Rolls-Royce Holdings Plc
2021 Half Year Results

Thursday, 5th August 2021

Introduction

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Welcome

Hello and welcome everyone to our 2021 Half Year Results Presentation. With me here today are Warren East, CEO, and Panos Kakoullis, our recently-appointed CFO. Warren will begin today's presentation with an overview of our first-half performance, before handing over to Panos for a more detailed review of our financial results. Warren will then conclude with an update as we look out to the future. In all, this should take less than 40 minutes, leaving time at the end for your questions.

Safe Harbour Statement

Before we begin, please take note of the safe harbour statement on slide two. This results presentation contains forward-looking statements that involve risk and uncertainty, which may cause the actual results to differ materially. The full set of results materials can be downloaded from the investor relations section of our website.

Thank you and over to you, Warren.

H1 2021 Highlights

Warren East

Chief Executive Officer, Rolls-Royce Holdings Plc

Summary

Thank you, Isabel. Hello everyone and thank you for joining us for our virtual Half Year Results Presentation. As Isabel mentioned, I'm very pleased to be joined today by our new CFO, Panos Kakoullis. Panos joined us in May, bringing with him a wealth of financial experience from over 30 years at Deloitte, and we're delighted to have you on board, Panos.

Since our full-year results we've also appointed a new chair, Anita Frew, who joined the board a month ago and will succeed Sir Ian Davis on the 1st October. Anita is an experienced chair, with in-depth experience from two decades of board appointments, both in the UK and internationally, and we look forward to utilising her skills for the benefit of the Group. I'd also like to take this opportunity to thank Sir Ian Davis for his outstanding contribution and dedication to Rolls-Royce, and his stamina. We wish him the very best for the future. This half we also appointed Mike Manley as Non-Executive Director and he joined the board from the 1st July. Mike has led businesses in the automotive sector in Europe, Asia and the US, and we value what his capability and experience will bring to us.

This half, however, has not only been busy in terms of board appointments, it's also been a great chance to get out on the road again, so here on the slide are a couple of examples. In late May we opened our new testbed in Derby. Testbed 80 is the world's largest and smartest indoor aerospace testbed, and covers both production and experimental testing requirements, and it was a major milestone for us. It's essentially a scientific instrument that's about the size of a cathedral, with the most advanced testing technology we've ever used. We were delighted to have the Right Honourable Kwasi Kwarteng, Secretary of State for the Department of Business, Energy and Industrial Strategy, to join us for the opening ceremony.

I also recently joined UK rail operator Chiltern Railways as they celebrated their 25th anniversary, and they chose that event for the first journey on the public rail network for their new HybridFLEX train. That was the result of a joint project that we've undertaken with Porterbrook, the UK's largest owner of passenger rolling stock, to bring hybrid trains to the UK network. The HybridFLEX uses our MTU Hybrid PowerPack and Jens Gorchka, with me in the picture, is our engineer who's been babysitting it through several months of final trials and testing. This is just one of many examples of how our technology is playing a pivotal role in the transition to net zero, and we were absolutely delighted to be part of the groundbreaking team, alongside Chiltern Railways and Porterbrook. And that HybridFLEX is due to begin regular services in September.

H1 2021 Highlights

So now moving on and looking at our first-half highlights. We've seen good progress and improvements in many areas across the Group, and we're delivering on our commitments. Business performance is in line with our expectations and guidance, and we're moving forward with new business opportunities for future growth.

> *Performance in Civil Aerospace improving, Defence demand for tech-led solutions, Power Systems order intake recovering*

In Civil Aerospace, we've made excellent progress with the restructuring programme, and I'll go into that in a bit more depth in a moment. Business aviation had a strong performance, with flying activity returning to levels that we last saw in 2019, and that's also been the case for our large engines that are operated on domestic routes in both the US and China. And, in Defence, there's been demand for technology-led solutions, with the US Department of Defense and the UK Ministry of Defence remaining completely committed to serious modernisation and decarbonisation of their fleets. In Power Systems, we've seen a recovery in our order intake and book-to-bill ratio, with orders up 19% year-on-year, led by demand improvements in all our markets, but particularly in marine, governmental and power generation.

> *Net zero pathway announced and investment in new growth opportunities*

In June, we went public with our net zero pathway and we announced targets which set out our plan to develop new technologies, accelerate the take-up of sustainable fuels and drive step-change improvements in fuel efficiency. Now, as well as decarbonising our existing businesses, we're making disciplined investments in some exciting and potentially very significant new growth opportunities to lead the way to net zero power with our innovation and engineering excellence, and grow the civil aero business into subsectors that are new for us.

Restructuring Progressing Well

Turning to the next slide, let's have a quick update on the progress that we've made on the restructuring programme we announced 15 months ago; that's been focused on our Civil Aerospace business.

We committed to a reduction of at least 9,000 roles across the Group. To date, we've removed around 8,000 and we remain confident of reaching our target. That will be a reduction in Civil Aero of about a third of management roles, with commensurate reductions across staff functions, engineering and manufacturing.

Our footprint rationalisation is progressing well. We launched our last large engine for assembly in Singapore as we consolidate that activity here in the UK. We've moved equipment from Crosspointe in the US, and ahead of closing that facility the machines were already up and running in Derby and contributing to improved productivity there. And, when complete, we will have consolidated 11 sites down to six, delivering productivity and operational cost benefits, and that builds on our investments in efficiency that we made previously and we continued to roll out during 2020. So, all in all, we're now achieving significant reductions in cycle times and overall productivity improvements.

With CapEx reductions as well and operational cost improvements, we therefore remain on track to deliver cash cost savings of at least £1 billion in 2021 and over £1.3 billion of sustainable run rate savings by the end of 2022.

Financial Performance

Strong liquidity and improving financial performance

And moving on to the next slide to summarise what this means for our financial performance. We've had a solid start to the year, with improving cash flows and profits as expected. Our business split is looking more evenly balanced. On underlying, our underlying operating profit increased significantly at £307 million, and our free cash flow, though still in negative territory, was also markedly improved to just under £1.1 – £1.2 billion of cash outflow for the half as we transition towards positive cash generation.

Our restructuring programme is delivering results and, as I said a moment ago, we expect to achieve over £1 billion in savings, versus 2019, this year. This also makes us a leaner organisation with a lower breakeven and much better operational gearing as growth resumes. And our disposal programme is also progressing well towards our target of at least £2 billion in proceeds.

With £7.5 billion of liquidity and no maturities before 2024, we're confident that our position is strong and not dependent on the pace of civil aerospace recovery. And, in addition, of course we expect to generate funds as we execute on our disposal activity.

So I'll now hand over to Panos for a more detailed review of our results.

Financial Results

Panos Kakoullis

Chief Financial Officer, Rolls-Royce Holdings Plc

Good morning everybody and thank you, Warren. I'm delighted to be here taking you all through my first set of results. I'm very excited to have joined Warren and the rest of the Rolls-Royce leadership team in helping the business achieve its true potential in the coming years. And what attracted me most is the opportunity to help fulfil that potential by very clearly delivering on the commitments we have made, by building a balanced, profitable and cash-generative business, by getting the balance sheet back into good shape, and by helping capture the demand and upside created by the energy transition.

2021 Half Year Underlying Results

From continuing businesses

So let's just move on to the numbers. Our half year results, which we presented here on an underlying basis for the continuing businesses in the Group, well they show a solid start to the year. Our restructuring programme is very much on track and has helped to drive our return to profit in the period.

Underlying revenue, that stayed steady, only 2% lower than the first half of 2020, and we've seen a much more balanced contribution from across the business units. Last year, while the first quarter was relatively unaffected by the emerging pandemic and, as you'd expect, provides a challenging comparative. Whilst the second quarter last year was severely impacted; in fact, April 2020 was the low point for industry flying hours. This half year has been much less volatile, despite some continued uncertainty, with gradual recovery across the period.

Operating profit was £307 million. This reflected the significant cost savings in the restructuring programme that was largely focused on Civil Aerospace. We've also benefitted from some favourable timing and the mix of activity in both Defence and Power Systems. In addition, last year's underlying operating loss of £1.6 billion included £1.2 billion of one-off charges in Civil Aerospace, mostly related to the impact of COVID-19.

In the first half, we've incurred £174 million of financing costs. This primarily reflects the interest charges and facility fees on the debt and facilities that we secure to underpin our robust £7.5 billion liquidity position. That liquidity provides us with the confidence in our ability to withstand ongoing uncertainties around the pace of recovery in international travel. Financing costs in the prior period, well they included a £1.5 billion one-off charge on closing the over-hedged position.

Civil Aerospace

Turning now to civil aerospace. We've seen an overall improvement in performance driven by the significant cost actions we've taken. In addition, we're seeing a recovery in business aviation and domestic flying activity, where our engine flying hours have returned to 2019 levels during the period. Large engine, long-term service agreement flying hours were 43% of the 2019 level, up from 34% in the second half of 2020. And this gradual upwards trend is still constrained by ongoing international travel restrictions and the uneven progress of vaccination programmes around the world.

During the period, we completed 284 large engine shop visits, 92 of which were major overhauls. Demand for a new aircraft is expected to follow once existing fleets are well-utilised. We delivered 100 large engines and 48 business jet engines in the first half, broadly in line with expectations.

Civil revenue is £2.2 billion, some 13% lower than the comparative period. We've returned to operating profit at £39 million. We continue to focus very heavily on the areas within our control and have seen substantial, sustainable cost benefits from our restructuring programme. We are well on the way to reducing the size of our Civil Aerospace business cost base by around a third.

Defence

Our Defence business, which is set out on the next slide, continues to perform well. Revenue of £1.7 billion is up 17% year-on-year. Operating profit is at £269 million, up from £210 million in the first half of 2020. We've seen continued demand and improved operational performance. This is driven by the continued resilience of our Submarines business, coupled with early delivery of spare engines and higher spare part sales. That mix, which delivers better margins, has historically been more second-half weighted. Now, that favourable timing and mix in the first half is expected to result in a stronger first-half versus second-half performance. So our full-year expectations for broadly flat revenue and profit in Defence are unchanged. We have a strong order book, giving us confidence in that outlook, with more than 70% cover for our expected sales in 2022.

Power Systems

In Power Systems, which we've set out on the next slide, revenues were broadly stable in the first half, with an increase in services offset by a reduction in OE deliveries. Operating profit was £41 million, up from £33 million in the first half of 2020. We've seen a rise in higher margin aftermarket spare parts, partly offset by low factory utilisation on OE manufacturing.

Now, the other point of note here is that order intake was up 19% to £1.4 billion. This is led by improved demand across all of our end markets, with particular focus in marine, governmental and power generation. Most of that recovery in OE order intake is expected to be realised as revenue over the next six to 12 months.

We're also seeing interest in lower carbon solutions growing, and we continue to wisely focus our R&D investment on these products.

£1.7bn Improvement in Free Cash Outflow

> *Improvement led by cost reduction, focused investment and reduced working capital outflow*

Turning to the next slide, we've set out our funds flow. We saw a £1.2 billion cash outflow in the period from our continuing operations, which is a significant improvement on the £2.9 billion outflow last period. And just to help you understand it a little bit better, we've grouped this movement into three buckets. Firstly, we saw a trading improvement of around £1 billion. This looks through some of the noise of non-cash items and was driven by a fundamental improvement in EBITDA, thanks in large part to our cost savings. Our capital expenditure was lower too, in line with planned spend as part of the restructuring.

Secondly, our working capital outflow was £1.2 billion better than the first half of last year. This was mostly due to the non-repeat of the unwind of invoice factoring. Our concession balance fell by £239 million, which was lower than we'd planned for due to third-party deliveries moving out. Our strong liquidity positions means we are not sensitive to the precise timing of the unwinding of these delayed concessions.

Thirdly and finally, there are around £500 million of other headwinds year-on-year. Payments relating to the cash cost of closing out the over-hedged position in 2020 increased in line with our previous disclosures, and you can see the detail of that in our supplementary slides.

Interest and facility fees increased as guided, with higher average debt and committed fees on facilities that strengthen our liquidity position. Pension cash costs were higher due to a one-off catch up on a payment that was deferred from last year.

Our free cash flow is continuing to improve. The combination of restructuring and recovering end markets is putting us on track to get back to positive cash generation. We remain confident that we can deliver on our guidance for around £2 billion outflow for the current year.

Rebuilding the Balance Sheet

Improving free cash flow, disposals progressing well

Turning now to our balance sheet on the next slide. We ended the period with net debt before leases of £3.1 billion and we expect to end the year around £4 billion. To rebuild our balance sheet and get back to an investment grade credit profile in the medium term, we are very focused on executing on our disposals programme, together with tightly-managed operational improvements in driving positive free cash generation from the business.

A strong balance sheet is important to us. We will balance the pace of that rebuild with the investment opportunities across our portfolio to make sure that we maximise long-term return for our shareholders.

Our liquidity position is strong at £7.5 billion. That is after repaying the €750 million bond and the £300 million COVID corporate finance facility in the period. And we've recently extended the 2022 £1 billion unutilised loan facility to 2024. That means all of our debt maturities extend to at least 2024. We're confident in our liquidity position; it's strong and we're not dependent on the pace of civil aerospace recovery.

Disposals Programme Progressing Well Towards Target

Focused disposal programme to sell non-strategic assets

The disposals programme is progressing well and we continue to target proceeds of at least £2 billion. We can't say much in detail here because of the ongoing processes, but we are having very constructive discussions and expect to achieve proceeds within the next 18 months.

Earlier this year, our announced agreement to sell Bergen Engines was interrupted. We're now back on track and you'll have seen the agreement that was announced yesterday. We're focused on getting the right results for our shareholders and we will continue to do so in a measured way with plenty of liquidity, and there are no near-term pressures as we rebuild the balance sheet. We will focus on making sure that we achieve the right value for our investors.

2021 Outlook and Guidance

Good start to 2021, on track to deliver on our commitments

Moving on to outlook. We've made a good start to 2021 and our guidance for the full year is unchanged. We continue to expect to turn free cash flow positive sometime during the second half of this year. We also expect a full-year free cash outflow of around £2 billion, which would represent an improvement of over £2 billion on 2020. This outlook is supported by continued resilience in Defence, growth in order intake in Power Systems, a gradual recovery in Civil Aerospace and our actions to drive down costs. As previously highlighted in our full-year results in March, our guidance does, of course, remain sensitive to the timing of OE concession outflows on already delivered wide-body engines.

Looking further ahead, we are confident that when border restrictions are lifted, the recovery of international travel will accelerate. The recovery we are already seeing in domestic and business aviation is encouraging. Free cash flow of at least £750 million is still achievable in a 12-month period, when engine flying hours exceed 80% of 2019 levels. However, given the uncertain pace of recovery in international travel and looking at industry forecasts, it's unlikely that this will occur in 2022.

Strong liquidity and priority to rebuild the balance sheet

With a clear pathway back to a net cash position in the medium term, we have plenty of liquidity to manage the uncertain pace of the recovery in engine flying hours in the meantime. We're positive on the near-term opportunities in both Defence and Power Systems. The opportunities in our new areas of business – Electricals and SMRs. We remain agile in our response to external factors and continue to deliver on our restructuring, rebuilding our balance sheet and investing in our future.

Before I hand back to Warren, let me just give you two minutes on what I'm very much focussed on going forward. I've very clearly heard three things in meeting our investors.

One, make sure you deliver on the near-term commitments you've made. Two, simplify financial reporting. Make it easier for us to understand the business. And three, set achievable targets for the medium term and then achieve them, or even beat them.

And here are my clear priorities which I'm going to keep returning to and reporting against. We need to deliver on our commitments, and right now the focus for me is to realise the sustainable savings from our restructuring programme, making sure that costs go out and stay out. That gives us a clear route to rebuilding our financial position. Last year, that was a very challenging one for Rolls-Royce and we were well-supported by our investors, lenders in the UKEF. As a result, we have around £3 billion of net debt today. That is too high. We will reduce it over the coming years.

Secondly, we need to simplify. We need to break down the complexity in our financial communication. There is progress to be made in having a more straightforward way of explaining the finances in our business. I've taken some steps already to reduce the complexities and there is more to come.

And finally, as we look in setting those targets, we look to the future, we're going to continue to wisely invest in that future. We're at an exciting juncture with huge opportunity to lead our markets in a journey to net zero. We also have the opportunity to take our innovation and technology into new markets with incremental growth, and we won't stop investing in our current products. There are good near-term returns available from increasing durability and efficiency.

So three things – deliver on the commitments, simplify how we report and invest wisely. With that, I'll hand it back to Warren.

Looking to the Future

Warren East

Chief Executive Officer, Rolls-Royce Holdings PLC

Thank you, Panos, for the clarity there on our half-year results, and thank you for the insight into the priorities that we've been discussing. I'm now going to turn to the future and the opportunities to further progress our business.

We have a fundamental role to play in meeting the challenge of climate change

So as many of you know, in June, we launched our net zero pathway and targets, and although we operate in some of the hardest areas of the global economy to decarbonise, we showed our commitment to playing a fundamental role in meeting the challenge of climate change. Now, that doesn't mean that we're stepping away from our traditional markets. Rather, that we're applying our engineering expertise in technology to find innovative and more sustainable solutions which enable our customers to do things like continue flying without damaging the environment. At the same time, those solutions can generate additional growth opportunities for our business.

On the left-hand side, you can see how a focussed range of our interrelated technologies is applicable to decarbonise the complex, critical systems in which we operate within a broad category of energy, transport and to the built environment. So there's not time today to discuss that part of the slide in depth.

Applying technical pathways to decarbonise complex, critical systems

The main graphic demonstrates our technology pathway to net zero in three broad categories. With fuel efficiencies, new technologies and sustainable fuels, we can make a huge difference to Scope three greenhouse gas emissions by 2050.

Net Zero Targets

On the right-hand side, you can see compatibility with sustainable fuels plays a central role as we outline some of our Net Zero targets and commitments. These are also reflected in our remuneration policy. By 2023, we aim for all of our in-production commercial aero engines and our most popular diesel engines to be compatible with sustainable fuels. And by 2030, for all of our new products to be compatible with net zero operation. And in our power systems business, we aim to achieve a 35% reduction in lifetime emissions of new products sold. And by 2050, our ambition is for all of our products to be compatible with net zero operation.

Now, these are not simple goals. These will require collaboration across our businesses within Rolls-Royce as well as within a growing and evolving ecosystem.

Looking to the future

So looking to the future. Looking to our future strategy is about enhancing profitability in our existing businesses and developing growth opportunities triggered and enabled by the energy transition. The foundation is our large installed base. We're driving value in our existing portfolio through product enhancements that increase the efficiency of our products, so delivering more value to the customer, and also increasing durability in our civil business, for instance, leading to increased time on wing, and therefore increased profitability of our long-term service agreements.

Civil Aerospace

In Civil Aerospace, we're now entering a lower investment phase as our engine programmes mature. Now our focus is on further productivity and efficiency gains, for instance, with increased use of digital technology. Meanwhile, we're ensuring compatibility of our civil and business aviation engines with sustainable aviation fuels, and our UltraFan architecture will deliver a further step change in efficiency, making it easier for our customers to adopt the more expensive SAFs in the long run.

Power Systems

In Power Systems, we have a loyal customer base with replacement cycles that are regular and relatively predictable. And that gives us a great opportunity to work with those customers as we convert together, driving penetration of greener technology based around hydrogen, hybrid and pure electric solutions. We're also exploring ways to expand our network further into newer growth regions globally.

Defence

In Defence, our products have long life spans which require us to provide upgrades in aftermarket services. We're also making investments in adjacent opportunities to expand our product portfolio further and, as mentioned at the full-year results, we estimate over £7 billion of lifetime value from tenders that are related to the B-52 Re-Engining Programme and the US Department of Defense Future Vertical Lift programme. We're also working with our defence customers on compatibility with sustainable fuels, and opportunities for new and greener solutions.

New business opportunities

Now, the energy transition also creates opportunities for new business. In Rolls-Royce Electrical, we're focussed on the electrification of aviation. For us, that's about applying new technology to a market that we know very well indeed. For instance, safety and weight considerations, of which we have a thorough and deep understanding, are absolutely paramount.

This offers some of the most exciting and innovative areas for growth outside of our current portfolio. We now have over 300 engineers working in our aerospace electrical business, a fourfold increase over the last two years. And since we last updated you at the full-year results, we've made excellent progress on the development of our electric propulsion systems for smaller aircraft.

Our commercial contract with Vertical Aerospace, left-hand picture on the slide, is progressing very well around the eVTOL vehicle. And they recently announced pre-orders for 1,000 aircraft with a potential value of over $4 billion. Vertical also recently announced their intention to list on the New York Stock Exchange.

In another subsector, we announced the collaboration with Tecnam and Widerøe to cover the development and delivery of the zero-emissions P-Volt commuter aircraft – that's the middle picture on the slide – targeting an entry into service in the middle of the decade. We're also now testing a 2.5 megawatt power generation system for use in hybrid-electric propulsion. We saw a picture of that generator also on the front cover of this presentation.

We'll talk more about Rolls-Royce Electrical, and for that matter, SMRs, with our full-year results, reflecting the way that we create focus on these areas internally in line with normal requirements for segmental reporting. And it's not just about developing new technologies for markets we know well. The energy transition is also an opportunity to take technology we know well and apply it to new markets in pursuit of growth. And that's what we're doing with SMRs.

Rolls-Royce Small Modular Reactors

So turning to SMRs, or small modular reactors. It's not just about developing new technology for markets we know well. No, the energy transition is also an opportunity to take technology that we know very well and apply it to new market in pursuit of growth. And that's what we're doing with SMRs.

Firstly, it's important to note that as with Rolls-Royce Electrical, any SMR revenue generated will be additive to the current portfolio. And the reason why we see so much potential in SMRs is because they are affordable for both on-grid and off-grid applications providing zero carbon, non-intermittent electricity. But they're also scalable to create large quantities of zero carbon power in a reasonable timeframe, and it's increasingly clear that the world needs large-scale practical solutions fast.

It's important to note that this isn't just about electricity for the grid. SMRs are ideal for the production of zero carbon, hydrogen, synthetic aviation fuel and other sustainable fuels, so further enabling the production of clean energy for a range of different sectors and applications. And there's countries around the world who seek to comply with their legally binding carbon abatement targets, so stable supply of low-cost power becomes incredibly important. Our SMRs fit that need perfectly, creating a substantial global opportunity even though our initial efforts, highlighted here in the timeline on the slide, are focussed on a UK grid-based application.

We're particularly excited just now, we're in the process of forming a special purpose vehicle to take the programme forward into the next stage of its development. And we intend to enter the UK regulatory process this calendar year. We'll step through the regulatory and policy processes in tandem and we'll be targeting first power to the UK grid around 2030 with export orders following shortly thereafter.

Summary

So let's summarise. I'll reiterate some of the key points for a takeaway. First and foremost, we're delivering on our financial priorities. Our restructuring is on track and delivering the results that we expected. Our disposal programme is also progressing well towards our target of at least £2 billion in proceeds. Our cash flow and profitability are both showing significant improvement and they're on track for our 2021 guidance. And we have the strong liquidity and clear pathway needed to get back to net positive cash and an investment grade profile.

Furthermore, as we look forward towards a low-carbon future, we will play a leading role in the transition to net zero carbon emissions by 2050. And that is through both decarbonisation of our existing businesses and through multiple exciting growth opportunities for incremental business.

And with that, I'd like to thank you all for listening.

Q&A

Andrew Gollan (Berenberg): Hi, thanks. Good morning, everyone. And welcome, Panos. Two questions please. The first one is on the concession payments issue. So what is the expected benefit to free cash flow this year from the deferred payments on the Trent 1000 and compared to your assumption when you first guided to a free cash flow – or free cash outflow of 2 billion? And I guess effectively, is it just an offset to the lower than hoped engine flying hours? So that's the first question.

Second question on fleet exposure. So pre-COVID, can you say what the percentage of engine flying hours were from Asia Pacific ex China? And, you know, given the slow progress of vaccinations there, you know, what are your expectations for flight hours in that region in 2022, please? Thank you.

Warren East: Yeah. Okay. Do you want to go and take the concession payments, Panos, and –

Panos Kakoullis: I will do. Thank you. Thanks, Warren, and good morning, everybody. Delighted to be here for the – my first set of results. I guess, Andrew, what I would say, when I look at full-year guidance, one of the things that struck me as I came into the business was this is a very broad-based group with three businesses in it and there are a number of variables, some in our control and some not in our control when we look at that full-year guidance.

We've reiterated the 2 billion outflow this year. There are definitely some ups and downs within that. You've mentioned concessions. There are some concessions that could go out and there are indeed some that could come back in. So there is some variability there. There is I guess a hedge within that around recovering engine flying hours as well.

So when I look across the whole group, we're comfortable in reiterating that guidance for this year when I look at each of the variables, particularly the ones that are in our control. We sort of highlighted the benefits that we're getting from the cost measures and the restructuring that we've already taken within the group.

In terms of fleet exposure around those – around those details, one thing I would highlight, and you've talked about China in particular, we have seen a recovery in domestic flying hours back to 2019 levels, and we know there is – a significant part of that comes from Chinese domestic flights.

Warren East: Yeah. I think the answer on the regional piece is that, you know, yes, we do have an exposure in Asia and they are big customers. Cathay and Singapore clearly sort of facing reduction compared with where they were pre-COVID. As Panos says, we've been – we can see the underlying demand in that region from the domestic travel in China. And it is just a question of, you know, how quickly borders can open, and that's a question of how quickly vaccination rates can get to a level to have significant proportions of the population vaccinated.

And clearly that's one of the contributory factors to what we're seeing as a very slow and gradual improvement in our overall engine flying hours. If you want specifically around the proportions, then, you know, it's approximately 20% of our 2019 levels of engine flying hours that are exposed to international flights in that part of the world.

Andrew Gollan: Thanks. If I could just follow up quickly on the concession payments answer. So if we simply break it down, I mean at one point we were talking around a target of 750 million free cash flow and 80% engine flying hours. And if we assume a sensitivity of 300 million or so for 10 points, so if we take a step down on the engine flying hours assumption for 10 or 20 points, say, and then add in a headwind from concession payments catching up, does that indicate a scenario that we could be closer to breakeven free cash flow in 2022, or is that just too simplistic?

Warren East: I think it's a bit too granular. You know, we're on a clear trajectory here. I mean last year's cash outflow we know was over £4 billion, this year we're sticking to a cash outflow of around £2 billion. We are sticking with our comments sort of going through to reaching cash-positive at some stage during the second half of this year. And, you know, we'll be coming out with some specific guidance on cash for 2022 when we do our full-year results, but we absolutely expect to be in positive cash territory by some margin.

Andrew Gollan: Okay, great. That's very helpful. Thank you.

Robert Stallard (Vertical Research): Thanks so much. Good morning.

Warren East: Good morning.

Robert Stallard: A couple from me. First of all, obviously been a lot of reports of older aircraft being retired and they have engines being retired as well. I was wondering if you'd seen any impact as a result of parking out of older wide-body aircraft in the first half, if it was any different from what you saw in the second half of last year. And then on the business jets side, the Gulfstream G700 with the Pearl engine, are you seeing any additional challenges in getting that engine certified? Thank you.

Warren East: Well, no particular changes to the patterns that we've seen on retirements of older aircraft in the first half of this year versus what we saw in the sort of – in the second half of last year, really. I mean as far as our fleet's concerned, I mean obviously this impacts things like the RB211s and the Trent 800s. We've got specifics around Trent 900 on 380s where some of those much larger aircrafts have been parked.

I think the thing looking forward for us is how quickly the A330s that have been parked, return to service. And if we look there, you know, we were coming in to the pandemic as sort of de facto market leader in terms of share and that had been a relatively recent dive sort of last five to eight years' phenomenon, and therefore our engines are significantly newer. And so we would expect that the younger engines on the Rolls-Royce powered A330s are the ones that will be favoured when those A330s go back into service.

On the Gulfstream and the new programme that we're doing then, there are no particular extra challenges with certifying that engine at the moment.

Robert Stallard: Okay. That's very helpful. Thank you.

Jeremy Bragg (Redburn): Good morning, gentlemen. A couple of questions, please. First one on the breakeven rate for engine flight hours for free cash flow. Sorry, I'll put that a bit better. You're aiming to breakeven from a free cash flow perspective at some point in the second half of this year, and would you be able to state the engine flight hours required to do that, please?

Second question on engine flight hours again. When do you think you will return to 2019 levels roughly? And that's obviously the net of retirements and deliveries, but I guess where I'm going here is you've taken a third of costs out structurally in Civil, so I'm just kind of curious to sort of see your view of when that recovery point is, please.

And then the third question if I may, please, around R&D. I know that you're spending 75% of gross R&D on sustainable technologies from now. Have you revised your assumptions on the self-funded R&D that you might spend over the next few years, please? And do you think – do you still think there is a route to market for UltraFan, given the lack of any new wide-body platforms? Thank you.

Warren East: Yeah, right. Panos is going to have a go at the first question and I'll –

Panos Kakoullis: Yeah, let me pick up on your first question around breakeven, Jeremy. You know, as I mentioned earlier on, there are a number of ups and downs and variables that contribute to our results. Engine flying hours, as you rightly pointed out, is one of them. That's not one that's within our control. When we reiterated the guidance for this year, that 2 billion outflow and that positive at some point within the second half, we did look at all of those variables. The impact of the restructuring, some of the headwinds that we had in the first half of this year which we've called out, and I put all of those in the mix. That's how we get confident that we will get through that breakeven rate this year.

In terms of the forecast going forward, when do we get to 2019 levels, there are a lot of industry forecasts out there as to – we can look at, you can look at, and rather than us adding our own, I'd encourage everyone to look at what the wider industry forecasts are.

Jeremy Bragg: On that though, Panos, sorry to interrupt, I mean we can look at the industry forecast but you've always been quite assertive in the past that you've got a younger and better positioned fleet than the industry on average. So I'm guessing you must have your own separate view on that, please.

Panos Kakoullis: We do, and you can – I think you can look historically how we have tracked against those industry forecasts. And I wouldn't expect us to be out flung with those industry forecasts.

Jeremy Bragg: Okay. Thank you.

Warren East: Yeah. And again, you know, industry forecasts are not very different from our own expectations of getting back to 2019 levels. And I think we've been fairly consistent that that is some way off, probably in the sort of 2024, maybe even 2025 timeframe we're going to see – you know, we will see a pick-up when international travel opens. The demand that we're seeing where it has opened is a good indicator that there's plenty of demand there.

So, you know, we can't be any more clairvoyant than anyone else. It's a few years away before we get back to 2019 levels. And that's, you know, an indication of the change behaviour that everybody talks about around travel.

On R&D then, there's no big change to the absolute quantum that we've talked about before. I think what you are seeing in some of our commentary though is a tilt towards net zero and lower carbon, and an intention to push that up over the next several years to be 75% of R&D investments and CapEx investments. And that is a process that we're going through at the moment, fairly disciplined capital allocation over the five-year – next five-year period.

Jeremy Bragg: Thank you.

Warren East: You've – well, I think that's about it really on the answer.

Jeremy Bragg: Thanks very much, both. Thank you.

Ben Heelan (Bank of America): Yes, good morning, and thanks for taking my question. I had two. The first one, you highlighted you're making good progress on the disposals and you said there's not much incremental you can give on those processes. I was wondering if you could give any indication about how you think about the impact to that £750 million of targeted free cash flow when you finally have disposed of those businesses. So that would be the first question.

And then the second question, back on the concessions point because at the very beginning of the year we were expecting a massive outflow, in particular from 787 concessions, and I think Panos, you mentioned about 300 million outflow in H1. Are you expecting an outflow on the 787 concessions in the second half of the year? Thank you.

Panos Kakoullis: So I think your first question was around disposals and the impact of those disposals on free cash flow. It's not a significant impact, and you can see actually within our announcement where ITP is stripped out. So you can see that it's not a significant number.

In terms of the concession payments, we are dependent on airframe deliveries and as you know, there are some well-documented uncertainties around that. We do still expect to see an outflow. Some could move out, some could move earlier, but we took those into consideration when we looked at full-year outturn on the 2 billion outflow.

Ben Heelan: Okay. Thank you.

David Perry (JPMorgan): Yes. Hello, Panos. I have two questions for you if that's okay. First one is sort of philosophical on the balance sheet which you've mentioned you want to improve, and you mentioned specifically that 3 billion of net debt is too high. But that's a very narrow definition of your net debt that excludes operating leases and a lot of other financial liabilities that may or may not be treated as debt in your eyes. So I'd just be interested in how you see the balance sheet in and around. And then the second part of that question, if the ITP disposal happens, what you think the next steps are, whether they can be wholly organic or other external actions might be needed.

And then my second question, please, is you talked about wanting to simplify financial reporting but I think your predecessors all had the same ambition as well, and my view is probably the business model is just too complex. So the question for you is are you comfortable with the LTSA business model or do you think Rolls needs to move away from that to achieve your goal of more simplified reporting? Thank you very much.

Panos Kakoullis: Thank you, David. I think on balance sheet, I think you heard in the comments that I made earlier on, an ambition that we have in the medium term to get back to investment grade credit profile, lots of liquidity at present. So that 7.5 billion of liquidity that we've got at the moment means that we can do that in a measured way and make sure that we invest wisely at the same time, just to pick up on one of Warren's comments earlier on.

I recognise the point around other liabilities in the balance sheet. You consider all of those in and around when you're looking at getting back to that investment grade credit profile. And I think also it's going to be important as we look at the shape of the business going forward, and as a more balanced business going forward, that the gearing within the business may well look different to how it looked in the past. So that's another consideration that you need to have.

I think in terms of your second point around ITP disposal, I'd reiterate the point around liquidity. Liquidity is there, there is plenty of liquidity. We're not dependent on engine flying hours recovering, so I don't see the need for any of non-organic measures.

In terms of financial reporting and your point around the business model, I'm comfortable with the business model. It's a smart business model. In fact, many businesses that I've been – I've worked with in the past would love to have a business model where you have your customers being effectively so sticky and then you can work hard on making sure you deliver at a sensible cost.

Does that – I think your comment there was does that contribute to the complexity of financial reporting. No. I think spending time, and I have spent a lot of time now, understanding the underlying business drivers – the underlying business drivers are straightforward once I spend some time. It's now how we make sure we translate that into a way that the outside world can understand in a more straightforward way.

David Perry: Well, good luck with it and I look forward to meeting you next week.

Panos Kakoullis: Thank you.

George Zhao (Bernstein): Hi. Yeah, good morning, everyone.

Warren East: Good morning.

George Zhao: We talked a lot about engine flying hours so I want to focus on – I guess on pricing. So on flight hour contracts, you know, compared to the start of the year, have you seen any major changes in the trends around these prices when engines change hands or when new contracts are signed? And second question, a quick one, you know, what proportion of the large engines are deployed on domestic routes today, and do you think that's sustainable?

Warren East: Yeah. Engine – or long-term service agreement pricing, our basic pricing model hasn't changed. Clearly we have been engaged during this time where airlines have been restructuring, you know, filing for bankruptcy and coming out of bankruptcy, restructuring. There's been new contracts to strike. And I would say there's been a mix there where we have – I think we've mentioned this at the previous results. We have been working with customers to accommodate some of their short-term financial challenges. And in the normal way of a commercial negotiation, that can really involve something on the other side.

And so, you know, that might manifest itself in terms of a period of lower per hour rates at given types of usage of an engine compensated by higher rates a little way down the road. And so the normal work on [inaudible] commercial negotiations happened there.

In terms of normally moving from one owner to a second owner, then the principle that we quite often secure a higher rate on that transition, that has actually held up remarkably well during this period.

On your second question about domestic and large engines use on domestic, we have two areas. North America, we have some older engines that are used domestically and in China we see a lot of wide bodies used domestically and then case by case, different airlines have parts of their fleet with wide body engines used domestically and Japan is a good example of that with both ANA and JAL.

All in all, domestic use was about 10% of our total pre-COVID numbers in 2019 and, obviously, it is a bit greater now as the traditional long-range international stuff has fallen away but I would see upward pressure because regions like China, in particular, and in Japan, we can see large numbers of people traveling short distances and airlines are using large wide body jets to do that. So, I think, that the 10% is probably a flaw and the 20 to 25 percent that we are seeing today is probably a bit too high for a long-term sustainable and the answer is somewhere in between.

Panos Kakoullis: George, just something I would probably add on the pricing point and you can see it in the half year numbers where we got some long-term contract catch ups which are the result of some of those commercial negotiations so I am a big believer in us being rewarded for the value that we bring and we recognise that within the long-term contracts when we have got that value. So, you can see some of that upward gain around those commercial negotiations coming through there.

George Zhao: Okay, great, thanks.

Chris Hallem (Goldman Sachs): Yeah, morning everybody. So, just three questions from me. Warren, perhaps, first on strategy. There is no mention of hydrogen or absolute zero on your 2050 emission slide and that is, obviously, a bit different to what some of the aircraft manufacturers are saying. So, is that a different view of the future or do you expect to play a smaller role in propulsion if the industry does eventually partly transition to hydrogen?

Second, perhaps, Panos, on EFH payments. Can you give us an idea on just how predictable those payments are? Because I think most of them are done annually in relation to the coming year. So, how difficult is it to sum up the level of those payments given the uncertainty on the shape of the recovery and are customers paying on time?

Finally, just on free cash flow phasing. You have said you will move to positive free cash flow at some point in H2. So, obviously, there is a lot of seasonality in the business but there is also the grant on EFH recovery and the savings benefits are kicking in. So, should we thought to be assuming that H1 next year is better than H2 this year and then H2 22 is better than H1 22?

Warren East: Okay, Chris, let me just answer your first question. Panos will have a go at that second one. So, I think, the simple answer is hydrogen is included in "new technologies" on that slide. I did mention in the presentation that we have not really got time this morning to discuss that slide in a lot of detail and there is a huge amount of detail behind that slide. Now, hydrogen will play its part in lots of different sectors. It is probably less likely to play a part in long distance international travel. There will be shorter distance, smaller airplane place for hydrogen to play. That is what we currently believing but it is very much a part of our stragegy. You should have a look at our net zero report. That is the only internet we launched a few weeks ago.

Panos Kakoullis: In your other two questions, on engine flying out payments, no particular concerns around the customers being able to pay. They are paying on time as we expect.

In terms of the pattern of those, mostly, the payments are based on hours flown. Occasionally, some pay based on short visits but, again, that is relatively predictable subject to engine flying hours actually being flown as we said earlier on.

In terms of your seasonality point, you are right. We maintain cash flow positive as we go through the second half of this year at some point. When you are looking at next year, think of that upward trend continuing for the course of the whole year so the full year impact of the restructuring benefits coming through, the 1.3 billion run rate we talked about, the recovery in engine flying hours, power systems, we have called out the increase in the order book. That starts turning into revenue and then cash as you go through next year.

Defence remains resilient and the underlying seasonality that you refer to, that you have seen over past years, you should expect that to remain in the second half of the year being for more positive compared to the first half of the year.

Chris Hallem: Okay, very helpful. Thank you.

Andrew Humphrey (Morgan Stanley): Hello, good morning and thanks for taking my question. I have got a couple if I may? One is on civil aerospace profitability in the first six months. Panos, you mentioned, positive contract catch ups in the period but it also looked to me as though the underlying performance, the clean performance on civil aero gross profit stability was stronger than, maybe, was reflected—wanted to ask if there was anything specific in the mix either in terms of engines coming in for service or in terms of customers that would flatter that in this period.

Secondly, maybe, one for Warren. You have, obviously, had confirmation of an A350 freighter entry into service 2025. I wanted to ask you about how you are assessing the opportunity there in terms of any additional capacity you may need to make available.

Panos Kakoullis: So, let me pick up on the civil aerospace profitability. Nothing specific in the mix to call out there around the underlying. The other point I am curious about is around contract catch ups. So, sometimes when I see commentary on them, they are viewed as something to ignore or to overlook. The reason those contract catch ups are there and they are positive contract catch ups is twofold. One, I have already mentioned. So, when commercial negotiations have been robust and we see that being baked in as a benefit, certainly, it is a long-term contract as a whole, you can have a greater margin because of that and this is the catch up to recognise that. The other element that we have called out there is the cost-savings that are now baked in. So, we plan for cost savings but we do not recognise them until we are sure of them and they start to flow through and, I think, they are particular within business aviation, those contract catch ups are going through. So, I recognise that we are looking at a six-month period but I tend to look at long-term contracts as long-term contracts and what is happening to the margin of those contract over their life and those catch ups represent an increase at margin over life.

Warren East: To your question on the A350 freighter, obviously, that is announcement from airbuses in a little while coming and we are delighted with that. It is a very welcome pull forward as far as we are concerned of growth in demand for our engines. We would not need to worry about any incremental capacity. I mean, do not forget, we essentially have capacity for about 500 new large engines per annum and that is the rate we were delivering at in 2019. Yes, we have been doing some consolidation of our facilities but it is very much a consolidation activity. We would expect to be able to scale up again later in the decade when demand returns without have to move on and open new factories and that sort of thing because of the huge productivity improvement that have been baked in. So, we do not need to invest in any additional capacity but the A350 freighter are welcome sign.

Andrew Humphrey: Very clear. Thank you very much.

Nick Cunningham (Agency Partners): Hi, thank you very much. Yes, I am having doubt with a lot of details, perhaps, one could ask a more general question looking forward but I think thinking past the crisis, you wanted to reduce your costs to the point that Rolls Royce civil aero engines became intrinsically, adequately, profitable which it has not been in the past. So, what I wanted to ask is, well, what adequately profitable look like and how would one measure that? Given what you know about your costs and future overall and so on. When we get to, say, 2024, 2025, we get time to present 2019 EFH, would you then be adequately profitable on that basis?

A second longer-term question, slightly longer even than that. Sustainable fuel, I think, is lynchpin of your plan for zero carbon and, clearly, very important as it enables you to stick with your existing technologies to a great extent, what is your assumption about how competitive SAFs can be relative to fossil fuel costs? Do you have to assume some tax, if you like, concessions for SAF and carbon tax on higher carbon fuels in order to make that work? Thank you.

Warren East: Yeah, well, in terms of our ambitions at profitability in civil, then we have been working on improvements in productivity in civil and cost out in civil for a while. The restructuring that we have been through the process of implementing over the last 12 months and by the way, we have a little bit further to go yet because this consolidation of 11 sites going down to six, that is not actually complete until the backend of next year and, possibly, even a little into 2023 for some of those sites. So, we are not quite done yet but the heavy lifting has been done on that and then we will have, and I have referred to it in the presentation as better break even and better gearing as demand returns and that will, we believe, take us into a competitive zone in terms of profitability for our civil large engine business. That would be, certainly, in the mid-teens.

As far as SAF are concerned and looking forward to net zero, this is not a Rolls Royce thing, this is an industry thing. For long distance international travel, the industry does not see a technology solution that is appropriate other than synthetic aviation fuel. For shorter distance, smaller aircraft then full electrification, hybrid hydrogen, all of these sorts of alternative technologies have their role to play but in the long distance wide body space then it is going to be SAF. Now, the good news is, of course, things like our small modular nuclear reactors are very useful in terms of zero carbon electricity because large scale SAF production requires large scale green electricity and electricity can also be used for things like hydrogen as I mentioned.

The cost of SAF at scale, we believe, will be approximately twice the fossil fuel equivalent that the fossil fuel has at the moment. Now, that said, a little bit of industry guess, that is not a Rolls Royce guess, it is an industry expectation at the moment and that is why it is important that we introduce things like the UltraFan new architecture, SAF function and efficiency to help airline customers be able to adopt that. You must have seen some of the airlines working on their cost projections and how they are deeming that SAF will be affordable.

Panos Kakoullis: Nick, I would probably just add on the first point around the profitability. Again, coming in, I look across the Better Balance Group now and I look at defence and power systems and the opportunities there, the resilience and opportunities from energy transition and push hard around what those margin should be to be competitive within the marketplace. So, I do not just look at civil. I want to mention that we are looking across the whole business and shining a light across each of the businesses.

Nick Cunningham: Yes. Thank you and very full answers for which I am grateful but just to clarify on the, if you like, adequate profitability. Mid-teens would apply to civil and to the group or do you see a mix? Is there an intrinsic mix of margins across the different businesses?

Panos Kakoullis: There is going to be a mix.

Nick Cunningham: Thank you.

Harry Breach(Stiefel): Yes, good morning, Warren and Panos. It is Harry Breach here. Could I possibly just ask maybe three questions, if I could? Just back in March, I think, you guys said you were expecting large engine shoppers for this year, I think, about 240 and then 400 next year. I guess over the last few years those large engine shoppers have been, you know, a key indicator for us to try and model the business. So, it is very helpful if we can have some sense of where they are heading. You have done 92 in the first half. I guess that leaves about 148 in the second. Is 240 still the expectation for this year with 400 next year?

Maybe, secondly, guys, we almost do not talk about how the materials after market revenue at civil anymore but just trying to look at the financials. It looks as if, looking at the analysis of aftermarket revenues recognised that point in time for civil and looks as if it was down really quite steep, yeah, I think, 193 million is the number if I read it correctly for the first half of 21 versus 746 in the first half of last year. Can you help me? Maybe, I have made another silly mistake but can you help me to understand where the CNM, how small and significantly and what the drivers are.

Finally, Warren, I guess, again, in the past pre-COVID we used to talk about when across the portfolio which is the equipment, unit losses, will get to break even and, obviously, last year was heavily disrupted with a lot of rescheduling of production plans and, well, in a meaningful number. Can you give us some idea, Warren, about when, you think, will get to break even in terms of original equipment, unit losses? Thank you.

Warren East: Okay, I think, we are going to have to answer these questions quite quickly.

Panos Kakoullis: Yeah, let me just rattle through the first couple. I think, shop visits, is obviously, dependent on what happens on engines flying out so one that is harder to predict but a little bit of a shift to that for right around there. On time, materials, you are right. The fall is there but there are, again, less flying is going on which means fewer of T&M type shop visits and also be to 500 is a little bit lower, around that.

Warren East: On the OEM break even point, yes, you are right. Disruption caused last year made it very difficult for us to continue reporting that because, obviously, there were large chunks of unrecovered costs.

We will try to provide some guidance on that with the full year results but certainly, our ambitions haven't changed and it is a question of volume and, of course, the restructuring will give us a significant tailwind in that regard.

Harry Breach: Okay, thank you very much, guys. Thank you.

Charles Armitage (Citi): Good morning and thank you. Couple of quick ones. First of all, going back to Jeremy's question, wide body market flying hours will recover whenever it does because if you compare Rolls Royce to the overall market, you have got a younger fleet. They are delivering more engines than you have – compared with your market share on the fleet – and you have got fewer old engines to retire so actually grow faster. However, on the other hand, you do not have the freight exposure. So, do you feel large engine will grow, will recover faster or slower than the wide body market as a whole? That is my first question.

Warren East: Yeah, well, it is a slightly loaded question and the answer the correlation that we saw last year between what is going on in the industry at large and recovery of usage of some of our engines, I think, that holds going forward. It holds as far as things like our XWBs are concerned. I am a bit very pleasing utilisation of some of those. You are right in terms of freighters, older aircraft. We are now seeing freighter conversions, passengers-freighter conversions going on with A330s and so on, and again, because our engines of the younger models of those aircraft, then, I think there is a favourable tailwind for us and, obviously, as I said in answer to an earlier question, we are delighted with the airbus freighter dedicated freighter announcement. So, broadly correct. We would expect to be on the positive side of a recovery trajectory.

Charles Armitage: Great. Thank you. Second question is EFH pricing. As I understand it, there is a matrix, dependent on how far the roots are and whether the [inaudible] etc. Now, as I understand it, the stage length has come down which would imply that the price per hour should be going up yet we have not heard anything about that. Is that one of these long-term benefit in kind or a trading short-term for the long-term or is it not coming through? Well, what is happening on that one?

Warren East: Yeah. I think, intrinsically, you are absolutely correct. It is quite hard to see that coming through in the overall numbers. We will take the point on and see if we can throw some colour on that with our full year results but you are absolutely correct in terms of the principles that you outlined.

Charles Armitage: Okay, and the final question is we were agonising over this in 2019 and it seems to be rather less important in the whole scheme of things but the Trent 1000 and HBT were due to be affixed, due to be certified around mid-year 21. I saw 24, maybe, an increase in their position. What is happening on that one?

Warren East: Yeah, I think, well, as we indicated as our full year result, that that certification has been pushed out. We do not have that certification yet. We are expecting that certification before the end of this year but in the detail, the FAA and their relationship with Boeing, they had a lot of other things to do, basically, and justifying our Trent 1000 blade is a bit lower down on their priorities than it was when we have made our original estimates. We are confident in the parts and we are already making the new parts to fit when we do the overhauls just as soon as that certification happens and we are expecting it just before the end of this year probably.

Charles Armitage: So, from the Rolls Royce perspective it is the—technology work is done and the certification work –

Warren East: Yes, it is all complete and we are in the queue as it were.

Charles Armitage: Right, lovely. Thank you very much.

Celine Fornaro (UBS): Good morning. Thank you for taking my questions. I got two if I may? The first one would be trying to reconcile the second half of last year's performance with the first half of this year's performance and trying to reconcile a little bit. Maybe, you could help me with that on the profit bridging the cash bridge because, clearly, there is a strong improvement in the profit if [inaudible] 166 million and say contract recognition but we do not really see that from a cash point of view. So, maybe, you could help on the moving part, understanding what is the restructuring contribution or the flying hour or [inaudible].

My second question would be [inaudible] but, yeah, certainly on the current H1 performance how do you think you compare your [inaudible] versus other industrial businesses who work hard and really strong H1 results? So, what could you change in power systems there or you just very heavy H2 [inaudible]. Thanks.

Panos Kakoullis: Thanks. Thanks, Celine. On the first one, I suggest we take that one offline and we can take you through that outside of the call.

Warren East: On the second one around our systems and some of the power systems competitors. I think, you have to look at the power categories, whether its competitors have seen a strong rebound in the first half and we are not actually in those categories which is why we have not seen it in our power systems but what we have seen is a near 20% uptake in orders. So, we are seeing a rebound but it is probably six months or so behind some of those competitors have seen.

Celine Fornaro: Thank you, Warren, but in terms of the profitability of 3½%?

Warren East: Well, I mean, that is a result of a whole lot of factors and, I mean, it is basically, less revenue actually going through with the same cost and, obviously, because of some of those competitors, as I said, have seen the impact some six months or so ahead then that will be reflective in the higher profitability.

Panos Kakoullis: I think, you would have seen in the past it is a second half weighted business. So, margins we are expecting for the year are in line with our previous expectations.

Celine Fornaro: Thank you.

Warren East: Thank you.

Speaker: Thank you, Celine. This is [inaudible] here. I have got one question that came through on the webcast just to finish up with which is the [inaudible] panels and it is from Rory Smith of InvestTech. He is asking if we can talk a little bit more about the steps you have already taken to simplify reporting and what you expect may change in terms of KPIs that we produced and how we are going to improve our reporting going forward.

Panos Kakoullis: I think, early days at this stage. What we try to do with this half is try and take a little bit out of the noise between steps 3 to 14 and underlying reporting so you can see that has been simplified. Then looking at the underlying business drivers had we get a better understanding of how those flow through the financials and there is more to come, particularly, as we look at hedging and foreign exchange going forward but that is a bit more of a medium-term project.

Speaker: Thanks, Panos, and so back to Warren to you to close the call. Thank you everyone for your questions today.

Warren East: Yes, thank you all. Just the quick summary to take away is about we are delivering on commitments made here. Restructuring is on track and the disposals programme is going well. We are seeing a significant improvements in profitability and our cash flow and, again, a continued position of strong liquidity and that journey to net cash in the medium-term and that is enabling us to have some confidence around the disciplined investments that we are making in the future, in our low carbon businesses which will be incremental to our business as it exists today. So, with that I will finish and we will be back to tell you about our full year results in due course.

[END OF TRANSCRIPT]