

FINANCIAL STATEMENTS

Consolidated Financial Statements

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Company Financial Statements

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Consolidated income statement

Year ended 31 December 2023

	Notes	2023 £m	2022 £m
Continuing operations			
Revenue	2	16,486	13,520
Cost of sales ¹		(12,866)	(10,763)
Gross profit	2	3,620	2,757
Commercial and administrative costs	2	(1,110)	(1,077)
Research and development costs	2, 3	(739)	(891)
Share of results of joint ventures and associates	12	173	48
Operating profit		1,944	837
Gain arising on disposal of businesses	27	1	81
Profit before financing and taxation		1,945	918
Financing income	4	1,163	355
Financing costs	4	(681)	(2,775)
Net financing income/(costs)²		482	(2,420)
Profit/(loss) before taxation		2,427	(1,502)
Taxation	5	(23)	308
Profit/(loss) for the year from continuing operations		2,404	(1,194)
Discontinued operations			
Profit for the year from ordinary activities	27	—	68
Loss on disposal of discontinued operations	27	—	(148)
Loss for the year from discontinued operations		—	(80)
Profit/(loss) for the year		2,404	(1,274)
Attributable to:			
Ordinary shareholders		2,412	(1,269)
Non-controlling interests (NCI)		(8)	(5)
Profit/(loss) for the year		2,404	(1,274)
Other comprehensive (expense)/income (OCI)		(171)	522
Total comprehensive income/(expense) for the year		2,233	(752)
Earnings/(loss) per ordinary share attributable to ordinary shareholders:	6		
From continuing operations:			
Basic		28.85p	(14.24)p
Diluted		28.70p	(14.24)p
From continuing and discontinued operations:			
Basic		28.85p	(15.20)p
Diluted		28.70p	(15.20)p

1 Cost of sales includes a net release for expected credit losses (ECLs) of £48m (2022: charge of £73m). Further detail can be found in note 14

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

Consolidated statement of comprehensive income

Year ended 31 December 2023

	Notes	2023 £m	2022 £m
Profit/(loss) for the year		2,404	(1,274)
Other comprehensive income/(expense) (OCI)			
Actuarial movements on post-retirement schemes	22	116	(156)
Revaluation to fair value of other investments	12	(4)	(4)
Share of OCI of joint ventures and associates	12	1	2
Related tax movements	5	(43)	89
Items that will not be reclassified to profit or loss		70	(69)
Foreign exchange translation differences on foreign operations		(226)	452
Foreign exchange translation differences reclassified to income statement on disposal of businesses	27	1	65
Hedging reserves reclassified to income statement on disposal of businesses		–	111
NCI disposed of on disposal of businesses		–	1
Movement on fair values charged to cash flow hedge reserve		(82)	(7)
Reclassified to income statement from cash flow hedge reserve		61	(55)
Costs of hedging		–	10
Share of OCI of joint ventures and associates	12	1	–
Related tax movements	5	4	14
Items that will be reclassified to profit or loss		(241)	591
Total other comprehensive (expense)/income		(171)	522
Total comprehensive income/(expense) for the year		2,233	(752)
Attributable to:			
Ordinary shareholders		2,241	(748)
NCI		(8)	(4)
Total comprehensive income/(expense) for the year		2,233	(752)
Total comprehensive income/(expense) for the year attributable to ordinary shareholders arises from:			
Continuing operations		2,241	(673)
Discontinued operations		–	(75)
Total comprehensive income/(expense) for the year attributable to ordinary shareholders		2,241	(748)

Consolidated balance sheet

At 31 December 2023

	Notes	2023 £m	2022 £m
ASSETS			
Intangible assets	9	4,009	4,098
Property, plant and equipment	10	3,728	3,936
Right-of-use assets	11	905	1,061
Investments – joint ventures and associates	12	479	422
Investments – other	12	31	36
Other financial assets	20	360	542
Deferred tax assets	5	2,998	2,731
Post-retirement scheme surpluses	22	782	613
Non-current assets		13,292	13,439
Inventories	13	4,848	4,708
Trade receivables and other assets	14	8,123	6,936
Contract assets	15	1,242	1,481
Taxation recoverable		80	127
Other financial assets	20	34	141
Short-term investments	20	–	11
Cash and cash equivalents	16	3,784	2,607
Current assets		18,111	16,011
Assets held for sale	27	109	–
TOTAL ASSETS		31,512	29,450
LIABILITIES			
Borrowings and lease liabilities	17	(809)	(358)
Other financial liabilities	20	(448)	(1,016)
Trade payables and other liabilities	19	(6,896)	(6,983)
Contract liabilities	15	(6,098)	(4,825)
Current tax liabilities		(143)	(104)
Provisions for liabilities and charges	21	(532)	(632)
Current liabilities		(14,926)	(13,918)
Borrowings and lease liabilities	17	(4,950)	(5,597)
Other financial liabilities	20	(1,983)	(3,230)
Trade payables and other liabilities	19	(1,927)	(2,364)
Contract liabilities	15	(8,438)	(7,337)
Deferred tax liabilities	5	(330)	(286)
Provisions for liabilities and charges	21	(1,497)	(1,701)
Post-retirement scheme deficits	22	(1,035)	(1,033)
Non-current liabilities		(20,160)	(21,548)
Liabilities associated with assets held for sale	27	(55)	–
TOTAL LIABILITIES		(35,141)	(35,466)
NET LIABILITIES		(3,629)	(6,016)
EQUITY			
Called-up share capital	23	1,684	1,674
Share premium		1,012	1,012
Capital redemption reserve		167	166
Cash flow hedge reserve		12	26
Translation reserve		634	861
Accumulated losses		(7,190)	(9,789)
Equity attributable to ordinary shareholders		(3,681)	(6,050)
Non-controlling interest (NCI)		52	34
TOTAL EQUITY		(3,629)	(6,016)

The Financial Statements on pages 114 to 184 were approved by the Board on 22 February 2024 and signed on its behalf by:

Tufan Erginbilgic
Chief Executive

Helen McCabe
Chief Financial Officer

Consolidated cash flow statement

Year ended 31 December 2023

	Notes	2023 £m	Restated ¹ 2022 £m
Reconciliation of cash flows from operating activities			
Operating profit from continuing operations		1,944	837
Operating profit from discontinued operations	27	–	86
Operating profit		1,944	923
Loss on disposal of property, plant and equipment		18	18
Share of results of joint ventures and associates	12	(173)	(48)
Dividends received from joint ventures and associates	12	54	73
Amortisation and impairment of intangible assets	9	272	287
Depreciation and impairment of property, plant and equipment	10	423	430
Depreciation and impairment of right-of-use assets	11	334	287
Adjustment of amounts payable under residual value guarantees within lease liabilities	18	(10)	(3)
Impairment of and other movements on investments	12	–	75
Decrease in provisions		(325)	(197)
Increase in inventories		(200)	(887)
Movement in trade receivables/payables and other assets/liabilities		(1,346)	(56)
Movement in contract assets/liabilities		2,703	1,753
Cash flows on other financial assets and liabilities held for operating purposes ²		(845)	(660)
Cash flows on settlement of excess derivative contracts ^{1,3}		(389)	(326)
Interest received		159	36
Net defined benefit post-retirement cost recognised in profit before financing	22	41	27
Cash funding of defined benefit post-retirement schemes	22	(69)	(81)
Share-based payments	24	66	47
Net cash inflow from operating activities before taxation		2,657	1,698
Taxation paid		(172)	(174)
Net cash inflow from operating activities		2,485	1,524
Cash flows from investing activities			
Movement in other investments	12	1	(5)
Additions of intangible assets		(284)	(237)
Disposals of intangible assets	9	4	8
Purchases of property, plant and equipment		(429)	(359)
Disposals of property, plant and equipment		10	48
Acquisition of businesses		(14)	–
Disposal of businesses (including cash flows on disposals in prior periods)	27	(4)	1,398
Movement in investments in joint ventures and associates	12	(9)	(24)
Movement in short-term investments		11	(3)
Cash flows on other financial assets and liabilities held for non-operating purposes		(12)	–
Net cash (outflow)/inflow from investing activities		(726)	826
Cash flows from financing activities			
Repayment of loans		(1)	(2,024)
Proceeds from increase in loans		2	1
Capital element of lease payments		(291)	(218)
Net cash flow from decrease in borrowings and lease liabilities		(290)	(2,241)
Interest paid		(196)	(235)
Interest element of lease payments		(85)	(68)
Fees paid on undrawn facilities		(52)	(49)
Transactions with NCI ⁴		77	57
Dividends to NCI		(2)	(3)
Redemption of C Shares		(1)	(1)
Net cash outflow from financing activities		(549)	(2,540)

Consolidated cash flow statement continued

Year ended 31 December 2023

	Notes	2023 £m	Restated ¹ 2022 £m
Change in cash and cash equivalents		1,210	(190)
Cash and cash equivalents at 1 January		2,605	2,639
Exchange (losses)/gains on cash and cash equivalents		(84)	156
Cash and cash equivalents at 31 December⁵		3,731	2,605

1 The cash flow statement to 31 December 2022 has been represented as a result of a change in accounting policy to disclose cash flows on settlement of excess derivative contracts as cash flows from operating activities. As a result, there has been a decrease in cash flows from operating activities during the year to 31 December 2022 from £1,850m to £1,524m and a decrease in cash outflow from financing activities from £(2,866)m to £(2,540)m. There is no impact to the total change in cash and cash equivalents or to any alternative performance measures. See note 1 for further detail

2 Predominately relates to cash settled on derivative contracts held for operating purposes

3 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 to 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. The associated cash outflow of these transactions is £1,674m and occurs over the period 2020 to 2026. This action 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. During the year, the Group incurred a cash outflow of £389m (2022: £326m) and estimates that future cash outflows of £146m will be incurred in 2024 and £175m spread over 2025 and 2026

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

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

In deriving the consolidated cash flow statement, movement in balance sheet items have been adjusted for non-cash items. The cash flow in the year includes the sale of goods and services to joint ventures and associates – see note 26.

	2023 £m	2022 £m
Reconciliation of movements in cash and cash equivalents to movements in net debt		
Change in cash and cash equivalents	1,210	(190)
Cash flow from decrease in borrowings and lease liabilities	290	2,241
Cash flow from (decrease)/increase in short-term investments	(11)	3
Change in net debt resulting from cash flows	1,489	2,054
Lease additions, modifications and other non-cash adjustments on borrowings and lease liabilities	(191)	(170)
Exchange gains/(losses) on net debt	57	(150)
Fair value adjustments	7	70
Debt disposed of on disposal of businesses	–	53
Movement in net debt	1,362	1,857
Net debt at 1 January	(3,337)	(5,194)
Net debt at 31 December excluding the fair value of swaps	(1,975)	(3,337)
Fair value of swaps hedging fixed rate borrowings	23	86
Net debt at 31 December	(1,952)	(3,251)

Consolidated cash flow statement continued

Year ended 31 December 2023

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

	At 1 January £m	Funds flow £m	Net debt on disposal £m	Exchange differences £m	Fair value adjustments £m	Reclassifi- cations £m	Other movements £m	At 31 December £m
2023								
Cash at bank and in hand	847	(79)	–	(29)	–	–	–	739
Money market funds	34	1,043	–	–	–	–	–	1,077
Short-term deposits	1,726	297	–	(55)	–	–	–	1,968
Cash and cash equivalents (per balance sheet)	2,607	1,261	–	(84)	–	–	–	3,784
Overdrafts	(2)	(51)	–	–	–	–	–	(53)
Cash and cash equivalents (per cash flow statement)	2,605	1,210	–	(84)	–	–	–	3,731
Short-term investments	11	(11)	–	–	–	–	–	–
Other current borrowings	(1)	(1)	–	–	(13)	(462)	(1)	(478)
Non-current borrowings	(4,105)	–	–	59	20	462	(4)	(3,568)
Lease liabilities	(1,847)	291	–	82	–	–	(186)	(1,660)
Financial liabilities	(5,953)	290	–	141	7	–	(191)	(5,706)
Net debt excluding the fair value of swaps	(3,337)	1,489	–	57	7	–	(191)	(1,975)
Fair value of swaps hedging fixed rate borrowings ¹	86	–	–	(59)	(4)	–	–	23
Net debt	(3,251)	1,489	–	(2)	3	–	(191)	(1,952)
2022								
Cash at bank and in hand	795	17	–	35	–	–	–	847
Money market funds	49	(15)	–	–	–	–	–	34
Short-term deposits	1,777	(171)	–	120	–	–	–	1,726
Cash and cash equivalents (per balance sheet)	2,621	(169)	–	155	–	–	–	2,607
Cash and cash equivalents included within assets held for sale	25	(26)	–	1	–	–	–	–
Overdrafts	(7)	5	–	–	–	–	–	(2)
Cash and cash equivalents (per cash flow statement)	2,639	(190)	–	156	–	–	–	2,605
Short-term investments	8	3	–	–	–	–	–	11
Other current borrowings	(2)	2	–	(1)	–	–	–	(1)
Non-current borrowings	(6,023)	2,000	–	(125)	72	–	(29)	(4,105)
Borrowings included within liabilities held for sale	(59)	21	40	–	(2)	–	–	–
Lease liabilities	(1,744)	217	–	(179)	–	–	(141)	(1,847)
Lease liabilities included within liabilities held for sale	(13)	1	13	(1)	–	–	–	–
Financial liabilities	(7,841)	2,241	53	(306)	70	–	(170)	(5,953)
Net debt excluding the fair value of swaps	(5,194)	2,054	53	(150)	70	–	(170)	(3,337)
Fair value of swaps hedging fixed rate borrowings ¹	37	–	–	125	(76)	–	–	86
Net debt	(5,157)	2,054	53	(25)	(6)	–	(170)	(3,251)

¹ Fair value of swaps hedging fixed rate borrowings reflects the impact of derivatives on repayments of the principal amount of debt. Net debt therefore includes the fair value of derivatives included in fair value hedges (2023: £34m, 2022: £38m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (2023: £(11)m, 2022: £48m)

Consolidated statement of changes in equity

Year ended 31 December 2023

The following describes the nature and purpose of each reserve within equity:

Share capital – The nominal value of ordinary shares of 20p each in issue.

Share premium – Proceeds received in excess of the nominal value of ordinary shares issued, less the costs of issue.

Capital redemption reserve – Amounts transferred from accumulated losses on the repurchase of ordinary shares or the redemption of C Shares.

In Rolls-Royce Holdings plc's own Financial Statements, C Shares are issued from the merger reserve. This reserve was created by a scheme of arrangement in 2011. As this reserve is eliminated on consolidation in the Consolidated Financial Statements, the C Shares are shown as being issued from the capital redemption reserve.

Hedging reserves – Cumulative gains and losses on hedging instruments deemed effective in cash flow hedges and cost of hedging reserve.

Merger reserve – The premium on issuing shares to acquire a business where merger relief in accordance with the Companies Act 2006 applies.

Translation reserve – Gains and losses arising on retranslating the net assets of overseas operations into sterling.

Accumulated losses – All other net gains and losses and transactions with owners not recognised elsewhere and ordinary shares held for the purpose of share-based payment plans.

Non-controlling interests – The share of net assets or liabilities of subsidiaries held by third parties.

Notes	Attributable to ordinary shareholders									Total equity £m
	Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Merger reserve £m	Translation reserve £m	Accumulated losses ¹ £m	Total £m	NCI £m	
At 1 January 2023	1,674	1,012	166	26	–	861	(9,789)	(6,050)	34	(6,016)
Profit/(loss) for the year	–	–	–	–	–	–	2,412	2,412	(8)	2,404
Foreign exchange translation differences on foreign operations	–	–	–	–	–	(226)	–	(226)	–	(226)
Foreign exchange translation differences reclassified to income statement on disposal of businesses	27	–	–	–	–	1	–	1	–	1
Actuarial movements on post-retirement schemes	22	–	–	–	–	–	116	116	–	116
Fair value movement on cash flow hedges	–	–	–	(82)	–	–	–	(82)	–	(82)
Reclassified to income statement from cash flow hedge reserve	–	–	–	61	–	–	–	61	–	61
Revaluation to fair value of other investments	12	–	–	–	–	–	(4)	(4)	–	(4)
OCI of joint ventures and associates	12	–	–	–	2	(1)	1	2	–	2
Related tax movements	5	–	–	–	5	(1)	(43)	(39)	–	(39)
Total comprehensive (expense)/income for the year	–	–	–	(14)	–	(227)	2,482	2,241	(8)	2,233
Issues of ordinary shares	10	–	–	–	–	–	–	10	–	10
Redemption of C Shares	20	–	–	1	–	–	–	(1)	–	–
Shares issued to employee share trust	–	–	–	–	–	–	(10)	(10)	–	(10)
Share-based payments – direct to equity ²	–	–	–	–	–	–	49	49	–	49
Dividends to NCI ³	–	–	–	–	–	–	–	–	(2)	(2)
Transactions with NCI ³	–	–	–	–	–	–	57	57	28	85
Related tax movements	–	–	–	–	–	–	22	22	–	22
Other changes in equity in the year	10	–	1	–	–	–	117	128	26	154
At 31 December 2023	1,684	1,012	167	12	–	634	(7,190)	(3,681)	52	(3,629)

Consolidated statement of changes in equity continued

Year ended 31 December 2023

Notes	Attributable to ordinary shareholders									Total equity £m	
	Share capital £m	Share premium £m	Capital redemption reserve £m	Hedging reserves £m	Merger reserve £m	Trans-lation reserve £m	Accum-ulated losses ¹ £m	Total £m	NCI £m		
At 1 January 2022	1,674	1,012	165	(45)	650	342	(9,189)	(5,391)	26	(5,365)	
Loss for the year	–	–	–	–	–	–	(1,269)	(1,269)	(5)	(1,274)	
Foreign exchange translation differences on foreign operations	–	–	–	–	–	452	–	452	–	452	
Foreign exchange translation differences reclassified to income statement on disposal of businesses	–	–	–	–	–	65	–	65	–	65	
Hedging reserves reclassified to income statement on disposal of businesses	–	–	–	111	–	–	–	111	–	111	
NCI disposed of on disposal of business	–	–	–	–	–	–	–	–	1	1	
Actuarial movements on post-retirement schemes	22	–	–	–	–	–	(156)	(156)	–	(156)	
Fair value movement on cash flow hedges	–	–	–	(7)	–	–	–	(7)	–	(7)	
Reclassified to income statement from cash flow hedge reserve	–	–	–	(55)	–	–	–	(55)	–	(55)	
Costs of hedging	–	–	–	10	–	–	–	10	–	10	
Revaluation to fair value of other investments	12	–	–	–	–	–	(4)	(4)	–	(4)	
OCI of joint ventures and associates	12	–	–	–	–	–	2	2	–	2	
Related tax movements	5	–	–	–	12	–	2	89	103	–	103
Total comprehensive income/(expense) for the year	–	–	–	71	–	519	(1,338)	(748)	(4)	(752)	
Redemption of C Shares	20	–	–	1	–	–	–	(1)	–	–	
Share-based payments – direct to equity ²	–	–	–	–	–	–	46	46	–	46	
Dividends to NCI	–	–	–	–	–	–	–	–	(3)	(3)	
Transactions with NCI ³	–	–	–	–	–	–	42	42	15	57	
Transfer to realised profit ⁴	–	–	–	–	(650)	–	650	–	–	–	
Related tax movements	–	–	–	–	–	–	1	1	–	1	
Other changes in equity in the year	–	–	1	–	(650)	–	738	89	12	101	
At 31 December 2022	1,674	1,012	166	26	–	861	(9,789)	(6,050)	34	(6,016)	

1 At 31 December 2023, 52,912,406 ordinary shares with a net book value of £22m (2022: 11,402,796 ordinary shares with a net book value of £27m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:

– 7,875,240 ordinary shares with a net book value of £15m (2022: 18,488,558 ordinary shares with a net book value of £39m) vested in share-based payment plans;
 – the Company issued 49,100,000 (2022: none) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £10m (2022: £nil); and
 – the Company acquired none (2022: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 284,850 (2022: 486,163) of its ordinary shares through purchases on the London Stock Exchange

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

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

4 On disposal of ITP Aero on 15 September 2022, the premium recognised on issue of shares for the previous acquisition became realised on receipt of qualifying consideration. As such, the total merger reserve has been transferred to accumulated losses

1 Accounting policies

The Company and the Group

Rolls-Royce Holdings plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in England in the United Kingdom. The Consolidated Financial Statements of the Company for the year ended 31 December 2023 consist of the audited consolidation of the Financial Statements of the Company and its subsidiaries (together referred to as the Group) together with the Group's interest in jointly controlled and associated entities.

Basis of preparation and statement of compliance

The Company has elected to prepare its individual Company Financial Statements under FRS 101 *Reduced Disclosure Framework*. They are set out on pages 185 to 189 with the associated accounting policies from page 187.

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

The Consolidated Financial Statements have been prepared on a going concern basis as described on page 58. 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 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 date of this report to August 2025. The Directors have determined that an 18-month 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 the following two forecasts in their assessment of going concern, along with a likelihood assessment of these forecasts:

- the base case forecast, which reflects the Directors current expectations of future trading; and
- a stressed downside forecast, which has also been modelled and envisages a 'stressed' or 'downside' situation that is considered severe but plausible.

Further details are given in the going concern review on page 58. After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and stressed downside, the Directors consider that the Group has sufficient liquidity to continue in operational existence for a period of at least 18 months from the date of this report and are therefore satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the 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 2023 Strategic Report and the stated sustainability approach. The Group's climate strategy sets out how it is responding to the climate challenge by:

- decarbonising its operations, facilities and business activities. This will be met through continued investment in onsite renewable energy installations; the procurement of renewable energy; and continued investment in energy efficiency improvements to reduce the Group's overall energy demands and operating costs. An estimate of the investment required to meet these scope 1 + 2 emission improvements is included in the forecasts that support these Consolidated Financial Statements;
- enabling customers to operate their products in a way that is compatible with low or net zero carbon emissions. To accelerate this, the Group has demonstrated that all the commercial aero engines it produces, and the most popular reciprocating engines (that represent 80% of the Power Systems product portfolio) are compatible for use on sustainable fuels. The Group is also working with its armed forces customers to achieve the same for the engines they use from Defence;
- delivering new products and solutions that can accelerate the global energy transition, including investment in battery energy storage solutions in Power Systems, and in small modular reactors (SMRs). In the year, research and development (R&D) costs of £137m (2022: £108m) within New Markets included investment to ready the SMR to progress through the Great British Nuclear SMR technology selection process and the second stage of the design assessment process. Future investment required to deliver these technologies is included in the forecasts that support the Consolidated Financial Statements; and by
- creating the necessary enabling environment, with public and policy support, to achieve our collective climate goals, through actively engaging with policy makers, regulators and others to advocate for the necessary policy and economic support we have identified.

1 Accounting policies continued

Climate change continued

The climate change scenarios previously prepared to assess the Group's strategic planning and its approach to managing climate-related risk have continued to develop over the last year, as set out in the Strategic Review. The scenarios are used to assess 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 transition and physical risks and opportunities. The Group has identified four key transition risks (relating to customer demand, cost due to carbon pricing, cost due to commodity pricing and changing investment needs) and three key physical risks (relating to facility disruption, supply chain disruption and impact on product performance) which may arise from the energy transition. The transition risks are the most likely to have an impact on the Consolidated Financial Statements, as exposure to physical risks will be greater in the longer-term.

The key sources of estimation uncertainty at the balance sheet date are set out on page 126 and the Directors have considered the impact of climate change on those estimates. The key assumptions used in this assessment are consistent with those used in the climate scenarios presented in the Strategic Review. A summary of the assessment is set out below.

Risk	How reflected in the Financial Statements	Impact on Civil Aerospace LTSA	Impact on impairment of non-financial assets	Impact on UK deferred tax asset recoverability	
Changing customer demand	Overall forecast demand is expected to be robust in each scenario, although product mix may change with customer requirements.	Forecast EFH are based on customer and market data and therefore already include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 1% change in EFH forecasts over the remaining term of Civil LTSA contracts is disclosed on page 129.	Given the level of headroom in the programme intangible assets and Rolls-Royce Power Systems and Rolls-Royce Deutschland goodwill, the potential impact of a change in customer demand does not indicate any potential impact.	Forecast EFH are based on customer and market data and therefore include the latest expectation of the impact of climate change on demand. A sensitivity disclosing the impact of a 5% change in margin or shop visits is disclosed on page 130.	
Changes in costs due to carbon pricing ¹ and commodity price changes ²	1 Based on the IEA Net Zero by 2050 scenario (\$60 per tonne of carbon in 2023 to \$250 in 2050) 2 Commodity prices from the Oxford Economics Global Climate Service and Databank	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% (2022: 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 (2022: 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 129.	Given the level of headroom in the programme intangible assets and Rolls-Royce Power Systems and Rolls-Royce Deutschland goodwill, the potential impact of the cost increased in the scenarios does not indicate any potential impact. The assessment has considered each of the Group's <1.5°C, 1.7°C and 3.5°C scenarios.	The forecast of probable future taxable profits reflects the increase in the cost base that could arise from carbon and commodity prices consistent with the methodology applied for Civil Aerospace LTSA. Disclosed on page 130 is the impact of changing the proportion of cost increases that can be passed onto customers following the expiry of existing LTSA.
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 LTSA.	Impairment tests are either: performed on a value in use basis and the investment associated with new products is required to be excluded; or have sufficient headroom such that the estimated investment requirement is not significant.	Given the UK deferred tax asset recoverability is largely dependent on Civil and Defence aerospace markets, the increase in research and development expenditure required under this scenario does not have a material impact.	

1 Accounting policies continued

Climate change continued

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

Useful lives of assets – The useful lives of property, plant and equipment and right-of-use assets could be reduced by climate-related matters, for example, as a result of physical risks, obsolescence or legal restrictions. The change in useful lives would have a direct impact on the amount of depreciation or amortisation recognised each year from the date of reassessment. The Directors' review of useful lives has taken into consideration the impacts of the Group's decarbonisation strategy (including the remaining useful life of assets that might be incompatible with the Group's commitment to decarbonise its facilities and considering the Group's physical risk assessment) and has not had a material impact on the results for the year. The Directors have also considered the remaining useful economic lives of material intangible assets, including the £1,920m and £238m capitalised development spend associated with the Trent and business aviation programmes disclosed in note 9. Given the measures the Group is taking, including demonstration that all the commercial aero-engines and 80% of the portfolio in Power Systems are compatible with SAF, 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 they could become obsolete due to a reduction in demand. After consideration of the typical stock-turns of the inventory in relation to the rate of change in the market, the Directors consider that inventory is appropriately valued.

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

Share-based payments – A number of remuneration packages have included sustainability metrics. The Group is committed to reaching net zero carbon emissions by 2050, short-term targets were announced to help accelerate progress against this goal. These targets formed part of the Group's remuneration policy and at the end of the 2023, these targets have been met. A new remuneration policy is to be considered by shareholders at the AGM in May 2024. In addition, sustainability metrics are included as a performance condition in some of the long-term incentive plans awarded to employees. The charge to the income statement reflects both where performance conditions have been met in 2023 and the expected outcome of future performance conditions.

Defined benefit pension plans – Climate-related risks could influence the performance of the invested assets and affect the financial position of defined benefit pension plans. As a result, this could have implications on the expected return on plan assets and measurement of defined benefit liabilities in future years. The Trustee of the Rolls-Royce UK Pension Fund (RRUKPF) meets the UK climate-related regulatory requirements. When making decisions about the plan, its analysis is carried out in a way consistent with TCFD. The Trustee has set a target for the plan asset portfolio to be net zero by 2050. Having assessed the risks and opportunities of climate change and considered the nature of the assets of the fund, climate change is unlikely to have a material impact on the position in the Consolidated Financial Statements.

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

Presentation of underlying results

The Group measures financial performance on an underlying basis and discloses this information as an alternative performance measure (APM). This is consistent with the way that financial performance is measured by the Directors and reported to the Board in accordance with IFRS 8 *Operating Segments*. The Group believes this is the most appropriate basis to measure the in-year performance, as underlying results reflect the substance of trading activity, including the impact of the Group's foreign exchange forward contracts, which economically hedge net foreign currency cash flows at predetermined exchange rates. In addition, underlying results exclude the accounting impact of acquisition accounting and business disposals, impairment charges where the reasons are outside of normal operating activities, exceptional items, and certain other items which are market driven and outside of the control of management. Further details are given in note 2. A reconciliation of APMs to the statutory equivalent is provided on pages 213 to 217.

1 Accounting policies continued

Revisions to IFRS applicable in 2023

IFRS 17 Insurance Contracts

IFRS 17, issued in May 2018, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The Standard is effective for years beginning on or after 1 January 2023 with a requirement to restate comparatives.

The Group has reviewed whether its arrangements meet the accounting definition of an insurance contract. While some contracts, including Civil Aerospace LTSAs, may transfer an element of insurance risk, they relate to warranty and service type agreements that are issued in connection with the Group's sales of its goods or services and therefore will remain accounted for under the existing revenue and provisions standards. The Directors have judged that such arrangements entered into after the original equipment sale remain sufficiently related to the sale of the Group's goods and services to allow the contracts to continue to be measured under IFRS 15 *Revenue from Contracts with Customers* and IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

The Group has identified that the Standard will impact the results of its captive insurance company as it issues insurance contracts, however, since the contracts insure other group companies, there is no impact on the Consolidated Financial Statements.

The Group has assessed that its parent company guarantee arrangements in the form of financial or performance guarantees, that meet the IFRS 17 definition of insurance contracts, have no impact on the Consolidated Financial Statements of the Group for the year to 31 December 2023, however there could be an impact on individual sets of financial statements of companies within the Group.

The Directors are not aware of any other contracts where IFRS 17 would have an impact on the Consolidated Financial Statements.

Other

IAS 12 *Income Taxes* has been amended to incorporate the following revisions for 'Deferred Tax related to Assets and Liabilities arising from a Single Transaction' and 'International Tax Reform: Pillar Two Model Rules'. There is no material impact on the Group as a result of the amendments relating to Deferred Tax related to Assets and Liabilities arising from a Single Transaction.

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules. The legislation has been substantively enacted in some of the material jurisdictions in which the Group operates, including the UK and Germany, where the rules will be effective from 1 January 2024. Further information can be found in note 5.

There are no other new standards or interpretations issued by the IASB that had a significant impact on the Consolidated Financial Statements.

Change in accounting policy

At 31 December 2023, cash flows on settlement of excess derivatives have been reclassified from cash flows from financing activities to cash flows from operating activities in the cash flow statement as a result of a change in accounting policy. In line with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, a change in accounting policy can be made either where it is required by an IFRS or results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, performance or cash flows.

The previous classification as cash flows from financing activities was based on the Directors' judgement of the economic nature of the activities as the cash flows relate to cash payments deferred in connection with the Group's action taken in 2020 to reduce the size of the USD hedge book by \$11.8bn across 2020 to 2026. The Directors have reassessed their judgement in line with IAS 7 *Statement of Cash Flows* and have concluded that it would be more appropriate to classify these cash flows as cash flows from operating activities.

As a result of the above, cash flows from operating activities during the year to 31 December 2022 have reduced by £(326)m to £1,524m with a corresponding decrease in cash outflow from financing activities from £(2,866)m to £(2,540)m. There is no impact to the total change in cash and cash equivalents or to any alternative performance measures.

The above change resulted from a review which was prompted by an enquiry arising from a review of the Group's 2022 Annual Report and Accounts by the Corporate Reporting Review team of the Financial Reporting Council (FRC). The FRC review was part of a regular review and assessment of the quality of corporate reporting in the UK undertaken by the FRC. Further information regarding the review of the Group's 2022 Annual Report and Accounts is set out in the Audit Committee report on page 80. The Group agreed to make the above change within its 2023 Annual Report and Accounts.

The FRC review was limited to the published 2022 Annual Report; it did not benefit from a detailed understanding of underlying transactions and provides no assurance that the 2022 Annual Report is correct in all material respects.

1 Accounting policies continued

Key areas of judgement and sources of estimation uncertainty

The determination of the Group's accounting policies requires judgement. The subsequent application of these policies requires estimates, and the actual outcome may differ from that calculated. The key judgements and key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are summarised below. Further details, together with sensitivities for key sources of estimation uncertainty where appropriate and practicable, are included within the significant accounting policies section of this note.

Area	Key judgements	Key sources of estimation uncertainty	Page ref
Revenue recognition and contract assets and liabilities	<ul style="list-style-type: none"> – Whether Civil Aerospace OE and aftermarket contracts should be combined. – How performance on long-term aftermarket contracts should be measured. – Whether long-term aftermarket contracts contain a significant financing component. – Whether any costs should be treated as wastage. – Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15. – Whether sales of spare engines to joint ventures are at fair value. – When revenue should be recognised in relation to spare engine sales. 	<ul style="list-style-type: none"> – Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change. 	128
Risk and revenue sharing arrangements	<ul style="list-style-type: none"> – Determination of the nature of entry fees received. 		129
Taxation		<ul style="list-style-type: none"> – Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised. 	130
Research and development	<ul style="list-style-type: none"> – Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation. – Determination of the basis for amortising capitalised development costs. 		132
Leases	<ul style="list-style-type: none"> – Determination of the lease term. 		133
Impairment of non-current assets	<ul style="list-style-type: none"> – Determination of cash-generating units for assessing impairment of goodwill. – Whether there are indicators of potential reversal of previous impairments of programme-related intangible assets. 		134
Provisions	<ul style="list-style-type: none"> – Whether any costs should be treated as wastage. – Whether the criteria to recognise transformation and restructuring provisions have been met. 	<ul style="list-style-type: none"> – Estimates of the time to incorporate a modified and certified high-pressure turbine (HPT) blade into the fleet to resolve technical issues on the Trent 1000, 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 rates. 	135
Post-retirement benefits		<ul style="list-style-type: none"> – Estimates of the assumptions for valuing the net defined benefit obligation. 	136

Material accounting policies

The Group's material accounting policies are set out on pages 126 to 136. These accounting policies have been applied consistently to all periods presented in these Consolidated Financial Statements.

Basis of consolidation

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

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

1 Accounting policies continued

Basis of consolidation continued

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

An associate is an entity that is neither a subsidiary nor a joint arrangement, in which the Group holds a long-term interest and where the Group has a significant influence. The results of associates are accounted for using the equity method of accounting.

All intra-group transactions, balances, income and expenses are eliminated on consolidation. Adjustments are made to eliminate the profit or loss arising on transactions with joint arrangements and associates to the extent of the Group's interest in the entity. Transactions with non-controlling interests are recorded directly in equity.

Any subsidiary undertaking, joint arrangement or associate sold or acquired during the year are included up to, or from, the date of change of control. Details of transactions in the year are set out in note 27.

Revenue recognition and contract assets and liabilities

Revenue recognised comprises sales to the Group's customers after discounts and amounts payable to customers. Revenue excludes value added taxes. The transaction price of a contract is typically clearly stated within the contract, although the absolute amount may be dependent on escalation indices and long-term contracts that require the key estimates highlighted below to be made. Refund liabilities, where sales are made to customers 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 division) 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 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 LTSA, 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 LTSA can be accounted for as separate contracts, termination of the existing contract and the creation of a new contract, or as part of the existing contract. The treatment is dependent on whether the change in scope is because of the addition of promised goods or services that are distinct and whether the price increases by an amount that reflects their standalone selling prices.
- Where material, wastage costs (see key judgements on page 128) 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 23 years).

1 Accounting policies continued

Key judgement – Whether Civil Aerospace OE and aftermarket contracts should be combined

In the Civil Aerospace division, 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 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 division, cover a range of services and generally have contractual terms covering more than one year. Under these contracts, the Group's primary obligation is to maintain customers' engines in an operational condition. This is achieved by undertaking various activities, such as maintenance, repair and overhaul, and engine monitoring over the period of the contract. Revenue on these contracts is recognised over the period of the contract and the basis for measuring progress is a matter of judgement. The Directors consider that the stage of completion of the contract is best measured by using the actual costs incurred to date compared to the estimated costs to complete the performance obligations, as this reflects the extent of completion of the activities to be performed.

Key judgement – Whether long-term aftermarket contracts contain a significant financing component

Long-term aftermarket contracts typically cover a period of eight to 15 years. Their pricing is the subject of negotiation with individual customers under competitive circumstances. It is the Directors' judgement that the consideration received approximates to the cash selling price and any timing difference between consideration being received and the supply of goods and services is typical of the industry and arises for reasons other than to provide financing. The customers typically pay on an 'as used' basis (e.g. USD/EFH), which reflects the wear and tear of the engine as it flies and aligns to the customer's own revenue streams. An adjustment to the transaction price is therefore not required.

Key judgement – Whether any costs should be treated as wastage

In rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Examples include technical issues that: require resolution to meet regulatory requirements; have a wide-ranging impact across a product type; and cause significant operational disruption to customers. Similarly, in these rare circumstances, significant disruption costs to support customers resulting from the actual performance of a delivered good or service may be treated as a wastage cost. Provision is made for any costs identified as wastage when the obligation to incur them arises – see note 21.

Key judgement – Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15

The Group has considered whether these arrangements are insurance contracts as defined in IFRS 17. While they may transfer an element of insurance risk, they relate to warranty and service type agreements that are entered into in connection with the Group's sales of its goods or services and therefore continue to be accounted for under the existing revenue and provisions standards. The Directors have judged that such arrangements entered into after the original equipment sale remain sufficiently related to the sale of the Group's goods and services to allow the contracts to continue to be measured under IFRS 15 and IAS 37.

Key judgement – Whether sales of spare engines to joint ventures are at fair value

The Civil Aerospace division 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 2023, of the total 53 (2022: 44) large spare engine sales delivered, 27 (2022: 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 £578m (2022: £454m) to revenue for the year.

1 Accounting policies continued

Key estimate – Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change

The Group has long-term contracts that fall into different accounting periods and which can extend over significant periods. The most significant of these are LTSAs in the Civil Aerospace division, with contracts typically covering a period of 8 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 both include the impact of inflation). The impact of climate change on EFHs and costs is also considered when making these estimates. Industry and customer data on expected levels of utilisation is included in the forecasts used. Across the length of the current Civil Aerospace LTSA contracts, allowance has been made for around a 1% (2022: 1%) projected cost increase resulting from carbon pricing and commodity price changes.

The sensitivities below demonstrate how changes in assumptions (including as a result of climate change) could impact the level of revenue recognised were assumptions to change. The Directors believe that the estimates used to prepare the Consolidated Financial Statements take account of the inherent uncertainties, constraining the expected level of revenue as appropriate.

Estimates of future LTSA revenue within Civil Aerospace are based upon future EFH forecasts, influenced by assumptions over the recovery of the civil aviation industry. Finally, many of the revenues and costs are denominated in currencies other than that of the relevant group undertaking. These are translated at an estimated long-term exchange rate, based on historical trends and economic forecasts.

During the year, changes to the estimate in relation to the Civil Aerospace LTSA contracts resulted in adverse catch-up adjustments to revenue of £104m (2022: favourable catch up adjustment of £360m).

Based upon the stage of completion of all LTSA contracts within Civil Aerospace as at 31 December 2023, the following reasonably possible changes in estimates would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying rates):

- A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an in-year impact of around £20m. This would be expected to be seen as a catch-up change in revenue or, to the extent it impacts onerous contracts, within cost of sales.
- A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £280m.
- 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 £80m.

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.

Royalty payments

Royalty payments include payments to government bodies that have previously acquired an interest in a programme. These are recognised as a charge in cost of sales in line with sales made.

1 Accounting policies continued

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 would be capitalised as part of the specific asset.

Taxation

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

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

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

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

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits, which include the reversal of taxable temporary differences, will be available against which the assets can be utilised. Further details on the Group's tax position can be found on pages 147 and 148.

Key estimate – Estimates necessary to assess whether it is probable that sufficient suitable taxable profits will arise in the UK to utilise the deferred tax assets recognised

Deferred tax assets are only recognised to the extent it is probable that future taxable profits will be available, against which the deductible temporary difference can be utilised. On this basis, as at 31 December 2023, a deferred tax asset of £1,635m (2022: £2,040m) is not recognised in respect of UK tax losses. Further details are included in note 5.

In addition to taking into account a severe but plausible downside forecast (see below), the climate-related estimates and assumptions (set out on pages 122 to 124) have also been considered when assessing the recoverability of the deferred tax assets. Recognising the longer term over which these assets will be recovered, the Group has considered the risk that regulatory changes could materially impact demand for our products and shifting investment focus towards more sustainable products and solutions. The climate scenarios prepared do not indicate a significant deterioration in demand or profitability for Civil Aerospace programmes, given that all in production engines are now compatible with sustainable fuels.

While carbon and commodity pricing may put pressure on costs, decarbonisation and new supplier and customer contracts offer the opportunity to receive value for more efficient and sustainable products.

As explained in note 5, a 25% probability of there being a severe but plausible downside forecast in relation to the civil aviation industry has been taken into account in the assessment of the recoverability of deferred tax assets.

The estimates take account of the inherent uncertainties constraining the expected level of profit as appropriate. Changes in these estimates will affect future profits and, therefore, the recoverability of the deferred tax assets. The following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets.

- A 5% change in margin of the main Civil Aerospace large engine programmes;
- A 5% change in the number of shop visits; and
- Assumed future cost increases from climate change expected to pass through to customers at 100% are restricted to 90% pass through.

All of these could be driven by a number of factors, including the impact of climate change (as explained on pages 122 to 124) and macroeconomic factors.

A 5% change in margin or shop visits (which could be driven by EFHs) would result in an increase/decrease in the deferred tax asset of around £90m.

If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £10m, and if carbon prices were to double this would be £50m.

1 Accounting policies continued

Foreign currency translation

Transactions denominated in currencies other than the functional currency of the transacting group undertaking are translated into the functional currency at the average monthly exchange rate when the transaction occurs. Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at the rate prevailing at the year end. Exchange differences arising on foreign exchange transactions and the retranslation of monetary assets and liabilities into functional currencies at the rate prevailing at the year end are included in profit/(loss) before taxation.

The trading results of Group undertakings are translated into sterling at the average exchange rates for the year. The assets and liabilities of overseas undertakings, including goodwill and fair value adjustments arising on acquisition, are translated at the exchange rates prevailing at the year end. Exchange adjustments arising from the retranslation of the opening net assets, and from the translation of the profits or losses at average rates, are recognised in OCI.

Discontinued operations, held for sale 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 coordinated plan to dispose of such a line of business or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are required to be presented separately in the income statement.

Assets and businesses are classified as held for sale when their carrying amounts will be recovered through sale rather than through continuing use.

Financial instruments – Classification and measurement

Financial assets primarily include trade receivables and other non-derivative financial assets, cash and cash equivalents, short-term investments, derivatives (foreign exchange, commodity and interest rate contracts), and listed and unlisted investments.

- Trade receivables and other assets are classified either as held to collect and measured at amortised cost, or as held to collect and sell and measured at fair value, with movements in fair value recognised through other comprehensive income (FVOCI). The Group may sell trade receivables due from certain customers before the due date. Any trade receivables from such customers that are not sold at the reporting date are classified as 'held to collect and sell'.
- Cash and cash equivalents (consisting of balances with banks and other financial institutions, money-market funds, short-term deposits) and short-term investments are subject to low market risk. Cash balances, short-term deposits (with a maturity of primarily three months or less) and short-term investments are measured at amortised cost. Money market funds are measured at fair value, with movements in fair value recognised in the income statement as a profit or loss (FVPL).
- Derivatives and unlisted investments are measured at FVPL. The Company has elected to measure its listed investments at FVOCI.

Financial liabilities primarily consist of trade payables and other non-derivative financial liabilities, borrowings, derivatives, financial RRSAs and C Shares.

- Derivatives are classified and measured at FVPL.
- All other financial liabilities are classified and measured at amortised cost.

Financial instruments – Impairment of financial assets and contract assets

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

Financial instruments – Hedge accounting

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

The Group economically hedges the fair value and cash flow exposures of its borrowings. Cross-currency interest rate swaps are held to manage the fair value or cash flow exposures of borrowings denominated in foreign currencies and are designated as fair value hedges or cash flow hedges as appropriate. Interest rate swaps are held to manage the interest rate exposures of fixed and floating rate borrowings and may be designated as fair value hedges or cash flow hedges as appropriate. If the swaps are not designated as fair value or cash flow hedges, the economic effect is included in the underlying results – see note 2.

Changes in the fair values of derivatives that are designated as fair value hedges are recognised directly in the income statement. The fair value changes of effective cash flow hedge derivatives are recognised in OCI and subsequently recycled to the income statement in the same period or periods during which the hedged cash flows affect profit or loss. Any ineffectiveness in the hedging relationship is included in the income statement.

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 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.

1 Accounting policies continued

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 straight-line basis 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 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, £192m (2022: £131m) of development expenditure was capitalised.

Within the Group, 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 Group continues to invest in new technologies as a result of its decarbonisation commitments. As these are new technologies, there is a higher level of uncertainty over potential outcomes and, therefore, this could impact the level of expenditure that is capitalised or recognised in the income statement in future years. During 2023, no development costs incurred within New Markets were capitalised.

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

Key judgement – Determination of the basis for amortising capitalised development costs

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

1 Accounting policies continued

Software

Software that is not specific to an item of property, plant and equipment is classified as an intangible asset, recognised at its acquisition cost and amortised on a straight-line basis over its useful economic life, up to a maximum of 10 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 and which is amortised on a straight-line basis over a maximum of 15 years, and trademarks which are not amortised. They also include the costs incurred testing and analysing engines with the longest time in service (fleet leader engines) to gather technical knowledge on engine endurance, which are amortised on a straight-line basis over a maximum of 15 years.

Property, plant and equipment

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

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

- Land and buildings, as advised by the Group's professional advisers:
 - freehold buildings – three to 50 years (average 23 years); and
 - no depreciation is provided on freehold land.
- Plant and equipment – two to 27 years (average 11 years).
- Aircraft and engines – five to 20 years (average 16 years).

Leases

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

Lease liabilities include the net present value of the following lease payments:

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

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

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability or a revaluation of the liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Each right-of-use asset is depreciated over the shorter of its useful economic life and the lease term on a straight-line basis unless the lease is expected to transfer ownership of the underlying asset to the Group, in which case the asset is depreciated to the end of the useful life of the asset.

Short-term leases are leases with a lease term of 12 months or less. Payments associated with short-term leases and low-value leases are recognised on a straight-line basis as an expense in the income statement.

Key judgement – Determination of lease term

In determining the lease term, the Group considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). Certain land and building leases have renewal options although there are no renewal dates for any of the most significant property leases in the next 12 months. Other renewals are evenly spread between 2025 to 2032 and then post 2038. The Group reviews its judgements on lease terms annually, including the operational significance of the site, especially where utilised for manufacturing activities.

1 Accounting policies continued

Impairment of non-current assets

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

If the recoverable amount of an asset (or CGU) is estimated to be below the carrying value, the carrying value is reduced to the recoverable amount and the impairment loss is recognised as an expense. The recoverable amount is the higher of value in use or fair value less costs of disposal. The value in use is the present value of future cash flows using a pre-tax discount rate that reflects the time value of money and the risk specific to the asset (or CGU). Fair value less costs of disposal (FVL COD) reflects market inputs or inputs based on market evidence if readily available. If these inputs are not readily available, the fair value is estimated by discounting future cash flows modified for market participants' views. The relevant local statutory tax rates have been applied in calculating post-tax to pre-tax discount rates.

Key judgement – Determination of CGUs for assessing impairment of goodwill

The Group conducts impairment reviews at the CGU level. As permitted by IAS 36, impairment 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.

Key judgement – Whether there are indicators of potential reversal of previous impairments of programme-related intangible assets

Previously impaired intangible assets (including programme intangible assets but excluding goodwill) have been reviewed to ensure that no impairment reversal is required in accordance with IAS 36. In determining whether there was an indication that an impairment loss recognised in a prior period may no longer exist or may have decreased, the Directors considered whether the estimated service potential from the use of impaired assets had increased, other than by amounts generated through the passage of time (which would not represent an economic change in the value of the asset). An impairment of £573m was recorded in previous periods in relation to Business Aviation programme-related intangible assets. No indicator of reversal was present at 31 December 2023. Small changes to assumptions, including those related to discount rates which would be impacted by changes in market interest rates, could result in an increase in the asset's recoverable amount requiring a reversal in the future.

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 enables smaller suppliers, who are on standard 75 day or more payment terms, and joint ventures (90-day standard payment terms) to receive their payment sooner. The election to utilise the programme is at 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 SCF, 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:

- contract losses based on an assessment of whether the direct costs to fulfil a contract are greater than the expected revenue;
- warranty and guarantees based on an assessment of future claims with reference to past experience and recognised at the earlier of when the underlying products and services are sold and when the likelihood of a future cost is identified;
- Trent 1000 in-service issues when wastage costs are identified as described on page 128; and
- transformation and restructuring (included in other provisions) when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has created a valid expectation to those affected.

1 Accounting policies continued

Key judgement – Whether any costs should be treated as wastage

As described further on page 128, in rare circumstances, the Group may incur costs of wasted material, labour or other resources to fulfil a contract where the level of cost was not reflected in the contract price. The identification of such costs is a matter of judgement and would only be expected to arise where there has been a series of abnormal events which give rise to a significant level of cost of a nature that the Group would not expect to incur and hence is not reflected in the contract price. Provision is made for any costs identified as wastage when the obligation to incur them arises.

Specifically for the Trent 1000 wastage costs, provision has been made as the Group is an owner of an engine Type Certificate under which it has a present obligation to develop appropriate design changes to address certain engine conditions that have been noted in issued Airworthiness Directives. The Group is also required to ensure engine operators can continue to safely operate engines within the terms of their LTSA, and this requires the engines to be compliant with the requirements of those issued Airworthiness Directives. These requirements cannot be met without the Group incurring significant costs in the form of replacement parts and customer claims. Given the significant activities of the Group in designing and overhauling aero engines, it is very experienced in making the required estimates in relation to the number and timing of shop visits, parts costs, overhaul labour costs and customer claims.

Key judgement – Whether the criteria to recognise a transformation and restructuring provision have been met

On 17 October 2023, the Group announced plans for a simpler, more streamlined, organisation as part of its multi-year transformation. It is estimated that 2,000 to 2,500 roles will be removed globally.

IAS 19 requires that a liability and expense for termination benefits should be recognised at the earlier of: (a) when an offer of those benefits can no longer be withdrawn; and (b) when the cost for a restructuring that is within the scope of IAS 37 that involves the payment of termination benefits is recognised.

The Directors have considered whether the Group's communications to employees during 2023 have led to an offer of benefits that could no longer be withdrawn. In a small number of situations this has been the case and a charge of £6m has been recognised in the year. For the significant majority of the 2,000 to 2,500 roles, the Directors do not consider that the plan of termination met the requirement for a provision to be recognised on the basis that communications as at 31 December 2023 had not yet been in sufficient detail to identify the functions or locations of the roles, the expected completion date, or the type and amount of benefits that would be received should employees employment be terminated.

Key estimates – Estimates of the time to incorporate a modified and certified high-pressure turbine (HPT) blade 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 has provisions for Trent 1000 wastage costs at 31 December 2023 of £116m (2022: £179m). These represent the Directors' best estimate of the expenditure required to settle the obligations at the balance sheet date. These estimates take account of information available and different possible outcomes.

The Group considers that at 31 December 2023 the Trent 1000 contract loss provisions and the Trent 1000 wastage cost provision are most sensitive to changes in estimates. A 12-month delay in the availability of the modified HPT blade could lead to around a £30m-£50m charge in relation to the Trent 1000 programme.

Key estimates – Estimates of the future revenues and costs to fulfil onerous contracts

The Group has provisions for onerous contracts at 31 December 2023 of £1,472m (2022: £1,592m).

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 £90m-£120m increase in the provision for contract losses across all programmes.

Key estimates – Assumptions implicit within the calculation of discount rates

The contract loss provisions for onerous contracts 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 4%. A 1% change in the discount rates used could lead to around a £70m-£80m 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 181, the Directors consider the likelihood of crystallisation in assessing whether provision is required for any liabilities.

The Group's contingent liabilities relating to financing arrangements are spread over many years and relate to a number of customers and a broad product portfolio and are reported on a discounted basis.

1 Accounting policies continued

Post-retirement benefits

Pensions and similar benefits (principally healthcare) are accounted for under IAS 19.

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. The valuations, which are based on assumptions determined with independent actuarial advice, resulted in a net deficit of £253m before deferred taxation being recognised on the balance sheet at 31 December 2023 (2022: deficit of £420m). 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 4.50% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £185m. This would be expected to be broadly offset by changes in the value of scheme assets, as the scheme's investment policies are designed to mitigate this risk.

An increase in the assumed rate of inflation of 0.25% (RPI of 3.30% and CPI of 2.85%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £75m.

A one-year increase in life expectancy from 20.8 years (male aged 65) and from 21.5 years (male aged 45) would increase the defined benefit obligations of the RRUKPF by approximately £155m.

Further details and sensitivities are included in note 22.

Share-based payments

The Group provides share-based payment arrangements to certain employees. These are principally equity-settled arrangements and are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant. The fair value is expensed on a straight-line basis over the vesting period. The amount recognised as an expense is adjusted to reflect the actual number of shares or options that will vest based on expected performance, except where additional shares vest as a result market-based performance conditions where no adjustment is required as allowance for these performance conditions are included in the initial fair value.

Cash-settled share options (grants in the International ShareSave plan) are measured at fair value at the balance sheet date. The Group recognises a liability at the balance sheet date based on these fair values, taking into account the estimated number of options that are expected to vest and the relative completion of the vesting period. Changes in the value of this liability are recognised in the income statement for the year.

The cost of shares of Rolls-Royce Holdings plc held by the Group for the purpose of fulfilling obligations in respect of employee share plans is deducted from equity in the consolidated balance sheet. See note 24 for a further description of the share-based payment plans.

Revisions to IFRS not applicable in 2023

Standards and interpretations issued by the IASB are only applicable if endorsed by the UK. The Group does not consider that any standards, amendments or interpretations issued by the IASB, but not yet applicable will have a significant impact on the Consolidated Financial Statements.

Other

IBOR reform transition

A number of the Group's lease liabilities have been based on a USD LIBOR index. The majority of contracts in which the Group is a lessee have been amended. These have been amended to Secured Overnight Financing Rate (USD Term SOFR) plus credit adjustment spread (CAS), and the impact to the Financial Statements is not material. There are a number of lease contracts which currently have fixed rentals which will move to floating rentals based on USD LIBOR after the end of the fixed rental period. These will be amended before the end of the fixed rental period to USD Term SOFR plus CAS. The Group has taken the practical expedient available to account for the lease modification required by the IBOR reform by applying IFRS 16 paragraph 42.

Post balance sheet events

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 2023 results as appropriate.

2 Segmental analysis

The analysis by segment is presented in accordance with IFRS 8, 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). The Group's four divisions are set out below.

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

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

Underlying results

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

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

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

In the year to 31 December 2023, the Group was a net seller of USD at an achieved exchange rate GBP:USD of 1.50 (2022:1.50) based on the USD hedge book.

In 2020, the Group experienced a significant decline in its medium-term outlook and consequently a significant deterioration to its forecast net USD cash inflows. The Group took action to reduce the size of the USD hedge book by \$11.8bn across 2020 to 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 to 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.

2 Segmental analysis continued

Exceptional items

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

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

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

Other items

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

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

The following analysis sets out the results of the Group's divisions on the basis described above and also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter- segment ¹ £m	Total Underlying £m
Year ended 31 December 2023							
Underlying revenue from sale of original equipment	2,703	1,766	2,661	2	12	-	7,144
Underlying revenue from aftermarket services	4,645	2,311	1,307	2	-	-	8,265
Total underlying revenue	7,348	4,077	3,968	4	12	-	15,409
Gross profit/(loss)	1,394	804	1,050	1	(15)	(3)	3,231
Commercial and administrative costs	(354)	(173)	(456)	(24)	-	(57)	(1,064)
Research and development costs	(343)	(72)	(187)	(137)	-	-	(739)
Share of results of joint ventures and associates	153	3	6	-	-	-	162
Underlying operating profit/(loss)	850	562	413	(160)	(15)	(60)	1,590
Year ended 31 December 2022							
Underlying revenue from sale of original equipment	1,982	1,634	2,187	1	-	(5)	5,799
Underlying revenue from aftermarket services	3,704	2,026	1,160	2	-	-	6,892
Total underlying revenue	5,686	3,660	3,347	3	-	(5)	12,691
Gross profit/(loss)	853	726	918	(1)	(29)	10	2,477
Commercial and administrative costs	(371)	(174)	(441)	(23)	(2)	(51)	(1,062)
Research and development costs	(452)	(122)	(204)	(108)	-	-	(886)
Share of results of joint ventures and associates	113	2	8	-	-	-	123
Underlying operating profit/(loss)	143	432	281	(132)	(31)	(41)	652

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

2 Segmental analysis continued

Reconciliation to statutory results

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
Year ended 31 December 2023			
Continuing operations			
Revenue from sale of original equipment	7,144	491	7,635
Revenue from aftermarket services	8,265	586	8,851
Total revenue	15,409	1,077	16,486
Gross profit	3,231	389	3,620
Commercial and administrative costs	(1,064)	(46)	(1,110)
Research and development costs	(739)	–	(739)
Share of results of joint ventures and associates	162	11	173
Operating profit	1,590	354	1,944
Gain arising on the disposal of businesses	–	1	1
Profit before financing and taxation	1,590	355	1,945
Net financing	(328)	810	482
Profit before taxation	1,262	1,165	2,427
Taxation	(120)	97	(23)
Profit for the year	1,142	1,262	2,404
Attributable to:			
Ordinary shareholders	1,150	1,262	2,412
NCI	(8)	–	(8)
Year ended 31 December 2022			
Continuing operations			
Revenue from sale of original equipment	5,799	474	6,273
Revenue from aftermarket services	6,892	355	7,247
Total revenue	12,691	829	13,520
Gross profit	2,477	280	2,757
Commercial and administrative costs	(1,062)	(15)	(1,077)
Research and development costs	(886)	(5)	(891)
Share of results of joint ventures and associates	123	(75)	48
Operating profit	652	185	837
Gain arising on the disposal of businesses	–	81	81
Profit before financing and taxation	652	266	918
Net financing	(446)	(1,974)	(2,420)
Profit/(loss) before taxation	206	(1,708)	(1,502)
Taxation	(48)	356	308
Profit/(loss) for the year from continuing operations	158	(1,352)	(1,194)
Discontinued operations ¹	67	(147)	(80)
Profit/(loss) for the year	225	(1,499)	(1,274)
Attributable to:			
Ordinary shareholders	230	(1,499)	(1,269)
NCI	(5)	–	(5)

¹ Discontinued operations relate to the results of ITP Aero and are presented net of intercompany trading eliminations and related consolidation adjustments

2 Segmental analysis continued

Disaggregation of revenue from contracts with customers

Analysis by type and basis of recognition

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter- segment £m	Total Underlying £m
Year ended 31 December 2023							
Original equipment recognised at a point in time	2,703	632	2,611	2	–	–	5,948
Original equipment recognised over time	–	1,134	50	–	12	–	1,196
Aftermarket services recognised at a point in time	1,227	854	1,206	2	–	–	3,289
Aftermarket services recognised over time	3,335	1,457	101	–	–	–	4,893
Total underlying customer contract revenue	7,265	4,077	3,968	4	12	–	15,326
Other underlying revenue ¹	83	–	–	–	–	–	83
Total underlying revenue²	7,348	4,077	3,968	4	12	–	15,409

Year ended 31 December 2022

Original equipment recognised at a point in time	1,982	689	2,155	1	–	(5)	4,822
Original equipment recognised over time	–	945	32	–	–	–	977
Aftermarket services recognised at a point in time	865	769	1,076	2	–	–	2,712
Aftermarket services recognised over time	2,772	1,257	84	–	–	–	4,113
Total underlying customer contract revenue	5,619	3,660	3,347	3	–	(5)	12,624
Other underlying revenue ¹	67	–	–	–	–	–	67
Total underlying revenue²	5,686	3,660	3,347	3	–	(5)	12,691

1 Includes leasing revenue

2 Includes £(36)m, of which £(104)m relates to Civil LTSA contracts, (2022: £367m, of which £360m relates to Civil LTSA contracts) of revenue recognised in the year relating to performance obligations satisfied in previous years

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results ¹ £m
Year ended 31 December 2023			
Original equipment recognised at a point in time	5,948	491	6,439
Original equipment recognised over time	1,196	–	1,196
Aftermarket services recognised at a point in time	3,289	186	3,475
Aftermarket services recognised over time	4,893	382	5,275
Total customer contract revenue	15,326	1,059	16,385
Other revenue	83	18	101
Total revenue	15,409	1,077	16,486

Year ended 31 December 2022

Original equipment recognised at a point in time	4,822	474	5,296
Original equipment recognised over time	977	–	977
Aftermarket services recognised at a point in time	2,712	164	2,876
Aftermarket services recognised over time	4,113	176	4,289
Total customer contract revenue	12,624	814	13,438
Other revenue	67	15	82
Total revenue	12,691	829	13,520

1 During the year to 31 December 2023, revenue recognised within Civil Aerospace, Defence and Power Systems of £1,766m (2022: £1,788m) 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:

	2023 £m	2022 £m
United Kingdom	2,230	1,669
Germany	1,035	855
Ireland	504	328
Turkey	399	220
Switzerland	379	334
France	351	255
Spain	290	188
Italy	282	238
Netherlands	149	95
Portugal	110	43
Norway	71	61
Rest of Europe	308	463
Europe	6,108	4,749
United States	4,668	4,334
Canada	430	267
North America	5,098	4,601
South America	230	168
Central America	106	91
Saudi Arabia	394	322
United Arab Emirates	148	180
Qatar	128	231
Rest of Middle East	200	164
Middle East	870	897
China	1,263	1,246
Japan	586	276
Singapore	437	317
South Korea	303	164
India	221	119
Thailand	132	-
Rest of Asia	529	381
Asia	3,471	2,503
Africa	313	282
Australasia	290	229
	16,486	13,520

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:

	2023			2022		
	Within five years £bn	After five years £bn	Total £bn	Within five years £bn	After five years £bn	Total £bn
Civil Aerospace	28.4	26.8	55.2	25.7	22.0	47.7
Defence	8.3	0.9	9.2	7.8	0.7	8.5
Power Systems	3.9	0.2	4.1	3.7	0.3	4.0
New Markets	-	-	-	-	-	-
Other businesses	-	-	-	-	-	-
	40.6	27.9	68.5	37.2	23.0	60.2

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-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. Within the five years category, contracted revenue in Defence will largely be recognised in the next three years and Power Systems will be recognised over the next two years, as it is a short cycle business.

2 Segmental analysis continued

Underlying adjustments

	2023				2022			
	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	15,409	1,590	(328)	(120)	12,691	652	(446)	(48)
Impact of foreign exchange differences as a result of hedging activities on trading transactions ¹	A	1,077	469	394	(210)	829	267	(358)
Unrealised fair value changes on derivative contracts held for trading ²	A	–	6	514	(130)	–	(3)	(1,768)
Unrealised fair value changes on derivative contracts held for financing ³	A	–	–	7	(2)	–	–	191
Exceptional programme credits/(charges) ⁴	B	–	21	–	(5)	–	69	(3)
Exceptional transformation and restructuring (charges)/credits ⁵	B	–	(102)	25	–	(47)	–	4
Impairment reversals/(charges) ⁶	C	–	8	–	(2)	–	(65)	–
Effect of acquisition accounting ⁷	C	–	(50)	–	12	–	(58)	–
Other ⁸	D	–	2	(105)	24	–	22	(36)
Gains arising on the disposals of businesses	C	–	1	–	–	–	81	–
Recognition of deferred tax assets ⁹	D	–	–	–	385	–	–	93
Total underlying adjustments		1,077	355	810	97	829	266	(1,974)
Statutory performance per consolidated income statement		16,486	1,945	482	(23)	13,520	918	(2,420)
								308

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 £1,077m (2022: £829m) and increased profit before financing and taxation by £469m (2022: £267m). 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 gains of £1m (2022: £190m) on any interest rate swaps not designated into hedging relationships for accounting purposes

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

5 During the year to 31 December 2023, the Group incurred total transformation and restructuring related charges of £102m (2022: £47m). In 2023, the Group announced a major multi-year transformation programme which consists of seven workstreams that were set out in the 2022 Annual Report. During the year, £88m was incurred in relation to this multi-year programme, comprising £45m for advisory fees and transformation office costs, £37m related to impairments and write-offs and £6m related to severance costs. In the year to 31 December 2023, a £14m (2022: £47m) charge related to initiatives to enable restructuring under a previous programme

6 The Group has assessed the carrying value of its assets. Further details are provided in notes 9, 10, 11 and 12

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

8 Includes interest received of £83m (2022: interest received of £14m) 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 £2m (2022: credit of £22m) of past-service credit on defined benefit schemes

9 Relates to the recognition of deferred tax assets on UK tax losses of £328m and foreign exchange derivatives of £57m. The £93m recognised in 2022 relates to foreign exchange derivatives

2 Segmental analysis continued

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Total reportable segments £m
At 31 December 2023					
Segment assets	17,718	3,517	3,814	115	25,164
Interests in joint ventures and associates	444	7	28	–	479
Segment liabilities	(24,447)	(3,376)	(1,765)	(88)	(29,676)
Net (liabilities)/assets	(6,285)	148	2,077	27	(4,033)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	562	176	160	17	915
Depreciation, amortisation and impairment	719	105	194	9	1,027
At 31 December 2022					
Segment assets	17,537	3,430	4,084	135	25,186
Interests in joint ventures and associates	387	4	31	–	422
Segment liabilities	(25,357)	(3,146)	(1,802)	(97)	(30,402)
Net (liabilities)/assets	(7,433)	288	2,313	38	(4,794)
Investment in intangible assets, property, plant and equipment, right-of-use assets and joint ventures and associates	415	146	177	16	754
Depreciation, amortisation and impairment	755	128	193	6	1,082

Reconciliation to the balance sheet

	2023 £m	2022 £m
Total reportable segment assets (excluding held for sale)	25,164	25,186
Other businesses	8	19
Corporate and Inter-segment	(2,010)	(2,460)
Interests in joint ventures and associates	479	422
Assets held for sale	109	–
Cash and cash equivalents and short-term investments	3,784	2,618
Fair value of swaps hedging fixed rate borrowings	118	194
Deferred and income tax assets	3,078	2,858
Post-retirement scheme surpluses	782	613
Total assets	31,512	29,450
Total reportable segment liabilities (excluding held for sale)	(29,676)	(30,402)
Other businesses	(58)	(34)
Corporate and Inter-segment	2,010	2,456
Liabilities associated with assets held for sale	(55)	–
Borrowings and lease liabilities	(5,759)	(5,955)
Fair value of swaps hedging fixed rate borrowings	(95)	(108)
Deferred and income tax liabilities	(473)	(390)
Post-retirement scheme deficits	(1,035)	(1,033)
Total liabilities	(35,141)	(35,466)
Net liabilities	(3,629)	(6,016)

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:

	2023 £m	2022 £m
United Kingdom	4,981	5,202
Germany	2,052	2,151
United States	1,414	1,465
Other	705	735
	9,152	9,553

3 Research and development

	2023 £m	2022 £m
Gross research and development costs	(1,390)	(1,287)
Contributions and fees ¹	548	359
Expenditure in the year	(842)	(928)
Capitalised as intangible assets	192	131
Amortisation and impairment of capitalised costs ²	(89)	(94)
Net cost recognised in the income statement	(739)	(891)
Underlying adjustments relating to effects of acquisition accounting and foreign exchange	-	5
Net underlying cost recognised in the income statement	(739)	(886)

1 Includes £531m (2022: £350m) of government funding

2 See note 9 for analysis of amortisation and impairment

4 Net financing

	2023			2022	
	Statutory £m	Underlying ¹ £m		Statutory £m	Underlying ¹ £m
Interest receivable and similar income ²	164	164		35	35
Net fair value gains on foreign currency contracts	574	-		-	-
Net fair value gains on non-hedge accounted interest rate swaps ³	1	-		190	-
Net fair value gains on commodity contracts	-	-		106	-
Financing on post-retirement scheme surpluses	30	-		24	-
Net foreign exchange gains	394	-		-	-
Financing income	1,163	164		355	35
Interest payable	(369)	(275)		(343)	(320)
Net fair value losses on foreign currency contracts	-	-		(1,875)	-
Foreign exchange differences and changes in forecast payments relating to financial RRSAs	(1)	-		(7)	-
Net fair value losses on commodity contracts	(60)	-		-	-
Financing on post-retirement scheme deficits	(42)	-		(26)	-
Net foreign exchange losses	-	-		(358)	-
Cost of undrawn facilities	(57)	(57)		(61)	(61)
Other financing charges	(152)	(160)		(105)	(100)
Financing costs	(681)	(492)		(2,775)	(481)
Net financing income/(costs)	482	(328)		(2,420)	(446)
Analysed as:					
Net interest payable	(205)	(111)		(308)	(285)
Net fair value gains/(losses) on derivative contracts	515	-		(1,579)	-
Net post-retirement scheme financing	(12)	-		(2)	-
Net foreign exchange gains/(losses)	394	-		(358)	-
Net other financing	(210)	(217)		(173)	(161)
Net financing income/(costs)	482	(328)		(2,420)	(446)

1 See note 2 for definition of underlying results

2 Includes interest income on cash balances and short-term deposits of £117m (2022: £28m) and similar income of £47m (2022: £7m) on money market funds

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

5 Taxation

	UK		Overseas		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Current tax charge for the year	19	18	256	159	275	177
Adjustments in respect of prior years	–	(5)	2	(8)	2	(13)
Current tax	19	13	258	151	277	164
Deferred tax charge/(credit) for the year	224	(427)	(69)	(61)	155	(488)
Adjustments in respect of prior years	(5)	4	2	12	(3)	16
Recognition of deferred tax	(406)	–	–	–	(406)	–
Deferred tax	(187)	(423)	(67)	(49)	(254)	(472)
(Credited)/charged in the income statement	(168)	(410)	191	102	23	(308)

Other tax (charges)/credits

	OCI				Equity	
	Items that will not be reclassified		Items that will be reclassified		2023 £m	2022 £m
	2023 £m	2022 £m	2023 £m	2022 £m		
Deferred tax:						
Movement in post-retirement schemes	(43)	89	–	–	–	–
Cash flow hedge	–	–	5	12	–	–
Net investment hedge	–	–	(1)	2	–	–
Share-based payments – direct to equity	–	–	–	–	22	1
Other tax (charges)/credits	(43)	89	4	14	22	1

Tax reconciliation on continuing operations

	2023 £m	2022 £m
Profit/(loss) before taxation from continuing operations	2,427	(1,502)
Less: share of results of joint ventures and associates (note 12)	(139)	(9)
Profit/(loss) before taxation from continuing operations excluding joint ventures and associates	2,288	(1,511)
Nominal tax charge/(credit) at UK corporation tax rate 23.5% (2022: 19%)	538	(287)
UK tax rate differential ¹	16	(69)
Overseas rate differences ²	9	18
Exempt gain on disposal of businesses ³	–	(14)
R&D credits	(16)	(7)
Other permanent differences	16	23
Benefit to deferred tax from previously unrecognised tax losses and temporary differences ⁴	(57)	(134)
Tax losses and other temporary differences not recognised in deferred tax ⁵	9	159
Benefit arising from previously unrecognised tax losses ⁶	(85)	–
Recognition of deferred tax assets ⁷	(406)	–
Adjustments in respect of prior years	(1)	3
	23	(308)
Underlying items (note 2)	120	48
Non-underlying items	(97)	(356)
	23	(308)

Tax on discontinued operations

	2023 £m	2022 £m
Tax charge on loss before taxation from discontinued operations	–	10
Tax credit on disposal of discontinued operations	–	(31)
	–	(21)

1 The UK tax rate differential arises on the difference between the deferred tax rate and the statutory tax rate

2 Overseas rate differences mainly relate to tax on profits or losses in countries such as the US and Germany

3 The exempt gain in 2022 relates to the disposal of Airtanker Holdings Ltd

4 Benefit to deferred tax from previously unrecognised tax losses and temporary differences mainly relate to foreign exchange derivatives

5 Movement on tax losses not recognised relate to foreign exchange derivatives

6 Relates to foreign exchange derivatives

7 The recognition of deferred tax relates to UK tax losses

5 Taxation continued

Deferred taxation assets and liabilities

	2023 £m	2022 £m
At 1 January	2,445	1,792
Amount credited to income statement	254	495
Amount (charged)/credited to OCI	(44)	91
Amount credited to hedging reserves	5	12
Amount credited to equity	22	1
On acquisition/disposal of businesses ¹	(1)	28
Exchange differences	(13)	26
At 31 December	2,668	2,445
Deferred tax assets	2,998	2,731
Deferred tax liabilities	(330)	(286)
	2,668	2,445

¹ The 2023 deferred tax relates to the acquisition of Team Italia Marine S.R.L. The 2022 deferred tax relates to the disposal of ITP Aero

The analysis of the deferred tax position is as follows:

	At 1 January £m	Recognised in income statement £m	Recognised in OCI £m	Recognised in equity £m	Disposals and acquisition related activity £m	Exchange differences £m	At 31 December £m
2023							
Intangible assets	(436)	6	–	–	(1)	–	(431)
Property, plant and equipment	230	(7)	–	–	–	6	229
Other temporary differences ¹	650	88	4	22	–	(12)	752
Net contract liabilities	64	(4)	–	–	–	–	60
Pensions and other post-retirement scheme benefits	(57)	(15)	(43)	–	–	(8)	(123)
Foreign exchange and commodity financial assets and liabilities	693	(243)	–	–	–	1	451
Losses	1,072	417	–	–	–	–	1,489
R&D credit	67	12	–	–	–	–	79
Advance corporation tax ²	162	–	–	–	–	–	162
	2,445	254	(39)	22	(1)	(13)	2,668
Recognised in:							
Continuing operations		254					
2022							
Intangible assets	(464)	29	–	–	–	(1)	(436)
Property, plant and equipment	193	33	–	–	6	(2)	230
Other temporary differences ¹	465	133	(1)	1	44	8	650
Net contract liabilities	73	(9)	–	–	–	–	64
Pensions and other post-retirement scheme benefits	(140)	(19)	89	–	–	13	(57)
Foreign exchange and commodity financial assets and liabilities	362	329	15	–	(22)	9	693
Losses	1,085	(12)	–	–	–	(1)	1,072
R&D credit	56	11	–	–	–	–	67
Advance corporation tax ²	162	–	–	–	–	–	162
	1,792	495	103	1	28	26	2,445
Recognised in:							
Continuing operations		472					
Discontinued operations		23					

¹ Other temporary differences mainly relate to the deferral of relief for interest expenses in the UK and revenue recognised earlier under local GAAP compared to IFRS in Germany

² Prior to 1999 advance corporation tax was paid to the UK Tax Authority when cash dividends were paid by the Group. This was a payment on account which was available to offset against UK corporation tax liabilities. Any unused balance remaining after 1999 can be carried forward indefinitely and utilised against future UK corporation tax liabilities

5 Taxation continued

Unrecognised deferred tax assets

	2023 £m	2022 £m
Advance corporation tax	19	19
UK losses	1,635	2,040
Foreign exchange and commodity financial assets and liabilities	69	218
Losses and other unrecognised deferred tax assets	34	33
Deferred tax not recognised on unused tax losses and other items on the basis that future economic benefit is uncertain	1,757	2,310

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

	2023					2022				
	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m	Other deductible temporary differences £m	Total gross losses and deductible temporary differences £m	UK losses £m	Foreign exchange and commodity financial assets and liabilities £m	Other losses £m	Other deductible temporary differences £m
Expiry within five years	81	–	–	81	–	83	–	–	83	–
Expiry within six to 30 years	216	–	–	216	–	265	–	–	265	–
No expiry	6,891	6,537	275	79	–	9,057	8,157	871	27	2
	7,188	6,537	275	376	–	9,405	8,157	871	375	2

In addition to the gross balances shown above, advance corporation tax of £19m (2022: £19m) has not been recognised. Advance corporation tax has no expiry.

Of the total deferred tax asset of £2,998m, £2,399m (2022: £2,183m) relates to the UK and is made up as follows:

- £1,476m (2022: £1,054m) relating to tax losses;
- £412m (2022: £668m) arising on unrealised losses on derivative contracts;
- £162m (2022: £162m) of advance corporation tax; and
- £349m (2022: £299m) relating to other deductible temporary differences, in particular tax depreciation and relief for interest expenses.

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

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

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

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

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

5 Taxation continued

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

- the impact of new contracts signed in 2023. These include the trilateral AUKUS agreement involving the UK Defence business;
- the outcomes of strategic initiatives including cost and commercial optimisation;
- the growth in Civil Aerospace engine flying hours; and
- management's assumptions on the impact of macroeconomic factors and climate change on the UK business.

The climate change scenarios previously prepared to assess the viability of our business strategy, decarbonisation plans and approach to managing climate-related risks have continued to develop over the last year. The scale up of sustainable aviation fuel is expected to play a crucial role in reaching net zero carbon emissions by 2050 and the Group has demonstrated that all Civil Aerospace production engines are compatible with sustainable aviation fuels. The impact that this could have on our costs and customer pricing is factored into the deferred tax assessment. However, benefits that may arise in the future from the development of breakthrough new technologies are not taken into account.

Based on the assessment, the Group has recognised a total UK deferred tax asset of £2,399m, which includes the re-recognition of a £57m deferred tax asset on unrealised losses on foreign exchange derivative contracts and recognition of a further £406m (of which £328m is non-underlying and £78m is underlying) deferred tax asset relating to UK tax losses. This reflects the conclusions that:

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

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 other significant deferred tax asset arises in Rolls-Royce Deutschland Ltd & Co KG, where the main activity is business aviation. The total net deferred tax asset is £328m (2022: £284m), which has been recognised in full. The deferred tax asset relates to revenue being recognised and taxed earlier under local tax rules resulting in a benefit when revenue is recognised in the accounts.

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules. The legislation has been substantively enacted in some of the main jurisdictions in which the Group operates including the UK and Germany where the rules will be effective from 1 January 2024. Initial assessments indicate that Pillar Two income taxes will not be material to the Group and a majority of the jurisdictions in which the Group operates will meet one of the transitional safe harbours. For those jurisdictions which are material or where the statutory tax rate is close to 15%, the assessment is based on 2023 data. Elsewhere prior year data has been used.

For the year to 31 December 2023, the Group has applied the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

The temporary differences associated with investments in subsidiaries, joint ventures and associates, for which a deferred tax liability has not been recognised, aggregate to £1,230m (2022: £1,062m). 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 Earnings per ordinary share

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

Where there is a continuing loss during the year, the effect of potentially dilutive ordinary shares is anti-dilutive.

	2023		2022	
	Basic	Potentially dilutive share options	Diluted	Basic
Profit/(loss) attributable to ordinary shareholders (£m):				
Continuing operations	2,412		2,412	(1,189)
Discontinued operations	–		–	(80)
	2,412		2,412	(1,269)
Weighted average number of ordinary shares (millions)	8,361	44	8,405	8,349
EPS (pence):				
Continuing operations	28.85	(0.15)	28.70	(14.24)
Discontinued operations	–	–	–	(0.96)
	28.85	(0.15)	28.70	(15.20)

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

	2023		2022	
	Pence	£m	Pence	£m
Underlying EPS/Underlying profit from continuing operations attributable to ordinary shareholders	13.75	1,150	1.95	163
Total underlying adjustments to profit/(loss) before taxation (note 2)	13.94	1,165	(20.45)	(1,708)
Related tax effects	1.16	97	4.26	356
EPS/Profit/(loss) from continuing operations attributable to ordinary shareholders	28.85	2,412	(14.24)	(1,189)
Diluted underlying EPS from continuing operations attributable to ordinary shareholders	13.68		1.95	

7 Auditors' remuneration

	2023 £m	2022 £m
Fees payable to the Company's auditor for the audit of the Company's annual Financial Statements	3.6	3.5
Fees payable to the Company's auditor and its associates for the audit of the Company's subsidiaries pursuant to legislation	8.6	8.5
Total fees payable for audit services	12.2	12.0
Fees payable to the Company's auditor and its associates for other services:		
Audit related assurance services ¹	0.7	1.3
Other assurance services ²	0.2	0.2
Total fees payable to the Company's auditor and its associates³	13.1	13.5
Fees payable in respect of the Group's pension schemes:		
Audit	0.1	0.1

¹ This includes £0.7m (2022: £0.7m) for the review of the half-year report and £nil (2022: £0.6m) in respect of assurance procedures over certain grant claims

² This includes £0.1m (2022: £0.1m) in respect of agreed upon procedures in respect of levies payable and £0.1m for sustainability assurance work (2022: £0.1m)

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

8 Employee information

	2023 Number	2022 Number
United Kingdom	20,900	19,900
Germany	10,000	9,700
United States	5,300	5,000
Italy	900	900
Singapore	700	700
Canada	700	700
India	600	500
Spain	100	1,800
Rest of world	2,200	2,600
Monthly average number of employees	41,400	41,800

Civil Aerospace	18,300	17,700
Defence	12,000	11,000
Power Systems	9,800	9,400
New Markets	1,200	800
Corporate ¹	100	100
Monthly average number of employees excluding discontinued operations	41,400	39,000
ITP Aero (classified as discontinued operation)	-	2,800
Monthly average number of employees	41,400	41,800

	2023		2022	
	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Wages, salaries and benefits	2,940	2,629	117	2,746
Social security costs	416	378	27	405
Share-based payments (note 24)	66	47	-	47
Pensions and other post-retirement scheme benefits (note 22)	346	268	2	270
Group employment costs ²	3,768	3,322	146	3,468

1 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

2 Remuneration of key management personnel is shown in note 26

9 Intangible assets

	Goodwill £m	Certification costs £m	Development expenditure £m	Customer relationships £m	Software ¹ £m	Other ² £m	Total £m
Cost:							
At 1 January 2022	1,060	933	3,393	475	978	833	7,672
Additions	–	–	131	–	78	21	230
Disposals	–	–	–	–	(90)	(1)	(91)
Exchange differences	75	2	80	37	12	33	239
At 31 December 2022	1,135	935	3,604	512	978	886	8,050
Additions	–	–	192	–	79	13	284
Acquisition of businesses (see note 27)	8	–	–	2	–	–	10
Transferred to held for sale ³	(10)	–	–	–	–	(185)	(195)
Transferred to current assets ⁴	–	–	–	–	(23)	–	(23)
Disposals	–	(4)	–	–	(27)	(2)	(33)
Reclassifications ⁵	–	–	(1)	–	3	(1)	1
Exchange differences	(32)	(1)	(32)	(16)	(6)	(12)	(99)
At 31 December 2023	1,101	930	3,763	498	1,004	699	7,995
Accumulated amortisation and impairment:							
At 1 January 2022	34	425	1,760	342	650	420	3,631
Charge for the year ⁶	–	21	77	35	86	33	252
Impairment	–	–	17	–	13	5	35
Disposals	–	–	–	–	(82)	(1)	(83)
Exchange differences	2	1	58	29	8	19	117
At 31 December 2022	36	447	1,912	406	675	476	3,952
Charge for the year ⁶	–	24	89	41	84	41	279
Impairment	–	–	–	–	–	(7)	(7)
Transferred to held for sale ³	–	–	–	–	–	(144)	(144)
Transferred to current assets ⁴	–	–	–	–	(14)	–	(14)
Disposals	–	(4)	–	–	(23)	(2)	(29)
Reclassifications ⁵	–	–	–	–	1	(1)	–
Exchange differences	(1)	–	(25)	(14)	(5)	(6)	(51)
At 31 December 2023	35	467	1,976	433	718	357	3,986
Net book value at:							
At 31 December 2023	1,066	463	1,787	65	286	342	4,009
At 31 December 2022	1,099	488	1,692	106	303	410	4,098

1 Includes £97m (2022: £93m) of software under course of construction which is not amortised

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

3 At 31 December 2023, the Group held for sale the assets and liabilities of the off-highway engines business in the lower power range based in Power Systems. See note 27 for further detail

4 During the year, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that will be derecognised have been transferred to trade receivables and other assets to reflect the nature of these assets as current assets

5 Includes reclassifications within intangible assets or from property, plant and equipment when available for use

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

At 31 December 2023, the Group had expenditure commitments for software of £30m (2022: £37m).

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

9 Intangible assets continued

Goodwill

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

Cash-generating unit (CGU) or group of CGUs

	Primary operating segment	2023 £m	2022 £m
Rolls-Royce Power Systems AG	Power Systems	798	818
Rolls-Royce Deutschland Ltd & Co KG	Civil Aerospace	237	241
Other	Various	31	40
		1,066	1,099

Goodwill has been tested for impairment during 2023 on the following basis:

- The carrying values of goodwill have been assessed by reference to the recoverable amount, being the higher of value in use or fair value less costs of disposal (FVL COD).
- The recoverable amount has been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions. 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 4% have been included in the forecasts, depending on the nature and geography of the flows.
- The key forecast assumptions for the impairment tests are the discount rate and the cash flow projections, in particular the programme assumptions (such as sales volumes and product costs), the impact of foreign exchange rates on the relationship between selling prices and costs, and growth rates. Impairment tests are performed using prevailing exchange rates.
- The Group believes there are significant business growth opportunities to come from Rolls-Royce playing a leading role in the transition to net zero, whilst 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 were compatible with sustainable fuels by the end of 2023. Similarly, 80% of the engines in Power Systems are compatible with 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 emissions is reflected in the forecasts used.

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

The principal assumptions for goodwill balances considered to be individually significant are:

Rolls-Royce Power Systems AG

- Recoverable amount represents FVL COD to reflect the future strategy of the business. The Directors consider that disclosing information prepared on a FVL COD basis here is a more useful representation of the recoverable amount when considering the future strategy of the business, including the impact of climate-related risks and opportunities. Due to the unavailability of observable market inputs or inputs based on market evidence, the fair value is estimated by discounting future cash flows (Level 3 as defined by IFRS 13 *Fair Value Measurement*) modified for market participants views;
- Trading assumptions (e.g. volume of equipment deliveries, pricing achieved and cost escalation) that are based on current and known future programmes, estimates of market share and long-term economic forecasts;
- Plausible downside scenario in relation to macro-economic factors included with a 25% weighting;
- Cash flows beyond the five-year forecasts are assumed to grow at 2.0% (2022: 1.0%); and
- Nominal post-tax discount rate 9.2% (2022: 10.0%).

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

9 Intangible assets continued

Rolls-Royce Deutschland Ltd & Co KG

- Recoverable amount represents the value in use of the assets in their current condition;
- Trading assumptions (e.g. volume of engine deliveries, flying hours of installed fleet, including assumptions on the recovery of the aerospace industry, and cost escalation) that are based on current and known future programmes, estimates of market share and long-term economic forecasts;
- Plausible downside scenario in relation to macro-economic factors included with a 25% weighting;
- Cash flows beyond the five-year forecasts are assumed to grow at 2.0% (2022: 2.0%); and
- Nominal pre-tax discount rate 14.4% (2022: 13.2%).

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

Other CGUs

Goodwill balances across the Group that are not considered to be individually significant were also tested for impairment, resulting in no impairment charge (2022: £nil) being recognised at 31 December 2023.

Material intangible assets (excluding goodwill)

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

	Residual life ¹	Net book value	
		2023 £m	2022 £m
Trent programme intangible assets ²	2-15 years	1,920	1,826
Business aviation programme intangible assets ³	11-15 years	238	250
Intangible assets related to Power Systems ⁴		370	466
		2,528	2,542

¹ Residual life reflects the remaining amortisation period of those assets where amortisation has commenced. As per page 133, the amortisation period of 15 years will commence on those assets which are not being amortised as the units are delivered

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

³ Included within business aviation are the Pearl 700 and Pearl 15

⁴ Includes £112m (2022: £114m) in respect of a brand intangible asset which is not amortised. Remaining assets are amortised over a range of three to 15 years

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36. Assessments have considered potential triggers of impairment such as external factors including climate change, significant changes with an adverse effect on a programme and by analysing latest management forecasts against those prepared in 2022 to identify any deterioration in performance. Where a trigger event has been identified, an impairment test has been carried out. Where an impairment was required, the test was performed on the following basis:

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by the Directors, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes; and
- The key assumptions underpinning cash flow projections are based on estimates of product performance related estimates, future market share and pricing and cost for uncontracted business. Climate-related risks are considered when making these estimates consistent with the assumptions above.

There have been no (2022: none) individually material impairment charges or reversals recognised during the year.

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 2022	1,865	4,986	1,046	300	8,197
Additions	34	127	26	162	349
Disposals/write-offs	(38)	(142)	(81)	(1)	(262)
Reclassifications ¹	3	82	(3)	(82)	–
Exchange differences	72	172	11	21	276
At 31 December 2022	1,936	5,225	999	400	8,560
Additions	19	147	34	223	423
Transferred to current assets ²	(90)	(93)	–	(43)	(226)
Disposals/write-offs	(19)	(309)	(33)	(9)	(370)
Reclassifications ¹	69	78	13	(146)	14
Exchange differences	(32)	(86)	(7)	(13)	(138)
At 31 December 2023	1,883	4,962	1,006	412	8,263
Accumulated depreciation and impairment:					
At 1 January 2022	614	3,244	414	8	4,280
Charge for the year ³	79	296	55	–	430
Impairment	5	(5)	–	–	–
Disposals/write-offs	(24)	(142)	(57)	–	(223)
Reclassifications ¹	(2)	5	(3)	–	–
Exchange differences	23	109	4	1	137
At 31 December 2022	695	3,507	413	9	4,624
Charge for the year ³	70	296	40	–	406
Impairment ⁴	4	6	1	6	17
Transferred to current assets ²	(48)	(61)	–	–	(109)
Disposals/write-offs	(18)	(299)	(25)	–	(342)
Reclassifications ¹	17	(9)	8	(7)	9
Exchange differences	(11)	(56)	(3)	–	(70)
At 31 December 2023	709	3,384	434	8	4,535
Net book value at:					
At 31 December 2023	1,174	1,578	572	404	3,728
At 31 December 2022	1,241	1,718	586	391	3,936

1 Includes reclassifications of assets under construction to the relevant classification in property, plant and equipment, right-of-use assets or intangible assets when available for use

2 During the year, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that will be derecognised have been transferred to trade receivables and other assets to reflect the nature of these assets as current assets

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

4 The carrying values of property, plant and equipment have been assessed during the year in line with IAS 36. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. As a result of this assessment, there are no (2022: none) individually material impairment charges or reversals in the year

Property, plant and equipment includes:

	2023			2022		
	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	38	760	6	41	732
Depreciation	(4)	(21)	(348)	(4)	(22)	(317)
Net book value	2	17	412	2	19	415
Capital expenditure commitments						
				2023 £m	2022 £m	
Cost of fully depreciated assets				222	221	
				2,084	2,184	

The Group's share of equity accounted entities' capital commitments is £16m (2022: £34m).

11 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2022	456	143	1,785	2,384
Additions/modification of leases	52	34	59	145
Disposals	(30)	(19)	(22)	(71)
Exchange differences	28	4	5	37
At 31 December 2022	506	162	1,827	2,495
Additions/modification of leases	38	56	104	198
Acquisition of business (see note 27)	2	–	–	2
Disposals	(6)	(22)	(54)	(82)
Transferred to current assets ¹	(4)	–	–	(4)
Reclassifications to PPE	(5)	–	(10)	(15)
Exchange differences	(18)	(2)	(3)	(23)
At 31 December 2023	513	194	1,864	2,571
Accumulated depreciation and impairment:				
At 1 January 2022	186	66	929	1,181
Charge for the year ²	43	37	190	270
Impairment ³	(2)	(1)	20	17
Disposals	(13)	(19)	(22)	(54)
Exchange differences	16	1	3	20
At 31 December 2022	230	84	1,120	1,434
Charge for the year ²	42	42	179	263
Impairment ³	3	6	62	71
Disposals	(6)	(22)	(54)	(82)
Transferred to current assets ¹	–	–	–	–
Reclassifications from PPE	(1)	–	(8)	(9)
Exchange differences	(9)	(1)	(1)	(11)
At 31 December 2023	259	109	1,298	1,666
Net book value:				
At 31 December 2023	254	85	566	905
At 31 December 2022	276	78	707	1,061
Right-of-use assets held for use in operating leases where the Group is the lessor:				
Cost	6	–	1,864	1,870
Depreciation	(3)	–	(1,298)	(1,301)
Net book value at 31 December 2023	3	–	566	569
Cost	6	–	1,827	1,833
Depreciation	(3)	–	(1,120)	(1,123)
Net book value at 31 December 2022	3	–	707	710

1 During the year, the Group signed a service concession arrangement with a customer effective from 1 January 2024. Accordingly, assets that will be derecognised have been transferred to trade receivables and other assets to reflect the nature of these assets as current assets

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

3 The carrying values of right-of-use assets have been assessed during the year in line with IAS 36. Material items of plant and equipment and aircraft and engines are assessed for impairment together with other assets used in individual programmes – see potential triggers considered in note 9. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). As a result of this assessment, the carrying values of assets, where a trigger was identified, have been assessed by reference to value in use considering assumptions such as estimated future cash flows, product performance related estimates and climate-related risks. An impairment charge of £71m has been recognised, which includes £27m in relation to lease engines that have been returned following the termination of the lease by the lessee. In addition, during the year, a number of existing leases were extended as a result of renegotiations. An assessment was performed in reference to value in use to support the increase in asset value over the extended lease term, and as a result, an impairment of £26m has been recognised in Civil Aerospace (2022: no individually material impairment charges or reversals)

12 Investments

Composition of the Group

The entities contributing to the Group's financial results are listed on pages 190 to 195.

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

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

Equity accounted and other investments

	Equity accounted			Other ¹
	Joint ventures £m	Associates £m	Total £m	£m
At 1 January 2022	403	1	404	36
Additions	29	–	29	7
Disposals	–	(1)	(1)	(2)
Impairment	(74)	–	(74)	(1)
Share of retained loss ²	(25)	–	(25)	–
Reclassification of deferred profit to deferred income ³	(4)	–	(4)	–
Repayment of loans	(5)	–	(5)	–
Revaluation of other investments accounted for as FVOCI	–	–	–	(4)
Exchange differences	96	–	96	–
Share of OCI	2	–	2	–
At 1 January 2023	422	–	422	36
Additions ⁴	9	–	9	–
Disposals	(5)	–	(5)	(1)
Share of retained profit ²	119	–	119	–
Reclassification of deferred profit to deferred income ³	(18)	–	(18)	–
Revaluation of other investments accounted for as FVOCI	–	–	–	(4)
Exchange differences	(50)	–	(50)	–
Share of OCI	2	–	2	–
At 31 December 2023	479	–	479	31

1 Other investments includes unlisted investments of £24m (2022: £26m) and listed investments of £7m (2022: £10m)

2 See table below

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

4 During the year, additions to investments of £9m includes the second instalment of investment related to the joint venture, Beijing Aero Engine Services Company Limited of £6m

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

	2023 £m	2022 £m
Share of results of joint ventures and associates	139	9
Adjustments for intercompany trading ¹	34	39
Share of results of joint ventures and associates to the Group	173	48
Dividends paid by joint ventures and associates to the Group (cash flow statement)	(54)	(73)
Share of retained profit/(loss) above	119	(25)

1 During the year, the Group sold spare engines to Rolls-Royce & Partners Finance, a joint venture and subsidiary of Alpha Partners Leasing Limited. The Group's share of the profit on these sales is deferred and released to match the depreciation of the engines in the joint venture's financial statements. In 2023 and 2022, profit deferred on the sale of engines was lower than the release of that deferred in prior years

12 Investments continued

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

	Principal location	Activity	Ownership interest
Alpha Partners Leasing Limited (APL)	UK	Aero-engine leasing	50.0%
Hong Kong Aero Engine Services Limited (HAESL)	Hong Kong	Aero-engine repair and overhaul	50.0%
Singapore Aero Engine Services Pte Limited (SAESL)	Singapore	Aero-engine repair and overhaul	50.0%

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

	APL		HAESL		SAESL	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Revenue	371	310	3,214	2,388	2,224	2,012
Profit and total comprehensive income for the year	106	55	73	72	29	31
Dividends paid during the year	(5)	(22)	(67)	(66)	–	–
Profit for the year included the following:						
Depreciation and amortisation	(166)	(190)	(11)	(13)	(20)	(21)
Interest income	15	–	–	–	7	1
Interest expense	(122)	(89)	(4)	(2)	(2)	(3)
Income tax expense	(37)	(13)	(14)	(14)	(2)	(2)
Current assets	336	375	1,103	886	954	865
Non-current assets	3,048	3,199	93	98	130	154
Current liabilities	(261)	(480)	(886)	(716)	(790)	(687)
Non-current liabilities	(2,358)	(2,389)	(73)	(26)	(8)	(60)
Net assets	765	705	237	242	286	272
Included in the above:						
Cash and cash equivalents	223	239	12	6	99	61
Current financial liabilities ¹	(165)	(411)	–	(135)	–	–
Non-current financial liabilities ¹	(1,914)	(2,003)	(66)	(17)	(8)	(60)
Reconciliation to the carrying amount recognised in the Consolidated Financial Statements						
Ownership interest	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%
Group share of net assets above	383	353	119	121	143	136
Goodwill	–	–	36	38	11	11
Adjustments for intercompany trading	(383)	(353)	–	(2)	(4)	–
Included in the balance sheet	–	–	155	157	150	147

¹ Excluding trade payables and other liabilities

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

	Individually material joint ventures (above)		Other joint ventures		Associates		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Profit/(loss) and total comprehensive income for the year	104	79	37	(68)	–	–	141	11
Assets:								
Non-current assets	1,637	1,726	159	199	–	–	1,796	1,925
Current assets	1,197	1,063	359	327	–	–	1,556	1,390
Liabilities: ¹								
Current liabilities	(969)	(942)	(264)	(245)	–	–	(1,233)	(1,187)
Non-current liabilities	(1,220)	(1,237)	(43)	(58)	–	–	(1,263)	(1,295)
Group adjustment for goodwill	47	49	–	–	–	–	47	49
Adjustment for intercompany trading	(387)	(355)	(37)	(105)	–	–	(424)	(460)
Included in the balance sheet	305	304	174	118	–	–	479	422
1 Liabilities include borrowings of:	(1,076)	(1,313)	(60)	(84)	–	–	(1,136)	(1,397)

13 Inventories

	2023 £m	2022 £m
Raw materials	516	479
Work in progress	1,679	1,633
Finished goods	2,653	2,593
Payments on account	-	3
	4,848	4,708
Inventories stated at net realisable value	187	209
Amount of inventory write-down	79	85
Reversal of inventory write-down	21	27

14 Trade receivables and other assets

	Current	Non-current ¹		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m
Trade receivables	2,724	2,376	40	43	2,764
Prepayments ²	1,032	737	102	37	1,134
RRSA prepayment for LTSA parts ²	236	149	1,084	856	1,320
Receivables due on RRSA	1,159	928	193	255	1,352
Amounts owed by joint ventures and associates	731	632	10	16	741
Other taxation and social security receivable	160	147	13	9	173
Costs to obtain contracts with customers ³	7	12	109	67	116
Other receivables and similar assets ⁴	478	617	45	55	523
	6,527	5,598	1,596	1,338	8,123
					6,936

Trade receivables and other assets are analysed as follows:

Financial instruments (note 20):

Trade receivables and similar items	4,857	4,147
Other non-derivative financial assets	332	775
Non-financial instruments	2,934	2,014
	8,123	6,936

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 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

2 At 31 December 2023, prepayments to RRSA partners for LTSA parts have been shown separately to provide additional detail for the reader. These amounts reflect the contractual share of EFH flows from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts. In the prior year, these amounts were included within prepayments. There is no change to the total amount of trade receivables and other assets

3 These are amortised over the term of the related contract in line with engine deliveries, resulting in amortisation of £9m (2022: £11m) in the year. There were no impairment losses

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

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

The ECLs for trade receivables and other assets has decreased by £104m to £242m (2022: increased by £87m to £346m). This movement is mainly driven by the Civil Aerospace division of £(100)m, of which £(82)m relates to specific customers and £(18)m relates to updates to the recoverability of other receivables.

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

	2023			2022		
	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %	Trade receivables and other financial assets £m	Loss allowance £m	Average ECL rate %
Credit rating C and above	1,744	(102)	6%	1,637	(177)	11%
Credit rating below C	80	(6)	8%	124	(16)	13%
Without credit rating	3,607	(134)	4%	3,507	(153)	4%
	5,431	(242)	4%	5,268	(346)	7%

14 Trade receivables and other assets continued

The movements of the Group ECLs provision are as follows:

		2023 £m	2022 £m
At 1 January		(346)	(259)
Increases in loss allowance recognised in the income statement during the year		(80)	(118)
Loss allowance utilised		34	22
Releases of loss allowance previously provided		128	45
Exchange differences		22	(36)
At 31 December		(242)	(346)

15 Contract assets and liabilities

	Current		Non-current ¹		Total ²	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Contract assets						
Contract assets with customers	534	621	481	617	1,015	1,238
Participation fee contract assets	26	28	201	215	227	243
	560	649	682	832	1,242	1,481

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

2 Contract assets are classified as non-financial instruments

The balance includes £494m (2022: £885m) of Civil Aerospace LTSA assets and £410m (2022: £263m) Defence LTSA assets.

The decrease in the Civil Aerospace balance is due to higher invoicing than revenue recognised in relation to the completion of performance obligations on those contracts with a contract asset balance. Revenue recognised relating to performance obligations satisfied in previous years was £64m (2022: £26m) in Civil Aerospace.

The increase in the Defence balance is due to revenue recognition in relation to performance obligations completed being higher than the payments received from the customer.

No impairment losses in relation to these contract assets (2022: none) have arisen during the year.

Participation fee contract assets have reduced by £16m (2022: £3m) due to amortisation of £15m and foreign exchange on consolidation of £1m.

The absolute value of ECLs for contract assets has decreased by £15m to £6m (2022: £21m).

	Current		Non-current		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Contract liabilities	6,098	4,825	8,438	7,337	14,536	12,162

Contract liabilities are analysed as follows¹:

Financial instruments (note 20)	1,358	1,006
Non-financial instruments	13,178	11,156
	14,536	12,162

1 Amounts within contract liabilities as at 31 December 2022 have been represented to better reflect the nature of the balance between financial and non-financial instruments. This resulted in an increase in financial instruments of £586m and a corresponding decrease in non-financial instruments. There is no impact to total contract liabilities

During the year, £3,813m (2022: £3,321m) of the opening contract liability was recognised as revenue.

Contract liabilities have increased by £2,374m. The movement in the Group balance is primarily as a result of increases in Civil Aerospace of £1,865m and Defence of £381m. The Civil Aerospace increase is primarily a result of growth in LTSA liabilities of £1,317m to £9,574m (2022: £8,257m) driven by price escalation, the continued rise in EFHs and the associated customer receipts, as well as commercial discipline driving more timely invoicing and recovery of contractual fees. In 2023 contract liabilities increased by £168m as a result of revenue recognised in relation to performance obligations satisfied in previous years (2022: £334m decrease). The increase in Defence is from the receipt of deposits in advance of performance obligations being completed.

16 Cash and cash equivalents

	2023 £m	2022 £m
Cash at bank and in hand	739	847
Money-market funds	1,077	34
Short-term deposits	1,968	1,726
Cash and cash equivalents per the balance sheet	3,784	2,607
Overdrafts (note 17)	(53)	(2)
Cash and cash equivalents per cash flow statement (page 118)	3,731	2,605

Cash and cash equivalents at 31 December 2023 includes £279m (2022: £235m) that is not available for general use by the Group. This balance includes £40m (2022: £40m), which is held in an account that is exclusively for the general use of Rolls-Royce Submarines Limited and £195m (2022: £138m), which is held exclusively for the use of Rolls-Royce Saudi Arabia Limited. This cash is not available for use by other entities within the Group. The remaining balance relates to cash held in non-wholly owned subsidiaries and joint arrangements.

Balances are presented on a net basis, when the Group has both a legal right of offset and the intention to either settle on a net basis or realise the asset and settle the liability simultaneously.

17 Borrowings and lease liabilities

	Current		Non-current		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Unsecured						
Overdrafts	53	2	-	-	53	2
Bank loans	3	1	-	-	3	1
0.875% Notes 2024 €550m ¹	475	-	-	472	475	472
3.625% Notes 2025 \$1,000m ¹	-	-	770	801	770	801
3.375% Notes 2026 £375m ²	-	-	361	351	361	351
4.625% Notes 2026 €750m ³	-	-	649	661	649	661
5.75% Notes 2027 \$1,000m ³	-	-	782	825	782	825
5.75% Notes 2027 £545m	-	-	542	541	542	541
1.625% Notes 2028 €550m ¹	-	-	455	444	455	444
Other loans	-	-	9	10	9	10
Total unsecured	531	3	3,568	4,105	4,099	4,108
Lease liability – Land and buildings	42	46	382	400	424	446
Lease liability – Aircraft and engines	203	278	949	1,047	1,152	1,325
Lease liability – Plant and equipment	33	31	51	45	84	76
Total lease liabilities	278	355	1,382	1,492	1,660	1,847
Total borrowings and lease liabilities	809	358	4,950	5,597	5,759	5,955

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

17 Borrowings and lease liabilities continued

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

	Total	
	2023 £m	2022 £m
Expiring within one year	—	—
Expiring after one year	3,500	5,500
Total undrawn facilities	3,500	5,500

Further details can be found in the going concern and liquidity statements on page 58.

During the year to 31 December 2023, the Group cancelled its undrawn £1bn bank loan facility which was due to mature in January 2024 and its undrawn UK Export Finance (UKEF) £1bn facility which was due to mature in March 2026. These facilities had remained undrawn during the year. In addition, the Group replaced the £2,500m committed bank borrowing facility with a new £2,500m facility with a maturity date of November 2026 with the banks having the option to extend with two one-year extension options (3+1+1).

Under the terms of the £1bn UKEF loan facility, the Company is restricted from declaring, making or paying distributions to shareholders unless certain conditions are satisfied. The conditions are linked to free cash flow performance in the prior year, and actual and forecast minimum liquidity levels. At 31 December 2023, these conditions were met but the Group is not making shareholder distributions. Once the Group is comfortably within an investment grade profile and the strength of the balance sheet is assured, the Group is committed to reinstating and growing shareholder distributions. This loan facility expires in 2027. The restrictions on distributions do not prevent the Company from redeeming any unredeemed C Shares issued prior to March 2021.

18 Leases

Leases as lessee

The net book value of right-of-use assets at 31 December 2023 was £905m (2022: £1,061m), with a lease liability of £1,660m (2022: £1,847m), per notes 11 and 17, respectively. Leases that have not yet commenced to which the Group is committed have a future liability of £5m and consist of mainly plant and equipment and properties. The consolidated income statement shows the following amounts relating to leases:

	2023 £m	2022 £m
Land and buildings depreciation and impairment ¹	(45)	(41)
Plant and equipment depreciation and impairment ²	(48)	(36)
Aircraft and engines depreciation and impairment ³	(241)	(210)
Total depreciation and impairment charge for right-of-use assets	(334)	(287)
Adjustment of amounts payable under residual value guarantees within lease liabilities ^{3,4}	10	3
Expense relating to short-term leases of 12 months or less recognised as an expense on a straight line basis ²	(49)	(28)
Expense relating to variable lease payments not included in lease liabilities ^{3,5}	(5)	(2)
Total operating costs	(378)	(314)
Interest expense ⁶	(85)	(68)
Total lease expense	(463)	(382)
Income from sub-leasing right-of-use assets	31	32
Total amount recognised in the income statement	(432)	(350)

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 2023 was £429m (2022: £316m). Of this, £375m related to leases reflected in the lease liability, £49m to short-term leases where lease payments are expensed on a straight-line basis and £5m 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 division often include clauses that require the engines to be returned to the lessor with specific levels of usable life remaining or cash payments to the lessor. The costs of meeting these requirements are included in the lease payments. The amounts payable are calculated based upon an estimate of the utilisation of the engines over the lease term, whether the engine is restored to the required condition by performing an overhaul at our own cost or through the payments of amounts specified in the contract and any new contractual arrangements arising when the current lease contracts end. Amounts due can vary depending on the level of utilisation of the engines, overhaul activity prior to the end of the contract, and decisions taken on whether ongoing access to the assets is required at the end of the lease term. During the year, adjustments to return conditions at the end of leases resulted in a credit of £10m to the income statement. The lease liability at 31 December 2023 included £354m relating to the cost of meeting these residual value guarantees in the Civil Aerospace division. Up to £76m is payable in the next 12 months, £185m is due over the following four years and the remaining balance after five years.

18 Leases continued

Leases as lessor

The Group acts as lessor for engines to Civil Aerospace customers when they require engines to support their fleets. Lease agreements with the lessees provide protection over the assets. Usage in excess of specified limits and damage to the engine while on lease are covered by variable lease payment structures. Lessee bankruptcy risk is managed through 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.

	2023 £m	2022 £m
Operating lease income ^{1,2}	104	84

1 Includes variable lease payments received of £87m (2022: £73m) 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) of £91m (2022: £95m) are receivable over the next 12 years. £12m (2022: £12m) is due within one year, £43m (2022: £45m) between one to five years and £36m (2022: £38m) 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 2023, the total undiscounted lease payments receivable is £35m (2022: £39m) on annual lease income of £4m (2022: £4m). The discounted finance lease receivable at 31 December 2023 is £28m (2022: £32m). There was no (2022: £nil) finance income recognised during the year.

19 Trade payables and other liabilities

	Current		Non-current		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Trade payables	1,608	1,735	–	–	1,608	1,735
Accruals	1,134	1,477	96	199	1,230	1,676
Customer discounts ¹	1,018	828	773	1,016	1,791	1,844
Payables due on RRSAs	1,713	1,392	–	–	1,713	1,392
Deferred receipts from RRSA workshare partners	56	32	774	829	830	861
Amounts owed to joint ventures and associates	542	567	–	–	542	567
Government grants ²	30	21	54	41	84	62
Other taxation and social security	92	88	–	–	92	88
Other payables ³	703	843	230	279	933	1,122
	6,896	6,983	1,927	2,364	8,823	9,347

Trade payables and other liabilities are analysed as follows:

Financial instruments (note 20):⁴

Trade payables and similar items	5,091	5,376
Other non-derivative financial liabilities	2,521	2,748
Non-financial instruments	1,211	1,223
	8,823	9,347

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 127. The largest element of the balance, approximately £1.2bn, arises when the Civil Aerospace division 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. Warranty credits of £364m and customer concessions of £1,480m have been represented at 31 December 2023 to be included within customer discounts to better reflect the nature of these balances

2 During the year, £74m, (2022: £20m) of government grants were released to the income statement

3 Other payables includes payroll liabilities and HM Government UK levies

4 Amounts within financial instruments classified as trade payables and similar items and other non-derivative financial liabilities as at 31 December 2022 have been represented to better reflect the nature of the balance. This resulted in a decrease in trade payables and similar items of £363m and a corresponding increase in other non-derivative financial instruments. There is no impact to total trade payables and other liabilities

The Group's payment terms with suppliers vary 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 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 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. The SCF programme is available to suppliers at their discretion and does not change rights and obligations with suppliers or the timing of payment of suppliers. At 31 December 2023, suppliers had drawn £418m under the SCF scheme (2022: £422m) of which £154m (2022: £180m) is drawn by joint ventures. The Group, in some cases, settles the costs incurred by joint venture as a result of them utilising either the Group offered SCF arrangement, or an alternative SCF arrangement. During the year to 31 December 2023, the Group incurred costs of £28m (2022: £12m) to settle the costs incurred by joint ventures as a result of them utilising the Group offered SCF arrangement. These costs are included within other financing charges.

20 Financial instruments

Carrying values and fair values of financial instruments

	Notes	Basis for determining fair value	Assets			Liabilities		Total
			FVPL £m	FVOCL £m	Amortised cost £m	FVPL £m	Other £m	
2023								
Other non-current asset investments	12	A	24	7	-	-	-	31
Trade receivables and similar items	14	B/C	-	9	4,848	-	-	4,857
Other non-derivative financial assets	14	B	-	-	332	-	-	332
Other assets		D/F	32	-	12	-	-	44
Derivative financial assets ¹		C	350	-	-	-	-	350
Cash and cash equivalents	16	B	1,077	-	2,707	-	-	3,784
Borrowings	17	E/F	-	-	-	-	(4,099)	(4,099)
Lease liabilities	17	G	-	-	-	-	(1,660)	(1,660)
Derivative financial liabilities ¹		C	-	-	-	(2,228)	-	(2,228)
Financial RRSAs	H	-	-	-	-	-	(17)	(17)
Other liabilities	H	-	-	-	-	-	(163)	(163)
C Shares		B	-	-	-	-	(23)	(23)
Trade payables and similar items	19	B	-	-	-	-	(5,091)	(5,091)
Other non-derivative financial liabilities	19	B	-	-	-	-	(2,521)	(2,521)
Contract liabilities	15	B	-	-	-	-	(1,358)	(1,358)
			1,483	16	7,899	(2,228)	(14,932)	(7,762)
2022								
Other non-current asset investments	12	A	26	10	-	-	-	36
Trade receivables and similar items	14	B/C	-	10	4,137	-	-	4,147
Other non-derivative financial assets	14	B	-	-	775	-	-	775
Other assets		D	35	-	-	-	-	35
Derivative financial assets ¹		C	648	-	-	-	-	648
Short-term investments		B	-	-	11	-	-	11
Cash and cash equivalents	16	B	34	-	2,573	-	-	2,607
Borrowings	17	E/F	-	-	-	-	(4,108)	(4,108)
Lease liabilities	17	G	-	-	-	-	(1,847)	(1,847)
Derivative financial liabilities ¹		C	-	-	-	(4,099)	-	(4,099)
Financial RRSAs	H	-	-	-	-	-	(22)	(22)
Other liabilities	H	-	-	-	-	-	(101)	(101)
C Shares		B	-	-	-	-	(24)	(24)
Trade payables and similar items ²	19	B	-	-	-	-	(5,376)	(5,376)
Other non-derivative financial liabilities ²	19	B	-	-	-	-	(2,748)	(2,748)
Contract liabilities ³	15	B	-	-	-	-	(1,006)	(1,006)
			743	20	7,496	(4,099)	(15,232)	(11,072)

¹ In the event of counterparty default relating to derivative financial assets and derivative financial liabilities, offsetting would apply and financial assets and liabilities held with the same counterparty would net off. If this occurred with every counterparty, total financial assets would be £3m (2022: £8m) and liabilities £1,881m (2022: £3,459m)

² As described in note 19, trade payables and similar items at 31 December 2022 has decreased by £363m with a respective increase in other non-derivative financial liabilities

³ As described in note 15, contract liabilities at 31 December 2022 has increased by £586m

20 Financial instruments continued

Fair values equate to book values for both 2023 and 2022, with the following exceptions:

	Basis for determining fair value	2023		2022	
		Book value £m	Fair value £m	Book value £m	Fair value £m
Other assets	F	12	12	–	–
Borrowings	E	(4,034)	(3,977)	(4,095)	(3,812)
Borrowings	F	(65)	(67)	(13)	(15)
Financial RRSAs	H	(17)	(16)	(22)	(22)

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 2023, Level 3 assets totalled £25m (2022: £25m)
- E Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1)
- F Other assets and borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated by discounting contractual future cash flows (Level 2)
- G The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2)
- H The fair value of RRSAs and other liabilities are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3)

IFRS 13 *Fair Value Measurement* defines a three level valuation hierarchy:

Level 1 – quoted prices for similar instruments

Level 2 – directly observable market inputs other than Level 1 inputs

Level 3 – inputs not based on observable market data

Carrying values of other financial assets and liabilities

	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts ¹ £m	Total derivatives £m	Financial RRSAs £m	Other £m	C Shares £m	Total £m
2023								
Non-current assets	72	–	254	326	–	34	–	360
Current assets	10	6	8	24	–	10	–	34
Assets	82	6	262	350	–	44	–	394
Current liabilities	(351)	(10)	(13)	(374)	(10)	(41)	(23)	(448)
Non-current liabilities	(1,766)	(15)	(73)	(1,854)	(7)	(122)	–	(1,983)
Liabilities	(2,117)	(25)	(86)	(2,228)	(17)	(163)	(23)	(2,431)
	(2,035)	(19)	176	(1,878)	(17)	(119)	(23)	(2,037)
2022								
Non-current assets	58	25	436	519	–	23	–	542
Current assets	87	40	2	129	–	12	–	141
Assets	145	65	438	648	–	35	–	683
Current liabilities	(966)	(1)	(2)	(969)	(8)	(15)	(24)	(1,016)
Non-current liabilities	(3,030)	(2)	(98)	(3,130)	(14)	(86)	–	(3,230)
Liabilities	(3,996)	(3)	(100)	(4,099)	(22)	(101)	(24)	(4,246)
	(3,851)	62	338	(3,451)	(22)	(66)	(24)	(3,563)

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

20 Financial instruments continued

Derivative financial instruments

The Group uses various financial instruments to manage its exposure to movements in foreign exchange rates. The Group uses commodity swaps to manage its exposure to movements in the price of commodities (jet fuel and base metals). To hedge the currency risk associated with a borrowing denominated in a foreign currency, the Group has currency derivatives designated as part of fair value or cash flow hedges. The Group uses interest rate swaps and forward rate agreements to manage its exposure to movements in interest rates.

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

	Foreign exchange instruments		Commodity instruments		Interest rate instruments – hedge accounted ¹		Interest rate instruments – non-hedge accounted		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	(3,851)	(3,039)	62	32	125	57	213	37	(3,451)	(2,913)
Movements in fair value hedges	–	–	–	–	(71)	(74)	–	–	(71)	(74)
Movements in cash flow hedges	–	(56)	–	–	(78)	142	–	–	(78)	86
Movements in other derivative contracts ²	574	(1,875)	(60)	106	–	–	1	190	515	(1,579)
Contracts settled	1,242	1,119	(21)	(76)	69	–	(83)	(14)	1,207	1,029
At 31 December	(2,035)	(3,851)	(19)	62	45	125	131	213	(1,878)	(3,451)

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	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
At 1 January	(22)	(12)	25	15	(101)	(75)
Exchange adjustments included in OCI	1	(2)	–	2	2	(4)
Additions	–	(6)	–	11	(80)	(35)
Financing charge ¹	–	–	–	–	(8)	(4)
Excluded from underlying profit/(loss):						
Changes in forecast payments ¹	(1)	(7)	–	–	–	–
Cash paid	5	5	–	(3)	11	8
Other	–	–	–	–	13	9
At 31 December	(17)	(22)	25	25	(163)	(101)

1 Included in financing

20 Financial instruments continued

Effect of hedging instruments on the financial position and performance

To manage the risk of changes in the fair values of fixed rate borrowings (the hedged items), the Group has entered into fixed-to-floating interest rate swaps (the hedging instruments), which, for accounting purposes, are designated as fair value hedges. The impact of fair value hedges on the financial position and performance of the Group is as follows:

	Hedged item ¹				Hedging instrument ²						
	Nominal £m	FV adjustment in the period £m	FV adjustment since inception £m	Carrying amount £m	Nominal £m	Carrying amount asset £m	Carrying amount liability £m	FV movement in the period £m	Hedge ineffect- iveness in the period ³ £m	Weighted average FX rate	Weighted average interest rate
At 31 December 2023											
Sterling	(375)	(10)	14	(361)	375	–	(14)	10	–	1.00	SONIA + 0.89
USD	(658)	31	(112)	(770)	658	104	–	(30)	1	1.52	SONIA + 1.47
Euro	(968)	(14)	37	(931)	968	–	(56)	16	2	1.14	SONIA + 0.92
At 31 December 2022											
Sterling	(375)	43	24	(351)	375	–	(24)	(43)	–	1.00	SONIA + 0.89
USD	(658)	(20)	(143)	(801)	658	134	–	18	(2)	1.52	SONIA + 1.47
Euro	(968)	49	52	(916)	968	–	(72)	(51)	(2)	1.14	SONIA + 0.92

1 Hedged items are included in borrowings in the balance sheet

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

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

To manage the foreign exchange rate risk in cash flows on fixed rate non-GBP borrowings (the hedged items), the Group has entered into fixed-to-fixed cross-currency interest rate swaps (the hedging instruments) to hedge the cash flows into GBP, which, for accounting purposes, are designated as cash flow hedges.

The impact of cash flow hedges on the financial position and performance of the Group is as follows:

	Hedged item			Hedging instrument ¹				Hedging reserves			
	Nominal £m	FV movement in the period £m	Nominal £m	Carrying amount asset/ (liability) £m	FV movement in the period £m	Hedge ineffect- iveness in the period ² £m	Weighted average FX rate	Weighted average interest rate	Amount recognised in OCI £m	Recycled to net financing £m	Closing cash flow hedge reserve £m
At 31 December 2023											
USD	(772)	65	772	28	(62)	3	1.29	5.33	61	(41)	(5)
Euro	(677)	14	677	(17)	(14)	–	1.11	5.45	21	(20)	(8)
At 31 December 2022											
USD	(772)	(104)	772	89	109	5	1.29	5.33	(111)	96	(25)
Euro	(677)	(35)	677	(2)	35	–	1.11	5.45	(27)	28	(9)

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

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

20 Financial instruments continued

Risk management policies and hedging activities

The principal financial risks to which the Group is exposed are: foreign currency exchange rate risk; liquidity risk; credit risk; interest rate risk; and commodity price risk. The Board has approved policies for the management of these risks.

Foreign currency exchange rate risk – The Group has significant cash flows (most significantly USD, followed by the euro) denominated in currencies other than the functional currency of the relevant trading entity. To manage its exposures to changes in values of future foreign currency cash flows, so as to maintain relatively stable long-term foreign exchange rates on settled transactions, the Group enters into derivative forward foreign currency transactions. In addition, the Group enters into fixed-to-floating cross-currency interest rate swaps to manage its exposure to changes in fair value as a result of foreign exchange risk. See below.

The Group economically hedges its GBP/USD exposure by forecasting highly probable net USD receipts up to five years forward. Hedges are taken out within prescribed maximum and minimum hedge positions set out in the Group FX Policy. The maximum and minimum policy bands decline gradually over the five-year horizon and are calculated as a percentage of forecast net income. A similar policy is operated for the Group's EUR/USD exposure. For accounting purposes, these derivative contracts are not designated in hedging relationships.

The Group also has exposures to cash flows on EUR and USD denominated fixed rate borrowings. To manage its exposures to changes in values of future foreign currency cash flows, the Group has entered into fixed-to-fixed cross-currency interest rate swaps, which, for accounting purposes, are designated as cash flow hedges. The swaps have similar critical terms to the hedged items, such as the initial exchange amounts, payment dates and maturities. Therefore, there is an economic relationship and the hedge ratio is established as 1:1. Possible sources of ineffectiveness in the cash flow hedge relationship are changes in the credit risk of either party to the interest rate swap. Another possible source of ineffectiveness would be if the notional of the borrowings is less than the notional of the derivative, for example, in the event of a partial repayment of hedged debt prior to its maturity.

The Group regards its interests in overseas subsidiary companies as long-term investments. The Group aims to match its translational exposures by matching the currencies of assets and liabilities.

Liquidity risk – The Group's policy is to hold financial investments and maintain undrawn committed facilities at a level sufficient to ensure that the Group has available funds to meet its medium-term capital and funding obligations and to meet any unforeseen obligations and opportunities. The Group holds cash and short-term investments, which, together with the undrawn committed facilities, enable the Group to manage its liquidity risk.

Credit risk – The Group is exposed to credit risk to the extent of non-payment by either its customers or the counterparties of its financial instruments. The effective monitoring and controlling of credit risk is a key component of the Group's risk management activities. The Group has credit policies covering both trading and financial exposures. Credit risks arising from treasury activities are managed by a central treasury function, in accordance with the Group credit policy. The objective of the policy is to diversify and minimise the Group's exposure to credit risk from its treasury activities by ensuring the Group transacts strictly with 'BBB' or higher rated financial institutions based on pre-established limits per financial institution. At the balance sheet date, there were no significant concentrations of credit risk to individual customers or counterparties. The Group's revenue is generated from customers located across multiple geographical locations (see note 2). These customers are typically: airframers and airline operators relating to Civil Aerospace; government defence departments for the UK and US; and multiple smaller entities for Power Systems. Whilst there are a limited number of customers related to Civil Aerospace and Defence, they are spread across various geographical locations. The maximum exposure to credit risk at the balance sheet date is represented by the carrying value of each financial asset, including derivative financial instruments.

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

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

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

Commodity price risk – The Group has exposures to the price of jet fuel and base metals arising from business operations. To minimise its cash flow exposures to changes in commodity prices, the Group enters into derivative commodity transactions. The commodity hedging policy is similar to the Group FX policy, in that the Group forecasts highly probable exposures to commodities, and takes out hedges within prescribed maximum and minimum levels as set out in the policy. The maximum and minimum policy bands decline gradually over time. For accounting purposes, these derivative contracts are generally not designated in hedging relationships.

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

20 Financial instruments continued

Derivative financial instruments

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

	Nominal amount £m	Expected maturity				Fair value		
		Within one year £m	Between one and two years £m	Between two and five years £m	After five years £m	Assets £m	Liabilities £m	
At 31 December 2023								
Foreign exchange contracts:								
Non-hedge accounted	15,972	6,965	4,341	4,666	–	82	(2,117)	
Interest rate contracts:								
Fair value hedges	2,001	484	658	859	–	103	(69)	
Cash flow hedges	1,449	–	–	1,449	–	28	(17)	
Non-hedge accounted	2,001	484	658	859	–	131	–	
Commodity contracts:								
Non-hedge accounted	257	102	73	82	–	6	(25)	
	21,680	8,035	5,730	7,915	–	350	(2,228)	
At 31 December 2022								
Foreign exchange contracts:								
Non-hedge accounted	22,844	9,539	4,180	8,898	227	145	(3,996)	
Interest rate contracts:								
Fair value hedges	2,001	–	484	1,033	484	135	(97)	
Cash flow hedges	1,449	–	–	1,449	–	89	(2)	
Non-hedge accounted	2,001	–	484	1,033	484	214	(1)	
Commodity contracts:								
Non-hedge accounted	219	97	79	43	–	65	(3)	
	28,514	9,636	5,227	12,456	1,195	648	(4,099)	

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

Currency analysis

Foreign exchange contracts are denominated in the following currencies:

	Nominal amount of currencies purchased forward				
	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2023					
Currencies sold forward:					
Sterling	–	1,573	–	115	1,688
USD	11,389	–	2,316	303	14,008
Euro	53	171	–	21	245
Other	6	3	22	–	31
At 31 December 2022					
Currencies sold forward:					
Sterling	–	4,321	45	146	4,512
USD	16,246	–	1,578	253	18,077
Euro	30	160	–	40	230
Other	–	8	17	–	25

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

	2023 £m	2022 £m
Sterling	2,376	2,376
USD	1,671	1,629
Euro	1,661	1,665

20 Financial instruments continued

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

	Sterling £m	USD £m	Euro £m	Other £m	Total £m
At 31 December 2023					
Other non-current investments	10	21	–	–	31
Trade receivables and similar items	219	4,039	513	86	4,857
Other non-derivative financial assets	94	163	58	17	332
Other assets	–	22	22	–	44
Cash and cash equivalents	1,242	869	1,463	210	3,784
Assets	1,565	5,114	2,056	313	9,048
Borrowings	(904)	(1,605)	(1,590)	–	(4,099)
Lease liabilities	(195)	(1,222)	(45)	(198)	(1,660)
Financial RRSAs	–	(7)	(10)	–	(17)
Other liabilities	(32)	(131)	–	–	(163)
C Shares	(23)	–	–	–	(23)
Trade payables and similar items	(976)	(3,561)	(493)	(61)	(5,091)
Other non-derivative financial liabilities	(334)	(2,008)	(134)	(45)	(2,521)
Contract liabilities	–	(1,358)	–	–	(1,358)
Liabilities	(2,464)	(9,892)	(2,272)	(304)	(14,932)
	(899)	(4,778)	(216)	9	(5,884)
At 31 December 2022					
Other non-current investments	10	16	10	–	36
Trade receivables and similar items	231	3,270	565	81	4,147
Other non-derivative financial assets	61	666	33	15	775
Other assets	–	24	11	–	35
Short-term investments	–	–	11	–	11
Cash and cash equivalents	398	897	1,155	157	2,607
Assets	700	4,873	1,785	253	7,611
Borrowings	(893)	(1,627)	(1,587)	(1)	(4,108)
Lease liabilities	(181)	(1,401)	(49)	(216)	(1,847)
Financial RRSAs	–	(7)	(15)	–	(22)
Other liabilities	(11)	(90)	–	–	(101)
C Shares	(24)	–	–	–	(24)
Trade payables and similar items ¹	(690)	(3,952)	(675)	(59)	(5,376)
Other non-derivative financial liabilities ¹	(271)	(2,304)	(129)	(44)	(2,748)
Contract liabilities ²	–	(1,006)	–	–	(1,006)
Liabilities	(2,070)	(10,387)	(2,455)	(320)	(15,232)
	(1,370)	(5,514)	(670)	(67)	(7,621)

1 As described in note 19, trade payables and similar items at 31 December 2022 has decreased by £363m with a respective increase in other non-derivative financial liabilities

2 As described in note 15, contract liabilities at 31 December 2022 has increased by £586m

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 2023					
Sterling	–	–	–	5	5
USD	(6)	–	1	–	(5)
Euro	1	4	–	(2)	3
Other	109	38	40	–	187
At 31 December 2022					
Sterling	–	–	1	4	5
USD	(7)	–	(2)	7	(2)
Euro	(1)	–	–	–	(1)
Other	108	26	86	–	220

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 2023					
Other non-current asset investments	31	–	–	–	31
Trade receivables and similar items	4,054	650	87	66	4,857
Other non-derivative financial assets	328	–	4	–	332
Other assets	44	–	–	–	44
Derivative financial assets	350	–	–	–	350
Cash and cash equivalents	3,784	–	–	–	3,784
	8,591	650	91	66	9,398
At 31 December 2022					
Other non-current asset investments	36	–	–	–	36
Trade receivables and similar items	3,646	219	169	113	4,147
Other non-derivative financial assets	755	9	10	1	775
Other assets	35	–	–	–	35
Derivative financial assets	648	–	–	–	648
Short-term investments	11	–	–	–	11
Cash and cash equivalents	2,607	–	–	–	2,607
	7,738	228	179	114	8,259

20 Financial instruments continued

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 2023					
Borrowings	(694)	(943)	(3,042)	(14)	(4,099)
Lease liabilities	(358)	(366)	(697)	(735)	(1,660)
Financial RRSAs	(10)	–	(1)	(4)	(17)
Other liabilities	(42)	(6)	(25)	(90)	(163)
C Shares	(23)	–	–	–	(23)
Trade payables and similar items	(4,952)	(15)	(47)	(77)	(5,091)
Other non-derivative financial liabilities	(1,646)	(235)	(267)	(373)	(2,521)
Contract liabilities	(1,358)	–	–	–	(1,358)
	(9,083)	(1,565)	(4,079)	(1,293)	(14,932)
At 31 December 2022					
Borrowings	(168)	(653)	(3,612)	(510)	(4,108)
Lease liabilities	(435)	(311)	(886)	(734)	(1,847)
Financial RRSAs	(10)	(7)	(1)	(5)	(22)
Other liabilities	(15)	(10)	(30)	(46)	(101)
C Shares	(24)	–	–	–	(24)
Trade payables and similar items ¹	(5,128)	(131)	(65)	(52)	(5,376)
Other non-derivative financial liabilities ¹	(1,591)	(443)	(276)	(438)	(2,748)
Contract liabilities ²	(1,006)	–	–	–	(1,006)
	(8,377)	(1,555)	(4,870)	(1,785)	(15,232)

1 As described in note 19, trade payables and similar items at 31 December 2022 has decreased by £363m with a respective increase in other non-derivative financial liabilities

2 As described in note 15, contract liabilities at 31 December 2022 has increased by £586m

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 2023					
Derivative financial assets:					
Cash inflows	2,024	1,943	2,333	–	
Cash outflows	(2,021)	(1,805)	(2,311)	–	
Other net cash flows ¹	88	43	33	–	
	91	181	55	–	350
Derivative financial liabilities:					
Cash inflows	5,535	3,296	4,377	–	
Cash outflows	(6,418)	(4,027)	(5,189)	–	
Other net cash flows ¹	(21)	(15)	(3)	–	
	(904)	(744)	(815)	–	(2,228)
At 31 December 2022					
Derivative financial assets:					
Cash inflows	3,002	551	3,179	–	
Cash outflows	(2,907)	(540)	(2,886)	–	
Other net cash flows ¹	131	90	98	7	
	226	101	391	7	648
Derivative financial liabilities:					
Cash inflows	6,658	4,238	8,290	722	
Cash outflows	(8,019)	(5,162)	(10,604)	(745)	
Other net cash flows ¹	(10)	(10)	(4)	–	
	(1,371)	(934)	(2,318)	(23)	(4,099)

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

20 Financial instruments continued

Interest rate risk

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

	2023			2022		
	Fixed rate £m	Floating rate £m	Total £m	Fixed rate £m	Floating rate £m	Total £m
Short-term investments	–	–	–	–	11	11
Cash and cash equivalents ¹	–	3,784	3,784	–	2,607	2,607
Borrowings	(4,036)	(63)	(4,099)	(4,096)	(12)	(4,108)
Lease liabilities	(1,269)	(391)	(1,660)	(1,235)	(612)	(1,847)
	(5,305)	3,330	(1,975)	(5,331)	1,994	(3,337)
Weighted average interest rates						
Borrowings	3.7%	5.9%		3.7%	4.7%	
Lease liabilities ²	4.6%	6.8%		3.9%	6.3%	

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 (2022: none) of the Group's borrowings are subject to the Group meeting certain obligations, including customary financial covenants. 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.

£105m (2022: £111m) of the Group's lease liabilities include a customary loan-to-value covenant. The Group has several contractual cures available in the event the stipulated loan-to-value ratio is exceeded. Failure by the Group to satisfy its contractual obligations under the covenant gives rights to the lessor to terminate its lease and claim termination amounts for the outstanding lease balance. At 31 December 2023, none (2022: none) of these were in breach.

Sensitivity analysis

Sensitivities at 31 December (all other variables held constant) – impact on profit after tax and equity	2023 £m	2022 £m
Sterling 10% weaker against the USD	(1,207)	(1,600)
Sterling 10% stronger against the USD	988	1,309
Euro 10% weaker against the USD	(176)	(46)
Euro 10% stronger against the USD	144	38
Sterling 10% weaker against the Euro	(17)	(17)
Sterling 10% stronger against the Euro	14	14
Commodity prices 10% lower	(17)	(21)
Commodity prices 10% higher	17	21
Interest rates 50 basis points lower	(43)	(65)
Interest rates 50 basis points higher	42	64

C Shares and payments to shareholders

The Company issues non-cumulative redeemable preference shares (C Shares) as an alternative to paying a cash dividend. C Shares in respect of a year are issued in the following year. Shareholders are able to redeem any number of their C Shares for cash. Any C Shares retained attract a dividend of Bank of England base rate on the 0.1p nominal value of each share, paid on a twice-yearly basis, and have limited voting rights. The Company has the option to compulsorily redeem the C Shares, at any time, if the aggregate number of C Shares in issue is less than 10% of the aggregate number of C Shares issued, or on the acquisition or capital restructuring of the Company.

Movements in issued and fully paid C Shares during the year were as follows:

	2023		2022	
	Millions	Nominal value £m	Millions	Nominal value £m
At 1 January	23,855	24	24,928	25
Redeemed	(702)	(1)	(1,073)	(1)
At 31 December	23,153	23	23,855	24

Payments to shareholders represent the value of C Shares to be issued in respect of the results for the year. There have been no issues (2022: no issues) of C Shares declared in respect of the year to 31 December 2023.

21 Provisions for liabilities and charges

	At 1 January 2023 £m	Charged to income statement ¹ £m	Reversed £m	Utilised £m	Transferred to held for sale £m	Exchange differences £m	31 December 2023 £m
Contract losses	1,592	500	(433)	(185)	–	(2)	1,472
Warranty and guarantees	317	112	(14)	(91)	(8)	(10)	306
Trent 1000 wastage costs	179	45	(29)	(79)	–	–	116
Employer liability claims	33	1	(7)	(3)	–	–	24
Tax related interest and penalties	16	9	–	(2)	–	(1)	22
Claims and litigation	122	71	(39)	(111)	–	–	43
Other	74	26	(18)	(35)	–	(1)	46
	2,333	764	(540)	(506)	(8)	(14)	2,029
Current liabilities		632					532
Non-current liabilities		1,701					1,497

¹ The charge to the income statement within net financing includes £59m (2022: £33m) as a result of the unwinding of the discounting of provisions previously recognised

Contract losses

Provisions for contract losses are recorded when the direct costs to fulfil a contract are assessed as being greater than the expected recoverable amount. Provisions for contract losses are measured on a fully costed basis and during the year £185m of the provision has been utilised. Additional contract losses for the Group of £500m have been recognised as a result of increases in the estimates of future LTSA costs, due to inflationary increases and costs associated with supply chain challenges. Contract losses of £433m previously recognised have been reversed following the renegotiation of some major contracts resulting in contract extensions and improved margins. The Group continues to monitor the contract loss provision for changes in the market and revises the provision as required. The value of the remaining contract loss provisions reflect, in each case, the single most likely outcome. The provisions are expected to be utilised over the term of the customer contracts, typically within eight to 16 years.

IAS 37 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. However, as per note 11, a number of aero engine lease right-of-use assets were impaired during the year and these will be used on a range of contracts some of which are onerous.

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

Warranty and guarantees

Provisions for warranty and guarantees relate to products sold and are calculated based on an assessment of the remediation costs related to future claims based on past experience. During the year, £112m of additional provision has been recognised representing the single best estimate of warranty and guarantee costs to be incurred on relevant sales and £91m of previously recognised costs have been utilised. The provision generally covers a period of up to three years.

Trent 1000 wastage costs

In November 2019, the Group announced the outcome of testing and a thorough technical and financial review of the Trent 1000 TEN programme, following technical issues which were identified in 2019, resulting in a revised timeline and a more conservative estimate of durability for the improved HP turbine blade for the TEN variant. During the year, the Group has utilised £79m of the Trent 1000 wastage costs provision. This represents customer disruption costs and remediation shop visit costs attributable to the wastage costs provision. During the year, a net charge to the provision of £16m has been recognised reflecting the discount unwind and updates to forecasted costs based on the latest available information. The value of the remaining provision reflects the single most likely outcome and is expected to be utilised in 2024.

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.

21 Provisions for liabilities and charges continued

Tax related interest and penalties

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

Claims and litigation

Provisions for claims and litigation represent ongoing matters where the outcome for the Group may be unfavourable. On 3 July 2023, judgement in respect of a legal claim was rendered by the High Court, resulting in a charge to the income statement of £34m. The judgement was satisfied in August 2023 resulting in a £92m utilisation. The value of any remaining provisions reflects the single most likely outcome in each case.

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

Other

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

22 Post-retirement benefits

The Group operates a number of defined benefit and defined contribution schemes:

- The UK defined benefit scheme is funded, with the assets held in a separate UK trust. The scheme closed to future accrual on 31 December 2020 for all active members and there are no new defined benefit accruals in the UK scheme. As at 31 December 2023, the scheme was estimated to be funded at 113% on the Technical Provisions basis.
- The Group also operates a large trust-based defined contribution scheme for current employees in the UK (Rolls-Royce Retirement Savings Trust). Pension contributions are generally paid as a salary sacrifice under which employees agree to a reduction in gross contractual pay in return for the Group making additional pension contributions on their behalf. As a result, there is a decrease in wages and salaries and a corresponding increase in pension costs of £72m (2022: £46m) in the year.
- Overseas defined benefit schemes are a mixture of funded and unfunded plans and provide benefits in line with local practice. Additionally, in the US, and to a lesser extent in some other countries, the Group's employment practices include the provision of healthcare and life insurance benefits for retired employees. These healthcare schemes are unfunded.

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

Changes to the defined benefit scheme

During the year, Power Systems continued to replace a number of their existing defined benefit schemes with a new company pension scheme to offer payment options at time of retirement for other employee populations not included in 2022. The new system, which is similar in structure to a defined contribution scheme with a guarantee from the company in accordance with German legislation, significantly reduces interest risks and longevity risks for the employer for future commitments. A past service cost of £3m has been recognised within non-underlying operating profit in relation to this new scheme. In addition, Rolls-Royce Power Systems concluded a works agreement resulting in a change to jubilee benefits offered to employees based in Friedrichshafen. A past service credit of £5m has been recognised within non-underlying operating profit.

Other

The Group is aware of a UK High Court legal ruling in June 2023 between Virgin Media Limited and NTL Pension Trustees II Limited, which decided that certain historic rule amendments were invalid if they were not accompanied by the actuarial certifications. The ruling is subject to appeal and the Group is monitoring developments. Whilst this ruling was in respect of another scheme, any final judgment would need to be reviewed for its relevance to the RRUKPF scheme. As yet the RRUKPF pension advisers have not completed any analysis and, as the outcome of the appeal is still unknown, no adjustments have been made to the Consolidated Financial Statements at 31 December 2023.

22 Post-retirement benefits continued

Amounts recognised in the income statement

	2023			2022		
	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	8	35	43	8	44	52
Past-service credit and settlement loss	–	(2)	(2)	(6)	(19)	(25)
	8	33	41	2	25	27
Defined contribution schemes	195	98	293	154	87	241
Operating cost	203	131	334	156	112	268
Net financing (credit)/charge in respect of defined benefit schemes	(29)	41	12	(21)	23	2
Total income statement charge	174	172	346	135	135	270

The operating cost is charged as follows:

	Defined benefit		Defined contribution		Total	
	2023 £m	2022 £m	2023 £m	2022 £m	2023 £m	2022 £m
Cost of sales	33	37	211	168	244	205
Commercial and administrative costs	2	(17)	41	38	43	21
Research and development costs	6	7	41	33	47	40
	41	27	293	239	334	266
Discontinued operations	–	–	–	2	–	2
	41	27	293	241	334	268

Net financing comprises:

	2023			2022		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Financing on scheme obligations	218	66	284	149	46	195
Financing on scheme assets	(247)	(25)	(272)	(170)	(23)	(193)
Net financing (income)/charge in respect of defined benefit schemes	(29)	41	12	(21)	23	2
Financing income on scheme surpluses	(29)	(1)	(30)	(21)	(3)	(24)
Financing cost on scheme deficits	–	42	42	–	26	26

Amounts recognised in OCI in respect of defined benefit schemes

	2023			2022		
	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	180	–	180	19	–	19
Financial assumptions ²	(132)	(63)	(195)	3,423	602	4,025
Experience adjustments ³	116	1	117	(235)	(7)	(242)
Return on scheme assets excluding financing income ²	(12)	26	14	(3,751)	(207)	(3,958)
	152	(36)	116	(544)	388	(156)

¹ For the UK Scheme, this reflects latest available CMI mortality projections and an update of the post-retirement mortality assumptions based on an analysis prepared for the 31 March 2023 funding valuation

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

³ This reflects an experience gain as a result of allowance for updated membership data following the valuation during the year offset by realised inflation being higher than expected in the year

22 Post-retirement benefits continued

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

	2023			2022		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Present value of funded obligations	(4,537)	(993)	(5,530)	(4,621)	(944)	(5,565)
Fair value of scheme assets	5,304	520	5,824	5,215	493	5,708
Net asset/(liability) on funded schemes	767	(473)	294	594	(451)	143
Present value of unfunded obligations	–	(547)	(547)	–	(563)	(563)
Net asset/(liability) recognised in the balance sheet	767	(1,020)	(253)	594	(1,014)	(420)
Post-retirement scheme surpluses ¹	767	15	782	594	19	613
Post-retirement scheme deficits	–	(1,035)	(1,035)	–	(1,033)	(1,033)

¹ The surplus in the UK scheme is recognised as, on an ultimate wind-up when there are no longer any remaining members, any surplus would be returned to the Group, which has the power to prevent the surplus being used for other purposes in advance of this event

Overseas schemes are located in the following countries:

	2023			2022		
	Assets £m	Obligations £m	Net £m	Assets £m	Obligations £m	Net £m
Canada	199	(239)	(40)	187	(226)	(39)
Germany	31	(679)	(648)	10	(638)	(628)
US pension schemes	290	(301)	(11)	296	(308)	(12)
US healthcare schemes	–	(318)	(318)	–	(333)	(333)
Other	–	(3)	(3)	–	(2)	(2)
Net asset/(liability) recognised in the balance sheet	520	(1,540)	(1,020)	493	(1,507)	(1,014)

Defined benefit schemes

Assumptions

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

	2023	2022
Discount rate	4.50%	4.80%
Inflation assumption (RPI)	3.30%	3.50%
Inflation assumption (CPI)	2.85%	2.95%
Transfer take-up assumption (employed deferred/deferred)	35%/25%	50%/40%
Bridging Pension Option (BPO) take-up assumption	30%	30%
Life expectancy from age 65: current male pensioner	20.8 years	21.9 years
future male pensioner currently aged 45	21.5 years	23.2 years
current female pensioner	22.8 years	23.7 years
future female pensioner currently aged 45	24.1 years	25.5 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 2022 core projections updated to reflect use of an 'A' parameter of 0.25% for future improvements and long-term improvements of 1.25%. Where appropriate, these are adjusted to take account of the scheme's actual experience.

The assumption for transfers and the BPO is based on actual experience and actuarial advice.

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

22 Post-retirement benefits continued

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

Changes in present value of defined benefit obligations

	2023			2022		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	(4,621)	(1,507)	(6,128)	(8,010)	(2,204)	(10,214)
Exchange differences	–	54	54	–	(165)	(165)
Current service cost	(4)	(33)	(37)	(4)	(43)	(47)
Past-service cost	–	2	2	6	24	30
Finance cost	(218)	(66)	(284)	(149)	(49)	(198)
Contributions by employees	–	(9)	(9)	–	(4)	(4)
Benefits paid out	142	80	222	329	102	431
Actuarial gains/(losses)	164	(61)	103	3,207	599	3,806
Transfers	–	(2)	(2)	–	(2)	(2)
Transferred to held for sale	–	2	2	–	–	–
Settlement	–	–	–	–	235	235
At 31 December	(4,537)	(1,540)	(6,077)	(4,621)	(1,507)	(6,128)
Funded schemes	(4,537)	(993)	(5,530)	(4,621)	(944)	(5,565)
Unfunded schemes	–	(547)	(547)	–	(563)	(563)

The defined benefit obligations are in respect of:

Active plan participants ¹	(1,584)	(731)	(2,315)	(1,681)	(693)	(2,374)
Deferred plan participants	(1,287)	(100)	(1,387)	(1,172)	(93)	(1,265)
Pensioners	(1,666)	(709)	(2,375)	(1,768)	(721)	(2,489)
Weighted average duration of obligations (years)	16	12	15	17	13	16

1 Although the UK scheme closed to future accrual on 31 December 2020, members who became deferred as a result of the closure and remain employed by the Group retain some additional benefits compared to other deferred members. The obligations for these members are shown as active plan participants

Changes in fair value of scheme assets

	2023			2022		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
At 1 January	5,215	493	5,708	9,128	861	9,989
Exchange differences	–	(21)	(21)	–	77	77
Administrative expenses	(4)	(1)	(5)	(4)	(1)	(5)
Financing	247	25	272	170	23	193
Return on plan assets excluding financing	(12)	26	14	(3,751)	(207)	(3,958)
Contributions by employer	–	69	69	1	80	81
Contributions by employees	–	9	9	–	4	4
Benefits paid out	(142)	(80)	(222)	(329)	(102)	(431)
Settlement	–	–	–	–	(242)	(242)
At 31 December	5,304	520	5,824	5,215	493	5,708
Total return on scheme assets	235	51	286	(3,581)	(184)	(3,765)

22 Post-retirement benefits continued

Fair value of scheme assets at 31 December

	2023			2022		
	UK schemes £m	Overseas schemes £m	Total £m	UK schemes £m	Overseas schemes £m	Total £m
Sovereign debt	3,259	118	3,377	3,574	120	3,694
Corporate debt instruments	1,996	270	2,266	1,492	257	1,749
Interest rate swaps	170	–	170	196	–	196
Inflation swaps	86	–	86	212	–	212
Cash and similar instruments ¹	(892)	–	(892)	(1,066)	–	(1,066)
Liability driven investment (LDI) portfolios ²	4,619	388	5,007	4,408	377	4,785
Listed equities	–	69	69	–	78	78
Unlisted equities	32	–	32	40	–	40
Synthetic equities ³	20	–	20	(8)	–	(8)
Corporate debt instruments	630	–	630	772	–	772
Cash	–	10	10	–	5	5
Other	3	53	56	3	33	36
At 31 December	5,304	520	5,824	5,215	493	5,708

1 UK cash and similar instruments include repurchase agreements on UK Government bonds amounting to £(993)m (2022: £(1,221)m). The latest maturity date for these short-term borrowings is September 2024

2 A portfolio of gilt and swap contracts, backed by investment-grade credit instruments and diversified liquidity funds, that is designed to hedge the majority of the interest rate and inflation risks associated with the schemes' obligations

3 Portfolios of swap contracts designed to provide investment returns in line with global equity markets. The maximum exposure (notional value and accrued returns) on the portfolios was £379m (2022: £344m)

The investment strategy for the UK scheme is controlled by the Trustee in consultation with the Group. The scheme assets do not directly include any of the Group's own financial instruments, nor any property occupied by, or other assets used by, the Group. At 31 December 2023, there was no indirect holding of the Group's financial instruments (2022: none).

Future contributions

The Group expects to contribute approximately £73m to its overseas defined benefit schemes in 2024 (2023: £70m).

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 as set out on page 176. The assumptions used to value Technical Provisions must be prudent rather than a best estimate of the liability. Most notably, the Technical Provisions discount rate is currently based upon UK Government bond yields plus a margin (0.5% at the 31 March 2023 valuation) rather than being based on yields of AA corporate bonds. Once each valuation is signed, a Schedule of Contributions (SoC) must be agreed which sets out the cash contributions to be paid. The most recent valuation, as at 31 March 2023, agreed by the Trustee in October 2023, showed that the RRUKPF was estimated to be 115% funded on the Technical Provisions basis (estimated to be 113% at 31 December 2023). All cash due has been paid in full and the current SoC does not currently require any cash contributions to be made by the Group.

22 Post-retirement benefits continued

Sensitivities

The calculations of the defined benefit obligations are sensitive to the assumptions set out above. The following table summarises how the estimated impact of a change in a significant assumption would affect the UK defined benefit obligation at 31 December 2023, while holding all other assumptions constant. This sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

For the most significant funded schemes, the investment strategies hedge the risks from interest rates and inflation measured on a proxy solvency basis.

For the UK scheme, the interest rate and inflation hedging is currently based on UK Government bond yields without any adjustment for any credit spread. The sensitivity analysis set out below has been determined based on a method that estimates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

		2023 £m	2022 £m
Reduction in the discount rate of 0.25% ¹	Obligation	(185)	(205)
	Plan assets (LDI portfolio)	204	235
Increase in inflation of 0.25% ¹	Obligation	(75)	(70)
	Plan assets (LDI portfolio)	77	91
Increase of 1% in transfer value assumption	Obligations	(30)	(30)
One year increase in life expectancy	Obligations	(155)	(165)

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

23 Share capital

	Non-equity		Equity	
	Special Share of £1	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid				
At 1 January 2022	1	–	8,368	1,674
At 31 December 2022	1	–	8,368	1,674
Shares issued to employee share trust	–	–	49	10
At 31 December 2023	1	–	8,417	1,684

The rights attaching to each class of share are set out on page 218.

In accordance with IAS 32, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 20. In addition, the rights of C share holders are included on page 218.

24 Share-based payments

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

	2023 £m	2022 £m
Total expense recognised for equity-settled share-based payments transactions	49	46
Total cost recognised for cash-settled share-based payments transactions	17	1
Share-based payments recognised in the consolidated income statement	66	47
Liability for cash-settled share-based payment transactions	18	1

A description of the share-based payment plans is included in the remuneration report on pages 84 to 110.

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

	ShareSave	Weighted average exercise price Pence	LTIP	DSBP
	Number Millions		Number Millions	Number Millions
Outstanding at 1 January 2022	75.1	132	77.0	0.8
Granted	0.1	104	47.2	12.3
Forfeited	(9.6)	161	(13.4)	(0.2)
Exercised	–	–	(17.8)	(0.7)
Outstanding at 31 December 2022	65.6	127	93.0	12.2
Granted	0.1	115	44.7	7.0
Forfeited	(12.3)	203	(29.1)	(1.9)
Exercised	–	–	(7.6)	(0.1)
Outstanding at 31 December 2023	53.4	107	101.0	17.2
Exercisable at 31 December 2023	–	–	–	–
Exercisable at 31 December 2022	–	–	–	–

The weighted average share price at the date share options were exercised was 159p (2022: 95p). The closing price at 31 December 2023 was 300p (2022: 93p).

The weighted average remaining contractual life for the share options as at 31 December 2023 was one year (2022: two years) and the range of exercise prices for the share options as at 31 December 2023 was 97p to 261p.

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:

	2023	2022
LTIP	216p	90p
DSBP	157p	91p

Long-term incentive plans (LTIP)

The fair value of shares awarded is calculated using a pricing model that takes account of the non-entitlement to dividends (or equivalent) during the vesting period and the market-based performance condition based on expectations about volatility and the correlation of share price returns in the group of FTSE 100 companies and which incorporates into the valuation the interdependency between share price performance and total shareholder return (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 that falls somewhere between the start and end of the exercise window.

Deferred Share Bonus Plan (DSBP)

The fair value of shares awarded under DSBP is calculated as the share price on the date of the award, excluding expected dividends (or equivalent).

25 Contingent liabilities and commitments

In January 2017, after full cooperation, the Company concluded deferred prosecution agreements (DPA) with the SFO and the US Department of Justice (DoJ) and a leniency agreement with the MPF, the Brazilian federal prosecutors. The terms of both DPAs have now expired. The Company has submitted a final report to the Controller General, Brazil (CGU) under the terms of a two-year leniency agreement, signed in October 2021, relating to the same historical matters. 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 Company 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 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 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, relate to a number of customers and a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of \$0.9bn (2022: \$1.2bn) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately \$0.7bn could be called during 2024). 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 are made to cover guarantees provided where it is probable that a payment will be made. These are reported on a discounted basis at the Group's borrowing rate to better 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 2023 or 31 December 2022.

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

	2023 £m	2022 £m
Sales of goods and services	6,700	5,074
Purchases of goods and services ¹	(7,471)	(5,577)
Lease payments to joint ventures and associates	(244)	(163)
Guarantees of joint arrangements' and associates' borrowings	2	3
Guarantees of non-wholly owned subsidiaries' borrowings	3	3
Dividends received from joint ventures and associates	54	73
Other income received from joint ventures and associates	6	2

¹ The Group has both sales and purchasing arrangements with its maintenance, repair and overhaul joint ventures. As part of this arrangement, the Group issues and receives credit notes usable against amounts receivable and payable to these related parties. Purchases of goods and services from related parties are presented to be shown gross of these concessions. This is consistent with the presentation of sales to related parties. Purchases from related parties incurred during the year to 31 December 2022 have been represented on this basis resulting in an increase to this balance of £662m

Included in sales of goods and services to related parties are sales of spare engines amounting to £48m (2022: £19m). Profit recognised in the year on such sales amounted to £88m (2022: £50m), 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 £73m (2022: £40m).

Included in other financing charges in the income statement are interest costs of £34m (2022: £17m) incurred during the year which have been settled by the Group on behalf of joint ventures, including £28m of costs incurred for using the Group offered SCF arrangement set out in note 19.

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

26 Related party transactions continued

Key management personnel are deemed to be the Directors (pages 70 to 71) and the members of the Executive Team (described on page 72). Remuneration for key management personnel is shown below:

	2023 £m	2022 £m
Salaries and short-term benefits	26	18
Post-retirement schemes	–	–
Share-based payments	15	10
	41	28

During the year, one director (2022: none) received termination benefits. For further detail, see the remuneration report

More detailed information regarding the Directors' remuneration, shareholdings, pension entitlements, share options and other long-term incentive plans is shown in the Remuneration Report on pages 84 to 110. The charge for share-based payments above is based on when the award is charged to the income statement in accordance with IFRS 2 *Share-Based Payments*, rather than when the shares vest, which is the basis used in the remuneration report.

27 Acquisitions, disposals, held for sale and discontinued operations

Acquisitions

On 30 June 2023, the Group completed its acquisition of Team Italia/Onyx Marine SRL for a cash consideration of £14m. Team Italia specialises in yacht bridges and marine navigation and automation systems. The acquisition will provide key technology for marine automation systems and will strengthen Power Systems' position as a yacht market leader. The acquisition price of £14m has been allocated to £8m of goodwill, £2m of customer relationships, £2m to right-of-use assets and £2m to other assets and liabilities.

Disposals

During the year, the Group divested of its 49% shareholding in its joint venture, Shanxi North MTU Diesel Co. Limited to the current JV partner for proceeds of £5m. The carrying value of the Group's investment that was derecognised was £5m resulting in nil profit on disposal.

Reconciliation of profit/(loss) on disposal of businesses in continuing operations to the income statement:

	Total £m
Profit/(loss) before taxation on disposal	–
Cumulative currency translation loss on liquidation of joint venture	(1)
Adjustment to consideration on disposals completed in prior periods	2
Profit on disposal of businesses per income statement	1

Reconciliation of cash flow on acquisition and disposal of businesses to the cash flow statement:

	Total £m
Proceeds on disposal	5
Cash outflow on acquisitions	(14)
Net cash flows on disposals completed in prior periods	(9)
Cash flow on acquisition and disposal of businesses per cash flow statement	(18)

27 Acquisitions, disposals, held for sale and discontinued operations continued

Held for sale

At 31 December 2023, the Group was in positive discussions with Deutz AG for the sale of the off-highway engines business in the lower power range based in Power Systems. The business is available for sale in its current condition and the sale is considered highly probable based on the agreement-in-principle reached as at 31 December 2023. In line with IFRS 5, the assets and liabilities related to the business have been classified as held for sale and measured at the lower of their carrying value or fair value less costs to sell, resulting in a £7m impairment reversal.

The table below summarises the categories of assets and liabilities classified as held for sale at 31 December 2023. There were no assets or liabilities held for sale at 31 December 2022.

	2023 £m
Intangible assets	51
Inventory	11
Trade receivables and other assets	47
Assets held for sale	109
Trade payables and other liabilities	(41)
Contract liabilities	(4)
Provisions for liabilities and charges	(8)
Post-retirement scheme deficits	(2)
Liabilities associated with assets held for sale	(55)
Net assets held for sale	54

Discontinued Operations

ITP Aero represented a separate major line of business and was classified as a disposal group held for sale up to the date of disposal. Therefore, the results up to 15 September 2022, in line with IFRS 5, were presented as discontinued operations.

The financial performance and cash flow information presented reflects the operations for the year that have been classified as discontinued operations.

	2023 £m	2022 £m
Revenue	-	275
Operating profit¹	-	86
Profit before taxation¹	-	78
Income tax charge ¹	-	(10)
Profit for the year from discontinued operations on ordinary activities	-	68
Costs of disposal on discontinued operations ²	-	-
Loss on disposal of discontinued operations (see above)	-	(148)
Loss for the year from discontinued operations	-	(80)
Net cash inflow from operating activities ²	-	85
Net cash outflow from investing activities ²	-	(67)
Net cash outflow from financing activities	-	(25)
Exchange gain/(losses)	-	-
Net change in cash and cash equivalents	-	(7)

¹ Profit from discontinued operations on ordinary activities is presented net of intercompany trading eliminations and related consolidation adjustments

² Cash flows from investing activities include £nil (2022: £42m) costs of disposal paid during the year that are not a movement in the cash balance of the disposal group as they were borne centrally

28 Derivation of summary funds flow statement

	2023				2022	
	Cash flow £m	Impact of hedge book £m	Impact of acquisition accounting £m	Impact of other non- underlying items £m	Funds flow £m	Funds flow £m
Operating profit/(loss)	1,944	(475)	50	71	1,590	652
Operating profit from discontinued operations	–	–	–	–	–	86
Depreciation, amortisation and impairment	1,019	–	(50)	9	978	953
Movement in provisions	(325)	46	–	21	(258)	(23)
Movement in Civil LTSA balance	1,708	(377)	–	–	1,331	792
Movement in prepayments to RRSAs for LTSA parts	(315)	63	–	–	(252)	(8)
Settlement of excess derivatives	(389)	–	–	–	(389)	(326)
Loss on disposal of property, plant and equipment ¹	18	–	–	–	18	18
Joint venture trading ¹	(119)	–	–	–	(119)	25
Interest received	159	–	–	–	159	36
Contributions to defined benefit schemes in excess of underlying operating profit charge ¹	(28)	–	–	2	(26)	(32)
Share-based payments ¹	66	–	–	–	66	47
Other ¹	–	(8)	–	1	(7)	(53)
Operating cash flow before working capital and taxation ²	3,738	(751)	–	104	3,091	2,167
Increase in inventories ³	(200)	–	–	–	(200)	(887)
Movement in trade receivables/payables and other assets/liabilities (excluding prepayments to RRSAs for LTSA parts) ³	(2,090)	(164)	–	(37)	(2,291)	(745)
Movement in contract assets/liabilities (excluding Civil LTSA) ³	995	51	–	–	1,046	892
Revaluation of trading assets (excluding exceptional items) ³	206	(10)	–	–	196	(521)
Realised derivatives in financing ³	853	–	–	–	853	737
Cash flows on other financial assets and liabilities held for operating purposes	(845)	853	–	–	8	77
Income tax	(172)	–	–	–	(172)	(174)
Cash from operating activities ²	2,485	(21)	–	67	2,531	1,546
Capital element of lease payments	(291)	21	–	–	(270)	(198)
Capital expenditure	(699)	–	–	4	(695)	(504)
Investment	69	–	–	–	69	28
Interest paid	(333)	–	–	–	(333)	(352)
Other (M&A, exceptional transformation and restructuring costs)	54	–	–	(71)	(17)	(29)
Free cash flow	1,285	–	–	–	1,285	491
<i>– of which is continuing operations</i>	<i>1,285</i>				<i>1,285</i>	<i>505</i>

1 Included in other operating cash flows in the summarised free cash flow on page 22

2 The funds flow to 31 December 2022 has been represented to disclose cash flows on settlement of excess derivative contracts as cash flows from operating activities. As a result, operating cash flows before working capital and income tax during the year to 31 December 2022 have reduced by £326m to £2,167m. Cash flows on settlement of excess derivative contracts were previously shown after cash from operating activities in arriving at free cash flow. There is no impact to free cash flow

3 Included in working capital (excluding Civil LTSA balance) in the summarised free cash flow on page 22

The comparative information to 31 December 2023 has been presented in a different format to align to the current year presentation. In some instances, the groupings of items may have changed. All comparative figures remain unchanged versus those reported in the 2022 Annual Report.

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

Cash flow from operating activities is determined to be the nearest statutory measure to free cash flow. The reconciliation between free cash flow and cash flow from operating activities can be found on page 216.

Company balance sheet

At 31 December 2023

	Notes	2023 £m	2022 £m
ASSETS			
Investments – subsidiary undertakings	2	14,810	14,762
LIABILITIES			
Trade payables and other liabilities	3	(336)	(335)
Other financial liabilities	4	(23)	(24)
Current liabilities		(359)	(359)
NET ASSETS	6	14,451	14,403
EQUITY			
Called-up share capital	5	1,684	1,674
Share premium		1,012	1,012
Merger reserve		6,962	6,962
Capital redemption reserve		2,749	2,748
Other reserve		397	349
Retained earnings		1,647	1,658
TOTAL EQUITY		14,451	14,403

The Company has elected to take the exemption under section 408 of the Companies Act 2006 from presenting the parent company income statement. The result for the Company for the year was nil (2022: nil).

The Financial Statements on pages 185 to 189 were approved by the Board on 22 February 2024 and signed on its behalf by:

Tufan Erginbilic
Chief Executive

Helen McCabe
Chief Financial Officer

Company's registered number: 7524813

Company statement of changes in equity

For the year ended 31 December 2023

	Attributable to ordinary shareholders						
	Share capital £m	Share premium £m	Merger reserve ¹ £m	Capital redemption reserve £m	Other reserve ² £m	Retained earnings ^{3,4} £m	Total equity £m
At 1 January 2022	1,674	1,012	6,962	2,747	303	1,659	14,357
Redemption of C Shares	–	–	–	1	–	(1)	–
Share-based payments – direct to equity	–	–	–	–	46	–	46
At 1 January 2023	1,674	1,012	6,962	2,748	349	1,658	14,403
Arising on issues of ordinary shares	10	–	–	–	–	(10)	–
Redemption of C Shares	–	–	–	1	–	(1)	–
Share-based payments – direct to equity	–	–	–	–	48	–	48
At 31 December 2023	1,684	1,012	6,962	2,749	397	1,647	14,451

1 The Company's merger reserve was created as a result of a High Court approved scheme of arrangement in 2011, when the Company became the holding company for the Rolls-Royce Group

2 Other reserve represents the value of the share-based payments in respect of employees of subsidiary undertakings for which payment has not been received

3 The reserves, which are distributable to the Company's equity shareholders, are determined with reference to the Companies Act 2006 and requires judgement in determining the amount available for distribution, subject to the restrictions explained in note 17 of the Consolidated Financial Statements. Further guidance is given in the Institute of Chartered Accountants in England and Wales technical release 02/17BL in relation to what profits can be treated as distributable. At 31 December 2023, all the Company's retained earnings are distributable, however, the available amount may be different at the point any future distributions are made

4 At 31 December 2023, 52,912,406 ordinary shares with a net book value of £22m (2022: 11,402,796 ordinary shares with a net book value of £27m) were held for the purpose of share-based payment plans and included in accumulated losses. During the year:

- 7,875,240 ordinary shares with a net book value of £15m (2022: 18,488,558 ordinary shares with a net book value of £39m) vested in share-based payment plans;
- the Company issued 49,100,000 (2022: none) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £10m (2022: £nil); and
- the Company acquired none (2022: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 284,850 (2022: 486,163) of its ordinary shares through purchases on the London Stock Exchange

1 Accounting policies

Basis of accounting

Rolls-Royce Holdings plc (the Company) is a public company limited by shares incorporated and domiciled in England in the United Kingdom. These Financial Statements have been prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* on the historical cost basis.

These financial statements have been prepared on a going concern basis. Further details are given in the Going Concern Statement on page 58. After due consideration, the Directors consider that the Group has sufficient liquidity headroom to continue in operational existence for a period of at least 18 months from the date of this report and there are no material uncertainties that may cast doubt on the Company's going concern status, accordingly they are satisfied that it is appropriate to adopt the going concern basis of accounting in preparing the Company Financial Statements.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards (IFRS) as adopted by the UK (UK-adopted international accounting standards), but makes amendments where necessary in order to comply with the Companies Act 2006 and to take advantage of FRS 101 disclosure exemptions:

- a cash flow statement and related notes;
- comparative period reconciliation for investments and financial liabilities;
- comparative period reconciliation for share capital;
- the effects of new, but not yet effective accounting standards; and
- the requirements of IAS 24 *Related Party Disclosures* and has, therefore, not disclosed transactions between the Company and its wholly-owned subsidiaries.

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

There were no changes to accounting standards that had a material impact on these Financial Statements. The Company's Financial Statements are presented in sterling, which is the Company's functional currency.

As permitted by section 408 of the Companies Act 2006, a separate income statement for the Company has not been included in these Financial Statements. As permitted by the audit fee disclosure regulations, disclosure of non-audit fees information is not included in respect of the Company.

Key areas of judgement and sources of estimation uncertainty

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires the Directors to exercise their judgement in the process of applying the accounting policies. The Directors have not identified any critical estimates or judgements where there is a significant risk of material change in the next 12 months at 31 December 2023.

Material accounting policies

Investments in subsidiary undertakings

Investments included in assets are investments in subsidiary companies, and these are held at historical cost less impairments which is considered annually by the Directors.

Trade payables

Trade payables are recognised initially at the transaction price and subsequently measured at amortised cost using the effective interest method.

Financial instruments

In accordance with IAS 32, the Company's C Shares are classified as financial liabilities and held at amortised cost from the date of issue until redeemed.

Equity

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. The cost of issuing ordinary shares are charged to the share premium account.

Share-based payments

As described in the Remuneration Report on pages 84 to 110, the Company grants awards of its own shares to employees of its subsidiary undertakings (see note 24 of the Consolidated Financial Statements). The costs of share-based payments in respect of these awards are accounted for, by the Company, as an additional investment in its subsidiary undertakings. The costs are determined in accordance with IFRS 2. Any payments made by the subsidiary undertakings in respect of these arrangements are treated as a return of this investment.

1 Accounting policies continued

Revisions to IFRS applicable in 2023

IFRS 17 Insurance Contracts

IFRS 17 issued in May 2018, establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the Standard. The Standard is effective for years beginning on or after 1 January 2023 with a requirement to restate comparatives.

The Company enters into: financial guarantees where the Company guarantees payment in case of its subsidiary defaulting on a debt; and performance guarantees where the Company guarantees certain subsidiaries performance to a customer. The Company has reviewed and concluded that its arrangements meet the accounting definition of an insurance contract under IFRS 17. The Company has elected to apply IFRS 17 (rather than IFRS 9) to all currently issued financial guarantee 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 both historical and forward-looking triggers and as such the estimated liability is immaterial. As a result, no transition accounting entries were required as at 1 January 2023 and, as the estimated liability is immaterial at 31 December 2023, no liability has been recognised in the Company Financial Statements.

At 31 December 2023, financial guarantees of borrowings amounted to £7,601m (2022: £9,724m) of which the total amount of debt drawn is £4,101m (2022: £4,224m). Prior to adoption of IFRS 17, these potential exposures were considered to be contingent liabilities until such time that it became probable that the Company would be required to make a payment under the guarantee. Under IFRS 17, 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).

2 Investments – subsidiary undertakings

	£m
Cost:	
At 1 January 2023	14,762
Cost of share-based payments in respect of employees of subsidiary undertakings less receipts from subsidiaries in respect of those payments	48
At 31 December 2023	14,810

Details of the Company's subsidiary undertakings and joint venture and associates undertakings are listed on pages 190 to 195.

The carrying value of the Company's investments in subsidiary undertakings has been reviewed for impairment in accordance with IAS 36. No indicators of impairment were identified at 31 December 2023.

3 Trade payables and other liabilities

	2023 £m	2022 £m
Amounts owed to – subsidiary undertakings	336	335

Amounts owed to subsidiary undertakings are interest-free and repayable on demand.

4 Financial liabilities

C Shares

Movements during the year were as follows:

	C Shares of 0.1p millions	Nominal value £m
At 1 January 2023	23,854	24
Redeemed	(702)	(1)
At 31 December 2023	23,152	23

The rights attaching to C Shares are set out on page 218.

5 Share capital

	Non-equity			Equity	
	Special Share of £1	Preference shares of £1 each	Nominal value £m	Ordinary shares of 20p each Millions	Nominal value £m
Issued and fully paid					
At 1 January 2023	1	-	-	8,368	1,674
Shares issued to employee share trust	-	-	-	49	10
At 31 December 2023	1	-	-	8,417	1,684

The rights attaching to each class of share are set out on page 218.

In accordance with IAS 32, the Company's non-cumulative redeemable preference shares (C Shares) are classified as financial liabilities. Accordingly, movements in C Shares are included in note 4.

6 Reconciliation of net assets between Rolls-Royce Holdings plc Group and Company

As at 31 December 2023, Rolls-Royce Holdings plc consolidated group had net liabilities of £3.6bn (2022: £6.0bn) compared to £14.5bn (2022: £14.4bn) of net assets of the Company. The Company is a holding company and does not trade in its own right. The Company was incorporated in 2011 and became the Rolls-Royce holding company through a Scheme of Arrangement. On becoming the Rolls-Royce holding company, the value of the Company's investment in subsidiaries was based on the market capitalisation of the Rolls-Royce Group at that time. There was an increase in the investment as a result of a capital injection to Rolls-Royce Group Limited during 2020. The Group's consolidated financial statements are prepared on a historical cost basis except where UK adopted international accounting standards requires a valuation basis to be applied (see page 187 for further details). As different principles are applied in preparing the Company and consolidated group balance sheets, there is a difference in the financial position reported. Examples of such differences include the following items that are in the Consolidated balance sheet but not reflected in the Company's balance sheet: net contract liabilities of £13,294m (2022: £10,681m) as a result of IFRS 15; and net financial liabilities of £2,035m (2022: £3,851m) arising from the recognition at fair value of foreign exchange derivatives held to manage exposure on the Group's future trading.

7 Contingent liabilities

For further details on action related to historical matters that could have an impact on the Company, see page 181.

8 Other information

Employees

The Company had no employees in 2023 (2022: none).

Share-based payments

Shares in the Company have been granted to employees of the Group as part of share-based payment plans, and are charged in the employing company.

Emoluments of Directors

The remuneration of the Directors of the Company is shown below, further information is in the Remuneration Report on pages 84 to 110.

The total amount of remuneration paid to Directors for the year ended 31 December 2023 was £10,130,000 (2022: £7,577,000). £5,960,000 of this was attributed to the highest paid Director (2022: £3,718,000). A cash allowance in lieu of company contributions to a pensions scheme was also paid to three Directors (2022: two), which totalled £244,000 (2022: £199,000). No Directors exercised share options during the year (2022: none) or received vested shares under the Long-Term Incentive Plan (2022: none). One director received payments for loss of office which totalled £483,000 (2022: £nil).

No Director accrued any retirement benefits in the year (2022: none).

Subsidiaries

As at 31 December 2023, the companies listed below and on the following pages are indirectly held by Rolls-Royce Holdings plc, except Rolls-Royce Group Limited, which is 100% directly owned by Rolls-Royce Holdings plc and Rolls-Royce plc which Rolls-Royce Holdings plc directly owns 3.54%. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Address	Class of shares	% of class held
Aerospace Transmission Technologies GmbH ¹	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50
Amalgamated Power Engineering Limited ²	London ³	Deferred Ordinary	100 100
Bristol Siddeley Engines Limited ²	London ³	Ordinary	100
Brown Brothers & Company, Limited ⁴	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, KY11 9JT, Scotland	Ordinary	100
C.A. Parsons & Company Limited ⁴	London ³	Ordinary	100
Derby Specialist Fabrications Limited ²	London ³	Ordinary	100
Europea Microfusioni Aerospaziali S.p.A.	Zona Industriale AS1, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Heaton Power Limited ²	London ³	Ordinary	100
John Thompson Cochran Limited ²	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, KY11 9JT, Scotland	6% Cumulative Preference Ordinary	100 100
Karl Maybach-Hilfe GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Kinolt Immo SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Immobilien SA	Rue de l'Avenir 61, 4460, Grace-Hollogne, Belgium	Ordinary	100
Kinolt Trading and Contracting LLC ⁵	REGUS Service Office, Office No. 1034, Shoumoukh Tower, 10th Floor, Tower B, C-Ring Road, Al Sadd, PO Box 207207, Doha, Qatar	Ordinary	49
Kinolt Sistemas de UPS SpA	Bucarest No 17 Oficina, No 33, Previdencia, Santiago, Chile	Ordinary	100
Kinolt UK Limited ²	London ³	Ordinary	100
LLC Rolls-Royce Solutions Rus	Shabolovka Street 2, 119049, Moscow, Russian Federation	Ordinary	100
MTU Cooltech Power Systems Co., Limited ¹	Building No 2, No 1633 Tianchen Road, Qingpu District, Shanghai, China	Equity	50
MTU India Private Limited ⁶	6th Floor, RMZ Galleria, S/Y No. 144 Bengaluru, Bangalore, Karnataka 560,064, India	Ordinary	100
MTU Polska Sp. z o.o.	Ul. Lekka 3., Lokal U4. Raum, PLZ: 01-910, Ort: Warszawa, Poland	Ordinary	100
NEI International Combustion Limited ²	London ³	Ordinary	100
NEI Mining Equipment Limited ²	London ³	Ordinary	100
NEI Nuclear Systems Limited ²	London ³	Ordinary	100
NEI Parsons Limited ²	London ³	Ordinary	100
NEI Peebles Limited ²	London ³	Ordinary	100
NEI Power Projects Limited ²	London ³	Ordinary	100
Nightingale Insurance Limited	PO Box 33, Dorey Court, Admiral Park, St Peter Port GY1 4AT, Guernsey	Ordinary	100
No-Break Power Limited ²	London ³	Ordinary	100
Powerfield Limited ²	Derby ⁷	Ordinary	100
PT Rolls-Royce	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
PT Rolls Royce Solutions Indonesia	Secure Building Blok B, Jl. Raya Protokol Halim, Perdanakusuma, Jakarta, 13610, Indonesia	Ordinary	100
Rolls-Royce (Ireland) Unlimited Company ²	Ulster International Finance, 1st Floor IFSC House, IFSC, Dublin 1, Ireland	Ordinary	100
Rolls-Royce (Thailand) Limited	989 Floor 12A, Unit B1, B2, Siam Piwat Tower, Rama 1, Pathumwan, Bangkok, 10330, Thailand	Ordinary	100
Rolls-Royce Aero Engine Services Limited ²	London ³	Ordinary	100
Rolls-Royce Australia Pty Limited	Level 1, 60 Martin Place, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Australia Services Pty Limited	Level 1, 60 Martin Place, Sydney NSW 2000, Australia	Ordinary	100
Rolls-Royce Brasil Limitada	Rua Jose Versolato, No. 111, Torre B, Sala 2502, Centro, São Bernardo do Campo, São Paulo, CEP 09750-730, Brazil	Quotas	100
Rolls-Royce Canada Limited	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common Stock	100
Rolls-Royce Chile SpA	Alcantra 200 office 601, Piso 6, C.O, 7550159 Las Condes, Santiago, Chile	Ordinary	100
Rolls-Royce China Holding Limited	305 Indigo Building 1, 20 Jiuxianqiao Road, Beijing, 100016, China	Registered Capital	100
Rolls-Royce Commercial Aero Engines Limited ²	London ³	Ordinary	100
Rolls-Royce Controls and Data Services Limited ²	London ³	Ordinary	100
Rolls-Royce Controls and Data Services (NZ) Limited	c/o Deloitte, 80 Queen Street, Auckland Central, Auckland 1010, New Zealand	Ordinary	100

Company name	Address	Class of shares	% of class held
Rolls-Royce Controls and Data Services (UK) Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce Corporation	Wilmington ⁸	Common Stock	100
Rolls-Royce Crosspointe LLC	Wilmington ⁸	Partnership (no equity)	100
Rolls-Royce Defense Products and Solutions, Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Defense Services, Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Deutschland Ltd & Co KG	Amtsgericht Potsdam, Blankenfelde-Mahlow, Germany	Ordinary	100
Rolls-Royce Electrical Norway AS	Jarleveien 8A, 7041, Trondheim 500, Norway	Ordinary	100
Rolls-Royce Energy Angola, Limitada ²	Rua Rei Katayavalá, Edificio Rei Katayavalá, Entrada B, Piso 8, Luanda, Angola	Quota	100
Rolls-Royce Energy Systems Inc. ²	Wilmington ⁸	Common Stock	100
Rolls-Royce Engine Services Holdings Co.	Wilmington ⁸	Common Stock	100
Rolls-Royce Engine Services Limitada Inc. ⁹	Bldg. 06 Berthaphil Compound, Jose Abad Santos Avenue, Clark Special Economic Zone, Clark, Pampanga, Philippines	Capital Stock	100
Rolls-Royce Erste Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow, Germany	Capital Stock	100
Rolls-Royce Finance Company Limited ²	London ³	Deferred Ordinary	100
Rolls-Royce Finance Holdings Co.	Wilmington ⁸	Common Stock	100
Rolls-Royce Fuel Cell Systems Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce General Partner (Ireland) Limited	29 Earlshot Terrace, Dublin 2, Ireland	Ordinary	100
Rolls-Royce General Partner Limited ²	London ³	Ordinary	100
Rolls-Royce Group Limited ¹³	London ³	Ordinary Ordinary A	100
Rolls-Royce High Temperature Composites, Inc.	Corporation Service Company, 2710 Gateway Oaks Drive, Suite 150N, Sacramento, California 95833, United States	Ordinary	100
Rolls-Royce Holdings Canada Inc.	9500 Côte de Liesse, Lachine, Québec H8T 1A2, Canada	Common C	100
Rolls-Royce Hungary Kft	Gizella U. 51-57, 1143 Budapest, Hungary	Cash shares	100
Rolls-Royce India Limited ^{2, 6, 10}	Derby ⁷	Ordinary	100
Rolls-Royce India Private Limited ⁶	Birla Tower West, 2nd Floor 25, Barakhamba Road, New Delhi, 110001, India	Equity	100
Rolls-Royce Industrial & Marine Power Limited ⁴	London ³	Ordinary	100
Rolls-Royce Industrial Power (India) Limited ^{2, 6, 10}	Derby ⁷	Ordinary	100
Rolls-Royce Industrial Power Engineering (Overseas Projects) Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce Industries Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce International Limited	Derby ⁷	Ordinary	100
Rolls-Royce Japan Co., Limited	31st Floor, Kasumigaseki Building, 3-2-5 Kasumigaseki, Chiyoda-Ku, Tokyo, 100-6031, Japan	Ordinary	100
Rolls-Royce Leasing Limited	Derby ⁷	Ordinary	100
Rolls-Royce Malaysia Sdn. Bhd.	Unit A-3-6 TTDI Plaza, Jalan Wan Kadir 3, Taman Tun Dr Ismail, 6000 Kuala Lumpur, Malaysia	Ordinary	100
Rolls-Royce Marine North America, Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Military Aero Engines Limited ^{2, 6, 10}	London ³	Ordinary	100
Rolls-Royce New Zealand Limited	c/o Deloitte, 80 Queen Street, Auckland Central, Auckland 1010, New Zealand	Ordinary	100
Rolls-Royce North America (USA) Holdings Co.	Wilmington ⁸	Common Stock	100
Rolls-Royce North America Holdings, Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce North America Ventures, Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce North America, Inc.	Wilmington ⁸	Common Stock	100

SUBSIDIARIES

Company name	Address	Class of shares	% of class held
Rolls-Royce North American Technologies, Inc.	Wilmington ⁸	Common Stock	100
Rolls-Royce Oman LLC	Bait Al Reem, Business Office #131, Building No 81, Way No 3409, Block No 234, Al Thaqafa Street, Al Khuwair, PO Box 20, Postal Code 103, Oman	Ordinary	100
Rolls-Royce Operations (India) Private Limited ^{2,6}	Birla Tower West, 2nd Floor, 25 Barakhamba Road, New Delhi, 110001, India	Ordinary	100
Rolls-Royce Overseas Holdings Limited ⁴	Derby ⁷	Ordinary Ordinary A	100 100
Rolls-Royce Overseas Investments Limited ⁴	Derby ⁷	Ordinary	100
Rolls-Royce Placements Limited	London ³	Ordinary	100
Rolls-Royce plc	London ³	Ordinary	100
Rolls-Royce Power Engineering Limited	Derby ⁷	Ordinary	100
Rolls-Royce Power Systems AG	Maybachplatz 1, 88045, Friedrichshafen, Germany	Ordinary	100
Rolls-Royce Retirement Savings Trust Limited ^{2,6}	Derby ⁷	Ordinary	100
Rolls-Royce Saudi Arabia Limited	3010 – Al Arid, Unit No 1, Riyadh 13332 – 7663, Saudi Arabia	Cash shares	100
Rolls-Royce Singapore Pte. Ltd.	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100
Rolls-Royce SMR Limited	Derby ⁷	Ordinary	75.7
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.	Wilmington ⁸	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 Berlin GmbH	Villa Rathenau, Wilhelmshofstrasse 75, 12459 Berlin, Germany	Common Seed Preferred Series A Preferred	100 100 100 100 100
Rolls-Royce Solutions Brasil Limitada	Via Anhanguera, KM 29203, 05276-000 Sao Paulo – SP, Brazil	Ordinary	100
Rolls-Royce Solutions Enerji Deniz Ve Savunma Anonim Şirketi	Hatira Sokak, No. 5, Ömerli Mahellesi, 34555 Arnavutköy, Istanbul, Turkey	Ordinary	100
Rolls-Royce Solutions France S.A.S.	Immeuble Colorado, 8/10 rue de Rosa Luxembourg-Parc des Bellevues 95610, Eragny-sur-Oise, France	Ordinary	100
Rolls-Royce Solutions GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
Rolls-Royce Solutions Hong Kong Limited	No.8 Hart Avenue, Unit D, 8th Floor, Tsim Sha Tsui, Kowloon, Hong Kong	Ordinary	100
Rolls-Royce Solutions Ibérica s.l.u.	Calle Copérnico 26-28, 28823 Coslada, Madrid, Spain	Ordinary	100
Rolls-Royce Solutions Israel Limited	4 Ha'Alon Street, South Building, Third Floor, 4059300 Kfar Neter, 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	Resorttrust Building 4-14-3, Nishitenma Kita-ku, Osaka 530-0047, Japan	Ordinary	100
Rolls-Royce Solutions Korea Limited	22nd Floor, Olive Tower, 41 Sejongdaero 9 gil, Junggu, 100-737 Seoul, 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 Mexico City S.A. de C.V.	Xochicalco 620, Colonia Letran Valle, Delegacion Benito Juarez, Mexico City 03650, Mexico	Common Shares	100
Rolls-Royce Solutions Middle East FZE	S3B5SR06, Jebel Ali Free Zone, South P.O. Box 61141, Dubai, United Arab Emirates	Ordinary	100
Rolls-Royce Solutions Ruhstorf GmbH	Rotthofer Strasse 8, 94099 Ruhstorf a.d. Rott, Germany	Capital Stock	100
Rolls-Royce Solutions South Africa (Pty) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Ordinary	100
Rolls-Royce Solutions UK Limited	Derby ⁷	Ordinary	100
Rolls-Royce Solutions Willich GmbH	Konrad-Zuse-Str. 3, 47877, Willich, Germany	Ordinary	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	Centreda I, Avenue Didier Daurat, 31700 Blagnac, Toulouse, France	Ordinary	100

Company name	Address	Class of shares	% of class held
Rolls-Royce Total Care Services Limited ⁴	Derby ⁷	Ordinary	100
Rolls Royce Turkey Güç Çözümleri San. ve Tic.Ltd.Şti.	Acıbadem Mah. Çeçen Sk. Akasya A Kule Kent Etabı Blok No: 25, İç Kapı No:13, Üsküdar, İstanbul, Turkey	Cash shares	100
Rolls-Royce UK Pension Fund Trustees Limited ²	Derby ⁷	Ordinary	100
Rolls-Royce Zweite Beteiligungs GmbH	Eschenweg 11, 15827 Blankenfelde-Mahlow, Germany	Capital Stock	100
Ross Ceramics Limited	Derby ⁷	Ordinary	100
Servowatch Systems Limited	Endeavour House, Benbridge Industrial Estate, Holloway Road, Heybridge, Maldon, Essex CM9 4ER, United Kingdom	Ordinary	100
Sharing in Growth UK Limited ¹¹	Derby ⁷	Limited by guarantee	100
Spare IPG 20 Limited ⁴	London ³	Ordinary	100
Spare IPG 21 Limited ²	London ³	Ordinary	100
Spare IPG 24 Limited ⁴	London ³	Ordinary	100
Spare IPG 32 Limited ⁴	London ³	Ordinary	100
Spare IPG 4 Limited ²	London ³	Ordinary	100
Team Italia Marine S.R.L.	Kampanien, Via Luigi Einaudi 114/B, 61032 Fano, Pesaro and Urbino, Italy	Ordinary	100
The Bushing Company Limited ⁴	London ³	Ordinary	100
Timec 1487 Limited ²	London ³	Ordinary	100
Turbine Surface Technologies Limited ¹	Unit 13a, Little Oak Drive, Sherwood Park, Annesley, Nottinghamshire NG15 0DR, United Kingdom	Ordinary A Ordinary B	Nil 100
Vessel Lifter, Inc. ²	Corporation Service Company, 1201 Hays Street, Tallahassee, Florida 32301, United States	Common Stock	100
Vinters Defence Systems Limited ²	London ³	Ordinary	100
Vinters Engineering Limited	Derby ⁷	Ordinary	100
Vinters International Limited ⁴	Derby ⁷	Ordinary	100
Vinters Limited ⁴	Derby ⁷	Ordinary	100
Vinters-Armstrongs (Engineers) Limited ²	London ³	Ordinary	100
Vinters-Armstrongs Limited ²	London ³	Ordinary B	100
Yocova Private Ltd ²	London ³	Ordinary	100
Yocova PTE. Ltd.	6 Shenton Way, #33-00 OUE, Downtown Singapore 068809, Singapore	Ordinary	100

1 Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

2 Dormant entity

3 Kings Place, 90 York Way, London N1 9FX, United Kingdom

4 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2023. Rolls-Royce plc will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

5 Although the interest held is 49%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

6 Reporting year end is 31 March 2024

7 Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom

8 Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19809, United States

9 Entity in liquidation

10 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2024. Rolls-Royce plc will issue a guarantee pursuant to S479A in relation to the liabilities of the entity

11 The entity is not included in the consolidation, as Rolls-Royce plc does not have a beneficial interest in the net assets of the entity

12 The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)

13 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2023. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

14 Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity

Joint ventures and associates

Company name	Address	Class of shares	% of class held	Group interest held %
Aero Gearbox International SAS ¹²	18 Boulevard Louis Sequin, 92700 Colombes, France	Ordinary	50	50
Airtanker Services Limited	Airtanker Hub, RAF Brize Norton, Carterton, Oxfordshire OX18 3LX, United Kingdom	Ordinary	23.5	23.5
Alpha Leasing (US) (No.2) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Leasing (US) (No.4) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Leasing (US) (No.5) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Leasing (US) (No.6) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Leasing (US) (No.7) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Leasing (US) (No.8) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Leasing (US) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Alpha Partners Leasing Limited	1 Brewer's Green, London SW1H ORH, United Kingdom	Ordinary A	100	50
Beijing Aero Engine Services Company Limited	Room 711, Building 2, No.1 Jinhang Middle Road, Shunyi District, Beijing, China	Capital	50	50
CFMS Limited	43 Queen Square, Bristol BS1 4QP, United Kingdom	Limited by guarantee	-	50
Clarke Chapman Portia Port Services Limited	Maritime Centre, Port of Liverpool, Liverpool L21 1LA, United Kingdom	Ordinary A	100	50
Egypt Aero Management Services ⁹	EgyptAir Engine Workshop, Cairo International Airport, Cairo, Egypt	Ordinary	50	50
EPI Europrop International GmbH	Pelkovenstr. 147, 80992 München, Germany	Capital Stock	28	28
Eurojet Turbo GmbH	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Ordinary	33	33
Force MTU Power Systems Private Limited	Mumbai Pune Road, Akurdi, Pune, Maharashtra 411035, India	Capital Stock	49	49
Genistics Holdings Limited	Derby ⁷	Ordinary A	100	50
Global Aerospace Centre for Icing and Environmental Research Inc. ¹²	1000 Marie-Victorin Boulevard, Longueuil Québec J4G 1A1, Canada	Ordinary	50	50
Hoeller Electrolyzer GmbH ¹⁴	Alter Holzhafen, 23966 Wismar, Germany	Ordinary	54.2	54.2
Hong Kong Aero Engine Services Limited	33rd Floor, One Pacific Place, 88 Queensway, Hong Kong	Ordinary	50	50
International Aerospace Manufacturing Private Limited ^{6,12}	Survey No. 3 Kempapura Village, Varthur Hobli, Bangalore, KA 560037, India	Ordinary	50	50
ITP Next Generation Turbines SLU	Parque Tecnologico Edificio 300, 48170, Zamudio, Vizcaya, Spain	Ordinary-B	25	25
Light Helicopter Turbine Engine Company (unincorporated partnership)	Suite 119, 9238 Madison Boulevard, Madison, Alabama 35758, United States	Partnership (no equity held)	-	50
Manse Opus Management Company Limited ⁶	Third Floor Queensberry House, 3 Old Burlington Street, London W1S 3AE, United Kingdom	Limited by guarantee	33	33
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.	Level 10 Menara LGB, 1 Jalan Wan Kadir Taman Tun Dr Ismail 6000 Kuala Lumpur, Malaysia	Ordinary A	100	49
MTU Turbomeca Rolls-Royce ITP GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	25	25
MTU Turbomeca Rolls-Royce GmbH	Am Söldnermoos 17, 85399 Hallbergmoos, Germany	Capital Stock	33.3	33.3
MTU Yuchai Power Company Limited	No 7 Danan Road, Yuzhou, Yulin, Guangxi, China, 537005, China	Capital Stock	50	50
N3 Engine Overhaul Services GmbH & Co KG	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
N3 Engine Overhaul Services Verwaltungsgesellschaft Mbh	Gerhard-Höltje-Strasse 1, D-99310, Arnstadt, Germany	Capital Stock	50	50
Rolls Laval Heat Exchangers Limited ²	Derby ⁷	Ordinary	50	50
Rolls-Royce & Partners Finance (US) (No 2) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
Rolls-Royce & Partners Finance (US) LLC	Wilmington ⁸	Partnership (no equity held)	-	50
SAFYRR Propulsion Limited ²	Derby ⁷	B Shares	100	50
Singapore Aero Engine Services Private Limited	11 Calshot Road, 509932, Singapore	Ordinary	50	50
Taec Ucak Motor Sanayi AS	Levent Mahallesi Prof. Ahmet Kemal Aru Sk. No: 4/1, Beşiktaş, Turkey	Cash Shares	49	49

Company name	Address	Class of shares	% of class held	Group interest held %
Techjet Aerofoils Limited ¹²	Tefen Industrial Zone, PO Box 16, 24959, Israel	Ordinary A Ordinary B	50 50	50
TRT Limited	Derby ⁷	Ordinary B	100	50
Turbo-Union GmbH	Lilienthalstrasse 2b, 85399 Halbergmoos, Germany	Capital Stock	40.0	40.0
United Battery Management GmbH ⁹	Wilhelminenhofstr. 76/77, 12459, Berlin, Germany	Ordinary	30	30
Xian XR Aero Components Co., Limited ¹²	Xujiawan, Beijiao, Po Box 13, Xian 710021, Shaanxi, China	Ordinary	49	49

1 Although the interest held is 50%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

2 Dormant entity

3 Kings Place, 90 York Way, London N1 9FX, United Kingdom

4 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2023. Rolls-Royce plc will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

5 Although the interest held is 49%, the Company controls the entity (see note 1 to the Consolidated Financial Statements) and, as a result, consolidates the entity and records a non-controlling interest

6 Reporting year end is 31 March 2024

7 Moor Lane, Derby, Derbyshire DE24 8BJ, United Kingdom

8 Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19809, United States

9 Entity in liquidation

10 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ending 31 March 2024. Rolls-Royce plc will issue a guarantee pursuant to S479A in relation to the liabilities of the entity

11 The entity is not included in the consolidation, as Rolls-Royce plc does not have a beneficial interest in the net assets of the entity

12 The entity is accounted for as a joint operation (see note 1 to the Consolidated Financial Statements)

13 Entity to take advantage of s479A Companies Act 2006 (s479A) audit exemption for the year ended 31 December 2023. The Company will issue a guarantee pursuant to s479A in relation to the liabilities of the entity

14 Entity is accounted for as a joint venture as approval is required from the other shareholder for operationally running the affairs of the entity