



2022

Half Year Results

4 August 2022





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 - for the definition see note 2 to the condensed consolidated financial statements section of the 2022 Half Year Results Statement.



2022 Half Year Performance Summary

Warren East

Chief Executive



Performance summary

Good progress

with growth in
order intake,
revenue and cash
flow

Operational and commercial discipline

to manage external
inflation and supply
chain challenges

Delivering

on our
commitments

**Focused on operational and commercial
drivers to address risks and deliver
better performance**



Operational highlights



Key milestones for Pearl and UltraFan development programmes



First milestone achieved on the B-52 programme in Defence



Another record quarter for order intake in Power Systems



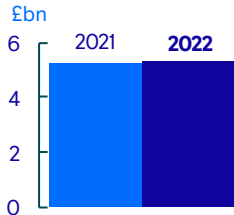
Progress in advanced air mobility in New Markets



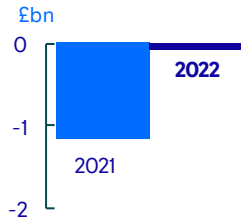
Addressing risks and driving performance

Financial summary

Revenue +4%



Free cash flow +£1.1bn



- £1.1bn free cash flow improvement driven by commercial discipline and increased flying hours
- Managing impacts of rising inflation and ongoing supply chain disruption with a sharper focus on pricing, productivity and costs
- ITP Aero disposal received regulatory clearance and is expected to complete in the coming weeks
- Liquidity remains strong with £7.3bn of liquidity including £2.8bn in cash at period end.
- 2022 Group guidance unchanged with focus on managing risks



2022 Half Year Financial Performance

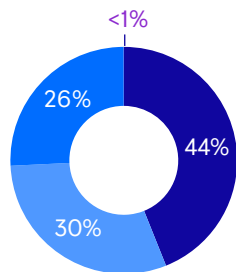
Panos Kakoullis

Chief Financial Officer



2022 Half Year underlying results

Underlying performance
from **continuing operations**



- Civil Aerospace
- Defence
- Power Systems
- New Markets/Other

Underlying results ¹ £m	2022 H1	2021 H1	Organic Change ²
Revenue	5,308	5,227	223
Gross profit	942	1,097	(135)
<i>Gross margin %</i>	<i>17.7%</i>	<i>21.0%</i>	<i>(3.4)%pt</i>
Operating profit	125	307	(187)
<i>Operating margin %</i>	<i>2.4%</i>	<i>5.9%</i>	<i>(3.8)%pt</i>
(Loss)/Profit	(188)	104	(299)

Strong growth in Civil Aerospace and Power Systems revenues, offset by lower Defence revenues against a tough comparative

Lower profits YoY included a foreign exchange movement in Civil Aerospace of approximately £(270)m reflecting a one-off revaluation credit in the prior period partly offset by a higher LTSA catch up and better profit performance in Power Systems

£m	2022 H1	2021 H1	Change
Free Cash Flow¹	(68)	(1,174)	1,106

A £1.1bn improvement in FCF driven by higher Civil Aerospace engine flying hours and improved payables

¹ Excludes ITP Aero classified as a discontinued business pending disposal

² Organic change at constant translational currency ('constant currency') and excluding M&A.
All commentary is provided on an organic basis unless otherwise stated.

Civil Aerospace

Large engine operational inputs

78 OE deliveries

113 Major shop visits

4.5m LTSA Engine flying hours (EFH)

Total Civil Aerospace operational inputs

149 OE deliveries

477 Shop visits

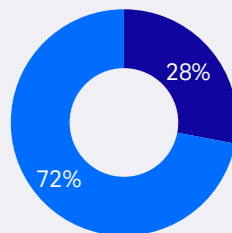
6.1m LTSA Engine flying hours (EFH)

Underlying results £m	2022 H1	2021 H1	Organic Change	%
Revenue	2,339	2,168	174	8%
Gross profit	256	380	(127)	(33%)
Gross margin %	10.9%	17.5%	(6.7)%pt	
Operating (loss)/profit	(79)	39	(124)	-
Operating margin %	(3.4)%	1.8%	(5.4)%pt	
Trading cash flow	63	(1,064)	1,127	-

OE deliveries flat, but with fewer large engines. Higher services revenues from shop visits and LTSA catch ups

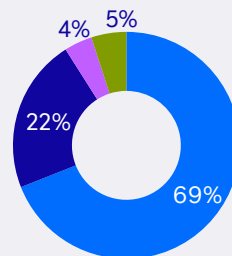
Broadly flat gross margin after allowing for higher LTSA catch-ups offset by a foreign exchange movement in Civil Aerospace of approximately £270m reflecting a one-off revaluation credit in the prior period.

Underlying revenue splits



● OE
● Services

▼ (8)%
▲ 16%

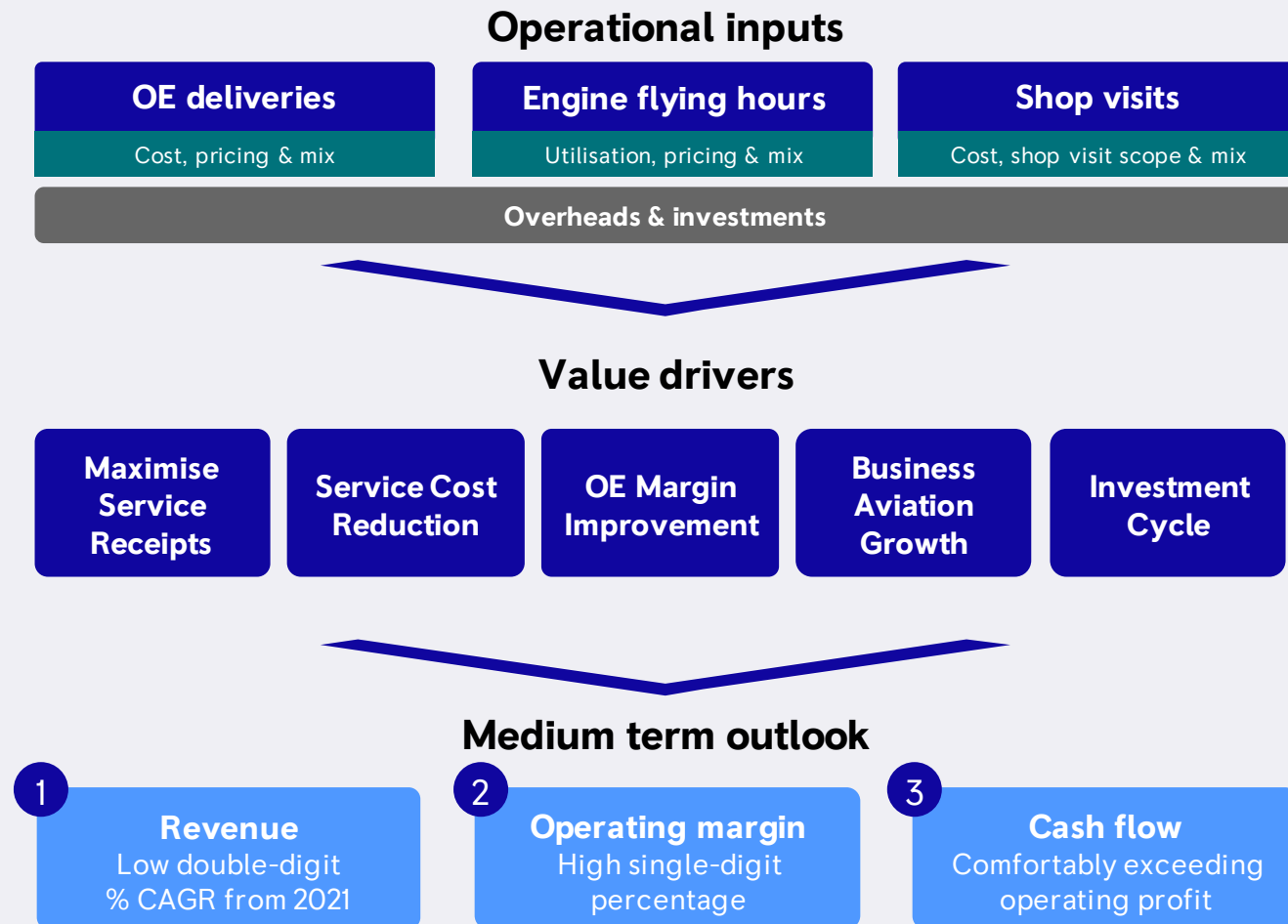


● Large engines (2)% ▼
● Business Aviation 25% ▲
● Regional 55% ▲
● V2500 127% ▲



Our commitments made at the Civil Aerospace investor day

Civil Aerospace: Value drivers
and medium-term term
outlook





Defence

Order intake

£1.4bn up 8%

0.9x book to bill

Order book

£6.5bn

2022 sales cover c.95%

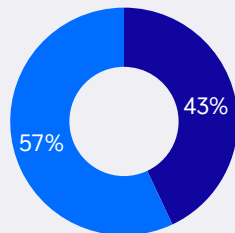
Underlying results

£m	2022 H1	2021 H1	Organic Change	%
Revenue	1,609	1,721	(164)	(9%)
Gross profit	326	395	(77)	(19%)
Gross margin %	20.3%	23.0%	(2.5)%pt	
Operating profit	189	269	(86)	(32%)
Operating margin %	11.7%	15.6%	(3.9)%pt	
Trading cash flow	89	89	-	-

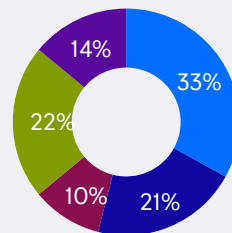
Lower spare engine sales and sales of high-margin legacy spare parts versus H1 2021

More normal margin due to higher investment spend and lower spares parts sales (£45m headwind)

Underlying revenue splits



OE (6)% ▼
Services (12)% ▼



Transport (11)% ▼
Combat (20)% ▼
Naval (21)% ▼
Submarines 18% ▲
Other (14)% ▼

Power Systems

Order intake

£2.1bn up 53%

1.5x book to bill

Order book

£3.7bn

2022 sales cover c.**100%**

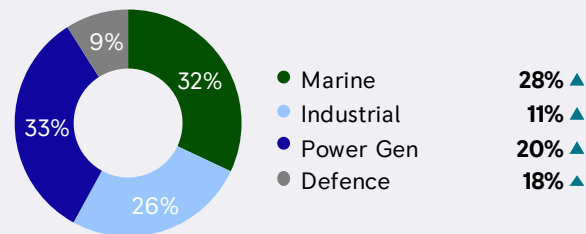
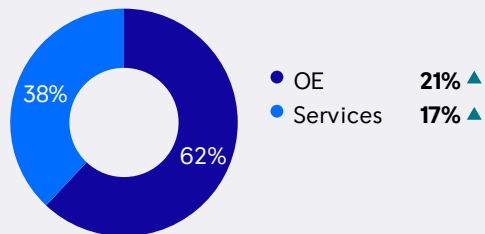
Underlying results £m	2022 H1	2021 H1	Organic Change	%
Revenue	1,371	1,181	229	20%
Gross profit	401	301	110	37%
Gross margin %	29.2%	25.5%	3.7%pt	
Operating profit	119	41	80	195%
Operating margin %	8.7%	3.5%	5.1%pt	
Trading cash flow	(76)	71	(147)	-

Record order intake and very strong revenue growth in all end markets, despite supply chain constraints

Higher margins reflect volume and pricing growth

Inventory build reflects supply chain challenges

Underlying revenue splits





New Markets

Leveraging synergies across the group

Employees

(FTE at period end)
790 (+200 vs FY)

R&D investment

£37m (+£9m y/y)

Underlying results

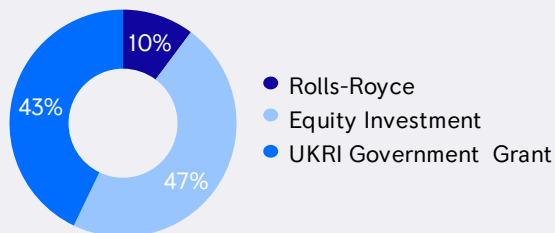
£m	2022 H1	2021 H1	Organic Change	%
Revenue	1	2	-	-
Gross loss	(2)	-	-	-
Operating loss	(48)	(28)	(20)	71%
Trading cash flow	(30)	(31)	1	3%

Low revenue due to both businesses being in early stage development

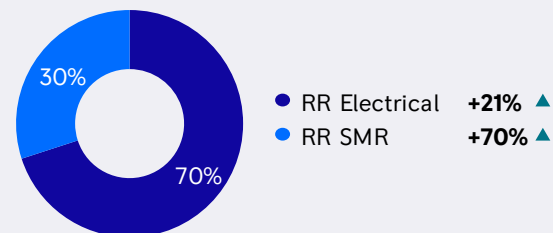
Higher R&D investment we grow the workforce to deliver milestones

Cash outflow was £18m better than operating loss due to receipt of third party funding

£490m SMR committed funds



£37m R&D Spend





Summary funds

flow:

£68m free cash
outflow in 2022 H1

£1.1bn total free cash flow
improvement mostly driven
by higher Civil Aerospace
EFH receipts and increase
in payables

£m	2022 H1	2021 H1	Change
Underlying operating profit	125	307	(182)
Profit from discontinued ops	68	(93)	161
Depreciation, amortisation and impairment	455	504	(49)
Civil Aero net LTSA contract balance change	433	(108)	541
Movement in provisions	(116)	(136)	20
Movement in inventory	(692)	(219)	(473)
Movement in receivables / payables	423	(400)	823
Lease payments (inc. interest)	(114)	(171)	57
PPE and intangibles capex	(197)	(195)	(2)
Derivative settlement costs	(265)	(303)	38
Tax, interest and pension costs	(226)	(312)	86
Other	29	(25)	54
Free Cash Flow	(77)	(1,151)	1,074
...of which Free Cash Flow from continuing operations	(68)	(1,174)	1,106

£0.5bn

1 Operating performance improvement

Led by higher EFH receipts
in Civil Aerospace

£0.4bn

2 Working capital movements

with substantially higher
movement in receivables/
payables partly offset by
higher inventory movement

£0.2bn

3 Other impacts

Lower pension and hedge
costs



Reaffirming our financial priorities

Deliver
on our commitments

Simplify
how we report

Invest
wisely for the future



Deliver

Deliver
on our commitments

Simplify
how we report

Invest
wisely for the future

Addressing the risks

- Commercial discipline on pricing and contract management:
 - ✓ Civil Aerospace: Contractual pass-through of inflation
 - ✓ Power Systems: Volume and pricing growth
 - ✓ Defence: Focus on pricing and long-term supply agreements
- Controlling our cost base:
 - ✓ Long-term agreements with a more consolidated supplier base
 - ✓ Commodities hedging
- Working capital management and revenue collection



Simplify: making our performance more comparable

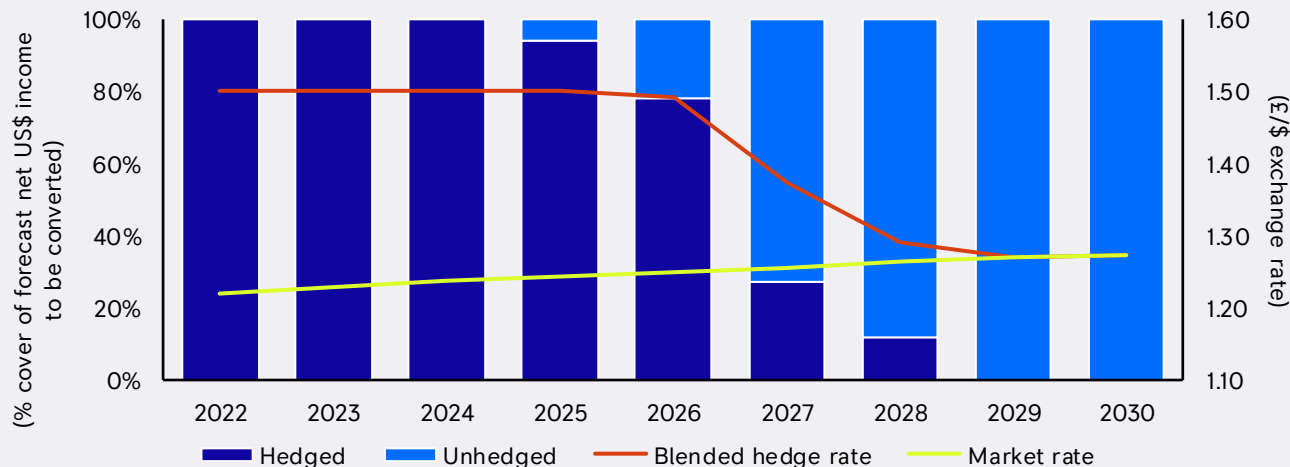
Deliver
on our commitments

Simplify
how we report

Invest
wisely for the future

Simplifying FX hedging

- New approach = a more tapered % across a rolling 5-year horizon
- Simple, makes us more comparable, and allows proactive management
- Each 1 \$ cent change in the hedge rate impacts underlying operating profit and cash flows by £25-30m





Invest Wisely

Deliver
on our commitments

Simplify
how we report

Invest
wisely for the future

A disciplined approach to investing

New Markets

investment: Clear synergies across the group

Returns: Strict financial hurdles which target a blend of near, medium and long-term returns

ESG and sustainability: 75% of total R&D spend on lower-carbon growth

Risk: Increased governance and greater accountability when assessing the risk/reward and “in flight” performance of projects





FY 2022 outlook and guidance

Revenue growth

low-to-mid single digit %

Operating profit margin

broadly unchanged YoY

Generate modestly positive **free cash flow**

2022 Group guidance unchanged

- Confirmed group guidance despite a more uncertain environment
- Profit margins and cash flows expected to improve in the second half
- P&L tax rate in 2022 and 2023 expected to be high compared to taxable profits reflecting geographical profit and loss mix

FY 2022 divisional y/y guidance

Civil Aerospace

Good revenue growth (previously “modest”)

Improved profitability

Substantial improvement in trading cash flows

Defence

Modest revenue growth

Low double-digit margin (new)

Strong cash conversion

Power Systems

Good revenue growth

Broadly flat operating margin

Cash conversion lower

New Markets

Significant increase in R&D costs

Cash outflow to be approximately two thirds of the underlying operating loss in FY22 (updated, previously £100m better than operating loss)



Securing a Sustainable Future

Warren East

Chief Executive



Looking ahead

Progressing towards a better future

- ✓ Rolls-Royce today is leaner, more agile and focused
- ✓ Value-conscious culture whilst maintaining excellence
- ✓ Developing more efficient, more durable and more sustainable products and services for decades to come
- ✓ Focused Leadership Team with breadth of experience and expertise
- ✓ Confidence to pass on the baton

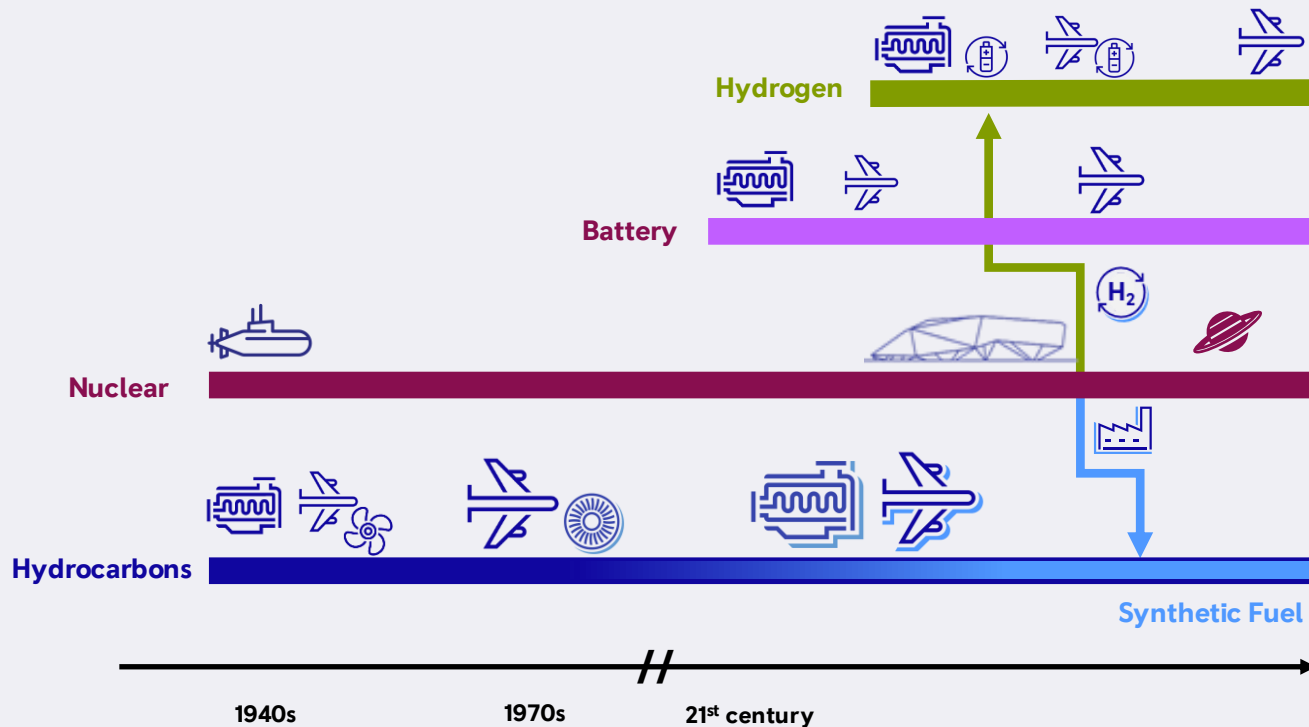
» **Well positioned for the future**



A Group focused on Power

- Expertise in turning stored energy into useful power
- Transition to Net Zero a continuation of our journey to provide critical power to a multitude of customers
- Focus on crucial alternative forms of stored energy

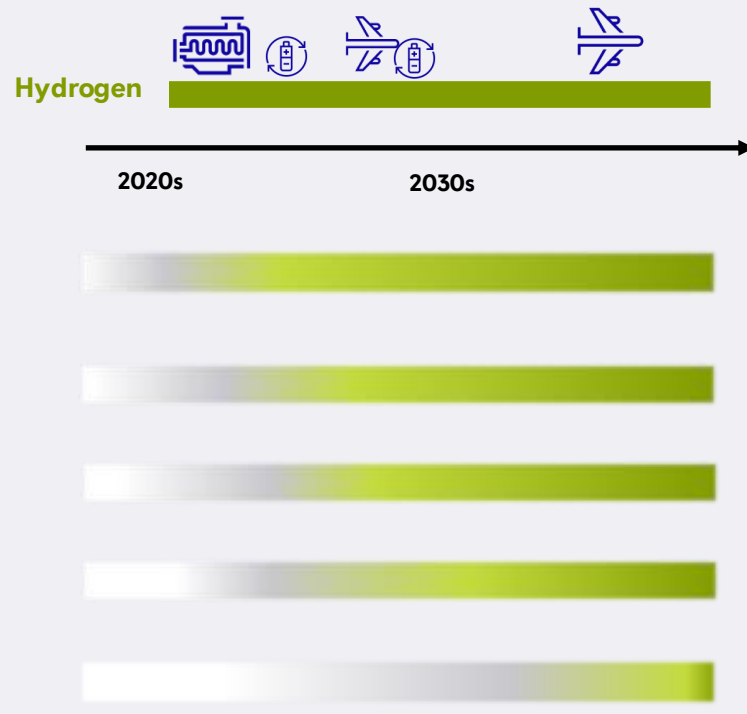
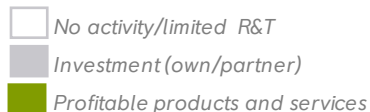
Transitioning to Net Zero



Generating returns from Net Zero transition

Hydrogen – technology pathway

- Synergies created across the Group
- Invest and market launch timelines differ across commercial applications
- Seeking short term opportunity and prudent investment into longer term markets



Our people

Recognising and retaining talent

We are **bringing in new talent and diversity**

- 48% increase in applications for Early Careers
- 58% graduate hires female, 36% from ethnic minority backgrounds

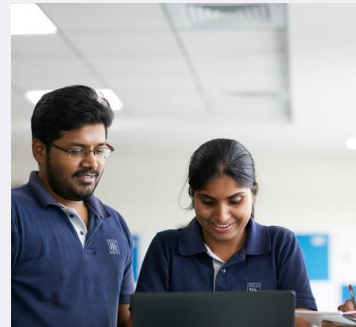
We are **creating an inclusive workplace**

- Supporting >20 Employee Resource Groups
- Largest group “Prism” recognised with several awards

We are **developing the right skills and capability for the future**

- Nearly half of new inventions filed in 2022 relate to Net Zero
- New, digitally enabled approach to Learning
- Electrical skills development through internal mobility

We are **improving employee engagement** scores



Rolls-Royce is unique too. And that's because of our people.



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with growth in
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Operational and commercial discipline

to manage external
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**Focused on operational and commercial
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Q&A