Title:

Analysis of Rolls-Royce Holdings PLC as an Attractive Investment Opportunity for Addlestone Capital

Table of Contents

List of Figures

List of Tables

I. Introduction

Addlestone Capital is one of the top investment companies with the most immense concentration in UK equities. This will be important in translating into investible opportunities Addlestone Capital deals with and recommends various routes towards the investment committee. After intensive analysis, Rolls-Royce Holdings PLC is recommended for investment at Addlestone Capital. The following investment report considers macro-environmental forces and competition surrounding the firm, in addition to providing an extended outline of the company's overall financial performance. In short, the following paper will describe the solid reasoning claimed by Rolls-Royce Holdings PLC for an attractive investment opportunity for Addlestone Capital.

II. Macroeconomy & Competitive Environment

Macroeconomic Factors Affecting the UK Equities Market

The UK equity story seems tied to domestic and foreign macroeconomic forces. Just this February, the UK has seen new data from the Office for National Statistics that confirmed the UK's entry into a technical recession. The -0.1% contraction in GDP growth during Q3 2023 followed another economic slump that slipped by -0.3% the following quarter (Statista, 2024). There were multiple causes for this downturn, with several widespread strikes in most sectors, including the health and transport sectors, reduced school attendance, constrained consumer spending, and a high-interest rate atmosphere that effectively choked economic growth. The country is expected to rebound economically, and some projections are already coming. The United Kingdom's gross domestic product increased slightly by 0.3% in 2023. Forwarded years should see the growth rise to 0.8% in 2024 and more vigorously to 1.9% in 2025 (Statista, 2024). The momentum is expected to continue, with projected growth rates between 1.7% and 2% between 2026 and 2028 as shown in the figure below (Statista, 2024). The pronounced 9.4% contraction seen in 2020, with partial recovery reflected in a growth of 7.6% for 2021, largely emanated from the unprecedented nature of the COVID-19 pandemic and the economic shock it has unleashed (Clark, 2023). The Bank of England (2020) also further pointed to two significant risks coming from Brexit: reduced business investment coming to the economy and consumer confidence in the UK economic growth trajectory. These factors further underline the complexity of the financial landscape and its corresponding implications for the development of UK equities.

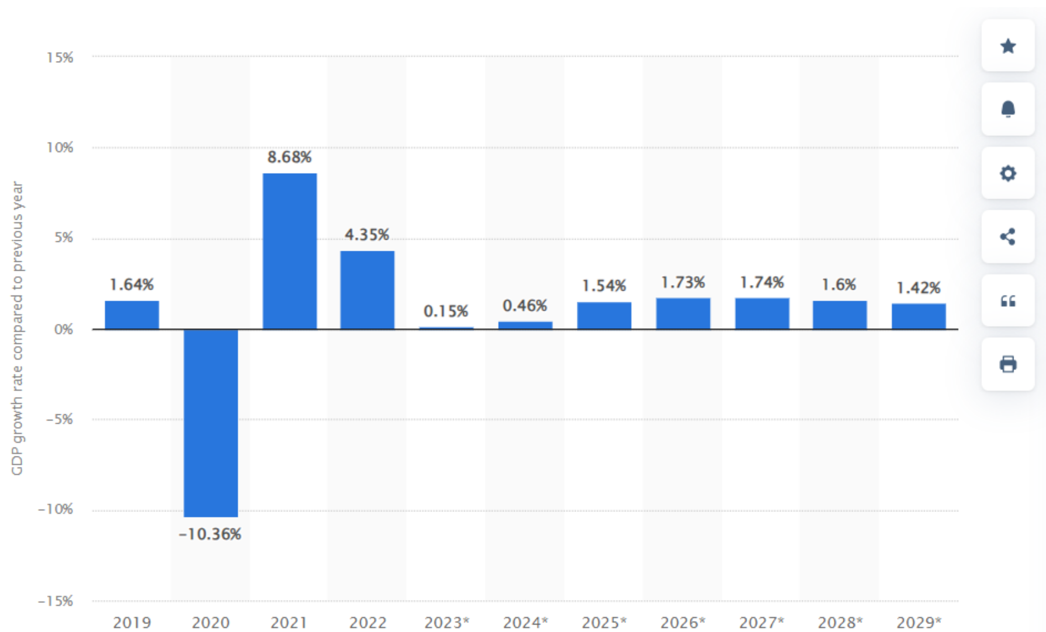

Figure 1 Graph 1: GDP Growth Rate in the UK (year-end % change) (Clark, 2024)

Competitive Environment within the Aerospace and Defense Industry

The industry is characterized by heavy competition, with big players such as Boeing, Airbus, and Lockheed Martin across the industry. Rolls-Royce Holdings PLC faces competition from General Electric, Pratt & Whitney, and Honeywell in the aerospace segment and BAE Systems and Thales in the defence segment (Rolls Royce, 2016). Technology innovation is one of the chief aspects that truly drive competition in the Aerospace and Defense Industry. Organizations that invest in research and development and are capable of delivering new and improved products outperform their competitors. It was forecasted that in 2022, of all the other companies in aerospace and defence, Boeing Company would be spending 3.7 billion more US dollars on R&D (Statista, 2024b). BAE Systems followed that with 2.4 dollars, then Lockheed Martin in third, and Rolls Royce, which seems to have a low budget as it was not in the top 5 companies in terms of budget.

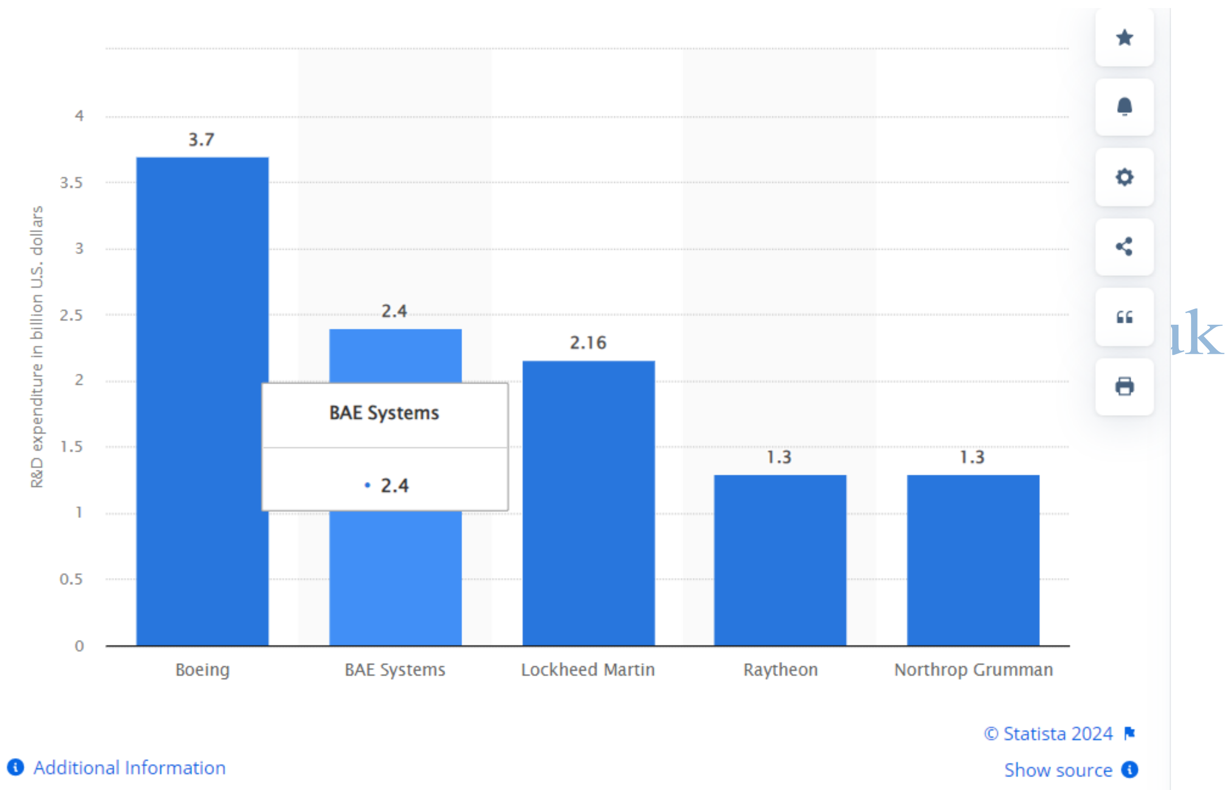

Figure 2 Graph 2: Research and Development Investment of Major Aerospace Companies (Statista, 2024)

Impact on Rolls-Royce Holdings PLC

While this presents potential risks in both the macroeconomic and competitive environments, a few opportunities open up for Rolls-Royce Holdings PLC. Their strength lies in technological innovation, which has been the basis for their ability to lock significant contracts in the aerospace and defence industries. For instance, in 2018, the company won an order worth £2.6 billion from the Ministry of Defense to provide engine service support for the existing fleet of Tornado jet engines in the UK for maintenance, repair, and overhaul (Hodgson, 2021). Besides, the company's electric and hybrid propulsion systems represent sustainable technology businesses and will unlock new markets and pull toward customers on matters of concern to the environment. Being a global player, Rolls-Royce Holdings PLC has an operational presence in over 50 countries, offering diverse products and services in different sectors (Rolls Royce, 2024). This not only helps minimize the risk in one specific market but also helps grow globally into various emerging and high-growth regions. For instance, the company has extended its roots in Asia, specifically China, which country is anticipated to overtake the world's largest aviation market by 2022 (Rolls-Royce Holdings PLC, 2019).

III. Company Review

Established in 1904, Rolls-Royce Holdings PLC is a British multinational aerospace, defence, and power systems engineering company. The company operates and is based in London, with more than 54,000 employees and a presence in over 50 countries. It is part of the FTSE 100 Index and has a listing on the London Stock Exchange (Rolls Royce, 2024).

Analysis of Key Financial Ratios

Profitability Ratios

Net Profit Margin

Over the past three years, gross profit margins for Rolls-Royce Holdings PLC have been fluctuating: from 1.54% in 2021 to -11.12% in 2022, and afterwards to 14.73% in 2023 (Rolls Royce, 2022). Among other reasons for this variation are changes in demand for the goods or services of the company, as well as changes in the world economy, among others, as the world economy finally feels the full power of the COVID-19 pandemic. The company experienced a shallow fall in net income level for the year 2022, actually reflecting a net negative profit margin. However, over 2023, the company's net profitability became much more vital in Rolls-Royce Holdings PLC by rising to a net profit margin of 14.73% (Directors Talk, 2024). This means the firm is strong enough to recover from any losses in a year.

Net Profit Margin = Net Income / Revenue

Table 1Net Profit Margin

Metric	**2021 (£ million)**	**2022 (£ million)**	**2023 (£ million)**
Net Income	206	(1,502)	2,427
Revenue	13,520	12,691	16,486
Net Profit Margin	206 / 13,520 = 1.54%	(1,502) / 12,691 = -11.12%	2,427 / 16,486 = 14.73%

Source Rolls Royce (2023), Rolls Royce (2022), Rolls Royce (2021)

Return on Equity (ROE)

The Return on Equity (ROE) figures of Rolls-Royce Holdings PLC have fluctuated in recent years, with the same being widely varied from 3.89% in 2021 to 16.21% in 2023. In 2022, the firm encountered a massive fall in net income, which led to the situation showing a negative return on equity (Rolls Royce, 2022). The company's ROE increased in 2023, with the net income on the rise. As such, Rolls-Royce Holdings PLC could realize more money for the shareholders, which is excellent news for investors.

Return on Equity (ROE) = Net Income / Average Shareholders' Equity

Table 2 Return on Equity

Metric	**2021 (£ million)**	**2022 (£ million)**	**2023 (£ million)**
Net Income	206	(1,502)	2,427
Average Shareholders' Equity	5,308	8,579	14,973
Return on Equity (ROE)	206 / 5,308 = 3.89%	(1,502) / 8,579 = -17.52%	2,427 / 14,973 = 16.21%

Source Rolls Royce (2023), Rolls Royce (2022), Rolls Royce (2021)

Liquidity Ratios

Current Ratio

The current ratio of Rolls-Royce Holdings PLC has also increased and decreased within the three years but slightly increased from 1.13 in 2021 to 1.42 in 2023 (Rolls Royce, 2023). This means that the firm can meet short-term obligations. A ratio higher than 1 implies that a firm has more current assets than its current liabilities. With increased current assets and decreased current liabilities under it, this would mean that a higher current ratio for Rolls-Royce Holdings PLC in

2023 would represent a stronger liquidity position and a more remarkable ability to meet short-term financial obligations (Directors Talk, 2024). Rolls-Royce Holdings PLC has shown positive trends in its profit, return on equity, and liquidity; thus, its financial performance has been sound.

Current Ratio = Current Assets / Current Liabilities

Table 3 Current Ratio

Metric	**2021 (£ million)**	**2022 (£ million)**	**2023 (£ million)**
Current Assets	11,846	11,642	14,519
Current Liabilities	10,467	10,745	10,232
Current Ratio	11,846 / 10,467 = 1.13	11,642 / 10,745 = 1.08	14,519 / 10,232 = 1.42

Source Rolls Royce (2023), Rolls Royce (2022), Rolls Royce (2021)

Leverage Ratios

Debt-to-Equity (D/E) Ratio

Rolls-Royce Holdings PLC has cut its debt-to-equity ratio over three years, from 1.61 in 2021 to 0.47 in 2023 (Rolls Royce, 2021). This is supposed to reduce the firm's dependency on debt to finance operations and increase financial leverage. The low D/E ratio in 2022 was realized after an increase in the company's total debt (Rolls Royce, 2022). However, the rapid decline in total debt and growth in the average shareholders' equity in 2023 put the D/E ratio on a humongous ascent (Rolls Royce, 2023). This, therefore, is a message to the investor that the company has relatively low levels of debt to equity, hence a plus.

Debt-to-Equity Ratio = Total Debt / Total Shareholders' Equity

Table 4 Debt-to-Equity (D/E) Ratio

Metric	2021 (£ million)	2022 (£ million)	2023 (£ million)
Total Debt (£ million)	8,528	8,901	7,005
Average Shareholders' Equity (£ million)	5,308	8,579	14,973
Debt-to-Equity (D/E) Ratio	8,528 / 5,308 = 1.61	8,901 / 8,579 = 1.04	7,005 / 14,973 = 0.47

Source Rolls Royce (2023), Rolls Royce (2022), Rolls Royce (2021

Revenue Trends

The revenue performance of Rolls-Royce Holdings PLC has been really volatile over the past three years, with the company falling in revenue in 2022 and picking up in 2023 with an increase of 29.89% (Rolls Royce, 2023). This is necessitated by several variables, like changes in demand for the company's products and services, fluctuation of general global economic conditions, and the effect of the COVID-19 pandemic. In 2022, Rolls-Royce Holdings PLC could not make revenues as the aviation sector bled from the travel ban and reduced demand for air travel. And then, in 2023, when the aviation sector recovered, the company's revenues spiked.

Table 5 Revenue Trends

Metric	2021	2022	2023
Revenue (£ million)	13,520	12,691	16,486
Year-over-Year Revenue Growth	N/A	-6.14%	29.89%

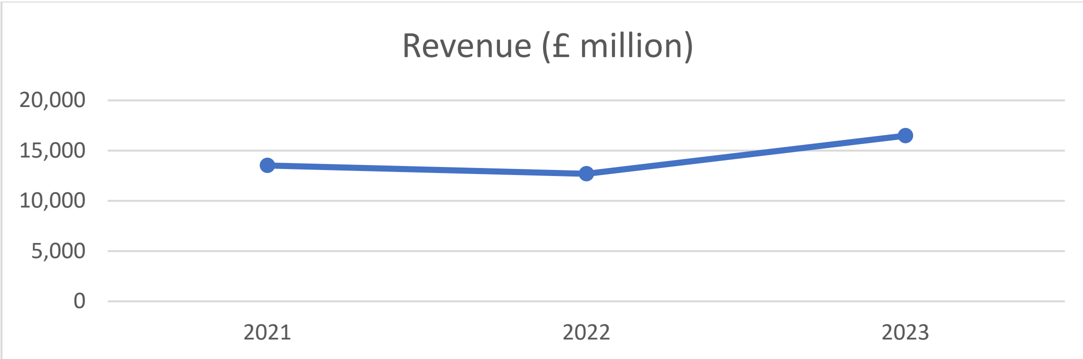

Figure 3 Graph 3: Revenue Breakdown by Business Segment (Rolls-Royce Holdings PLC, 2019)

Profitability Metrics

While Rolls-Royce Holdings PLC gave a feeble show in terms of its top line for 2022, it had been able to bolster up its bottom line for 2023. This is evidenced by the rise in the net profit margin from -11.12% in 2022 to 14.73% in 2023 due to the containment of expenses and the generation of more revenues in a challenging year. However, the growth in the return on equity was much more telling, from -17.52% in 2022 to 16.21% in 2023 (Directors Talk, 2024). All this suggests that Rolls-Royce Holdings PLC may earn more returns for its shareholders, meaning the company's financial position is good.

Table 6 Profitability Metrics

Profitability Metrics	2021	2022	2023
Net Income (£ million)	206	(1,502)	2,427
Net Profit Margin	1.54%	-11.12%	14.73%
Return on Equity (ROE)	3.89%	-17.52%	16.21%

Source Rolls Royce (2023), Rolls Royce (2022), Rolls Royce (2021

Cash Flow Dynamics

In 2021, the cash flow of Rolls-Royce Holdings PLC stands at 519 million pounds, while in 2023, it stands at 1.608 billion pounds, which shows a highly sharp increase in the company's ability to generate cash (Rolls Royce, 2021). It indicates that the business had free cash flow amounting to -833 million pounds in 2022, majorly due to increased capital expenditures and reduced to 647 million pounds in the year 2023 (Directors Talk, 2024). This shows that the company was reinvesting back in its operations for further growth, thereby making it possible for the cash flow position to improve in the subsequent year. As a result, the company is left in a strong position concerning cash to fund its operations and projects in the forthcoming future.

Table 7 Cash Flow Dynamics

Metric (£ million)	**2021**	**2022**	**2023**
Cash Flow from Operating Activities	1,099	(380)	2,255
Capital Expenditures	(580)	(453)	(647)
Free Cash Flow	519	(833)	1,608

Source Rolls Royce (2023), Rolls Royce (2022), Rolls Royce (2021

IV. Recommendation

From the above analysis of the recent financial performance, strategic initiatives, and risk factors of Rolls-Royce Holdings PLC, it is very apparent that the company represents a pretty attractive investment opportunity for Addlestone Capital. Rolls-Royce Holdings PLC could be perceived as an attractive company to invest in because it has a solid brand reputation and a long-standing history in the aerospace and defence industry (Hayward 2023). The company is known and accepted globally for its innovative, quality products, giving it a competitive edge over new entrants. Besides, the company operates in over 50 countries worldwide, and its diversified portfolio minimizes risks geographically and across sectors.

Rolls-Royce Holdings PLC also has its hands in technology innovation—especially in sustainable technologies, the use of electric or hybrid propulsion systems that set a company up for capturing the future market trend when it must spring forth with conscious consumers, not to mention the fact that it gives them a competitive advantage in new markets and offers a new source of revenue for the company. The positioning of Rolls-Royce Holdings PLC in the aerospace and defence industry is well-placed to compare with other companies. With its good world presence, it enjoys competitiveness not only because of this excellent position but also because of diversified product portfolios in terms of products and services. Further, it cements its positioning in the marketplace by continuous technological innovation and partnership with industry leaders like Boeing.

Besides, over the recent past, Rolls-Royce Holdings PLC's financial performance has been toward the positive side of the spectrum, especially towards its profitability and liquidity, or cash dynamism. However, it fumbled in 2022 but came back strong in 2023 with huge revenue and net income leaps. It portrays how the company will be resilient and adaptive to changes characteristic of the market and how it can grow further. The only possible risk for investment concerning Rolls-Royce Holdings PLC is that it has a very high level of R&D and relies primarily on government contracts. Organic growth and brand investment represent the company's core strengths, but the two risks are mitigated through its global footing, diversified portfolio, and strong brand reputation. The company has kept a healthy cash flow and relatively low debt compared to equity; this is the foundation of financial stability and flexibility.

V. Conclusion

The upside for Rolls-Royce Holdings PLC is that it is a sustainable player in the fast-growing aerospace and defence market, innovating in technologies. Strong partnerships, on the other hand, coupled with a global presence, further make it ripe for growth in emerging and high-growth markets. Moreover, as the world inches ever closer toward sustainable aviation, Rolls-Royce Holdings PLC has set itself up perfectly to leverage this movement and increase its future potential to show growth and profitability. Potential drawbacks to this investment include the fact that this is a highly competitive industry for aerospace and defence equipment manufacturers, and the fact that government contracts are uncertain. This will affect the revenues and profitability of the company. Further, the downturn of the economy or change in government spending may very well affect the company's financial performance.

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VII. Appendix

Condensed consolidated balance sheet

At 31 December 2021

	Notes	2021 £m	2020 £m
ASSETS			
Intangible assets	7	**4,041**	5,145
Property, plant and equipment	8	**3,917**	4,515
Right-of-use assets	9	**1,203**	1,405
Investments – joint ventures and associates	10	**404**	394
Investments – other	10	**36**	19
Other financial assets	16	**361**	687
Deferred tax assets	5	**2,249**	1,826
Post-retirement scheme surpluses	20	**1,148**	907
Non-current assets		**13,359**	14,898
Inventories	11	**3,666**	3,690
Trade receivables and other assets	12	**5,383**	5,455
Contract assets	15	**1,473**	1,510
Taxation recoverable		**90**	117
Other financial assets	16	**46**	107
Short-term investments		**8**	–
Cash and cash equivalents	13	**2,621**	3,452
Current assets		**13,287**	14,331
Assets held for sale	22	**2,028**	288
TOTAL ASSETS		**28,674**	29,517
LIABILITIES			
Borrowings and lease liabilities	17	**(279)**	(1,272)
Other financial liabilities	16	**(689)**	(608)
Trade payables and other liabilities	14	**(6,016)**	(6,653)
Contract liabilities	15	**(3,599)**	(4,187)
Current tax liabilities		**(101)**	(154)
Provisions for liabilities and charges	19	**(475)**	(826)
Current liabilities		**(11,159)**	(13,700)
Borrowings and lease liabilities	17	**(7,497)**	(6,058)
Other financial liabilities	16	**(2,715)**	(3,046)
Trade payables and other liabilities	14	**(1,575)**	(1,922)
Contract liabilities	15	**(6,710)**	(6,245)
Deferred tax liabilities	5	**(451)**	(494)
Provisions for liabilities and charges	19	**(1,107)**	(1,119)
Post-retirement scheme deficits	20	**(1,373)**	(1,580)
Non-current liabilities		**(21,428)**	(20,464)
Liabilities associated with assets held for sale	22	**(723)**	(228)
TOTAL LIABILITIES		**(33,310)**	(34,392)
NET LIABILITIES		**(4,636)**	(4,875)
EQUITY			
Called-up share capital		**1,674**	1,674
Share premium		**1,012**	1,012
Capital redemption reserve		**165**	162
Cash flow hedging reserve		**(45)**	(94)
Merger reserve		**650**	650
Translation reserve		**342**	524
Accumulated losses		**(8,460)**	(8,825)
Equity attributable to ordinary shareholders		**(4,662)**	(4,897)
Non-controlling interests		**26**	22
TOTAL EQUITY		**(4,636)**	(4,875)

Condensed consolidated financial statements

Condensed consolidated income statement

For the year ended 31 December 2021

	Notes	2021 £m	Restated 2020 [1] £m
Continuing operations			
Revenue	2	**11,218**	11,491
Cost of sales [2]		**(9,082)**	(11,678)
Gross profit/(loss)	2	**2,136**	(187)
Commercial and administrative costs	2	**(890)**	(771)
Research and development costs	2, 3	**(778)**	(1,204)
Share of results of joint ventures and associates	10	**45**	190
Operating profit/(loss)		**513**	(1,972)
Gain/(loss) arising on acquisition and disposal of businesses	22	**56**	(14)
Profit/(loss) before financing and taxation		**569**	(1,986)
Financing income	4	**229**	61
Financing costs [3]	4	**(1,092)**	(874)
Net financing costs		**(863)**	(813)
Loss before taxation		**(294)**	(2,799)
Taxation	5	**418**	(302)
Profit/(loss) for the year from continuing operations		**124**	(3,101)
Discontinued operations			
Profit/(loss) for the year from ordinary activities		**36**	(68)
Costs of disposal of discontinued operations		**(39)**	–
Loss for the year from discontinued operations	22	**(3)**	(68)
Profit/(loss) for the year		**121**	(3,169)
Attributable to:			
Ordinary shareholders		**120**	(3,170)
Non-controlling interests (NCI)		**1**	1
Profit/(loss) for the year		**121**	(3,169)
Other comprehensive income/(expense)		**41**	(265)
Total comprehensive income/(expense) for the year		**162**	(3,434)

	Notes	2021	Restated 2020 [1]
Earnings/(loss) per ordinary share attributable to ordinary shareholders:	6		
From continuing operations:			
Basic		**1.48p**	(51.81)p
Diluted		**1.47p**	(51.81)p
From continuing and discontinued operations:			
Basic		**1.44p**	(52.95)p
Diluted		**1.43p**	(52.95)p

[1] The comparative figures have been restated to reflect ITP Aero being classified as a discontinued operation. The respective notes to the financial statements have also been restated on this basis. Further detail can be found in note 22.

[2] Cost of sales includes a charge for expected credit losses of £124m (2020: £119m). Further details can be found in note 12.

[3] Included within financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 16.

Condensed consolidated cash flow statement

Year ended 31 December 2022

	Notes	2022 £m	2021 £m
Reconciliation of cash flows from operating activities			
Operating profit from continuing operations		**837**	513
Operating profit/(loss) from discontinued operations	23	**86**	(43)
Operating profit		**923**	470
Loss on disposal of property, plant and equipment		**18**	9
Share of results of joint ventures and associates	10	**(48)**	(45)
Dividends received from joint ventures and associates	10	**73**	27
Amortisation and impairment of intangible assets		**287**	290
Depreciation and impairment of property, plant and equipment		**430**	462
Depreciation and impairment of right-of-use assets		**287**	257
Adjustment of amounts payable under residual value guarantees within lease liabilities [1]	16	**(3)**	(4)
Impairment of and other movements on investments	10	**75**	7
Decrease in provisions		**(197)**	(394)
Increase in inventories		**(887)**	(169)
Movement in trade receivables/payables and other assets/liabilities		**(56)**	(507)
Movement in contract assets/liabilities		**1,753**	(134)
Financial penalties paid [2]		**–**	(156)
Cash flows on other financial assets and liabilities held for operating purposes [3]		**(660)**	(85)
Interest received		**36**	9
Net defined benefit post-retirement cost recognised in profit before financing	20	**27**	23
Cash funding of defined benefit post-retirement schemes	20	**(81)**	(162)
Share-based payments		**47**	28
Net cash inflow/(outflow) from operating activities before taxation		**2,024**	(74)
Taxation paid		**(174)**	(185)
Net cash inflow/(outflow) from operating activities		**1,850**	(259)
Cash flows from investing activities			
Movement in other investments	10	**(5)**	(26)
Additions of intangible assets		**(237)**	(231)
Disposals of intangible assets	7	**8**	5
Purchases of property, plant and equipment		**(359)**	(328)
Disposals of property, plant and equipment		**48**	61
Disposal of businesses	23	**1,398**	99
Movement in investments in joint ventures and associates	10	**(24)**	–
Movement in short-term investments		**(3)**	(8)
Net cash inflow/(outflow) from investing activities		**826**	(428)
Cash flows from financing activities			
Repayment of loans [4]		**(2,024)**	(965)
Proceeds from increase in loans		**1**	2,005
Capital element of lease payments		**(218)**	(374)
Net cash flow from (decrease)/increase in borrowings and leases		**(2,241)**	666
Interest paid		**(235)**	(206)
Interest element of lease payments		**(68)**	(63)
Fees paid on undrawn facilities		**(49)**	(62)
Cash flows on settlement of excess derivative contracts [5]	4	**(326)**	(452)
Transactions with NCI [6]		**57**	30
NCI on formation of subsidiary		**–**	3
Dividends to NCI		**(3)**	(1)
Redemption of C Shares		**(1)**	(3)
Net cash outflow from financing activities		**(2,866)**	(88)
Change in cash and cash equivalents		**(190)**	(775)
Cash and cash equivalents at 1 January		**2,639**	3,496
Exchange gains/(losses) on cash and cash equivalents		**156**	(82)
Cash and cash equivalents at 31 December [7]		**2,605**	2,639

Condensed consolidated balance sheet

At 31 December 2022

	Notes	2022 £m	2021 £m
ASSETS			
Intangible assets	7	**4,098**	4,041
Property, plant and equipment	8	**3,936**	3,917
Right-of-use assets	9	**1,061**	1,203
Investments – joint ventures and associates	10	**422**	404
Investments – other	10	**36**	36
Other financial assets	18	**542**	361
Deferred tax assets		**2,731**	2,249
Post-retirement scheme surpluses	20	**613**	1,148
Non-current assets		**13,439**	13,359
Inventories	11	**4,708**	3,666
Trade receivables and other assets	12	**6,936**	5,383
Contract assets	13	**1,481**	1,473
Taxation recoverable		**127**	90
Other financial assets	18	**141**	46
Short-term investments		**11**	8
Cash and cash equivalents	14	**2,607**	2,621
Current assets		**16,011**	13,287
Assets held for sale	23	**–**	2,028
TOTAL ASSETS		**29,450**	28,674
LIABILITIES			
Borrowings and lease liabilities	15	**(358)**	(279)
Other financial liabilities	18	**(1,016)**	(689)
Trade payables and other liabilities	19	**(6,983)**	(6,016)
Contract liabilities	13	**(4,825)**	(3,599)
Current tax liabilities		**(104)**	(101)
Provisions for liabilities and charges	19	**(632)**	(475)
Current liabilities		**(13,918)**	(11,159)
Borrowings and lease liabilities	15	**(5,597)**	(7,497)
Other financial liabilities	18	**(3,230)**	(2,715)
Trade payables and other liabilities	17	**(2,364)**	(1,575)
Contract liabilities	13	**(7,337)**	(6,710)
Deferred tax liabilities		**(286)**	(451)
Provisions for liabilities and charges	19	**(1,701)**	(1,107)
Post-retirement scheme deficits	20	**(1,033)**	(1,373)
Non-current liabilities		**(21,548)**	(21,428)
Liabilities associated with assets held for sale	23	**–**	(723)
TOTAL LIABILITIES		**(35,466)**	(33,310)
NET LIABILITIES		**(6,016)**	(4,636)
EQUITY			
Called-up share capital		**1,674**	1,674
Share premium		**1,012**	1,012
Capital redemption reserve		**166**	165
Hedging reserves		**26**	(45)
Merger reserve		**–**	650
Translation reserve		**861**	342
Accumulated losses		**(9,789)**	(8,460)
Equity attributable to ordinary shareholders		**(6,050)**	(4,662)
NCI		**34**	26
TOTAL EQUITY		**(6,016)**	(4,636)

Condensed consolidated balance sheet
At 31 December 2023

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

Condensed Consolidated Financial Statements

Condensed consolidated income statement

For the year ended 31 December 2023

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

[1] Cost of sales includes a net release for expected credit losses (ECLs) of £48m (2022: charge of £73m). Further details can be found in note 12

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

Condensed consolidated balance sheet

At 31 December 2023

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

Condensed consolidated financial statements

Condensed consolidated income statement

For the year ended 31 December 2021

	Notes	2021 £m	Restated 2020 [1] £m
Continuing operations			
Revenue	2	11,218	11,491
Cost of sales [2]		(9,082)	(11,678)
Gross profit/(loss)	2	2,136	(187)
Commercial and administrative costs	2	(890)	(771)
Research and development costs	2, 3	(778)	(1,204)
Share of results of joint ventures and associates	10	45	190
Operating profit/(loss)		513	(1,972)
Gain/(loss) arising on acquisition and disposal of businesses	22	56	(14)
Profit/(loss) before financing and taxation		569	(1,986)
Financing income	4	225	61
Financing costs [3]	4	(1,088)	(874)
Net financing costs		(863)	(813)
Loss before taxation		(294)	(2,799)
Taxation	5	418	(302)
Profit/(loss) for the year from continuing operations		124	(3,101)
Discontinued operations			
Profit/(loss) for the year from ordinary activities		36	(68)
Costs of disposal of discontinued operations		(39)	–
Loss for the year from discontinued operations	22	(3)	(68)
Profit/(loss) for the year		121	(3,169)
Attributable to:			
Ordinary shareholders		120	(3,170)
Non-controlling interests (NCI)		1	1
Profit/(loss) for the year		121	(3,169)
Other comprehensive income/(expense)		41	(265)
Total comprehensive income/(expense) for the year		162	(3,434)
Earnings/(loss) per ordinary share attributable to ordinary shareholders:	6		
From continuing operations:			
Basic		1.48p	(51.81)p
Diluted		1.47p	(51.81)p
From continuing and discontinued operations:			
Basic		1.44p	(52.95)p
Diluted		1.43p	(52.95)p

[1] The comparative figures have been restated to reflect ITP Aero being classified as a discontinued operation. The respective notes to the financial statements have also been restated on this basis. Further detail can be found in note 22.

[2] Cost of sales includes a charge for expected credit losses of £124m (2020: £119m). Further details can be found in note 12.

[3] Included within financing are fair value changes on derivative contracts. Further details can be found in notes 2, 4 and 16.