Rolls-Royce

Investor Presentation

March 2021

1

Our company

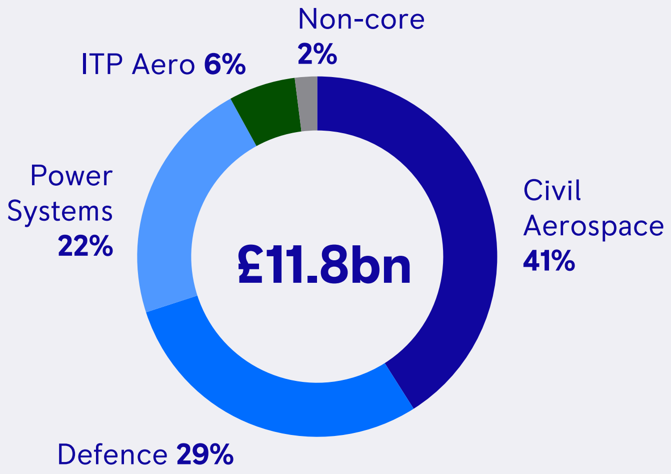
Who we are

We are one of the world's leading industrial technology companies.

Our purpose is to pioneer the power that matters to connect, power and protect society.

We deliver cleaner, more sustainable power for the world's most vital needs.

Underlying revenue by business



Underlying revenue
£11,763m

Order backlog
£53.7bn

Gross R&D expenditure
£1.3bn

All figures as at 2020 Full Year Results

What we do

We are tightly focused into four core operating businesses

Figures show 2020 performance, with Civil Aerospace, Power Systems & ITP Aero impacted by COVID-19, and Defence resilient

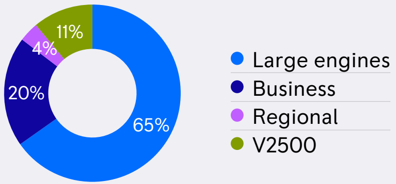
Disposal process underway for ITP Aero

CIVIL AEROSPACE

- Major manufacturer of aero engines for the large commercial aircraft, business aviation and regional jet markets
- Engineering expertise, in-depth knowledge and capabilities to provide through-life support solutions for its customers

£5,089m
Underlying revenue

£(2.6)bn
Underlying operating loss

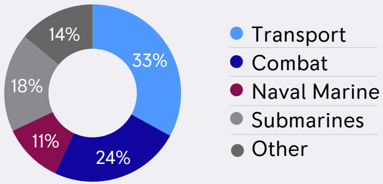


DEFENCE

- A market leader in aero engines for military transport and patrol aircraft
- Strong positions in combat and helicopter applications
- Significant scale in naval

£3,366m
Underlying revenue

£448m
Underlying operating profit

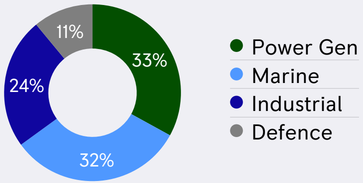


POWER SYSTEMS

- A leading provider of high-speed and medium-speed reciprocating engines, and complete propulsion and power generation systems
- Includes civil nuclear operations that supply safety-critical systems

£2,745m
Underlying revenue

£178m
Underlying operating profit

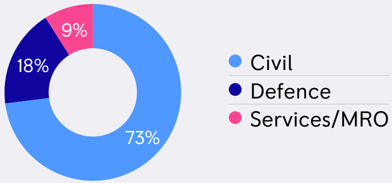


ITP AERO

- A global leader in aero-engine design, manufacture and maintenance
- Development, manufacturing, assembly and testing of engines
- MRO services for regional airlines, business aviation, industrial and defence applications

£705m
Underlying revenue

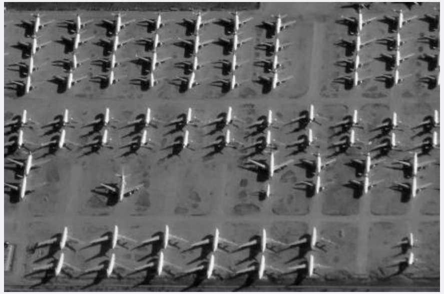
£68m
Underlying operating profit



Safeguarding our people and business

2020 was a year of unprecedented disruption we focused on **protecting our people and our business**

We also continued to pursue our **long-term commitment to drive innovation in sustainable lower-carbon power solutions**



We focused on protecting our people and our business

Our people

Immediate actions to keep our people safe while serving our customers

Working with our people to deliver necessary restructuring

Our communities

Provided practical assistance to the community; manufacturing PPE, supporting education and working on ventilators

Our investments

Continue to invest in low carbon future technology

Launched the Emergent Alliance – a global community using data analytics to assist recovery

Our challenge & commitment

Our activities have a tremendous impact on the world today – and tomorrow.

We have always pursued clean, safe and competitive solutions. Now, that task is more urgent than ever.

We are committed to playing a leading role in enabling the vital sectors in which we operate to get to net zero emissions by 2050.

Our technology will play a fundamental role in enabling the transition to a low carbon global economy

Our FY 2020 performance was severely impacted by the COVID-19 pandemic

We responded decisively and effectively to challenging market conditions

Decisive and effective actions to address challenging market conditions

- >£1bn in-year cash savings achieved in 2020 from one-off mitigating actions
- Strengthened liquidity to increase resilience and support long-term strategy
- Strong progress on fundamental restructuring programme
- Commenced programme of disposals to raise >£2bn in proceeds

Well positioned for recovery and for a lower-carbon future

- Fundamental restructuring to deliver permanent cost efficiencies
- Lower capital spend phase in Civil Aviation, increased R&D and capex on Power Systems, Defence and lower-carbon solutions
- Committed to support the decarbonisation of our end-markets
- Actively growing our lower-carbon technology

2

Positioning for recovery and creating a sustainable future

Positioning for the recovery and creating a sustainable future

1
Restore financial performance

2
Maximise value from existing capabilities

3
Science-led innovation in sustainable power

Restore performance, maximise value and focus on sustainable power

- Market recovery in Power Systems & Defence resilience
- Deliver fundamental restructuring in Civil Aerospace
- Position business to deliver >£750m FCF as early as 2022

- Civil Aerospace: realise value from installed base
- Power Systems: focus on high-growth end markets
- Defence: win strategic opportunities

- Improve gas turbine efficiency and SAF* compatibility
- Develop low carbon solutions: electric, hybrid and hydrogen
- Capitalise on adjacent opportunities (e.g. SMRs)

*Sustainable Aviation Fuel

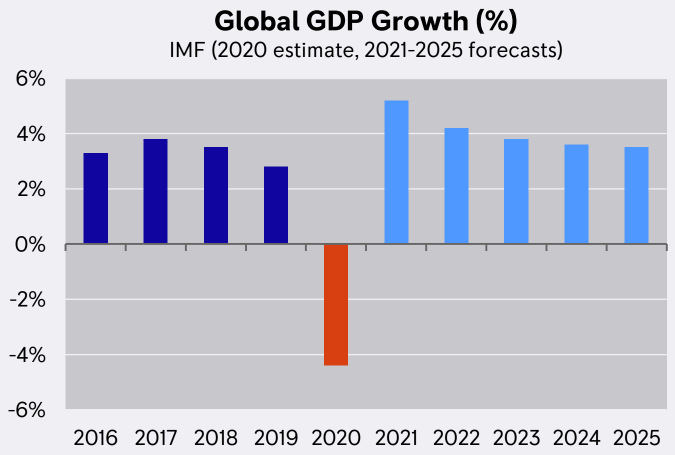
Despite uncertainty, prevailing views expect a GDP recovery in 2021

Government support packages and underlying demand are expected to drive a "V" shaped recovery

There is continued optimism about a sharp rebound in global GDP

Vaccine roll-outs, testing and ongoing government support measures are supportive

However, **short-term** new COVID variants and national restrictions create uncertainty



Civil Aerospace and ITP Aero: Above-GDP growth driven by fast-growth economies with low penetration of flights per person, some travel displaced by advances in virtual platforms for business connectivity

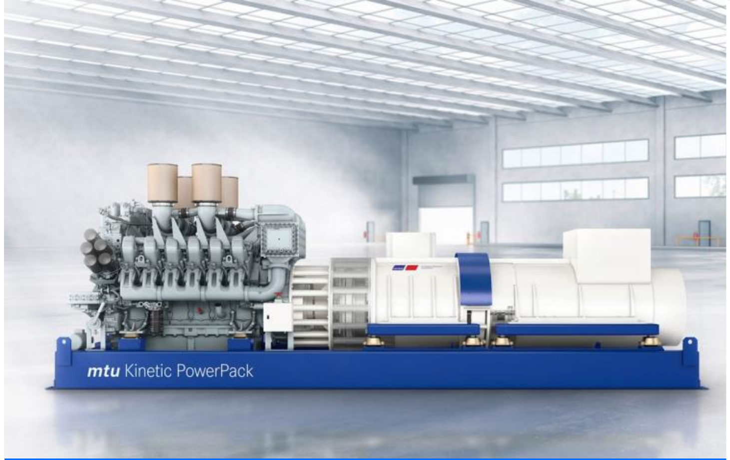
Power Systems: Short-cycle recovery with customer demand for power systems closely linked to economic growth

Defence: Government defence spending reflects global geopolitical tension and governments' budgets

Power Systems & Defence

Continue to be the bedrock of financial performance and cash generation

With **accelerating growth potential from the middle of the decade**



Power Systems

- **Revenue to return to approximately 2019 levels by 2022*** as GDP-driven short-cycle markets rebound
- **Margins to return to >10% by 2022** with further improvement towards **'mid-teens'** thereafter

Defence

- **Resilient performance through COVID-19 pandemic**
- Revenues broadly stable through to 2022
- Continuing to offset customer pricing headwinds & investment through cost-savings

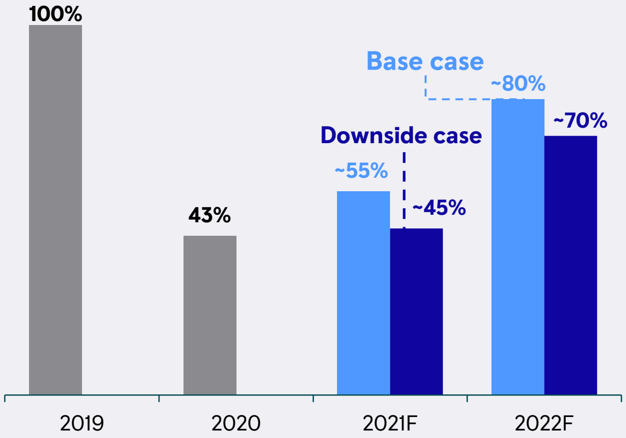
Strong cash conversion supports Group cash flow recovery

* £3.2bn (adjusted for Civil Nuclear I&C & Bergen disposals)

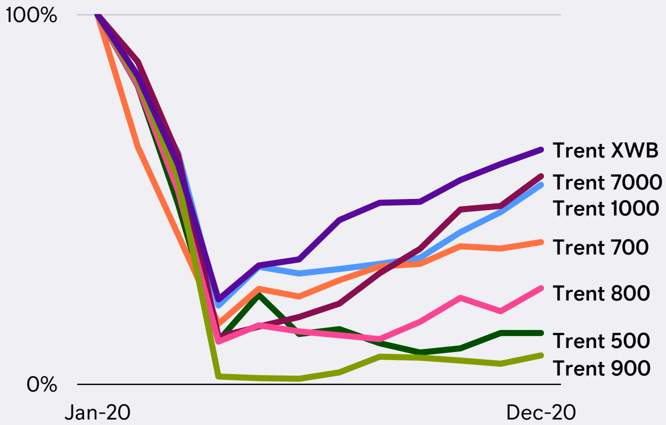
Near term air traffic outlook is uncertain, but vaccines and testing support recovery

Recovery remains difficult to predict with a range of potential outcomes

Modest EFH recovery in 2021, accelerating from H2
Large engine LTSA EFH as % of 2019 levels



Airlines continue to favour newer aircraft
Sample of engine utilisation from January 2020



- Steady recovery in 2020 from the April low point through to December, before pausing due to renewed travel restrictions
- **A sustained renewed recovery requires:**
  - Effective vaccine roll-out
  - Improved airport testing and health passport adoption
  - Government co-operation to open travel corridors
- Short-haul and leisure expected to rebound first, followed by long-haul and business travel

Fundamental restructuring

We were quick to act, implementing a fundamental restructuring programme to reduce costs Group-wide and consolidate our Civil Aerospace footprint

Operating Cost

- Total role reduction of more than **9,000**
- **~7,000 exits in 2020**
- Use of voluntary severance and attrition
- **Engaging with unions** & supporting employee **mental health**

- Subcontractor spend in Civil Aero reduced to **<1/3 pre-COVID level**
- Continued **strict cost control** on travel & expenses
- Footprint reduction and lower load **reduces other indirect** spend

~£1bn

Capital prioritisation

- Targeting peer range of **3-4% of sales** (2020: 5%)
- **Expanded third-party MRO network** to meet demand growth in Civil Aero
- **Capital-light approach** to spare engines

>£300m

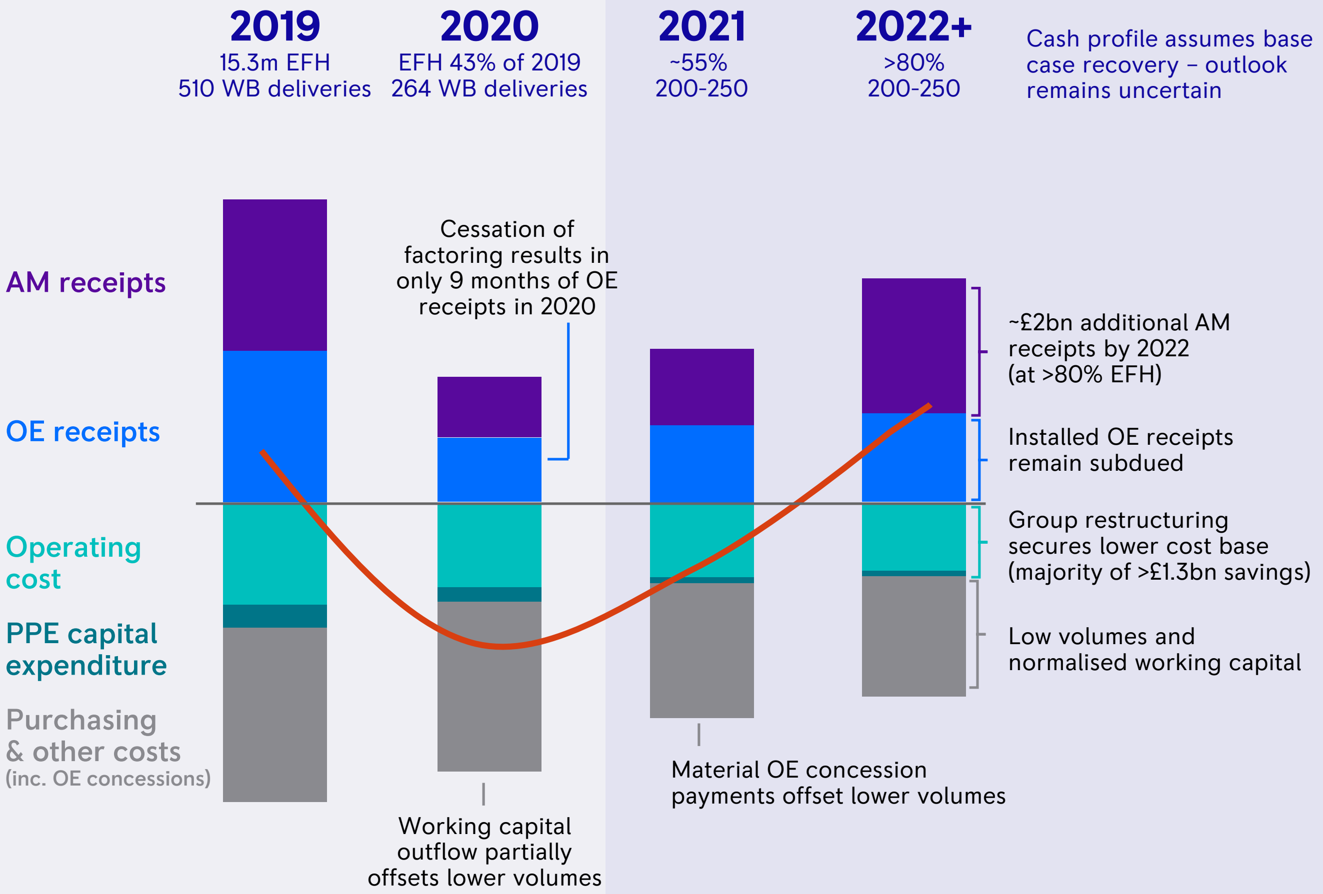
>£1.3bn annual cost savings by end 2022

Cost actions support strong cash flow when market recovers

Substantially lower cost base ensures stronger underlying cash generation than pre-COVID levels once flying hours recover

Note:
Graphic not to scale
Excludes hedge close-out costs

Illustrative Civil Aerospace cash flows



Maximising value from existing capabilities

Realising the value of our installed base, growing strategic opportunities and focusing on high-growth end markets.

Civil Aerospace

- Past investment to build installed base of >5,000 large engines and >7,000 business jet engines
- Major investment cycle largely complete, fleets amongst youngest in respective markets
- Primary focus on extracting aftermarket value
- Continue efforts to reduce cost of components

Power Systems

- Installed base >150,000 engines; expansion into complete system solutions
- Growing strategic position in China
- Commercialising electrical, hybrid and hydrogen technology alternatives

Defence

- Over £7bn estimated lifetime value from:
  - B-52 new engine programme; >650 engines; outcome expected 2021
  - Future vertical lift programme; >4,000 engines; outcome expected 2022
- Installed base 16,000 engines, through-life upgrades on in-service engines; growing export market

Rolls-Royce was already reaching a pivot point in Civil Aero prior to COVID-19

Civil Aerospace

Over the past decade, Rolls-Royce built a leading widebody engine portfolio

Following a period of rapid growth in the installed base and in next gen engine R&D, investment levels were already scheduled to reduce significantly to prepare Rolls-Royce for the next phase – realisation of aftermarket returns and stronger margins

Solid Progress in Widebody

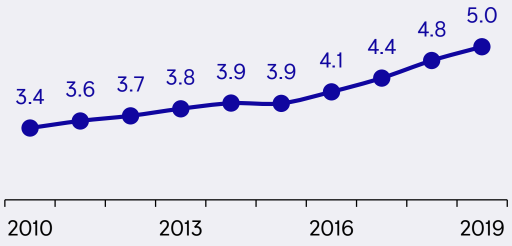
26% → 38%
market share since 2010[1]

55%
of market order backlog[2] supporting further market share growth

4
new engines launched since 2010

2.8x
deliveries 2019 vs. 2010

Widebody Installed Base (k)



[1] Based on passenger widebody aircraft in service (as at December 2019).
[2] Widebody order backlog (as at December 2019).
[3] Twin-engined aircraft with EIS post-1990.

Widebody Installed Base

- Young average age of <9 years
- More economic aircraft types (77%[3])
- 80% of our widebody engines are on the 4 most utilised WB aircraft types

Civil Aero Transition

- Investment in new programmes largely complete
- Capacity increases completed
- Reduced OE unit losses (2017-2019 £1.6m to £1.2m on average)

Civil Aerospace

Realising the value of our installed base

Strategy to capitalise on the strong position in Business Aviation and realise the value in the widebody installed base

New forms of industrial collaboration for future programmes

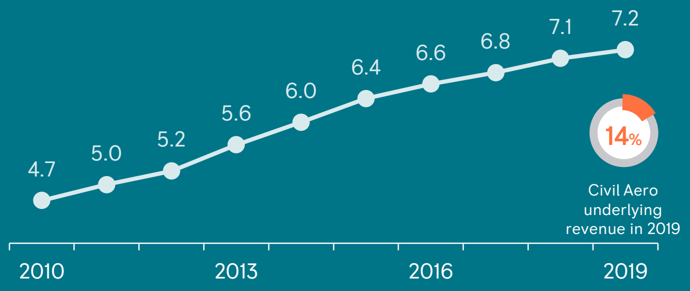
Capitalise on our strong position in Business Aviation

#1 with 31% market share[1] by value	**2** new flagship engines over the last 5 years
Low EFH volatility coupled with long engine lives	Resilient deliveries volumes (down (8)% in H1 2020)

Realising the opportunity in Business Aviation

- Continue market penetration with launch of new products
- Improve OE economics as Pearl platform matures

Business Aviation Installed Base (k)



[1] As at Q1 2020.

Realising value in the widebody installed base

- Continued growth in installed base from a lower base
- Growing engine flying hours as installed base grows after 2022
- Improved OE losses (with ongoing restructuring as a catalyst)
- Improved time on wing
- Reduced investment levels, in part through industrial collaboration

Power Systems

Varying levels of COVID-19 related impact

Diversified end markets and mission critical services expected to help return underlying revenue to 2019 levels by 2022

			
Power Generation 33% of Sales	**Marine** 34% of Sales	**Industrial** 22% of Sales	**Other** 11% of Sales
• Mission critical backup power for data centres, hospitals and other infrastructure	• Government focused customer base with stable, robust demand	• Oil & Gas and mining remain subdued, construction recovery visible	• Defence markets remain robust
COVID-19 Impact on Power Systems			
• COVID-19 impact due to construction delays and lower economic activity reducing demand for power	• Impacting yachts and commercial vessels, government demand stable	• COVID-19 impact visible, lower commodity prices impacting Oil & Gas, construction slow down	• Limited impact given installed base and mission critical nature
Medium and Long Term Outlook			
• Sustained driven by economic recovery • Data centre usage • Trend towards decentralized power grid • Digitalization trend driving data centre demand	• Long term demand in yachts driven by UHNWIs • Structural trend towards low emissions in commercial vehicles to benefit the group	• Potential growth opportunities over the medium term through focus on efficient, lower carbon solutions, e.g. hybrid rail power pack	• Sustained growth with a view to being a global power company based on low carbon technologies

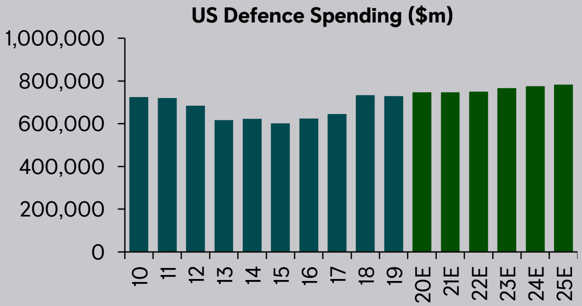
Defence

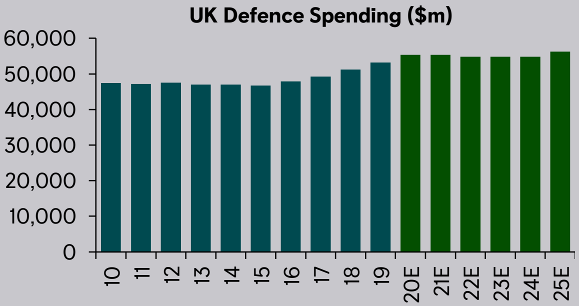
Defence demand driven by government defence spending; expect resilient performance despite COVID-19

Exposure in Transport, Combat and Submarine

Demand for defence business' transport, combat, submarine and naval products is driven by government defence spending

DoD (50%)	MoD (25%)	Exports (25%)
US	UK	ME, Korea, Japan, Canada and India





Long term drivers of defence spending

- **US:** large new programmes expected for US Air Force and Army (including B-52 re-engine competition and future vertical lift competition)
- **UK:** relatively stable in the short term given the government's commitment to maintain fighting capability through Project Tempest and UK-led Next-Generation fighter programmes
- **Export Markets:** continued growth including naval products, transport aero engines and Eurofighter typhoon exports
- **Level of geopolitical tensions**

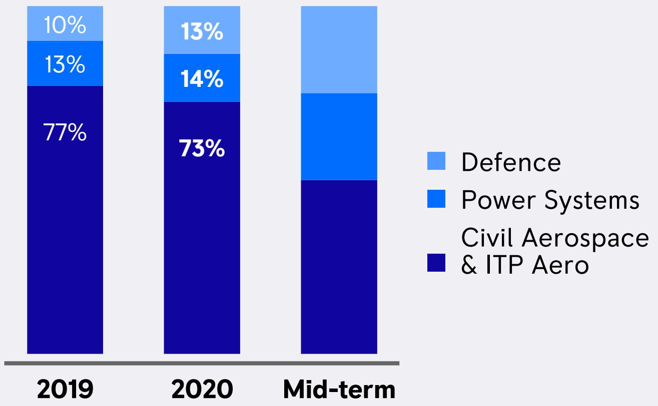
Source: charts: Jane's Defence Budgets (JDB) defence spending summary spreadsheet, 2020.

Investing for the future

Targeting approx. 20% annual R&D spend on low carbon solutions including SMRs, hybrid, hydrogen and electric power technologies, by 2023

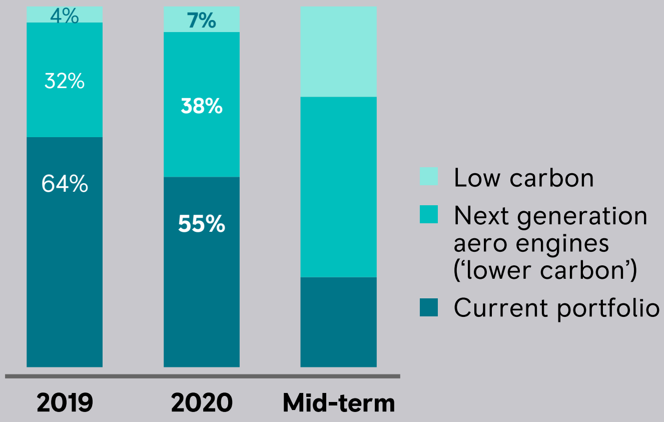
Pivoting towards Power Systems and Defence

Engineering (inc. R&D) and capital spend



Accelerating focus on low carbon

Self-funded R&D



Low carbon technologies includes investments in electric, hybrid, hydrogen and nuclear solutions. Next gen aero engines primarily relates to UltraFan and future Defence engines

Net zero ambitions

- Joined UN Business Ambition for 1.5°C and UN Race to Zero campaigns
- Committed to enabling the vital sectors in which we operate to achieve net zero by 2050
- Committed to becoming a carbon neutral business by 2050: net zero greenhouse gas emissions from operations and facilities by 2030 (ex-product development/safety testing) and fully compatible by 2050

Our low carbon approach

We are committed to the decarbonisation of our core markets and will continue to invest in technologies that can accelerate this transition, whilst minimising the impacts of our business operations.

Products

Ensuring our products can be used in a way that generates net zero carbon emissions

Technology

Pioneering new technologies to accelerate the global transition to a zero carbon future

Operations

Targeting net zero greenhouse gas emissions from operations and facilities by 2030*

*Excludes product test and development

Low carbon technologies

Improving engine efficiency and ensuring compatibility with more sustainable fuels.

Our hybrid-electric solutions further
reduce CO_2 impact.

UltraFan: next generation aero engine

- Scalable engine architecture offers market optionality
- 25% more fuel efficient and 100% sustainable aviation fuel compatible
- Incorporates ALECSys Lean Burn Combustor
- Progressing to final assembly in 2021

Sustainable fuels

- 100% non-blended sustainable aviation fuel successfully tested in Widebody, Business Jet and Defence
- Power Systems' Power Lab exploring synthetic fuels
- Power-to-X: go-ahead for the PtX Lab Lausitz as a competence center for green hydrogen and its downstream products

Hybrid power

- MTU Series 2000 hybrid propulsion for yachts; more power, low noise
- World's first E2SG demonstrator by Defence to support Tempest
- Expanded position in uninterruptable power market with acquisition of Kinolt

Enabling net zero

Innovating across a wide range of net zero technologies and across multiple markets

Hydrogen

- Member of European Clean Hydrogen Alliance
- Exploring the fundamentals of H2 in aviation
- Partnership with Daimler Truck / Volvo on stationary H2-powered fuel-cell generators in finalisation
- MTU Series 500 engine for power generation to be available for operation with biogas and compatible with H2

Energy Storage

- Majority stake acquisition of Qinous, central to our microgrid solutions, enabling renewable power and energy storage
- Expanded product portfolio to include mtu EnergyPack scalable battery storage systems, installed in Costa Rica, Cook Islands and Germany

Small Modular Reactors

- Nuclear power solution to deliver low carbon electricity with potential to power sustainable aviation fuel or H2 production
- Joint venture vehicle underway with UK Government support
- First power targeted by 2030

Enabling net zero: electric aviation

Focused on near-term revenue generation: technology progress leading to commercial opportunities across multiple markets

Urban Air Mobility

- First commercial contract for electric propulsion units to power an eVTOL vehicle (with Vertical Aerospace)
- CityAirbus eVTOL demonstrator flight test programme

Commuter and regional

- Collaboration with Tecnam and Widerøe to cover all elements of developing and delivering the zero-emissions ‘P-Volt’ commuter aircraft
- Continued development of gas turbine hybrid-electric propulsion system for Apus i-5 regional aircraft
- 2.5MW generator currently on test in Norway

Small propeller

- 1,500+ missions flown across 2-4 seat demonstrators with EASA EPU certification plan in-progress
- Successful ground tests of ACCEL aircraft demonstrating energy storage technology for UAM and commuter markets

3

FY 2020 Results

Group performance

Our FY 2020 performance was severely impacted by the COVID-19 pandemic

We responded decisively and effectively to challenging market conditions

FY 2020 Results summary

- Group free cash outflow of £(4.2)bn, driven by Civil Aerospace
- Rapid mitigating actions reduced in-year cash costs by over £1.0bn
- £7.3bn additional liquidity secured, including £2.0bn rights issue
- Major restructuring programme implemented targeting £1.3bn savings
- Strong progress in 2020 with approximately 7,000 roles removed
- Potential disposals announced to generate >£2bn proceeds

Group underlying results

Significant impact from largely **one-time, COVID-19 related charges,** mostly taken in the first half

Underlying £m		FY 2020	FY 2019	Change	Organic change[1]
Revenue	1	**11,763**	15,450	**(3,687)**	**(3,582)**
Gross (loss) / profit	2	**(512)**	2,387	**(2,899)**	**(2,872)**
Gross margin %		*(4.4)%*	*15.4%*	*(19.8)%pt*	*(19.9)%pt*
Operating (loss) / profit		**(1,972)**	808	**(2,780)**	**(2,782)**
Operating margin %		*(16.8)%*	*5.2%*	*(22.0)%pt*	*(22.2)%pt*
Financing costs	3	(1,986)	(225)	(1,761)	(1,763)
(Loss) / profit before tax		**(3,958)**	583	**(4,541)**	**(4,545)**

[1] *Organic change at constant translational currency ('constant currency') applying 2019 average rates to 2020 and excluding M&A. All commentary is provided on an organic basis unless otherwise stated.*

1 **~£1.1bn underlying revenue charges**

£1,061m	Civil LTSA contract catch-ups due to lower forecast future flying hours

2 **~£1.3bn underlying gross profit charges**

£974m	Drop-through of Civil LTSA contract catch-ups (post-RRSPs)
£213m	Up-front recognition of expected future losses on a small number of contracts
£86m	Specific customer provisions and customer credit rating deterioration

3 **~£1.7bn underlying finance charge**

£1,705m	Action to reduce hedge book by $11.8bn to match lower expected USD inflows

Divisional performance

Material COVID-19 impact in Civil Aerospace and ITP Aero

Less severe impact in Power Systems

Strong performance in Defence

£m	Underlying Revenue	*Organic change*[1]	Underlying operating (loss)/profit	*Organic change*[1]
Civil Aerospace	5,089	*(3,025)*	(2,574)	*(2,612)*
Power Systems	2,745	*(530)*	178	*(192)*
Defence	3,366	*125*	448	*34*
ITP Aero	705	*(240)*	68	*(43)*
Corporate/Eliminations	(389)	*192*	(70)	*46*
Non-core businesses	247	*(104)*	(22)	*(15)*
Total Group	**11,763**	***(3,582)***	**(1,972)**	***(2,782)***

[1] *Organic change at constant translational currency ('constant currency') applying 2019 average rates to 2020 and excluding M&A. All commentary is provided on an organic basis unless otherwise stated.*

- **Civil Aerospace:** substantial impact from COVID-related one-time charges (£1.3bn at operating result), as well as lower volumes across OE and aftermarket
- **Power Systems:** decline in revenues led by industrial end markets and short-cycle services; profit lower due to reduced volumes, under-utilisation & adverse mix
- **Defence** delivered organic revenue growth and margin improvement despite the COVID-19 pandemic
- **ITP Aero** impacted by the same trends as Civil Aerospace and Defence, positive profit contribution

2020 cash mitigations successfully delivered

>£1bn 2020 savings successfully delivered versus pre-COVID budget

Pay & Benefits

~£500m

- 10% pay cut in 2020 for senior management
- Accessed government furlough schemes
- Restructuring role reductions

Capex

~£300m

- Paused non-essential capital spending from April
- Re-phased and delayed certain capital programmes
- PPE capex of £600m vs. pre-COVID budget of £900m

Engineering
(incl R&D)

~£200m

- COVID-19 has delayed airframer timelines for new aircraft programmes, allowing re-phasing of Civil Aero R&D spend
- Reduced spend on certain longer-dated projects

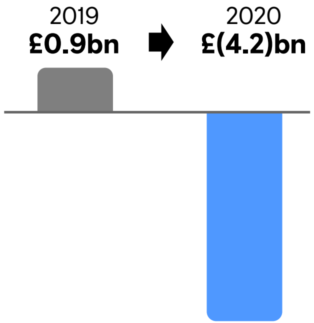
Modest additional savings across other indirect cost, e.g. travel & subcontractors

>£1bn

cash mitigations delivered during 2020

Free cash flow: explaining 2020 deterioration

£5.1bn reduction YoY



1

~£(3.0)bn
Operating performance

~£(2.8)bn **Civil Aerospace impact, including:**

- **>£(2.2)bn aftermarket:** 57% fall in WB flying hours; reduced T&M and V2500 receipts
- **~£nil OE:** WB installed OE benefit offset by lower spare & business jet
- **~£(0.6)bn other:** primarily COVID-19 headwinds (including cost under-recoveries)

£(0.2)bn **Power Systems & ITP impact** partially offset by Defence resilience

2

~£(2.1)bn
Working capital

~£(0.4)bn non-repeat of 2019 inflow

~£(1.1)bn invoice factoring: cessation of factoring during H1

~£(0.6)bn other: £(1.2)bn reduction in receivables/payables due to lower volumes in Civil Aerospace, offset by £0.6bn inventory improvement

3

<£0.1bn
Other impacts

including:

£0.4bn lower capital spend: reduced PPE capex & intangibles spending

£(0.2)bn derivative close out costs: cost of closing unutilised FX hedges and derivatives

>£1bn cash mitigations
Helped to partially offset volume headwinds & under-recoveries, reduce indirect costs & investment

Summary funds flow: £(4.2)bn free cash outflow in 2020

Civil Aerospace market deterioration and working capital outflow drove cash deterioration

£m	FY 2020	FY 2019	Change
Underlying operating (loss) / profit	**(1,972)**	808	**(2,780)**
Depreciation, amortisation and impairment	951	1,068	(117)
Civil Aero net LTSA contract balance change	479	754	(275)
Movement in provisions*	(195)	(333)	138
Change in inventory	588	(43)	631
Change in receivables / payables	(2,207)	492	(2,699)
Lease payments (inc. interest)	(379)	(319)	(60)
PPE capex	(579)	(747)	168
Intangibles capex	(316)	(591)	275
Derivative settlement costs	(202)	-	(202)
Interest, tax, pensions & other	(353)	(216)	(137)
Group Free Cash Flow	**(4,185)**	873	**(5,058)**

1 £(3.0)bn
Operating performance impact
in Civil Aerospace, ITP & Power Systems

2 £(2.1)bn
Working capital YoY change: invoice factoring impact & impact of lower volumes in Civil

3 <£0.1bn
Other impacts:
Management mitigations on capital spending offset FX costs & interest

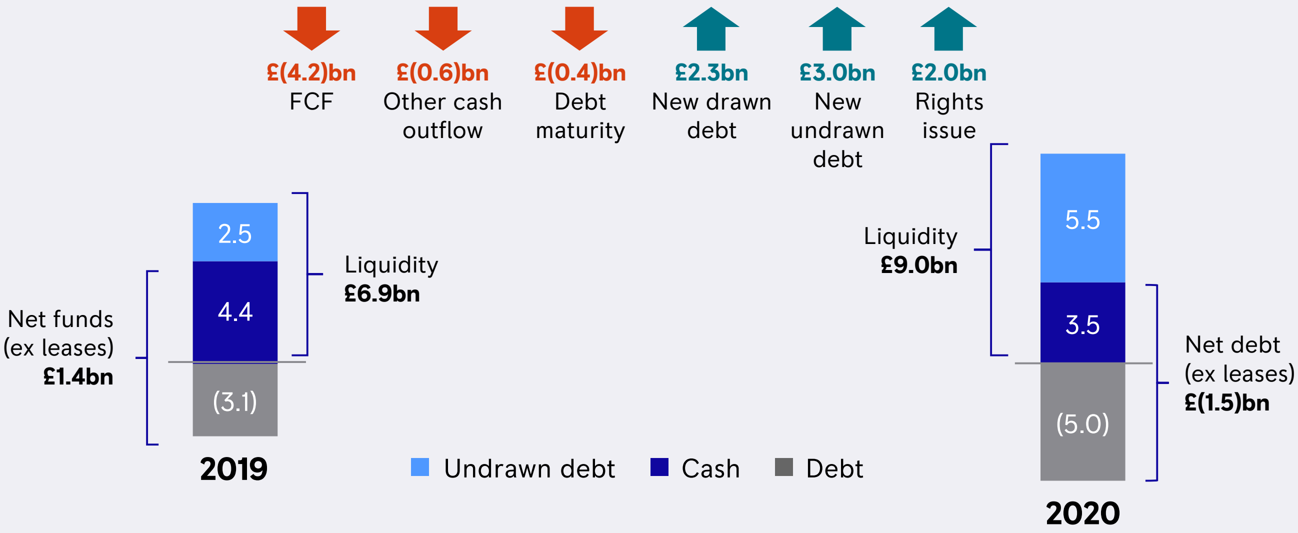
*2019 includes benefit of £173m Trent 1000 receipts

Liquidity strengthened to £9.0bn

We have sufficient liquidity headroom even in a downside scenario, and before disposal proceeds

- Rights issue and additional debt utilised to create sufficient liquidity even in a “severe but plausible” downside scenario
- New debt is long-dated with limited maturities before 2025
- £5.5bn undrawn debt (£2.5bn RCF, £2.0bn (part backed by UKEF) and £1.0bn syndicated loan facilities)
- In addition to the £9.0bn FY20 position: approvals received for £1.0bn increase to the UKEF part-backed loan, intention to keep undrawn

Liquidity strengthened to ~£9bn despite COVID-19



4

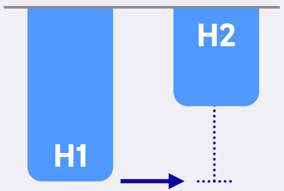
Outlook and guidance

Group near-term outcomes

Emerging with stronger cash generation and a growth platform based on low carbon technology

2021

2021 cash outflow
H1-weighted



~£2bn
free cash outflow

- Anticipate **material H1 outflow** due to working capital & low EFH
- Working capital timing uncertain with material concession outflows driven by timing of airframer deliveries
- Aim to reach **positive cash flow at some point during H2** as cost savings increase, EFH recovers and working capital eases

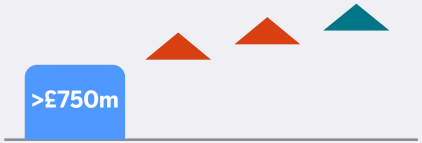
as early as
2022

Targeting >£750m FCF as early as 2022

- Substantial cost reduction underpins improvement
- However, **remains contingent on recovery in flying hours** to >80% of 2019 levels and 200-250 WB deliveries
- Excludes any potential impact from disposals

>£750m includes burden from temporary headwinds

£100m-£200m Trent 1000 costs
~£300m Hedge book costs
Continued **organic growth**

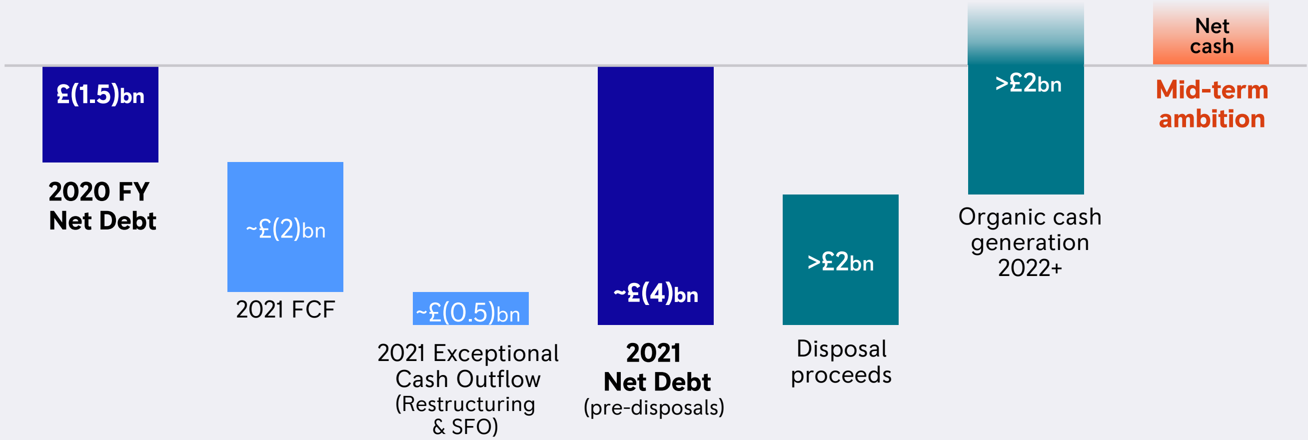


Strengthening our balance sheet

Alongside organic cash generation from 2022, our disposal programme underpins our ambition to reach a **net cash position in the medium term, consistent with an investment grade credit rating**

Disposal proceeds and organic cash generation drive de-leveraging

Net debt progression (pre-leases)



- Exit 2020 with **net debt of £1.5bn** (pre-leases), helped by £2bn rights issue
- 2021 impacted by further FCF outflow and final material below-FCF costs (restructuring & SFO)
- **Improving net debt from 2022** led by organic cash generation
- Good early progress on disposals despite uncertain market environment
- **At least £2bn proceeds achieved by early 2022**

Fundamental restructuring

We were quick to act, implementing a fundamental restructuring programme to reduce costs Group-wide and consolidate our Civil Aerospace footprint

Operating Cost

- Total role reduction of more than **9,000**
- **~7,000 exits in 2020**
- Use of voluntary severance and attrition
- **Engaging with unions** & supporting employee **mental health**

- Subcontractor spend in Civil Aero reduced to **<1/3 pre-COVID level**
- Continued **strict cost control** on travel & expenses
- Footprint reduction and lower load **reduces other indirect** spend

~£1bn

Capital prioritisation

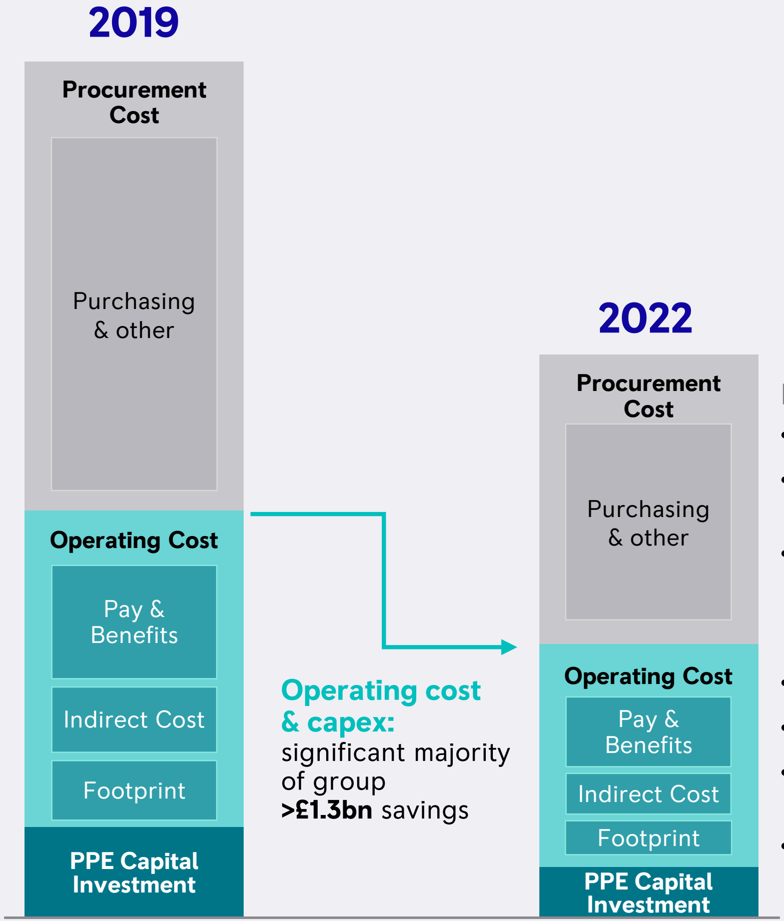
- Targeting peer range of **3-4% of sales** (2020: 5%)
- **Expanded third-party MRO network** to meet demand growth in Civil Aero
- **Capital-light approach** to spare engines

>£300m

>£1.3bn annual cost savings by end 2022

Changing the economics of Civil Aerospace

Leaving a business with **high operating leverage and sustainable cash generation in a smaller market**



Operating cost & capex: significant majority of group **>£1.3bn** savings

Reduced purchasing

- **Variable reduction** as load reduces
- **Improved processes reduce inventory**
- Supplier conferences & increased engagement to **realise price savings**

- Close to **1/3 headcount reduction**
- **c.30% reduction in management roles**
- **5 site consolidations** announced or underway (A&T, turbines, fan blades)
- **>50% reduction in Civil Aero capex**

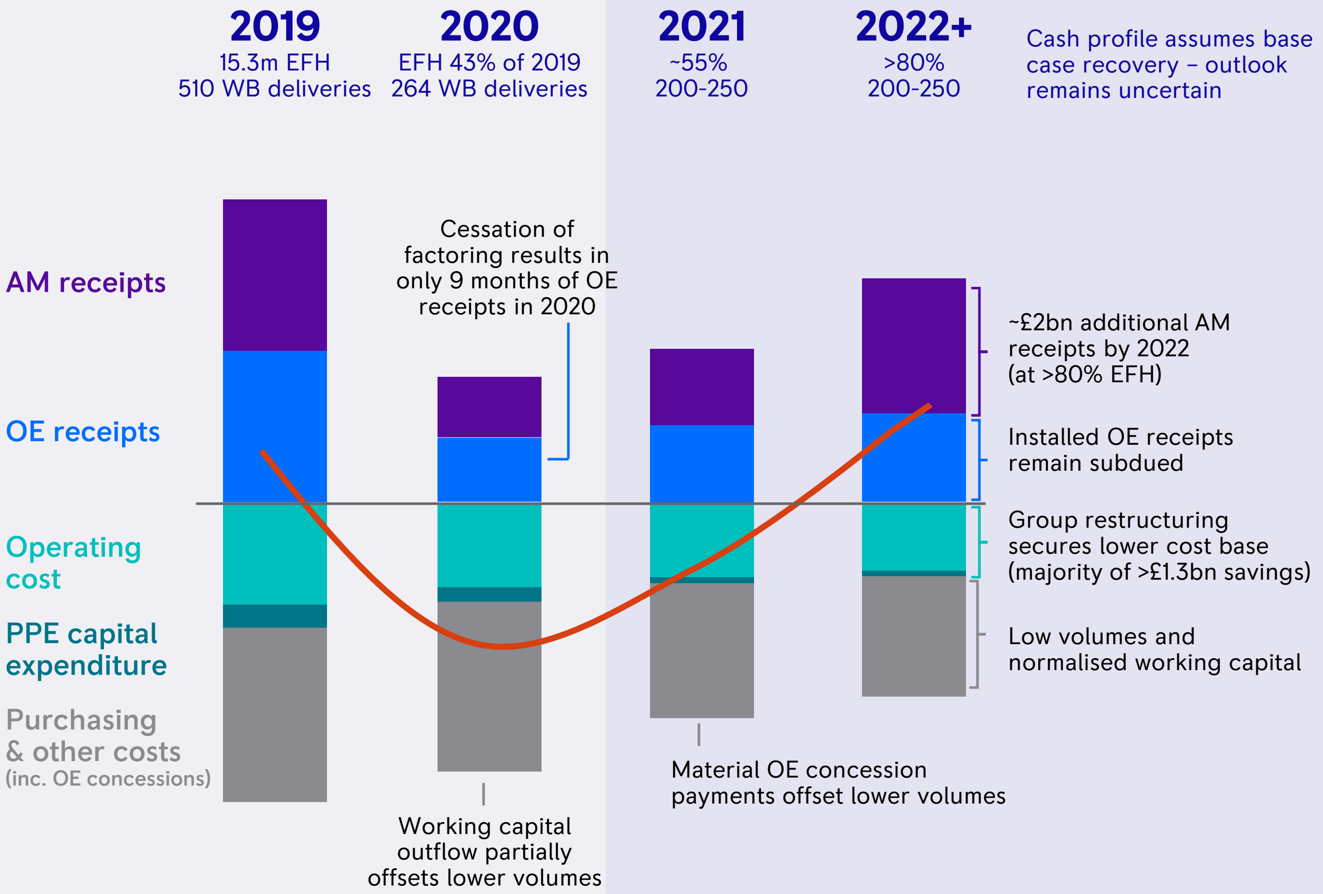
Note:
Graphic not to scale

Cost actions support strong cash flow when market recovers

Substantially lower cost base ensures stronger underlying cash generation than pre-COVID levels once flying hours recover

Note:
Graphic not to scale
Excludes hedge close-out costs

Illustrative Civil Aerospace cash flows



Improved cash flow supported by recovery of Civil Aerospace aftermarket, cost reduction actions, and stabilisation of working capital

Key FCF drivers under Base Case

Targeting improvement to >£750m[2] FCF as early as 2022, dependent on the delivery of our restructuring savings and the recovery in civil aviation

2020 Group FCF

£(4.2)bn

1. Working Capital

- Non-repeat of invoice discounting impact
- Non-repeat of 2020 outflow linked to lower volumes

~£2bn

2. Civil Aero

- Flying hours recover to >80% of 2019 levels
- Improvement in WB T&M
- Lower Trent 1000 costs
- Lower WB OE losses

>£2bn

3. Cost Reduction

- 2020 cash mitigations replaced by fundamental restructuring savings

~+£0.5bn

4. Defence & Power Systems[1]

- Defence resilient; gross profit recovery in Power Systems

~+£0.2bn

5. Non-repeat of one-offs

- 2020 COVID FX / under recoveries
- Increase in hedge closeouts, tax, interest and pensions

~+£0.3bn

£750m[2]

Group FCF **As early as 2022**

Excludes potential disposals, but is after the announced hedge book cash settlement costs of £300m

Note: Graphic not to scale.

[1] Includes contribution from ITP.

[2] Excluding disposals.

Progress on disposals

Significant early progress with two disposals announced

Continue to target at least £2bn by early 2022

Disposals agreed

- **Civil Nuclear** instrumentation & control (I&C) sale agreed with Framatome
- **Bergen** engines business sale agreed with TMH International
- Combined 2019 revenue of ~£0.3bn; **no material impact to future profit or cash flow**

ITP Aero progress

- **ITP Aero:** Hucknall facility & Barnoldswick activity transferring to ITP to enhance value
- **Disposal process underway with multiple interested parties**
- Expected to represent a **significant portion of the >£2bn target**

Further actions

- Advisors appointed and early-stage processes underway for **additional assets**
- Expect **further progress by the end of 2021** on all processes
- Assets across multiple divisions in the Group

2021 guidance summary

	2020	2021	
Civil Aerospace Drivers			
Large engine deliveries	264	200-250	
Large engine LTSA EFH	43% of 2019 levels	~55% of 2019 levels	Significant near term uncertainty over Civil Aerospace outlook
Large engine LTSA major refurbs	272	~250	
Business aviation deliveries	184	100-150	
Power Systems			
Revenue	£2,745m	Return to growth from H2	Order recovery in H1 drives acceleration in sales from H2
Operating margin	6.5%	High single-digit	
Defence			
Revenue	£3,366m	Stable	
Operating margin	13.3%	Stable	
Trent 1000 in-service cash costs	£(524)m	£(300)-(400)m	Accelerated step-down after 2021
Research & Development cash spend	£(904)m	Broadly stable	Increasing shift to low-carbon R&D
PPE Capex	£(579)m	£(350)-(450)m	Group restructuring to reduce capital intensity
Net interest received and paid (including fees on undrawn facilities)	£(172)m	~£(250)m	Increase due to new debt accessed during 2020
Cash tax	£(231)m	Modestly lower	Non-repeat of 2020 timing impact
Pensions (contributions in excess of PBT charge)	£160m	~£(100)m	Timing impact: limited cash cost in 2020 and subsequent catch-up in 2021
Group free cash flow	**£(4,185)m**	**~£(2)bn**	**Cash flow positive at some point in H2**

5 Appendix

Understanding COVID-19 impact on Civil Aero drivers

COVID-19 impacts create distorting impact on Civil Aerospace drivers during 2020

£(4.6)bn trading cash outflow driven:

- Material reduction in EFH
- Large working capital outflow including invoice discounting impact
- Additional 2020 headwinds primarily relating to COVID-19

Widebody OE

- **264 total installed & spare deliveries (2019: 510)**
- **£1.1m avg. installed loss** (2019: £1.2m), *excluding higher under-recoveries*
- Reflects continued **cost reduction** and **lower launch price discounts**
- Profit impact of **lower spare engine volumes**

WB AM Cash Margin

- Material reduction in WB EFH receipts (57% lower EFH)
- Significant reduction in widebody T&M revenues
- Non-repeat of £173m 2019 Trent 1000 insurance receipt
- Partly offset by lower WB major service visits, down 11% YoY to 272

Businesses, Regional & V2500

- Business jet invoiced EFH receipts resilient
- Lower business jet OE profit due to lower deliveries and adverse mix impact
- Material fall in regional jet and V2500 receipts & spare parts due to lower flying hours

Additional 2020 headwinds primarily relating to COVID-19
~£(0.6)bn headwind in 2020 from temporary costs resulting from COVID-19, including material fixed cost under-recoveries and adverse FX costs

~£(0.5)bn operations and engineering costs
~£(1.3)bn R&D, capex & C&A costs
Reductions reflect savings from headcount reduction and mitigating actions

LTSA balance:
Drivers of Civil LTSA balance change

Deferred revenue reflects difference between invoiced EFH receipts and P&L revenues traded

Significant reduction in EFH during 2020 due to COVID-19, however this was **offset by £1.1bn non-cash impact of contract catch-ups to revenues**

Invoiced EFH receipts

Reflects invoiced EFH receipts on long-term contracts across **entire** Civil LTSA-covered fleet

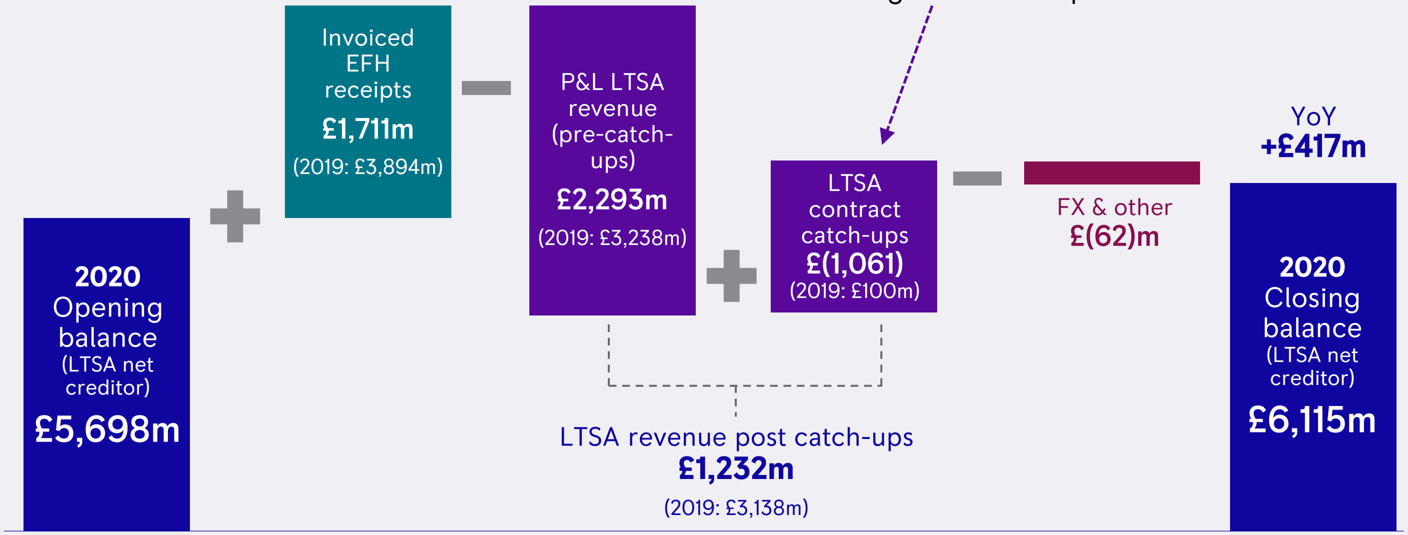
P&L revenue

Driven by cost (e.g. shop visits) across large engine, business aviation and regional fleets. Recognised by contract, as costs incurred, at relevant contract margins

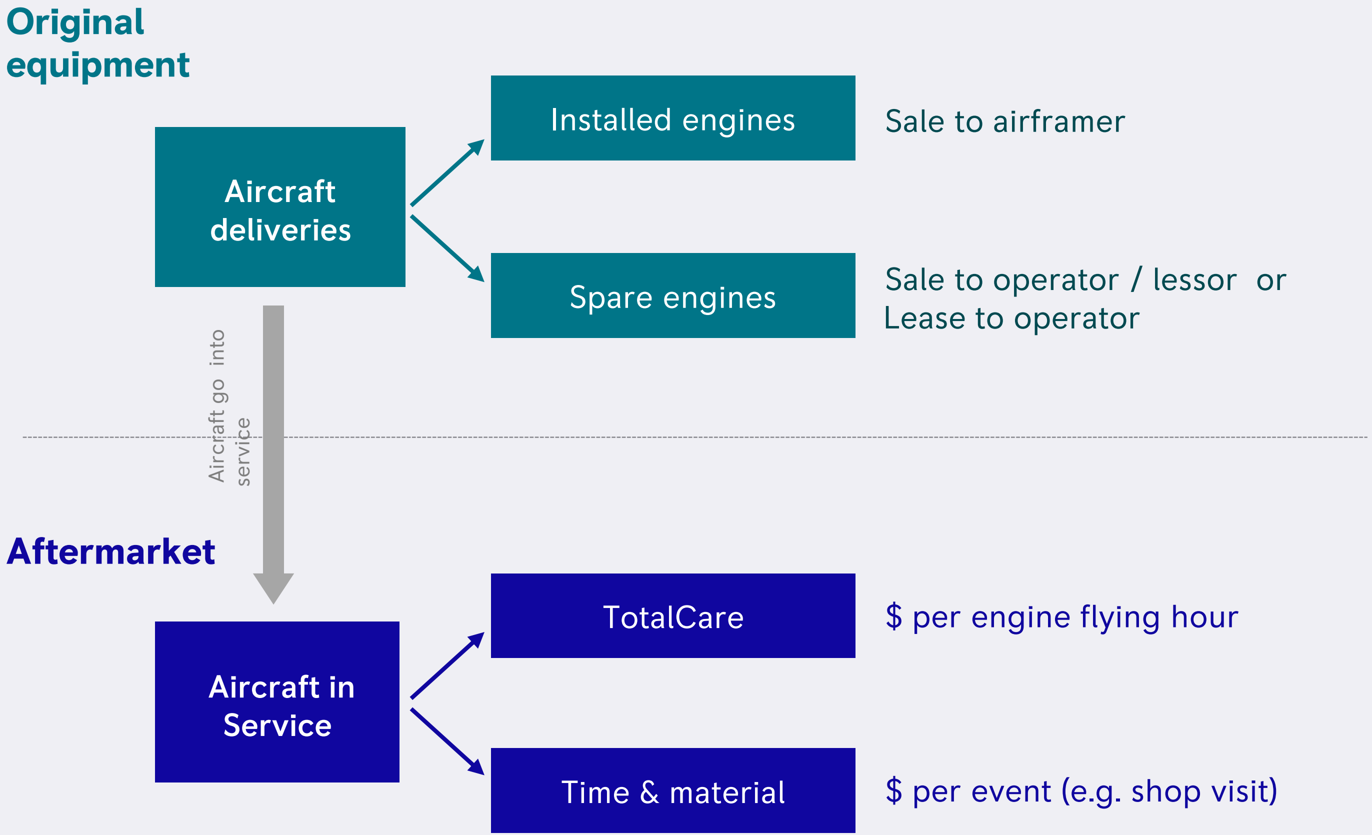
EFH receipts 56% lower YoY led by large engine (2020 EFH 6.6m, 57% lower YoY) and regional, with business aviation more resilient

LTSA revenue post-catch-ups 62% lower YoY at £1,232m

Lower shop visit volumes and adverse margin mix drove modest underlying revenue reduction, before the impact of £1bn negative catch-up



Civil Aerospace key drivers



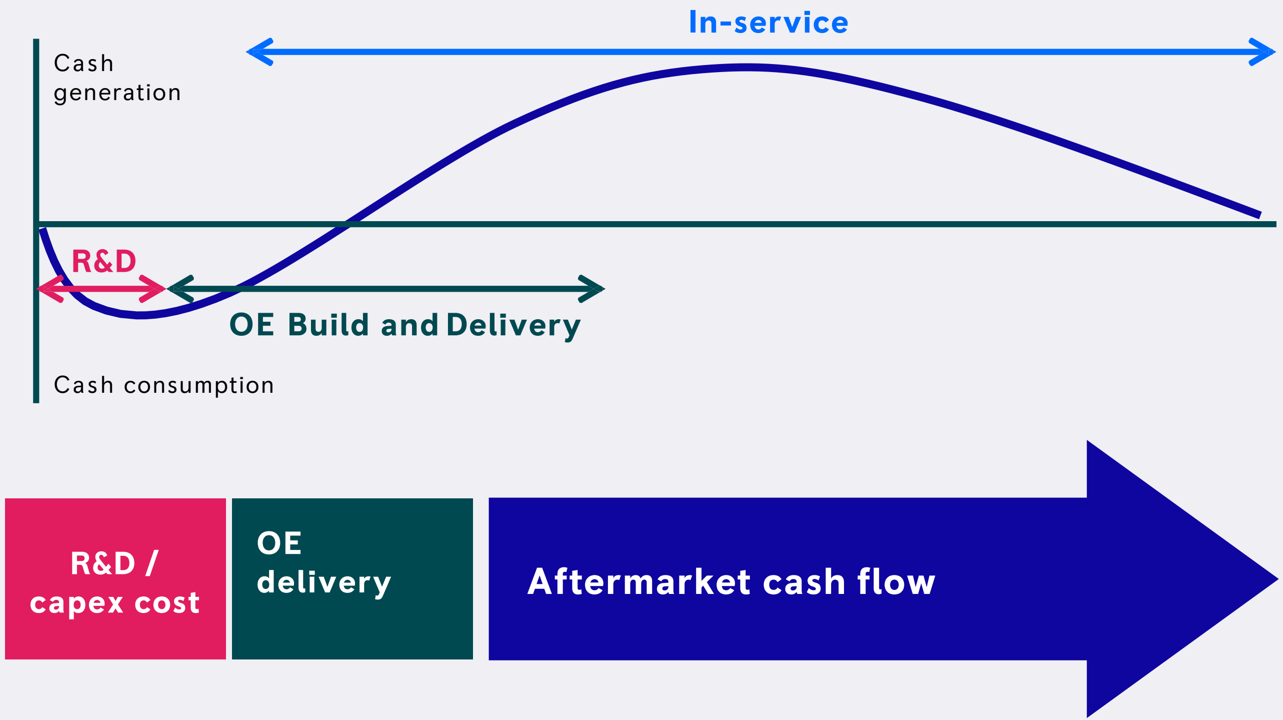
Civil Aerospace investment cycle

Long investment cycles supported by:

Access to government funding for technology development

Risk and revenue sharing partnerships for programme investment

Supply chain and services joint ventures to access capability and spread investment cost



Aftermarket (LTSA) cash profit dynamics

Change in LTSA balance must be added to EBITDA to capture cash flow from aftermarket operations

Illustrative and simple worked example on 1 engine

		$m	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Cash Flow Statement		Engine Flight Hours	20	20	20	20	20	
		x $ per EFH	5	5	5	5	5	
		EFH Receipts	**100**	**100**	**100**	**100**	**100**	**500**
		- Major Service Costs	-	-	-	-	(200)	(200)
	C	**Cash Profit**	**100**	**100**	**100**	**100**	**(100)**	**300**
Profit & Loss		P&L LTSA Revenue (Driven by Costs)	-	-	-	-	500	500
		- Cost (as Incurred)	-	-	-	-	(200)	(200)
	A	**P&L Profit (EBITDA)**	**-**	**-**	**-**	**-**	**300**	**300**
Balance Sheet		Opening LTSA Balance	-	100	200	300	400	
	B	+ Invoiced EFH Receipts	100	100	100	100	100	
	B	- P&L LTSA Revenues	-	-	-	-	(500)	
		Closing LTSA Balance	**100**	**200**	**300**	**400**	**-**	
	A	P&L Profit (EBITDA)	-	-	-	-	300	
	B	+ Δ LTSA Balance	100	100	100	100	(400)	
	C	**Cash Profit**	**100**	**100**	**100**	**100**	**(100)**	

Actions taken to reduce the size of our hedge book

USD hedge book

- Actions taken to reduce the size of the hedge book by **$11.8bn** since the onset of COVID-19, to match latest demand outlook (H1: $10.3bn)
- **£(1,689)m total cost** to close-out excess hedges, resulting in up-front underlying 2020 P&L financing charge and cash costs spread across **2020-26**
- Remaining **$25bn** USD hedge book (2019: $37bn) at an average of **1.52** (2019: 1.53)
- Extends out until 2028, with **100% cover until 2026, approximately 90% in 2027, and 15% in 2028**

Cash costs of closing out over-hedge position

Costs are included in Group FCF definition

£m	2020	2021	2022	2023	2024	2025	2026	Total
Cash cost	186	460	327	£716m across 2023-26				1,689

Trent 1000 update

- Total in-service cash costs now expected to be **~£2.1-2.2bn** (previously ~£2.4bn), due to good progress on disruption (zero AOG from mid-2020) driven by low utilisation in 2020 and progress on retrofit programme
- Improved outlook on small number of loss-making contracts due to reduced disruption profile
- Total exceptional credit of **£620m** (not included in underlying results), reflecting a **£390m** provision release relating to in-service costs and **£230m** relating to reduced losses on loss making contracts

In-service cash cost schedule:

2017-19:	**£1,023m**
2020	**£524m**
2021	***£300 - £400m***
2022	***£100 - £200m***
2023+	***£100 - £200m***
Total:	***£2.1bn - £2.2bn***

~£0.6bn cash costs to-go

Provisions provided for over half of future costs, remainder will be traded through underlying P&L

Trent engine products

Leading widebody market share

£m	Airframe	Market share*	Engines in service	Engines on order
Trent 7000	Airbus A330neo	100%	90	535
Trent XWB	Airbus A350	100%	658	977
Trent 1000	Boeing 787	34%	538	158
Trent 900	Airbus A380	48%	68	2
Trent 800	Boeing 777	40%	134	0
Trent 700	Airbus A330	60%	1,054	2
Trent 500	Airbus A340	100%	68	0
			2,610	**1,674**

* Share of total firm and announced programme sales with an engine decision (excludes cancelled orders)

Civil engine deliveries

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
By engine																		
RB211 22B	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RB211 524	2	5	7	0	5	4	0	0	0	0	0	0	0	0	0	0	0	0
RB211 535	14	6	0	2	0	1	1	0	0	0	0	0	0	0	0	0	0	0
RB211 Total	**16**	**11**	**7**	**2**	**5**	**5**	**1**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Trent 500	88	115	88	97	45	45	57	16	1	8	0	0	0	0	0	0	0	0
Trent 700	35	30	54	59	75	88	125	139	135	157	181	184	140	88	110	63	10	2
Trent 800	30	15	21	25	10	7	9	0	0	0	0	0	0	0	0	0	0	0
Trent 900				20	10	48	33	30	70	64	42	35	6	30	67	44	34	15
Trent 1000									18	46	59	79	106	122	109	125	126	82
Trent XWB-84												13	56	117	196	184	178	109
Trent XWB-97															1	45	56	34
Trent 7000																8	106	22
Trent	**153**	**160**	**163**	**201**	**140**	**188**	**224**	**185**	**224**	**275**	**282**	**311**	**308**	**357**	**483**	**469**	**510**	**264**
Civil Large Engines	**169**	**171**	**170**	**203**	**145**	**193**	**225**	**185**	**224**	**275**	**282**	**311**	**308**	**357**	**483**	**469**	**510**	**264**
Tay	48	43	55	66	80	92	68	51	57	60	67	46	38	28	2	0	0	0
AE3007	217	242	168	113	135	135	32	55	31	43	78	48	34	20	8	10	4	0
BR700	96	131	161	155	183	216	172	184	232	290	326	334	332	244	190	205	191	112
Pearl																2	22	72
Civil Small Engines	**361**	**416**	**384**	**334**	**398**	**443**	**272**	**290**	**320**	**393**	**471**	**428**	**404**	**292**	**200**	**217**	**219**	**184**
V2500*	216	237	327	319	308	351	347	371	418	220	0	0	0	0	0	0	0	0
Civil Total	**746**	**824**	**881**	**856**	**851**	**987**	**844**	**846**	**962**	**888**	**753**	**739**	**712**	**649**	**683**	**686**	**729**	**448**

* V2500 deliveries are recorded until the sale of Rolls-Royce's stake in International Aero Engines on 29th June 2012

Civil engine in-service installed fleet**

Fleet data from Cirium excludes aircraft **temporarily parked** due to COVID-19

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
By engine																		
RB211 22B	48	36	36	12	15	9	12	9	6	6	3	3	3	3	3	3	3	3
RB211 524	829	815	796	791	769	706	643	638	617	530	455	352	302	278	266	242	210	82
RB211 535	1,154	1,192	1,168	1,174	1,158	1,102	1,078	1,056	1,052	1,028	1,026	1,012	908	868	826	850	824	576
RB211 Total	**2,031**	**2,043**	**2,000**	**1,977**	**1,942**	**1,817**	**1,733**	**1,703**	**1,675**	**1,564**	**1,484**	**1,367**	**1,213**	**1,149**	**1,095**	**1,095**	**1,037**	**661**
Trent 500	120	212	292	380	412	432	464	492	480	452	440	388	352	336	280	284	240	68
Trent 700	234	264	306	364	422	492	590	696	816	948	1,114	1,288	1,388	1,460	1,590	1,636	1,606	1,054
Trent 800	376	392	406	430	444	442	448	450	444	446	436	422	362	352	330	334	320	134
Trent 900	0	0	0	0	4	36	60	80	140	208	244	280	304	332	360	400	428	68
Trent 1000	0	0	0	0	0	0	0	0	6	44	84	164	260	384	476	546	658	538
Trent XWB-84	0	0	0	0	0	0	0	0	0	0	0	2	30	124	278	432	590	562
Trent XWB-97	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	28	70	96
Trent 7000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	2	80	90
Trent	**730**	**868**	**1,004**	**1,174**	**1,282**	**1,402**	**1,562**	**1,718**	**1,886**	**2,098**	**2,318**	**2,544**	**2,696**	**2,988**	**3,314**	**3,662**	**3,992**	**2,610**
Civil Large Engines	**2,761**	**2,911**	**3,004**	**3,151**	**3,224**	**3,219**	**3,295**	**3,421**	**3,561**	**3,662**	**3,802**	**3,911**	**3,909**	**4,137**	**4,409**	**4,757**	**5,029**	**3,271**
Spey	1,090	1,024	992	946	914	864	802	760	702	632	580	506	460	430	404	360	284	252
Tay	1,599	1,572	1,623	1,755	1,769	1,825	1,861	1,869	1,917	1,969	2,019	2,011	2,035	2,027	1,993	2,009	1,946	1,892
AE3007	1,934	2,164	2,328	2,458	2,564	2,520	2,528	2,562	2,550	2,544	2,598	2,534	2,468	2,326	2,302	2,448	2,472	2,028
BR700	864	990	1,144	1,272	1,446	1,560	1,752	1,910	2,128	2,362	2,696	2,964	3,388	3,642	3,858	4,098	4,322	4,314
Pearl	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	36
Civil Small Engines	**5,487**	**5,750**	**6,087**	**6,431**	**6,693**	**6,769**	**6,943**	**7,101**	**7,297**	**7,507**	**7,893**	**8,015**	**8,351**	**8,425**	**8,557**	**8,915**	**9,024**	**8,522**
V2500*	930	1,054	1,196	1,348	1,492	1,613	1,722	1,852	2,002	0	0	0	0	0	0	0	0	0
Civil Total	**9,178**	**9,715**	**10,287**	**10,930**	**11,409**	**11,601**	**11,960**	**12,374**	**12,860**	**11,169**	**11,695**	**11,926**	**12,260**	**12,562**	**12,966**	**13,672**	**14,053**	**11,793**
Fleet growth	**8%**	**6%**	**6%**	**6%**	**4%**	**2%**	**3%**	**3%**	**4%**	**-13%**	**5%**	**2%**	**3%**	**2%**	**3%**	**5%**	**3%**	**-16%**

* 50% of the total V2500 fleet included

** Installed engine base is net of retirements and excludes aircraft which are parked or in storage

Civil in-service thrust base
(millions lbs)**

Fleet data from Cirium excludes aircraft **temporarily parked** due to COVID-19

By engine	Thrust per engine (lbs)	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
RB211 22B	60,000	3	2	2	1	1	1	1	1	0	0	0	0	0	0	0	0	0	0
RB211 524	60,000	50	49	48	47	46	42	39	38	37	32	27	21	18	17	16	15	13	5
RB211 535	40,000	46	48	47	47	46	44	43	42	42	41	41	40	36	35	33	34	33	23
RB211 Total		**99**	**99**	**97**	**95**	**93**	**87**	**82**	**81**	**79**	**73**	**69**	**62**	**55**	**52**	**49**	**49**	**46**	**28**
Trent 500	56,000	7	12	16	21	23	24	26	28	27	25	25	22	20	19	16	16	13	4
Trent 700	72,000	17	19	22	26	30	35	42	50	59	68	80	93	100	105	114	118	116	76
Trent 800	92,000	35	36	37	40	41	41	41	41	41	41	40	39	33	32	30	31	29	12
Trent 900	70,000	0	0	0	0	0	3	4	6	10	15	17	20	21	23	25	28	30	5
Trent 1000	71,000	0	0	0	0	0	0	0	0	0	3	6	12	18	27	34	39	47	38
Trent XWB-84	84,000	0	0	0	0	0	0	0	0	0	0	0	0	3	10	23	36	50	47
Trent XWB-97	97,000														0	0	3	7	9
Trent 7000	72,000														0	0	0	6	7
Trent		**58**	**67**	**76**	**87**	**95**	**103**	**114**	**125**	**137**	**152**	**168**	**185**	**196**	**217**	**243**	**270**	**297**	**198**
Civil Large Engines		**157**	**166**	**172**	**182**	**188**	**190**	**196**	**206**	**216**	**226**	**237**	**247**	**251**	**269**	**292**	**319**	**343**	**226**
Spey	11,000	12	11	11	10	10	10	9	8	8	7	6	6	5	5	4	4	3	3
Tay	15,000	24	24	24	26	27	27	28	28	29	30	30	30	31	30	30	30	29	28
AE3007	7,500	15	16	17	18	19	19	19	19	19	19	19	19	19	17	17	18	18	15
BR700	15,000	13	15	17	19	22	23	26	29	32	35	40	44	51	55	58	61	65	65
Pearl	15,000	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Civil Small Engines		**63**	**66**	**70**	**74**	**78**	**79**	**82**	**84**	**88**	**91**	**97**	**99**	**105**	**107**	**109**	**114**	**116**	**112**
V2500*	27,500	26	29	33	37	41	44	47	51	55	0	0	0	0	0	0	0	0	0
Civil Total		**246**	**261**	**275**	**294**	**306**	**313**	**326**	**341**	**359**	**317**	**333**	**346**	**356**	**376**	**402**	**433**	**459**	**338**
Thrust Growth		**9%**	**6%**	**6%**	**7%**	**4%**	**2%**	**4%**	**5%**	**5%**	**-12%**	**5%**	**4%**	**3%**	**6%**	**7%**	**8%**	**6%**	**-26%**

* 50% of the total V2500 fleet included
** Installed engine base is net of retirements and excludes aircraft which are parked or in storage

Defence aero engine deliveries

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	**2020**
Transport	265	289	305	296	239	266	286	323	311	262	211
Helicopters	343	412	438	479	418	307	278	226	213	200	133
Combat	102	103	113	108	81	69	74	38	23	27	44
Trainers/Other	0	10	8	10	6	7	23	18	13	10	9
Total	**710**	**814**	**864**	**893**	**744**	**649**	**661**	**605**	**560**	**499**	**397**

Safe harbour statement

This announcement contains certain forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of the Company's strategic transactions, are forward-looking statements. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement, and will not be updated during the year. Nothing in this announcement should be construed as a profit forecast. All figures are on an underlying basis unless otherwise stated - see note 2 of the Financial Review section of the 2020 Full Year Results Statement for the definition.

Contacts

Isabel Green
Head of Investor Relations
isabel.green@rolls-royce.com

Elena Prentice
Investor Relations & ESG Manager
elena.prentice@rolls-royce.com

Georgina Ashby
Investor Relations & ESG Associate
georgina.ashby@rolls-royce.com