £bn**	**Total £bn**	Within five years £bn	After five years £bn	Total £bn
Civil Aerospace	**29.2**	**35.4**	**64.6**	29.7	30.2	59.9
Defence	**14.1**	**3.3**	**17.4**	14.0	3.4	17.4
Power Systems	**5.9**	**0.2**	**6.1**	4.7	0.1	4.8
All Other Businesses	**–**	**–**	**–**	–	–	–
	49.2	**38.9**	**88.1**	48.4	33.7	82.1

The parties to these contracts have approved the contract and customers do not have a unilateral enforceable right to terminate the contract without compensation. The Group excludes Civil Aerospace OE orders (for deliveries beyond the next seven to 12 months) that customers have placed where they retain a right to cancel. The Group's expectation based on historical experience is that these orders will be fulfilled. Civil Aerospace order backlog has increased by £4.7bn, this is due to new aftermarket contracts and contract extensions. Other drivers include commercial optimisation and revenue escalation with major customers. The Civil order backlog will be recognised over the contract term. The £1.3bn increase within Power Systems is mainly driven by orders for power generation (from the growth in data centres) and governmental, which will be mainly recognised over the next three years.

2 Segmental analysis *continued*

		2025				2024			
		Revenue £m	**Profit/(loss) before financing £m**	**Net financing £m**	**Taxation £m**	Revenue £m	Profit/(loss) before financing £m	Net financing £m	Taxation £m
Underlying performance		**20,059**	**3,462**	**(110)**	**(593)**	17,848	2,464	(171)	(282)
Impact of foreign exchange differences as a result of hedging activities on trading transactions [1]	A	**1,148**	**797**	**499**	**(328)**	1,061	197	190	(97)
Unrealised fair value changes on derivative contracts held for trading [2]	A	**–**	**–**	**1,328**	**(333)**	–	(6)	(649)	164
Unrealised fair value change to derivative contracts held for financing [3]	A	**–**	**–**	**(4)**	**1**	–	–	40	(10)
Exceptional programme credits [4]	B	**–**	**83**	**–**	**(21)**	–	–	–	–
Exceptional transformation and restructuring charges [5]	B	**–**	**(44)**	**–**	**4**	–	(234)	(11)	65
Impairment reversals [6]	C	**–**	**179**	**–**	**(44)**	–	547	–	(157)
Effect of acquisition accounting [7]	C	**–**	**(16)**	**–**	**3**	–	(45)	–	11
Other [8]	D	**–**	**7**	**(55)**	**12**	–	(17)	(87)	27
Gain arising on the disposals of businesses [9]	C	**–**	**809**	**–**	**(28)**	–	16	–	(6)
Impact of tax rate change [10]	D	**–**	**–**	**–**	**(58)**	–	–	–	10
Recognition of deferred tax assets [11]	D	**–**	**–**	**–**	**286**	–	–	–	525
Total underlying adjustments		**1,148**	**1,815**	**1,768**	**(506)**	1,061	458	(517)	532
Statutory performance per consolidated income statement		**21,207**	**5,277**	**1,658**	**(1,099)**	18,909	2,922	(688)	250

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

1 The impact of measuring revenues and costs at the average exchange rate during the year and the impact of valuation of assets and liabilities using the year end exchange rate rather than the achieved rate or the exchange rate that is expected to be achieved by the use of the hedge book increased statutory revenues by £1,148m (2024: £1,061m) and increased profit before financing and taxation by £797m (2024: £197m). Underlying financing excludes the impact of revaluing monetary assets and liabilities at the year end exchange rate

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

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

4 During 2025, contract loss provisions have reduced by £83m (2024: £nil) as a result of amounts released following contractual renegotiations where the original charge was treated as non-underlying

5 In 2023, the Group announced a major multi-year transformation programme (set out in the 2022 Annual Report). During 2025, the Group incurred charges of £44m related to this programme (2024: £234m). The charges comprise of advisory fees and transformation office costs £52m (2024: £37m) and severance costs £3m (2024: £68m). These were partly offset by an £11m reversal of previously recognised costs for impairments, write-offs and closure costs related to the exit of the Group's advanced air mobility activities (2024: £129m)

6 The Group has assessed the carrying value of its assets and reviewed them for potential impairment and impairment reversal triggers. During 2025, there was an impairment reversal of intangible assets of £10m (2024 £413m), property plant and equipment assets of £46m (2024: £nil), right of use assets of £129m (2024: £nil) and contract assets of £nil (2024: £132m). See notes 8, 9, 10 and 11 for further details. Of the £185m reversed, £179m (2024: £132m) was included within cost of sales, and £6m has been included with research and development costs, see note 3 for further details

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

8 Includes interest received of £52m (2024: £78m) on interest rate swaps which are not designated into hedge relationships for statutory purposes from interest payable on an underlying basis to fair value movement and £6m (2024: £13m charge) past-service credit on defined benefit schemes

9 An exceptional gain on disposal was recognised as a result of the deconsolidation of Rolls-Royce SMR Limited and the sale of the naval propulsors business during the year. Further details can be found in note 27

10 Represents the impact to the income statement of the gradual reduction in the German Federal corporate income tax rate from 15% to 10%, in 2024 this represented the reduction in the tax rate on authorised surplus pension charges from 35% to 25% in 2024

11 During 2025, the Group recognised deferred tax assets of £563m (2024: £1,033m) relating to UK tax losses of which £277m (2024: £508m) is included in underlying performance and £286m (2024: £525m) in non-underlying

2 Segmental analysis *continued*

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	Total reportable segments £m
Year ended 31 December 2025				
Segment assets	**16,613**	**1,023**	**116**	**17,752**
Interests in joint ventures and associates	**102**	**9**	**–**	**111**
Segment liabilities	**(22,610)**	**(1,208)**	**(141)**	**(23,959)**
Net liabilities	**(5,895)**	**(176)**	**(25)**	**(6,096)**
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	**766**	**185**	**219**	**1,170**
Depreciation, amortisation and impairment	**493**	**73**	**167**	**733**
Year ended 31 December 2024				
Segment assets	19,303	3,495	3,998	26,796
Interests in joint ventures and associates	550	9	33	592
Segment liabilities	(26,611)	(3,315)	(1,964)	(31,890)
Net (liabilities)/assets	(6,758)	189	2,067	(4,502)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	650	164	198	1,012
Depreciation, amortisation and impairment	210	85	199	549

Reconciliation to the balance sheet

	2025 £m	2024 £m
Segment assets (excluding assets held for sale and distribution)	**17,752**	26,796
Interests in joint ventures and associates	**111**	592
All other businesses	**674**	122
Corporate and Inter-segment	**684**	(1,889)
Assets held for sale and distribution	**12,058**	153
Cash and cash equivalents	**5,718**	5,574
Fair value of swaps hedging fixed rate borrowings	**–**	154
Deferred and income tax assets	**3,025**	3,731
Post-retirement scheme surplus	**286**	790
Total assets	**40,308**	36,023
Segment liabilities (excluding liabilities associated with assets held for sale and distribution)	**(23,959)**	(31,890)
All other businesses	**(6)**	(199)
Corporate and Inter-segment	**1,573**	2,227
Liabilities associated with assets held for sale and distribution	**(8,936)**	(100)
Borrowings and lease liabilities	**(3,757)**	(5,132)
Fair value of swaps hedging fixed rate borrowings	**(77)**	(121)
Deferred and income tax liabilities	**(139)**	(348)
Post-retirement scheme deficits	**(30)**	(981)
Total liabilities	**(35,331)**	(36,544)
Net assets/(liabilities)	**4,977**	(521)

At 31 December 2025, £12,043m of assets and £8,917m of liabilities were reclassified to held for distribution, see note 27 for further details.

The carrying amounts of the Group's non-current assets including investments but excluding financial instruments, deferred tax assets and post-retirement scheme surpluses/(deficits), by the geographical area in which the assets are located, are as follows:

	2025 £m	2024 £m
United Kingdom	**5,766**	4,968
Germany	**15**	2,326
United States	**–**	1,481
Other	**67**	709
	5,848	9,484

At 31 December 2025, £4,811m of non-current assets were reclassified to held for distribution, see note 27 for further details.

3 Research and development

	2025 £m	2024 £m
Gross research and development expenditure	**(1,417)**	(1,475)
Contributions and fees [1]	**814**	700
Net expenditure	**(603)**	(775)
Capitalised as intangible assets [2]	**211**	263
Amortisation and impairment of capitalised costs [3, 4]	**(103)**	309
Net amount recognised in the income statement	**(495)**	(203)
Underlying adjustments [4]	**(2)**	(402)
Net underlying cost recognised in the income statement	**(497)**	(605)

1 Includes £795m (2024: £667m) of government funding

2 R&D capitalised as intangibles is presented net of £11m (2024: £nil) Government funding received

3 See notes 8 and 9 for analysis of amortisation and impairment

4 Underlying adjustments include impact of acquisition accounting, foreign exchange and an impairment reversal of £6m (2024: £413m). Further details can be found in notes 2, 8 and 9

4 Net financing

	2025		2024	
	Statutory £m	Underlying [1] £m	Statutory £m	Underlying [1] £m
Interest receivable and similar income [2]	**271**	**265**	269	266
Net fair value gains on foreign currency contracts	**1,335**	**–**	–	–
Net fair value gains on non-hedge accounted interest rate swaps [3]	**–**	**–**	40	–
Financing on post-retirement scheme surpluses	**32**	**–**	37	–
Net foreign exchange gains	**499**	**–**	190	–
Financing income	**2,137**	**265**	536	266
Interest payable	**(302)**	**(240)**	(362)	(273)
Net fair value losses on foreign currency contracts	**–**	**–**	(631)	–
Net fair value losses on non-hedge accounted interest rate swaps [3]	**(4)**	**–**	–	–
Net fair value losses on revaluation of other investments accounted for at FVTPL [4]	**–**	**–**	(24)	(24)
Foreign exchange differences and changes in forecast payments relating to financial RRSAs	**(4)**	**–**	–	–
Net fair value losses on commodity contracts	**(7)**	**–**	(18)	–
Financing on post-retirement scheme deficits	**(38)**	**–**	(39)	–
Cost of undrawn facilities	**(9)**	**(9)**	(17)	(17)
Other financing charges	**(115)**	**(126)**	(133)	(123)
Financing costs	**(479)**	**(375)**	(1,224)	(437)
Net financing income/(costs)	**1,658**	**(110)**	(688)	(171)
Analysed as:				
Net interest (payable)/receivable	**(31)**	**25**	(93)	(7)
Net fair value gains/(losses) on derivative contracts	**1,324**	**–**	(609)	–
Net post-retirement scheme financing	**(6)**	**–**	(2)	–
Net foreign exchange gains	**499**	**–**	190	–
Net other financing	**(128)**	**(135)**	(174)	(164)
Net financing income/(costs)	**1,658**	**(110)**	(688)	(171)

1 See note 2 for definition of underlying results

2 Includes interest income on cash balances and short-term deposits of £149m (2024: £188m) and similar income of £122m (2024: £81m) on money market funds

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

4 Included in the 2024 financing costs is a £24m charge in relation to the fair value write down of an unlisted investment recorded at fair value through profit or loss (FVTPL)

5 Taxation

	UK		Overseas		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Current tax charge for the year	**39**	30	**730**	379	**769**	409
Current tax charge in respect of Pillar Two income taxes	**2**	2	**–**	–	**2**	2
Adjustments in respect of prior years	**(9)**	–	**79**	(18)	**70**	(18)
Current tax	**32**	32	**809**	361	**841**	393
Deferred tax charge for the year	**726**	265	**50**	3	**776**	268
Adjustments in respect of prior years	**12**	17	**(25)**	(47)	**(13)**	(30)
Recognition of deferred tax	**(563)**	(1,033)	**–**	–	**(563)**	(1,033)
Derecognition of advance corporation tax	**–**	162	**–**	–	**–**	162
Deferred tax charge resulting from an decrease in the overseas tax rate	**–**	–	**58**	–	**58**	–
Deferred tax credit resulting from a decrease in UK tax rate	**–**	(10)	**–**	–	**–**	(10)
Deferred tax	**175**	(599)	**83**	(44)	**258**	(643)
Charged/(credited) in the income statement	**207**	(567)	**892**	317	**1,099**	(250)

Other tax credits/(charges)

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified			
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Deferred tax:						
Movement in post-retirement schemes	**115**	61	**–**	–	**–**	–
Cash flow hedge	**–**	–	**3**	(1)	**–**	–
Net investment hedge	**–**	–	**2**	(2)	**–**	–
Share-based payments – direct to equity	**–**	–	**–**	–	**76**	71
Other tax credits/(charges)	**115**	61	**5**	(3)	**76**	71

Tax reconciliation

	2025 £m	2024 £m
Profit before taxation	**6,935**	2,234
Less: share of profits of joint ventures and associates (note 12)	**(71)**	(137)
Profit before taxation excluding joint ventures and associates	**6,864**	2,097
Nominal tax charge at UK corporation tax rate 25% (2024: 25%)	**1,716**	524
Overseas rate differences [1]	**40**	27
US state taxes	**18**	23
Exempt gain on disposal of businesses [2]	**(185)**	–
Tax de-grouping charge [3]	**–**	102
Other permanent differences [4]	**5**	12
Tax losses and other temporary differences not recognised in deferred tax [5]	**11**	3
Derecognition of deferred tax	**–**	30
Benefit arising from previously unrecognised other temporary differences [6]	**(27)**	(42)
Recognition of deferred tax [7]	**(563)**	(1,033)
Utilisation of previously unrecognised UK tax losses	**(31)**	–
Adjustments in respect of prior years	**57**	(48)
Derecognition of advance corporation tax [8]	**–**	162
Increase in deferred taxes resulting from a change in the overseas tax rate [9]	**58**	–
Decrease in deferred taxes resulting from a change in the UK tax rate [10]	**–**	(10)
	1,099	(250)
Underlying items (note 2)	**593**	282
Non-underlying items	**506**	(532)
	1,099	(250)

1 Overseas rate differences mainly relate to tax on profits or losses in countries such as Germany

2 Relates primarily to deconsolidation of Rolls-Royce SMR Limited

3 The tax de-grouping charge in 2024 arose on the dilution of the shareholding in Rolls-Royce SMR Limited to below 75%

4 Includes £2m (2024: £2m) relating to Pillar two income taxes

5 Relates to tax losses not recognised

6 Relates to foreign exchange derivatives

7 The recognition of deferred tax relates to UK tax losses

8 Advance corporation tax was de-recognised in 2024 on the basis that payment of cash dividends will prevent the utilisation

9 Represents the impact to the income statement of the gradual reduction in the German Federal corporate income tax rate from 15% to 10%

10 Represents the impact to the income statement of the reduction in the tax rate on authorised surplus pension charges from 35% to 25% in 2024

5 Taxation *continued*

Deferred taxation assets and liabilities

	2025 £m	2024 £m
At 1 January	**3,429**	2,668
Amount (charged)/credited to income statement	**(258)**	643
Amount credited to OCI	**117**	59
Amount credited/(charged) to hedging reserves	**3**	(1)
Amount credited to equity	**76**	71
Transferred to assets held for distribution [1]	**(453)**	–
Exchange differences	**(9)**	(11)
At 31 December	**2,905**	3,429
Deferred tax assets	**2,980**	3,660
Deferred tax liabilities	**(75)**	(231)
	2,905	3,429

1 At 31 December 2025, £453m of deferred tax assets were reclassified to assets held for distribution, see note 27 for further details

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	Transferred to held for sale and distribution [1] £m	Exchange differences £m	At 31 December £m
2025							
Intangible assets	**(613)**	**(8)**	**–**	**–**	**220**	**(16)**	**(417)**
Property, plant and equipment	**142**	**(80)**	**–**	**–**	**111**	**8**	**181**
Other temporary differences [2]	**874**	**(7)**	**5**	**13**	**(653)**	**(1)**	**231**
Net contract liabilities	**63**	**(3)**	**–**	**–**	**–**	**–**	**60**
Pensions and other post-retirement scheme benefits	**(54)**	**(23)**	**115**	**–**	**(99)**	**(3)**	**(64)**
Foreign exchange and commodity financial assets and liabilities	**488**	**(506)**	**–**	**–**	**(25)**	**2**	**(41)**
Losses	**2,481**	**420**	**–**	**63**	**(7)**	**–**	**2,957**
R&D credit	**48**	**(51)**	**–**	**–**	**–**	**1**	**(2)**
	3,429	**(258)**	**120**	**76**	**(453)**	**(9)**	**2,905**
2024							
Intangible assets	(431)	(191)	–	–	–	9	(613)
Property, plant and equipment	229	(87)	–	–	–	–	142
Other temporary differences [2]	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 [3]	162	(162)	–	–	–	–	–
	2,668	643	58	71	–	(11)	3,429

1 At 31 December 2025, £453m of deferred tax assets were reclassified to assets held for distribution, see note 27 for further details

2 Other temporary differences mainly relate to the deferral of relief for interest expenses and share based payments in the UK and revenue recognised earlier under local GAAP compared to IFRS in Germany. The amount recognised in the income statement includes a £1m credit (2024: £8m credit) relating to share-based payments

3 Prior to 1999 advance corporation tax ("ACT") was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities. See page 62 for further details

5 Taxation *continued*

Unrecognised deferred tax assets

	2025 £m	2024 £m
Advance corporation tax [1]	**162**	181
UK losses [1]	**–**	629
Foreign exchange and commodity financial assets and liabilities	**–**	27
Losses and other unrecognised deferred tax assets [1]	**13**	47
Deferred tax not recognised on unused tax losses and other items on the basis that future economic benefit is uncertain	**175**	884

1 At 31 December 2025, the Group reclassified the assets and liabilities relating of certain entities to assets and liabilities associated with assets held for distribution (see note 27 for further details on this reclassification of assets and liabilities). The unrecognised tax asset related to these entities held for distribution is £66m, of which £19m relates to advance corporation tax

Gross amount and expiry of losses and other deductible temporary differences for which no deferred tax asset has been recognised.

	2025			
	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	**–**	**–**	**–**	**–**
Expiry within six to 30 years	**–**	**–**	**–**	**–**
No expiry	**53**	**–**	**–**	**53**
	53	**–**	**–**	**53**

	2024			
	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
Expiry within six to 30 years	218	–	–	218
No expiry	2,698	2,515	107	76
	2,991	2,515	107	369

Advance corporation tax was derecognised in 2024 following the Group's announcement to reinstate shareholder distributions via cash dividends. In addition to the gross balances shown above, advance corporation tax of £162m (2024: £181m) has not been recognised as a result of the assessment performed over the time period over which this could be recovered, when taking into account both shadow and surplus advance corporation tax. The balance of £162m excludes £19m of advance corporation tax related to entities classified as held for distribution at 31 December 2025, see note 27 for further details. Advance corporation tax has no expiry. See below for developments following the 2025 Autumn Budget.

Of the total deferred tax asset of £2,980m, £2,819m (2024: £3,099m) relates to the UK and is made up as follows:

- £2,954m (2024: £2,472m) relating to tax losses;

- £(40)m (2024: £425m) arising on unrealised losses on derivative contracts;

- £(95)m (2024: £202m) relating to other deductible temporary differences, in particular tax depreciation and relief for interest expenses.

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

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

Deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Where necessary, this is based on management's assumptions and probability assessments relating to the amounts and timing of future taxable profits. The Directors continually reassess the appropriateness of recovering deferred tax assets, which includes a consideration of the level of future profits and the time period over which they are recovered. A recoverability assessment has been undertaken, taking account of deferred tax liabilities against which the reversal can be offset and using latest UK forecasts, which are mainly driven by the Civil Aerospace large engine business, to assess the level of future taxable profits.

5 Taxation *continued*

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

- using the most recent UK profit forecasts, covering the next five years which are consistent with external sources on market conditions;
- the long-term forecast profit profile of existing large engine programmes which are typically in excess of 30 years from initial investment to retirement of the fleet, including the aftermarket revenues earned from airline customers;
- the long-term forecast is adjusted to exclude engine programmes which are in the development stage with no confirmed orders;
- taking into account the risk that regulatory changes could materially impact demand for our products;
- consideration that although all Civil Aerospace large engines are compatible with sustainable fuels, there is a risk that in the longer term demand will shift towards more sustainable products and solutions;
- the long-term forecast profit and cost profile of the other parts of the UK business;
- taking into consideration past performance and experience, including the fact that the UK business returned to profitability in 2023; and
- reflecting the sustained profitability and continued growing financial resilience of the Group, modelling is based on 100% probability of a base case forecast (2024: 75% base case and 25% downside forecast). It also reflects the fact that the Group's multi-year transformation continues to deliver despite the current volatility in macro-economic variables and an external environment that remains challenging, including geopolitical tensions, the uncertainty introduced by tariffs and supply chain challenges. Delivery against the Group's strategic initiatives continues to expand the earnings potential of the business.

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

- the impact of significant Civil Aerospace large engine orders in 2025 and improvements in large engine LTSA business plans;
- latest assessment of the time period over which future probable profits are expected to arise for Civil large engine programmes;
- the outcomes of strategic initiatives, including contractual margin improvements and cost reduction;
- the continued growth in Civil Aerospace engine flying hours; and
- management's assumptions on the impact of macro-economic factors and climate change on the UK business.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks remain consistent with those at 31 December 2024. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Group has demonstrated that all the commercial aero engines it produces are compatible for use with sustainable fuels. The impact that this could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, the Group has recognised a total deferred tax asset relating to UK tax losses of £2,954m (2024: £2,472m), which includes the recognition of a further £563m (2024: £1,033m) of previously unrecognised deferred tax asset relating to UK tax losses (of which £286m is non-underlying and £277m is underlying). This reflects the conclusions that:

- based on current financial results and an improved outlook it is probable that the UK business will generate taxable income and tax liabilities in the future against which these losses can be utilised; and
- using current forecasts and various scenarios these losses will be used in full within eight-15 years, which is within the expected programme lifecycles.

As stated above, the ACT balance of £162m remains unrecognised at 31 December 2025. The Group is closely monitoring developments following the announcement in the 2025 Autumn Budget that the shadow ACT regime will be repealed, effective from 1 April 2026. The statutory instrument is not yet published so the legislation is not substantively enacted at the balance sheet date. This will be considered for future accounting periods.

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

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 31 December 2025, the Group has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The temporary differences associated with investments in subsidiaries, joint ventures and associates, for which a deferred tax liability has not been recognised, aggregate to £2,825m (2024: £1,558m). No deferred tax liability has been recognised on the potential withholding tax due on the remittance of undistributed profits as the Group is able to control the timing of such remittances and it is probable that consent will not be given in the foreseeable future.

6 Auditors' remuneration

	2025 £m	2024 £m
Fees payable to the Company's auditors for the audit of the Company's Annual Financial Statements	**6.2**	7.1
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	**5.5**	5.3
Total fees payable for audit services	**11.7**	12.4
Fees payable to the Company's auditor and its associates for other services:		
Audit related assurance services [1]	**0.7**	0.7
Other assurance services [2]	**0.1**	0.1
Total fees payable to the Company's auditor and its associates [3]	**12.5**	13.2
Fees payable in respect of the Group's pension schemes:		
Audit	**0.1**	0.1

1 This includes £0.7m (2024: £0.7m) for the review of the half-year report

2 This includes £0.1m (2024: £0.1m) in respect of agreed upon procedures in respect of levies payable and £nil for sustainability assurance work (2024: £nil)

3 Audit fees for overseas entities are reported at the average exchange rate for the year

7 Employee information

	2025 Number [1]	2024 Number [1]
United Kingdom	**22,100**	21,900
Germany	**9,900**	10,000
United States	**5,300**	5,300
Italy	**1,000**	900
Singapore	**700**	700
Canada	**700**	700
India	**700**	600
China	**500**	500
Israel	**300**	300
France	**200**	200
Rest of world	**1,200**	1,300
Monthly average number of employees	**42,600**	42,400
Civil Aerospace	**19,400**	18,700
Defence	**12,800**	12,500
Power Systems	**10,000**	9,900
All Other Businesses [2]	**200**	1,200
Corporate [3]	**200**	100
Monthly average number of employees	**42,600**	42,400

	2025 Total £m	2024 Total £m
Wages, salaries and benefits	**3,107**	3,056
Social security costs	**437**	369
Share-based payments (note 24)	**104**	136
Pensions and other post-retirement scheme benefits (note 22)	**403**	387
Group employment costs [4]	**4,051**	3,948

1 Employee numbers have been rounded to the nearest hundred

2 Following the decision to exit the Group's advanced air mobility activities in 2024 and the relinquishment of control of Rolls-Royce SMR Limited on 4 March 2025 the results of those activities in both 2024 and 2025 have been reported within All Other Business. The employee information above contains two months of Rolls-Royce SMR Limited employee information, following the relinquishment of control of Rolls-Royce SMR Limited in March 2025 the employee information of Rolls-Royce SMR Limited was not included within the monthly average number of employees for the Group

3 Corporate consists of employees who do not provide a shared service to the segments. Where corporate functions provide such a service, employees have been allocated to the segments on an appropriate basis

4 Remuneration of key management personnel is shown in note 26

8 Goodwill

In accordance with the requirements of *IAS 36 Impairment of Assets*, goodwill is allocated to the Group's CGUs, or groups of CGUs, that are expected to benefit from the synergies of the business combination that gave rise to the goodwill as follows:

	Rolls-Royce Power Systems AG	Rolls-Royce Deutschland Ltd & Co KG	Other [1]	Total
	£m	£m	£m	£m
Cost:				
At 1 January 2024	798	240	63	1,101
Transferred to assets held for sale [2]	–	–	(25)	(25)
Exchange differences	(19)	(11)	(1)	(31)
At 31 December 2024	779	229	37	1,045
Transferred from assets held for sale [2]	**–**	**–**	**2**	**2**
Transferred to assets held for distribution [3]	**(787)**	**(240)**	**(24)**	**(1,051)**
Disposal of business	**–**	**–**	**(2)**	**(2)**
Disposals	**–**	**–**	**(10)**	**(10)**
Exchange differences	**8**	**11**	**–**	**19**
At 31 December 2025	**–**	**–**	**3**	**3**
Accumulated amortisation and impairment:				
At 1 January 2024	–	3	32	35
Impairment [4]	–	–	13	13
Transferred to assets held for sale [2]	–	–	(12)	(12)
At 31 December 2024	–	3	33	36
Transferred from assets held for sale [2]	**–**	**–**	**2**	**2**
Transferred to assets held for distribution [3]	**–**	**(3)**	**(23)**	**(26)**
Disposal of business	**–**	**–**	**(2)**	**(2)**
Disposals	**–**	**–**	**(10)**	**(10)**
At 31 December 2025	**–**	**–**	**–**	**–**
Net book value at:				
At 31 December 2025	**–**	**–**	**3**	**3**
At 31 December 2024	779	226	4	1,009

1 Goodwill balances that are not considered to be individually significant were also tested for impairment

2 At 31 December 2024 the Group held for sale the goodwill allocated to the naval propulsors & handling business. During the year goodwill with a net book value of £nil was transferred into and out of assets held for sale relating to the naval propulsors business and naval handling business respectively. The assets and liabilities of the naval propulsors business were disposed of on 1 July 2025 and the assets of the naval handling business are held for sale at 31 December 2025, see note 27 for further details

3 At 31 December 2025, £1,051m of cost and £26m of amortisation were reclassified to assets held for distribution. See note 27 for further details

4 During 2024 the Group impaired £13m of goodwill due to the closure of its electrical advanced air mobility activities

The Directors have reviewed the presentation of the Balance Sheet during the year and believe that presenting goodwill separately from the remaining intangible assets is relevant to an understanding of the entity's financial position and provides more useful information to the users of the Annual Report and Financial Statements. The comparative balance at 31 December 2024 has also been represented for comparability.

The carrying amount of goodwill allocated across multiple CGUs is not significant in comparison with the Group's total carrying amount of goodwill.

Goodwill has been tested for impairment during 2025 on the following basis:

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

8 Goodwill *continued*

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

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

Cash-generating unit (CGU) or group of CGUs	Primary operating segment	Key trading assumptions [1]	Nominal pre-tax discount rate		Growth rate [2]		Downside scenario weighting [3]	
			2025	2024	**2025**	2024	**2025**	2024
Rolls-Royce Power Systems AG	Power Systems	e.g. volume of equipment deliveries; pricing achieved; cost escalation	**10.7%**	10.2%	**2%**	2%	**25%**	25%
Rolls-Royce Deutschland Ltd & Co KG	Civil Aerospace	e.g. volume of engine deliveries, flying hours of installed fleet, cost escalation	**11.7%**	12.6%	**2%**	2%	**25%**	25%

1 Trading assumptions are based on current and known future programmes, estimates of market share and long-term economic forecasts

2 Growth rate at which cash flows beyond the five-year forecasts are assumed to grow

3 Weighting of the plausible downside scenario in relation to macro-economic factors

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

9 Intangible assets

	Certification costs £m	Development expenditure £m	Customer relationships £m	Software [1] £m	Other [2] £m	Total £m
Cost:						
At 1 January 2024	930	3,763	498	1,004	699	6,894
Additions	–	263	–	96	8	367
Transferred to assets held for sale [3]	–	(4)	(4)	(1)	–	(9)
Disposals [4]	–	(3)	(13)	(77)	(2)	(95)
Exchange differences	(1)	(63)	(12)	(4)	(17)	(97)
At 31 December 2024	929	3,956	469	1,018	688	7,060
Additions	**31**	**222**	**–**	**105**	**6**	**364**
Transferred from assets held for sale [3]	**–**	**3**	**4**	**–**	**(4)**	**3**
Transferred to assets held for distribution [5]	**(62)**	**(1,247)**	**(56)**	**(187)**	**(293)**	**(1,845)**
Disposals [6]	**–**	**(422)**	**(415)**	**(26)**	**(122)**	**(985)**
Exchange differences	**2**	**62**	**2**	**–**	**16**	**82**
At 31 December 2025	**900**	**2,574**	**4**	**910**	**291**	**4,679**
Accumulated amortisation and impairment:						
At 1 January 2024	467	1,976	433	718	357	3,951
Charge for the year [7]	27	96	35	78	19	255
Impairment [8]	–	(405)	–	–	17	(388)
Transferred to assets held for sale [3]	–	(4)	(4)	(1)	–	(9)
Disposals [4]	–	–	(13)	(69)	(2)	(84)
Exchange differences	(1)	(37)	(10)	(3)	(7)	(58)
At 31 December 2024	493	1,626	441	723	384	3,667
Charge for the year [7]	**31**	**107**	**7**	**68**	**22**	**235**
Impairment [9]	**(3)**	**(4)**	**–**	**–**	**13**	**6**
Transferred from assets held for sale [3]	**–**	**3**	**4**	**–**	**(4)**	**3**
Transferred to assets held for distribution [5]	**(16)**	**(338)**	**(33)**	**(114)**	**(117)**	**(618)**
Disposals [6]	**–**	**(422)**	**(415)**	**(23)**	**(122)**	**(982)**
Exchange differences	**1**	**18**	**–**	**–**	**6**	**25**
At 31 December 2025	**506**	**990**	**4**	**654**	**182**	**2,336**
Net book value at:						
At 31 December 2025	**394**	**1,584**	**–**	**256**	**109**	**2,343**
At 31 December 2024	436	2,330	28	295	304	3,393

1 Includes £127m (2024: £100m) of software under course of construction which is not amortised

2 Other intangible assets includes trademarks, brands and the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance which will improve reliability and enable the Group to reduce the costs of meeting LTSA obligations

3 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. During the year intangible assets with a net book value of £nil were transferred into and out of assets held for sale relating to the naval propulsors business and naval handling business respectively. The assets and liabilities of the naval propulsors business were disposed of on 1 July 2025 and the assets of the naval handling business are held for sale at 31 December 2025, see note 27 for further details

4 During 2024 the Group disposed of its lower power range engine business based in Power Systems

5 At 31 December 2025, £1,845m of cost and £618m of amortisation were reclassified to assets held for distribution, see note 27 for further details

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

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

8 The 2024 impairment charge included £17m of other impairment (related to IP) resulting from the closure of the Group's electrical advanced air mobility activities. It also included the reversal of a Civil Aerospace programme asset impairment recognised in 2020, with £413m credited to research and development within the non-underlying income statement

9 The 2025 impairment charge includes a partial impairment reversal of a Civil Aerospace – Trent programme asset that had been fully impaired by 30 June 2020. A reversal of £10m has been credited, with £4m recognised in cost of sales and £6m in research and development within the non-underlying income statement. See further details below

At 31 December 2025, the Group had expenditure commitments for software of £16m (2024: £28m).

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

9 Intangible assets *continued*

Material intangible assets

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	
		2025	2024
		£m	£m
Trent programme intangible assets [2]	1-15 years	**1,993**	2,001
Business aviation programme intangible assets [3]	9-15 years	**–**	674
Intangible assets related to Power Systems [4]		**–**	309
		1,993	2,984

1 Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 47, 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 At 31 December 2025, £814m of intangible assets relating to Pearl 700, Pearl 15 and Pearl 10X were reclassified to assets held for distribution, see note 27 for further details
4 At 31 December 2025 intangible assets of £323m relating to Rolls-Royce Power Systems were reclassified to assets held for distribution

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant programme changes and by analysing latest management forecasts against those prepared in 2024 to identify any change in performance. Where a trigger event has been identified, an impairment test has been carried out. Where an impairment test was required, it was performed on the following basis:

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and

- The key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate related risks are considered when making these estimates consistent with the assumptions above.

An intangible asset impairment reversal of £10m was recognised together with a property, plant and equipment impairment reversal of £46m (see note 10) and a lease right-of-use asset impairment reversal of £129m (see note 11) being recognised in cost of sales (£179m) and research and development (£6m) in the year as follows:

	Impairment reversal				
	Intangible Assets	**Property, plant and equipment**	**Right-of-use assets**	**Total**	**Pre-tax nominal discount rate at 30 June 2025 [1]**
	£m	**£m**	**£m**	**£m**	
Civil Aerospace – Trent programme assets	**10**	**46**	**129**	**185**	**12.0%**

1 The equivalent pre-tax nominal discount rate in 2020 when the impairment was recognised was 11.0%

The recoverable amount calculated includes passage of time benefits in addition to those from the impairment reversal trigger drivers described above and has resulted in a partial impairment reversal. In making this assessment, the Directors have considered a range of sensitivities in relation to the aftermarket returns, cost increases and discount rates.

There have been no other individually material impairment charges or reversals recognised during the year (2024: reversal of £413m).

10 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2024	1,883	4,962	1,006	412	8,263
Additions	21	129	108	245	503
Transferred to assets held for sale [1]	(33)	(51)	–	(2)	(86)
Disposals/write-offs	(23)	(142)	(17)	(4)	(186)
Reclassifications within PPE [2]	46	67	3	(116)	–
Reclassification from right-of-use assets	11	–	–	–	11
Exchange differences	(23)	(55)	(1)	–	(79)
At 31 December 2024	1,882	4,910	1,099	535	8,426
Additions	**56**	**178**	**163**	**273**	**670**
Transferred to assets held for distribution [3]	**(959)**	**(2,118)**	**(198)**	**(453)**	**(3,728)**
Disposal of business	**–**	**(5)**	**–**	**–**	**(5)**
Disposals/write-offs	**(19)**	**(284)**	**(5)**	**(8)**	**(316)**
Reclassifications within PPE [2]	**42**	**104**	**1**	**(147)**	**–**
Exchange differences	**–**	**1**	**(8)**	**(17)**	**(24)**
At 31 December 2025	**1,002**	**2,786**	**1,052**	**183**	**5,023**
Accumulated depreciation and impairment:					
At 1 January 2024	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 within PPE [2]	16	(16)	–	–	–
Exchange differences	(9)	(39)	(1)	–	(49)
At 31 December 2024	768	3,454	472	8	4,702
Charge for the year [4]	**71**	**239**	**70**	**–**	**380**
Impairment [5]	**–**	**2**	**(44)**	**–**	**(42)**
Transferred to assets held for distribution [3]	**(376)**	**(1,457)**	**(72)**	**(8)**	**(1,913)**
Disposal of business	**–**	**(2)**	**–**	**–**	**(2)**
Disposals/write-offs	**(14)**	**(278)**	**(4)**	**–**	**(296)**
Exchange differences	**(3)**	**2**	**(3)**	**–**	**(4)**
At 31 December 2025	**446**	**1,960**	**419**	**–**	**2,825**
Net book value:					
At 31 December 2025	**556**	**826**	**633**	**183**	**2,198**
At 31 December 2024	1,114	1,456	627	527	3,724

1 At 31 December 2024 the Group held for sale the assets and liabilities of its naval propulsors & handling business. The assets and liabilities of the naval propulsors business were disposed of during the year and the assets of the naval handling business are held for sale at 31 December 2025, see note 27 for further details

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

3 At 31 December 2025, £3,728m of cost and £1,913m of depreciation were reclassified to assets held for distribution. See note 27 for further details

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 notes 8 and 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. During the year, a partial impairment reversal of £46m has been recognised within cost of sales (2024: £nil), as outlined within notes 2, 8 and 9

Property, plant and equipment includes:

	2025			2024		
	Land and buildings £m	**Plant and equipment £m**	**Aircraft and engines £m**	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m
Assets held for use in leases where the Group is the lessor:						
Cost	**6**	**36**	**818**	6	36	861
Depreciation	**(4)**	**(23)**	**(284)**	(4)	(22)	(372)
Net book value	**2**	**13**	**534**	2	14	489

	2025 £m	2024 £m
Capital expenditure commitments	**106**	177
Cost of fully depreciated assets	**1,300**	2,286

The Group's share of equity accounted entities' capital commitments is £49m (2024: £69m).

11 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2024	513	194	1,864	2,571
Additions/modifications of leases	28	73	37	138
Transferred to assets held for sale [1]	(2)	(1)	–	(3)
Disposals	(8)	(17)	–	(25)
Reclassification to PPE	(11)	–	–	(11)
Exchange differences	(3)	(3)	(4)	(10)
At 31 December 2024	517	246	1,897	2,660
Additions/modifications of leases	**79**	**50**	**49**	**178**
Transferred to assets held for distribution [2]	**(412)**	**(101)**	**(85)**	**(598)**
Disposal of business	**(2)**	**–**	**–**	**(2)**
Disposals	**(11)**	**(49)**	**(54)**	**(114)**
Exchange differences	**(14)**	**1**	**3**	**(10)**
At 31 December 2025	**157**	**147**	**1,810**	**2,114**
Accumulated depreciation and impairment:				
At 1 January 2024	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 [1]	(2)	–	–	(2)
Disposals	(7)	(17)	–	(24)
Exchange differences	(1)	(2)	(3)	(6)
At 31 December 2024	294	135	1,470	1,899
Charge for the year [3]	**47**	**47**	**193**	**287**
Impairment [4]	**–**	**–**	**(129)**	**(129)**
Transferred to assets held for distribution [2]	**(224)**	**(59)**	**(73)**	**(356)**
Disposal of business	**(1)**	**–**	**–**	**(1)**
Disposals	**(11)**	**(36)**	**(54)**	**(101)**
Exchange differences	**(6)**	**2**	**2**	**(2)**
At 31 December 2025	**99**	**89**	**1,409**	**1,597**
Net book value at:				
At 31 December 2025	**58**	**58**	**401**	**517**
At 31 December 2024	223	111	427	761
Right-of-use assets held for use in operating leases where the Group is the lessor:				
Cost	**17**	**–**	**1,810**	**1,827**
Depreciation	**(8)**	**–**	**(1,409)**	**(1,417)**
Net book value at 31 December 2025	**9**	**–**	**401**	**410**
Cost	18	–	1,897	1,915
Depreciation	(8)	–	(1,470)	(1,478)
Net book value at 31 December 2024	10	–	427	437

1 At 31 December 2024 the Group held for sale the assets and liabilities of the naval propulsors & handling business. The assets and liabilities of the naval propulsors business were disposed of during the year and the assets of the naval handling business are held for sale at 31 December 2025, see note 27 for further details

2 At 31 December 2025, £598m of cost and £356m of depreciation were reclassified to assets held for distribution. See note 27 for further detail on this

3 The 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 notes 8 and 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). During the year, a partial impairment reversal of £129m has been recognised within cost of sales (2024: charge of £8m) as outlined within notes 2, 8 and 9

12 Investments

Composition of the Group

The entities contributing to the Group's financial results are listed on pages 120 to 125.

Where the Group does not own 100% of the shares of a group undertaking, there are a number of arrangements with the other shareholder(s) that give the Group the option or potential obligation to acquire the third parties' shares. These arrangements have been assessed and are not considered to have a significant value, individually or in aggregate.

The Group does not have any non-wholly owned subsidiaries that have a material non-controlling interest.

Equity accounted and other investments

	Equity accounted Joint ventures £m	Other [1] £m	Total £m
At 1 January 2024	479	31	510
Additions [2]	17	–	17
Impairment	(4)	–	(4)
Share of retained profit [3]	95	–	95
Reclassification of deferred profit to deferred income [4]	(2)	–	(2)
Revaluation of other investments accounted for at FVOCI	–	(2)	(2)
Revaluation of other investments accounted for at FVTPL [5]	–	(24)	(24)
Exchange differences	11	–	11
Share of OCI	(4)	–	(4)
At 1 January 2025	**592**	**5**	**597**
Transfer from subsidiary to joint venture [6]	**732**	**–**	**732**
Additions [2]	**56**	**–**	**56**
Share of retained loss [3]	**(32)**	**–**	**(32)**
Reclassification of deferred profit to deferred income [4]	**2**	**–**	**2**
Revaluation of other investments accounted for at FVOCI	**–**	**(1)**	**(1)**
Transferred to assets held for distribution [7]	**(502)**	**–**	**(502)**
Exchange differences	**(66)**	**–**	**(66)**
Share of OCI	**1**	**–**	**1**
At 31 December 2025	**783**	**4**	**787**

1 Other investments includes unlisted investments of £nil (2024: £nil) and listed investments of £4m (2024: £5m)

2 Additions relates to investments of £52m (2024: £nil) related to Rolls-Royce SMR Limited following its deconsolidation earlier in March 2025. Of this, £15m was recognised in July 2025 due to a change in shareholding resulting from an additional equity investment made by ČEZ Group (ČEZ), a further £37m was recognised in December 2025 due to the purchase of shares by Rolls-Royce Plc from an existing investor. Further details can be found in note 27. The remaining £4m (2024: £17m) of additions relates to the joint venture, Beijing Aero Engine Services Company Limited

3 See table below

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

5 During 2024 the Group wrote down the value of an unlisted investment. This charge was recognised within net financing

6 In March 2025, an equity-accounted investment of £732m was recognised at fair value as a result of the deconsolidation of Rolls-Royce SMR Limited. See note 27 for further details

7 At 31 December 2025, £502m of investments were reclassified to assets held for distribution. See note 27 for further details

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

	2025 £m	2024 £m
Share of results of joint ventures and associates [1]	**71**	137
Adjustments for intercompany trading [2]	**(15)**	35
Share of results of joint ventures and associates to the Group	**56**	172
Dividends paid by joint ventures and associates to the Group (cash flow statement)	**(88)**	(77)
Share of retained (loss)/profit above	**(32)**	95

1 The results to 31 December 2025 include ten months of the Group's share of the results of Rolls-Royce SMR Limited

2 During the year, the Group sold spare engines to Rolls-Royce & Partners Finance, a joint venture and subsidiary of Alpha Partners Leasing Limited. The Group's share of the profit on these sales is deferred and released to match the depreciation of the engines in the joint venture's financial statements. In 2025, profit deferred on the sale of engines was higher than (2024: lower than) the release of that deferred in prior years

The following joint ventures are considered to be individually material to the Group:

	Principal location	**Activity**	**Ownership interest**
Alpha Partners Leasing Limited (APL)	UK	Aero-engine leasing	50.0%
Hong Kong Aero Engine Services Limited (HAESL)	Hong Kong	Aero-engine repair and overhaul	50.0%
Singapore Aero Engine Services Pte Limited (SAESL)	Singapore	Aero-engine repair and overhaul	50.0%
Rolls-Royce SMR Limited (SMR)	UK	Small modular reactors	57.8%

12 Investments *continued*

Summarised financial information of the Group's individually material joint ventures is as follows:

	APL		HAESL[1]		SAESL[1]		SMR[2]
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m	**2025 £m**
Revenue	**518**	400	**3,674**	4,017	**3,505**	2,469	**2**
Profit/(loss) and total comprehensive income for the year	**168**	114	**93**	70	**48**	46	**(193)**
Dividends paid during the year	**(14)**	(63)	**(78)**	(69)	**–**	–	**–**
Profit/(loss) for the year included the following:							
Depreciation and amortisation	**(154)**	(150)	**(13)**	(11)	**(16)**	(18)	**(2)**
Interest income	**13**	12	**–**	–	**5**	8	**6**
Interest expense	**(127)**	(112)	**(8)**	(8)	**(2)**	(1)	**–**
Income tax (expense)/credit	**(62)**	(41)	**(16)**	(17)	**(5)**	(3)	**12**
Current assets	**343**	345	**–**	1,129	**–**	1,154	**70**
Non-current assets[3]	**3,776**	3,506	**–**	100	**–**	133	**1,032**
Current liabilities	**(242)**	(360)	**–**	(895)	**–**	(950)	**(57)**
Non-current liabilities[3]	**(2,955)**	(2,662)	**–**	(95)	**–**	(8)	**(243)**
Net assets	**922**	829	**–**	239	**–**	329	**802**
Included in the above:							
Cash and cash equivalents	**192**	190	**–**	4	**–**	129	**52**
Current financial liabilities[4]	**(114)**	(244)	**–**	(10)	**–**	–	**–**
Non-current financial liabilities[4]	**(2,371)**	(2,134)	**–**	(86)	**–**	(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%	**57.8%**
Group share of net assets above	**461**	415	**–**	120	**–**	165	**463**
Goodwill	**–**	–	**–**	37	**–**	11	**209**
Adjustments for intercompany trading	**(404)**	(386)	**–**	(7)	**–**	(4)	**–**
Included in the balance sheet	**57**	29	**–**	150	**–**	172	**672**

1 At 31 December 2025, the joint venture investments in HAESL and SAESL were reclassified to assets held for distribution

2 In March 2025, an equity-accounted investment of £732m was recognised at fair value as a result of the deconsolidation of Rolls-Royce SMR Limited. A notional purchase price allocation (PPA) exercise has been undertaken that has identified and valued the assets and liabilities of the joint venture as if the Group had acquired a business. The majority of the value of the investment has been attributed to development expenditure related to Rolls-Royce SMR Limited's investment in its products. Goodwill, which has not been impaired, relates to the expected future growth of the business

3 Non-current assets includes £1,006m of intangible assets identified on acquisition relating to development expenditure and non-current liabilities including £(239)m of associated deferred tax liabilities

4 Excluding trade payables and other liabilities

The summarised aggregated results of the Group's share of equity accounted investments is as follows:

	Individually material joint ventures (above)		Other joint ventures		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Profit and total comprehensive income for the year	**36**	115	**34**	18	**70**	133
Assets:						
Non-current assets	**2,485**	1,870	**76**	245	**2,561**	2,115
Current assets	**212**	1,314	**363**	632	**575**	1,946
Liabilities:[1]						
Current liabilities	**(154)**	(1,102)	**(336)**	(536)	**(490)**	(1,638)
Non-current liabilities	**(1,619)**	(1,382)	**(49)**	(86)	**(1,668)**	(1,468)
Group adjustment for goodwill	**209**	48	**–**	–	**209**	48
Adjustment for intercompany trading	**(404)**	(397)	**–**	(14)	**(404)**	(411)
Included in the balance sheet[2]	**729**	351	**54**	241	**783**	592
1 Liabilities include borrowings of:	**(1,345)**	(1,241)	**(267)**	(113)	**(1,612)**	(1,354)

2 At 31 December 2025, joint venture investments of £502m were reclassified to assets held for distribution. See note 27 for further details

13 Inventories

	2025 £m	2024 £m
Raw materials	**103**	544
Work in progress	**763**	1,715
Finished goods	**1,982**	2,833
	2,848	5,092

Inventories stated at net realisable value	**151**	232
Amount of inventory write-down	**113**	56
Reversal of inventory write-down	**75**	15

At 31 December 2025, £2.9bn of inventories were reclassified to assets held for distribution, of which £85m are inventories stated at net realisable value. See note 27 for further details.

14 Trade receivables and other assets

	Current		Non-current [1]		Total [2]	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Trade receivables	**1,331**	2,917	**78**	138	**1,409**	3,055
Prepayments	**699**	829	**48**	89	**747**	918
RRSA prepayment for parts [3]	**569**	486	**1,202**	1,182	**1,771**	1,668
Receivables due on RRSAs	**1,114**	1,118	**91**	119	**1,205**	1,237
Amounts owed by joint ventures and associates	**636**	894	**–**	2	**636**	896
Amounts due from parent undertakings	**–**	–	**2,192**	337	**2,192**	337
Other taxation and social security receivable	**103**	215	**–**	2	**103**	217
Costs to obtain contracts with customers [4]	**–**	11	**–**	124	**–**	135
Other receivables and similar assets [5]	**443**	530	**72**	58	**515**	588
	4,895	7,000	**3,683**	2,051	**8,578**	9,051

Trade receivables and other assets are analysed as follows:		
Financial instruments (note 20):		
Trade receivable and similar items	**5,439**	5,525
Other non-derivative financial assets	**409**	366
Non-financial instruments	**2,730**	3,160
	8,578	9,051

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 At 31 December 2025, £2,561m of trade and other receivables were reclassified to assets held for distribution, see note 27 for further details

3 These amounts reflect the contractual share of EFH flows and original equipment deposits from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £597m (2024: £262m) has been charged to cost of sales in relation to parts supplied and used in the year

4 These are amortised over the term of the related contract in line with engine deliveries, resulting in amortisation of £10m (2024: £8m) in the year. There were no impairment losses

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

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

The ECLs for trade receivables and other financial assets has decreased by £98m to £141m (2024: decreased by £3m to £239m).

The assumptions and inputs used for the estimation of the ECLs are shown in the table below:

	2025			2024		
	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %
Credit rating BBB- and above [1]	**682**	**(19)**	**3%**	2,179	(74)	3%
Credit rating below BBB- [1]	**531**	**(59)**	**11%**	28	(4)	14%
Without credit rating	**2,584**	**(63)**	**2%**	3,586	(161)	4%
	3,797	**(141)**	**4%**	5,793	(239)	4%

1 During the year, there has been a change to the classification used for investment gradings. In 2024, the ratings were reported using credit ratings C and above, credit ratings C and below and without credit rating. In 2025, the ratings have been reported using credit rating BBB- and above, credit rating below BBB- and without credit rating

14 Trade receivables and other assets *continued*

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

	2025 £m	2024 £m
At 1 January	**(239)**	(242)
Increases in loss allowance recognised in the income statement during the year	**(83)**	(130)
Loss allowance utilised	**18**	11
Releases of loss allowance previously provided	**55**	116
Transferred to assets held for sale	**–**	1
Transferred to assets held for distribution [1]	**90**	–
Exchange differences	**18**	5
At 31 December	**(141)**	(239)

1 As of 31 December 2025, £90m of ECL for Trade Receivables were transferred to assets held for distribution, see note 27 for further details

15 Contract assets and liabilities

	Current		Non-current [1]		Total [2]	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Contract assets						
Contract assets with customers	**200**	886	**834**	598	**1,034**	1,484
Participation fee contract assets	**18**	38	**123**	291	**141**	329
	218	924	**957**	889	**1,175**	1,813

1 Contract assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

2 Contract assets are classified as non-financial instruments

The balance includes £930m (2024: £955m) Civil Aerospace LTSA assets and £35m (2024: £381m) Defence LTSA assets. At 31 December 2025, £546m of contract assets and £176m of participation fees were reclassified to assets held for distribution. See note 27 for further details.

During the year, the Civil Aerospace balance decreased by £26m to £930m, driven by an £18m increase due to 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 which is offset by a decrease due to contract assets of £44m reclassified to held for distribution during the year, see note 27 for further details. Revenue recognised relating to performance obligations satisfied in previous years was £(36)m which reduced the contract asset (2024: reduction of £42m) in Civil Aerospace.

No impairment losses in relation to these contract assets (2024: none) have arisen during the year.

Participation fee contract assets decreased by £188m (2024: increased by £102m). Movements were primarily due to contract assets being reclassified to assets held for distribution of £(176)m (2024: £nil), amortisation of £(20)m (2024: £(23)m) and the Civil Aerospace programme asset impairment reversal of £nil (2024: £132m), offset by foreign exchange on consolidation of £8m (2024: £(7)m).

The absolute value of ECLs for contract assets has increased by £1m to £12m (2024: increased by £5m to £11m).

	Current		Non-current [1]		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Contract liabilities	**5,450**	6,309	**6,896**	9,447	**12,346**	15,756

Contract liabilities are analysed as follows:		
Financial instruments (note 20)	**1,423**	1,280
Non-financial instruments	**10,923**	14,476
	12,346	15,756

1 Contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities are further split according to when the related performance obligation is expected to be satisfied and, therefore, when revenue is estimated to be recognised in the income statement

During the year, £5,652m (2024: £5,048m) of the opening contract liability was recognised as revenue.

Contract liabilities have decreased by £3,410m. The movement in the Group balance is primarily due to £4,248m of contract liabilities that were reclassified to liabilities associated with assets held for distribution during the year, see note 27 for further details.

Civil aerospace contract liabilities decreased by £1,338m primarily driven by £1,914m of contract liabilities reclassified to liabilities associated with assets held for distribution. This was partly offset by an increase of £576m which was mainly a result of growth in LTSA liabilities of £231m (2025: £11,370m, 2024: £11,139m) driven almost wholly by large engines, with customer invoicing in 2025 (based on EFH) being in advance of revenue recognised (based on costs incurred completing performance obligations).

Defence contract liabilities decreased by £1,262 primarily driven by £1,442m of contract liabilities reclassified to liabilities associated with assets held for distribution. This was partly offset by an increase of £180m from receipt of deposits in advance of performance obligations.

Power Systems contact liabilities decreased by £778m primarily driven by £868m of contract liabilities reclassified to liabilities associated with assets held for distribution. This was partly offset by an increase of £90m from receipt of deposits in advance of performance obligations.

The contract liability movement includes a decrease of £(289)m (2024: decrease of £354m) as a result of revenue being recognised in relation to performance obligations satisfied in previous years.

16 Cash and cash equivalents

	2025 £m	2024 £m
Cash at bank and in hand	**457**	713
Money market funds	**2,359**	1,900
Short-term deposits	**2,902**	2,961
Cash and cash equivalents per the balance sheet	**5,718**	5,574
Cash and cash equivalents included within assets held for distribution [1]	**526**	–
Overdrafts (note 17)	**–**	(2)
Overdrafts within liabilities associated with assets held for distribution [1]	**(3)**	–
Cash and cash equivalents per cash flow statement (page 34)	**6,241**	5,572

1 At 31 December 2025, £526m of cash and cash equivalents were reclassified to assets held for distribution and £3m of overdrafts were reclassified to liabilities associated with assets held for distribution, see note 27 for further details

Cash and cash equivalents at 31 December 2025 includes £18m (2024: £245m) that is not available for general use by the Group, which entirely (2024: £44m) relates to cash held in non-wholly owned subsidiaries and joint arrangements.

Balances are presented on a net basis when the Group has both a legal right of offset and the intention to either settle on a net basis or realise the asset and settle the liability simultaneously. There is no offsetting of financial instruments in the Group's statement of financial position as at 31 December 2025 and 2024.

17 Borrowings and lease liabilities

	Current		Non–current		Total	
	2025 £m	2024 £m	2025 £m	2024 £m	2025 £m	2024 £m
Unsecured						
Overdrafts	**–**	2	**–**	–	**–**	2
Bank loans	**–**	4	**–**	3	**–**	7
3.625% Notes 2025 $1,000m [1]	**–**	795	**–**	–	**–**	795
3.375% Notes 2026 £375m [2]	**372**	–	**–**	364	**372**	364
4.625% Notes 2026 €750m [3]	**654**	–	**–**	620	**654**	620
5.75% Notes 2027 $1,000m [3]	**–**	–	**741**	795	**741**	795
5.75% Notes 2027 £545m	**–**	–	**543**	543	**543**	543
1.625% Notes 2028 €550m [1]	**–**	–	**470**	442	**470**	442
Other loans	**–**	–	**10**	9	**10**	9
Total unsecured	**1,026**	801	**1,764**	2,776	**2,790**	3,577
Lease liability – Land and buildings	**17**	44	**84**	405	**101**	449
Lease liability – Aircraft and engines	**300**	209	**506**	784	**806**	993
Lease liability – Plant and equipment	**28**	43	**32**	70	**60**	113
Total lease liabilities	**345**	296	**622**	1,259	**967**	1,555
Total borrowings and lease liabilities	**1,371**	1,097	**2,386**	4,035	**3,757**	5,132

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

1 These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay floating rates of GBP interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

2 These notes are the subject of interest rate swap agreements under which the Group has undertaken to pay floating rates of interest, which form a fair value hedge. They are also subject to interest rate swap agreements under which the Group has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

3 These notes are the subject of cross-currency interest rate swap agreements under which the Group has undertaken to pay fixed rates of GBP interest, which form a cash flow hedge

At 31 December 2025, £12m of borrowings and £503m of lease liabilities were reclassified to liabilities associated with assets held for distribution, see note 27 for further details.

During the year to 31 December 2025, the Group repaid a loan note of $1bn in October 2025 in line with its maturity date.

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

	2025 £m	2024 £m
Expiring within one year	**–**	–
Expiring after one year	**2,500**	2,500
Total undrawn facilities	**2,500**	2,500

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

In December 2025 the Group signed a new £2.5bn Revolving Credit Facility maturing December 2030 and cancelled the existing facility. These facilities have not been drawn during the year and remain undrawn at 31 December 2025.

18 Leases

Leases as lessee

The net book value of right-of-use assets at 31 December 2025 was £517m (2024: £761m), with a lease liability of £967m (2024: £1,555m), per notes 11 and 17, respectively. Leases that have not yet commenced to which the Group is committed have a future liability of £214m (2024: £2m) and consist of mainly plant and equipment and properties. The consolidated income statement shows the following amounts relating to leases:

	2025 £m	2024 £m
Land and buildings depreciation and impairment [1]	**(47)**	(45)
Plant and equipment depreciation and impairment [2]	**(47)**	(45)
Aircraft and engines depreciation and impairment [3]	**(64)**	(175)
Total depreciation and impairment charge for right-of-use assets	**(158)**	(265)
Adjustment of amounts payable under residual value guarantees within lease liabilities [3, 4]	**–**	6
Expense relating to short-term leases of 12 months or less recognised as an expense on a straight-line basis [2]	**(31)**	(38)
Expense relating to variable lease payments not included in lease liabilities [3, 5]	**(8)**	(8)
Total operating costs	**(197)**	(305)
Interest expense [6]	**(74)**	(83)
Total lease expense	**(271)**	(388)
Income from sub-leasing right-of-use assets	**30**	29
Total amount recognised in income statement	**(241)**	(359)

1 Included in cost of sales and commercial and administration costs depending on the nature and the use of the right-of-use asset

2 Included in cost of sales, commercial and administration costs, or research and development depending on the nature and use of the right-of-use asset

3 Included in cost of sales

4 Where the cost of meeting residual value guarantees is less than that previously estimated, as costs have been mitigated or liabilities waived by the lessor, the lease liability has been remeasured. Where the value of this remeasurement exceeds the value of the right-of use asset, the reduction in the lease liability is credited to cost of sales

5 Variable lease payments primarily arise on a small number of contracts where engine lease payments are dependent upon utilisation rather than a periodic charge

6 Included in financing costs

The total cash outflow for leases in 2025 was £345m (2024: £421m). Of this, £306m related to leases reflected in the lease liability, £31m to short-term leases where lease payments are expensed on a straight-line basis and £8m for variable lease payments where obligations are only due when the assets are used. The timing difference between income statement charge and cash flow relates to costs incurred at the end of leases for residual value guarantees and restoration costs that are recognised within depreciation over the term of the lease, the most significant amounts relate to engine leases.

Engine leases in the Civil Aerospace business often include clauses that require the engines to be returned to the lessor with specific levels of usable life remaining or cash payments to the lessor. The costs of meeting these requirements are included in the lease payments. The amounts payable are calculated based upon an estimate of the utilisation of the engines over the lease term, whether the engine is restored to the required condition by performing an overhaul at our own cost or through the payments of amounts specified in the contract and any new contractual arrangements arising when the current lease contracts end. Amounts due can vary depending on the level of utilisation of the engines, overhaul activity prior to the end of the contract, and decisions taken on whether ongoing access to the assets is required at the end of the lease term. The lease liability at 31 December 2025 included £292m relating to the cost of meeting these residual value guarantees in the Civil Aerospace business. Up to £127m is payable in the next 12 months and £165m is due over the following five years.

Leases as lessor

The Group acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessees provide protection over the assets. Usage in excess of specified limits and damage to the engine while on lease are covered by variable lease payment structures. Lessee bankruptcy risk is managed through ongoing monitoring of airline credit rating and, where applicable, the Cape Town Convention on International Interests in Mobile Equipment (including a specific protocol relating to aircraft equipment); an international treaty that creates common standards for the registration of lease contracts and establishes various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws. Engines are only leased once the Group confirm that appropriate insurance documentation is established that covers the engine assets to pre-agreed amounts. All such contracts are operating leases. The Group also leases out a small number of properties, or parts of properties, where there is excess capacity under operating leases.

	2025 £m	2024 £m
Operating lease income [1, 2]	**91**	99

1 Includes variable lease payments received of £73m (2024: £83m) that do not depend on an index or a rate

2 Items of property, plant and equipment subject to an operating lease are disclosed in note 10

Total non-cancellable future operating lease rentals (undiscounted) are £63m (2024: £71m) with £11m (2024: £10m) due within one year, £39m (2024: £38m) between one to five years and £13m (2024: £23m) after five years.

In a limited number of circumstances, the Group sublets properties that are treated as a finance lease when the arrangement transfers substantially all the risks and rewards of ownership of the asset. At 31 December 2025, the total undiscounted lease payments receivable is £32m (2024: £37m) on annual lease income of £5m (2024: £5m). The discounted finance lease receivable at 31 December 2025 is £25m (2024: £29m).

19 Trade payables and other liabilities

	Current		Non-current		Total [1]	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Trade payables	**1,039**	1,526	**40**	–	**1,079**	1,526
Accrued liabilities	**1,770**	2,552	**97**	109	**1,867**	2,661
Customer discounts [2]	**1,088**	1,035	**631**	866	**1,719**	1,901
Payables due on RRSAs	**1,800**	1,529	**14**	11	**1,814**	1,540
Deferred receipts from RRSA workshare partners	**35**	55	**747**	757	**782**	812
Amounts owed to joint ventures and associates	**555**	492	**–**	–	**555**	492
Government grants [3]	**38**	26	**8**	24	**46**	50
Other taxation and social security	**36**	54	**–**	–	**36**	54
Other payables [4]	**355**	740	**161**	198	**516**	938
	6,716	8,009	**1,698**	1,965	**8,414**	9,974

Trade payables and other liabilities are analysed as follows:		
Financial instruments (note 20):		
Trade payables and similar items	**5,299**	6,205
Other non-derivative financial liabilities	**2,089**	2,642
Non-financial instruments	**1,026**	1,127
	8,414	9,974

1 At 31 December 2025, £2,216m of trade payables and other liabilities were reclassified to liabilities associated with assets held for distribution, see note 27 for further details
2 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 42. The largest element of the balance, approximately £1.2bn (2024: £1.4bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts
3 During the year, £5m, (2024: £102m) of government grants were released to the income statement
4 Other payables includes payroll liabilities and HM Government UK levies

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

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

At 31 December 2025, £646m (2024: £594m) of trade payables and other liabilities were within the scope of SCF arrangements of which suppliers had drawn £536m (2024: £506m), with £227m (2024: £243m) drawn by joint ventures. In some cases the Group settles the costs incurred by joint ventures as a result of them utilising SCF arrangements and, during the year to 31 December 2025, the Group incurred costs of £9m (2024: £9m). These costs were included within cost of sales.

20 Financial instruments

Carrying values and fair values of financial instruments

Financial instrument disclosures include all financial assets and financial liabilities held by the Group at the reporting date, including those classified within assets and within liabilities associated with assets held for distribution and disclosed separately on the balance sheet in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Financial instruments included within the disposal groups classified as held for distribution are expected to transfer to the buyer(s) on completion of the disposal, and as such may not be available to the Group following this transaction. For further information on financial assets and liabilities classified as held for distribution, see note 27.

			Assets			Liabilities		Total
	Notes	Basis for determining fair value	FVPL £m	FVOCI £m	Amortised cost £m	FVPL £m	Other £m	£m
2025								
Other non-current asset investments	12	A	–	4	–	–	–	4
Trade receivables and similar items	14	B/C	–	10	7,222	–	–	7,232
Other non-derivative financial assets	14	B	–	–	484	–	–	484
Other assets		D/F	18	–	14	–	–	32
Derivative financial assets [1]		C	773	–	–	–	–	773
Cash and cash equivalents	16	B	2,424	–	3,820	–	–	6,244
Borrowings	17	E/F	–	–	–	–	(2,802)	(2,802)
Lease liabilities	17	G	–	–	–	–	(1,470)	(1,470)
Derivative financial liabilities [1]		C	–	–	–	(680)	–	(680)
Financial RRSAs		H	–	–	–	–	(5)	(5)
Other liabilities		H	–	–	–	–	(214)	(214)
Trade payables and similar items	19	B	–	–	–	–	(6,917)	(6,917)
Other non-derivative financial liabilities	19	B	–	–	–	–	(2,522)	(2,522)
Contract liabilities	15	B	–	–	–	–	(1,423)	(1,423)
			3,215	14	11,540	(680)	(15,353)	(1,264)
2024								
Other non-current asset investments	12	A	–	5	–	–	–	5
Trade receivables and similar items	14	B/C	–	9	5,516	–	–	5,525
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	–	3,674	–	–	5,574
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 RRSAs		H	–	–	–	–	(7)	(7)
Other liabilities		H	–	–	–	–	(198)	(198)
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	9,572	(2,054)	(15,464)	(5,713)

1 In the event of counterparty default relating to derivative financial assets and derivative financial liabilities, offsetting would apply and financial assets and liabilities held with the same counterparty would net off. If this occurred with every counterparty, total financial assets would be £343m (2024: £26m) and liabilities £250m (2024: £1,657m)

Fair values equate to book values for both 2025 and 2024, with the following exceptions:

		2025		2024	
	Basis for determining fair value	Book value £m	Fair value £m	Book value £m	Fair value £m
Other assets	F	14	15	16	16
Borrowings	E	(2,780)	(2,778)	(3,559)	(3,540)
Borrowings	F	(22)	(23)	(18)	(21)
Financial RRSAs	H	(5)	(5)	(7)	(7)

20 Financial instruments *continued*

Carrying values and fair values of financial instruments (continued)

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

A These primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology

B Fair values are assumed to approximate to cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months. Money market funds are valued using Level 1 methodology

C Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves. For commodity derivatives forward, commodity prices are used to determine expected future cash flows. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2)

D Other assets are included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/Level 3). At 31 December 2025, Level 3 assets totalled £11m (2024: £14m)

E Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1)

F Other assets and borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows. (Level 2)

G The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2)

H The fair value of RRSAs and other liabilities are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3)

IFRS 13 Fair Value Measurement defines a three level valuation hierarchy:
Level 1 — quoted prices for similar instruments;
Level 2 — directly observable market inputs other than Level 1 inputs; and
Level 3 — inputs not based on observable market data

Carrying value 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	Total £m
2025							
Non-current assets	**467**	**6**	**32**	**505**	**–**	**18**	**523**
Current assets	**257**	**6**	**5**	**268**	**–**	**14**	**282**
Assets	**724**	**12**	**37**	**773**	**–**	**32**	**805**
Current liabilities	**(193)**	**(19)**	**(24)**	**(236)**	**(1)**	**(35)**	**(272)**
Non-current liabilities	**(382)**	**(17)**	**(45)**	**(444)**	**(4)**	**(179)**	**(627)**
Liabilities	**(575)**	**(36)**	**(69)**	**(680)**	**(5)**	**(214)**	**(899)**
	149	**(24)**	**(32)**	**93**	**(5)**	**(182)**	**(94)**
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)	(619)
Non-current liabilities	(1,364)	(22)	(111)	(1,497)	(7)	(136)	(1,640)
Liabilities	(1,903)	(40)	(111)	(2,054)	(7)	(198)	(2,259)
	(1,868)	(35)	147	(1,756)	(7)	(161)	(1,924)

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

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.

20 Financial instruments *continued*

Derivative financial instruments (continued)

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

	Foreign exchange instruments		Commodity instruments		Interest rate instruments – hedge accounted [1]		Interest rate instruments – non-hedge accounted		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
At 1 January	**(1,868)**	(2,035)	**(35)**	(19)	**54**	45	**93**	131	**(1,756)**	(1,878)
Movements in fair value hedges	**–**	–	**–**	–	**(33)**	(32)	**–**	–	**(33)**	(32)
Movements in cash flow hedges	**–**	–	**–**	–	**(40)**	(23)	**–**	–	**(40)**	(23)
Movements in other derivative contracts [2]	**1,335**	(631)	**(7)**	(18)	**–**	–	**(4)**	40	**1,324**	(609)
Contracts settled	**682**	798	**18**	2	**(50)**	64	**(52)**	(78)	**598**	786
At 31 December	**149**	(1,868)	**(24)**	(35)	**(69)**	54	**37**	93	**93**	(1,756)

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

2 Included in net financing

Financial risk and RRSAs and other financial assets and liabilities

The Group has financial liabilities arising from financial RRSAs that are valued at each reporting date using the amortised cost method. This involves calculating the present value of the forecast cash flows of the arrangements using the internal rate of return at the inception of the arrangements as an appropriate discount rate. Other liabilities includes royalties payable to airframers where the present value of the liability is calculated using the Group's average borrowing rate as that reflects the nature of the balance in line with the effective interest method. In each case, below the fair value of the assets and liabilities reflect a level 3 valuation.

Movements in the carrying values were as follows:

	Financial RRSAs		Other – assets		Other – liabilities	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
At 1 January	**(7)**	(17)	**14**	25	**(198)**	(163)
Exchange adjustments included in OCI	**6**	1	**(3)**	–	**3**	(5)
Additions	**–**	–	**–**	–	**(29)**	(34)
Financing charge [1]	**–**	–	**–**	(11)	**(16)**	(9)
Excluded from underlying profit:						
Changes in forecast payments [1]	**(4)**	–	**–**	–	**–**	–
Cash paid	**–**	9	**–**	–	**17**	12
Other	**–**	–	**–**	–	**9**	1
At 31 December	**(5)**	(7)	**11**	14	**(214)**	(198)

1 Included in net financing

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 ineffective-ness in the period [3] £m**	**Weighted average FX rate**	**Weighted average interest rate**
At 31 December 2025											
Sterling	**(375)**	**(8)**	**3**	**(372)**	**375**	**–**	**(3)**	**9**	**–**	**1.00**	**SONIA + 0.89**
Euro	**(484)**	**(28)**	**14**	**(470)**	**484**	**–**	**(23)**	**31**	**4**	**1.14**	**SONIA + 1.09**
At 31 December 2024											
Sterling	(375)	(3)	11	(364)	375	–	(12)	3	–	1.00	SONIA + 0.89
USD	(658)	(25)	(137)	(795)	658	128	–	25	–	1.52	SONIA + 1.47
Euro	(484)	13	42	(442)	484	–	(54)	(11)	2	1.14	SONIA + 1.09

1 Hedged items are included in borrowings in the balance sheet

2 Hedging instruments are included in other financial assets or liabilities in the balance sheet

3 Hedge ineffectiveness is included in net financing in the income statement

20 Financial instruments *continued*

Effect of hedging instruments on the financial position and performance (continued)

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 ineffectiveness in the period [2] £m	Weighted average FX rate	Weighted average interest rate	Amount recognised in OCI £m	Recycled to net financing £m	Closing cash flow hedge reserve £m
At 31 December 2025											
USD	**(772)**	**56**	**772**	**(22)**	**(59)**	**(2)**	**1.29**	**5.33**	**55**	**(53)**	**(7)**
Euro	**(677)**	**(23)**	**677**	**(21)**	**24**	**–**	**1.11**	**5.45**	**(17)**	**26**	**(1)**
At 31 December 2024											
USD	(772)	(15)	772	37	9	(6)	1.29	5.33	(19)	15	(9)
Euro	(677)	28	677	(45)	(28)	–	1.11	5.45	36	(38)	(10)

1 Hedging instruments are included in other financial assets or liabilities in the balance sheet

2 Hedge ineffectiveness is included in net financing in the income statement

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.

20 Financial instruments *continued*

Interest rate risk – The Group's interest rate risk is primarily in relation to its fixed rate borrowings (fair value risk), floating rate borrowings and cash and cash equivalents (cash flow risk). Interest rate derivatives are used to manage the overall interest rate profile of the Group. The fixed or floating rate interest rate decision on long-term borrowings is determined for each new agreement at the point it is entered into. The aggregate interest rate position of the Group is reviewed regularly and can be revised at any time in order to react to changes in market conditions or circumstances.

The Group also has exposures to the fair values of non-derivative financial instruments such as EUR, GBP and USD fixed rate borrowings. To manage the risk of changes in these fair values, the Group has entered into fixed-to-floating interest rate swaps and cross-currency interest rate swaps, which, for accounting purposes, are designated as fair value hedges. The swaps have similar critical terms to the hedged items, such as the reference rate, reset dates, notional amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the fair value hedge relationship are changes in the credit risk of either party to the interest rate swap and, for cross-currency interest rate swaps, the cross-currency basis risk as this risk is present in the hedging instrument only. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example in the event of a partial repayment of hedged debt prior to its maturity.

The Group has exposure to changes in cash flows due to changes in interest rates. To manage this risk, the Group has entered into floating-to-fixed interest rate swaps to hedge a proportion of its floating rate exposure to fixed rates. The swaps have similar critical terms to the floating leg of swaps that form part of the fair value hedges, such as the reference rate, reset dates, notional amounts, payment dates and maturities. For accounting purposes, these derivative contracts are generally not designated as hedging instruments.

Commodity price risk – The Group has exposures to the price of jet fuel, base metals, gas and power arising from business operations. To minimise its cash flow exposures to changes in commodity prices, the Group enters into derivative commodity transactions. During 2025, the Group entered into a Virtual Power Purchase Arrangement, which had a fair value of £3m at 31 December 2025. The commodity hedging policy is similar to the Group FX policy, in that the Group forecasts highly probable exposures to commodities, and takes out hedges within prescribed maximum and minimum levels as set out in the policy. The maximum and minimum policy bands decline gradually over time. For accounting purposes, these derivative contracts are generally not designated in hedging relationships.

Other price risk – The Group's cash equivalent balances represent investments in money market instruments, with a term of up to three months. The Group does not consider that these are subject to significant price risk.

Derivative financial instruments

The nominal amounts, analysed by year of expected maturity, and fair values of derivative financial instruments are as follows:

	Expected maturity					Fair value	
	Nominal amount £m	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Assets £m	Liabilities £m
At 31 December 2025							
Foreign exchange contracts:							
Non-hedge accounted	**21,850**	**7,559**	**5,516**	**8,775**	**–**	**724**	**(575)**
Interest rate contracts:							
Fair value hedges	**859**	**375**	**–**	**484**	**–**	**–**	**(26)**
Cash flow hedges	**1,449**	**677**	**772**	**–**	**–**	**–**	**(43)**
Non-hedge accounted	**859**	**375**	**–**	**484**	**–**	**37**	**–**
Commodity contracts:							
Non-hedge accounted	**392**	**146**	**110**	**126**	**10**	**12**	**(36)**
	25,409	**9,132**	**6,398**	**9,869**	**10**	**773**	**(680)**
At 31 December 2024							
Foreign exchange contracts:							
Non-hedge accounted	20,728	8,018	5,781	6,929	–	35	(1,903)
Interest rate contracts:							
Fair value hedges	1,517	658	375	484	–	128	(66)
Cash flow hedges	1,449	–	677	772	–	37	(45)
Non-hedge accounted	1,517	658	375	484	–	93	–
Commodity contracts:							
Non-hedge accounted	330	137	108	85	–	5	(40)
	25,541	9,471	7,316	8,754	–	298	(2,054)

As described above, all derivative financial instruments are entered into for risk management purposes, although these may not be designated into hedging relationships for accounting purposes.

20 Financial instruments *continued*

Currency analysis

Foreign exchange contracts are denominated in the following currencies:

	Nominal amount of currencies purchased forward				
	Sterling £m	**USD £m**	**Euro £m**	**Other £m**	**Total £m**
At 31 December 2025					
Currencies sold forward:					
Sterling	**–**	**149**	**39**	**7**	**195**
USD	**16,118**	**–**	**4,541**	**371**	**21,030**
Euro	**10**	**317**	**–**	**107**	**434**
Other	**4**	**4**	**176**	**7**	**191**
At 31 December 2024					
Currencies sold forward:					
Sterling	–	882	41	59	982
USD	14,654	–	4,419	287	19,360
Euro	35	290	–	26	351
Other	3	1	31	–	35

The nominal value of interest rate and commodity contracts are denominated in the following currencies:

	2025 £m	2024 £m
Sterling	**1,304**	1,915
USD	**1,063**	1,719
Euro	**1,192**	1,179

Non-derivative financial instruments are denominated in the following currencies:

	Sterling £m	**USD £m**	**Euro £m**	**Other £m**	**Total £m**
At 31 December 2025					
Other non-current asset investments	**–**	**4**	**–**	**–**	**4**
Trade receivables and similar items	**2,558**	**3,903**	**662**	**109**	**7,232**
Other non-derivative financial assets	**60**	**354**	**64**	**6**	**484**
Other assets	**–**	**18**	**14**	**–**	**32**
Cash and cash equivalents	**2,922**	**911**	**2,235**	**176**	**6,244**
Assets	**5,540**	**5,190**	**2,975**	**291**	**13,996**
Borrowings	**(918)**	**(746)**	**(1,133)**	**(5)**	**(2,802)**
Lease liabilities	**(251)**	**(976)**	**(45)**	**(198)**	**(1,470)**
Financial RRSAs	**–**	**(5)**	**–**	**–**	**(5)**
Other liabilities	**(31)**	**(183)**	**–**	**–**	**(214)**
Trade payables and similar items	**(1,214)**	**(4,853)**	**(765)**	**(85)**	**(6,917)**
Other non-derivative financial liabilities	**(392)**	**(1,896)**	**(187)**	**(47)**	**(2,522)**
Contract liabilities	**–**	**(1,423)**	**–**	**–**	**(1,423)**
Liabilities	**(2,806)**	**(10,082)**	**(2,130)**	**(335)**	**(15,353)**
	2,734	**(4,892)**	**845**	**(44)**	**(1,357)**
At 31 December 2024					
Other non-current investments	–	5	–	–	5
Trade receivables and similar items	638	4,346	460	81	5,525
Other non-derivative financial assets	73	242	40	11	366
Other assets	–	21	16	–	37
Cash and cash equivalents	2,250	1,283	1,867	174	5,574
Assets	2,961	5,897	2,383	266	11,507
Borrowings	(908)	(1,594)	(1,072)	(3)	(3,577)
Lease liabilities	(237)	(1,074)	(49)	(195)	(1,555)
Financial RRSAs	–	(6)	(1)	–	(7)
Other liabilities	(39)	(159)	–	–	(198)
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	(2,540)	(10,898)	(1,703)	(323)	(15,464)
	421	(5,001)	680	(57)	(3,957)

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 2025					
Sterling	**–**	**–**	**1**	**3**	**4**
USD	**(7)**	**–**	**–**	**–**	**(7)**
Euro	**2**	**4**	**–**	**(3)**	**3**
Other	**33**	**36**	**78**	**–**	**147**
At 31 December 2024					
Sterling	–	–	–	1	1
USD	(11)	–	–	(2)	(13)
Euro	–	7	–	15	22
Other	55	37	68	–	160

Ageing beyond contractual due date of financial assets

	Within terms £m	Up to three months overdue £m	Between three months and one year overdue £m	More than one year overdue £m	Total £m
At 31 December 2025					
Other non-current asset investments	**4**	**–**	**–**	**–**	**4**
Trade receivables and similar items	**6,854**	**257**	**74**	**47**	**7,232**
Other non-derivative financial assets	**480**	**3**	**–**	**1**	**484**
Other assets	**25**	**–**	**7**	**–**	**32**
Derivative financial assets	**773**	**–**	**–**	**–**	**773**
Cash and cash equivalents	**6,244**	**–**	**–**	**–**	**6,244**
	14,380	**260**	**81**	**48**	**14,769**
At 31 December 2024					
Other non-current asset investments	5	–	–	–	5
Trade receivables and similar items	5,075	324	82	44	5,525
Other non-derivative financial assets	331	32	–	3	366
Other assets	28	9	–	–	37
Derivative financial assets	298	–	–	–	298
Cash and cash equivalents	5,574	–	–	–	5,574
	11,311	365	82	47	11,805

Contractual maturity analysis of non-derivative financial liabilities

	Gross values				
	Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Carrying value £m
At 31 December 2025					
Borrowings	**(1,146)**	**(1,371)**	**(490)**	**(19)**	**(2,802)**
Lease liabilities	**(454)**	**(293)**	**(496)**	**(1,050)**	**(1,470)**
Financial RRSAs	**–**	**–**	**(1)**	**(3)**	**(5)**
Other liabilities	**(35)**	**(19)**	**(28)**	**(131)**	**(214)**
Trade payables and similar items	**(6,734)**	**(71)**	**(56)**	**(56)**	**(6,917)**
Other non-derivative financial liabilities	**(1,807)**	**(131)**	**(294)**	**(291)**	**(2,522)**
Contract liabilities	**(1,423)**	**–**	**–**	**–**	**(1,423)**
	(11,599)	**(1,885)**	**(1,365)**	**(1,550)**	**(15,353)**
At 31 December 2024					
Borrowings	(961)	(1,109)	(1,893)	(16)	(3,577)
Lease liabilities	(365)	(324)	(533)	(1,189)	(1,555)
Financial RRSAs	(1)	–	(1)	(4)	(7)
Other liabilities	(61)	(11)	(25)	(101)	(198)
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)
	(10,422)	(1,781)	(2,816)	(1,702)	(15,464)

20 Financial instruments *continued*

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**	**After five years £m**	**Carrying value £m**
At 31 December 2025					
Derivative financial assets:					
Cash inflows	**5,682**	**4,460**	**7,783**	**–**	
Cash outflows	**(5,433)**	**(4,260)**	**(7,505)**	**–**	
Other net cash flows [1]	**29**	**16**	**8**	**–**	
	278	**216**	**286**	**–**	**773**
Derivative financial liabilities:					
Cash inflows	**2,596**	**1,850**	**1,479**	**–**	
Cash outflows	**(3,001)**	**(2,059)**	**(1,552)**	**–**	
Other net cash flows [1]	**(24)**	**(11)**	**(6)**	**–**	
	(429)	**(220)**	**(79)**	**–**	**(680)**
At 31 December 2024					
Derivative financial assets:					
Cash inflows	1,940	605	1,089	–	
Cash outflows	(1,780)	(592)	(1,054)	–	
Other net cash flows [1]	66	25	24	–	
	226	38	59	–	298
Derivative financial liabilities:					
Cash inflows	6,988	5,866	7,154	–	
Cash outflows	(7,959)	(6,524)	(7,850)	–	
Other net cash flows [1]	(30)	(11)	(11)	–	
	(1,001)	(669)	(707)	–	(2,054)

1 Derivative financial assets and liabilities that are settled on a net cash basis

Interest rate risk

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates their effective interest rates. The value shown is the carrying amount before taking account of swaps.

	2025			2024		
	Fixed rate £m	**Floating rate £m**	**Total £m**	Fixed rate £m	Floating rate £m	Total £m
Cash and cash equivalents [1]	**–**	**6,244**	**6,244**	–	5,574	5,574
Borrowings	**(2,785)**	**(17)**	**(2,802)**	(3,563)	(14)	(3,577)
Lease liabilities	**(1,237)**	**(233)**	**(1,470)**	(1,298)	(257)	(1,555)
	(4,022)	**5,994**	**1,972**	(4,861)	5,303	442
Weighted average interest rates						
Borrowings	**4.4%**	**4.7%**		4.0%	5.0%	
Lease liabilities [2]	**4.8%**	**5.0%**		4.9%	5.8%	

1 Cash and cash equivalents comprises bank balances and term deposits and earn interest based on short-term floating market interest rates

2 Interest rates for lease liabilities are considered to be the discount rates at the balance sheet date

None (2024: none) of the Group's borrowings are subject to financial covenants and there are no rating triggers contained in any of the Group's facilities that could require the Group to accelerate or repay any facility for a given movement in the Group's credit rating.

£99m (2024: £106m) of the Group's lease liabilities include a customary loan-to-value covenant that is applicable if the credit rating of the Company is sub-investment grade. The Group has several contractual cures available in the event the stipulated loan-to-value ratio is exceeded. Failure by the Group to satisfy its contractual obligations under the covenant gives rights to the lessor to terminate its lease and claim termination amounts for the outstanding lease balance. At 31 December 2025 none (2024: none) of these were in breach.

20 Financial instruments *continued*

Sensitivity Analysis

Sensitivities at 31 December (all other variables held constant) – impact on profit after tax and equity	2025 £m	2024 £m
Sterling 10% weaker against the USD	**(1,598)**	(1,506)
Sterling 10% stronger against the USD	**1,307**	1,232
Euro 10% weaker against the USD	**(318)**	(358)
Euro 10% stronger against the USD	**260**	293
Sterling 10% weaker against the Euro	**(27)**	(27)
Sterling 10% stronger against the Euro	**22**	22
Commodity prices 10% lower	**(26)**	(20)
Commodity prices 10% higher	**26**	20
Interest rates 50 basis points lower	**(24)**	(40)
Interest rates 50 basis points higher	**24**	39

21 Provisions for liabilities and charges

	At 1 January 2025 £m	Charged to income statement [1] £m	Reversed £m	Utilised £m	Transfers to held for distribution £m	Exchange differences £m	At 31 December 2025 £m
Onerous contracts	**1,433**	**433**	**(694)**	**(187)**	**(72)**	**1**	**914**
Warranty and guarantees	**354**	**179**	**(25)**	**(93)**	**(404)**	**7**	**18**
Trent 1000 wastage costs	**36**	**–**	**–**	**(35)**	**–**	**(1)**	**–**
Employer liability claims	**25**	**1**	**(4)**	**(2)**	**(9)**	**–**	**11**
Transformation and restructuring	**62**	**10**	**(16)**	**(35)**	**(18)**	**1**	**4**
Tax related interest and penalties	**16**	**2**	**(1)**	**–**	**(8)**	**–**	**9**
Claims and litigation	**25**	**30**	**(12)**	**(7)**	**(18)**	**–**	**18**
Other	**43**	**22**	**(3)**	**(7)**	**(33)**	**(1)**	**21**
	1,994	**677**	**(755)**	**(366)**	**(562)**	**7**	**995**
Current liabilities	**589**						**240**
Non-current liabilities	**1,405**						**755**

1 The charge to the income statement within net financing includes £27m (2024: £47m) as a result of the unwinding of the discounting of provisions previously recognised and £16m (2024: £36m) as a result of changes in discount rates during the year

Onerous contract

Onerous contract provisions are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Onerous contract provisions are measured on a fully costed basis. During the year, additional contract losses for the Group of £433m (2024: £558m) have been recognised. These are mainly a result of increases in the estimate of future LTSA costs due to prolonged supply chain challenges and inflationary cost increases. Contract losses of £694m (2024: £374m) previously recognised have been reversed following improvements to the forecast revenue, cost estimates and time on wing across various engine programmes as a result of operational improvements, contractual renegotiations and extensions. During the year £187m (2024: £218m) of the provisions has been utilised. The Group continues to monitor onerous contract provisions for changes in the market and revises the provision as required. The value of the remaining onerous contract provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 15 years.

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

At 31 December 2025, £72m of the onerous contract provision was transferred to assets held for distribution. See note 27 for further details.

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. At 31 December 2025, £404m of the warranties and guarantees provision was transferred to assets held for distribution, see note 27 for further details.

Trent 1000 wastage costs

During the year, the Group has utilised the remaining £35m (2024: £82m) of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs.

Employer liability claims

The provision relating to employer healthcare liability claims is as a result of an historical insolvency of the previous provider and is expected to be utilised over the next 30 years. At 31 December 2025, £9m of the employer liability provision was transferred to assets held for distribution, see note 27 for further details.

Transformation and restructuring

The Group announced a major multi-year transformation programme in 2023. During the year £35m (2024: £35m) was utilised and £16m reversed (2024: £12m). As part of these plans a further £3m (2024: £2m) has been charged directly to the income statement that had not been provided for. The remaining provision is expected to be utilised by 31 December 2027. At 31 December 2025, £18m of the transformation and restructuring provision was transferred to assets held for distribution, see note 27 for further details.

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. At 31 December 2025, £8m of the tax related interest and penalties provision was transferred to assets held for distribution, see note 27 for further details.

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. At 31 December 2025, £18m of the claims and litigation provision was transferred to assets held for distribution, see note 27 for further details.

Other
Other items are individually immaterial. The value of any remaining provisions reflects the single most likely outcome in each case. At 31 December 2025, £33m of other provisions were transferred to assets held for distribution, see note 27 for further details.

There were no provisions held for customer financing at 31 December 2025 (2024: £nil). Provisions are held to cover potential calls on guarantees provided over asset values and/or financing when it is considered probable by management that the exposure will crystallise. The Group discloses contingent liabilities for customer financing arrangements where the payment is not probable. See note 25 for further details.

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. In August 2025 the scheme completed a Buy-in, with the purchase of a bulk insurance annuity policy, with the effect that the majority of scheme liabilities are now covered by this policy. For further details see below;
- the Group also operates a large trust-based defined contribution scheme for current employees in the UK (Rolls-Royce Retirement Savings Trust). Pension contributions are generally paid as a salary sacrifice under which employees agree to a reduction in gross contractual pay in return for the Group making additional pension contributions on their behalf. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £106m (2024: £88m) in the year; and
- overseas defined benefit schemes are a mixture of funded and unfunded plans and provide benefits in line with local practice. Additionally, in the US, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. These healthcare schemes are unfunded.

The valuations of the defined benefit schemes are based on the results of the most recent funding valuation from 31 March 2023, where relevant, updated by the scheme actuaries to 31 December 2025.

Virgin Media

A UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, found that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgement delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, its relevance and hence the potential impact of this to the RRUKPF scheme, and other UK schemes was unclear.

On 5 June 2025 the Government announced that in light of this uncertainty, it would introduce legislation to give potentially affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic rule amendments met the necessary standards. As a result of this Government intervention the Group does not anticipate any scheme amendments or additional liabilities.

Buy-in of Rolls-Royce UK Pension Fund

In August 2025, the Trustee of the Rolls-Royce UK Pension Fund entered into a Buy-in transaction with Pension Insurance Corporation plc (PIC), whereby the Fund purchased a bulk purchase annuity policy in exchange for consideration of £4.3bn. This was paid from the Fund's existing assets, with no additional funding required by the Group. This transaction resulted in substantially all the benefits and liabilities under the Fund being insured. The Buy-in was undertaken in anticipation of entering into a Buy-out during 2026, upon which the liabilities and management of bought out benefits will be transferred to PIC. A charge of £517m has been recognised within the line 'Actuarial gains/(losses) recognised in OCI' in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2025 comprising around £450m relating to the impact of the Buy-in.

Following the transaction, the bulk purchase annuity policy has been treated as an asset of the Fund and has been valued on the same basis as the liabilities to which it relates, as until a Buy-out takes place, the legal responsibility to pay relevant benefits remains with the Trustee.

The Company and the Trustee of the UK pension scheme agreed on 2 February 2026 to terminate and wind up the UK scheme. See further details in note 1.

22 Post-retirement benefits *continued*

Overseas Schemes

During the year, Rolls-Royce Deutschland replaced a number of their existing defined benefit schemes with a new company pension scheme to offer payment options at time of retirement. The new system, which is similar in structure to the UK defined contribution scheme but with a guarantee from the Company regarding investment returns in accordance with German legislation, significantly reduces interest risks and longevity risks for the employer for future commitments. A past service credit of £10m has been recognised within non-underlying operating profit in respect of these changes.

Amounts recognised in the income statement

	2025			2024		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Defined benefit schemes:						
Current service cost and administrative expenses	**6**	**42**	**48**	5	37	42
Past-service cost/(credit) and settlement loss [1]	**4**	**(10)**	**(6)**	14	–	14
	10	**32**	**42**	19	37	56
Defined contribution schemes	**251**	**104**	**355**	228	101	329
Operating cost	**261**	**136**	**397**	247	138	385
Net financing (credit)/charge in respect of defined benefit schemes	**(32)**	**38**	**6**	(35)	37	2
Total income statement charge	**229**	**174**	**403**	212	175	387

1 Following the signing of the framework agreement with PIC, adjustments have been made to align the methodology for the calculation of certain benefits with those required by the insurer. These have resulted in an additional past service charge of £(4)m being recognised in the income statement in 2025. A past service credit of £10m has also been recognised in the year in respect of the changes to the Rolls-Royce Deutschland schemes detailed above. In 2024 a past service charge of £14m was recognised in respect of the UK scheme as a result of further work carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments under the Barber judgement which sought to equalise normal retirement ages between men and women

The operating cost is charged as follows:

	Defined benefit		**Defined contribution**		**Total**	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Cost of sales	**37**	30	**252**	227	**289**	257
Commercial and administrative costs	**(3)**	20	**50**	51	**47**	71
Research and development costs	**8**	6	**53**	51	**61**	57
	42	56	**355**	329	**397**	385

Net financing comprises:

	2025			2024		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Financing on scheme obligations	**214**	**64**	**278**	200	61	261
Financing on scheme assets	**(246)**	**(26)**	**(272)**	(235)	(24)	(259)
Net financing (income)/charge in respect of defined benefit schemes	**(32)**	**38**	**6**	(35)	37	2
Financing income on scheme surpluses	**(32)**	**–**	**(32)**	(35)	(2)	(37)
Financing cost on scheme deficits	**–**	**38**	**38**	–	39	39

22 Post-retirement benefits *continued*

Amounts recognised in OCI in respect of defined benefit schemes

	2025			2024		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Actuarial gains and losses arising from:						
Demographic assumptions [1]	**(121)**	**–**	**(121)**	19	(10)	9
Financial assumptions [2]	**97**	**63**	**160**	617	56	673
Experience adjustments [3]	**(9)**	**1**	**(8)**	(8)	(14)	(22)
(Loss)/return on scheme assets excluding financing income [4]	**(484)**	**9**	**(475)**	(633)	(5)	(638)
	(517)	**73**	**(444)**	(5)	27	22

1 For the UK Scheme, this reflects latest available CMI mortality projections, and a charge of around £100m in relation to the Buy-in of the UK scheme due to updates to the assumptions relating to transfer values, and alignments made to insurer factors post Buy-in

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

3 This reflects an experience loss as a result of realised inflation being higher than expected over the period meaning that actual and projected increases are now higher than previously expected

4 Includes an asset remeasurement loss estimated at £350m recognised in respect of the Buy-in of the UK Scheme that took place during the year

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

	2025			2024		
	UK schemes £m	**Overseas schemes [1] £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	**(4,040)**	**(197)**	**(4,237)**	(3,958)	(986)	(4,944)
Fair value of scheme assets	**4,324**	**188**	**4,512**	4,737	531	5,268
Net asset/(liability) on funded schemes	**284**	**(9)**	**275**	779	(455)	324
Present value of unfunded obligations	**–**	**(19)**	**(19)**	–	(515)	(515)
Net asset/(liability) recognised in the balance sheet [2]	**284**	**(28)**	**256**	779	(970)	(191)
Post-retirement scheme surpluses [3]	**284**	**2**	**286**	779	11	790
Post-retirement scheme deficits	**–**	**(30)**	**(30)**	–	(981)	(981)

1 At 31 December 2025, £862m of net pension deficits (comprising £372m assets and £(1,234)m liabilities) relating to overseas schemes were reclassified to liabilities associated with assets held for distribution. See note 27 for further details

2 The surplus in the UK scheme is recognised as, on an ultimate wind-up when there are no longer any remaining members, the Group would be entitled to receive any surplus and, has the power to determine how any remaining surplus is used

3 The decrease in the net asset in the UK Schemes is largely as a result of the Buy-in of the scheme in August 2025, which has resulted in a charge estimated at £450m being recognised within the line 'Actuarial gains/(losses) recognised in OCI' in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2025

Overseas schemes are located in the following countries:

	2025			2024		
	Assets £m	**Obligations £m**	**Net £m**	Assets £m	Obligations £m	Net £m
Canada	**188**	**(215)**	**(27)**	193	(225)	(32)
Germany [1]	**–**	**–**	**–**	56	(664)	(608)
US pensions schemes [1]	**–**	**–**	**–**	282	(297)	(15)
US healthcare schemes [1]	**–**	**–**	**–**	–	(312)	(312)
Other	**–**	**(1)**	**(1)**	–	(3)	(3)
Net asset/(liability) recognised in the balance sheet	**188**	**(216)**	**(28)**	531	(1,501)	(970)

1 At 31 December 2025, £862m of net pension liabilities (comprising £372m assets and £(1,234)m liabilities) predominantly relating to the German and US schemes were reclassified to liabilities associated with assets held for distribution. See note 27 for further details

Defined benefit schemes

Assumptions

Significant actuarial assumptions for UK schemes at the balance sheet date were as follows:

	2025	2024
Discount rate	**5.60%**	5.50%
Inflation assumption (RPI)	**3.05%**	3.30%
Inflation assumption (CPI)	**2.70%**	2.90%
Transfer take-up assumption (employed deferred/deferred)	**20%/15%**	20%/15%
Bridging Pension Option (BPO) take-up assumption (employed deferred/deferred)	**40%/25%**	40%/25%
Life expectancy from age 65: current male pensioner	**21.1 years**	20.8 years
future male pensioner currently aged 45	**21.8 years**	21.5 years
current female pensioner	**23.0 years**	22.8 years
future female pensioner currently aged 45	**24.2 years**	24.1 years

Discount rates are determined by reference to the market yields on AA rated corporate bonds. The rate is determined by using the profile of forecast benefit payments to derive a weighted average discount rate from the yield curve.

22 Post-retirement benefits *continued*

Assumptions (continued)

The inflation assumption is determined by the market-implied assumption based on the yields on long-term index-linked government securities.

The mortality assumptions adopted for the UK pension schemes are derived from the SAPS S3 'All' actuarial tables, with future improvements in line with the CMI 2024 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience and actuarial advice, and has been updated for changes following the Buy-in of the scheme.

Other assumptions have been set on advice from the actuary, having regard to the latest trends in scheme experience, the assumptions used in the most recent funding valuation and any updates required to insurer factors. The rate of increase of pensions in payment is based on the rules of the scheme, combined with the inflation assumption where the increase is capped.

Assumptions for overseas schemes are less significant and are based on advice from local actuaries. The principal assumptions are:

	2025	2024
Discount rate	**4.70%**	4.50%
Inflation assumption	**2.00%**	2.10%
Long-term healthcare cost trend rate	**4.75%**	4.75%
Male life expectancy from age 65: current pensioner	**20.8 years**	20.5 years
future pensioner currently aged 45	**23.1 years**	22.5 years

Changes in present value of defined benefit obligations

	2025			2024		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	**(3,958)**	**(1,501)**	**(5,459)**	(4,537)	(1,540)	(6,077)
Exchange differences	**–**	**13**	**13**	–	38	38
Current service cost	**–**	**(41)**	**(41)**	–	(37)	(37)
Past-service (cost)/credit [1]	**(4)**	**10**	**6**	(14)	–	(14)
Finance (cost)/credit	**(214)**	**(64)**	**(278)**	(200)	(61)	(261)
Contributions by employees	**–**	**(14)**	**(14)**	–	(13)	(13)
Benefits paid out	**169**	**83**	**252**	165	80	245
Transferred to held for distribution [2]	**–**	**1,234**	**1,234**	–	–	–
Actuarial (losses)/gains [3]	**(33)**	**64**	**31**	628	32	660
At 31 December	**(4,040)**	**(216)**	**(4,256)**	(3,958)	(1,501)	(5,459)
Funded schemes	**(4,040)**	**(197)**	**(4,237)**	(3,958)	(986)	(4,944)
Unfunded schemes	**–**	**(19)**	**(19)**	–	(515)	(515)

1 Following the signing of the framework agreement with the UK scheme's Trustee, which was signed alongside the Buy-in agreement, adjustments have been made to align the methodology for the calculation of certain benefits with the pricing methodology used by the insurer. These have resulted in an additional past service charge of £4m being recognised in the income statement in 2025. A past service credit of £10m has also been recognised in the year in respect of the changes to the Rolls-Royce Deutschland schemes detailed above. In 2024 a past service charge of £14m was recognised in respect of the UK scheme as a result of further work carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments under the Barber judgement which sought to equalise normal retirement ages between men and women

2 At 31 December 2025, £1,234m of pension obligations relating to overseas schemes were reclassified to liabilities associated with assets held for distribution. See note 27 for further details

3 The actuarial loss of £(33)m relating to the UK schemes includes a charge of around £(100)m in respect of the Buy-in of the UK scheme detailed above

The defined benefit obligations are in respect of:

	2025			2024		
	UK schemes	**Overseas schemes**	**Total**	UK schemes	Overseas schemes	Total
Active plan participants [1]	**(1,243)**	**(121)**	**(1,364)**	(1,277)	(731)	(2,008)
Deferred plan participants	**(1,067)**	**(10)**	**(1,077)**	(1,064)	(98)	(1,162)
Pensioners	**(1,730)**	**(85)**	**(1,815)**	(1,617)	(672)	(2,289)
Weighted average duration of obligations (years)	**13**	**13**	**13**	14	12	13

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

22 Post-retirement benefits *continued*

Changes in fair value of scheme assets

	2025			2024		
	UK schemes £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	**4,737**	**531**	**5,268**	5,304	520	5,824
Exchange differences	**–**	**(20)**	**(20)**	–	(13)	(13)
Administrative expenses	**(6)**	**(1)**	**(7)**	(5)	(1)	(6)
Financing	**246**	**26**	**272**	235	24	259
(Loss)/ return on plan assets excluding financing [1]	**(484)**	**9**	**(475)**	(633)	(5)	(638)
Contributions by employer	**–**	**84**	**84**	1	73	74
Contributions by employees	**–**	**14**	**14**	–	13	13
Benefits paid out	**(169)**	**(83)**	**(252)**	(165)	(80)	(245)
Transferred to held for distribution [2]	**–**	**(372)**	**(372)**	–	–	–
At 31 December	**4,324**	**188**	**4,512**	4,737	531	5,268
Total (loss)/return on scheme assets	**(238)**	**35**	**(203)**	(398)	19	(379)

1 Includes an asset remeasurement net loss estimated at £350m recognised in respect of the Buy-in of the UK Scheme that took place in the year. For further details see page 86

2 At 31 December 2025, £372m of pension assets relating to overseas schemes were reclassified to liabilities associated with assets held for distribution. See note 27 for further details

Fair value of scheme assets at 31 December

	2025			2024		
	UK schemes [1] £m	**Overseas schemes £m**	**Total £m**	UK schemes £m	Overseas schemes £m	Total £m
Sovereign debt	**–**	**53**	**53**	3,335	140	3,475
Corporate debt instruments	**–**	**57**	**57**	1,860	248	2,108
Interest rate swaps	**–**	**–**	**–**	197	–	197
Inflation swaps	**–**	**–**	**–**	92	–	92
Cash and similar instruments [2]	**–**	**–**	**–**	(1,176)	–	(1,176)
Liability driven investment (LDI) portfolios	**–**	**110**	**110**	4,308	388	4,696
Listed equities	**–**	**50**	**50**	–	54	54
Unlisted equities	**4**	**1**	**5**	25	–	25
Corporate debt instruments	**–**	**–**	**–**	379	–	379
Cash	**280**	**2**	**282**	25	11	36
Buy-in insurance policy [3]	**4,040**	**–**	**4,040**	–	–	–
Other	**–**	**25**	**25**	–	78	78
At 31 December	**4,324**	**188**	**4,512**	4,737	531	5,268

1 Following the Buy-in in August 2025, described on page 86, the Group entered into a bulk purchase annuity policy with PIC for consideration of £4.3bn. The consideration was paid by transferring certain existing RRUKPF's assets and cash to PIC

2 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £nil (2024: £(1,203)m)

3 Following the transaction, the bulk purchase annuity policy has been treated as an asset of the scheme and has been valued on the same basis as the liabilities to which it relates, as until a Buy-out takes place, the legal responsibility to pay benefits remains with the Trustee

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group (2024: none).

Future contributions

The Group expects to contribute approximately £81m to its overseas defined benefit schemes in 2026 (2025: £84m).

In the UK, any cash funding of RRUKPF is based on a statutory triennial funding valuation process. The Group and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting set out above. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis. All cash due has been paid in full and the current SoC does not require any cash contributions to be made by the Group. Following the Buy-in of the scheme in August 2025 substantially all the scheme liabilities have been insured and it is expected that no further funding will be required by the Group: any further liabilities arising are expected to be funded from the scheme's existing assets.

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. A number of the overseas schemes are unfunded. For the most significant funded schemes, the investment strategies hedge the risks from interest rates and inflation measured on a proxy solvency basis.

22 Post-retirement benefits *continued*

UK Scheme

The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2025, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The UK scheme previously hedged interest rate and inflation risk based on UK Government bond yields without any adjustment for any credit spread, however as a result of the Buy-in that took place in August 2025, most of the scheme's assets were either liquidated or transferred to PIC during the year. The majority of the assets at 31 December 2025 represent the value of the bulk purchase annuity policy, which aligns exactly to the liabilities to which it relates, hence any movement in the assets will result in an equal and opposite movement in the liabilities.

The sensitivity analysis set out below has been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period

		2025 £m	2024 £m
Reduction in the discount rate of 0.25% [1]	Obligations	**(140)**	(145)
	Plan assets (Buy-in policy)	**140**	–
	Plan assets (LDI portfolio)	**–**	179
Increase in inflation of 0.25% [1]	Obligations	**(55)**	(55)
	Plan assets (Buy-in policy)	**55**	–
	Plan assets (LDI portfolio)	**–**	73
Increase of 1% in transfer value assumption	Obligations	**(20)**	(25)
	Plan assets (Buy-in policy)	**20**	–
One year increase in life expectancy	Obligations	**(125)**	(125)
	Plan assets (Buy-in policy)	**125**	–

1 The differences between the sensitivities on obligations and plan assets in 2024 arise largely due to differences in the methods used to value the obligations for accounting purposes and the adopted proxy solvency basis

Overseas Schemes

		2025 £m	2024 £m
Reduction in the discount rate of 0.25%	Obligations	**(7)**	(46)
Increase in inflation of 0.25%	Obligations	**(1)**	(10)

23 Share capital

	Equity	
	Ordinary shares of 20p each Millions	**Nominal value £m**
At 1 January and 31 December 2024	1,691	338
At 31 December 2025	**1,691**	**338**

Rights, preferences and restrictions

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; to appoint one or more proxies or, if they are corporations, corporate representatives; and to exercise voting rights. The ordinary shares are not listed.

24 Share-based payments

Effect of share-based payment transactions on the Group's results and financial position

	2025 £m	2024 £m
Total expense recognised for equity-settled share-based payment transactions	**98**	95
Total cost recognised for cash-settled share-based payment transactions	**6**	41
Share-based payments recognised in the consolidated income statement	**104**	136
Liability for cash-settled share-based payment transactions	**–**	59

A description of the share-based payment plans is included in the Directors' Remuneration Report on pages 104 to 105 of Rolls-Royce Holdings plc 2025 Annual Report.

24 Share-based payments *continued*

Movements in the Group's share-based payment plans during the year

	ShareSave		Free Shares	LTIP	Incentive Plan	Matching Shares
	Number Millions	Weighted average exercise price Pence	Number Millions	Number Millions	Number Millions	Number Millions
Outstanding at 1 January 2024	53.4	107	–	101.0	17.2	–
Granted	–	–	6.2	22.8	5.0	–
Forfeited	(2.3)	110	(0.2)	(5.7)	(0.5)	–
Exercised	(0.5)	104	–	(25.4)	(5.6)	–
Outstanding at 31 December 2024	50.6	107	6.0	92.7	16.1	–
Granted	**–**	**–**	**–**	**10.6**	**0.5**	**0.6**
Forfeited	**(0.2)**	**118**	**(0.7)**	**(3.7)**	**–**	**–**
Exercised	**(50.3)**	**107**	**(2.3)**	**(35.3)**	**(5.6)**	**–**
Outstanding at 31 December 2025	**0.1**	**111**	**3.0**	**64.3**	**11.0**	**0.6**
Exercisable at 31 December 2025	**–**	**–**	**–**	**–**	**–**	**–**
Exercisable at 31 December 2024	0.1	–	–	–	–	–

The weighted average share price at the date share options were exercised was 728p (2024: 420p). The closing price at 31 December 2025 was 1,150p (2024: 569p).

The weighted average remaining contractual life for the share options as at 31 December 2025 was six months (2024: one month) and all outstanding share options have a maturity date in 2026.

Fair values of share-based payment plans

The weighted average fair value per share of equity-settled share-based payment plans granted during the year, estimated at the date of grant, are as follows:

	2025	2024
Free Shares	**n/a**	494p
LTIP	**759p**	361p
Incentive plan	**802p**	378p
Matching Shares	**1,089p**	n/a

Vesting period of share-based payment plans

The vesting period for the share-based payment plans are between 6 months to 63 months. See the details below.

	Vesting period
LTIP	6 to 59 months
Incentive Plan(IP)	7 to 47 months
Sharesave	39 or 63 months
Free shares	12 or 36 months
Matching Shares	24 or 36 months

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

In 2024, every Rolls-Royce employee was gifted 150 shares. The awards were granted under two plans; the 'Rolls-Royce Share Purchase Plan' for UK employees and the 'Rolls-Royce Global Employee Share Purchase Plan' for non-UK employees; both being equity-settled schemes. The fair value of shares awarded under the free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Matching shares

Rolls-Royce launched the 'Your Shares: Matched' plan during the year. Every participant receives the free matching shares with a value of up to £50 each month based on the number of investment shares they purchase. There are no performance conditions attached to the shares. The fair value of the free matching shares awarded under these plans is calculated using the share price on the date of the award. Non-vesting conditions are taken into consideration with a percentage discount applied based on the assumption of the expected forfeiture rates of the matching shares.

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 of its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitorship. Certain authorities are investigating members of the Group for matters relating to misconduct in relation to historical matters. The Group is responding appropriately. Action may be taken by further authorities against the Group or individuals. In addition, the Group could still be affected by actions from other parties, including customers, customers' financiers and the Company's current and former investors, including certain potential claims in respect of the Group's historical ethics and compliance disclosures which have been notified to the Group. The Directors are not currently aware of any matters that are likely to lead to a material financial loss over and above the penalties imposed to date but cannot anticipate all the possible actions that may be taken or their potential consequences.

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

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of $339m (2024: $405m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately $67m could be called during 2026). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Group's financial position.

Customer financing provisions would be made to cover guarantees provided for asset value and/or financing were it probable that a payment would be made. These would be measured on a discounted basis at the Group's borrowing rate to reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 31 December 2025 or 31 December 2024.

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

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

26 Related party transactions

	2025 £m	2024 £m
Sale of goods and services [1]	**8,679**	7,702
Purchases of goods and services [1]	**(9,141)**	(8,725)
Lease payments to joint ventures and associates	**(157)**	(241)
Guarantees of non-wholly owned subsidiaries' borrowings	**3**	4
Dividends received from joint ventures and associates	**88**	77
Other income received from joint ventures and associates	**38**	7

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

Included in sales of goods and services to related parties are sales of spare engines amounting to £153m (2024: £48m). Profit recognised in the year on such sales amounted to £60m (2024: £62m), including profit on current year sales and recognition of profit deferred on similar sales in previous years. Cash receipts relating to the sale of spare engines amounted to £134m (2024: £48m).

Included in cost of sales in the income statement are interest costs of £9m (2024: £9m) incurred during the year which have been settled by the Group on behalf of joint ventures.

The aggregated balances with joint ventures are shown in notes 14 and 19. Transactions with Group pension schemes are shown in note 22.

Key management personnel are deemed to be the Directors (page 26) and the members of the Executive Team. Remuneration for key management personnel is shown below:

	2025 £m	2024 £m
Salaries and short-term benefits	**35**	29
Included in the above:		
Post-retirement schemes	**1**	1
Share-based payments	**12**	13

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the Directors' Remuneration Report on pages 100 to 109 of Rolls-Royce Holdings plc 2025 Annual Report. 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 Directors' Remuneration Report.

27 Business disposals and businesses held for sale and distribution

Disposals

Rolls-Royce SMR Limited

An investment from ČEZ Group (ČEZ) was received by Rolls-Royce SMR Limited on 4 March 2025 and Rolls-Royce Holdings plc's indirect shareholding in Rolls-Royce SMR Limited was diluted from 70.5% at 31 December 2024 to 61.7%. When the new investment was received the Group relinquished control of Rolls-Royce SMR Limited, as a result of changes in shareholder matters, and the subsidiary was deconsolidated. This followed detailed consideration of the criteria within IFRS 10 *Consolidated Financial Statements* in relation to the Group's ability to take decisions that affect the returns of the business without the support of other shareholders. The Group's investment in Rolls-Royce SMR Limited was recognised at its fair value of £732m on 4 March 2025 and a profit on disposal of £679m was recognised in the Group's income statement.

In July 2025, Rolls-Royce Holdings plc's indirect shareholding in Rolls-Royce SMR Limited was further diluted to 55.3%. This was due to a second equity investment being made by ČEZ into Rolls-Royce SMR Limited which resulted in an additional £15m profit on disposal being recognised in the year. In December 2025 the Group made a further investment into Rolls-Royce SMR Limited increasing Rolls-Royce Holdings plc's indirect shareholding to 57.8%.

Naval propulsors & handling business

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

	2025		
	Naval propulsors business £m	Rolls-Royce SMR Limited £m	Total £m
Proceeds			
Net cash consideration at prevailing exchange rate and at effective hedged rate	172	–	172
Cash and cash equivalents disposed	–	(81)	(81)
Net cash consideration	172	(81)	91
Disposal costs paid	(7)	(4)	(11)
Net cash inflow/(outflow) on disposal per cash flow statement	165	(85)	80
Goodwill	12	–	12
Property, plant and equipment	45	3	48
Right-of-use assets	1	1	2
Inventories	19	–	19
Trade receivables and other assets	62	47	109
Trade payables and other liabilities	(67)	(56)	(123)
Provisions for liabilities and charges	(3)	–	(3)
Borrowings and lease liabilities	(1)	–	(1)
Net assets/(liabilities) disposed	68	(5)	63
Profit/(loss) on disposal before disposal costs and accounting adjustments	104	(76)	28
Disposal costs	(7)	–	(7)
Derecognition of NCI	–	23	23
Accounting adjustment - recognition of Rolls-Royce SMR Limited at fair value	–	732	732
Accounting adjustments - dilution of the Group's share of Rolls-Royce SMR Limited	–	15	15
Cumulative currency translation gain	18	–	18
Profit on disposal of businesses per income statement	115	694	809
Tax on disposal [1]	(28)	–	(28)

1 The deconsolidation of Rolls-Royce SMR Limited from the Group during 2025 is treated as non-taxable, following the tax de-grouping charge recognised in 2024 when the Group's shareholding fell below 75%. Taxation on disposal is included within taxation in the consolidated income statement

27 Business disposals and businesses held for sale and distribution *continued*

Assets held for sale and distribution

At 31 December 2024, the Group had classified the assets and liabilities related to its naval propulsors & handling business as held for sale as, in line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, the business was available for sale in its current condition and the sale was considered highly probable. On 18 September 2024, the Group and Fairbanks Morse Defense signed a sale and disposal agreement. On 1 July 2025 the sale of the naval propulsors business to Fairbanks Morse Defense took place.

At 31 December 2025 the assets and liabilities of the naval handling business continued to be disclosed as held for sale. They were measured at the lower of their carrying value or fair value less costs to sell as summarised below. The completion of the naval handling business disposal is anticipated in 2026.

At 31 December 2025, the Group classified the assets and liabilities of entities that are part of its legal entity review programme as held for distribution. The programme involves multiple legal entities that fall mainly within North American, German and UK geographical sub-groups and whose results are presented within all three of the Group's segments. In line with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* the entities were considered available for distribution in their current condition and completion of the transactions was considered highly probable. The programme was approved by the Directors during 2025 and is being executed through a series of transaction steps that are expected to complete during 2026.

Assets held for sale and assets held for distribution are measured at their carrying value. Assets and liabilities associated with assets held for sale and assets and liabilities associated with assets held for distribution are summarised in the table below.

	2025			2024
	Legal entity review programme	**Naval handling business**	**Total**	Total
	£m	**£m**	**£m**	£m
Goodwill	**1,025**	**–**	**1,025**	13
Intangible assets	**1,227**	**–**	**1,227**	–
Property, plant and equipment	**1,815**	**3**	**1,818**	51
Right-of-use assets	**242**	**–**	**242**	1
Investment in associates and joint ventures	**502**	**–**	**502**	–
Other financial assets	**33**	**–**	**33**	–
Deferred tax assets	**480**	**–**	**480**	–
Inventories	**2,880**	**1**	**2,881**	24
Trade receivables and other assets	**2,561**	**11**	**2,572**	64
Contract assets	**722**	**–**	**722**	–
Taxation recoverable	**30**	**–**	**30**	–
Cash and cash equivalents	**526**	**–**	**526**	–
Assets held for sale and distribution	**12,043**	**15**	**12,058**	153
Borrowings and lease liabilities	**(515)**	**–**	**(515)**	(1)
Other financial liabilities	**(185)**	**–**	**(185)**	–
Trade payables and other liabilities	**(2,216)**	**(19)**	**(2,235)**	(96)
Contract liabilities	**(4,248)**	**–**	**(4,248)**	–
Tax Liabilities	**(302)**	**–**	**(302)**	–
Provisions for liabilities and charges	**(562)**	**–**	**(562)**	(3)
Deferred tax liabilities	**(27)**	**–**	**(27)**	–
Post-retirement scheme deficits	**(862)**	**–**	**(862)**	–
Liabilities associated with assets held for sale and distribution	**(8,917)**	**(19)**	**(8,936)**	(100)
Net assets/(liabilities) held for sale and distribution	**3,126**	**(4)**	**3,122**	53

28 Derivation of summary funds flow statement

	2025					2024
	Cash flow	Impact of hedge book	Impact of acquisition accounting	Impact of other non-underlying items	Funds flow	Funds flow
	£m	£m	£m	£m	£m	£m
Operating profit/(loss)	**4,468**	**(797)**	**16**	**(225)**	**3,462**	2,464
Loss on disposal of property, plant and equipment [1]	**18**	**–**	**–**	**–**	**18**	32
(Profit)/loss on disposal of intangible assets [1]	**(2)**	**–**	**–**	**–**	**(2)**	6
Joint venture trading [1]	**32**	**–**	**–**	**–**	**32**	(95)
Depreciation, amortisation and impairment	**737**	**–**	**(16)**	**179**	**900**	853
Movement in provisions	**(486)**	**78**	**–**	**118**	**(290)**	(167)
Increase in inventories [2]	**(684)**	**–**	**–**	**–**	**(684)**	(323)
Movement in prepayments to RRSAs for parts	**90**	**(19)**	**–**	**–**	**71**	(219)
Movement in cost to obtain contracts	**(44)**	**–**	**–**	**–**	**(44)**	(18)
Movement in trade receivables/payables and other assets/liabilities [2]	**(31)**	**(166)**	**–**	**43**	**(154)**	164
Revaluation of trading assets [2]	**214**	**(18)**	**–**	**–**	**196**	(14)
Realised derivatives in financing	**532**	**-**	**–**	**–**	**532**	652
Movement in Civil LTSA balance	**123**	**378**	**–**	**–**	**501**	910
Movement in contract assets/liabilities (excluding Civil LTSA) [2]	**584**	**(11)**	**–**	**–**	**573**	(201)
Settlement of excess derivatives	**(148)**	**–**	**–**	**–**	**(148)**	(146)
Interest received	**269**	**–**	**–**	**–**	**269**	269
Contributions to defined benefit schemes in excess of underlying operating profit charge [1]	**(42)**	**–**	**–**	**5**	**(37)**	(31)
Cash flows on other financial assets and liabilities held for operating purposes	**(578)**	**532**	**–**	**–**	**(46)**	(24)
Share-based payments [1]	**104**	**–**	**–**	**–**	**104**	136
Other [1]	**–**	**–**	**–**	**–**	**–**	(5)
Income tax	**(590)**	**–**	**–**	**35**	**(555)**	(381)
Cash from operating activities	**4,566**	**(23)**	**–**	**155**	**4,698**	3,862
Capital element of lease payments	**(232)**	**23**	**–**	**–**	**(209)**	(275)
Capital expenditure	**(978)**	**–**	**–**	**–**	**(978)**	(876)
Investments	**(7)**	**–**	**–**	**37**	**30**	16
Interest paid	**(262)**	**–**	**–**	**–**	**(262)**	(298)
Other [3]	**184**	**–**	**–**	**(192)**	**(8)**	(6)
Free cash flow	**3,271**	**–**	**–**	**–**	**3,271**	2,423

1 Included in other operating cash flows in the summarised free cash flow on page 7

2 Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 7

3 Other includes M&A related costs, exceptional transformation and restructuring costs

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid, cash received on maturity of share-based payment schemes and amounts paid relating to the settlement of excess derivatives. It excludes amounts spent/received on business acquisitions/disposals, and other material exceptional or one-off cash flows. Cash flows from operating activities is our statutory equivalent. The Board considers that free cash flow reflects cash generated from the Group's underlying trading.

The reconciliation between free cash flow and cash flow from operating activities can be found on page 139.

COMPANY BALANCE SHEET
At 31 December 2025

	Notes	2025 £m	2024 £m
ASSETS			
Intangible assets	3	**2,341**	2,336
Property, plant and equipment	4	**1,564**	1,543
Right-of-use assets	5	**119**	130
Investments - subsidiary undertakings	6	**255**	1,461
Investments - joint ventures and associates	6	**301**	52
Investments - other	6	**4**	5
Loan receivable from subsidiary undertaking	8	**1,300**	1,552
Other financial assets		**505**	127
Deferred tax assets	15	**2,756**	2,949
Post-retirement schemes surplus	16	**284**	779
Non-current assets		**9,429**	10,934
Inventories	7	**2,671**	2,494
Trade receivables and other assets	8	**9,636**	8,194
Contract assets	9	**1,126**	1,134
Taxation recoverable		**45**	2
Other financial assets		**278**	291
Cash and cash equivalents	10	**5,547**	4,981
Current assets		**19,303**	17,096
Assets held for distribution	6	**1,437**	–
TOTAL ASSETS		**30,169**	28,030
LIABILITIES			
Borrowings and lease liabilities	11	**(1,078)**	(848)
Other financial liabilities		**(334)**	(621)
Trade payables and other liabilities	13	**(11,382)**	(11,421)
Contract liabilities	9	**(5,357)**	(4,209)
Current tax liabilities		**(4)**	(7)
Provisions for liabilities and charges	14	**(206)**	(285)
Current liabilities		**(18,361)**	(17,391)
Borrowings and lease liabilities	11	**(1,867)**	(2,895)
Other financial liabilities		**(492)**	(1,576)
Trade payables and other liabilities	13	**(1,687)**	(1,872)
Contract liabilities	9	**(6,647)**	(7,244)
Deferred tax liabilities	15	**(71)**	(195)
Provisions for liabilities and charges	14	**(747)**	(1,165)
Non-current liabilities		**(11,511)**	(14,947)
TOTAL LIABILITIES		**(29,872)**	(32,338)
NET ASSETS/(LIABILITIES)		**297**	(4,308)
EQUITY			
Called-up share capital	17	**338**	338
Share premium		**631**	631
Other reserves		**181**	182
Accumulated losses		**(853)**	(5,459)
TOTAL EQUITY		**297**	(4,308)

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company income statement. The profit for the Company for the year was £4,864m (2024: £1,278m). The comprehensive income for the Company for the year was £4,474m (2024: £1,338m).

The Financial Statements on pages 97 to 119 were approved by the Board and signed on its behalf on 26 February 2026 by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Company's registered number: 01003142

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2025

	Note	Share capital £m	Share premium £m	Other reserves [1] £m	Accumulated losses £m	Total equity £m
At 1 January 2024		338	631	183	(6,924)	(5,772)
Profit for the year		–	–	–	1,278	1,278
Actuarial movement in post-retirement schemes	16	–	–	–	(5)	(5)
Reclassified to income statement from cash flow hedge reserve		–	–	22	–	22
Fair value on movement on cash flow hedges		–	–	(17)	–	(17)
Revaluation to fair value of other investments		–	–	–	(2)	(2)
Foreign exchange translation differences on foreign operations		–	–	(5)	–	(5)
Related tax movements	15	–	–	(1)	68	67
Total comprehensive (expense)/income for the year		–	–	(1)	1,339	1,338
Share-based payments – direct to equity [2]	18	–	–	–	60	60
Related tax movements	15	–	–	–	66	66
Other changes in equity in the year		–	–	–	126	126
At 31 December 2024		338	631	182	(5,459)	(4,308)
At 1 January 2025		338	631	182	(5,459)	(4,308)
Profit for the year		**–**	**–**	**–**	**4,864**	**4,864**
Actuarial movement in post-retirement schemes	16	**–**	**–**	**–**	**(517)**	**(517)**
Reclassified to income statement from cash flow hedge reserve		**–**	**–**	**27**	**–**	**27**
Fair value on movement on cash flow hedges		**–**	**–**	**(38)**	**–**	**(38)**
Revaluation to fair value of other investments	6	**–**	**–**	**–**	**(1)**	**(1)**
Foreign exchange translation differences on foreign operations		**–**	**–**	**7**	**–**	**7**
Related tax movements	15	**–**	**–**	**3**	**129**	**132**
Total comprehensive (expense)/income for the year		**–**	**–**	**(1)**	**4,475**	**4,474**
Share-based payments – direct to equity [2]	18	**–**	**–**	**–**	**57**	**57**
Related tax movements	15	**–**	**–**	**–**	**74**	**74**
Other changes in equity in the year		**–**	**–**	**–**	**131**	**131**
At 31 December 2025		**338**	**631**	**181**	**(853)**	**297**

1 Other reserves includes a translational reserve of £6m (2024: £(1)m) and £159m (2024: £159m) relating to the premium which arose on shares issued on a 1989 acquisition. This also includes the cash flow hedge reserve of £10m (2024: £18m)

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

1 Accounting policies

The Company

Rolls-Royce 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 Company's registered number is 01003142 and its registered address is at Kings Place, 90 York Way, London, N1 9FX, United Kingdom.

Basis of preparation

In preparing these Financial Statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the UK (UK-adopted international accounting standards). The Company is included within the Consolidated Financial Statements of Rolls-Royce plc. The Consolidated Financial Statements are prepared in accordance with IFRS and are publicly available. In these Financial Statements, the Company is considered to be a qualifying entity and has applied the exemptions available under FRS 101 in respect of the following disclosures:

- IAS 7 *Statement of Cash Flows*;
- transactions with wholly owned subsidiaries;
- the requirements of paragraphs 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*;
- the requirements of paragraphs 52 and 58 of IFRS 16 *Leases*;
- the requirement in paragraph 38 of IAS 1 *Presentation of Financial Statements* to present comparative information in respect of:
  - (i) paragraphs 53(a), (h) and (j) of IFRS 16 *Leases*;
  - (ii) paragraph 79(a)(iv) of IAS 1 *Presentation of Financial Statements*;
  - (iii) paragraph 73(e) of IAS 16 *Property, Plant and Equipment*;
  - (iv) paragraph 118(e) of IAS 38 *Intangible Assets*;
- the requirements of paragraphs 134 to 136 of IAS 1 *Presentation of Financial Statements*;
- compensation of key management personnel; and
- IAS 24 *Related Party Disclosures*

As the Consolidated Financial Statements of Rolls-Royce plc include the equivalent disclosures, the Company has taken the exemptions available under FRS 101 in respect of the following disclosures:

- IFRS 2 *Share Based Payments* relating to group settled share-based payments;
- IFRS 7 *Financial Instruments: Disclosures*; and
- the requirements of paragraphs 91 to 99 of IFRS 13 *Fair Value Measurement*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Financial Statements.

The Financial Statements are presented in sterling, which is the Company's functional currency.

As permitted by Section 408(3) 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, the disclosure of non-audit fees information is not included in respect of the Company. For details of audit fees, see note 6 of the Consolidated Financial Statements.

These Financial Statements have been prepared on a going concern basis. Further details are given in the Going Concern Statement on page 21. After due consideration, the Directors consider that the Company has sufficient liquidity to continue in operational existence for a period of at least 18 months from the balance sheet date and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Financial Statements.

In preparing the Company Financial Statements, the Directors have considered the potential impact of climate change, please see pages 38 to 40 for further details.

Revisions to IFRS applicable in 2025

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

Revisions to IFRS not applicable in 2025

Standards and interpretations issued by the IASB are only applicable if endorsed by the UK. Other than IFRS 18 *Presentation and Disclosure in Financial Statements* (described below), the Company does not consider that any other standards, amendments or interpretations issued by the IASB that are not yet applicable will have a significant impact on the Financial Statements.

IFRS 18 *Presentation and Disclosure in Financial Statements*

The IASB issued a new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, on 9 April 2025 that will replace IAS 1 *Presentation of Financial Statements*. The new Standard was endorsed by the UK Endorsement Board (UKEB) and will be applicable for reporting periods beginning on or after 1 January 2027. The 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 may require the Company to make some changes in its future Financial Statements although, given the FRS 101 exemptions applied, the impact is expected to be minimal.

1 Accounting policies *continued*

Material accounting policies
The Company's material accounting policies are set out below. These accounting policies have been applied consistently to all periods presented in these Financial Statements.

Key areas of judgement and sources of estimation uncertainty are disclosed below and further details, together with sensitivities, are included within the significant accounting policies section where applicable.

Accounting policies related to the income statement are included within note 1 of the Consolidated Financial Statements (including under the revenue recognition and contract assets and liabilities heading on page 42).

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 for 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 Company also has arrangements with third parties who invest in a programme and receive a return based on its performance, but do not undertake development work or supply parts. Such arrangements (financial RRSAs) are financial instruments as defined by IAS 32 *Financial Instruments: Presentation* and are accounted for using the amortised cost method.

Key judgements related to RRSAs are disclosed within note 1 of the Consolidated Financial Statements.

Taxation
The tax charge/credit on the profit or loss for the year comprises current and deferred tax:

- Current tax is the expected tax payable for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years; and
- Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for tax purposes and is calculated using the enacted or substantively enacted rates that are expected to apply when the asset or liability is settled. The deferred tax liability on the pension scheme surplus is recognised consistently with the basis for recognising the rate applicable to refunds from a trust.

Tax is charged or credited in 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 Company 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 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 Company's tax position can be found on pages 113 to 114.

Foreign currency translation
Transactions denominated in currencies other than the functional currency of the Company 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 sterling at the rate prevailing at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of assets and liabilities into sterling at the rate prevailing at the year-end are included in profit/(loss) before taxation.

The trading results of foreign operations are translated into sterling at the average exchange rates for the year. Their assets and liabilities 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.

Financial instruments – Impairment of financial assets and contract assets
IFRS 9 *Financial Instruments* sets out the basis for the accounting of Expected Credit Losses (ECLs) on financial assets and contract assets resulting from transactions within the scope of IFRS 15 *Revenue from Contracts with Customers*. The Company 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 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.

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.

Accounting policies *continued*

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 Company. 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 over a maximum of 15 years. 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 where costs incurred on an internal programme development meet the criteria for capitalisation

The Company incurs significant research and development expenditure in respect of various development programmes. Determining when capitalisation should commence and cease is a critical judgement, as is the determination of when subsequent expenditure on the programme assets should be capitalised. During the year, £110m (2024: £200m) of development expenditure was capitalised.

Within the Company, there are established processes in place e.g. the Product Introduction and Lifecycle Management process (PILM). Within these processes, the technical feasibility, the commercial viability and financial assessment of the programme is assessed at certain milestones. When these are met, development expenditure is capitalised. Prior to this, expenditure is expensed as incurred.

The Company continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies, there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years.

Subsequent expenditure after entry into service, which enhances the performance of the engine and the economic benefits to the Company 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 period of operation of the engine by its initial operator.

Software

Software that is not specific to an item of property, plant and equipment is classified as an intangible asset, recognised at its acquisition cost and amortised on a straight-line basis over its useful economic life up to a maximum of ten years to reflect the expected useful lives of the assets. 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 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.

Investment in subsidiaries, joint ventures and associates

Investments in subsidiaries, joint ventures and associates are held at cost less accumulated depreciation.

Joint arrangements

The Company accounts for joint operations by consolidating their results on a proportional basis.

1 Accounting policies *continued*

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, advised by the Group's Company's professional advisers:
  - no depreciation is provided on freehold land
  - freehold buildings - five to 50 years; and
- Plant and equipment – five to 25 years
- Aircraft and engines – five to 20 years

Leases
Assets and liabilities arising from a lease are initially measured on a present value basis.

Lease liabilities include the net present value of the following lease payments:

- fixed payments less any lease incentive receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Company under residual value guarantees;
- the exercise price of a purchase option if the Company is reasonably certain to exercise that option; and
- payments of penalties for termination of the lease, if the lease term reflects the Company exercising that option.

Where leases commence 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 Company's incremental borrowing rate is used, being the rate that the Company 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 Company, 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 – Determining the lease term

In determining the lease term, the Company 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 there are no renewal dates for any of the most significant property leases in the next 12 months. The most significant renewal is in 2038. The Company reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities

Impairment of non-current assets
Impairment of non-current assets is considered in accordance with IAS 36 *Impairment of Assets*. Where the asset does not generate cash flows that are independent of other assets, impairment is considered for the cash-generating unit (CGU) to which the asset belongs. Goodwill, indefinite life intangible assets and intangible assets not yet available for use are tested for impairment annually. Other intangible assets (including programme-related intangible assets), property, plant and equipment, right-of-use assets and investments are assessed for any indications of impairment annually. If any indication of impairment is identified, an impairment test is performed to estimate the recoverable amount.

If the recoverable amount of an asset (or CGU) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss is recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs of disposal. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset (or CGU). Fair value less costs of disposal (FVLCOD) 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.

1 Accounting policies *continued*

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 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 Company'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. Where the Company 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 Company'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 Company 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 SCF, the related payables are retained on the Company's balance sheet and classified as trade payables. Further details are disclosed in note 13.

Provisions
Provisions are recognised when the Company has a present obligation as a result of a past event, and it is probable that the Company will be required to settle that obligation and are discounted to present value where the effect is material.

The principal provisions are recognised as follows:

- onerous contracts based on an assessment of whether the direct costs to fulfil a contract are greater than the expected revenue;
- warranty and guarantees based on an assessment of future claims with reference to past experience and recognised at the earlier of when the underlying products and services are sold and when the likelihood of a future cost is identified; and
- transformation and restructuring when the Company has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has created a valid expectation to those affected.

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Company 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 Company would not expect to incur. As the Company is an owner of an engine Type Certificate, it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Company is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSAs, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. Where Airworthiness Directives are issued, requirements cannot be met without the Company incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Company in designing and overhauling aero engines it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

During the year, the Company has utilised the remaining £35m of the Trent 1000 wastage costs provision.

Key estimates – Estimates of the time to incorporate required modified parts into the fleet to resolve technical issues on the Trent 1000, and the implications of this on forecast future costs when assessing onerous contracts

The Company considers that at 31 December 2025 the Trent 1000 onerous contract provisions are most sensitive to changes in estimates. Our forecast increases in shop visit capacity could be impacted by several factors, including prolonged supply chain challenges. If forecast increases in shop visit capacity are not achieved, this could have the impact of reducing planned output of engine overhauls. A 20% reduction in Trent 1000 planned output during the first half of 2026 (and thus delayed incorporation of modified parts into the fleet) could lead to around a £20m to £30m charge.

Key estimates – Estimates of the future revenues and costs to fulfil onerous contracts

The Company has provisions for onerous contracts at 31 December 2025 of £915m (2024: £1,384m). An increase in Civil Aerospace large engine estimates of LTSA costs of 1% over the remaining term of the contracts could lead to around a £50m to £70m increase in the onerous contract provisions across all programmes.

Key estimates – Assumptions implicit in the calculation of discount rates

The onerous contract provisions are sensitive to changes in the discount rate used to value the provision. 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 contract. The forecast rates are determined from third-party market analysis and average 5%. A 1% change in the discount rate used could lead to around a £20m to £30m change in the provision.

1 Accounting policies *continued*

Insurance contracts and financial guarantees
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 or its joint ventures 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 assessed the probability of losses on its financial and performance guarantees and has determined that the probability is remote after consideration of forward-looking triggers and as such the estimated liability is immaterial. As a result, as the estimated liability is immaterial at 31 December 2025, no liability has been recognised in the Company Financial Statements.

At 31 December 2025, financial guarantees amounted to £4,028m (2024: £1,350m) and performance guarantees amounted to £2,328m (2024: £2,208m). During the year, Rolls-Royce plc guaranteed a new external revolving facility of £2,500m that was entered into by Rolls-Royce Holdings plc. As at 31 December 2025, this facility was undrawn. 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). No amounts (2024: no amounts) are included in the Financial Statements for contracts within the scope of IFRS 17 *Insurance Contracts* as the probability-weighted estimated fulfilment cash flows are immaterial. The amounts disclosed above are consistent with the information provided to key management personnel to enable consideration of the company's exposure to risk and includes the default cash flows in relation to performance guarantees, guaranteed lease rentals, trade finance balances and the present value of lease related decommissioning costs.

Customer financing support
In connection with the sale of its products, the Company 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 119, the Directors consider the likelihood of crystallisation in assessing whether provision is required for any liabilities.

The Company'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.

Post-retirement benefits
Pensions and similar benefits are accounted for under IAS 19 *Employee Benefits*.

For defined benefit plans, obligations are measured at discounted present value whilst plan assets are recorded at fair value. Surpluses in schemes are recognised as assets only if they represent economic benefits available to the Company 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 respectively 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 defined benefit obligation

The Company'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 surplus of £284m before deferred taxation being recognised on the balance sheet at 31 December 2025 (2024: £779m). The size of the net surplus is sensitive to the actuarial assumptions, which include the discount rate, price inflation, pension and salary increases, longevity and, in the UK, the number of plan members who take the option to transfer their pension to a lump sum on retirement or who choose to take the Bridging Pension Option. Following consultation, the UK scheme closed to future accrual on 31 December 2020.

A reduction in the discount rate of 0.25% from 5.60% could lead to an increase in the defined benefit obligations of the Rolls-Royce UK Pension Fund (RRUKPF) of approximately £140m and an increase in the assumed rate of inflation of 0.25% (RPI of 3.05% and CPI of 2.70%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £55m. In August 2025 the scheme completed a Buy-in, with the purchase of a bulk insurance annuity policy, with the effect that the majority of scheme liabilities, and therefore these potential risks, are now covered by this policy. See further details in note 16.

Share-based payments
The Company provides share-based payment arrangements to certain employees, which are settled in Rolls-Royce Holdings plc shares. 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 of market-based 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.

1 Accounting policies *continued*

Post balance sheet events

Rolls-Royce plc and the Trustee of the UK pension scheme signed an agreement on 2 February 2026 triggering the wind up of the UK scheme. The Company's current expectation is that the residual surplus on the scheme will be shared between the Company and the scheme's members, and communications to this effect have been made to members. This is subject to a statutory consultation process between the Trustee and the members, expected to be completed in 2026. Subject to the outcome of that process, it is currently expected that this will result in a constructive obligation of around £100m being recognised as a past service charge in the income statement in 2026.

As part of the Group's legal entity review programme, the Company sold its investment in Rolls-Royce Overseas Holdings Limited to Rolls-Royce US Holdings Limited (a subsidiary of Rolls-Royce Holdings plc) on 1 January 2026 for £4.4bn. The associated assets were included within assets held for distribution to owners as at 31 December 2025. To facilitate the transaction the Company issued two loans on 1 January 2026; these being £1.9bn to its ultimate parent company Rolls-Royce Holdings plc; and £2.5bn to Rolls-Royce US Holdings Limited.

On 16 February 2026, the Company repaid €750m of borrowings on their contractual maturity date which, along with the associated cross currency interest rate swaps, resulted in a cash outflow of £677m.

The Company has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 2025 results as appropriate.

2 Employee information and emoluments of Directors

The total amount of remuneration paid to Directors for the year ended 31 December 2025 was £12,168,021 (2024: £8,822,558). £5,819,361 of this was attributed to the highest paid Director (2024: £4,078,266). A cash allowance in lieu of company contributions to a pension scheme was also paid to four Directors (2024: four), which totalled £389,611 (2024: £352,679). No Directors exercised share options during the year (2024: none) and four Directors received vested shares or were granted shares that will vest in the future under the Long-Term Incentive Plan (2024: four).

The aggregate employment costs were as follows:

	2025	2024
	£m	£m
Wages, salaries and benefits	**1,012**	957
Social security costs	**164**	138
Share-based payments (note 18)	**57**	60
Pensions and other post-retirement scheme benefits	**192**	174
Employment costs	**1,425**	1,329

The monthly average number of persons employed by the Company during the year was 16,100 (2024: 15,700), of which 15,700 (2024: 15,300) were based in the United Kingdom.

3 Intangible assets

	Development costs £m	**Certification costs £m**	**Software and other [1] £m**	**Total £m**
Cost				
At 1 January 2025	**2,447**	**899**	**1,142**	**4,488**
Additions	**110**	**–**	**68**	**178**
Disposals	**–**	**–**	**(16)**	**(16)**
At 31 December 2025	**2,557**	**899**	**1,194**	**4,650**
Accumulated amortisation and impairment				
At 1 January 2025	**893**	**478**	**781**	**2,152**
Charge for the year [2]	**88**	**30**	**62**	**180**
Impairment [3]	**(6)**	**(3)**	**(1)**	**(10)**
Disposals	**–**	**–**	**(13)**	**(13)**
At 31 December 2025	**975**	**505**	**829**	**2,309**
Net book value				
At 31 December 2025	**1,582**	**394**	**365**	**2,341**
At 31 December 2024	1,554	421	361	2,336

1 Includes £127m (2024: £89m) of software under course of construction which is not amortised

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

3 The 2025 impairment reversal relates to a partial impairment reversal of a Civil Aerospace – Trent programme asset that had been fully impaired by 30 June 2020. A reversal of £10m has been credited, with £4m recognised in cost of sales and £6m in research and development within the income statement

At 31 December, the Company had expenditure commitments for software of £16m (2024: £15m).

3 Intangible assets *continued*

The carrying amount and the residual life of the material intangible assets for the Company are as follows:

	Residual life [1]	Net book value	
		2025 £m	2024 £m
Trent programme intangible assets [2]	One to 15 years	**1,993**	2,001

1 Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 101, 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

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant programme changes and by analysing latest management forecasts against those prepared in 2024 to identify any change in performance. Where a trigger event has been identified, an impairment test has been carried out. Where an impairment test was required, it was performed on the following basis:

- the carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and
- the key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates consistent with the assumptions above.

There have been no other individually material impairment charges or reversals recognised during the year (2024: none).

4 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost or valuation					
At 1 January 2025	**918**	**2,501**	**214**	**123**	**3,756**
Additions	**5**	**79**	**–**	**117**	**201**
Reclassifications [1]	**22**	**54**	**–**	**(76)**	**–**
Disposals/write-offs	**(17)**	**(141)**	**(3)**	**–**	**(161)**
Exchange differences	**–**	**(1)**	**–**	**–**	**(1)**
At 31 December 2025	**928**	**2,492**	**211**	**164**	**3,795**
Accumulated depreciation					
At 1 January 2025	**370**	**1,751**	**92**	**–**	**2,213**
Charge for the year [2]	**36**	**109**	**24**	**–**	**169**
Impairment [3]	**–**	**2**	**1**	**–**	**3**
Disposals/write-offs	**(13)**	**(138)**	**(2)**	**–**	**(153)**
Exchange differences	**–**	**(1)**	**–**	**–**	**(1)**
At 31 December 2025	**393**	**1,723**	**115**	**–**	**2,231**
Net book value					
At 31 December 2025	**535**	**769**	**96**	**164**	**1,564**
At 31 December 2024	548	750	122	123	1,543

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

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

3 The carrying values of property, plant and equipment have been assessed during the period 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 assumptions in note 3. 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 explained in note 3. As a result of this assessment, there are no individually material impairment charges or reversals in the year

Property, plant and equipment includes:

	2025 £m	2024 £m
Capital expenditure commitments	**105**	62
Cost of fully depreciated assets	**1,089**	1,125

5 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost				
At 1 January 2025	**126**	**149**	**21**	**296**
Additions/modifications of leases	**9**	**33**	**12**	**54**
Disposals	**–**	**(36)**	**–**	**(36)**
At 31 December 2025	**135**	**146**	**33**	**314**
Accumulated depreciation and impairment				
At 1 January 2025	**69**	**82**	**15**	**166**
Charge for the year [1]	**16**	**31**	**6**	**53**
Disposals	**–**	**(24)**	**–**	**(24)**
At 31 December 2025	**85**	**89**	**21**	**195**
Net book value				
At 31 December 2025	**50**	**57**	**12**	**119**
At 31 December 2024	57	67	6	130
Right-of-use assets held for use in operating leases				
Cost	**16**	**–**	**33**	**49**
Depreciation	**(7)**	**–**	**(21)**	**(28)**
Net book value at 31 December 2025	**9**	**–**	**12**	**21**

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

6 Investments

	Subsidiary undertakings [1]	Joint ventures and associates [1]	Other investments [2]
	Shares at cost £m	Shares at cost £m	Total £m
At 1 January 2025	**1,461**	**52**	**5**
Transfer from subsidiary to joint venture [3]	**(107)**	**107**	**–**
Return of capital [4]	**(125)**	**–**	**–**
Additions [5]	**465**	**142**	**–**
Disposals [6]	**(2)**	**–**	**–**
Revaluation of investments accounted for at FVOCI [7]	**–**	**–**	**(1)**
Reclassification to assets held for distribution [8]	**(1,437)**	**–**	**–**
At 31 December 2025	**255**	**301**	**4**

1 Subsidiary and joint venture undertakings and associates are listed on pages 120 to 125. The Company has uncalled share capital in Nightingale Insurance Limited, one of its subsidiaries, at 31 December 2025 of £30m (2024: £30m)

2 Other investments includes listed investments of £4m (2024: £5m)

3 On 29 October 2024 Rolls-Royce SMR Limited announced that ČEZ Group (ČEZ) would make an equity investment into the Rolls-Royce SMR Limited business and establish a strategic partnership to deploy up to 3GW of electricity in the Czech Republic. This investment from ČEZ was received by Rolls-Royce SMR Limited on 4 March 2025. As a result, the Company's shareholding in Rolls-Royce SMR Limited was diluted from 70.5% at 31 December 2024 to 61.7%, and the entity was reclassified from a subsidiary to a joint venture. In July 2025, the Company's shareholding in Rolls-Royce SMR Limited was further diluted to 55.3%. This was due to a second equity investment being made by ČEZ into Rolls-Royce SMR Limited. In December 2025 the Company made a further investment of £38m into the joint venture, increasing its shareholding to 57.8% at 31 December 2025

4 During the year, Rolls-Royce Overseas Holdings Limited, a direct subsidiary of the Company, distributed all of its shares, with a carrying value of £25m, in its subsidiary Nightingale Limited and all of its shares, with a carrying value of £100m, in its joint venture Alpha Partners Leasing Limited to the Company. This was recorded as a return of capital

5 Subsidiary additions of £465m in the year relate to a £50m investment in Rolls-Royce SMR Limited in January 2025, a £390m increase in the Company's investment in Rolls-Royce Overseas Holdings Limited, and a £25m distribution from Rolls-Royce Overseas Holdings Limited of its subsidiary investment in Nightingale Insurance Limited as detailed above. Additions to investments in joint ventures and associates include a £100m distribution from Rolls-Royce Overseas Holdings Limited of its joint venture investment in Alpha Partners Leasing Limited detailed above, a £38m joint venture investment in Rolls-Royce SMR Limited detailed above and £4m relating to the final instalment of investment due for the joint venture, Beijing Aero Engine Services Company Limited

6 Disposals relate to the sale of the Company's investment in Rolls-Royce Controls and Data Services (UK) Ltd

7 The Company has elected to value the listed investments at fair value through other comprehensive income

8 At 31 December 2025, subsidiary investments of £1,437m were reclassified to assets held for distribution

7 Inventories

	2025 £m	2024 £m
Raw materials	**80**	65
Work in progress	**736**	726
Finished goods	**1,855**	1,703
	2,671	2,494
Inventories stated at net realisable value	**150**	118
Amount of inventory write-down	**55**	24
Reversal of inventory write-down	**31**	–

Inventories are stated after provisions for impairment of £265m (2024: £234m).

8 Trade receivables and other assets

	Current		Non-current [1]		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Trade receivables	**1,238**	1,476	**78**	138	**1,316**	1,614
Prepayments	**691**	487	**48**	24	**739**	511
RRSA prepayment for parts [2]	**569**	486	**1,202**	1,182	**1,771**	1,668
Receivables due on RRSAs	**1,114**	1,118	**91**	119	**1,205**	1,237
Amounts owed by:						
Subsidiary undertakings	**1,165**	995	**1,312**	1,993	**2,477**	2,988
Joint ventures	**634**	778	**–**	–	**634**	778
Parent undertaking [3]	**–**	–	**2,192**	337	**2,192**	337
Other taxation and social security receivable	**100**	131	**–**	–	**100**	131
Costs to obtain contracts with customers [4]	**–**	1	**–**	–	**–**	1
Other receivables and similar assets [5]	**430**	426	**72**	55	**502**	481
	5,941	5,898	**4,995**	3,848	**10,936**	9,746

1 Trade receivables 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 relate to amounts not expected to be received in the next 12 months, in line with specific customer payment arrangements, including customers on payment plans, or formal payment terms on balances with related undertakings. Included within non-current is the Vinters International Limited loan principal and interest receivable of £1.3bn (2024: £1.6bn), which is presented on the face of the balance sheet as loan receivable from subsidiary undertakings

2 These amounts reflect the contractual share of EFH flows and original equipment deposits from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. During the year £597m (2024: £262m) has been charged to cost of sales in relation to parts supplied and used in the year

3 Amounts due from parent undertakings are interest free and repayable on demand. Whilst the Company could demand repayment, the Directors consider that the intention would be to not call upon this balance for repayment in the next 12 months but is expected to be settled within the normal operating cycle

4 These are amortised over the term of the related contract in line with engine deliveries, resulting in no amortisation (2024: £nil) in the year. There were no impairment losses (2024: none)

5 Other receivables include unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

All amounts owed by non-wholly owned subsidiary undertakings (except those listed below) are unsecured, interest free, have no fixed date of repayment and are repayable on demand.

– €3m (£3m) balance receivable from Aero Gearbox International SAS (2024: €5m (£4m)). This incurs interest at the higher of EURIBOR + 0.5%, and 0%, and has a repayment date of 29th September 2028.

– €11m (£10m) balance receivable from Aerospace Transmission Technologies GmbH (2024: €11m (£9m)). This incurs interest at EURIBOR + 2% and has a repayment date of 31 December 2037.

The ECLs on amounts due to group undertakings reduced to £1m (2024: £3m). The assumptions and inputs used for the estimation of the allowance takes into account their market credit ratings.

The ECLs for trade receivables and other financial assets have decreased by £35m to £123m (2024: decreased by £5m to £158m).

The Company has adopted the simplified approach to provide for 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 assumptions and inputs used for the estimation of the ECLs are shown in the table below:

	2025			2024		
	Trade receivables and other financial assets £m	**Loss allowance £m**	**Average ECL rate**	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate
Credit rating BBB- and above [1]	**674**	**(18)**	**3%**	1,355	(55)	4%
Credit rating below BBB- [1]	**507**	**(43)**	**8%**	–	–	0%
Without credit rating	**2,494**	**(62)**	**2%**	2,719	(103)	4%
	3,675	**(123)**	**3%**	4,074	(158)	4%

1 During the year, there has been a change to the classification used for investment gradings. In 2024, the ratings were reported using credit ratings C and above, credit ratings C and below and without credit rating. In 2025, the ratings have been reported using credit rating BBB- and above, credit rating below BBB- and without credit rating

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

	2025 £m	2024 £m
At 1 January	**(158)**	(163)
Increases in loss allowance recognised in the income statement during the year	**(38)**	(84)
Loss allowance utilised	**13**	5
Releases of loss allowance previously provided	**44**	82
Exchange differences	**16**	2
At 31 December	**(123)**	(158)

9 Contract assets and liabilities

	Current		Non-current [1]		Total [2]	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Contract assets						
Contract assets with customers	**191**	552	**794**	434	**985**	986
Participation fee contract assets	**19**	19	**122**	129	**141**	148
	210	571	**916**	563	**1,126**	1,134

1 Contract assets have been presented on the face of the balance sheet in line with the operating cycle of the business. Further disclosure of contract assets is provided in the table above, which shows within current the element of consideration that will become unconditional in the next year

2 Contract assets are classified as non-financial instruments

The balance includes £883m (2024: £869m) of Civil Aerospace LTSA assets and £35m (2024: reduction of £36m) 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 £(36)m which reduced the contract asset (2024: £(36)m decrease).

Participation fee contract assets have reduced as balances are amortised. No impairment losses (2024: none) of contract assets have arisen during the year. The absolute value of expected credit losses for contract assets has increased by £1m to £12m (2024: increased by £6m to £11m).

	Current		Non-current [1]		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Contract liabilities	**5,357**	4,209	**6,647**	7,244	**12,004**	11,453

1 Contract liabilities have been presented on the face of the balance sheet in line with the operating cycle of the business. Contract liabilities are further split according to when the related performance obligation is expected to be satisfied and, therefore, when revenue is estimated to be recognised in the income statement

During the year £3,748m (2024: £3,078m) of the opening contract liability was recognised as revenue.

Contract liabilities have increased by £551m. The movement in the balance is largely as a result of increases in Civil Aerospace of £515m. This is mainly as a result of growth in LTSA liabilities of £132m (2025: £9,185m, 2024: £9,053m) driven almost wholly by large engines, with customer invoicing in 2025 (based on EFH) being in advance of revenue recognised (based on costs incurred completing performance obligations). The contract liability movement includes a decrease of £119m (2024: £46m decrease) as a result of revenue being recognised in relation to performance obligations satisfied in previous years.

10 Cash and cash equivalents

	2025 £m	2024 £m
Cash at bank and in hand	**379**	226
Money market funds	**2,276**	1,834
Short-term deposits	**2,892**	2,921
Cash and cash equivalents	**5,547**	4,981
Overdrafts (note 11)	**–**	–

Balances are presented on a net basis when the Company 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 Company's statement of financial position as at 31 December 2025 and 2024.

11 Borrowings and lease liabilities

	Current		Non-current		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025** £m	2024 £m
Unsecured						
3.625% Notes 2025 $1,000m [1]	**–**	795	**–**	–	**–**	795
3.375% Notes 2026 £375m [2]	**372**	–	**–**	364	**372**	364
4.625% Notes 2026 €750m [3]	**654**	–	**–**	620	**654**	620
5.75% Notes 2027 $1,000m [3]	**–**	–	**741**	795	**741**	795
5.75% Notes 2027 £545m	**–**	–	**543**	543	**543**	543
1.625% Notes 2028 €550m [1]	**–**	–	**470**	442	**470**	442
Total unsecured	**1,026**	795	**1,754**	2,764	**2,780**	3,559
Lease liability – Land and buildings	**14**	13	**77**	90	**91**	103
Lease liability – Aircraft and engines	**10**	10	**4**	2	**14**	12
Lease liability – Plant and equipment	**28**	30	**32**	39	**60**	69
Total lease liabilities	**52**	53	**113**	131	**165**	184
Total borrowings and lease liabilities	**1,078**	848	**1,867**	2,895	**2,945**	3,743

	Less than one year £m	**Between one and five years £m**	**After five years £m**	**Total £m**
At 31 December 2025				
Borrowings	**1,026**	**1,754**	**–**	**2,780**
Lease liabilities	**52**	**69**	**44**	**165**
	1,078	**1,823**	**44**	**2,945**
At 31 December 2024				
Borrowings	795	2,764	–	3,559
Lease liabilities	53	80	51	184
	848	2,844	51	3,743

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

1 These notes are the subject of cross-currency interest rate swap agreements under which the Company 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 Company has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

2 These notes are the subject of interest rate swap agreements under which the Company 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 Company has undertaken to pay fixed rates of interest, which are classified as fair value through profit and loss

3 These notes are the subject of cross-currency interest rate swap agreements under which the Company has undertaken to pay fixed rates of GBP interest, which form a cash flow hedge

During the year to 31 December 2025, the Company repaid a loan note of $1bn in October 2025 in line with its maturity date.

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

	2025 £m	2024 £m
Expiring within one year	**–**	–
Expiring after one year	**2,500**	2,500
Total undrawn facilities	**2,500**	2,500

Further details can be found in the going concern and liquidity statements on page 21.

In December 2025 the Company signed a new £2.5bn Revolving Credit Facility maturing December 2030 and cancelled the existing facility. These facilities have not been drawn during the year and remain undrawn at 31 December 2025 (2024: £2.5bn).

12 Leases

Leases as lessee

The net book value of lease right-of-use assets at 31 December 2025 was £119m (2024: £130m), with a lease liability of £165m (2024: £184m) (per notes 5 and 11 respectively). Leases that have not yet commenced to which the Company is committed have a future liability of £214m (2024: £nil). The financial statements include the following amounts relating to leases:

	2025 £m	**2024 £m**
Land and buildings depreciation and impairment	**(16)**	(11)
Plant and equipment depreciation and impairment	**(31)**	(29)
Aircraft and engines depreciation and impairment	**(6)**	(5)
Total depreciation and impairment for right-of-use assets	**(53)**	(45)

12 Leases *continued*

The total cash outflow for leases in 2025 was £81m (2024: £70m). Of this £68m related to leases reflected in the lease liability, £13m to short-term leases where lease payments are expensed on a straight-line basis and £nil 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.

Interest expense on lease liabilities in 2025 was £8m (2024: £9m).

Leases as lessor

The Company acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessee provide protection over the Company's 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 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 Company can confirm that appropriate insurance documentation is established that covers the engine assets to pre-agreed amounts. All such contracts are operating leases. The Company also leases out a small number of properties, or parts of properties, where there is excess capacity under operating leases.

Total non-cancellable future operating lease rentals receivables (undiscounted) receivables (undiscounted) of £2m (2024: £4m), are predominantly due after five years.

In a limited number of circumstances, the Company sublets properties that are treated as a finance lease when the arrangement transfers substantially all the risks and rewards of ownership of the asset. At 31 December 2025, the total undiscounted lease payments receivable is £32m (2024: £37m) on annual lease income of £5m (2024: £5m). The discounted finance lease receivable at 31 December 2025 is £25m (2024: £30m).

13 Trade payables and other liabilities

	Current		Non-current		Total	
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Trade payables	**978**	736	**40**	–	**1,018**	736
Accruals	**1,911**	2,228	**97**	89	**2,008**	2,317
Customer discounts [1]	**1,087**	993	**631**	852	**1,718**	1,845
Payables due on RRSAs	**1,800**	1,529	**14**	11	**1,814**	1,540
Deferred receipts from RRSA workshare partners	**35**	55	**747**	757	**782**	812
Amounts owed to:						
Subsidiary undertakings	**4,697**	5,156	**–**	–	**4,697**	5,156
Joint ventures and associates	**548**	471	**–**	–	**548**	471
Government grants [2]	**37**	19	**9**	3	**46**	22
Other taxation and social security	**31**	–	**–**	–	**31**	–
Other payables [3]	**258**	234	**149**	160	**407**	394
	11,382	11,421	**1,687**	1,872	**13,069**	13,293

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 42. The largest element of the balance, approximately £1.2bn (2024: £1.4bn) arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

2 During the year £2m (2024: £12m) of government grants were released to the income statement

3 Other payables includes payroll liabilities and HM Government levies

The Company is part of the Rolls-Royce group banking arrangements and the Company's main bank accounts are subject to offset and pooling arrangements with cash balances acquired from other group entities. As a result of these arrangements the balances are presented as intercompany payables as funds are pooled by the Company on the last working day of the month with funds returned the next day. The amounts owed by the Company of £1,285m as at 31 December 2025 (2024: £1,561m) are interest bearing and repayable on demand.

Amounts owed to subsidiary undertakings and to joint ventures and associates are repayable on demand as either no formal loan agreement is in place or no final due date has been set - therefore all remain in the current classification.

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

The Company's payment terms with suppliers vary on the products and services being sourced, the competitive global markets the Company operates in and other commercial aspects of suppliers' relationships. Industry average payment terms vary between 90 to 120 days.

13 Trade payables and other liabilities *continued*

The Company offers reduced payment terms for 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 Company offers a supply chain financing (SCF) programme in partnership with banks to enable suppliers, including joint ventures, who are on standard 90-day payment terms to receive their payments sooner. The SCF programme is available to suppliers at their discretion and does not change rights and obligations with suppliers nor the timing of payment to suppliers.

At 31 December 2025, £646m (2024: £594m) of trade payables and other liabilities were within the scope of SCF arrangements of which suppliers had drawn £536m (2024: £506m), with £128m (2024: £159m) drawn by joint ventures. In some cases the Company settles the costs incurred by joint ventures as a result of them utilising SCF arrangements and, during the year to 31 December 2025, the Company incurred costs of £2m (2024: £2m) doing so with these costs included within the cost of sales.

14 Provisions for liabilities and charges

	At 1 January 2025 £m	Charged to income statement [1] £m	Reversed £m	Utilised £m	Exchange Differences £m	At 31 December 2025 £m
Onerous contracts	1,384	417	(731)	(155)	–	915
Warranty and guarantees	13	7	(1)	–	–	19
Trent 1000 wastage costs	36	–	–	(35)	(1)	–
Transformation and restructuring	1	6	–	(4)	–	3
Other	16	12	(7)	(5)	–	16
	1,450	442	(739)	(199)	(1)	953
Current liabilities	285					206
Non-current liabilities	1,165					747

1 The charge to the income statement includes £27m (2024: £47m) as a result of the unwinding of the discounting of provisions previously recognised and £16m (2024: £36m) as a result of changes in discount rates during the year

Onerous contracts

Onerous contract provisions are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Onerous contract provisions are measured on a fully costed basis and during the year £155m (2024: £214m) of the provisions have been utilised. Additional contract losses for the Group of £417m (2024: £539m) have been recognised. These are mainly a result of increases in the estimate of future LTSA costs due to prolonged supply chain challenges and inflationary cost increases. Contract losses of £731m (2024: £382m) previously recognised have been reversed following improvements to the forecast revenue, to 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 provisions for changes in the market and revises the provision as required. The value of the remaining onerous contract provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 15 years.

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

Warranty and guarantees

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

Trent 1000 wastage costs

During the year, the Group has utilised the remaining £35m (2024: £82m) of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs.

Transformation and restructuring

The Group announced a major multi-year transformation programme in 2023. During the year £4m (2024: £26m) was utilised, £nil reversed (2024: £6m) and a further provision of £6m (2024: £31m) has been recorded and recognised in cost of sales and commercial and administration costs. The remaining provision is expected to be utilised by 31 December 2027.

Other

Other items are individually immaterial and include provisions for employer liability claims of £3m (2024: £3m) as a result of historical insolvency of a previous provider.

15 Deferred taxation

Other tax credits/(charges)

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified			
	2025 £m	2024 £m	**2025 £m**	2024 £m	**2025 £m**	2024 £m
Deferred tax:						
Movement in post-retirement schemes	**129**	68	**–**	–	**–**	–
Cash flow hedge	**–**	–	**3**	(1)	**–**	–
Share-based payment – direct to equity	**–**	–	**–**	–	**74**	66
Other tax credits/(charges)	**129**	68	**3**	(1)	**74**	66

Deferred taxation assets and liabilities

	2025 £m	2024 £m
At 1 January	**2,754**	1,929
Amount (charged)/credited to income statement	**(275)**	691
Amount credited to statement of OCI	**132**	67
Amount credited to equity	**74**	66
On acquisition of businesses	**–**	1
At 31 December	**2,685**	2,754
Deferred tax assets	**2,756**	2,949
Deferred tax liabilities	**(71)**	(195)
Deferred tax	**2,685**	2,754

The analysis of the deferred tax position is as follows:

	2025 £m	2024 £m
Property, plant and equipment	**76**	128
Intangible assets	**(413)**	(409)
Other temporary differences [1]	**180**	292
Pensions and other post-retirement scheme benefits	**(71)**	(195)
Foreign exchange and commodity financial assets and liabilities	**(41)**	425
Losses	**2,954**	2,472
R&D credit	**–**	41
	2,685	2,754

Unrecognised deferred tax assets	**2025 £m**	2024 £m
Advance corporation tax [2]	**162**	162
Foreign exchange and commodity financial assets and liabilities	**–**	26
Losses	**–**	594
	162	782

Gross amount of losses and other deductible temporary differences for which no deferred tax has been recognised on which there is no expiry	**2025 £m**	2024 £m
Foreign exchange and commodity financial assets and liabilities	**–**	103
Losses	**–**	2,376
	–	2,479

1 Other temporary differences mainly relate to the deferral of relief for interest expenses and share-based payments

2 Prior to 1999 advance corporation tax ("ACT") was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities. See page 114 for further details

Advance corporation tax was derecognised in 2024 following the Group's announcement to reinstate shareholder distributions via cash dividends. In addition to the gross balances shown above, advance corporation tax of £162m (2024: £162m) has not been recognised as a result of the assessment performed considering the time period over which this could be recovered, when taking into account both shadow and surplus advance corporation tax. Advance corporation tax has no expiry. See below for developments following the 2025 Autumn Budget.

The total deferred tax asset of £2,756m (2024: £2,949m) is made up as follows:

- £2,954m (2024: £2,472m) relating to tax losses;
- £(41)m (2024: £425m) arising on unrealised losses on derivative contracts; and
- £(157)m (2024: £52m) relating to other deductible temporary differences, in particular tax depreciation, relief for capitalised development costs and relief for interest expenses.

The deferred tax assets 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.

15 Deferred taxation *continued*

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

Deferred tax assets are recognised only to the extent it is probable that future taxable profits will be available against which the assets can be utilised. Where necessary, this is based on management's assumptions and probability assessments relating to the amounts and timing of future taxable profits. The Directors continually reassess the appropriateness of recovering deferred tax assets, which includes a consideration of the level of future profits and the time period over which they are recovered. A recoverability assessment has been undertaken, taking account of deferred tax liabilities against which the reversal can be offset and using latest UK forecasts, which are mainly driven by the Civil Aerospace large engine business, to assess the level of future taxable profits.

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

- using the most recent UK profit forecasts, covering the next five years which are consistent with external sources on market conditions;
- the long-term forecast profit profile of existing large engine programmes which are typically in excess of 30 years from initial investment to retirement of the fleet, including the aftermarket revenues earned from airline customers;
- the long-term forecast is adjusted to exclude engine programmes which are in the development stage with no confirmed orders;
- taking into account the risk that regulatory changes could materially impact demand for our products;
- consideration that although all Civil Aerospace large engines are compatible with sustainable fuels, there is a risk that in the longer term demand will shift towards more sustainable products and solutions;
- the long-term forecast profit and cost profile of the other parts of the business;
- taking into consideration past performance and experience, including the fact that the business returned to profitability in 2023; and
- reflecting the sustained profitability and continued growing financial resilience of the Company, modelling is based on 100% probability of a base case forecast (31 December 2024: 75% base case and 25% downside forecast). It also reflects the fact that the Company's multi-year transformation continues to deliver despite the current volatility in macro-economic variables and an external environment that remains challenging, including geopolitical tensions, the uncertainty introduced by tariffs and supply chain challenges. Delivery against the Group's strategic initiatives continues to expand the earnings potential of the business.

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

- the impact of significant Civil Aerospace large engine orders in 2025 and improvements in large engine LTSA business plans;
- latest assessment of the time period over which future probable profits are expected to arise for Civil large engine programmes;
- the outcomes of strategic initiatives, including contractual margin improvements and cost reduction;
- the continued growth in Civil Aerospace engine flying hours; and
- management's assumptions on the impact of macro-economic factors and climate change on the business.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks remain consistent with those at 31 December 2024. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Company has demonstrated that all the commercial aero engines it produces are compatible for use with sustainable fuels. The impact that this could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, a deferred tax asset of £2,756m (2024: £2,949m) has been recognised, which includes the recognition of a £563m (2024: £1,033m) deferred tax asset relating to previously unrecognised tax losses. This reflects the conclusions that:

- based on current financial results and an improved outlook it is probable that the UK group will generate taxable income and tax liabilities in the future against which these losses can be utilised; and
- using current forecasts and various scenarios these losses will be used in full within 8-15 years, which is within the expected programme lifecycles.

As stated above, the ACT balance of £162m remains unrecognised at 31 December 2025. The Company is closely monitoring developments following the announcement in the 2025 Autumn Budget that the shadow ACT regime will be repealed, effective from 1 April 2026. The statutory instrument is not yet published so the legislation is not substantively enacted at the balance sheet date. This will be considered for future accounting periods.

Any future changes in tax law or the structure of the Company 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 Company is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 31 December 2025, the Company has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The temporary differences associated with investments in subsidiaries, joint ventures and associates, for which a deferred tax liability has not been recognised, aggregate to £2,825m (2024: £1,558m). No deferred tax liability has been recognised on the potential withholding tax due on the remittance of undistributed profits as the Company is able to control the timing of such remittances and it is probable that consent will not be given in the foreseeable future.

16 Post-retirement benefits

The Company operates a funded UK defined benefit scheme, with the assets held in a separate trustee administered fund. Employees are entitled to retirement benefits based on either their final or career average salaries and length of service.

The UK defined benefit scheme is funded, with the assets held in a separate UK trust. The scheme closed to future accrual on 31 December 2020 for all active members and there are no new defined benefit accruals in the UK scheme. In August 2025 the scheme completed a Buy-in, with the purchase of a bulk insurance annuity policy, with the effect that the majority of scheme liabilities are now covered by this policy. For further details see below.

The valuation of the defined benefit scheme is based on the results of the most recent funding valuation from 31 March 2023, where relevant, updated by the scheme actuaries to 31 December 2025.

Virgin Media

A UK High Court legal ruling that took place in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, found that certain historic rule amendments were invalid if they were not accompanied by actuarial certifications. The ruling was subject to an appeal with a judgement delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, its relevance and hence the potential impact of this to the RRUKPF scheme, and other UK schemes was unclear.

On 5 June 2025 the Government announced that in light of this uncertainty, it would introduce legislation to give potentially affected pension schemes the ability to retrospectively obtain written actuarial confirmation that historic rule amendments met the necessary standards. As a result of this Government intervention the Company does not anticipate any scheme amendments or additional liabilities.

Buy-in of Rolls-Royce UK Pension Fund

In August 2025, the Trustee of the Rolls-Royce UK Pension Fund entered into a Buy-in transaction with Pension Insurance Corporation plc (PIC), whereby the Fund purchased a bulk purchase annuity policy in exchange for consideration of £4.3bn. This was paid from the Fund's existing assets, with no additional funding required by the Company. This transaction resulted in substantially all the benefits and liabilities under the Fund being insured. The Buy-in was undertaken in anticipation of entering into a full Buy-out during 2026, upon which the liabilities and management of benefits will be transferred to PIC. A charge of £517m has been recognised within the line 'Actuarial gains/(losses) recognised in OCI' in the Statement of Comprehensive Income for the year ended 31 December 2025 comprising around £450m relating to the impact of the Buy-in.

Following the transaction, the bulk purchase annuity policy has been treated as an asset of the Fund and has been valued on the same basis as the liabilities to which it relates, as until a Buy-out takes place, the legal responsibility to pay benefits remains with the Trustee.

The Company and the Trustee of the UK pension scheme agreed on 2 February 2026 to terminate and wind up the UK scheme. See further details in note 1.

Amounts recognised in OCI in respect of defined benefit schemes	**2025 £m**	2024 £m
Actuarial gains and losses arising from:		
Demographic assumptions [1]	**(121)**	19
Financial assumptions [2]	**97**	617
Experience adjustments [3]	**(9)**	(8)
Loss on scheme assets excluding financing income [4]	**(484)**	(633)
	(517)	(5)

1 This reflects latest available CMI mortality projections, and a charge of around £100m in relation to the Buy-in of the scheme due to updates to the assumptions relating to transfer values, and alignments made to insurer factors post Buy-in

2 Actuarial gains and losses arising from financial assumptions arise primarily due to changes in interest rates and inflation

3 This reflects an experience loss as a result of realised inflation being higher than expected over the period meaning that actual and projected increases are now higher than previously expected

4 Includes an asset remeasurement loss estimated at £350m recognised in respect of the Buy-in of the Scheme that took place during the year

Amounts recognised in the balance sheet in respect of defined benefit schemes	**2025 £m**	2024 £m
Present value of funded obligations	**(4,040)**	(3,958)
Fair value of scheme assets	**4,324**	4,737
Net asset recognised in the balance sheet – Post-retirement surplus [1, 2]	**284**	779

1 The surplus is recognised as, on an ultimate wind-up when there are no longer any remaining members, the Company would be entitled to receive any surplus and has the power to determine how any remaining surplus is used

2 The decrease in the net asset in the UK Schemes is largely as a result of the Buy-in of the scheme in August 2025, which has resulted in a charge estimated at £450m being recognised within the line 'Actuarial gains/(losses) recognised in OCI' in the Consolidated Statement of Comprehensive Income for the year ended 31 December 2025

16 Post-retirement benefits *continued*

Assumptions

Significant actuarial assumptions used at the balance sheet date were as follows:

	2025 £m	2024 £m
Discount rate	**5.60%**	5.50%
Inflation assumption (RPI)	**3.05%**	3.30%
Inflation assumption (CPI)	**2.70%**	2.90%
Transfer assumption (employed deferred/deferred)	**20%/15%**	20%/15%
Bridging Pension Option (BPO) take-up assumption (employed deferred/deferred)	**40%/25%**	40%/25%
Life expectancy from age 65: current male pensioner	**21.1 years**	20.8 years
future male pensioner currently aged 45	**21.8 years**	21.5 years
current female pensioner	**23.0 years**	22.8 years
future female pensioner currently aged 45	**24.2 years**	24.1 years

Discount rates are determined by reference to the market yields on AA rated corporate bonds. The rate is determined by using the profile of forecast benefit payments to derive a weighted average discount rate from the yield curve.

The inflation assumption is determined by the market-implied assumption based on the yields on long-term index-linked government securities.

The mortality assumptions adopted for the UK pension schemes are derived from the SAPS S3 'All' actuarial tables, with future improvements in line with the CMI 2024 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience and actuarial advice, and has been updated for changes following the Buy-in of the scheme.

Other assumptions have been set on advice from the actuary, having regard to the latest trends in scheme experience, the assumptions used in the most recent funding valuation and any updates required to insurer factors. The rate of increase of pensions in payment is based on the rules of the scheme, combined with the inflation assumption where the increase is capped.

Changes in present value of defined benefit obligations	2025 £m	2024 £m
At 1 January	**(3,958)**	(4,537)
Past-service cost [1]	**(4)**	(14)
Finance cost	**(214)**	(200)
Benefits paid out	**169**	165
Actuarial (losses)/gains [2]	**(33)**	628
At 31 December	**(4,040)**	(3,958)
Funded schemes	**(4,040)**	(3,958)

1 Following the signing of the framework agreement with the scheme's trustees, which was signed alongside the Buy-in agreement, adjustments have been made to align the methodology for the calculation of certain benefits with the pricing methodology used by the insurer. These have resulted in an additional past service charge of £4m being recognised in the income statement in 2025. In 2024, a past service charge of £14m was recognised in respect of the scheme as a result of further work carried out by the pension scheme administrators and the Scheme Actuary in 2024 to review all relevant data points and make further changes to member records and required payments under the Barber judgement which sought to equalise normal retirement ages between men and women

2 The actuarial loss of £(33)m includes a charge of around £(100)m in respect of the Buy-in of the scheme detailed above

The defined benefit obligations are in respect of:	2025 £m	2024 £m
Active plan participants [1]	**(1,243)**	(1,277)
Deferred plan participants	**(1,067)**	(1,064)
Pensioners	**(1,730)**	(1,617)
Weighted average duration of obligations (years)	**13**	14

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 Company retain some additional benefits compared with other deferred members. The obligations for these members are shown as active plan participants

Changes in fair value of scheme assets	2025 £m	2024 £m
At 1 January	**4,737**	5,304
Administrative expenses	**(6)**	(5)
Financing	**246**	235
Loss on plan assets excluding financing [1]	**(484)**	(633)
Contributions by employer	**–**	1
Benefits paid out	**(169)**	(165)
At 31 December	**4,324**	4,737
Total loss on plan assets	**(238)**	(398)

1 Includes an asset remeasurement net loss estimated at £350m recognised in respect of the Buy-in of the Scheme that took place in the year, for further details see page 115

16 Post-retirement benefits *continued*

Fair value of scheme assets	2025[1] £m	2024 £m
Sovereign debt	–	3,335
Corporate debt instruments	–	1,860
Interest rate swaps	–	197
Inflation swaps	–	92
Cash and similar instruments [2]	–	(1,176)
Liability driven investment (LDI) portfolios	–	4,308
Unlisted equities	**4**	25
Corporate debt instruments	–	379
Buy-in insurance policy [3]	**4,040**	–
Cash	**280**	25
At 31 December	**4,324**	4,737

1 Following the Buy-in in August 2025, described on page 115, the Company entered into a bulk purchase annuity policy with PIC for consideration of £4.3bn. The consideration was paid by transferring certain existing RRUKPF's assets and cash to PIC

2 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £nil (2024: £(1,203)m)

3 Following the transaction, the bulk purchase annuity policy has been treated as an asset of the scheme and has been valued on the same basis as the liabilities to which it relates, as until a Buy-out takes place, the legal responsibility to pay benefits remains with the Trustee

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group (2024: none).

Future contributions

The Company does not expect to contribute to its defined benefit scheme in respect of 2025 (2024: £nil).

In the UK, any cash funding of RRUKPF is based on a statutory triennial funding valuation process. The Company and the Trustee negotiate and agree the actuarial assumptions used to value the liabilities (Technical Provisions); assumptions which may differ from those used for accounting set out above. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis. All cash due has been paid in full and the current SoC does not require any cash contributions to be made by the Company. Following the Buy-in of the scheme in August 2025 substantially all the scheme liabilities have been insured and it is expected that no further funding will be required by the company: any further liabilities arising are expected to be funded from the scheme's existing assets.

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2025, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

The UK scheme previously hedged interest rate and inflation risk based on UK Government bond yields without any adjustment for any credit spread, however as a result of the Buy-in that took place in August 2025, the majority of the scheme's assets were either liquidated or transferred to PIC during the year. The majority of the assets at 31 December 2025 represent the value of the bulk purchase annuity policy, which aligns exactly to the liabilities to which it relates, hence any movement in the assets will result in an equal and opposite movement in the liabilities.

The sensitivity analysis set out below has been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

		2025 £m	2024 £m
Reduction in discount rate of 0.25% [1]	Obligations	**(140)**	(145)
	Plan assets (Buy-in policy)	**140**	–
	Plan assets (LDI portfolio)	**–**	179
Increase in inflation rate of 0.25% [1]	Obligations	**(55)**	(55)
	Plan assets (Buy-in policy)	**55**	–
	Plan assets (LDI portfolio)	**–**	73
Increase of 1% in transfer value assumption	Obligations	**(20)**	(25)
	Plan assets (Buy-in policy)	**20**	–
One year increase in life expectancy	Obligations	**(125)**	(125)
	Plan assets (Buy-in policy)	**125**	–

1 The differences between the sensitivities on obligations and plan assets in 2024 arise largely due to differences in the methods used to value the obligations for accounting purposes and the adopted proxy solvency basis

Defined contribution schemes

The Company operates a number of defined contribution schemes. The total expense recognised in the income statement was £214m (2024: £190m).

17 Share capital

	Equity ordinary shares of 20p each (millions)	Nominal value £m
Authorised		
At 1 January and 31 December 2025	**2,000**	**400**
Issued and fully paid		
At 1 January and 31 December 2025	**1,691**	**338**

Rights, preferences and restrictions
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; to appoint one or more proxies or, if they are corporations, corporate representatives; and to exercise voting rights. The ordinary shares are not listed.

18 Share-based payments

Effect of share-based payment transactions on the Company's results and financial position

	2025 £m	2024 £m
Total expense recognised for equity-settled share-based payment transactions	**57**	60

Share-based payment plans in operation during the year
During the year, the Company participated in the following share-based payment plans operated by Rolls-Royce Holdings plc:

Long-term incentive plan (LTIP)
The fair value of shares awarded is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 companies 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
In 2024, every Rolls-Royce employee was gifted 150 shares. The awards were granted under two plans; the 'Rolls-Royce Share Purchase Plan' for UK employees and the 'Rolls-Royce Global Employee Share Purchase Plan' for non-UK employees; both being equity-settled schemes. The fair value of shares awarded under the Free shares scheme is calculated as the share price on the date of the award, on the basis that awards are entitled to receive dividends (or equivalents).

Matching shares
Rolls-Royce launched the 'Your Shares: Matched' plan during the year. Every participant receives the free matching shares with a value of up to £50 each month based on the number of investment shares they purchase. There are no performance conditions attached to the shares. The fair value of the free matching shares awarded under these plans is calculated using the share price on the date of the award. Non-vesting conditions are taken into consideration with a percentage discount applied based on the assumption of the expected forfeiture rates of the matching shares.

The weighted average share price at the date share options were exercised was 728p (2024: 420p). The closing price at 31 December 2025 was 1,150p (2024: 569p).

			ShareSave (millions)	
Grant - vest	**Expiry date (31 January)**	**Exercise price in pence per share option**	**2025**	**2024**
2019 - 2025	2025	232	**–**	1.6
2021 - 2025	2025	97	**0.1**	29.8
			0.1	31.4

The weighted average remaining contractual life for the share options as at 31 December 2025 was six months (2024: one month) and all outstanding share options have a maturity date in 2026.

19 Contingent liabilities

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the Serious Fraud Office and the US Department of Justice and a leniency agreement with the Ministério Público Federal, the Brazilian federal prosecutor. The terms of both DPAs have now expired. The Company has also met all its obligations under a two-year leniency agreement with Brazil's Comptroller General (CGU), signed in October 2021, relating to the same historical matters. In April 2024, the CGU confirmed that the Company would no longer be subject to compliance monitorship. Certain authorities are investigating members of the Company for matters relating to misconduct in relation to historical matters. The Company is responding appropriately. Action may be taken by further authorities against the Company or individuals. In addition, the Company 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 Company's historical ethics and compliance disclosures which have been notified to the Company. 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 Company 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 Company 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 Company will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Company's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers, a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of $339m (2024: $405m) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately $67m could be called during 2026). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Significant events impacting the international aircraft financing market, the failure by customers to meet their obligations under such financing agreements, or inadequate provisions for customer financing liabilities may adversely affect the Company'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 Company's borrowing rate to reflect the time span over which these exposures could arise. The values of aircraft providing security are based on advice from a specialist aircraft appraiser. There were no provisions for customer financing provisions at 31 December 2025 or 31 December 2024.

The Company 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 Company 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 Company.

20 Related party transactions

	2025 £m	2024 £m
Sale of goods and services [1]	**8,454**	7,500
Purchases of goods and services [1]	**(8,824)**	(8,350)
Guarantees of non-wholly owned subsidiaries' borrowings	**3**	4

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

The Company is a wholly owned subsidiary of its ultimate parent Rolls-Royce Holdings plc, and is included within the consolidated results of Rolls-Royce Holdings plc and therefore has taken advantage of the exemption in FRS 101 not to disclose related party transactions with its parent company and other wholly owned group companies. The aggregated balances with joint ventures are shown in notes 8 and 13.

Included in the sales of goods and services to related parties are sales to Rolls-Royce SMR Limited amounting to £7m (2024: £9m) during the year.

At 31 December 2024, Rolls-Royce SMR Limited was a non-wholly owned subsidiary of the Company. In March 2025, there was an equity investment into the business, resulting in deconsolidation of Rolls-Royce SMR Limited. See note 6 for further information.

21 Parent and ultimate parent company

The Company's direct parent at 31 December 2025 is Rolls-Royce Group Limited.

The ultimate parent undertaking and the smallest and largest group to consolidate these financial statements is Rolls-Royce Holdings plc. Copies of the Rolls-Royce Holdings plc Consolidated Financial Statements can be obtained from the Company Secretary at Kings Place, 90 York Way, London, N1 9FX, United Kingdom.

Post balance sheet event – change in direct parent undertaking

As part of an internal legal entity review programme, on 1 January 2026, the Company's direct parent undertaking changed from Rolls-Royce Group Limited to Rolls-Royce Holdings plc. This is a non-adjusting post balance sheet event. There is no change to the Company's ultimate parent undertaking or controlling party.

Subsidiaries

As at 31 December 2025, the companies listed below and on the following pages were indirectly held by Rolls-Royce plc, except those indicated as being held directly by Rolls-Royce plc. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Address	Class of shares	% of class held
Aerospace Transmission Technologies GmbH * [1]	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50
Amalgamated Power Engineering Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Deferred Ordinary	100 100
Bristol Siddeley Engines Limited * [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Brown Brothers & Company, Limited	Inchinnan Drive, Inchinnan, United Kingdom, PA4 9AF	Ordinary	100
C A Parsons & Company Limited	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Derby Specialist Fabrications Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Europea Microfusioni Aerospaziali S.p.A. *	Zona Industriale AS1, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Heaton Power Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
John Thompson Cochran Limited [2]	Inchinnan Drive, Inchinnan, United Kingdom, PA4 9AF	6% Cumulative Preference Ordinary	100 100
Karl Maybach-Hilfe GmbH i.l. [3]	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Kinolt Immo SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Sistemas de UPS SpA	Bucarest No 17 Oficina, No 33, Previdencia, Santiago, Chile	Ordinary	100
Kinolt UK Ltd [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
LLC Rolls-Royce Solutions Rus [2]	Shabolovka Street 2, 119049, Moscow, Russian Federation	Ordinary	100
MTU Cooltech Power Systems Co., Limited [1]	Building No. 2, No. 1633 Tianchen Road, Quingpu District, Shanghai, China	Equity	50
MTU India Private Limited [4]	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 Warsawa, Polska	Ordinary	100
NEI International Combustion Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Mining Equipment Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Nuclear Systems Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Parsons Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Peebles Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
NEI Power Projects Limited [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Nightingale Insurance Limited *	PO Box 33, Dorey Court, Admiral Park, St Peter Port GY1 4AT, Guernsey	Ordinary	100
No-Break Power Limited [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Powerfield Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
PT Rolls-Royce	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
PT Rolls Royce Solutions Indonesia	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
Rolls-Royce (Ireland) Unlimited Company [5]	Ulster International Finance, 1st Floor, IFSC House IFSC Dublin, Dublin, Co. Dublin, D01R2P9, Ireland	Ordinary	100
Rolls-Royce (Thailand) Company Limited	101 True Digital Park, Pegasus Building, 5th Floor, Unit 558 Sukhumvit Road, Bangchak, Pharakhanong, Bangkok, 10260, Thailand	Ordinary	100
Rolls-Royce Aero Engine Services Limited * [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Australia Pty Limited [5]	Suite 14.03, Level 14, 130 Pitt St, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Australia Services Pty Limited [5]	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 Bernando do Campo, Sao Pãulo, 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 [5]	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 * [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Controls and Data Services Limited *	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Corporation [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Crosspointe LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	100

Subsidiaries *continued*

Company name	Address	Class of shares	% of class held
Rolls-Royce Defense Products and Solutions Inc. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Defense Services Inc. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Deutschland Ltd & Co KG	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Partnership	100
Rolls-Royce Electrical Norway AS *	Jarleveien 8A, 7041, Trondheim, Norway	Ordinary	100
Rolls-Royce Energy Angola, Limitada [5]	Casa no. 174, Largo Leite Duarte, Bairro Miramar, Luanda, Municipality of Ingombota, Angola	Quota	100
Rolls-Royce Energy Systems Inc. [2, 5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Engine Services Holdings Co. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Engine Services Limitada Inc. [3, 5]	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 [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Deferred Ordinary	100 100
Rolls-Royce Finance Holdings Co. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Fuel Cell Systems Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce General Partner (Ireland) Limited *	29 Earlsfort Terrace, Dublin 2, Dublin, D02AY28 Ireland	Ordinary	100
Rolls-Royce General Partner Limited * [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce High Temperature Composites Inc. [5]	Corporation Service Company, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833, United States	Ordinary	100
Rolls-Royce Holdings Canada Inc. *	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common C	100
Rolls-Royce Hungary Kft. "v.a." * [3]	Kacsa utca 15-23. 1. ép. Fsz. , Budapest , 1027 , Hungary	Cash shares	100
Rolls-Royce India Limited [4]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce India Private Limited [5]	Birla Tower West, 2nd Floor 25, Barakhamba Road, New Delhi, 110001, India	Equity	100
Rolls-Royce Industrial & Marine Power Limited	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Industrial Power (India) Limited [4]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Industries Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce International Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Japan Co., Limited	31st Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-Ku, Tokyo, 100-6031, Japan	Ordinary	100
Rolls-Royce Leasing Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Malaysia Sdn. Bhd. [5]	Unit A-3-6 TTDI Plaza, Jalan Wan Kadir 3, Taman Tun Dr Ismail, 6000 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Military Aero Engines Limited * [4]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce New Zealand Limited	Deloitte Centre, Level 20, 1 Queen Street, Auckland, 10103, New Zealand	Ordinary	100
Rolls-Royce North America (USA) Holdings Co. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North America Holdings Inc. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North America Inc. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North America Ventures Inc. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce North American Technologies Inc. [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Common Stock	100
Rolls-Royce Oman LLC [5]	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, 4, 5]	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India	Ordinary	100
Rolls-Royce Overseas Holdings Limited * [6]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary Ordinary A	100 100

Subsidiaries *continued*

Company name	Address	Class of shares	% of class held
Rolls-Royce Overseas Investments Limited [7]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Placements Limited [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Rolls-Royce Power Engineering Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Power Systems AG	Maybachplatz 1, 88045, Friedrichshafen, Germany	Ordinary	100
Rolls-Royce Retirement Savings Trust Limited * [2, 4]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Saudi Arabia Limited	3010 – Al Arid, Riyadh 13332 – 7663, Saudi Arabia	Cash shares	100
Rolls-Royce Singapore Pte. Ltd. [5]	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100
Rolls-Royce Solutions (Suzhou) Co. Ltd	9 Long Yun Road, Suzhou Industrial Park, Suzhou 215024, Jiang Su, China	Ordinary	100
Rolls-Royce Solutions Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Capital Stock	100
Rolls-Royce Solutions America Inc.	100 West Tenth Street, Wilmington - Delaware DE 19808, United States	Ordinary	100
Rolls-Royce Solutions Asia Pte. Limited	10 Tukang Innovation Drive, Singapore 618302	Ordinary	100
Rolls-Royce Solutions Augsburg GmbH	Dasinger Strasse 11, 86165, Augsburg, Germany	Capital Stock	100
Rolls-Royce Solutions Benelux B.V.	Merwedestraat 86, 3313 CS, Dordrecht, Netherlands	Ordinary	100
Rolls-Royce Solutions Brasil Limitada	Via Anhanguera, KM 29203, 05276-000 Sao Pãulo – SP, Brazil	Quotas	100
Rolls-Royce Solutions Enerji Deniz Ve Savunma Anonim Şirketi	Hatira Sokak, No. 5, Ömerli Mahellesi, 34555 Arnavutköy, Istanbul, Türkiye	Ordinary	100
Rolls-Royce Solutions France S.A.S.	Immeuble Colorado, 8/10 rue de Rosa Luxembourg-Parc des Bellevues 95610, Erangy-sur-Oise, France	Ordinary	100
Rolls-Royce Solutions GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Rolls-Royce Solutions Hong Kong Limited	14/F, Chinabest International Centre, 8 Kwai On Road, Kwai Chung, N.T., Hong Kong	Ordinary	100
Rolls-Royce Solutions Ibérica s.l.u.	Paseo de las Flores 46, 28823 Coslada, Madrid, Spain	Ordinary	100
Rolls-Royce Solutions Israel Limited	6 Meir Ariel St., Natanya, Israel	Ordinary	100
Rolls-Royce Solutions Italia S.r.l.	Via Aurelia Nord, 328, 19021 Arcola (SP), Italy	Capital Stock	100
Rolls-Royce Solutions Japan Co. Limited	14-3, Nishitenma 4-chome, Kita-ku, Osaka 530-0047, Japan	Ordinary	100
Rolls-Royce Solutions Korea Limited	Unit 301, The Square, 9 Mulgeum-ro, Mulgeum-eup, Yangsan-si, Gyeongsangnam-do 50657, Republic of Korea	Ordinary	100
Rolls-Royce Solutions Liège Holding S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Liège S.A.	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Rolls-Royce Solutions Magdeburg GmbH	Friedrich-List-Strasse 8, 39122 Magdeburg, Germany	Capital Stock	100
Rolls-Royce Solutions Malaysia Sdn. Bhd.	Office no. B329, Spaces Platinum Sentral, Lot G02-G07, Level 3 Platinum Sentral, Jalan Stesen Sentral 2, 50470 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Solutions Mexico City S.A. de C.V. [2]	Xochicalco 620, Colonia Letran Valle, Delegacion Benito Juarez, Mexico City 03650, Mexico	Common Shares	100
Rolls-Royce Solutions Middle East FZE	S3B5SR06, Jebel Ali Free Zone, South P.O. Box 61141, Dubai, United Arab Emirates	Ordinary	100
Rolls-Royce Solutions Ruhstorf GmbH	Rotthofer Strasse 8, 94099 Ruhstorf a.d. Rott, Germany	Capital Stock	100
Rolls-Royce Solutions South Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Ordinary	100
Rolls-Royce Solutions Trading and Contracting LLC [8]	REGUS Service Office, Office No. 1034, Shoumoukh Tower, 10th Floor, Tower B, C-Ring Road, Al Sadd, PO Box 207207, Doha, Qatar	Ordinary	49
Rolls-Royce Solutions UK Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Solutions Willich GmbH	Konrad-Zuse-Str. 3, 47877, Willich, Germany	Capital Stock	100
Rolls-Royce Sp z.o.o. *	Opolska 100 31-323, Krakow, Poland	Ordinary	100
Rolls-Royce Submarines Limited *	Atlantic House, Raynesway, Derby, Derbyshire DE21 7BE, United Kingdom	Ordinary	100
Rolls-Royce Technical Support Sarl	Site Motoristes Vendor-Village , 46 avenue Jean Monnet, 31770, Colomiers, France	Ordinary	100
Rolls-Royce Total Care Services Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls Royce Turkey Güç Çözümleri San. ve Tic.Ltd.Şti.	Cumhuriyet Mah. Yakacık D-100 Kuzey Yanyol Cad. No: 25 Kartal, Istanbul, Türkiye	Cash shares	100
Rolls-Royce UK Pension Fund Trustees Limited * [2]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Rolls-Royce Zweite Beteiligungs GmbH *	Eschenweg 11, 15827 Blankenfelde-Mahlow OT Dahlewitz, Germany	Capital Stock	100

Subsidiaries *continued*

Company name	Address	Class of shares	% of class held
Ross Ceramics Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Servowatch Systems Limited [3]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Sharing in Growth UK Limited [9]	Moor Lane, Allenton, Derby, England, DE24 9HY, United Kingdom	Limited by guarantee	100
Spare IPG 20 Limited	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 21 Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 24 Limited	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 32 Limited	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Spare IPG 4 Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Team Italia Marine S.R.L.	Kampanien, Via Luigi Einaudi 114/B, 61032 Fano, Pesaro and Urbino, Italy	Ordinary	100
The Bushing Company Limited	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Timec 1487 Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Turbine Surface Technologies Limited * [1]	Unit 13a, Little Oak Drive, Sherwood Park, Annesley, Nottinghamshire NG15 0DR, United Kingdom	Ordinary A Ordinary B	Nil 100
Vessel Lifter Inc. [2, 5]	Corporation Service Company, 1201 Hays Street, Tallahassee, Florida 32301, United States	Common Stock	100
Vinters Defence Systems Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Vinters Engineering Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Vinters International Limited	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Vinters Limited *	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	100
Vinters-Armstrongs (Engineers) Limited [2]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Vinters-Armstrongs Limited [5]	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary B	100
Yocova Private Ltd *	Kings Place, 90 York Way, London N1 9FX, United Kingdom	Ordinary	100
Yocova PTE. Ltd. * [2]	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100

On 8 January 2026, Rolls-Royce Holdings plc contributed its 100% direct holding in Rolls-Royce Group Limited to the Company, so Rolls-Royce Group Limited is now a wholly-owned direct subsidiary of the Company.

* Owned directly by the Company

1 Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

2 Dormant entity

3 Entity in liquidation

4 Reporting year end is 31 March 2026

5 On 1 January 2026, the Company transferred its interest in a parent company of this entity, Rolls-Royce Overseas Holdings Limited, to Rolls-Royce US Holdings Limited. As a result, this entity is no longer a subsidiary of the Company

6 On 1 January 2026, the Company transferred its interest in this entity to Rolls-Royce US Holdings Limited. Therefore, the entity is no longer a subsidiary of the Company

7 On 1 January 2026, Rolls-Royce Overseas Holdings Limited transferred its interest in this entity to the Company. Therefore, the entity is now a direct subsidiary of the Company

8 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

9 The entity is not included in the consolidation, as the Company does not have a beneficial interest in the net assets of the entity

10 The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)

11 Reporting year end is 30 June 2026

12 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 * [10]	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 [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Leasing (US) (No.4) LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Leasing (US) (No.5) LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Leasing (US) (No.6) LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Leasing (US) (No.7) LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Leasing (US) (No.8) LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Leasing (US) LLC [5]	Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States	Partnership	–	50
Alpha Partners Leasing Limited *	1 Brewer's Green, London SW1H 0RH, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Beijing Aero Engine Services Company Limited *	No.12 Jinhang Middle Road, Shunyi District, (Tianzhu Comprehensive Bonded Zone Bonded Function Zone 2), Beijing , China	Capital	50	50
CFMS Limited	43 Queen Square, Bristol BS1 4QP, United Kingdom	Limited by guarantee	–	33.3
Clarke Chapman Portia Port Services Limited [2]	Maritime Centre, Port of Liverpool, Liverpool L21 1LA, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Egypt Aero Management Services [3, 5]	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 * [11]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary A Ordinary B	100 Nil	50
Glacier L.P.	66 Wellington Street West, Toronto Dominion, Bank Tower, Suite 300, Toronto, ON M5K 1E6, Canada	Partnership	49.9	49.9
Global Aerospace Centre for Icing and Environmental Research Inc. [10]	1000 Marie-Victorin Boulevard, Longueuil Québec J4G 1A1, Canada	Ordinary	50	50
Hoeller Electrolyzer GmbH [3, 12]	Alter Holzhafen, 23966 Wismar, Germany	Ordinary	54.2	54.2
Hong Kong Aero Engine Services Limited [5]	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	Ordinary	50	50
International Aerospace Manufacturing Private Limited [4, 5, 10]	Survey No. 3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	Ordinary	50	50
ITP Next Generation Turbines SL *	Parque Tecnologico Edificio 300, 48170, Zamudio, Vizcaya, Spain	Ordinary A Ordinary B	Nil 100	25
Light Helicopter Turbine Engine Company (unincorporated partnership) [5]	Suite 119, 9238 Madison Boulevard, Madison, Alabama 35758, United States	Partnership	–	50
Manse Opus Management Company Limited * [4]	Third Floor Queensberry House, 3 Old Burlington Street, London 3 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 10 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

Joint Ventures and Associates *continued*

Company name	Address	Class of shares	% of class held	Group interest held %
N3 Engine Overhaul Services GmbH & Co KG	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
N3 Engine Overhaul Services Verwaltungsgesellschaft Mbh	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
Rolls Laval Heat Exchangers Limited * [2]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	50	50
Rolls-Royce & Partners Finance (US) (No 2) LLC [5]	66 Wellington Street West, Toronto Dominion, Bank Tower, Suite 300, Toronto, ON M5K 1E6, Canada	Partnership	–	50
Rolls-Royce & Partners Finance (US) LLC [5]	66 Wellington Street West, Toronto Dominion, Bank Tower, Suite 300, Toronto, ON M5K 1E6, Canada	Partnership	–	50
Rolls-Royce SMR Limited * [12]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary	57.8	57.8
SAFYRR Propulsion Limited * [2]	Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom	Ordinary A Ordinary B	Nil 100	50
Singapore Aero Engine Services Private Limited [5]	11 Calshot Road, 509932, Singapore	Ordinary	50	50
Techjet Aerofoils Limited [5, 10]	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, England, DE55 4RH, United Kingdom	Ordinary A Ordinary B 1 C	Nil 100 Nil	50
Turbo-Union GmbH *	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Capital Stock	40	40
X R Aero Components Limited * [10]	Xujiawan, Beijiao, Xian 710021, Shaanxi, China	Ordinary	49	49

* Owned directly by the Company

1 Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

2 Dormant entity

3 Entity in liquidation

4 Reporting year end is 31 March 2026

5 On 1 January 2026, the Company transferred its interest in a parent company of this entity, Rolls-Royce Overseas Holdings Limited, to Rolls-Royce US Holdings Limited. As a result, this entity is no longer a subsidiary of the Company

6 On 1 January 2026, the Company transferred its interest in this entity to Rolls-Royce US Holdings Limited. Therefore, the entity is no longer a subsidiary of the Company

7 On 1 January 2026, Rolls-Royce Overseas Holdings Limited transferred its interest in this entity to the Company. Therefore, the entity is now a direct subsidiary of the Company

8 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

9 The entity is not included in the consolidation, as the Company does not have a beneficial interest in the net assets of the entity

10 The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)

11 Reporting year end is 30 June 2026

12 Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity

Independent auditors' report to the members of Rolls-Royce plc

Report on the audit of the financial statements

Opinion

In our opinion:

- Rolls-Royce plc's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2025 and of the group's profit and the group's cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted international accounting standards as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Audited Financial Statements (the "Annual Report"), which comprise:

- the consolidated and company balance sheets as at 31 December 2025;
- the consolidated income statement, the consolidated statement of comprehensive income, the consolidated cash flow statement, the consolidated and company statements of changes in equity for the year then ended; and
- the notes to the financial statements, comprising material accounting policy information and other explanatory information.

Our opinion is consistent with our reporting to the Audit Committee of Rolls-Royce Holdings plc (the company's ultimate parent company).

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 6, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Following our assessment of the risks of material misstatement of the financial statements, including the impact of climate change, we subjected 31 individual components (including three joint ventures) to full scope audits for group reporting purposes, which, with an element of sub-consolidation, equates to 14 group reporting opinions. In addition, nine components performed targeted specified audit procedures contributing to audit coverage.
- The group engagement team audited the company and other centralised functions and balances, including those relating to group treasury operations, corporate taxation, post-retirement benefits, and certain goodwill and intangible asset impairment assessments. The group engagement team also performed audit procedures over the group consolidation and the financial statements disclosures.
- The components on which we performed full scope audit procedures, together with the work performed by the group engagement team as identified above, accounted for 93% of revenue and 79% of profit before taxation.
- For non–full scope components that were not considered inconsequential, we either performed audit procedures over specific account balances or targeted risk assessment procedures.
- Some centralised audit testing was performed for certain reporting components that are supported by Group Business Services (GBS).
- As part of the group audit supervision process, the group engagement team met with the component teams to discuss the approach and results of their audit procedures, and reviewed their audit files and final deliverables. In person site visits to components in the UK, Germany and the US were also performed.

Key audit matters

- Long-term contract accounting and associated provisions (group and company)
- Translation of foreign currency denominated transactions and balances (group and company)
- Presentation and accuracy of underlying results and disclosure of other one-off items (including exceptional items) (group)

Materiality
- Overall group materiality: £200m (2024: £178m) based on approximately 1.0% of underlying revenue.
- Overall company materiality: £107m (2024: £92m) based on approximately 1.0% of revenue.
- Performance materiality: £150m (2024: £110m) (group) and £80m (2024: £65m) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Deferred tax asset recognition and recoverability (group), which was a key audit matter last year, is no longer included because of the full recognition of the deferred tax asset relating to UK tax losses in Rolls-Royce plc reflecting the sustained profitability of the group and an improved outlook. Accordingly, the recognition and recoverability of the deferred tax asset is no longer considered a significant risk. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Long-term contract accounting and associated provisions (group and company) *Directors' Report and note 1 to the consolidated and company financial statements – Accounting policies – Revenue recognition and contract assets and liabilities, note 15 and note 9 to the consolidated and company financial statements respectively – Contract assets and liabilities and note 21 and note 14 to the consolidated and company financial statements respectively – Provisions for liabilities and charges*	
The Civil Aerospace and Defence businesses operate primarily with long-term customer contracts that span multiple periods. These long-term contracts require a number of assumptions to be made in order to determine the expected lifetime revenue and costs of the contract and the amounts of revenue and profit/loss that are recognised in each reporting period. Small adjustments in assumptions can have a significant impact on the results of an individual financial year. Changes to the profile of shop visits or operating conditions of engines can result in different performance assumptions and hence cost profiles. Some contracts include inflation linked price escalations which require judgement to determine the extent to which future price increases are highly probable not to reverse and therefore can be recognised. These changes to forecasts can result in revisions to the revenue previously recognised. For Defence, long-term contracts tend to be for a fixed price or based on a cost plus or target cost reimbursement for qualifying costs and there are also some flying hours arrangements. For Civil Aerospace aftermarket contracts, income is earned based on engine flying hours (EFH). Management is required to estimate this to determine the total revenue expected over the life of a contract. In addition, the profitability of Civil Aerospace aftermarket contracts typically assumes that there will be lifecycle cost improvements over the term of the contracts. Significant assumptions need to be made in determining time-on-wing, whether incremental costs should be treated as wastage or are part of the ongoing cost of servicing a contract, future exchange rates used to translate foreign currency income and costs and other operating parameters used to calculate the projected life cycle. These future costs are also risk adjusted to take into account forecasting accuracy which represents an additional judgement.	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 judgements 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;

Key audit matter	How our audit addressed the key audit matter
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. Management have modelled the potential impact of climate change on its forecasts and has incorporated these estimates into the long-term contracts for Civil Aerospace, which is the business with the highest expected exposure to the impact of climate change. This included incorporating the potential impact of carbon prices on the group's direct emissions including engine testing and those of its suppliers and the potential impact of climate change on commodity prices in cost estimates. The impact of climate change on long-term contracts is highly uncertain and requires estimates on carbon prices, the cost and speed of decarbonisation, the ability of the group and its suppliers to pass on incremental costs and assessing the associated impact on aviation demand.	• We 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; • We considered the appropriateness of the key assumptions used by management to model the impact of climate change, including assessing the reasonableness of the carbon and commodity price forecasts utilised through sensitivity analysis. We validated management's assertions on the ability of suppliers and the group to pass on incremental costs by reviewing supplier and customer contracts for price change mechanisms. Where appropriate we performed independent sensitivity analysis to determine to what extent reasonably possible changes in these assumptions could result in material changes to the revenue recorded in the year and assessed the appropriateness of the associated disclosures; • We read and challenged management's accounting papers that were prepared to explain the positions taken in respect of their key contract judgements; • We considered whether there were any indicators of management bias in arriving at their reported position; and • We assessed the adequacy of disclosures in note 1 of the key judgements and estimates involved in long-term contract accounting. Based on the work performed, we concur that management's estimates for long-term contract accounting and associated provisions are materially appropriate, in the context of the financial statements taken as a whole.

Key audit matter	How our audit addressed the key audit matter
Translation of foreign currency denominated transactions and balances (group and company) *Note 1 to the consolidated and company financial statements – Accounting policies – Foreign currency translation* Foreign exchange rate movements influence the reported consolidated income statement, the consolidated cash flow statement and consolidated and company 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 and company financial statements.	We performed the following specific audit procedures over this area: • Obtained an understanding of the process employed by management to correctly record the translation of foreign currency balances and transactions; • Obtained an understanding of the process employed by management at a group level to identify any unusual movements or balances; • Tested the reports identifying transactions and balances in transaction currency by agreeing these to general ledger balances; • Tested, on a sample basis, the manual calculations of the adjustment needed to correctly record the translation of the foreign currency denominated transactions and balances; • Sampled balances and transactions requiring adjustment by transaction currency and tested to source data and assessed the completeness of these balances and transactions; and • Agreed the exchange rates used in management's translation adjustments to an independent source. There were no material uncorrected errors from our audit work.
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.	We have considered the judgements taken by management to determine what should be treated as an exceptional item and the translation of foreign currency amounts and obtained corroborative evidence for these. We also considered whether there were items that were recorded within underlying profit that are exceptional in nature and should be reported as an exceptional item. No such material items were identified. As part of this assessment we challenged management's rationale for the designation of certain items as exceptional or one-off and assessed such items against the group's accounting policy, considering the nature and value of those items. Within underlying results, foreign currency transactions are presented at rates achieved on derivative contracts hedging the net operating cash flows of the group and monetary assets and liabilities are retranslated at rates forecast to be achieved on derivative contracts when the associated cash flows occur. We have agreed these forecast rates to the profile of the derivatives that are expected to mature in the future and tested their application to the relevant monetary assets and liabilities. We tested the reconciling items between the operating profit and free cash flow disclosed in note 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.

Key audit matter	How our audit addressed the key audit matter
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.	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.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the group consolidation. Of the group's approximately 350 reporting components, 31 individual components (including three joint ventures) were subject to full scope audits which, with an element of sub-consolidation, equates to 14 group reporting opinions. A further nine components performed targeted specified audit procedures contributing to audit coverage.

Under our audit methodology, we test both the design and operating effectiveness of relevant business process controls over significant risks and perform substantive testing over each financial statement line item.

The group operates Group Business Services (GBS) to bulk process financial transactions in Derby (UK), Indianapolis (US), Bengaluru (India) and Krakow (Poland). Based on our assessment it is not possible to fully test revenue and profit centrally as certain key processes, such as long-term contracting, remain within the business due to their nature and are not handled by GBS.

Further specific audit procedures over central functions, the group consolidation and areas of significant judgement, including group treasury operations, corporate taxation, post-retirement benefits, and certain goodwill balances and intangible assets impairment assessments were performed by the group engagement team.

This scope of work, together with the additional procedures performed at a group level as identified above, covered 93% of revenue and 79% of profit before taxation.

Where work was performed by component auditors, we determined the level of involvement required in the audit work at those reporting units to enable us to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements.

We issued formal written instructions to all component auditors setting out the audit work to be performed by each of them and maintained regular communication with the component auditors throughout the audit cycle. These interactions included attending certain component clearance meetings and holding regular conference calls, as well as reviewing and assessing any matters reported. The group engagement team also reviewed selected audit working papers for certain component teams to evaluate the sufficiency of audit evidence obtained and to fully understand the matters arising from the component audits.

In addition, senior members of the group engagement team have visited component teams across all the group's major segments in the UK, Germany and the US. They included meetings with the component auditor and with local management.

The company comprises a number of businesses and we leveraged the testing performed over the largest of these that was obtained for the group audit. In addition, we centrally tested certain items such as derivatives as part of our treasury operations, defined benefit obligations, as well as corporate taxation. We audited company level adjustments including intercompany balances and the recoverability of investments in subsidiaries.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the process they adopted to assess the extent of the potential impact of climate risk on the group's and the company's financial statements and to support the disclosures made within the Sustainability section of the Strategic report in Rolls-Royce Holdings plc's Annual Report 2025. In addition to our enquiries with management, we understood the governance processes in place to assess climate risk, reviewed the group's assessment of climate-related risk including both physical and transition risks and read additional reporting made on climate related matters, including the group's disclosures in line with the Task Force on Climate-related Financial Disclosures (TCFD) framework.

We held meetings with management, including the group's sustainability team, to consider the completeness of management's climate risk assessment and its consistency with internal climate plans and board minutes, including whether the time horizons used by management take account of all relevant aspects of climate change, such as transition risks. We also considered the consistency of this assessment with the group's communications on climate-related impacts. We challenged management on the carbon prices used within their modelling and how these have been applied, as well as on the alignment of the longer-term forecast period to 2050 with the company's transition plan and its associated metrics and targets.

We considered the following areas, which depend on medium to long-term profit or cash flow forecasts to be potentially materially impacted by climate risk and consequently we focused our audit work in these areas: long-term contract accounting in the UK Civil business (including contract loss provisions); the recoverability of deferred tax assets in the UK and the recoverability of the carrying value of goodwill and certain intangible assets. Our findings were reported to and discussed with the Audit Committee of Rolls-Royce Holdings plc (the ultimate parent company) and management. Where significant, further details of how climate change has been considered in these areas and our audit response is given in the key audit matters above.

To respond to the audit risks identified in these areas we tailored our audit approach to address these, in particular, we:

- Validated the carbon prices used by management by benchmarking them against external forecasts and performed sensitivity analysis over their application. The carbon prices have been incorporated by management in their forecasts of the group's future cost base for long-term contract accounting and associated provisions as well as scenarios utilised in assessing the recoverability of deferred tax assets, goodwill and other assets;

- Considered the reasonableness of management's assertion that climate change is unlikely to have a material impact on aviation demand by comparing management's EFH forecasts against other industry benchmarks and by considering the sensitivity of EFH to different GDP growth rates expected under differing climate scenarios;

- Verified that estimates of capital and cash costs from reductions to the group's scope 1 and scope 2 emissions have been incorporated in the group's forecasts including those used for going concern and the disclosures around the viability of the group that are included in the Strategic Report of the Rolls-Royce Holdings plc Annual Report;

- Validated management's judgement that climate change is unlikely to have a material impact on other estimates at 31 December 2025, including the recoverability of inventory or the expected credit loss provision associated with trade receivables and contract assets, by considering the short timeframe these assets are expected to be utilised in compared to the period over which transition and physical risks are expected to arise; and

- Where appropriate, performed independent sensitivity analysis to determine to what extent reasonably possible changes in the climate related assumptions in the group's forecasts could result in material changes to the impacted balances and assessed the appropriateness of the associated disclosures.

We also considered the consistency of the disclosures in relation to climate change (including the disclosures in the Sustainability section of the Strategic Report) within the Rolls-Royce Holdings plc Annual Report 2025 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 of the Rolls-Royce Holdings plc Annual Report 2025, 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.

Our procedures did not identify any material impact in the context of our audit of the financial statements as a whole for the year ended 31 December 2025. The future estimated financial impacts of climate risk are inherently uncertain given the medium to long-term time frames involved and their dependency on how governments, global markets, corporations and society respond to climate change, as well as the speed of technological advancements that may be required. Accordingly, financial statements cannot capture all possible future outcomes as these are not yet known.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£200m (2024: £178m).	£107m (2024: £92m).
How we determined it	Approximately 1.0% of underlying revenue	Approximately 1.0% of revenue
Rationale for benchmark applied	We have consistently used underlying revenue to determine materiality as opposed to a profit-based benchmark. This is because there is considerable volatility in profit before tax as a result of revenue recognition under IFRS 15 and from the fair value movement in the group's derivatives. Underlying revenue continues to be a key performance metric for the group and is more stable than the profit metric. We have applied a 1.0% revenue benchmark, consistent with prior year. This is also a commonly used benchmark for revenue based materiality.	Consistent with the group financial statements, we have used revenue to determine materiality as opposed to a profit-based benchmark. We have used statutory revenue rather than underlying revenue because underlying revenue is not disclosed for the company.

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 £8m to £110m. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2024: 62.5%) of overall materiality, amounting to £150m (2024: £110m) for the group financial statements and £80m (2024: £65m) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Audit Committee of Rolls-Royce Holdings plc (the company's ultimate parent company) that we would report to them misstatements identified during our audit above £8m (group audit) (2024: £7m) and £5.4m (company audit) (2024: £4.4m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Testing the model used for management's going concern assessment which is primarily a liquidity assessment given there are no significant financial covenants in its committed debt facilities. Management's assessment covered the 18 months from the balance sheet date to 30 June 2027. We focused on this period and also considered the subsequent six months to the end of 2027;
- Management's base case forecasts are prepared through its normal budget and forecasting process for each of its businesses over the next five years. We understood and assessed this process including the assumptions used for 2026 and 2027 and assessed whether there was adequate support for these assumptions. A similar assessment was performed on the downside cash flows, including gaining an understanding of the scenarios modelled by management and how they were quantified in the downside cash flow forecast;
- We have read and understood the key terms of all committed debt facilities to understand any terms, covenants or undertakings that may impact the availability of the facility;
- We considered the potential mitigating actions available to management to reduce costs, manage cash flows, limit share buybacks or raise additional financing and assessed whether these were within management's control and feasible within the period of the assessment; and
- We assessed the adequacy of disclosures in the Going concern statement and statements in note 1 of the consolidated and company financial statements and found these appropriately reflect the key areas of uncertainty identified.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2025 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

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;
- Assessment of 'speak-up' matters reported through the group's Speak Up Line and the results of management's investigation of such matters;
- Verifying sales of spare engines to joint ventures are in line with the approved timetable and are at a price supported by external valuation;
- Reading the minutes of Board meetings to identify any inconsistencies with other information provided by management;
- Reviewing legal expense accounts to identify significant legal spend that may be indicative of non-compliance with laws and regulations;
- Challenging assumptions and judgements made by management in determining significant accounting estimates (because of the risk of management bias), in particular in relation to long-term contract accounting and associated provisions;
- Identifying and testing unusual journal entries, in particular journal entries posted with unusual account combinations, and testing all material consolidation journals; and
- Challenging why certain items are excluded or included from underlying profit or free cash flow and review of disclosures included in the Annual Report explaining and reconciling alternative performance measures to statutory metrics.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report. In our engagement letter, we also agreed to describe our audit approach, including communicating key audit matters.

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 are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were first appointed by the company for the financial year ended 31 December 2018. Our uninterrupted engagement covers eight financial years.

Other matter

The company is required by the Financial Conduct Authority Disclosure Guidance and Transparency Rules to include these financial statements in an annual financial report prepared under the structured digital format required by DTR 4.1.15R - 4.1.18R and filed on the National Storage Mechanism of the Financial Conduct Authority. This auditors' report provides no assurance over whether the structured digital format annual financial report has been prepared in accordance with those requirements.

Ian Morrison (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
26 February 2026

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:

£m		2025	2024	Change
USD per GBP	Year-end spot rate	**1.35**	1.25	+8%
	Average spot rate	**1.32**	1.28	+3%
EUR per GBP	Year-end spot rate	**1.15**	1.21	-5%
	Average spot rate	**1.17**	1.18	-1%

The Group's global corporate income tax contribution

The Group's total corporation tax payments in 2025 were £590m. Around 96% of this was paid in the US, Germany, UK, Singapore and Canada. The balance of tax payments were made in around 40 other countries.

In common with most multinational groups, the total profits for corporate income tax purposes are not the same as the consolidated profit before taxation reported on page 31.

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:

- Rolls-Royce Holdings plc Audit Committee Report (page 78 of the Rolls-Royce Holdings plc Financial Statements) – updates were given to the Audit Committee during the year;
- note 5 to the Consolidated Financial Statements (pages 59 to 62); 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 Group's approach to managing its 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	2025	2024
Total equity	**4,977**	(521)
Cash flow hedges	**(7)**	(13)
Group capital	**4,970**	(534)
Net cash	**1,895**	474

Operations are funded through various shareholders' funds, bank borrowings, bonds and notes. The capital structure of the Group reflects the judgement of the Board as to the appropriate balance of funding required. Funding is secured by the Group's continued access to the global debt markets. Borrowings are funded in various currencies using derivatives where appropriate to achieve a required currency and interest rate profile. The Board's objective is to retain sufficient financial investments and undrawn facilities to ensure that the Group can both meet its medium-term operational commitments and cope with unforeseen obligations and opportunities.

The Group holds cash and short-term investments which, together with the undrawn committed facilities, enable it to manage its liquidity risk.

During the year to 31 December 2025, the Group repaid a $1bn bond at its maturity and cancelled its undrawn £2.5bn revolving credit facility, which was due to mature in November 2027. This facility had remained undrawn during the year. The Group replaced this facility with a new £2.5bn revolving credit facility, maturing December 2030.

At the year end, the Group retained aggregate liquidity of £8.2bn, including cash and cash equivalents of £5.7bn and undrawn borrowing facilities of £2.5bn.

The Group has two material debt maturities in February and June 2026. The maturity profile of the borrowing facilities is regularly reviewed to ensure that refinancing levels are manageable in the context of the business and market conditions. There are no rating triggers in any borrowing facility that would require the facility to be accelerated or repaid due to an adverse movement in the Group's credit rating. The Group conducts some of its business through a number of joint ventures. A major proportion of the debt of these joint ventures is secured on the assets of the respective companies and is non-recourse to the Group. This debt is further outlined in note 17.

Credit rating

£m	Rating	Outlook
Moody's Investors Service	Baa1	Positive
Standard & Poor's	BBB+	Stable
Fitch	BBB+	Positive

The Group subscribes to Moody's, Standard & Poor's and Fitch for independent long-term credit ratings, with the ratings in the table above being applicable at the date of this report.

RECONCILIATION OF ALTERNATIVE PERFORMANCE MEASURES (APMs) TO THEIR STATUTORY EQUIVALENT

Alternative Performance Measures (APMs)

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

Definitions and reconciliations to the relevant statutory measure are included below. All comparative periods relate to 31 December 2024.

Underlying results

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

	2025 £m	2024 £m
Revenue		
Statutory revenue	**21,207**	18,909
Derivative and FX adjustments	**(1,148)**	(1,061)
Underlying revenue	**20,059**	17,848

***Gross* profit**		
Statutory gross profit	**6,175**	4,221
Derivative and FX adjustments	**(799)**	(186)
Programme exceptional credits	**(83)**	–
Exceptional transformation and restructuring (credits)/charges	**(9)**	147
Acquisition accounting and M&A	**14**	43
Impairment charge/(reversal)	**6**	(2)
Civil Aerospace programme asset impairment reversal	**(179)**	(132)
Other underlying adjustments	**1**	–
Underlying gross profit	**5,126**	4,091

Commercial and administrative costs		
Statutory commercial and administrative (C&A) costs	**(1,268)**	(1,284)
Exceptional transformation and restructuring charges	**53**	70
Other underlying adjustments	**(8)**	17
Underlying C&A costs	**(1,223)**	(1,197)

Research and development costs		
Statutory research and development (R&D) costs	**(495)**	(203)
Derivative and FX adjustments	**2**	(8)
Exceptional transformation and restructuring charges	**–**	17
Acquisition accounting	**2**	2
Civil Aerospace programme asset impairment reversal	**(6)**	(413)
Underlying R&D costs	**(497)**	(605)

***Operating* profit**		
Statutory operating profit	**4,468**	2,906
Derivative and FX adjustments	**(797)**	(191)
Programme exceptional credits	**(83)**	–
Exceptional transformation and restructuring charges	**44**	234
Acquisition accounting and M&A	**16**	45
Civil Aerospace programme asset impairment reversal	**(185)**	(545)
Impairment charge/(reversal)	**6**	(2)
Other underlying adjustments	**(7)**	17
Underlying operating profit	**3,462**	2,464
Underlying operating margin	**17.3%**	13.8%

Organic change

Organic change is the measure of change at constant translational currency applying full year 2024 average rates to 2025 and excludes M&A changes and business disposals. The movement in underlying change to organic change is reconciled below.

All amounts below are shown on an underlying basis and reconciled to the nearest statutory measure on page 137. All comparative periods relate to the year ended 31 December 2024.

Total group income statement

	2025 £m	2024 £m	Change £m	FX £m	M&A [1] £m	Organic Change £m	Organic change %
Underlying revenue	**20,059**	17,848	2,211	(115)	(164)	2,490	14%
Underlying gross profit	**5,126**	4,091	1,035	(16)	(22)	1,073	26%
Underlying operating profit	**3,462**	2,464	998	(21)	14	1,005	38%
Net financing costs	**(110)**	(171)	61	2	–	59	(35%)
Underlying profit before taxation	**3,352**	2,293	1,059	(19)	14	1,064	44%
Taxation	**(593)**	(282)	(311)	(5)	24	(330)	128%
Underlying profit for the year	**2,759**	2,011	748	(24)	38	734	34%

1 During 2025, the sale of the naval propulsors business completed and the Group relinquished control of Rolls-Royce SMR Limited. As a result, organic change excludes these results from 2025 and 2024. During 2024, the sale of the lower power range engines business completed and the Group exited the advanced air mobility activities. As a result, organic change excludes these results from 2024

Civil Aerospace

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

Defence

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

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

Power Systems

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

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

Trading cash flow

Trading cash flow is defined as free cash flow (as defined below) before the deduction of recurring tax and post-employment benefit expenses. Trading cash flow per segment is used as a measure of business performance for the relevant segments.

	2025 £m	2024 £m
Civil Aerospace	**2,512**	2,030
Defence	**745**	591
Power Systems	**658**	452
Total reportable segments trading cash flow	**3,915**	3,073
All Other Businesses [1]	**10**	(176)
Corporate and Inter-segment	**(62)**	(62)
Trading cash flow	**3,863**	2,835
Underlying operating profit charge exceeded by contributions to defined benefit schemes	**(37)**	(31)
Tax [2]	**(555)**	(381)
Free cash flow	**3,271**	2,423

1 All Other Businesses include the financial results of small modular reactors, electrical power solutions and the UK Civil Nuclear business (see note 2 for further details)

2 See page 96 for tax paid in the derivation of summary funds flow statement

Free cash flow

Free cash flow is a measure of the financial performance of the businesses' cash flows which is consistent with the way in which performance is communicated to the Board. Free cash flow is cash flows from operating activities, adjusted to include capital expenditure and movements in investments, capital elements of lease payments, interest paid, cash received on maturity of share-based payment schemes and amounts paid relating to the settlement of excess derivatives. It excludes amounts spent/received on business acquisitions/disposals, and other material exceptional or one-off cash flows. Cash flows from operating activities is our statutory equivalent.

	2025 £m	2024 £m
Statutory cash flows from operating activities	**4,566**	3,780
Capital expenditure	**(978)**	(876)
Cash received on maturity of share based payment schemes from Rolls-Royce Holdings plc	**40**	–
Investment (including investment from NCI and movement in joint ventures, associates and other investments)	**(7)**	16
Capital element of lease payments	**(232)**	(299)
Interest paid	**(262)**	(298)
Exceptional transformation and restructuring costs	**78**	104
M&A costs	**70**	1
Other	**(4)**	(5)
Free cash flow	**3,271**	2,423

Group R&D expenditure

In year gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the year. For further detail, see note 3.

Gross Capital expenditure

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

	2025 £m	2024 £m
Purchases of PPE (cash flow statement)	**621**	519

Key performance indicators

The following measures are key performance indicators and are calculated using alternative performance measures or statutory results. See below for calculation of these amounts.

Order backlog

Total value of firm orders placed by customers for delivery of products and services where there is no right to cancel. Further details are included in note 2 of the Consolidated Financial Statements.

Total underlying cash costs as a proportion of underlying gross margin (abbreviated to TCC/GM)

Total underlying cash costs during the year (represented by underlying research and development (R&D) expenditure and underlying commercial and administrative (C&A) costs) as a proportion of underlying gross profit. This measure provides an indicator of total cash costs relative to gross profit. A reduction in total cash costs relative to gross profit indicates how effective the business is at managing and/or reducing its costs.

	2025 £m	2024 £m
Underlying R&D expenditure [1]	**598**	745
Underlying C&A	**1,223**	1,197
Total cash costs	**1,821**	1,942
Underlying gross profit	**5,126**	4,091
Total cash costs as a proportion of underlying gross profit	**0.36**	0.47

1 Excludes £4m derivatives and FX (2024: £30m impact of acquisition accounting, exceptional transformation costs, derivatives and FX)

GLOSSARY

APM	alternative performance measure
Articles	Articles of Association of Rolls-Royce plc
AUKUS	Australia, United Kingdom, United States
BESS	battery energy storage system
C&A	commercial and administrative
C Shares	non-cumulative redeemable preference shares
Our Code	Global Code of Conduct
Company	Rolls-Royce plc
DPAs	deferred prosecution agreements
DTR	the FCA's Disclosure Guidance and Transparency Rules
EFH	engine flying hours
EU	European Union
EUR	euro
FCA	Financial Conduct Authority
FLRAA	Future Long Range Assault Aircraft
FRC	Financial Reporting Council
FVOCI	fair value recognised through other comprehensive income
FX	foreign exchange
GBP	Great British pound or pound sterling
GCAP	Global Combat Air Programme
GDP	gross domestic product
GESPP	Global Employee Share Purchase Plan
GHG	greenhouse gas
Group	Rolls-Royce plc and its subsidiaries
GW	gigawatt
HPT	high pressure turbine
HSE	health, safety and environment
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards
KPIs	key performance indicators
$ktCO_2e$	kilotonnes of carbon dioxide equivalent
LTIP	long-term incentive plan
LTSA	long-term service agreement
M&A	mergers and acquisitions
MRO	maintenance repair and overhaul
NCI	non-controlling interest
net zero company	net zero carbon emissions from our operations and facilities and our products are compatible with net zero operations by 2050
OCI	other comprehensive income
OE	original equipment
OECD	Organisation for Economic Cooperation and Development
PPE	property, plant and equipment
R&D	research and development
RRH	Rolls-Royce Holdings plc
Rolls-Royce SMR	Rolls-Royce SMR Limited
RRSAs	risk and revenue sharing arrangements
SAF	sustainable aviation fuel
Scope 1 + 2 emissions	Group Scope 1 + 2 greenhouse gas emissions
SETT	Safety, Energy Transition & Tech Committee
SMRs	small modular reactors
STEM	science, technology, engineering and mathematics
TCC	total cash costs
TCC/GM	total underlying cash costs as a proportion of underlying gross margin
TCFD	Task Force on Climate-related Financial Disclosures
TRI	total reportable injuries
TSR	total shareholder return
USD/US$	United States dollar