



1 August 2024

ROLLS-ROYCE HOLDINGS PLC – 2024 Half Year Results

**Strong first half delivery gives confidence to raise guidance.
Shareholder distributions to be reinstated in respect of the full year 2024 results.**

- Underlying operating profit of £1.1bn and underlying margin of 14.0% reflects the impact of our strategic initiatives, with commercial optimisation and cost efficiency benefits across the Group
- Free cash flow of £1.2bn driven by higher operating profit and continued LTSA balance growth
- Return on capital¹ increased to 13.8% and represents significant value creation
- Net debt reduced to £0.8bn driven by statutory net cash flow from operating activities of £1.7bn
- Full year guidance raised in a challenging supply chain environment: we now expect underlying operating profit between £2.1bn and £2.3bn and free cash flow between £2.1bn and £2.2bn
- Reinstating shareholder distributions in respect of the full year 2024 results starting at a 30% pay-out ratio of underlying profit after tax with an ongoing pay-out ratio of 30-40% each year²

Tufan Erginbilgic, CEO said: “Our transformation of Rolls-Royce into a high-performing, competitive, resilient, and growing business is proceeding with pace and intensity. We are expanding the earnings and cash potential of the business in a challenging supply chain environment, which we are proactively managing. We are on track to deliver our mid-term targets.

Our strong first half results reflect the continued delivery of our strategic initiatives and a relentless focus on commercial optimisation and cost efficiencies across the Group. These results and our increased financial resilience give us the confidence to raise our 2024 guidance and reinstate shareholder distributions in respect of the full year 2024 results.”

Half Year 2024 Group Results

£ million	Underlying H1 2024 ³	Underlying H1 2023 ³	Statutory H1 2024	Statutory H1 2023
Revenue	8,182	6,950	8,861	7,523
Operating profit	1,149	673	1,646	797
Operating margin %	14.0%	9.7%	18.6%	10.6%
Profit before taxation	1,035	524	1,416	1,419
Basic earnings per share (pence)	8.95	4.90	13.71	14.70
Free cash flow	1,158	356		
Return on capital (%)	13.8%	9.0%		
Net cash flow from operating activities*			1,669	925
			30 Jun 2024	31 Dec 2023
Net debt			(822)	(1,952)

* H1 2023 re-presented see page 17

¹ Adjusted return on capital is defined on page 46 and is abbreviated to return on capital

² Subject to final Board recommendation and shareholder approval at the 2025 Annual General Meeting. This applies to all references to the reinstatement of shareholder distributions in this document. A 30-40% payout ratio will be applied to 'underlying profit after tax' which is equal to 'Underlying profit for the period'

³ All underlying income statement commentary is provided on an organic basis unless otherwise stated. A reconciliation of alternative performance measures to their statutory equivalent is provided on pages 43 to 46

Half year 2024 performance summary

- **Significantly higher operating profit and margins in a challenging supply chain environment.** Underlying operating profit rose by £0.5bn to £1.1bn, a 74% increase versus the prior period. This was driven by our transformation programme and strategic initiatives, with commercial optimisation and cost efficiency benefits across the Group. Underlying operating margin rose by 4.4pts to 14.0%. The largest improvement was in Civil Aerospace, which delivered an operating margin of 18.0% (H1 2023: 12.4%). This was driven by higher aftermarket profit from large engine LTSA (long term service agreements) and time and materials, stronger performance in business aviation in both original equipment (OE) and aftermarket and net contractual margin improvements. Defence delivered an underlying operating margin of 15.5% (H1 2023: 13.6%), driven by higher aftermarket profit in Combat and Transport. Submarines growth was also strong in the period. Power Systems reported an operating margin of 10.3% (H1 2023: 7.0%), driven by our pricing actions, particularly in Power Generation where we are capturing growing demand for data centres with improved margins. Across all divisions, our cost efficiency actions have helped to mitigate the impact of inflation.
- **Strong cash generation:** Free cash flow was £1.2bn (H1 2023: £0.4bn), driven by strong operating profit and continued LTSA balance growth. Civil net LTSA balance growth net of risk and revenue sharing arrangements (RRSAs) of £544m (H1 2023: £609m) in the period was supported by higher large engine flying hours (EFH) and an improved normalised EFH rate, with LTSA invoiced flying hour receipts of £2.9bn (H1 2023: £2.3bn). The improvement in free cash flow versus the prior period was driven by higher underlying operating profit and reduced working capital outflows of £228m (H1 2023: £465m), with a reduction of inventory days of 12 versus H1 2023.
- **Building resilience:** Total underlying cash costs as a proportion of underlying gross margin (TCC/GM) improved to 0.49x (H1 2023: 0.64x). Net debt reduced to £0.8bn (2023 FY: £2.0bn). We also reduced our gross debt position by repaying a €550 million bond from free cash flow and cancelled our last remaining £1bn UKEF-supported undrawn loan facility, both enabled by our more resilient and growing cash delivery. We now have drawn debt of £3.6bn, of which \$1.0bn matures in 2025, and £1.6bn of lease liabilities. Together with cash and cash equivalents of £4.3bn, we have a robust liquidity position of £6.8bn at 30 June 2024 (2023 FY: £7.2bn). We are significantly improving cash flow across all core divisions, creating a more robust and less volatile Group free cash flow delivery.
- **Shareholder distributions to be reinstated in respect of the full year 2024 results:** As we shared at our capital markets day in November 2023, we are committed to reinstating regular shareholder distributions. We are making strong progress strengthening the balance sheet and building resilience. As such, we are reinstating shareholder distributions in respect of the full year 2024 results, starting at a 30% pay-out ratio of underlying profit after tax to be paid in 2025. We expect over the mid-term regular shareholder distributions to be based on a 30-40% payout ratio of underlying profit after tax.

Transformation programme and strategic initiatives

The success of our transformation programme and strategic initiatives is evident in our financial performance in the first half of 2024. We have made good progress, and there is still more to do. Our strategic framework is founded on four pillars:

- **Portfolio choices & partnerships:** In Civil Aerospace, deliveries of the Pearl 700 are ramping up for the Gulfstream G700 business jet that entered into service in April 2024. We delivered 83 Pearl engines in the first half of the year and our commercial optimisation actions mean that business aviation engine deliveries are now mostly profitable. We have also invested to grow our capacity in Derby and Dahlewitz, which will allow us to deliver c.40% additional new engines per year from 2025 compared to 2023, with increased capacity to support rising aftermarket volumes. Last year, we identified areas for divestment, from which we expect to generate £1.0bn-£1.5bn gross proceeds by 2028. As part of this, we completed the disposals of our Direct Air Capture assets in the period and, on 31 July, the off-highway engines business in the lower power range in Power Systems.
- **Advantaged businesses & strategic initiatives:** In Civil Aerospace, the Trent XWB-97 was our best-selling engine with 108 new orders placed in the first half of the year. Our £1.0bn investment programme to improve the time on wing of our modern engines is progressing well. Flight testing is about to commence for the Trent 1000 TEN HPT blade. This part will more than double the time on wing of the Trent 1000 TEN engine and is already in service on c.50% of the Trent 7000 fleet. We completed the design of further improvements for the Trent 1000 and 7000 that will deliver an incremental 25-30% time on wing benefit by the end of 2025. We have also tested improvements for the Trent XWB-84 that will further improve the fuel burn efficiency of this best-in-class engine. We continue to drive for improved commercial terms and lower costs across our widebody and business aviation contracts. This resulted in total contractual margin improvements of £431m (net contractual margin improvements were £223m including a charge of £208m largely associated with supply chain challenges). In Defence, we were selected to partner with prime contractor SNC to provide engines for the US Air Force Survivable Airborne Operations Center (SAOC) programme. In Power Systems, we are capturing demand in the fast-growing market for backup power for Data Centres with a more competitive business model and improved margins as a result of our value-based pricing approach.
- **Efficiency & simplification:** In total, we expect our Efficiency & Simplification programme to deliver more than £250m of cumulative savings by the end of 2024, on track to achieve our target of £400-500m of savings in the mid-term. Within this, we are also on track to deliver c.£200m per annum of organisational design benefits by the end of 2025. Our new organisational design came into effect on 1 June 2024, which creates a leaner, more focused organisation with fewer layers. In addition, we continue to focus on driving procurement synergies across the Group. By the end of 2024, we expect to deliver c.£0.5bn of cumulative gross third-party cost savings against our mid-term target of £1.0bn, to partly offset inflationary pressures. Supporting this is the roll-out of zero-based budgeting. We successfully completed pilots in Civil Aerospace which demonstrated savings of 10-15% in third party costs in the selected areas. The approach is now being rolled out across the Group.
- **Lower carbon & digitally enabled businesses:** In Power Systems, we are developing a highly efficient hydrogen reciprocating engine which is partly funded by the German government. In the Power Generation segment, we won major Battery Energy Storage Systems (BESS) contracts, including a contract with Latvia to install one of the largest BESS in the EU. Rolls-Royce SMR is one of two companies shortlisted by Vattenfall, the Swedish power company, to deploy a fleet of small modular reactors in the country. We continue to digitally enable our businesses. In Civil Aerospace, we have introduced machine learning and advanced imaging technologies to inspect turbine blades resulting in a faster, more consistent process that reduces the cost of shop visits and extends the time on wing of critical engine components.

These strategic initiatives and our transformation programme are expanding the earnings and cash potential of the business.

Outlook and 2024 Guidance

Following a strong first half delivery across all divisions, we are raising our full year 2024 guidance. This reflects the continued execution of our strategic initiatives, notably commercial optimisation and cost efficiencies, and is despite the impact of prolonged supply chain challenges.

2024 financial guidance	Updated	Previous
Underlying operating profit	£2.1bn-£2.3bn	£1.7bn-£2.0bn
Free cash flow	£2.1bn-£2.2bn	£1.7bn-£1.9bn

Our updated free cash flow guidance for full year 2024 includes a £150-200m cash impact related to the supply chain, where parts availability remains constrained. We anticipate a continued impact to free cash flow for a further 18-24 months as supply chain challenges persist. We are actively managing these challenges and seek to mitigate the costs.

Our 2024 free cash flow guidance is based on civil net LTSA creditor growth at the low end of the mid-term range (£0.8bn - £1.2bn), compared to £1.1bn in 2023. In Civil Aerospace, we continue to expect 2024 large EFHs will grow to 100-110% of 2019's level, 500-550 total original equipment (OE) deliveries and 1,300-1,400 total shop visits.

Strong progress in the early years of our plan demonstrates a front-end loaded delivery of performance improvements. Our 2023 performance and 2024 guidance on operating profit and free cash flow means that by the end of 2024 we expect to deliver more than 75% of the profit and more than 65% of the free cash flow improvement set out in our mid-term targets. As a reminder, our mid-term targets are underlying operating profit of £2.5-2.8bn, an operating margin of 13-15%, free cash flow of £2.8-3.1bn and return on capital of 16-18%. These targets are based upon our expectations for a 2027 timeframe.

Financial performance by business

£ million	Underlying revenue	Organic change ¹	Underlying operating profit/(loss)	Organic change ¹	Underlying operating margin	Organic margin change (pts)
Civil Aerospace	4,119	27%	740	85%	18.0%	5.6pt
Defence	2,219	18%	345	34%	15.5%	1.9pt
Power Systems	1,837	6%	189	56%	10.3%	3.3pt
New Markets	2	nm ²	(91)	18%	nm ²	nm ²
Other businesses	5	nm ²	–	nm ²	nm ²	nm ²
Corporate/eliminations	–	nm ²	(34)	(3%)	nm ²	nm ²
Total	8,182	19%	1,149	74%	14.0%	4.4pt

¹ Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2023 and 2024. All underlying income statement commentary is provided on an organic basis unless otherwise stated

² nm is defined as not meaningful

Trading cash flow

£ million	H1 2024	H1 2023
Civil Aerospace	1,038	401
Defence	234	76
Power Systems	121	22
New Markets	(68)	(42)
Other businesses	(3)	8
Corporate/eliminations	(33)	(34)
Total trading cash flow	1,289	431
Underlying operating profit charge exceeded by contributions to defined benefit schemes	(18)	(16)
Taxation	(113)	(59)
Total free cash flow	1,158	356

Civil Aerospace

H1 2024 key Civil Aerospace operational metrics:	Large engine	Business aviation/ regional	Total	Change
OE deliveries	120	116	236	48
LTSA engine flying hours (millions)	7.6	1.4	9.0	1.3
Total LTSA shop visits	413	211	624	33
...of which major shop visits	195	199	394	63

Significantly improved Civil Aerospace performance reflects higher large engine aftermarket and time and materials profit, stronger business aviation profit in both OE and aftermarket, net margin contractual improvements and the benefits of cost efficiency actions.

In the first half of 2024, a total of 273 large engines were ordered with a gross book-to-bill of 2.3x. Significant new orders included Indigo, Korean Air, Delta and VietJet. With 108 orders, the Trent XWB-97 was our bestselling engine in the period. As a result of strong order inflow, our large engine order book increased by 9% to 1,773 engines at the end of June 2024.

Total OE deliveries rose by 26% to 236 engines, with 116 business aviation deliveries (H1 2023: 73) and 120 total large engine deliveries (H1 2023: 115). In the first half of 2024 we delivered 21 large spare engines (H1 2023: 18), which represented 18% of total large engine deliveries (H1 2023: 16%). Total shop visits increased 6% versus the prior period to 624 (H1 2023: 591), of these 195 were large engine major shop visits (H1 2023: 144).

Underlying revenue of £4.1bn increased 27%, driven by higher shop visits volumes, OE engine deliveries and commercial optimisation. Underlying OE revenue grew by 27% in the period to £1.3bn and services revenue grew by 27% to £2.8bn. LTSA revenue catch-ups were £258m (H1 2023: £23m).

Underlying operating profit was £740m (18.0% margin) versus £405m in H1 2023 (12.4% margin). The improvement versus the prior period was driven by higher large engine aftermarket profit, reflecting increased LTSA margins and volumes and a higher time and materials profit, combined with stronger business aviation profit in both OE and aftermarket. Higher underlying operating profit also reflects the benefit of net contractual margin improvements as well as cost efficiencies which helped to mitigate the impact of inflation, with indirect costs slightly lower versus the prior period.

Our efforts to improve the commercial terms and reduce costs across our large engine and business aviation contracts supported total contractual margin improvements of £431m in the period. These benefits were partially offset by £208m of additional charges largely associated with the impact of prolonged supply chain challenges, which were booked across onerous provisions and contract catch-ups. As a result, net contractual margin improvements were £223m (H1 2023: £105m), comprising contract catch-ups of £216m (H1 2023: £70m) and net onerous provision releases of £7m (H1 2023: £35m).

We expect a lower underlying operating profit margin in H2 2024 due to higher OE deliveries and shop visit mix, notably an increased number of Trent 1000 major shop visits.

Trading cash flow of £1,038m (H1 2023: £401m) reflects higher operating profit and continued net LTSA balance growth net of risk and revenue sharing arrangements (RRSAs) of £544m (H1 2023: £609m). LTSA balance growth in the period was supported by a higher normalised EFH rate due to our commercial actions and growth in large EFHs. Large EFHs rose by 22% versus the prior period to 101% of 2019 levels, due to continued strong demand for travel and our young, growing wide-body fleet. Business aviation and regional EFHs were broadly unchanged in the period.

Defence

Higher operating profit in Defence reflects Transport and Combat aftermarket profit growth, Submarine growth and cost efficiencies across the business.

Demand remained strong, notably across Combat and Submarines, with order intake of £1.7bn in the period and a book-to-bill ratio of 0.8x. This brings our order backlog to £8.5bn at the end of the period, with order cover approaching 100% for the remainder of 2024. In the first half of the year, we were selected to form part of the team led by prime contractor SNC, to modernise and deliver a replacement for the United States Air Force's current fleet of E-4B "Nightwatch" aircraft as part of the SAOC contract. This order is expected to have a near term benefit to earnings.

Revenue increased by 18%⁴ to £2.2bn (H1 2023: £1.9bn). Growth was led by Submarines and Combat which reported growth of 84%⁴ and 10%, respectively. Total OE revenues grew by 5% versus last year to £0.9bn driven

⁴ Defence revenue growth of 18% and Submarines revenue growth of 84% includes a c.£180m benefit of a one-off capital and lease transaction. Excluding this, Defence revenue growth was 8% and Submarines revenue growth was 40%

by increased submarine volumes. Services revenues grew by 27% to £1.3bn⁵ supported by a more favourable shop mix visit and improved pricing.

Operating profit was £345m (15.5% margin) versus £261m (13.6% margin) in the prior period. The improvement in operating profit reflects strong aftermarket profit growth in Combat and Transport, with an improved margin. Strong submarines growth reflects the ramp up of programmes including AUKUS. Higher operating profit was also supported by cost efficiencies, including an increase in customer funded R&D.

We expect a lower underlying operating profit margin in H2 2024, as a result of a less favourable aftermarket mix and increased OE deliveries.

Trading cash flow of £234m increased versus £76m prior period, driven by higher underlying operating profit and an improved working capital performance.

Power Systems

In Power Systems, our actions on pricing and costs have continued to drive profitable growth, particularly in the Power Generation segment where we are capturing the benefit of strong demand for data centres.

Order intake in Power Systems was £2.4bn, 26% up versus the prior period, with a book-to-bill ratio of 1.3x. OE order coverage for the remainder of 2024 is 100% and 44% for 2025. Demand remains particularly strong in Power Generation and Governmental.

Underlying revenue was £1.8bn, an increase of 6% versus the prior period. This was driven by Power Generation and Governmental, which reported revenue growth of 15% and 12%, respectively. Underlying OE revenues grew by 10% to £1.3bn. Underlying Services revenue was broadly flat versus the prior period at £0.6bn.

Underlying operating profit grew by 56% to £189m. Underlying operating margin rose by 3.3pts to 10.3% (H1 2023: 7.0%). The increase in underlying operating profit reflects continued commercial optimisation benefits across all categories, notably in Power Generation, and cost efficiencies.

We expect a higher underlying operating profit margin in H2 2024 reflecting the typical seasonality of the business.

Trading cash flow was £121m with a conversion ratio of 64% versus £22m and 18% last year. The increase in trading cash flow was mainly due to increased operating profit with working capital continuing to be tightly managed.

New Markets

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

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

Planned cost increases in SMR to meet development milestones resulted in an increased operating loss of £(91)m versus £(78)m in the prior period.

Trading cash flow was an outflow of £(68)m compared to £(42)m in the prior period.

⁵ Services revenues include a c.£180m benefit of a one-off capital and lease transaction in Submarines

Statutory and underlying Group financial performance

£ million	H1 2024				H1 2023	
	Statutory	Impact of hedge book ¹	Impact of acquisition accounting	Impact of other non-underlying items	Underlying	Underlying
Revenue	8,861	(679)	–	–	8,182	6,950
Gross profit	2,108	(73)	22	(80)	1,977	1,515
Operating profit	1,646	(82)	23	(438)	1,149	673
Net financing income/(costs)	(230)	54	–	62	(114)	(149)
Profit before taxation	1,416	(28)	23	(376)	1,035	524
Taxation ²	(280)	7	(6)	(19)	(298)	(120)
Profit for the period	1,136	(21)	17	(395)	737	404
Basic earnings per share (pence)	13.71				8.95	4.90

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

² Statutory taxation includes the recognition of a deferred tax asset on UK tax losses of £157m

Revenue: Underlying revenue of £8.2bn was up 19%, with strong growth in all divisions, notably Civil Aerospace. Statutory revenue of £8.9bn was 18% higher compared with the prior period. The difference between statutory and underlying revenue is driven by statutory revenue being measured at average prevailing exchange rates (H1 2024: GBP:USD 1.27; H1 2023: GBP:USD 1.23) and underlying revenue being measured at the hedge book achieved rate during the period (H1 2024 GBP:USD 1.48; H1 2023:GBP:USD 1.50).

Operating profit: Underlying operating profit of £1.1bn (14.0% margin) versus £673m (9.7% margin) in the prior period. Underlying operating profit was higher in all three core divisions, reflecting commercial optimisation and cost efficiencies across the Group. The largest improvement in margins was in Civil Aerospace, driven by higher LTSA aftermarket and business aviation profits. Defence and Power Systems margins also rose materially. Statutory operating profit was £1.6bn, higher than the £1.1bn underlying operating profit largely due to a £545m impairment reversal related to a Civil Aerospace programme asset impairment that was recognised in 2020 and £82m negative impact from currency hedges in the underlying results. Charges of £130m were excluded from the underlying results as these related to non-underlying items comprising net transformation and restructuring charges of £107m; and £23m relating to the amortisation of intangible assets arising on previous acquisitions.

Profit before taxation: Underlying profit before taxation of £1.0bn included £(114)m net financing costs comprising £128m interest receivable, £(137)m interest payable and £(105)m of other financing charges and costs of undrawn facilities. Statutory profit before tax of £1.4bn included £(179)m net fair value losses on derivative contracts, £(60)m net interest payable, net foreign exchange gains of £120m and £(111)m other financing charges and costs of undrawn facilities.

Taxation: Underlying tax charge of £(298)m (H1 2023: £(120)m) reflects an overall tax charge on profits of Group companies as well as a tax charge of £(100)m on a de-grouping gain in the UK and a tax credit of £34m relating to the recognition of some of the deferred tax asset on UK tax losses. These are also reflected in the statutory tax charge of £(280)m (H1 2023: £(196)m) together with an additional tax credit on the recognition of a £123m deferred tax asset relating to UK tax losses. In addition, included in the £(280)m tax charge is a £10m tax credit related to the reduction in the UK tax rate on authorised pension surpluses, a tax charge of £(40)m related to unrealised foreign exchange derivatives and a £(75)m tax charge related to other non-underlying items.

Free cash flow

£ million	H1 2024				H1 2023	
	Cash flow	Impact of hedge book	Impact of acquisition accounting	Impact of other non-underlying items	Funds flow	Funds flow
Operating profit	1,646	(82)	23	(438)	1,149	673
Depreciation, amortisation and impairment	51	–	(23)	399	427	489
Movement in provisions	38	(108)	–	(36)	(106)	(95)
Movement in Civil LTSA balance	788	(73)	–	–	715	727
Movement in prepayments to RRSAs for LTSA parts	(272)	101	–	–	(171)	(118)
Movement in costs to obtain contracts	6	1	–	–	7	7
Settlement of excess derivatives ¹	(75)	–	–	–	(75)	(210)
Interest received	124	–	–	–	124	60
Other operating cash flows ²	(21)	11	–	–	(10)	(74)
Operating cash flow before working capital and income tax	2,285	(150)	–	(75)	2,060	1,459
Working capital ³	(93)	(265)	–	130	(228)	(465)
Cash flows on other financial assets and liabilities held for operating purposes	(410)	405	–	–	(5)	6
Income tax	(113)	–	–	–	(113)	(59)
Cash from operating activities	1,669	(10)	–	55	1,714	941
Capital element of lease payments	(122)	10	–	–	(112)	(157)
Capital expenditure	(291)	–	–	–	(291)	(285)
Investment	17	–	–	–	17	17
Interest paid	(157)	–	–	–	(157)	(159)
Other	42	–	–	(55)	(13)	(1)
Free cash flow	1,158	–	–	–	1,158	356

¹ The funds flow to 30 June 2023 has been re-presented 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 period to 30 June 2023 have reduced by £(210)m to £941m. 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

² Other operating cash flows include profit/(loss) on disposal, share of results and dividends received from joint ventures and associates, cash flows relating to our defined benefit post-retirement schemes, and share based payments

³ Working capital includes inventory, trade and other receivables and payables, and contract assets and liabilities (excluding Civil LTSA balances, prepayment to RRSAs and costs to obtain contracts). Working capital was previously defined as inventory, trade and other receivables and payables, and contract assets and liabilities, excluding Civil LTSA balances

Free cash flow in the year was £1.2bn, an improvement of £0.8bn compared with the prior period driven by:

Underlying operating profit of £1.1bn, £0.5bn higher than the prior period. This reflects improved underlying operating profit and margins in all three core divisions, notably Civil Aerospace, driven by our actions on commercial optimisation and cost efficiencies.

Movement in provisions of £(106)m driven by movements across several provisions held, including contract losses, warranty and guarantees and Trent 1000.

Movement in Civil LTSA balance was £715m, similar to the prior period (£727m), driven by higher EFHs and an improved normalised EFH rate.

Movements in prepayments to RRSAs for LTSA parts of £(171)m (H1 2023: £(118)m), higher than the prior period primarily a result of contract restructuring to drive overall longer term benefits.

Working capital outflows of £(228)m, compared to £(465)m in the prior period. Inventory increased by £(641)m as a result of inventory build in line with requirements to meet demand across the divisions, along with continued supply chain disruption. There was a net £413m inflow from receivables, payables and contract liabilities reflecting volume growth and timing.

Income tax of £(113)m, net cash tax payments for the first half of 2024 were higher than the prior period (£(59)m) due to timing, including final payments made in respect of the prior year.

The capital element of lease payments was £(112)m, £45m lower than the prior period as a result of timing of lease payments.

Capital expenditure of £(291)m, includes £(133)m of property, plant and equipment additions and £(165)m of intangibles additions. The combined additions were higher than the prior period as a result of investment in site improvements across the Group.

Interest paid of £(157)m, including lease interest payments, is broadly in line with the prior period. The reduction in interest charges, as a result of the termination of a £1bn UKEF and £1bn term loan in 2023, has been largely offset by higher interest charges on gross overdrafts.

Balance Sheet

£ million	30 Jun 2024	31 Dec 2023	Change
Intangible assets	4,426	4,009	417
Property, plant and equipment	3,637	3,728	(91)
Right of use assets	815	905	(90)
Joint ventures and associates	540	479	61
Civil LTSA ¹	(9,868)	(9,080)	(788)
RRSA prepayments for LTSA parts ¹	1,592	1,320	272
Costs to obtain contracts ¹	110	116	(6)
Working capital ¹	(1,265)	(1,502)	237
Provisions	(2,073)	(2,029)	(44)
Net debt ²	(822)	(1,952)	1,130
Net financial assets and liabilities ²	(1,812)	(2,060)	248
Net post-retirement scheme deficits	(99)	(253)	154
Taxation	2,527	2,605	(78)
Held for sale ³	51	54	(3)
Other net assets and liabilities	4	31	(27)
Net liabilities	(2,237)	(3,629)	1,392
Other items			
US\$ hedge book (US\$bn)	16	15	

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

² Net debt includes £9m (2023: £23m) of the fair value of derivatives included in fair value hedges and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges

³ Held for sale assets relate to the sale of the off-highway engines business in the lower power range based in Power Systems

Key drivers of balance sheet movements were:

Intangible assets: The £0.4bn increase is a result of an impairment reversal related to a Civil Aerospace programme asset impairment that was recognised in 2020.

Civil LTSA: The £(0.8)bn movement in the net liability balance was mainly driven by an increase in invoiced LTSA receipts exceeding revenue recognised in the year. This is especially prevalent on new contracts where shop visits are not immediately scheduled.

RRSA prepayments for LTSA parts: The £0.3bn increase corresponds to the increase seen in the Civil LTSA balance above. RRSA prepayments typically move in line with the Civil LTSA as the RRSA prepayment represents amounts that we have paid to Risk and Revenue Share Partners for the parts that they will ultimately provide in support of our contracts.

Working capital: The £(1.3)bn net working capital position decreased by £0.2bn compared to the prior period. The movement comprised £0.6bn increase in inventory across the divisions reflecting higher sales volumes and supply chain disruption, a decrease in contract liabilities of £0.3bn driven by advanced payments received across the divisions partly offset by £(0.5)bn increase in payables due to changes in operational volumes and timing of supplier payments and £(0.2)bn reduction in receivables driven by lower prepayments from customers and lower RRSP receivables partly offset by higher trading volumes.

Provisions: The £44m net increase in provisions was due to a net increase in the provision for warranty & guarantees driven by increased volumes and trading, a net increase in contract loss provisions due to additional contract losses being greater than contract loss reversals and utilisation, and a net increase in provisions for severance costs related to the multi-year transformation programme. These were partly offset by utilisation of the Trent 1000 provision.

Net debt: Decreased from £(2.0)bn to £(0.8)bn driven by a free cash inflow of £1.2bn. Our liquidity position is strong with £6.8bn of liquidity including cash and cash equivalents of £4.3bn and undrawn facilities of £2.5bn. During the period, the Group repaid a €550m bond in line with its maturity date. Net debt included £(1.6)bn of lease liabilities (2023 FY: £(1.7)bn).

Net financial assets and liabilities: A £0.2bn reduction in the net financial liabilities driven by contracts maturing in the period, partly offset by a change in fair value of derivative contracts largely due to the impact of the movement in GBP:USD exchange rates.

Taxation: The net tax asset reduced by £(78)m. The decrease relates to £(172)m reduction in non-UK deferred tax assets, primarily driven by an impairment reversal, £(61)m reduction in other deferred tax assets, partly offset by the recognition of a £157m deferred tax asset relating to UK tax losses. Deferred tax liabilities have decreased by £47m, mainly due to a reduction in the UK tax rate applied to authorised pension surpluses. Net current tax liabilities have increased by £(49)m.

Results meeting and webcast

Our results presentation will be held at UBS, 5 Broadgate, London EC2M 2QS and webcast live at 10:30 (BST) today. Downloadable materials will also be available on the Investor Relations section of the Rolls-Royce website: <https://www.rolls-royce.com/investors/results-and-events.aspx>

To register for the webcast, including Q&A participation, please visit the following link: [Rolls-Royce 2024 Half Year Results - webinar.net](https://www.rolls-royce.com/investors/results-and-events.aspx)

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

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

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

Condensed Consolidated Interim Financial Statements

Condensed consolidated income statement

For the half-year ended 30 June 2024

	Notes	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Revenue	2	8,861	7,523
Cost of sales ^{1,3}		(6,753)	(5,866)
Gross profit	2	2,108	1,657
Commercial and administrative costs	2	(641)	(560)
Research and development ³	2, 3	101	(389)
Share of results of joint ventures and associates		78	89
Operating profit		1,646	797
Gain arising on disposal of businesses		–	1
Profit before financing and taxation		1,646	798
Financing income	4	306	934
Financing costs	4	(536)	(313)
Net financing (costs)/income ²		(230)	621
Profit before taxation		1,416	1,419
Taxation	5	(280)	(196)
Profit for the period		1,136	1,223
Attributable to:			
Ordinary shareholders		1,149	1,229
Non-controlling interests (NCI)		(13)	(6)
Profit for the period		1,136	1,223
Other comprehensive income/(expense)		123	(226)
Total comprehensive income for the period		1,259	997
Earnings per ordinary share attributable to ordinary shareholders:	6		
Basic		13.71p	14.70p
Diluted		13.63p	14.67p

¹ Cost of sales includes a net charge for expected credit losses (ECLs) of £19m (30 June 2023: £19m release). Further details can be found in note 10

² Included within net financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 14

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

Condensed consolidated statement of comprehensive income

For the half-year ended 30 June 2024

	Notes	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Profit for the period		1,136	1,223
Other comprehensive income/(expense) (OCI)			
Actuarial movements in post-retirement schemes	16	124	(35)
Revaluation to fair value of other investments		(3)	1
Share of OCI of joint ventures and associates		(6)	(1)
Related tax movements		35	11
Items that will not be reclassified to profit or loss		150	(24)
Foreign exchange translation differences on foreign operations		(24)	(227)
Movement on fair values charged to cash flow hedge reserve (CFHR)		(16)	(31)
Reclassified to income statement from CFHR		15	64
Share of OCI of joint ventures and associates		(2)	–
Related tax movements		–	(8)
Items that will be reclassified to profit or loss		(27)	(202)
Total other comprehensive income/(expense)		123	(226)
Total comprehensive income for the period		1,259	997
Attributable to:			
Ordinary shareholders		1,272	1,003
NCI		(13)	(6)
Total comprehensive income for the period attributable to ordinary shareholders		1,259	997

Condensed consolidated balance sheet

At 30 June 2024

	Notes	30 June 2024 £m	31 December 2023 £m
ASSETS			
Intangible assets	7	4,426	4,009
Property, plant and equipment	8	3,637	3,728
Right-of-use assets	9	815	905
Investments – joint ventures and associates		540	479
Investments – other		4	31
Other financial assets	14	314	360
Deferred tax assets		2,922	2,998
Post-retirement scheme surpluses	16	868	782
Non-current assets		13,526	13,292
Inventories		5,449	4,848
Trade receivables and other assets	10	8,194	8,123
Contract assets	11	1,364	1,242
Taxation recoverable		56	80
Other financial assets	14	39	34
Cash and cash equivalents		4,319	3,784
Current assets		19,421	18,111
Assets held for sale	19	64	109
TOTAL ASSETS		33,011	31,512
LIABILITIES			
Borrowings and lease liabilities	12	(305)	(809)
Other financial liabilities	14	(560)	(448)
Trade payables and other liabilities	13	(7,557)	(6,896)
Contract liabilities	11	(6,118)	(6,098)
Current tax liabilities		(168)	(143)
Provisions for liabilities and charges	15	(556)	(532)
Current liabilities		(15,264)	(14,926)
Borrowings and lease liabilities	12	(4,845)	(4,950)
Other financial liabilities	14	(1,596)	(1,983)
Trade payables and other liabilities	13	(1,795)	(1,927)
Contract liabilities	11	(8,968)	(8,438)
Deferred tax liabilities		(283)	(330)
Provisions for liabilities and charges	15	(1,517)	(1,497)
Post-retirement scheme deficits	16	(967)	(1,035)
Non-current liabilities		(19,971)	(20,160)
Liabilities associated with assets held for sale	19	(13)	(55)
TOTAL LIABILITIES		(35,248)	(35,141)
NET LIABILITIES		(2,237)	(3,629)
EQUITY			
Called-up share capital		1,701	1,684
Share premium		1,012	1,012
Capital redemption reserve		167	167
Cash flow hedge reserve		9	12
Translation reserve		610	634
Accumulated losses		(5,791)	(7,190)
Equity attributable to ordinary shareholders		(2,292)	(3,681)
Non-controlling interest (NCI)		55	52
TOTAL EQUITY		(2,237)	(3,629)

Condensed consolidated cash flow statement

For the half-year ended 30 June 2024

	Notes	Half-year to 30 June 2024	Restated ¹ Half-year to 30 June 2023
Reconciliation of cash flows from operating activities			
Operating profit		1,646	797
Loss/(profit) on disposal of property, plant and equipment		1	(1)
Share of results of joint ventures and associates		(78)	(89)
Dividends received from joint ventures and associates		15	16
Amortisation and impairment of intangible assets	7	(287)	139
Depreciation and impairment of property, plant and equipment	8	205	206
Depreciation and impairment of right-of-use assets	9	129	170
Adjustment of amounts payable under residual value guarantees within lease liabilities		–	(2)
Impairment of and other movements on investments		4	–
Increase/(decrease) in provisions		38	(142)
Increase in inventories		(641)	(557)
Movement in trade receivables/payables and other assets/liabilities		573	(51)
Movement in contract assets/liabilities		497	1,154
Cash flows on other financial assets and liabilities held for operating purposes ²		(410)	(516)
Cash flows on settlement of excess derivative contracts ^{1,3}		(75)	(210)
Interest received		124	60
Net defined benefit post-retirement cost recognised in profit before financing	16	21	25
Cash funding of defined benefit post-retirement schemes	16	(39)	(38)
Share-based payments		59	23
Net cash inflow from operating activities before taxation		1,782	984
Taxation paid		(113)	(59)
Net cash inflow from operating activities		1,669	925
Cash flows from investing activities			
Movement in other investments		–	1
Additions of intangible assets	7	(165)	(123)
Disposals of intangible assets	7	–	1
Purchases of property, plant and equipment		(133)	(177)
Disposals of property, plant and equipment		7	12
Acquisition of businesses	19	–	(12)
Disposal of businesses (including cash flows on disposals in prior periods)	19	–	3
Movement in investments in joint ventures and associates		(16)	(8)
Movement in short-term investments		–	11
Cash flows on other financial assets and liabilities held for non-operating purposes		(12)	–
Net cash outflow from investing activities		(319)	(292)
Cash flows from financing activities			
Repayment of loans		(475)	(1)
Settlement of swaps hedging fixed rate borrowings		(11)	–
Proceeds from increase in loans		4	1
Capital element of lease payments		(122)	(167)
Net cash flow from decrease in borrowings and lease liabilities		(604)	(167)
Interest paid		(103)	(94)
Interest element of lease payments		(42)	(42)
Fees paid on undrawn facilities		(12)	(23)
Transactions with NCI ⁴		33	24
Net cash outflow from financing activities		(728)	(302)
Change in cash and cash equivalents		622	331
Cash and cash equivalents at 1 January		3,731	2,605
Exchange losses on cash and cash equivalents		(40)	(81)
Cash and cash equivalents at 30 June ⁵		4,313	2,855

¹ The cash flow statement to 30 June 2023 has been re-presented 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 period to 30 June 2023 from £1,135m to £925m and a decrease in cash outflow from financing activities from £(512)m to £(302)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 Predominantly 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 2020-2026 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 2020-2026. 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 period, the Group incurred a cash outflow of £75m (30 June 2023: £210m) and estimates that future cash outflows of £71m will be incurred during the remainder of 2024 and £175m spread over 2025 and 2026

⁴ Relates to NCI investment received in the period, 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

Condensed consolidated cash flow statement continued

For the half-year ended 30 June 2024

In deriving the condensed consolidated cash flow statement, movements in balance sheet line items have been adjusted for non-cash items. The cash flow in the period includes the sale of goods and services to joint ventures and associates – see note 18.

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Reconciliation of movements in cash and cash equivalents to movements in net debt		
Change in cash and cash equivalents	622	331
Cash flow from decrease in borrowings and lease liabilities	604	167
Less: settlement of related derivatives included in fair value of swaps below	(11)	–
Cash flow from decrease in short-term investments	–	(11)
Change in net debt resulting from cash flows	1,215	487
Lease additions, modifications and other non-cash adjustments on borrowings and lease liabilities	(62)	(90)
Exchange (losses)/gains on net debt	(26)	66
Fair value adjustments	17	78
Movement in net debt	1,144	541
Net debt at 1 January excluding the fair value of swaps	(1,975)	(3,337)
Net debt at 30 June excluding the fair value of swaps	(831)	(2,796)
Fair value of swaps hedging fixed rate borrowings	9	(49)
Net debt at 30 June	(822)	(2,845)

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	Exchange differences £m	Fair value adjustments £m	Reclassifi- cations £m	Other movements £m	At 30 June £m
2024							
Cash at bank and in hand	739	9	(6)	–	–	–	742
Money market funds	1,077	437	(4)	–	–	–	1,510
Short-term deposits	1,968	129	(30)	–	–	–	2,067
Cash and cash equivalents (per balance sheet)	3,784	575	(40)	–	–	–	4,319
Overdrafts	(53)	47	–	–	–	–	(6)
Cash and cash equivalents (per cash flow statement)	3,731	622	(40)	–	–	–	4,313
Short-term investments	–	–	–	–	–	–	–
Other current borrowings	(478)	471	–	2	–	1	(4)
Non-current borrowings	(3,568)	–	13	15	–	(2)	(3,542)
Lease liabilities	(1,660)	122	1	–	–	(61)	(1,598)
Financial liabilities	(5,706)	593	14	17	–	(62)	(5,144)
Net debt excluding the fair value of swaps	(1,975)	1,215	(26)	17	–	(62)	(831)
Fair value of swaps hedging fixed rate borrowings ¹	23	11	(13)	(12)	–	–	9
Net debt	(1,952)	1,226	(39)	5	–	(62)	(822)
2023							
Cash at bank and in hand	847	(76)	(27)	–	–	–	744
Money market funds	34	701	–	–	–	–	735
Short-term deposits	1,726	(290)	(54)	–	–	–	1,382
Cash and cash equivalents (per balance sheet)	2,607	335	(81)	–	–	–	2,861
Overdrafts	(2)	(4)	–	–	–	–	(6)
Cash and cash equivalents (per cash flow statement)	2,605	331	(81)	–	–	–	2,855
Short-term investments	11	(11)	–	–	–	–	–
Other current borrowings	(1)	–	–	–	(462)	–	(463)
Non-current borrowings	(4,105)	–	63	78	462	(2)	(3,504)
Lease liabilities	(1,847)	167	84	–	–	(88)	(1,684)
Financial liabilities	(5,953)	167	147	78	–	(90)	(5,651)
Net debt excluding fair value of swaps	(3,337)	487	66	78	–	(90)	(2,796)
Fair value of swaps hedging fixed rate borrowings ¹	86	–	(63)	(72)	–	–	(49)
Net debt	(3,251)	487	3	6	–	(90)	(2,845)

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 (30 June 2024: £33m, 31 December 2023: £34m) and the element of fair value relating to exchange differences on the underlying principal of derivatives in cash flow hedges (30 June 2024: £(24)m, 31 December 2023: £(11)m)

Condensed consolidated statement of changes in equity

For the half-year ended 30 June 2024

		Attributable to ordinary shareholders								
Notes	Share capital	Share premium	Capital redemption reserve	Cash flow hedging reserve	Translation reserve	Accumulated losses ¹	Total	NCI	Total equity	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	
At 1 January 2024	1,684	1,012	167	12	634	(7,190)	(3,681)	52	(3,629)	
Profit for the period	-	-	-	-	-	1,149	1,149	(13)	1,136	
Foreign exchange translation differences on foreign operations	-	-	-	-	(24)	-	(24)	-	(24)	
Actuarial movements on post-retirement schemes ¹⁶	-	-	-	-	-	124	124	-	124	
Fair value movement on cash flow hedging reserve	-	-	-	(16)	-	-	(16)	-	(16)	
Reclassified to income statement from cash flow hedging reserve	-	-	-	15	-	-	15	-	15	
Revaluation to fair value of other investments	-	-	-	-	-	(3)	(3)	-	(3)	
OCI of joint ventures and associates	-	-	-	(2)	-	(6)	(8)	-	(8)	
Related tax movements	-	-	-	-	-	35	35	-	35	
Total comprehensive income/(expense) for the period	-	-	-	(3)	(24)	1,299	1,272	(13)	1,259	
Issue of ordinary shares	17	-	-	-	-	-	17	-	17	
Shares issued to employee share trust	-	-	-	-	-	(17)	(17)	-	(17)	
Share-based payments - direct to equity ²	-	-	-	-	-	39	39	-	39	
Transactions with NCI ³	-	-	-	-	-	26	26	16	42	
Related tax movements	-	-	-	-	-	52	52	-	52	
Other changes in equity in the period	17	-	-	-	-	100	117	16	133	
At 30 June 2024	1,701	1,012	167	9	610	(5,791)	(2,292)	55	(2,237)	
At 1 January 2023	1,674	1,012	166	26	861	(9,789)	(6,050)	34	(6,016)	
Profit for the period	-	-	-	-	-	1,229	1,229	(6)	1,223	
Foreign exchange translation differences on foreign operations	-	-	-	-	(227)	-	(227)	-	(227)	
Actuarial movements on post-retirement schemes	-	-	-	-	-	(35)	(35)	-	(35)	
Fair value movement on cash flow hedging reserve	-	-	-	(31)	-	-	(31)	-	(31)	
Reclassified to income statement from cash flow hedging reserve	-	-	-	64	-	-	64	-	64	
Revaluation to fair value of other investments	-	-	-	-	-	1	1	-	1	
OCI of joint ventures and associates	-	-	-	-	-	(1)	(1)	-	(1)	
Related tax movements	-	-	-	(8)	-	11	3	-	3	
Total comprehensive income/(expense) for the period	-	-	-	25	(227)	1,205	1,003	(6)	997	
Issue of ordinary shares	10	-	-	-	-	-	10	-	10	
Shares issued to employee share trust	-	-	-	-	-	(10)	(10)	-	(10)	
Share-based payments - direct to equity ²	-	-	-	-	-	23	23	-	23	
Transactions with NCI ³	-	-	-	-	-	17	17	10	27	
Related tax movements	-	-	-	-	-	3	3	-	3	
Other changes in equity in the period	10	-	-	-	-	33	43	10	53	
At 30 June 2023	1,684	1,012	166	51	634	(8,551)	(5,004)	38	(4,966)	

¹ At 30 June 2024, 110,852,000 ordinary shares with a net book value of £27m (30 June 2023: 54,338,132 ordinary shares with a net book value of £22m) were held for the purpose of share-based payment plans and included in accumulated losses. During the period:

- 30,331,000 ordinary shares with a net book value of £13m (30 June 2023: 6,439,000 ordinary shares with a net book value of £15m) vested in share-based payment plans;
- the Company issued 88,200,000 (30 June 2023: 49,100,000) new ordinary shares to the Group's share trust for its employee share-based payment plans with a net book value of £17m (30 June 2023: £10m); and
- the Company acquired none (30 June 2023: none) of its ordinary shares via reinvestment of dividends received on its own shares and purchased 71,490 (30 June 2023: 184,336) 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 period less the actual cost of vesting excluding those vesting from own shares and cash received on share-based schemes

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

Notes to the Condensed Consolidated Interim Financial Statements

1 Basis of preparation and accounting policies

Reporting entity

Rolls-Royce Holdings plc (the 'Company') is a public company limited by shares incorporated under the Companies Act 2006 and domiciled in the UK. These Condensed Consolidated Interim Financial Statements of the Company as at and for the six months to 30 June 2024 consist of the consolidation of the financial statements of the Company and its subsidiaries (together referred to as the 'Group') and include the Group's interest in jointly controlled and associated entities.

The Consolidated Financial Statements of the Group as at and for the year ended 31 December 2023 (2023 Annual Report) are available upon request from the Company Secretary, Rolls-Royce Holdings plc, Kings Place, 90 York Way, London, N1 9FX.

The Board of Directors approved the Condensed Consolidated Interim Financial Statements on 1 August 2024.

Statement of compliance

These Condensed Consolidated Interim Financial Statements have been prepared on the basis of the policies set out in the 2023 Annual Report, except for changes below, and in accordance with UK adopted IAS 34 *Interim Financial Reporting* and the Disclosure Guidance and Transparency Rules sourcebook of the UK's Financial Conduct Authority. They do not include all of the information required for full annual statements and should be read in conjunction with the 2023 Annual Report.

The interim figures up to 30 June 2024 and 2023 are unaudited. The 2023 Financial Statements, which were prepared in accordance with UK adopted International Accounting Standards (IAS) and interpretations issued by the IFRS interpretations Committee applicable to companies reporting under UK adopted IAS, have been reported on by the Group's auditors and delivered to the registrar of companies. The report of the auditors was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Revisions to IFRS applicable in 2024

Supplier Finance Arrangements

New disclosure requirements resulting from amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments* relating to Supplier Finance Arrangements (SFAs) were effective from 1 January 2024. The objective of the new amendments is to provide enhanced information about SFAs that enables investors to assess the effects on an entity's liabilities, cash flows and its exposure to liquidity risk.

The Group's suppliers have access to a supply chain financing (SCF) programme that is considered to be within the scope of the Standard's SFA definition. The new prescriptive disclosure requirements will necessitate some additional information being disclosed within the 2024 Annual Report in relation to the value of trade payables that were within the scope of the Group offered SCF scheme. This will be presented alongside the value of received payments which suppliers had drawn, this being information which the Group already discloses in its Annual Report. The Group has taken the available reliefs not to provide the additional information in these Condensed Consolidated Interim Financial Statements.

Other

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

Change in accounting policy

When preparing the 2023 Annual Report the Directors revised the classification of cash flows related 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 reassessed their judgement in line with IAS 7 *Statement of Cash Flows* and concluded that it would be more appropriate to classify these cash flows as cash flows from operating activities rather than as cash flows from financing activities.

Consistent with the above, cash flows from operating activities during the period to 30 June 2023 have reduced by £(210)m to £925m with a corresponding decrease in cash outflow from financing activities from £(512)m to £(302)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 in the 2023 Annual Report. 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 Basis of preparation and accounting policies continued

Revisions to IFRS not applicable to 2024

IFRS 18

The IASB (International Accounting Standards Board) issued a new Standard, IFRS 18 *Presentation and Disclosure in Financial Statements*, on 9 April 2024 that will replace IAS 1 *Presentation of Financial Statements*. The purpose of the new standard is to provide more consistent presentation of financial information across preparers as it is acknowledged that existing standards have given flexibility to present information in different ways. IFRS 18 will not impact the recognition or measurement of items in the financial statements. Many of the existing presentation principles in IAS 1 are retained, but there are some more specific requirements that will require the Group to make some changes in its future Annual Report and Interim Financial Statements.

The new Standard is not yet endorsed by the UK Endorsement Board 'UKEB' but is expected to be applicable for reporting periods beginning on or after 1 January 2027. Comparative information for 2026 will need to be restated when the 2027 Interim Financial Statements and Annual Report and Accounts are published and early adoption is expected to be permitted.

The Group has started an initial review of the Standard and expects changes to the presentation of the income statement and the Group's reported operating profit (driven by required changes such as moving 'Share of results of joint ventures and associates' into a new investing category which will no longer form part of operating profit in the Statutory Consolidated Income Statement). The process of assessing the financial impact on the Consolidated Financial Statements will continue during 2024 and 2025.

Other

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

Post balance sheet events

The Group has taken the latest legal position in relation to any ongoing legal proceedings and reflected these in the 30 June 2024 results as appropriate.

On 31 July 2024 the Group completed the disposal of part of Power Systems' lower power range off-highway engines business to Deutz AG as set out in note 19. Disposal proceeds are in excess of the carrying value of the assets and liabilities.

Climate change

In preparing the Condensed Consolidated Interim Financial Statements, the Directors have continued to consider the impact of climate change, particularly in the context of the disclosures made in the Strategic Report within the 2023 Annual Report and the stated sustainability approach. The following specific points were considered:

- The Group continues to decarbonise its operations, facilities and business activities through continued investment in onsite renewable energy installations; the procurement of renewable energy; and continued investment in energy efficiency improvements. An estimate of the investment required to meet scope 1 and 2 emission improvements is included in the forecasts that support these Condensed Consolidated Financial Statements;
- The Group is enabling its customers to operate their products in a way that is compatible with low or net zero carbon emissions and has demonstrated that all the commercial aero engines it produces, and the most popular reciprocating engines are compatible for use on sustainable fuels;
- The Group has invested in delivering new products and solutions that can accelerate the global energy transition, including in battery energy storage solutions in Power Systems, and in small modular reactors (SMRs); and
- The Group is responding to the climate challenge by creating the necessary enabling environment to advocate for the necessary policy and economic support we have identified.

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

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

When making these assessments the Directors include consideration of the risks associated with changing customer demand, changes in investment requirements, and changes in costs due to carbon pricing and commodity price changes. As details of what specific future intervention measures will be taken by governments are not yet available, carbon pricing has been used to quantify the potential impact of future policy changes on the Group. The approach is consistent with that disclosed in note 1 in the 2023 Annual Report.

There have been no significant changes to assumptions, including the potential impact of carbon prices on the Group's cost base, since the year ended 31 December 2023. Hence, these considerations did not have a material impact on financial reporting key judgements and estimates in the period and the Group's assessment remains that climate change is not expected to have a significant impact on the Group's current going concern assessment nor on the viability of the Group over the next five years.

1 Basis of preparation and accounting policies continued

Going concern

Overview

In adopting the going concern basis for preparing these condensed consolidated financial statements, the Directors have undertaken a review of the Group's cash flow forecasts and available liquidity, along with consideration of the principal risks and uncertainties through to December 2025 (the 'going concern period'). The processes for identifying and managing risk are described in the Group's 2023 Annual Report on pages 50 to 55. As described on those pages, the risk management process and the going concern statement are designed to provide reasonable but not absolute assurance.

Forecasts

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

The Group's base case forecast reflects the Directors best estimation of how the business plans to perform over the going concern period. Macro-economic assumptions have been modelled using externally available data based on the most likely forecasts, considering all the markets in which we operate, with general inflation at 2% - 3%, wage inflation at 3% - 5%, interest rates at 3% - 4% and GDP growth at around 2% - 3%. In the base case forecast Civil large engine EFHs exceed 2019 levels in 2024.

In modelling the impact of severe but plausible risks the Directors have considered the current macro-economic climate and the possibility that demand could be suppressed in the near term as a result of a Global economic downturn, reflecting slower GDP growth in this forecast when compared with the base case. EFHs have been modelled to remain consistent with average second quarter 2024 levels throughout the going concern period. Ongoing supply chain challenges have been modelled through lower spare engine sales. The model also assumes a more pessimistic view of general inflation at around 1% - 2% higher than the base case covering a broad range of costs including energy, commodities, and jet fuel. Wage inflation is modelled at 1% - 5% higher (being GDP market specific) than the base case and interest rates 1% - 2% higher.

In preparing the condensed consolidated interim financial statements, the Directors have continued to consider the impact of climate change, particularly in the context of disclosures made in the Strategic Report in the 2023 Annual Report. Consistent with the assessment in the 2023 Annual Report, climate change is not expected to have a significant impact on the Group over the going concern period. More detail can be found on page 18 of these condensed consolidated financial statements.

Liquidity and borrowings

During the period to 30 June 2024 the Group repaid a €550m (£484m) bond at its maturity in May 2024 and at the same time elected to cancel its undrawn £1bn UKEF-supported bank loan facility which was due to expire in 2027.

At 30 June 2024, the Group had liquidity of £6.8bn including cash and cash equivalents of £4.3bn and undrawn facilities of £2.5bn.

The Group's committed borrowing facilities at 30 June 2024 and 31 December 2025 are set out below. None of the facilities are subject to any financial covenants or rating triggers which could accelerate repayment.

£m	30 June 2024	31 December 2025
Issued bond notes ¹	3,511	2,853
Revolving credit facility (undrawn) ²	2,500	2,500
Total committed borrowing facilities	6,011	5,353

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

² The £2,500m Revolving Credit Facility matures in November 2026 (currently undrawn) with two subsequent one year extension options

Taking into account the maturity of these borrowing facilities, the Group has committed facilities of at least £5.4bn available throughout the going concern period.

Conclusion

After reviewing the current liquidity position and the cash flow forecasts modelled under both the base case and downside forecast, the Directors consider that the Group has sufficient liquidity to continue in operational existence for a period of at least 12 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.

1 Basis of preparation and accounting policies continued

Key areas of judgement and sources of estimation uncertainty

The determination of the Group's accounting policies requires judgement. The subsequent application of these policies requires estimates and the actual outcome may differ from that calculated. The key areas of judgement and sources of estimation uncertainty as at 31 December 2023, that were assessed as having a significant risk of causing material adjustments to the carrying amount of assets and liabilities, are set out in note 1 to the Consolidated Financial Statements in the 2023 Annual Report and are summarised below. During the period, the Group has re-assessed these and where necessary updated the key judgements and estimation uncertainties. Sensitivities for key sources of estimation uncertainty are disclosed where this is appropriate and practical.

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Revenue recognition and contract assets and liabilities	<p>Whether Civil Aerospace OE and aftermarket contracts should be combined.</p> <p>How performance on long-term aftermarket contracts should be measured.</p> <p>Whether long-term aftermarket contracts contain a significant financing component.</p> <p>Whether any costs should be treated as wastage.</p> <p>Whether the Civil Aerospace LTSA contracts are warranty style contracts entered into in connection with OE sales and therefore can be accounted for under IFRS 15.</p> <p>Whether sales of spare engines to joint ventures are at fair value.</p> <p>When revenue should be recognised in relation to spare engine sales.</p>	<p>Estimates of future revenue, including customer pricing, and costs of long-term contractual arrangements, including the impact of climate change.</p>	<p>Based upon the stage of completion of all large engine LTSA contracts within Civil Aerospace as at 30 June 2024, the following changes in estimate would result in catch-up adjustments being recognised in the period in which the estimates change (at underlying FX rates):</p> <ul style="list-style-type: none"> - A change in forecast EFHs of 1% over the remaining term of the contracts would impact LTSA income and to a lesser extent costs, resulting in an impact of around £20m. - A 2% increase or decrease in our pricing to customers over the life of the contracts would lead to a revenue catch-up adjustment in the next 12 months of around £280m. - A 2% increase or decrease in LTSA 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)	<p>Determination of the nature of entry fees received.</p>		
Taxation		<p>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.</p>	<p>A 5% change in margin or shop visits (which could be driven by fewer EFHs as a result of climate change) would result in an increase/decrease in the deferred tax asset in respect of UK losses of around £90m.</p> <p>If only 90% of assumed future cost increases from climate change are passed on to customers, this would result in a decrease in the deferred tax asset of around £10m, and if the potential impact of carbon prices on the Group's cost base was to double, the recoverable value of deferred tax assets would decrease by around £50m.</p>
Research and development	<p>Determination of the point in time where costs incurred on an internal programme development meet the criteria for capitalisation.</p> <p>Determination of the basis for amortising capitalised development costs.</p>		
Leases	<p>Determination of the lease term.</p>		
Impairment of non-current assets	<p>Determination of cash-generating units for assessing impairment of goodwill.</p> <p>Whether there are indicators of potential reversal of previous impairments of programme-related intangible assets.</p>		

Area	Key judgements	Key sources of estimation uncertainty	Sensitivities performed
Provisions	<p>Whether any costs should be treated as wastage.</p> <p>Whether the criteria to recognise a transformation and restructuring provisions have been met.</p>	<p>Estimates of the time and cost to incorporate required modified parts into the fleet to resolve technical issues on certain programmes (which could be exacerbated by prolonged supply chain challenges) and the implications of this on forecast future costs when assessing onerous contracts.</p> <p>Estimates of the future revenues and costs to fulfil onerous contracts.</p> <p>Assumptions implicit within the calculation of discount rates.</p>	<p>A six-month delay in the availability of required modified parts due to supply chain challenges and disruption to throughput of engine overhauls could lead to around a £30–50m charge.</p> <p>An increase in Civil Aerospace large engines estimates of LTSA costs of 1% over the remaining term of the contracts could lead to a £40-60m increase in the provision for contract losses across all programmes.</p> <p>A 1% change in the discount rates used could lead to around a £40-60m change in the onerous contract provision.</p>
Post-retirement benefits		<p>Estimates of the assumptions for valuing the net defined benefit obligation.</p>	<p>A reduction in the discount rate of 0.25% from 5.15% could lead to an increase in the defined benefit obligations of the RR UK Pension Fund (RRUKPF) of approximately £160m. 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.</p> <p>An increase in the assumed rate of inflation of 0.25% (RPI of 3.45% and CPI of 3.00%) could lead to an increase in the defined benefit obligations of the RRUKPF of approximately £60m.</p> <p>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 £145m.</p>

2 Segmental analysis

The analysis by segment is presented in accordance with IFRS 8 *Operating Segments*, on the basis of those segments whose operating results are regularly reviewed by the Board (who acts as the Chief Operating Decision Maker as defined by IFRS 8). 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 period to 30 June 2024, the Group was a net seller of USD at an achieved exchange rate GBP:USD of 1.48 (30 June 2023: 1.50) based on the USD hedge book.

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

Underlying performance also excludes the following:

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

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

Acquisition accounting, business disposals and impairment

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

Exceptional items

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

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

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

Other items

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

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

2 Segmental analysis continued

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

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Other businesses £m	Corporate and Inter- segment ¹ £m	Total underlying £m
For the half-year ended 30 June 2024							
Underlying revenue from sale of original equipment	1,329	872	1,257	1	5	–	3,464
Underlying revenue from aftermarket services	2,790	1,347	580	1	–	–	4,718
Total underlying revenue	4,119	2,219	1,837	2	5	–	8,182
Gross profit	992	476	507	2	–	–	1,977
Commercial and administrative costs	(193)	(108)	(238)	(20)	–	(34)	(593)
Research and development	(135)	(24)	(83)	(73)	–	–	(315)
Share of results of joint ventures and associates	76	1	3	–	–	–	80
Underlying operating profit/(loss)	740	345	189	(91)	–	(34)	1,149
For the half-year ended 30 June 2023							
Underlying revenue from sale of original equipment	1,055	841	1,175	1	5	–	3,077
Underlying revenue from aftermarket services	2,202	1,072	599	–	–	–	3,873
Total underlying revenue	3,257	1,913	1,774	1	5	–	6,950
Gross profit/(loss)	690	379	452	–	(5)	(1)	1,515
Commercial and administrative costs	(171)	(86)	(233)	(14)	–	(34)	(538)
Research and development	(195)	(34)	(96)	(64)	–	–	(389)
Share of results of joint ventures and associates	81	2	2	–	–	–	85
Underlying operating profit/(loss)	405	261	125	(78)	(5)	(35)	673

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
For the half-year ended 30 June 2024			
Revenue from sale of original equipment	3,464	162	3,626
Revenue from aftermarket services	4,718	517	5,235
Total revenue	8,182	679	8,861
Gross profit	1,977	131	2,108
Commercial and administrative costs	(593)	(48)	(641)
Research and development	(315)	416	101
Share of results of joint ventures and associates	80	(2)	78
Operating profit	1,149	497	1,646
Gain arising on the disposal of businesses	–	–	–
Profit before financing and taxation	1,149	497	1,646
Net financing	(114)	(116)	(230)
Profit before taxation	1,035	381	1,416
Taxation	(298)	18	(280)
Profit for the period	737	399	1,136
Attributable to:			
Ordinary shareholders	750	399	1,149
NCI	(13)	–	(13)
For the half-year ended 30 June 2023			
Revenue from sale of original equipment	3,077	212	3,289
Revenue from aftermarket services	3,873	361	4,234
Total revenue	6,950	573	7,523
Gross profit	1,515	142	1,657
Commercial and administrative costs	(538)	(22)	(560)
Research and development	(389)	–	(389)
Share of results of joint ventures and associates	85	4	89
Operating profit	673	124	797
Gain arising on the disposal of businesses	–	1	1
Profit before financing and taxation	673	125	798
Net financing	(149)	770	621
Profit before taxation	524	895	1,419
Taxation	(120)	(76)	(196)
Profit for the period	404	819	1,223
Attributable to:			
Ordinary shareholders	410	819	1,229
NCI	(6)	–	(6)

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
For the half-year ended 30 June 2024							
Original equipment recognised at a point in time	1,329	204	1,235	1	–	–	2,769
Original equipment recognised over time	–	668	22	–	5	–	695
Aftermarket services recognised at a point in time	559	478	535	1	–	–	1,573
Aftermarket services recognised over time	2,180	869	45	–	–	–	3,094
Total underlying customer contract revenue	4,068	2,219	1,837	2	5	–	8,131
Other underlying revenue ¹	51	–	–	–	–	–	51
Total underlying revenue	4,119	2,219	1,837	2	5	–	8,182
For the half-year ended 30 June 2023							
Original equipment recognised at a point in time	1,055	337	1,153	1	–	–	2,546
Original equipment recognised over time	–	504	22	–	5	–	531
Aftermarket services recognised at a point in time	555	390	550	–	–	–	1,495
Aftermarket services recognised over time	1,604	682	49	–	–	–	2,335
Total underlying customer contract revenue	3,214	1,913	1,774	1	5	–	6,907
Other underlying revenue ¹	43	–	–	–	–	–	43
Total underlying revenue	3,257	1,913	1,774	1	5	–	6,950

¹ Includes leasing revenue

	Total underlying £m	Underlying adjustments and adjustments to foreign exchange £m	Group statutory results £m
For the half-year ended 30 June 2024			
Original equipment recognised at a point in time	2,769	162	2,931
Original equipment recognised over time	695	–	695
Aftermarket services recognised at a point in time	1,573	76	1,649
Aftermarket services recognised over time	3,094	432	3,526
Total customer contract revenue	8,131	670	8,801
Other revenue	51	9	60
Total revenue	8,182	679	8,861
For the half-year ended 30 June 2023			
Original equipment recognised at a point in time	2,546	212	2,758
Original equipment recognised over time	531	–	531
Aftermarket services recognised at a point in time	1,495	97	1,592
Aftermarket services recognised over time	2,335	255	2,590
Total customer contract revenue	6,907	564	7,471
Other revenue	43	9	52
Total revenue	6,950	573	7,523

2 Segmental analysis continued

Underlying adjustments	Half-year to 30 June 2024				Half-year to 30 June 2023			
	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance	8,182	1,149	(114)	(298)	6,950	673	(149)	(120)
Impact of foreign exchange differences as a result of hedging activities on trading transactions ¹	A 679	85	120	(50)	573	163	396	(74)
Unrealised fair value changes on derivative contracts held for trading ²	A –	(3)	(213)	53	–	2	355	(108)
Unrealised fair value change to derivative contracts held for financing ³	A –	–	39	(10)	–	–	66	(15)
Exceptional programme credits ⁴	B –	–	–	–	–	21	–	–
Exceptional transformation and restructuring (charges)/credits ⁵	B –	(107)	(11)	32	–	(35)	–	4
Impairment reversals/(charges) ⁶	C –	545	–	(159)	–	–	–	–
Effect of acquisition accounting ⁷	C –	(23)	–	6	–	(24)	–	6
Other ⁸	D –	–	(51)	13	–	(3)	(47)	10
Gains arising on the disposals of businesses	C –	–	–	–	–	1	–	–
Impact of tax rate change ⁹	D –	–	–	10	–	–	–	–
Recognition of deferred tax assets ¹⁰	D –	–	–	123	–	–	–	101
Total underlying adjustments	679	497	(116)	18	573	125	770	(76)
Statutory performance per condensed consolidated income statement	8,861	1,646	(230)	(280)	7,523	798	621	(196)

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

¹ The impact of measuring revenues and costs at the average exchange rate during the period and the impact of valuation of assets and liabilities using the period 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 £679m (30 June 2023: £573m) and increased profit before financing and taxation by £85m (30 June 2023: £163m). Underlying financing excludes the impact of revaluing monetary assets and liabilities at the period end exchange rate

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

³ Includes net fair value gain of £34m (30 June 2023: £60m) on any interest rate swaps not designated into hedging relationships for accounting purposes

⁴ During the prior period to 30 June 2023, £21m of Trent 1000 wastage costs provision previously recognised in respect of estimated costs to settle obligations were reversed to reflect the status of claims in respect of the Trent 1000 technical issues which were identified in 2019

⁵ In 2023, the Group announced a major multi-year transformation programme which consists of seven workstreams (set out in the 2023 Annual Report). During the period to 30 June 2024, the Group incurred charges of £107m related to transformation and restructuring (30 June 2023: £35m). The charges comprise of £55m related to severance costs, £20m for advisory fees and transformation office costs and £32m related to impairments and write-offs.

⁶ The Group has assessed the carrying value of its assets and reviewed for potential impairment and impairment reversal triggers. As a result, there has been an impairment reversal of an intangible asset of £413m and of a contract asset of £132m in relation to Civil Aerospace programme assets during the period. Further details are provided in note 7. Details on other impairments and impairment reversals are provided in notes 7, 8 and 9

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

⁸ Includes interest received of £44m (30 June 2023: £35m) 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 £nil (30 June 2023: £3m) of past-service cost on defined benefit schemes

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

¹⁰ During the period to 30 June 2024, the Group recognised deferred tax assets of £157m relating to UK tax losses of which £34m is included in underlying performance and £123m in non-underlying. During the period to 30 June 2023, the Group recognised deferred tax assets of £100m relating to UK tax losses and foreign exchange derivatives of which £(1)m was included in underlying performance and £101m in non-underlying

2 Segmental analysis continued

Balance sheet analysis

	Civil Aerospace £m	Defence £m	Power Systems £m	New Markets £m	Total reportable segments £m
At 30 June 2024					
Segment assets	19,250	3,729	4,043	138	27,160
Interests in joint ventures and associates	506	7	27	–	540
Segment liabilities	(25,854)	(3,560)	(2,035)	(99)	(31,548)
Net (liabilities)/assets	(6,098)	176	2,035	39	(3,848)
At 31 December 2023					
Segment assets	17,718	3,517	3,814	115	25,164
Interests in joint ventures and associates	444	7	28	–	479
Segment liabilities	(24,447)	(3,376)	(1,765)	(88)	(29,676)
Net (liabilities)/assets	(6,285)	148	2,077	27	(4,033)

Reconciliation to the balance sheet

	30 June 2024 £m	31 December 2023 £m
Total reportable segment assets (excluding held for sale)	27,160	25,164
Other businesses	14	8
Corporate and Inter-segment	(3,058)	(2,010)
Interests in joint ventures and associates	540	479
Assets held for sale	64	109
Cash and cash equivalents and short-term investments	4,319	3,784
Fair value of swaps hedging fixed rate borrowings	126	118
Deferred and income tax assets	2,978	3,078
Post-retirement scheme surpluses	868	782
Total assets	33,011	31,512
Total reportable segment liabilities (excluding held for sale)	(31,548)	(29,676)
Other businesses	(60)	(58)
Corporate and Inter-segment	3,058	2,010
Liabilities associated with assets held for sale	(13)	(55)
Borrowings and lease liabilities	(5,150)	(5,759)
Fair value of swaps hedging fixed rate borrowings	(117)	(95)
Deferred and income tax liabilities	(451)	(473)
Post-retirement scheme deficits	(967)	(1,035)
Total liabilities	(35,248)	(35,141)
Net liabilities	(2,237)	(3,629)

3 Research and development

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Gross research and development expenditure	(723)	(684)
Contributions and fees	333	254
Net expenditure in the period	(390)	(430)
Capitalised as intangible assets	126	84
Amortisation and impairment of capitalised costs ^{1,2}	365	(43)
Net amount recognised in the income statement	101	(389)
Underlying adjustments ²	(416)	–
Net underlying cost recognised in the income statement	(315)	(389)

¹ See note 7 for analysis of amortisation and impairment

² Underlying adjustments include impact of acquisition accounting, foreign exchange and an impairment reversal of £413m. See note 2 and note 7 for more information

4 Net financing

	Half-year to 30 June 2024		Half-year to 30 June 2023	
	Statutory £m	Underlying ¹ £m	Statutory £m	Underlying ¹ £m
Interest receivable and similar income ²	128	128	56	56
Net fair value gains on foreign currency contracts	–	–	407	–
Net fair value gains on non-hedge accounted interest rate swaps ³	34	–	60	–
Net fair value gains on commodity contracts	12	–	–	–
Financing on post-retirement scheme surpluses	12	–	15	–
Net foreign exchange gains	120	–	396	–
Financing income	306	128	934	56
Interest payable	(188)	(137)	(173)	(133)
Net fair value losses on foreign currency contracts	(225)	–	–	–
Net fair value losses on revaluation of other investments accounted for at FVTPL ⁴	(24)	(24)	–	–
Net fair value losses on commodity contracts	–	–	(52)	–
Financing on post-retirement scheme deficits	(14)	–	(22)	–
Cost of undrawn facilities	(12)	(12)	(32)	(32)
Other financing charges	(73)	(69)	(34)	(40)
Financing costs	(536)	(242)	(313)	(205)
Net financing (costs)/income	(230)	(114)	621	(149)
Analysed as:				
Net interest payable	(60)	(9)	(117)	(77)
Net fair value (losses)/gains on derivative contracts	(179)	–	415	–
Net post-retirement scheme financing	(2)	–	(7)	–
Net foreign exchange gains	120	–	396	–
Net other financing	(109)	(105)	(66)	(72)
Net financing (costs)/income	(230)	(114)	621	(149)

¹ See note 2 for definition of underlying results

² Includes interest income on cash balances and short-term deposits of £88m (30 June 2023: £42m) and similar income of £40m (30 June 2023: £14m) on money market funds

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

⁴ Included in the financing costs is a £24m (30 June 2023: £nil) charge in relation to the fair value write-down of an equity accounted investment recorded at fair value through profit or loss (FVTPL)

5 Taxation

The income tax expense has been calculated by applying the annual effective tax rate for each jurisdiction to the half-year profits of each jurisdiction.

The tax charge for the period is £280m on a statutory profit before taxation of £1,416m (30 June 2023: tax charge of £196m on a statutory profit before taxation of £1,419m), giving a statutory effective tax rate of 19.8% (30 June 2023: 13.8%). The key drivers of the tax charge in the period are the profits in key jurisdictions taxed at local rates together with a tax credit on the recognition of UK deferred tax assets relating to tax losses and a tax charge on a tax de-grouping gain in the UK.

Tax reconciliation:

	Half-year to 30 June 2024		Half-year to 30 June 2023	
	£m	Tax rate	£m	Tax rate
Profit before taxation	1,416		1,419	
Nominal tax charge at UK corporation tax rate of 25.0% (30 June 2023: 23.5%)	354	25.0%	333	23.5%
Movement in UK deferred tax assets not recognised ¹	(157)	(11.1%)	(100)	(7.1%)
Tax de-grouping charge ²	100	7.1%	–	–
Decrease in deferred tax liabilities resulting from change in UK tax rate ³	(10)	(0.7%)	–	–
Other ⁴	(7)	(0.5%)	(37)	(2.6%)
Statutory tax charge and rate	280	19.8%	196	13.8%
Analysis of statutory tax charge:				
Underlying items	298		120	
Non-underlying items (see note 2)	(18)		76	
	280		196	

¹ Movement in the period to 30 June 2024 primarily relates to the recognition of UK tax losses previously not recognised. Movement in the period to 30 June 2023 includes the re-recognition of deferred tax assets relating to foreign exchange and commodity financial assets and liabilities and UK tax losses

² The charge in the period to 30 June 2024 has arisen due to the dilution of the Group's shareholding in Rolls-Royce SMR Limited to below 75%

³ The period to 30 June 2024 includes the impact of the reduction in the tax rate on authorised surplus pension payments charges from 35% to 25%

⁴ Includes Pillar Two income taxes of less than £1m

Deferred tax assets are recognised to the extent it is probable that future taxable profits will be available against which to recover the asset. Where necessary, this is based on management's assumptions and probability assessments relating to the amounts and timing of future taxable profits. The Directors' continually reassess the appropriateness of recovering deferred tax assets, which includes a consideration of the level of probable future profits and the time period over which they will be recovered.

Based on the assessment undertaken at 30 June 2024 and taking into account the financial results in the period to 30 June 2024, the continued good progress made on the Group's strategic initiatives, including cost efficiencies, commercial optimisation, and organisational design, the Group has recognised £157m of the previously unrecognised deferred tax asset relating to UK tax losses.

Sensitivity analyses are also performed as part of the assessment. At 30 June 2024, the following sensitivities have been modelled to demonstrate the impact of changes in assumptions on the recoverability of deferred tax assets:

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

All of these could be driven by a number of factors, including the impact of climate change and changes in foreign exchange rates.

A 5% change in margin or shop visits (which could be driven by fewer 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. The assumptions around carbon pricing are consistent with those at 31 December 2023.

These assessments are in line with the approach set out in note 5 of the 2023 Annual Report and take into account a 25% probability of there being a severe but plausible downside forecast.

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

The Group is within the scope of the OECD Pillar Two (Global Minimum Tax) model rules, which came into effect from 1 January 2024. For the period to 30 June 2024, the Group has continued to apply the mandatory exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

6 Earnings per ordinary share

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

	Half-year to 30 June 2024			Half-year to 30 June 2023		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit attributable to ordinary shareholders (£m):	1,149		1,149	1,229		1,229
Weighted average number of ordinary shares (millions)	8,380	52	8,432	8,359	18	8,377
EPS (pence):	13.71	(0.08)	13.63	14.70	(0.03)	14.67

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

	Half-year to 30 June 2024		Half-year to 30 June 2023	
	Pence	£m	Pence	£m
Underlying EPS / Underlying profit attributable to ordinary shareholders	8.95	750	4.90	410
Total underlying adjustments to profit before tax (note 2)	4.55	381	10.71	895
Related tax effects	0.21	18	(0.91)	(76)
EPS / Profit attributable to ordinary shareholders	13.71	1,149	14.70	1,229
Diluted underlying EPS attributable to ordinary shareholders	8.89		4.89	

7 Intangible assets

	Goodwill £m	Certification costs £m	Development expenditure £m	Customer relationships £m	Software ¹ £m	Other ² £m	Total £m
Cost:							
At 1 January 2024	1,101	930	3,763	498	1,004	699	7,995
Additions	–	–	126	–	35	4	165
Disposals	–	–	–	–	(12)	(2)	(14)
Exchange differences	(18)	(1)	(36)	(8)	(2)	(9)	(74)
At 30 June 2024	1,083	929	3,853	490	1,025	692	8,072
Accumulated amortisation and impairment:							
At 1 January 2024	35	467	1,976	433	718	357	3,986
Charge for the period ³	–	13	48	18	38	9	126
Impairment ⁴	–	–	(413)	–	–	–	(413)
Disposals	–	–	–	–	(12)	(2)	(14)
Exchange differences	–	(1)	(27)	(6)	(1)	(4)	(39)
At 30 June 2024	35	479	1,584	445	743	360	3,646
Net book value at:							
30 June 2024	1,048	450	2,269	45	282	332	4,426
1 January 2024	1,066	463	1,787	65	286	342	4,009

¹ Includes £81m (31 December 2023: £97m) of software under course of construction which is not amortised

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

³ Charged to cost of sales and commercial and administrative costs except development costs, which are charged to research and development costs

⁴ Includes the reversal of a Civil Aerospace programme asset impairment recognised in 2020. The impairment reversal of £413m has been credited to research and development within the non-underlying income statement. See further details below

Intangible assets (including programme intangible assets) have been reviewed for impairment in accordance with IAS 36 *Impairment of Assets*. Assessments have considered potential triggers of impairment such as external factors including climate change, significant programme changes and by analysing latest management forecasts against those prepared in 2023 to identify any change in performance.

Impairment reversal triggers were identified for a Civil Aerospace programme asset previously impaired as a result of the impacts of COVID-19 in 2020. The triggers for recalculating the recoverable amount were improvements during the period in exchange rates, the discount rate and forecast costs following successful entry-into-service of the engine.

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

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

An intangible asset impairment reversal of £413m was recognised in research and development costs together with a participation fee contract asset impairment reversal of £132m (see note 11) being recognised in cost of sales in the period as follows:

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

¹ The equivalent pre-tax nominal discount rate in 2020 when the impairment was recognised was 11.9%. As at 31 December 2023 the discount rate was 14.4%

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

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

There have been no other individually material impairment charges or reversals recognised during the period (31 December 2023: none).

8 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2024	1,883	4,962	1,006	412	8,263
Additions	4	32	26	80	142
Disposals/write-offs	(6)	(55)	(11)	(1)	(73)
Reclassifications ¹	13	45	–	(58)	–
Exchange differences	(14)	(32)	(1)	(2)	(49)
At 30 June 2024	1,880	4,952	1,020	431	8,283
Accumulated depreciation and impairment:					
At 1 January 2024	709	3,384	434	8	4,535
Charge for the period ²	34	129	26	–	189
Impairment ³	1	15	–	–	16
Disposals/write-offs	(5)	(55)	(5)	–	(65)
Reclassifications ¹	–	–	–	–	–
Exchange differences	(6)	(23)	–	–	(29)
At 30 June 2024	733	3,450	455	8	4,646
Net book value at:					
30 June 2024	1,147	1,502	565	423	3,637
1 January 2024	1,174	1,578	572	404	3,728

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

³ The carrying values of property, plant and equipment have been assessed during the period 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 7. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site, which includes any implications from climate-related risks. As a result of this assessment, there are no (2023: none) individually material impairment charges or reversals in the period

9 Right-of-use assets

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	Total £m
Cost:				
At 1 January 2024	513	194	1,864	2,571
Additions/modification of leases	19	21	2	42
Disposals	–	(5)	–	(5)
Exchange differences	(3)	(2)	(2)	(7)
At 30 June 2024	529	208	1,864	2,601
Accumulated depreciation and impairment:				
At 1 January 2024	259	109	1,298	1,666
Charge for the period ¹	21	20	86	127
Impairment ²	–	2	–	2
Disposals	–	(5)	–	(5)
Exchange differences	(1)	(1)	(2)	(4)
At 30 June 2024	279	125	1,382	1,786
Net book value at:				
30 June 2024	250	83	482	815
1 January 2024	254	85	566	905

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

² The carrying values of right-of-use assets have been assessed during the period 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 7. Land and buildings are generally used across multiple programmes and are considered based on future expectations of the use of the site (which includes any implications from climate-related risks). As a result of this assessment, the carrying values of assets, where a trigger was identified, have been assessed by reference to value in use considering assumptions such as estimated future cash flows, product performance related estimates and climate-related risks. During the period to 30 June 2024, an immaterial impairment charge of £2m has been recognised (31 December 2023: £71m).

10 Trade receivables and other assets

	Current		Non-current ¹		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2024	2023	2024	2023	2024	2023
	£m	£m	£m	£m	£m	£m
Trade receivables	2,823	2,724	132	40	2,955	2,764
Prepayments	814	1,032	142	102	956	1,134
RRSA prepayment for LTSA parts ²	455	236	1,137	1,084	1,592	1,320
Receivables due on RRSAs	1,005	1,159	91	193	1,096	1,352
Amounts owed by joint ventures and associates	752	731	5	10	757	741
Other taxation and social security receivable	138	160	25	13	163	173
Costs to obtain contracts with customers	4	7	106	109	110	116
Other receivables and similar assets ³	524	478	41	45	565	523
	6,515	6,527	1,679	1,596	8,194	8,123

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

² These amounts reflect the contractual share of EFH flows from customers paid to RRSA partners in return for the supply of parts in future periods under long-term supply contracts

³ Other receivables includes unbilled recoveries relating to completed overhaul activity where the right to consideration is unconditional

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

The ECLs for trade receivables and other assets has increased by £12m to £254m (31 December 2023: decreased by £104m to £242m). This movement is mainly driven by the Civil Aerospace business of £13m, of which £9m relates to specific customers and £4m relates to updates to the recoverability of other receivables.

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

	30 June	31 December
	2024	2023
	£m	£m
At 1 January	(242)	(346)
Increases in loss allowance recognised in the income statement during the period	(58)	(80)
Loss allowance utilised	8	34
Releases of loss allowance previously provided	39	128
Exchange differences	(1)	22
At 30 June/31 December	(254)	(242)

11 Contract assets and liabilities

	Current		Non-current ¹		Total	
	30 June	31 December	30 June	31 December	30 June	31 December
	2024	2023	2024	2023	2024	2023
	£m	£m	£m	£m	£m	£m
Contract assets						
Contract assets with customers	470	534	547	481	1,017	1,015
Participation fee contract assets	30	26	317	201	347	227
	500	560	864	682	1,364	1,242

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

The balance includes £547m (31 December 2023: £494m) of Civil Aerospace LTSA assets and £331m (31 December 2023: £410m) Defence LTSA assets.

The increase in the Civil Aerospace balance is due to lower 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 £(91)m (31 December 2023: £64m) in Civil Aerospace.

The decrease 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 (31 December 2023: none) have arisen during the period.

Participation fee contract assets have increased by £120m (31 December 2023: £16m) primarily due to the exceptional Civil Aerospace programme asset impairment reversal of £132m offset by amortisation of £10m and foreign exchange on consolidation of £2m.

11 Contract assets and liabilities continued

	Current		Non-current		Total	
	30 June 2024	31 December 2023	30 June 2024	31 December 2023	30 June 2024	31 December 2023
	£m	£m	£m	£m	£m	£m
Contract liabilities	6,118	6,098	8,968	8,438	15,086	14,536

Contract liabilities have increased by £550m. The movement in the Group balance is primarily as a result of increases in Civil Aerospace of £435m and Power Systems of £124m.

The Civil Aerospace increase is primarily a result of growth in LTSA liabilities of £841m to £10,415m (31 December 2023: £9,574m) driven by invoicing in advance of revenue recognised mostly in respect of widebody programmes. In 2024, contract liabilities decreased by £348m as a result of revenue recognised in relation to performance obligations satisfied in previous periods (31 December 2023: £168m increase). This included an increase of £107m related to supply chain challenges and customer disruption costs. The increase in Power Systems is from the receipt of deposits in advance of performance obligations being completed.

12 Borrowings and lease liabilities

	Current		Non-current		Total	
	30 June 2024	31 December 2023	30 June 2024	31 December 2023	30 June 2024	31 December 2023
	£m	£m	£m	£m	£m	£m
Unsecured						
Overdrafts	6	53	–	–	6	53
Bank loans	4	3	–	–	4	3
Loan notes	–	475	3,533	3,559	3,533	4,034
Other loans	–	–	9	9	9	9
Total unsecured	10	531	3,542	3,568	3,552	4,099
Lease liabilities	295	278	1,303	1,382	1,598	1,660
Total borrowings and lease liabilities	305	809	4,845	4,950	5,150	5,759

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

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

	30 June 2024	31 December 2023
	£m	£m
Expiring within one year	–	–
Expiring after one year	2,500	3,500
Total undrawn facilities	2,500	3,500

Further details can be found in the going concern statement on page 19

During the period to 30 June 2024, the Group repaid a loan note of €550m in May 2024 in line with its maturity date.

In May 2024 the Group cancelled its undrawn £1bn UK Export Finance (UKEF) Sustainability-Linked loan facility which was due to expire in 2027. The facility had remained undrawn in the period.

13 Trade payables and other liabilities

	Current		Non-current		Total	
	30 June 2024	31 December 2023	30 June 2024	31 December 2023	30 June 2024	31 December 2023
	£m	£m	£m	£m	£m	£m
Trade payables	1,699	1,608	–	–	1,699	1,608
Accrued liabilities	1,897	1,134	101	96	1,998	1,230
Customer discounts ¹	1,138	1,018	684	773	1,822	1,791
Payables due on RRSAs	1,575	1,713	–	–	1,575	1,713
Deferred receipts from RRSA workshare partners	81	56	735	774	816	830
Amounts owed to joint ventures and associates	467	542	–	–	467	542
Government grants ²	24	30	50	54	74	84
Other taxation and social security	110	92	–	–	110	92
Other payables ³	566	703	225	230	791	933
	7,557	6,896	1,795	1,927	9,352	8,823

¹ Customer discounts include customer concession credits. Revenue recognised comprises sales to the Group's customers after such items. Customer concession credits are discounts given to a customer upon the sale of goods or services. A liability is recognised to correspond with the recognition of revenue when the performance obligation is met. The largest element of the balance, approximately £1.2bn arises when the Civil business delivers its engines to an airframer. A concession is often payable to the end customer (e.g. an airline) on delivery of the aircraft from the airframer. The concession amounts are known and the payment date is reasonably certain, hence there is no significant judgement or uncertainty associated with the timing of these amounts

² During the period, £47m, (2023: £74m) of government grants were released to the income statement

³ Other payables includes payroll liabilities and HM Government UK levies

The Group's payment terms with suppliers vary 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's suppliers have access to a supply chain financing (SCF) programme in partnership with banks to enable suppliers, including joint ventures who are on 90-day standard payment terms, to receive their payments sooner. The SCF programme is available to suppliers at their discretion and does not change rights and obligations with suppliers nor the timing of payment of suppliers. At 30 June 2024, suppliers had drawn £236m under the SCF scheme (31 December 2023: £418m) of which £1m (31 December 2023: £154m) was drawn by joint ventures. The Group, in some cases, settles the costs incurred by joint ventures as a result of them utilising either the Group offered SCF arrangement, or an alternative SCF arrangement. During the period to 30 June 2024, the Group incurred costs of £1m (31 December 2023: £28m) to settle amounts incurred by joint ventures as a result of them utilising the Group offered SCF arrangement. These costs are included within other financing charges.

14 Financial assets and liabilities

Carrying value of other financial assets and liabilities

	Derivatives			Total derivatives	Financial RRSAs	Other	C Shares	Total
	Foreign exchange contracts	Commodity contracts	Interest rate contracts ¹					
	£m	£m	£m	£m	£m	£m	£m	£m
At 30 June 2024								
Non-current assets	31	3	260	294	–	20	–	314
Current assets	15	7	–	22	–	17	–	39
Assets	46	10	260	316	–	37	–	353
Current liabilities	(471)	(7)	–	(478)	(3)	(56)	(23)	(560)
Non-current liabilities	(1,355)	(11)	(110)	(1,476)	(6)	(114)	–	(1,596)
Liabilities	(1,826)	(18)	(110)	(1,954)	(9)	(170)	(23)	(2,156)
	(1,780)	(8)	150	(1,638)	(9)	(133)	(23)	(1,803)
At 31 December 2023								
Non-current assets	72	–	254	326	–	34	–	360
Current assets	10	6	8	24	–	10	–	34
Assets	82	6	262	350	–	44	–	394
Current liabilities	(351)	(10)	(13)	(374)	(10)	(41)	(23)	(448)
Non-current liabilities	(1,766)	(15)	(73)	(1,854)	(7)	(122)	–	(1,983)
Liabilities	(2,117)	(25)	(86)	(2,228)	(17)	(163)	(23)	(2,431)
	(2,035)	(19)	176	(1,878)	(17)	(119)	(23)	(2,037)

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

14 Financial assets and liabilities continued

Derivative financial instruments

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

	Half-year to 30 June 2024				Year-ended 31 December 2023	
	£m				£m	
	Foreign exchange instruments £m	Commodity instruments £m	Interest rate instruments – hedge accounted ¹ £m	Interest rate instruments – non-hedge accounted £m	Total	Total
At 1 January	(2,035)	(19)	45	131	(1,878)	(3,451)
Movements in fair value hedges	–	–	(37)	–	(37)	(71)
Movements in cash flow hedges	–	–	(16)	–	(16)	(78)
Movements in other derivative contracts ²	(225)	12	–	34	(179)	515
Contracts settled	480	(1)	37	(44)	472	1,207
At 30 June/31 December	(1,780)	(8)	29	121	(1,638)	(1,878)

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

² Included in net financing

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

Movements in the carrying values were as follows:

	Financial RRSAs		Other level 3 assets		Other level 3 liabilities	
	Half-year to 30 June 2024 £m	Year-ended 31 December 2023 £m	Half-year to 30 June 2024 £m	Year-ended 31 December 2023 £m	Half-year to 30 June 2024 £m	Year-ended 31 December 2023 £m
At 1 January	(17)	(22)	25	25	(163)	(101)
Exchange adjustments included in OCI	1	1	(1)	–	(8)	2
Additions	–	–	–	–	(3)	(80)
Financing charge ¹	–	–	–	–	(4)	(8)
Excluded from underlying profit:						
Changes in forecast payments ¹	–	(1)	–	–	–	–
Cash paid	7	5	–	–	6	11
Other	–	–	(11)	–	2	13
At 30 June/31 December	(9)	(17)	13	25	(170)	(163)

¹ Included in net financing

14 Financial assets and liabilities continued

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

	Half-year to 30 June 2024		Year-ended 31 December 2023	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Other assets – Level 2	17	17	12	12
Borrowings – Level 1	(3,533)	(3,502)	(4,034)	(3,977)
Borrowings – Level 2	(19)	(21)	(65)	(67)
Financial RRSAs – Level 3	(9)	(9)	(17)	(16)

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

- Non-current investments primarily comprise unconsolidated companies where fair value approximates to the book value. Listed investments are valued using Level 1 methodology.
- Money market funds, included within cash and cash equivalents, are valued using Level 1 methodology. Fair values are assumed to approximately equal cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months.
- The fair values of held to collect trade receivables and similar items, trade payables and other similar items, other non-derivative financial assets and liabilities, short-term investments and cash and cash equivalents are assumed to approximate to cost either due to the short-term maturity of the instruments or because the interest rate of the investments is reset after periods not exceeding six months.
- Fair values of derivative financial assets and liabilities and trade receivables held to collect or sell are estimated by discounting expected future contractual cash flows using prevailing interest rate curves or cost of borrowing, as appropriate. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. These financial instruments are included on the balance sheet at fair value, derived from observable market prices (Level 2 as defined by IFRS 13 *Fair Value Measurement*).
- Borrowings are carried at amortised cost. Amounts denominated in foreign currencies are valued at the exchange rate prevailing at the balance sheet date. The fair value of borrowings is estimated using quoted prices (Level 1 as defined by IFRS 13) or by discounting contractual future cash flows (Level 2 as defined by IFRS 13).
- The fair values of RRSAs and other liabilities, which primarily includes royalties to be paid to airframers, are estimated by discounting expected future cash flows. The contractual cash flows are based on future trading activity, which is estimated based on latest forecasts (Level 3 as defined by IFRS 13).
- 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).
- Other assets are included on the balance sheet at fair value, derived from observable market prices or latest forecast (Level 2/3 as defined by IFRS 13). At 30 June 2024, Level 3 assets totalled £13m (31 December 2023: £25m).
- The fair value of lease liabilities are estimated by discounting future contractual cash flows using either the interest rate implicit in the lease or the Group's incremental cost of borrowing (Level 2 as defined by IFRS 13).

15 Provisions for liabilities and charges

	At 1 January 2024 £m	Charged to income statement ¹ £m	Reversed £m	Utilised £m	Reclassif- ications £m	Exchange differences £m	At 30 June 2024 £m
Contract losses	1,472	333	(195)	(107)	–	(1)	1,502
Warranty and guarantees	306	82	(7)	(43)	–	(6)	332
Trent 1000 wastage costs	116	1	–	(42)	–	–	75
Employer liability claims	24	–	–	–	–	–	24
Transformation and restructuring ²	9	53	–	(28)	–	–	34
Tax related interest and penalties	22	1	–	–	–	–	23
Claims and litigation	43	15	(7)	(7)	(5)	–	39
Other ²	37	9	(1)	(6)	5	–	44
	2,029	494	(210)	(233)	–	(7)	2,073
Current liabilities	532						556
Non-current liabilities	1,497						1,517

¹ The charge to the income statement includes £25m (30 June 2023: £2m) within net financing as a result of the unwinding of the discounting of provisions previously recognised

² At 31 December 2023 the transformation and restructuring provision was included within other provisions

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 period £107m of the provisions have been utilised. Additional contract losses for the Group of £333m have been recognised. These are a result of increases in the estimate of future LTSA costs including the impact of prolonged supply chain challenges and customer disruption costs. Contract losses of £195m previously recognised have been reversed following improvements to cost estimates and time on wing across various engine programmes as a result of operational improvements and contractual extensions. The Group continues to monitor the contract loss provisions 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. 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 period, £82m of additional provisions have been recognised representing the single best estimate of warranty and guarantee costs to be incurred on relevant sales and £43m 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 period, the Group has utilised £42m 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 period, a net charge to the provision of £1m 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 2025.

Employer liability claims

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

Transformation and restructuring

In 2023, the Group announced a major multi-year transformation programme which consists of seven workstreams that are set out in the 2023 Annual Report. The Group has made good progress on these workstreams and as a result of the details communicated to employees during the period, a provision of £53m has been recorded and recognised in cost of sales and commercial and administration costs related to severance costs. During the period £28m has been utilised as part of these plans and a further £2m has been charged directly to the income statement. The remaining provision is expected to be utilised by 31 December 2024. Included within the exceptional charge of £107m (see note 2) are costs of £52m associated with other initiatives to enable the restructuring which have been charged directly to the income statement.

15 Provisions for liabilities and charges continued

Tax related interest and penalties

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

Claims and litigation

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

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

Other

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

16 Post-retirement benefits

The net post-retirement scheme surplus/(deficit) as at 30 June 2024 is calculated on a year to date basis, using the latest valuation as at 31 March 2023, updated to 30 June 2024 where relevant.

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

	UK schemes £m	Overseas schemes £m	Total £m
At 1 January 2024	767	(1,020)	(253)
Exchange adjustments	–	14	14
Current service cost and administrative expenses	(2)	(19)	(21)
Financing recognised in the income statement	17	(19)	(2)
Contributions by employer	–	39	39
Actuarial gains recognised in OCI ¹	387	69	456
Returns on plan assets excluding financing recognised in OCI	(312)	(20)	(332)
At 30 June 2024	857	(956)	(99)
Post-retirement scheme surpluses – included in non-current assets ²	857	11	868
Post-retirement scheme deficits – included in non-current liabilities	–	(967)	(967)

¹ Actuarial gains recognised in OCI on the UK scheme (Rolls-Royce UK Pension Fund - RRUKEPF) are primarily driven by movements in the discount rate and inflation

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

Other

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 actuarial certifications. The ruling was subject to an appeal with a judgment delivered on 25 July 2024. The Court of Appeal unanimously upheld the decision of the High Court and concluded that the pre-April 2013 conditions applied to amendments to both future and past service. Whilst this ruling was in respect of another scheme, this judgment will need to be reviewed for its relevance to the RRUKEPF scheme, and other UK schemes. As the Court of Appeal has only just delivered its verdict, the RRUKEPF pension advisers have not yet completed any analysis and no adjustments have been made to the Condensed Consolidated Interim Financial Statements at 30 June 2024.

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

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

In connection with the sale of its products, the Group will, on some occasions, provide financing support for its customers, generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements are spread over many years, they relate to a number of customers and a broad product portfolio and are generally secured on the asset subject to the financing. These include commitments of \$0.6bn (31 December 2023: \$0.9bn) (on a discounted basis) to provide facilities to enable customers to purchase aircraft (of which approximately \$0.3bn 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 for asset value and/or financing 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 30 June 2024 or 31 December 2023.

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

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

18 Related party transactions

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Sale of goods and services ¹	3,583	3,297
Purchases of goods and services ¹	(4,420)	(3,901)

¹ The Group has both sales and purchasing arrangements with its maintenance, repair and overhaul joint ventures. As part of these arrangements, the Group issues and receives credit notes usable against amounts receivable and payable to these related parties. From 31 December 2023, purchases and sales of goods and services from related parties have been presented to be shown gross of these concessions. Purchases and sales from related parties that occurred during the period to 30 June 2023 have been re-presented resulting in an increase to purchases of £1,209m and an increase to sales of £1,141m

Included in sales of goods and services to related parties are sales of spare engines amounting to £24m (30 June 2023: £1m). Profit recognised in the period on such sales amounted to £29m (30 June 2023: £30m), 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 £24m (30 June 2023: £nil).

Included in other financing charges in the income statement are interest costs of £4m (30 June 2023: £15m) incurred during the period which have been settled by the Group on behalf of joint ventures, including the £1m of costs incurred as a result of them using the Group offered SCF arrangement set out in note 13.

19 Businesses held for sale

Businesses held for sale

At 31 December 2023 the Group had classified the assets and liabilities related to part of the Power Systems' lower power range off-highway engines business as held for sale as, in line with IFRS 5, the business was available for sale in its current condition and the sale was considered highly probable. On the 28 March 2024 the Group's Power Systems division and Deutz AG signed a disposal agreement. Completion took place on 31 July 2024. At 30 June 2024 the assets and liabilities continued to be disclosed as held for sale pending completion. They are measured at the lower of their carrying value or fair value less costs to sell as summarised below.

The table below summarises the categories of assets and liabilities of the lower power range business classified as held for sale at 30 June 2024.

	30 June 2024 £m	31 December 2023 £m
Intangible assets	50	51
Inventory	13	11
Trade receivables and other assets	1	47
Assets held for sale	64	109
Trade payables and other liabilities	–	(41)
Contract liabilities	(4)	(4)
Provisions for liabilities and charges	(8)	(8)
Post-retirement scheme deficits	(1)	(2)
Liabilities associated with assets held for sale	(13)	(55)
Net assets held for sale	51	54

20 Derivation of summary funds flow statement

	Half-year to 30 June 2024				Half-year to 30 June 2023	
	Cash flow £m	Impact of hedge book £m	Impact of acquisition accounting £m	Impact of other non- underlying items £m	Funds flow £m	Funds flow £m
Operating profit/loss	1,646	(82)	23	(438)	1,149	673
Loss/(profit) on disposal of property, plant and equipment ¹	1	–	–	–	1	(1)
Joint venture trading ¹	(63)	–	–	–	(63)	(73)
Depreciation, amortisation and impairment	51	–	(23)	399	427	489
Movement in provisions	38	(108)	–	(36)	(106)	(95)
Increase in inventories ³	(641)	–	–	–	(641)	(557)
Movement in prepayments to RRSAs for LTSA parts	(272)	101	–	–	(171)	(118)
Movement in cost to obtain contracts	6	1	–	–	7	7
Movement in trade receivables/payables and other assets/liabilities ^{3,4}	424	(336)	–	(2)	86	(854)
Revaluation of trading assets ³	10	(13)	–	–	(3)	91
Realised derivatives in financing ³	405	–	–	–	405	522
Movement in Civil LTSA balance	788	(73)	–	–	715	727
Movement in contract assets/liabilities (excluding Civil LTSA) ³	(291)	84	–	132	(75)	333
Settlement of excess derivatives	(75)	–	–	–	(75)	(210)
Interest received	124	–	–	–	124	60
Contributions to defined benefit schemes in excess of underlying operating profit charge ¹	(18)	–	–	–	(18)	(16)
Cash flows on other financial assets and liabilities held for operating purposes	(410)	405	–	–	(5)	6
Share-based payments ¹	59	–	–	–	59	23
Other ¹	–	11	–	–	11	(7)
Income tax	(113)	–	–	–	(113)	(59)
Cash from operating activities²	1,669	(10)	–	55	1,714	941
Capital element of lease payments	(122)	10	–	–	(112)	(157)
Capital expenditure	(291)	–	–	–	(291)	(285)
Investment	17	–	–	–	17	17
Interest paid	(157)	–	–	–	(157)	(159)
Other (M&A, restructuring and exceptional transformation costs)	42	–	–	(55)	(13)	(1)
Free cash flow	1,158				1,158	356

¹ Included in other operating cash flows in the summarised free cash flow on page 8

² The funds flow to 30 June 2023 has been re-presented 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 period to 30 June 2023 have reduced by £(210)m to £941m. 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 8

⁴ Movement in trade receivables/payables and other assets/liabilities excludes movements in prepayments to RRSAs for LTSA parts and movements in costs to obtain contracts which have been presented as separate line items

The comparative information to 30 June 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.

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 45.

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

Alternative Performance Measures (APMs)

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

Definitions and reconciliations to the relevant statutory measure are included below.

Underlying results

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

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Revenue		
Statutory revenue	8,861	7,523
Derivative and FX adjustments	(679)	(573)
Underlying revenue	8,182	6,950
Gross profit		
Statutory gross profit	2,108	1,657
Derivative and FX adjustments	(73)	(162)
Programme exceptional credits	–	(21)
Exceptional transformation and restructuring charges	52	16
Acquisition accounting	22	25
Civil Aerospace programme asset impairment reversal	(132)	–
Underlying gross profit	1,977	1,515
Commercial and administrative costs		
Statutory commercial and administrative (C&A) costs	(641)	(560)
Derivative and FX adjustments	1	1
Exceptional transformation and restructuring charges	47	18
Other underlying adjustments	–	3
Underlying C&A Costs	(593)	(538)
Research and development		
Statutory research and development (R&D)	101	(389)
Derivative and FX adjustments	(12)	–
Exceptional transformation and restructuring charges	8	1
Acquisition accounting	1	(1)
Civil Aerospace programme asset impairment reversal	(413)	–
Underlying R&D costs	(315)	(389)
Operating profit		
Statutory operating profit	1,646	797
Derivative and FX adjustments	(82)	(165)
Programme exceptional credits	–	(21)
Exceptional transformation and restructuring charges	107	35
Acquisition accounting	23	24
Civil Aerospace programme asset impairment reversal	(545)	–
Other underlying adjustments	–	3
Underlying operating profit	1,149	673
Underlying operating profit margin	14.0%	9.7%
Basic EPS		
	Half-year to 30 June 2024 pence	Half-year to 30 June 2023 pence
Statutory basic EPS	13.71	14.70
Effect of underlying adjustments to profit before tax	(4.55)	(10.71)
Related tax effects	(0.21)	0.91
Basic underlying EPS	8.95	4.90

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

Organic change

Organic change is the measure of change at constant translational currency applying full year 2023 average rates to 2023 and 2024. The movement in underlying change to organic change is reconciled below.

All amounts below are shown on an underlying basis and reconciled to the nearest statutory measure above. All comparative periods relate to half-year to 30 June 2023.

Total Group income statement	2024 £m	2023 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	8,182	6,950	1,232	(103)	1,335	19%
Underlying gross profit	1,977	1,515	462	(29)	491	33%
Underlying operating profit	1,149	673	476	(17)	493	74%
Net financing costs	(114)	(149)	35	1	34	(23%)
Underlying profit before taxation	1,035	524	511	(16)	527	101%
Taxation	(298)	(120)	(178)	1	(179)	149%
Underlying profit for the period	737	404	333	(15)	348	87%

Civil Aerospace	2024 £m	2023 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	4,119	3,257	862	(26)	888	27%
Underlying OE revenue	1,329	1,055	274	(11)	285	27%
Underlying services revenue	2,790	2,202	588	(15)	603	27%
Underlying gross profit	992	690	302	(11)	313	45%
Commercial and administrative costs	(193)	(171)	(22)	1	(23)	13%
Research and development	(135)	(195)	60	2	58	(30%)
Joint ventures and associates	76	81	(5)	–	(5)	(6%)
Underlying operating profit	740	405	335	(8)	343	85%

Defence	2024 £m	2023 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	2,219	1,913	306	(29)	335	18%
Underlying OE revenue	872	841	31	(11)	42	5%
Underlying services revenue	1,347	1,072	275	(18)	293	27%
Underlying gross profit	476	379	97	(5)	102	27%
Commercial and administrative costs	(108)	(86)	(22)	–	(22)	26%
Research and development	(24)	(34)	10	–	10	(29%)
Joint ventures and associates	1	2	(1)	–	(1)	(50%)
Underlying operating profit	345	261	84	(5)	89	34%

Power Systems	2024 £m	2023 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	1,837	1,774	63	(48)	111	6%
Underlying OE revenue	1,257	1,175	82	(33)	115	10%
Underlying services revenue	580	599	(19)	(15)	(4)	(1%)
Underlying gross profit	507	452	55	(13)	68	15%
Commercial and administrative costs	(238)	(233)	(5)	7	(12)	5%
Research and development	(83)	(96)	13	2	11	(12%)
Joint ventures and associates	3	2	1	(1)	2	200%
Underlying operating profit	189	125	64	(5)	69	56%

New Markets	2024 £m	2023 £m	Change £m	FX £m	Organic Change £m	Organic Change %
Underlying revenue	2	1	1	–	1	100%
Underlying OE revenue	1	1	–	–	–	–
Underlying services revenue	1	–	1	–	1	nm ¹
Underlying gross profit/(loss)	2	–	2	–	2	nm ¹
Commercial and administrative costs	(20)	(14)	(6)	–	(6)	43%
Research and development	(73)	(64)	(9)	1	(10)	16%
Underlying operating loss	(91)	(78)	(13)	1	(14)	18%

¹ nm is defined as not meaningful

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

Trading cash flow

Trading cash flow is defined as free cash flow (as defined below) before the deduction of recurring tax and post-employment benefit expenses. Trading cash flow per segment is used as a measure of business performance for the relevant segments.

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Civil Aerospace	1,038	401
Defence	234	76
Power Systems	121	22
New Markets	(68)	(42)
Total reportable segments trading cash flow	1,325	457
Other businesses	(3)	8
Central and Inter-segment	(33)	(34)
Trading cash flow	1,289	431
Underlying operating profit charge exceeded by contributions to defined benefit schemes	(18)	(16)
Tax ¹	(113)	(59)
Free cash flow	1,158	356

¹ See page 14 for tax paid in the statutory cash flow statement

Free cash flow

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

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Statutory cash flows from operating activities ¹	1,669	925
Capital expenditure	(291)	(287)
Investment (including investment from NCI and movement in joint ventures, associates and other investments)	17	17
Capital element of lease payments	(122)	(167)
Interest paid	(157)	(159)
Exceptional transformation and restructuring costs	55	28
Other	(13)	(1)
Free cash flow	1,158	356

¹ Statutory cash flows from operating activities at 30 June 2023 have been re-presented. See note 1

Gross R&D expenditure

In period gross cash expenditure on R&D excludes contributions and fees, amortisation and impairment of capitalised costs and amounts capitalised during the period. For further detail, see note 3.

Gross capital expenditure

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

	Half-year to 30 June 2024 £m	Half-year to 30 June 2023 £m
Purchases of PPE (cash flow statement)	133	177

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

Key performance indicators

The following measures are key performance indicators and are calculated using APMs or statutory results. See below for calculation of these key performance indicators.

Order backlog

Order backlog, also known as unrecognised revenue, is the amount of revenue on current contracts that is expected to be recognised in future periods. Civil Aerospace OE orders where the customer has retained the right to cancel (for deliveries in the next seven to 12 months) are excluded.

Adjusted return on capital (abbreviated to return on capital)

Return on capital is defined as 12-month net operating profit after tax ('NOPAT') as a percentage of average invested capital. NOPAT is defined as underlying net profit excluding net finance costs and the tax shield on net finance costs. Invested capital is defined as current and non-current assets less current liabilities. It excludes pension assets, cash and cash equivalents, and borrowings and lease liabilities. Return on capital assesses the efficiency in allocating capital to profitable investments.

	Year-ended 30 June 2024	Year-ended 30 June 2023
	£m	£m
Underlying operating profit	917	527
Less: taxation ¹	–	48
Underlying operating profit (post-taxation) (6-month period ended 31 December)	917	575
Underlying operating profit	1,149	673
Less: taxation ¹	(331)	(154)
Underlying operating profit (post-taxation) (6-month period ended 30 June)	818	519
Total underlying operating profit (post-taxation)	1,735	1,094
Total assets	33,011	29,742
Less: post-retirement scheme surpluses	(868)	(591)
Less: cash and cash equivalents	(4,319)	(2,861)
Current liabilities	(15,264)	(14,748)
Liabilities held for sale	(13)	–
Less: borrowings and lease liabilities	305	756
Invested capital (closing)	12,852	12,298
Invested capital (average)	12,575	12,170
	%	%
Return on capital	13.8	9.0

¹ Excluding underlying taxation on underlying finance income/(costs) of £33m (30 June 2023: £15m)

Total underlying cash costs as a proportion of underlying gross margin (abbreviated to TCC/GM)

Total underlying cash costs during the period (represented by underlying research and development (R&D) expenditure and underlying commercial and administrative (C&A) costs) as a proportion of underlying gross profit. This measure provides an indicator of total cash costs relative to gross profit. A reduction in total cash costs relative to gross profit indicates how effective the business is at managing and/or reducing its costs.

	Half-year to 30 June 2024	Half-year to 30 June 2023
	£m	£m
Underlying R&D expenditure ¹	380	429
Underlying C&A	593	538
Total cash costs	973	967
Underlying gross profit	1,977	1,515
Total cash costs as a proportion of underlying gross profit	0.49	0.64

¹ Excludes £10m (30 June 2023: £1m) impact of derivative and FX adjustments

Principal risks and uncertainties

Our approach to risk management is described on pages 50 to 57 of our 2023 Annual Report. It sets out requirements for managing risk across the organisation, in a continuous process where risk owners define, quantify, control, assure and respond to risks, including ongoing monitoring and oversight. Our risks are categorised as either a 'pillar' or a 'driver', with drivers being those risks that could cause one or more risk pillars to happen and/or make them worse if they do. All principal risks facing the Group are summarised below and reported in detail on pages 52 to 57 of our 2023 Annual Report.

Principal risk pillars

Safety

Failure to: i) provide safe products; or ii) create a place to work which minimises the risk of harm to our people, those who work with us, and the environment, would adversely affect our reputation and long-term sustainability.

Compliance

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

Strategy

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

Execution

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

Business interruption

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

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

Principal risk drivers

Climate change

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

In addition, physical risks from extreme weather events (and/or natural hazards) could potentially materialise, which may result in disruption.

Information and data

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

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

Market and Financial shock

The Group is exposed to market and financial risks, some of which are of a macroeconomic nature (e.g. economic growth rates, foreign currency, oil price, interest rates) and some of which are more specific to us (e.g. reduction in air travel or defence spending, disruption to other customer operations, liquidity and credit risks).

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

Demand for our products and services could be adversely affected by factors such as current and predicted air traffic, fuel prices and age/replacement rates of customer fleets. A large proportion of our business is reliant on the civil aviation industry, which is cyclical in nature.

Political risk

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

Talent and capability

Failure to create a company where our people can build a successful career with better choices for development and personal growth will hinder our ability to identify, attract, retain and apply the critical capabilities and skills needed in appropriate numbers for the successful execution of our business strategy.

Technology

Failure to become a digitally enabled business using tools including AI could hinder our ability to enhance the customer experience, drive the transition to lower carbon, accelerate product design, improve manufacturing and empower our people with new tools to improve productivity, as well as preventing us from creating new growth opportunities.

Payments to shareholders

Shareholder distributions to be reinstated in respect of the full year 2024 results: As we shared at our capital markets day in November 2023, we are committed to reinstating regular shareholder distributions. We are making strong progress strengthening the balance sheet and building resilience. As such, we are reinstating shareholder distributions in respect of the full year 2024 results, starting at a 30% pay-out ratio of underlying profit after tax. Going forward, the regular shareholder distribution policy will be to distribute 30-40% of underlying profit after tax.

Shareholders wishing to redeem their existing C Shares, or participate in the CRIP must lodge instructions with the Registrar to arrive no later than 5.00pm on 16 December 2024 (CREST holders must submit their election in CREST by 2.55pm). The payment of C Share redemption monies will be made on 9 January 2025 and the CRIP purchase will begin as soon as practicable after 9 January 2025.

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge:

- the Condensed Consolidated Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the UK;
- the interim management report includes a fair review of the information required by:
 - (a) DTR 4.2.7R of the Disclosure and Transparency Rules, being an indication of important events that have occurred during the first six months of the financial year and their impact on the Condensed Consolidated Interim Financial Statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and
 - (b) DTR 4.2.8R of the Disclosure and Transparency Rules, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last Annual Report that could do so.

By order of the Board

Tufan Erginbilgic Chief Executive	Helen McCabe Chief Financial Officer
1 August 2024	1 August 2024

Independent review report to Rolls-Royce Holdings plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Rolls-Royce Holdings plc's condensed consolidated interim financial statements (the "interim financial statements") in the 2024 Half Year Results of Rolls-Royce Holdings plc for the 6 month period ended 30 June 2024 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed consolidated balance sheet as at 30 June 2024;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated cash flow statement for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the 2024 Half Year Results of Rolls-Royce Holdings plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Financial Reporting Council for use in the United Kingdom ("ISRE (UK) 2410"). A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the 2024 Half Year Results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the directors

The 2024 Half Year Results, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the 2024 Half Year Results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the 2024 Half Year Results, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

Our responsibility is to express a conclusion on the interim financial statements in the 2024 Half Year Results based on our review. Our conclusion, including our Conclusions relating to going concern, is based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion paragraph of this report. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP
Chartered Accountants
London
1 August 2024