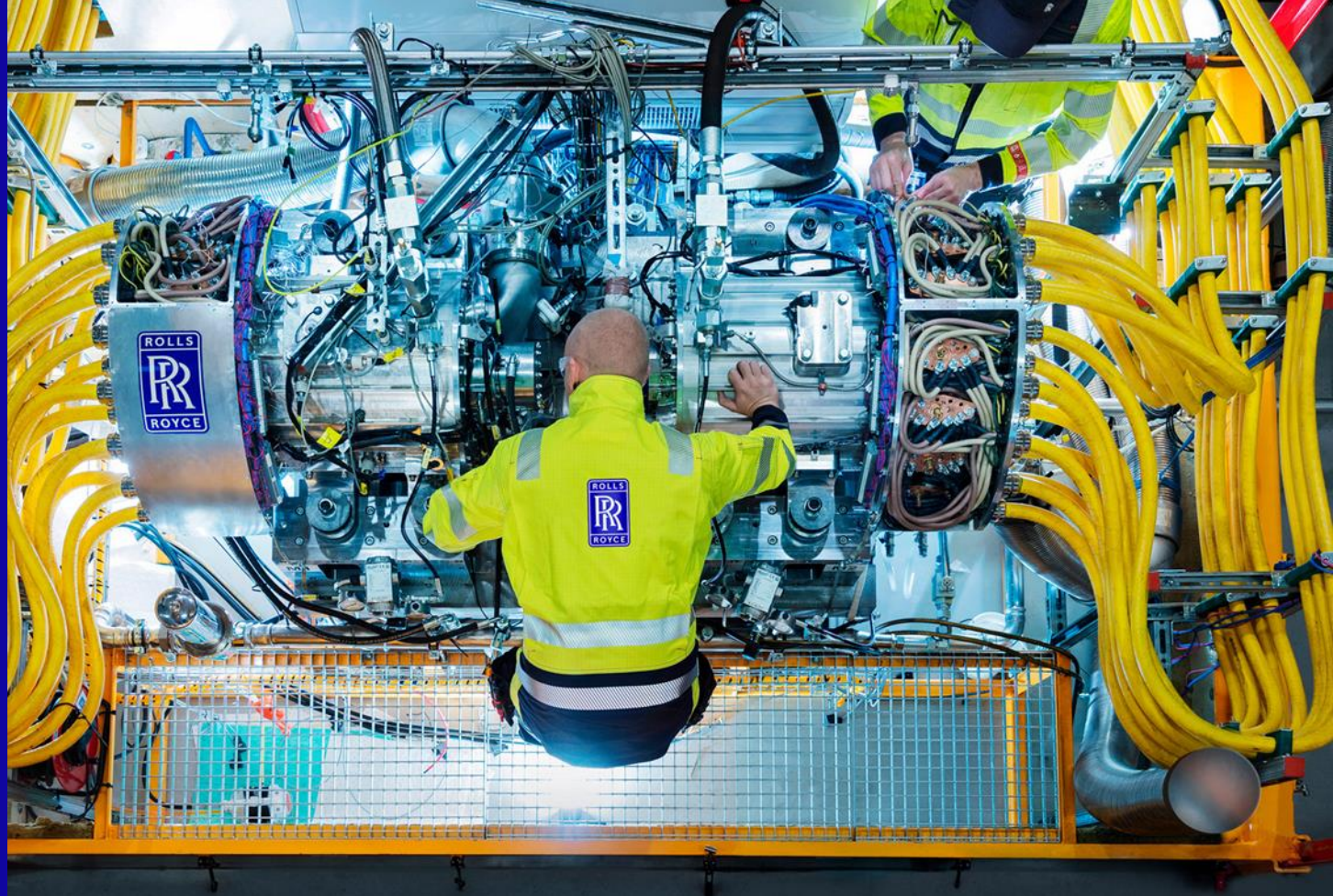




# 2021

## Half Year Results

5 August 2021





## 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 2021 Half Year Results Statement for the definition.





**Warren East**

Chief Executive Officer

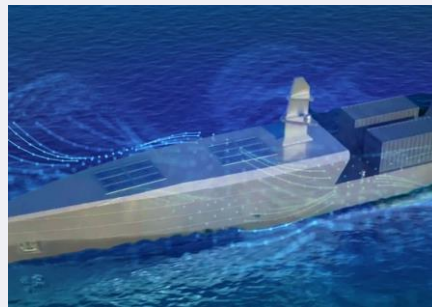


## H1 2021 highlights

*We are delivering on our commitments and investing in new business opportunities for future growth, particularly in net zero power where we are leading the way with innovation and engineering excellence*



Restructuring  
progressing well



Defence demand  
for tech-led solutions



Net zero  
pathway announced



Performance in  
Civil Aerospace improving



Power Systems  
order intake recovering



Investment in  
new growth opportunities



# Progress on restructuring - driving efficiency

## Restructuring progressing well

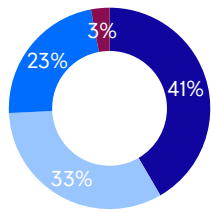
Delivering on track to sustainably reduce our costs and improve operational efficiency in Civil Aerospace

- **Headcount reduction – close to 90% complete**
  - ~8,000 roles now removed, Civil Aerospace reduced by about 30%
  - Confident in target reduction of at least 9,000 roles
- **Footprint rationalisation progressing well**
  - Actions underway to consolidate Civil Aerospace sites (11 sites into 6)
  - Widebody engine assembly - three locations rationalised to a single site
  - Crosspointe rotatives and turbine facilities closed and activity transferred
  - Wide chord fan blade production consolidation underway to a single location
  - Rationalisation of services (MRO) footprint driving increased efficiency
- **Achieving sustainable productivity improvement**
  - ~40% YoY reduction in lead times achieved in Civil large engine assembly
  - ~10% point productivity improvement in large engine assembly
- **Delivering sustainable cost savings**
  - Capex £123m reduced £92m vs H1 20; expected ~£150m reduction for full year
  - On track to deliver in year cash cost savings of >£1bn in 2021
  - Confirm on track for >£1.3bn run rate savings by end 2022



## Financial performance

### Underlying Revenue (continuing business)



Civil Aerospace	(13)% ▼
Defence	17% ▲
Power Systems	(4)% ▼
Other businesses	16% ▲

# Strong liquidity and improving financial performance

## 2021 H1 Results summary

- Solid start to the year with improving cash flow and profits, as expected
  - ✓ Underlying operating profit £307m, improved from £(1,630)m in 2020 H1
  - ✓ Free cash flow £(1,174)m, improved from £(2,862)m in 2020 H1
- Restructuring delivering results and expected to achieve >£1bn savings in 2021
- Disposal programme progressing well towards targeted proceeds of at least £2bn
- Strong liquidity position with no maturities before 2024



**Panos Kakoullis**

Chief Financial Officer





## 2021 Half Year underlying results

from continuing businesses

Underlying £m	2021 H1	2020 H1	Organic Change <sup>1</sup>	
<b>Revenue</b>	<b>5,227</b>	<b>5,410</b>	<b>(86)</b>	More balanced across the business units. Large negative LTSA catch up in the prior year
<b>Gross profit/(loss)</b>	<b>1,097</b>	<b>(965)</b>	<b>2,082</b>	Cost reductions, mostly in Civil Aerospace, beneficial mix and timing in Defence and Power Systems. Prior year included £(1.2)bn of one-off charges
<i>Gross margin %</i>	<i>21.0%</i>	<i>(17.8)%</i>	<i>38.7%pt</i>	
<b>Operating profit/(loss)</b>	<b>307</b>	<b>(1,630)</b>	<b>1,956</b>	Cost reductions reflected improved gross profit offset by lower R&D capitalisation and reduction in JV and associates contribution.
<i>Operating margin %</i>	<i>5.9%</i>	<i>(30.1)%</i>	<i>36.1%pt</i>	
<b>Profit/(loss) from continuing operations</b>	<b>104</b>	<b>(3,293)</b>	<b>3,414</b>	Higher levels of interest bearing debt drove increased interest charges and facility fees. Prior year included a £(1.5)bn one-off charge.
Profit/(loss) from discontinued operations	43	(33)	75	
<b>Earnings/(loss) per share (p)</b>	<b>1.76</b>	<b>(59.44)</b>	<b>61.42</b>	8.3bn basic weighted average shares (2020 H1: 5.6bn)

<sup>1</sup> Organic change at constant translational currency ('constant currency') and excluding M&A.

All commentary is provided on an organic basis unless otherwise stated.

Excludes ITP Aero classified as discontinued business pending disposal





## Civil Aerospace

### Large engine KPIs

**100** OE deliveries

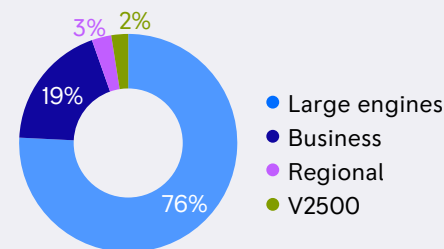
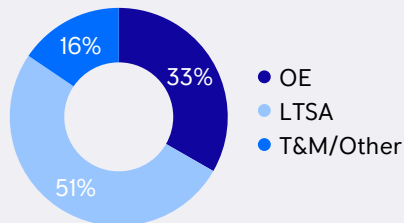
**284** Shop visits

**3.2m** LTSA Engine flying hours (EFH)

Underlying results £m	2021 H1	2020 H1	Organic Change	%
<b>Revenue</b>	<b>2,168</b>	<b>2,516</b>	<b>(336)</b>	<b>(13)%</b>
Gross profit/(loss)	380	(1,552)	1,940	n/a
Gross margin %	17.5%	(61.7)%	79.4%pt	
<b>Operating profit/(loss)</b>	<b>39</b>	<b>(1,816)</b>	<b>1,860</b>	<b>n/a</b>
Operating margin %	1.8%	(72.2)%	74.1%pt	
Trading cash flow	(1,064)	(3,276)	2,212	68%

Restructured business with smaller footprint and leaner workforce

### Underlying revenue splits



All changes shown as organic changes

£(1.2)bn of one-off charges in prior year operating profit mostly related to COVID-19

Cash outflow in 2020 H1 included £(1.1)bn related to cessation of invoice factoring

Hucknall sites and fabrications activities transferred to ITP Aero, reflected in both years



## Defence

### Order intake

£1.2bn up 5%

0.7 book to bill

### Order book

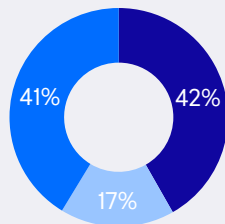
£6.8bn

2022 sales cover >70%

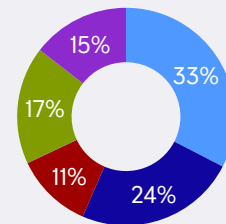
Underlying results £m	2021 H1	2020 H1	Organic Change	%
<b>Revenue</b>	<b>1,721</b>	<b>1,553</b>	<b>266</b>	<b>17%</b>
Gross profit	395	332	80	24%
Gross margin %	23.0%	21.4%	1.3%pt	
<b>Operating profit</b>	<b>269</b>	<b>210</b>	<b>72</b>	<b>35%</b>
Operating margin %	15.6%	13.5%	2.0%pt	

Timing and mix of sales benefitted first half, full year expectation unchanged

### Underlying revenue splits



- OE
- LTSA
- T&M/Other



- Transport
- Combat
- Naval Marine
- Submarines
- Other



## Power Systems

### Order intake

**£1.4bn** up 19%

1.2 book to bill

### Order book

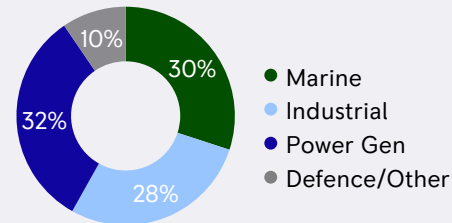
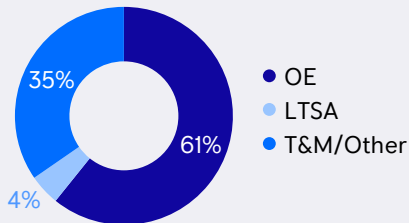
**£2.5bn**

2022 sales cover >20%

Underlying results £m	2021 H1	2020 H1	Organic Change	%
<b>Revenue</b>	<b>1,181</b>	<b>1,214</b>	<b>(49)</b>	<b>(4)%</b>
Gross profit	301	263	34	13%
Gross margin %	25.5%	21.7%	3.8%pt	
<b>Operating profit</b>	<b>41</b>	<b>33</b>	<b>9</b>	<b>26%</b>
Operating margin %	3.5%	2.7%	0.8%pt	

Growth in aftermarket  
offset by lower OE

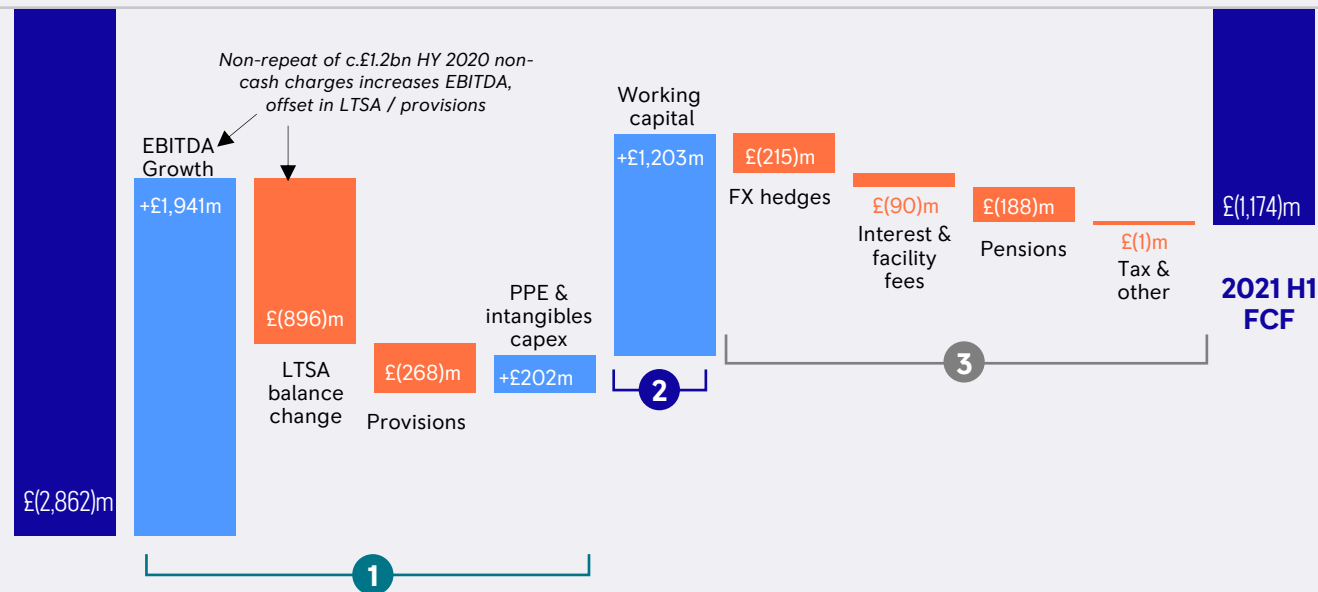
### Underlying revenue splits





## £1.7bn improvement in free cash outflow

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



### 2020 H1 FCF

1

#### ~£1bn trading improvement:

- Substantial cost reduction in Civil Aerospace
- Non-repeat of COVID-19 headwinds (inc. under-recoveries)
- Lower capital intensity
- Strong profit growth in Defence

2

#### ~£1.2bn reduction in working capital outflow:

- £0.6bn outflow in HY 2021 versus £1.8bn in HY 2020
- Benefit from non-repeat of invoice factoring unwind (~£1.1bn in HY 2020)

3

#### ~£(0.5)bn other headwinds:

- Increase in hedge close-out costs
- Higher interest expense due to additional debt and fees
- One-off catch-up pension payment of ~£100m (deferred in 2020)

Numbers based on continuing operations





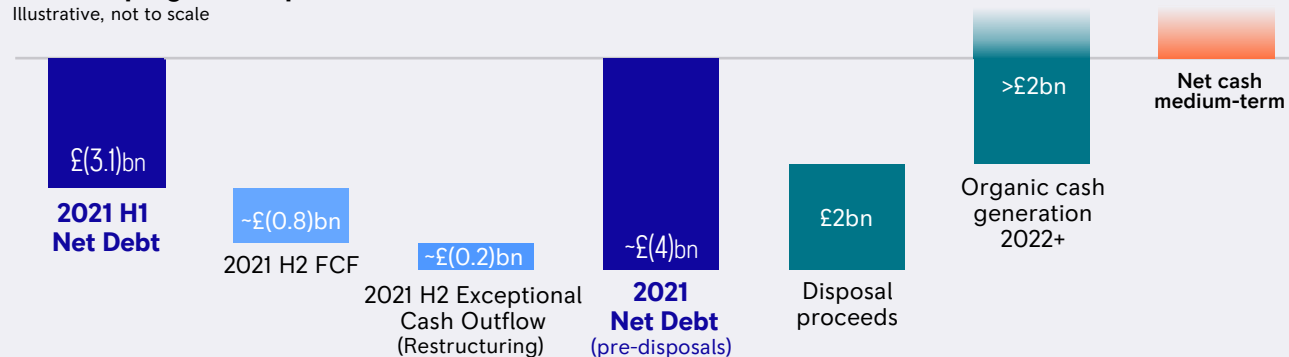
## Rebuilding the balance sheet

Improving free cashflow

Disposals progressing well

### Net debt progression (pre-leases)

Illustrative, not to scale

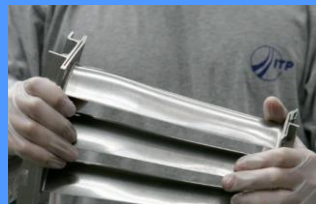


### £7.5bn liquidity provides resilience and strength to ride out the pandemic

- £3.1bn cash and £4.5bn undrawn committed facilities
- No material maturities before 2024
- £2.0bn 2025 UKEF backed bank facility drawn in June 2021
- 2021 €750m bond and £300m CCFF repaid from cash



**Disposals  
programme  
progressing well  
towards target**



Bergen Engines



UK Civil nuclear  
instrumentation  
and controls



Announced  
4 August 2021

Announced  
7 December 2020

- Focused disposal programme to sell non-strategic assets
- Target to raise at least £2.0bn in proceeds
- Constructive discussions and good interest from buyers



## 2021 outlook and guidance

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

- 2021 FCF expected to turn positive during the second half 2021 and targeting around £(2)bn for the full year
- Our self-help actions are generating savings and efficiency gains: on track to deliver at least £1bn in 2021 and targeting £1.3bn savings by end 2022
- £750m FCF achievable when flying hours recover to at least 80% of 2019 levels

### Strong liquidity and priority to rebuild the balance sheet

- Clear pathway back to net cash position in the medium-term
- Targeting a return to investment grade profile
- We have sufficient liquidity to manage the uncertainty of EFH recovery

### Investing in the future

- Long-term revenue growth expectations driven by technology and innovation opportunities and rising global demand for sustainable power
- Targeting 75% of total R&D spend on lower carbon growth



**Clear financial  
priorities to  
measure our  
performance**

**Deliver**  
on our commitments

**Simplify**  
how we report

**Invest**  
wisely for the future





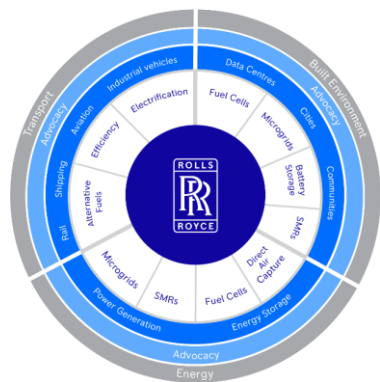
Looking to the Future

**Warren East**

Chief Executive Officer

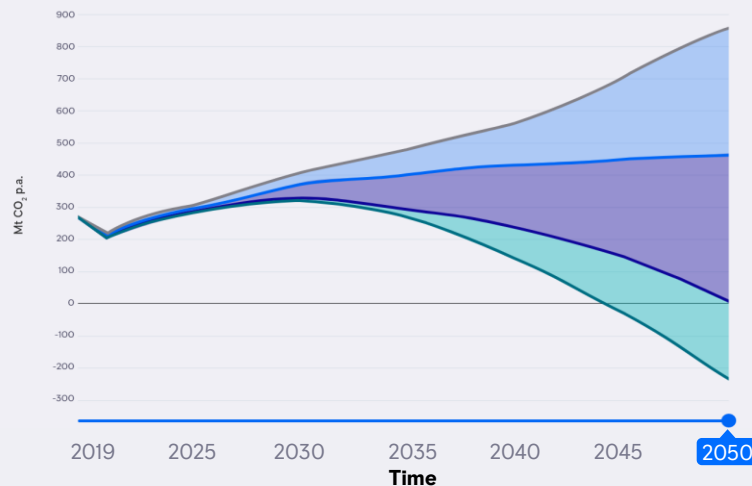


**We have a fundamental role to play in meeting the challenge of climate change**



## Applying technical pathways to decarbonise complex, critical systems

**Rolls-Royce Products in Service**  
Change in Annual CO<sub>2</sub> Emissions from 2019 to 2050



- Hypothetical 'no improvements' case
- With fuel efficiency + new technology
- With fuel efficiency + new technology + sustainable fuel
- With fuel efficiency + new technology + sustainable fuel + SMRs' avoided emissions

Please see the Rolls-Royce Net Zero Report for the technology assumptions and notes related to this chart.

## Net Zero Targets

**2023**



all our in production commercial aero engines and most popular diesel engines to be compatible with sustainable fuels

**2030**



our new products to be compatible with net zero operation

**2030**



a 35% cut in lifetime emissions of new sold products from our Power Systems business

**2050**



all our products to be compatible with net zero operation

Please see the Rolls-Royce Net Zero Report for full details on our Net Zero Targets.



## Looking to the future

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



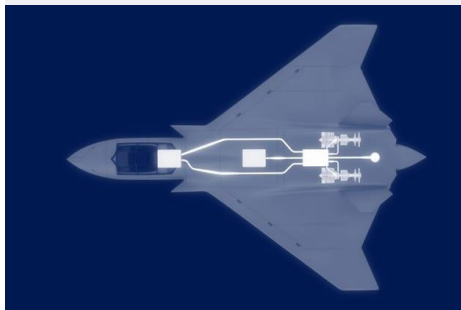
### Civil Aerospace

- Lower investment needed as engine programmes mature
- Focus on efficiency and digital enablement
- All in production engine types to be 100% sustainable fuel (SAF) compatible by 2023
- UltraFan architecture to deliver step change in efficiency



### Defence

- Long-lifespan products supported by through-life upgrades and aftermarket services
- Working with military customers to certify engines for SAF and position them to lead their government's decarbonisation agenda
- Investment in adjacencies to expand product portfolio
- Over £7bn estimated lifetime value from key US tenders



### Power Systems

- Loyal customer base with regular replacement cycle
- Growing in China with a rapidly expanding network
- Increasing customer interest in hydrogen, electric and hybrid solutions
- 35% cut in lifetime emissions of new sold products by 2030 (science-based target)





## New business opportunities

Laying the foundations for growth beyond our current portfolio

Increased disclosure to be introduced in FY21 results for SMRs and Electricals



### Rolls-Royce Electrical

#### Progress on development of electrical propulsion systems for smaller aircraft

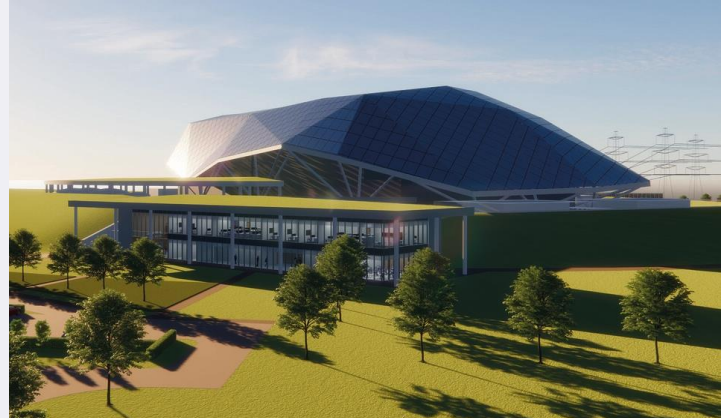
- Commercial contract with Vertical Aerospace for our electric propulsion units to power their eVTOL vehicle
- Vertical Aerospace announced intention to list; >\$4bn pre-orders for >1,000 aircraft
- Collaboration with Tecnam and Widerøe to cover the development and delivery of the zero-emissions P-Volt commuter aircraft
- Testing 2.5MW power generation system for use in hybrid-electric propulsion



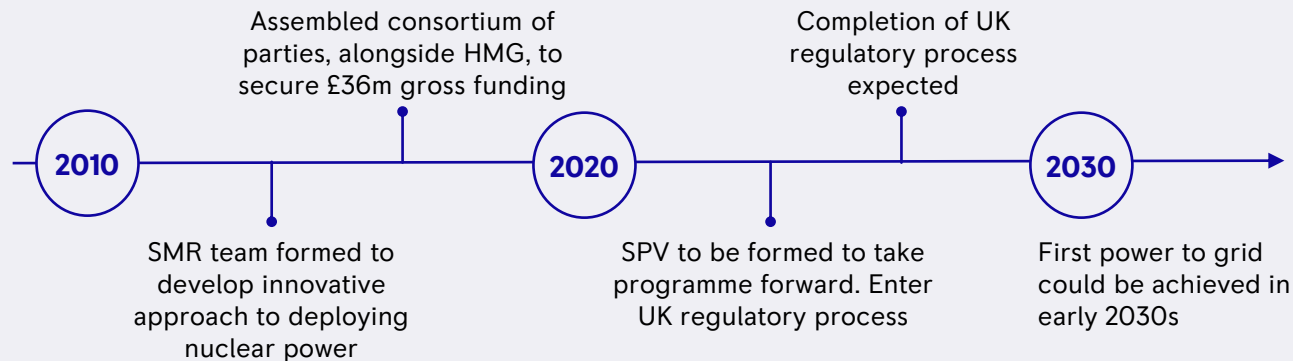


## New business opportunities

Investing in new growth opportunities linked to the decarbonisation of electricity, hydrogen production and transport

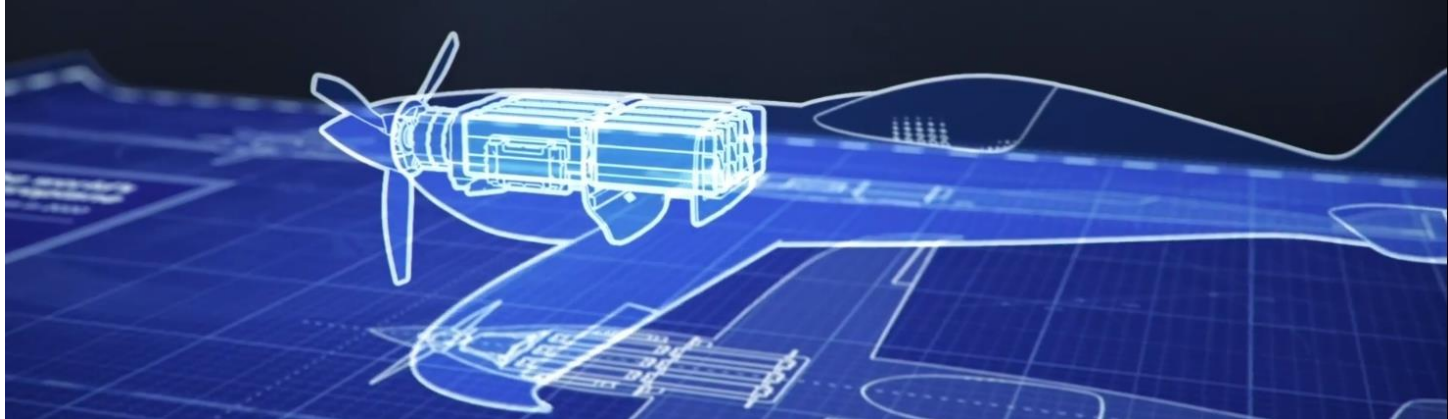


### Rolls-Royce Small Modular Reactors: Affordable, scalable, low carbon power solutions





## Summary



### **Delivering on financial priorities and looking towards a lower carbon future**

- ✓ Restructuring on track and delivering expected results
- ✓ Disposal programme progressing well towards £2bn target
- ✓ Improving cash flow and profitability and on track for 2021 guidance
- ✓ Strong liquidity and targeting net cash medium-term
- ✓ Exciting incremental growth opportunities in low-carbon businesses
- ✓ Taking a key role in the transition to Net Zero