2022 Full Year Results

23 February 2023

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 Full Year Results Statement.

Agenda

1. **Welcome**
   Tufan Erginbilgic, CEO
2. **FY 2022 results**
   Panos Kakoullis, CFO
3. **Stronger Future**
   Tufan Erginbilgic, CEO

Welcome

Tufan Erginbilgic

CEO

Full Year 2022 Results

Panos Kakoullis

CFO

2022 Full year underlying results

Underlying results £m	2022	2021	Organic Change[1]	Organic Change %[1]
Revenue	**12,691**	**10,947**	**1,534**	**14%**
Gross profit	**2,477**	**1,996**	**436**	**22%**
Gross margin %	19.5%	18.2%	1.3%pt	
Operating profit	**652**	**414**	**197**	**48%**
Operating margin %	5.1%	3.8%	1.1%pt	
Profit after taxation	**158**	**10**	**116**	

£m	2022	2021	Change
Free Cash Flow	**505**	**(1,485)**	**1,990**
Net Debt	**(3,251)**	**(5,157)**	**1,906**

Higher Civil Aerospace shop visit and spare engine volumes and Power Systems growth

Underlying operating profit driven by Civil Aerospace and Power Systems

Increased Free Cash Flow (FCF) led by engine flying hour recovery

Improved cash flows and successful completion of disposal programme has reduced net debt

All results are shown for Group continuing operations, on an underlying basis, excluding discontinued operations (ITP Aero).
1 Organic change is the measure of change at constant translational currency applying full year 2021 average rates to 2022.
All underlying income statement commentary is provided on an organic basis unless otherwise stated.

Civil Aerospace

Underlying results £m	2022	2021	Organic Change	Organic Change %
Revenue	**5,686**	**4,536**	**1,126**	**25%**
Gross profit	853	474	359	76%
Gross margin %	15.0%	10.4%	4.3%pt	
Operating profit/(loss)	**143**	**(172)**	**296**	**-**
Operating margin %	2.5%	(3.8)%	6.0%pt	
Trading cash flow	226	(1,670)	1,896	

Large engine operational inputs

190 OE deliveries

248 Major shop visits

10.0m LTSA engine flying hours (EFH)

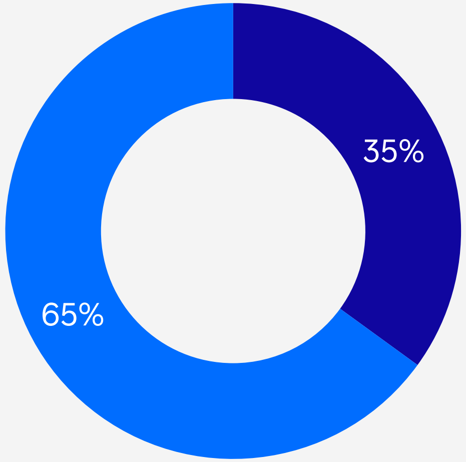
Total Civil Aerospace operational inputs

355 OE deliveries

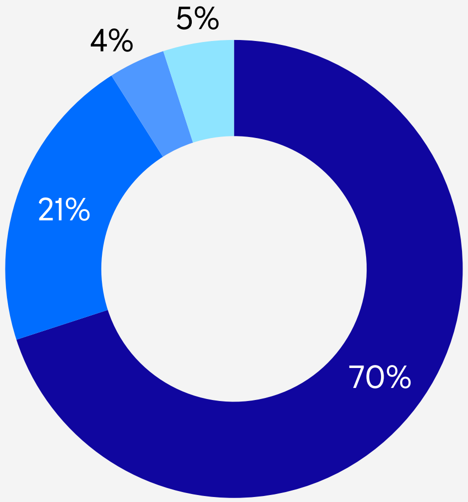
1,044 Total LTSA shop visits

13.2m LTSA engine flying hours (EFH)

Underlying revenue splits



OE	▲ 23%
Services	▲ 26%



Large engines	▲ 23%
Business Aviation	▲ 20%
Regional	▲ 16%
V2500	▲ 116%

Defence

Order intake

£5.4bn

Up 131%
1.5x book to bill

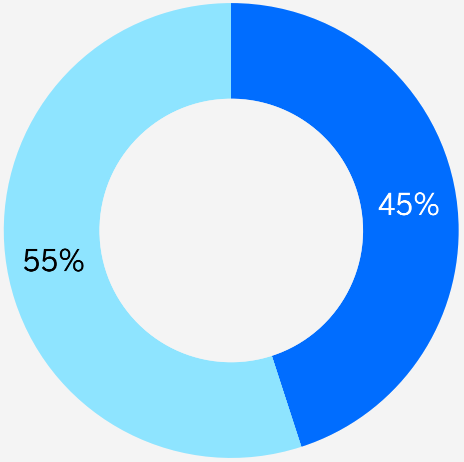
Order backlog

£8.5bn

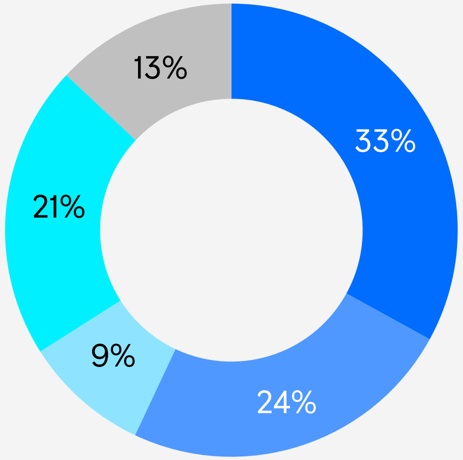
2023 sales cover
c.86%

Underlying results £m	**2022**	**2021**	**Organic Change**	**Organic Change %**
Revenue	**3,660**	**3,368**	**78**	**2%**
Gross profit	726	721	(28)	(4%)
Gross margin %	19.8%	21.4%	(1.3)%pt	
Operating profit	**432**	**457**	**(44)**	**(10)%**
Operating margin %	11.8%	13.6%	(1.6)%pt	
Trading cash flow	426	377	49	

Underlying revenue splits



- OE ▲ 10%
- Services ▼ 3%



- Transport ▲ 4%
- Combat ▲ 2%
- Naval ▼ (19)%
- Submarines ▲ 18%
- Other ▼ (6)%

Power Systems

Order intake

£4.3bn

Up 29%
1.3x book to bill

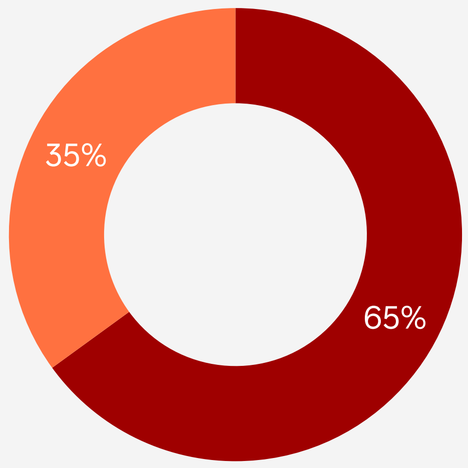
Order backlog

£4.0bn

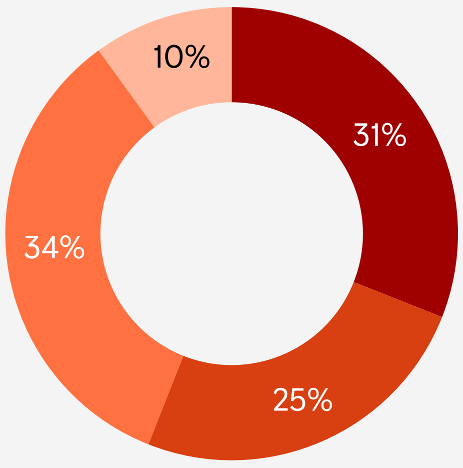
2023 sales cover
c.76%

Underlying results £m	**2022**	**2021**	**Organic Change**	**Organic Change %**
Revenue	**3,347**	**2,749**	**626**	**23%**
Gross profit	918	778	148	19%
Gross margin %	27.4%	28.3%	(0.9)%pt	
Operating profit	**281**	**242**	**41**	**17%**
Operating margin %	8.4%	8.8%	(0.4)%pt	
Trading cash flow	158	219	(61)	

Underlying revenue splits



OE	▲ 26%
Services	▲ 16%



Marine	▲ 18%
Industrial	▲ 21%
Power Gen	▲ 26%
Defence	▲ 32%

New markets

Employees

c1,000

(+80% vs FY21)
(FTE at period end)

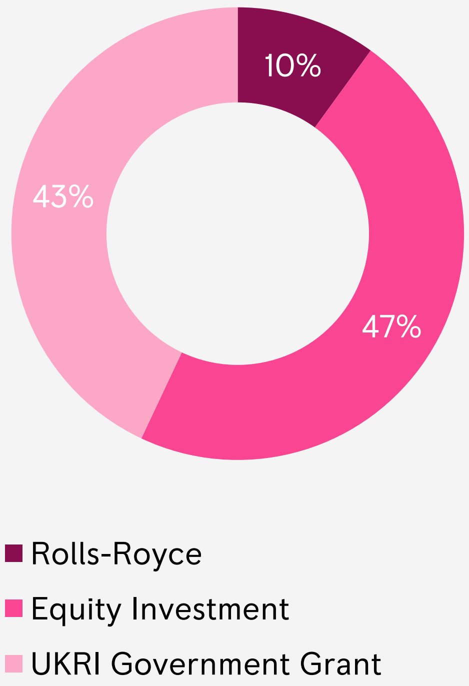
R&D Spend

£108m

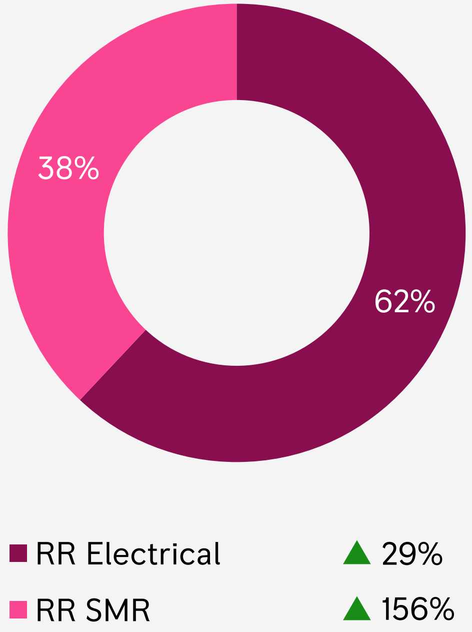
(+£40m y/y)

Underlying results £m	2022	2021	Organic Change	Organic Change %
Revenue	**3**	**2**	**1**	**50%**
Gross (loss)/profit	(1)	1	(2)	
Operating loss	**(132)**	**(70)**	**(62)**	**(89)%**
Trading cash flow	(57)	(56)	(1)	

£490m SMR committed funds



£108m R&D spend



Summary funds flow

£m	2022	2021	Change
Underlying operating profit	**652**	**414**	**238**
Operating profit from discontinued operations	86	(43)	**129**
Depreciation, amortisation and impairment	953	971	**(18)**
Movement in provisions	(23)	(136)	**113**
Movement in Civil LTSA balance	792	66	**726**
Working capital (excluding Civil LTSA balance)	(532)	(810)	**278**
Capital element of lease payments	(198)	(374)	**176**
Capital expenditure and investment	(476)	(426)	**(50)**
Settlement of excess derivatives	(326)	(452)	**126**
Tax and interest	(526)	(516)	**(10)**
Other	89	(136)	**225**
Free Cash Flow	**491**	(1,442)	**1,933**
...of which is continuing operations	**505**	(1,485)	**1,990**

1 **£1.2bn** Operating performance improvement

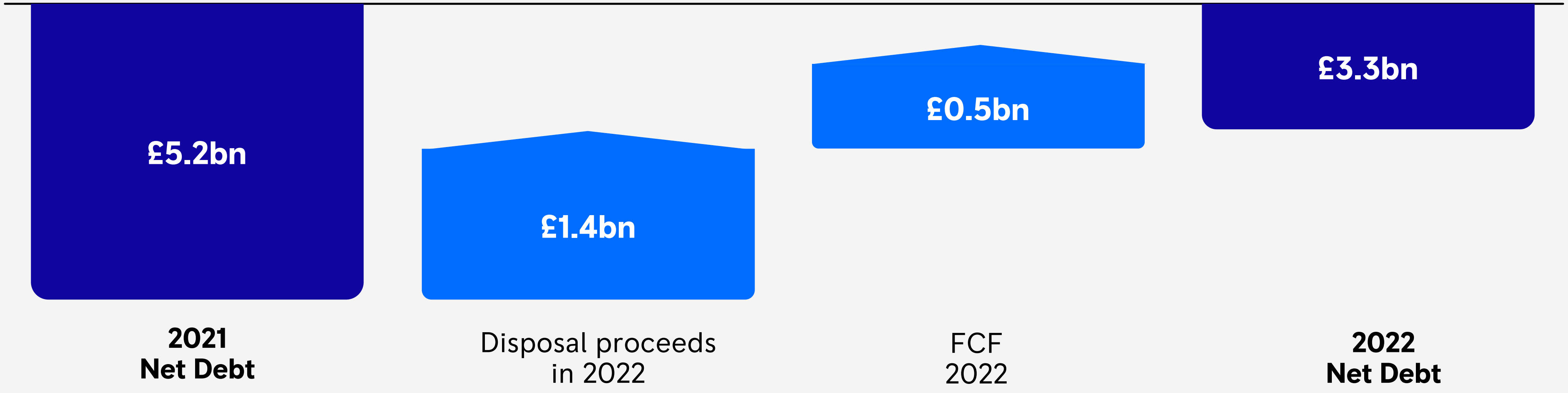
2 **£0.3bn** Working capital movements

3 **£0.4bn** Other impacts

Balance sheet

Net Debt Progression (including leases)

Illustrative, not drawn to scale

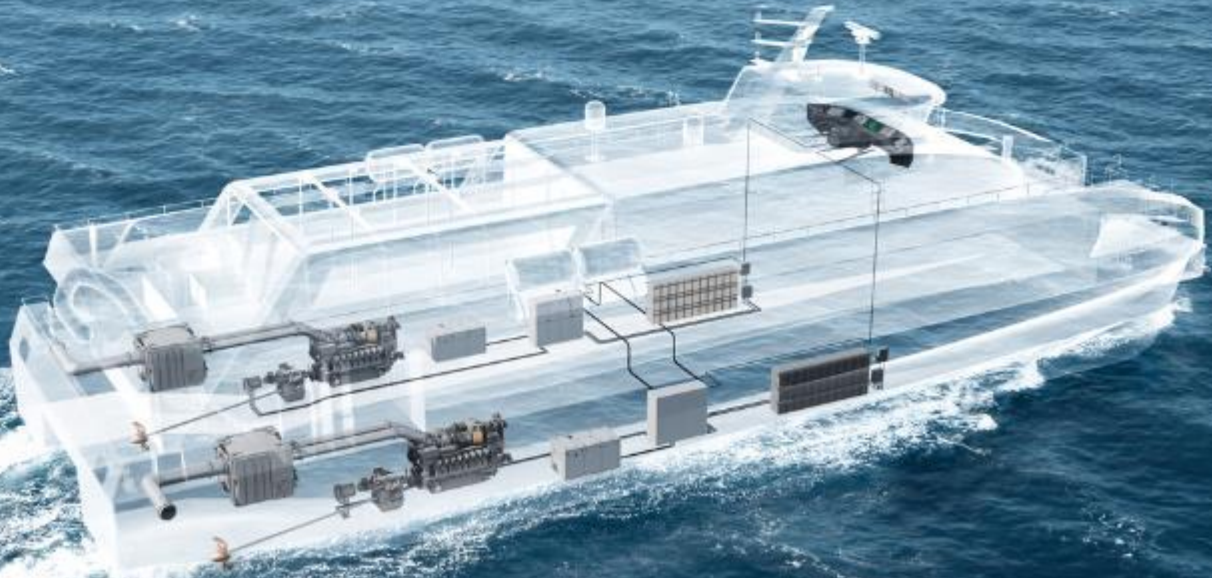


Target to return to investment grade credit rating

Stronger Future

Tufan Erginbilgic

CEO



Observations and key issues
Rolls-Royce has potential to achieve far more

Free Cash Flow	Underlying operating profit	EBIT Margin	Return on capital Post tax	Credit rating
Min £(4,255)m –	Min £(2,008)m –	Min (17.6)% –	Min (19.5)% –	Moodys Ba3
Max £873m	Max £808m	Max 5.2%	Max 4.6%	Fitch BB -
2018 - 2022	2018 - 2022	2018 - 2022	2018 – 2022	S&P BB -

Total shareholder return (67)%
5 year (2018-2022)

Rolls-Royce proposition
A stronger business

1 High quality and competitive business	Focus on profitable performance and operational efficiency EBIT margin and returns
2 Growing sustainable cash flows	Growing cash from operations and disciplined capital investment
3 Strong balance sheet and growing shareholder returns	Return to investment grade and resume shareholder distributions

Priorities to deliver on our potential

- Significantly improve operating profit and cash
- Deliver efficiency improvements
- Generate cash, reduce debt and improve shareholder returns
- Develop a clear and granular strategy
- Play a key role in the energy transition

Safety – people and product

Transformation programme – overview and governance

Discipline and governance to drive sustainable change

Steering Committee

Transformation Planning Group

Central Transformation Office

Efficiency & Simplification

- Organisation and footprint efficiencies
- Unlock synergies

Commercial Optimisation

- Contract profitability
- Commercial edge

Working Capital

- Significant near-term reduction
- Discipline to sustain improvement

Strategic Review

- Differentiated and executable strategies
- Measurable medium-term targets

Business Improvement

- Higher operating margins
- Improved operational performance

Performance Management

Purpose & Culture

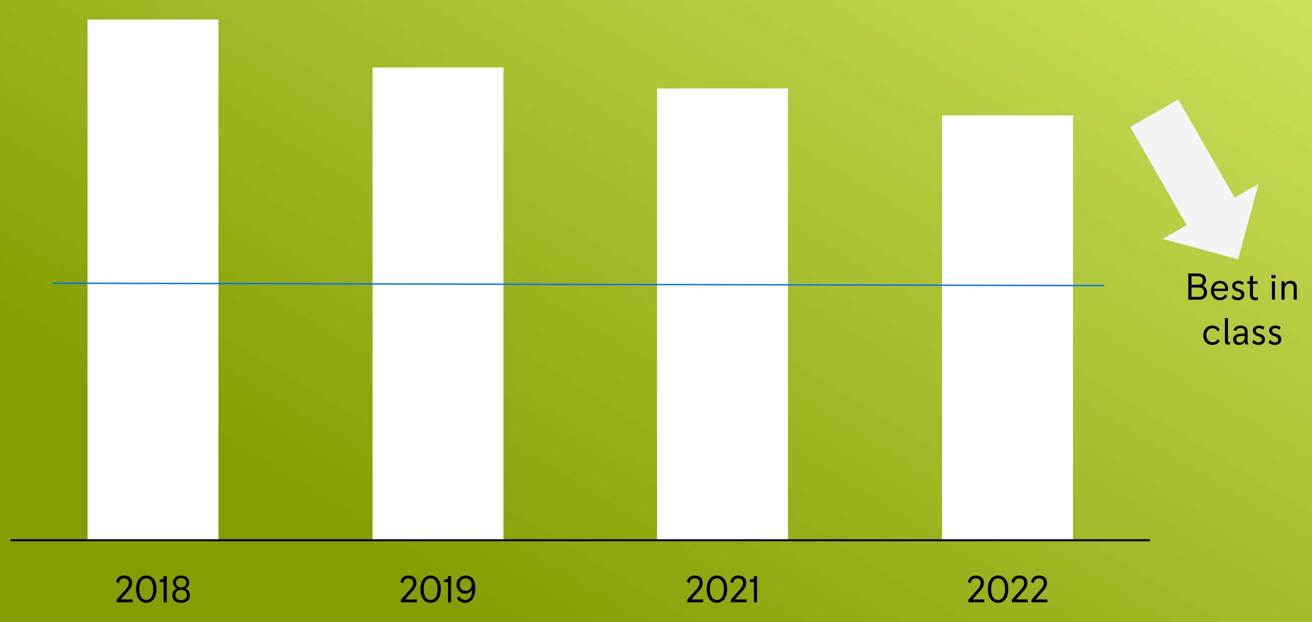
Key building blocks - efficiency and simplification

Sustainable cost efficiency delivery will unlock synergies and reduce our Total Cash Costs/Gross Margin

3 Workstreams:

1. Organisational design
2. Footprint efficiencies
3. Third party costs

Operating Leverage
(Total Cash Costs*/Gross Margin)



*Total cash costs is defined as C&A charge plus R&D spend.

Key building blocks - commercial optimisation and working capital

Commercial Optimisation

The right reward for the value delivered and the risks taken for our customers

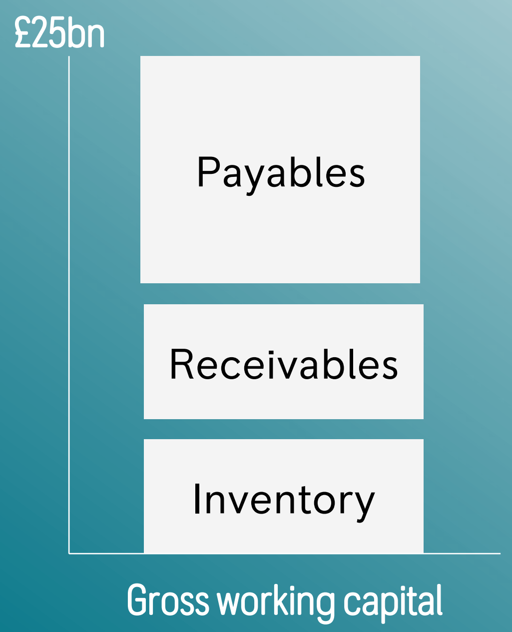
Focus on Civil Aerospace and Power Systems

Focus on contract profitability and our commercial edge (200+ contracts)

Building capabilities, governance and accountability to upskill our organisation

Working Capital

- Structural working capital release targeted
- £2bn increase in net working capital since 2019
- Programme in place to optimise inventory, receivables and payables

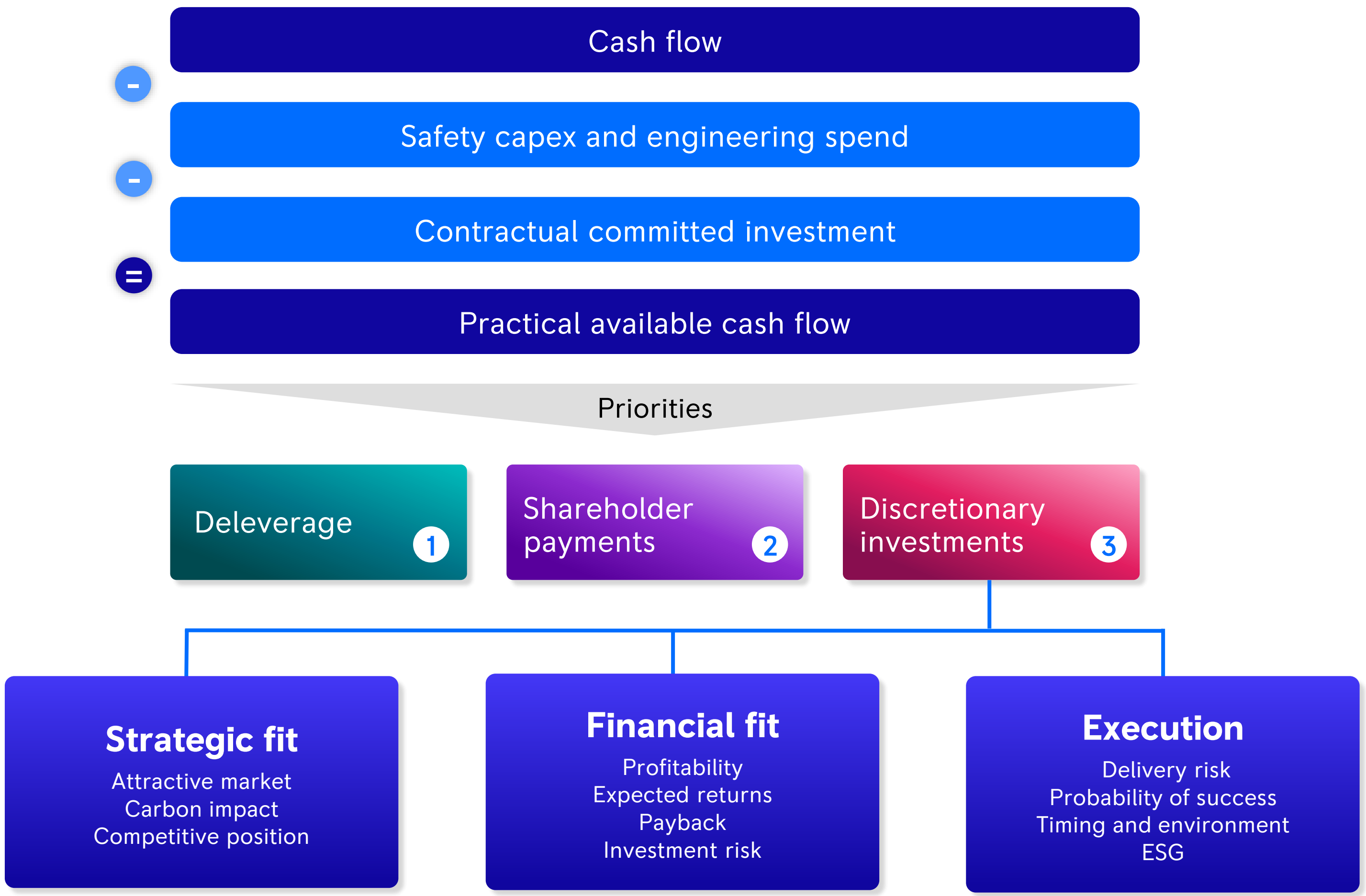


Key building blocks – strategic review

- Prioritise investment opportunities
- Central capital allocation to market spaces and programmes
- Focus on profitable opportunities
- Performance management of strategic plan

Our new capital allocation framework

Higher priority on deleveraging the balance sheet and shareholder payments.



Guidance and outlook

2023 group guidance

Operating profit £0.8bn - £1.0bn

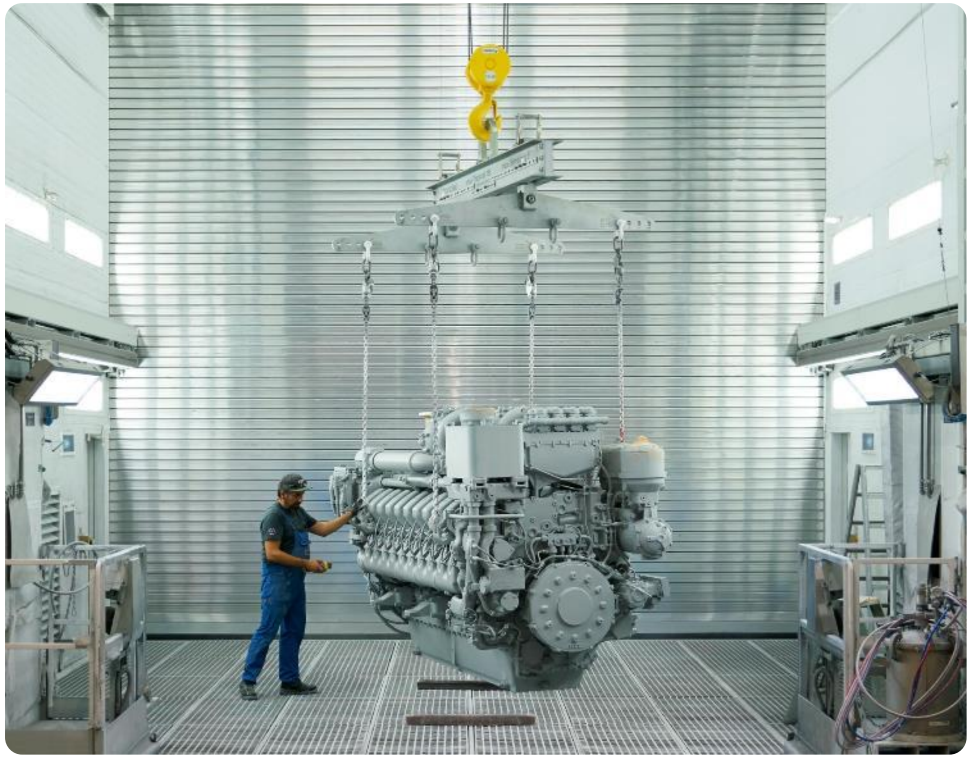
FCF £0.6bn - £0.8bn

Based on...

Civil large EFH at 80%-90% of 2019 level

Total Civil shop visits approx. 1,200-1,300

Additional guidance details on page 3 of supplementary slides



Renewed and intensified focus on performance and efficiency

Continued recovery in our end markets, notably Civil Aerospace

Despite a challenging and uncertain external environment

Key messages

Aim to create a **high performing**, **competitive**, **resilient** and **growing** business

Significant opportunity to **expand** our **cash generation** and **profitability**

Already **in action** to improve underlying **performance**

We will set a **granular strategy** with **mid term targets**

Q&A

Questions will be taken live in the room. For those on the webcast please use the questions functionality to submit your questions which will be read out if time allows or responded to by the IR team after the call.

ROLLS

ROYCE