Rolls-Royce Investor Presentation

March 2023

Stronger future

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**

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 – Max £873m 2018 - 2022	Min £(2,008)m – Max £808m 2018 - 2022	Min (17.6)% – Max 5.2% 2018 - 2022	Min (19.5)% – Max 4.6% 2018 – 2022	Moodys Ba3 Fitch BB - 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

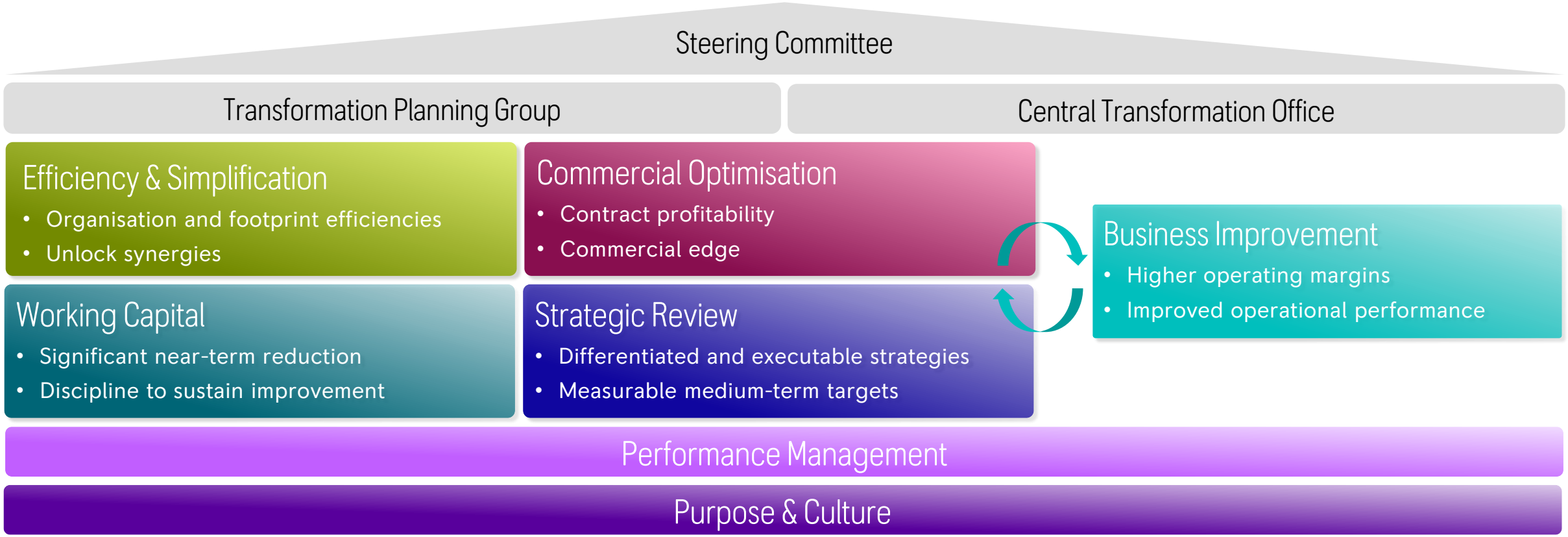
Develop a clear and granular strategy

Play a key role in the energy transition

Safety – people and product

Transformation programme – overview and governance

Discipline and governance to drive sustainable change



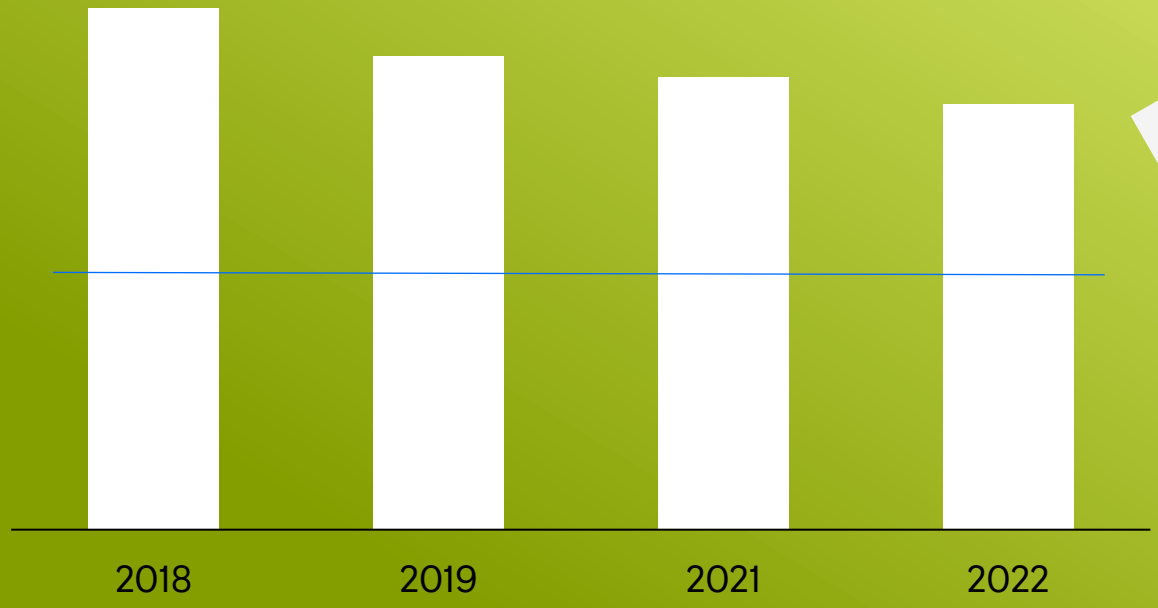
Key building blocks - efficiency and simplification

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

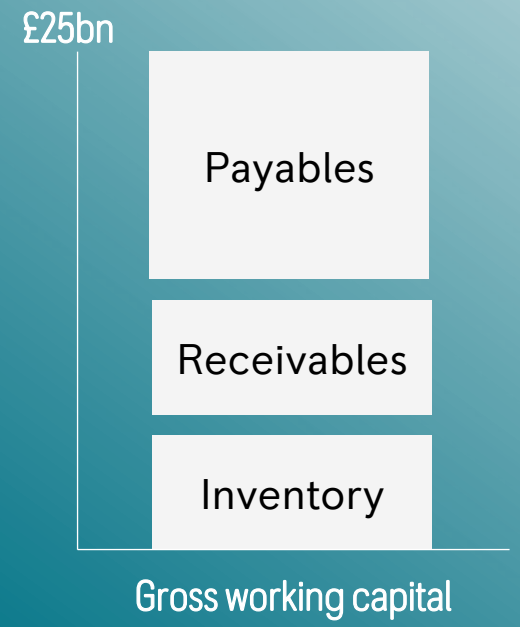
Focus on Civil Aerospace and Power Systems

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 gross working capital since 2019
- Programme in place to optimise inventory, receivables and payables

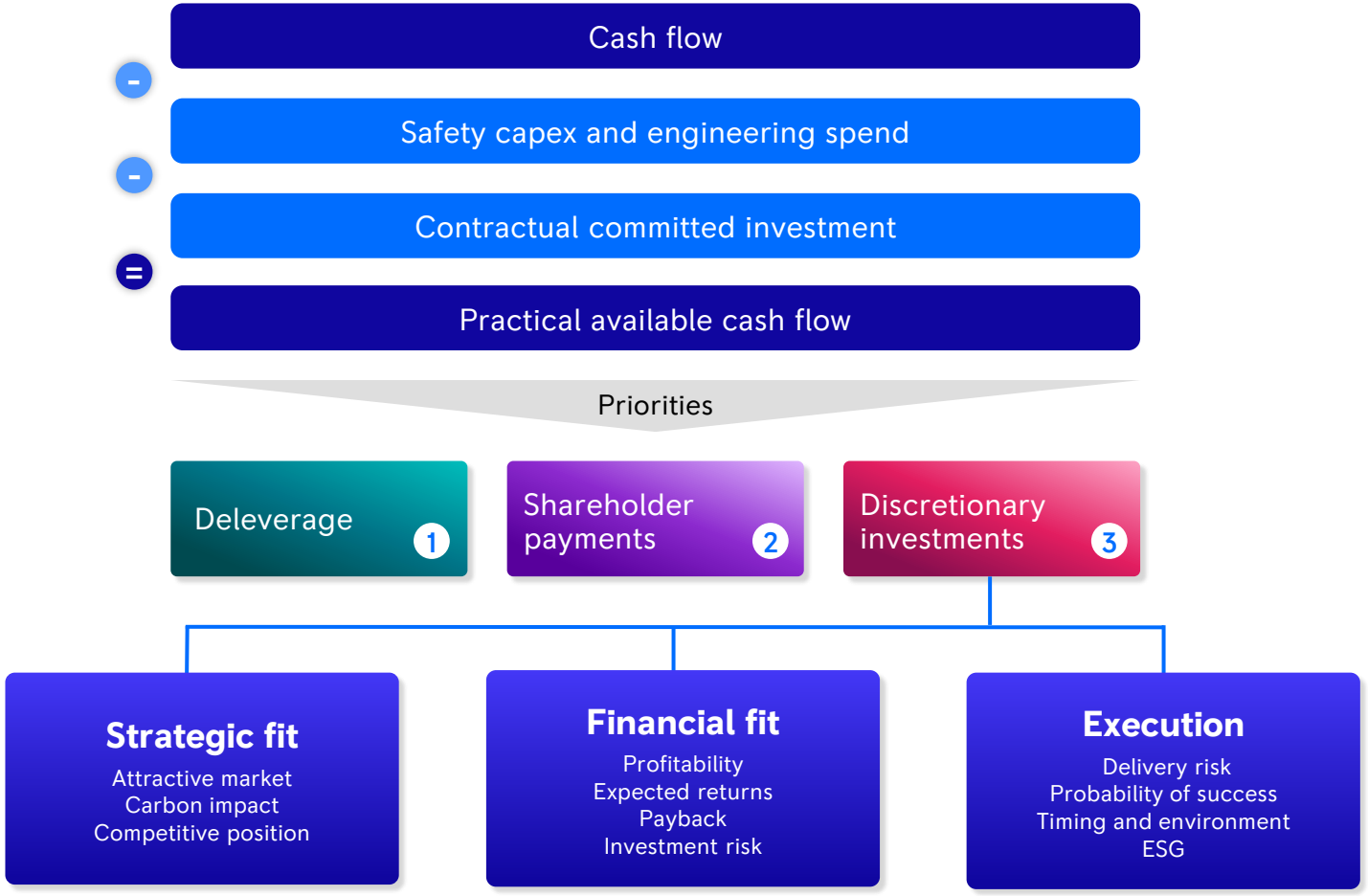


Key building blocks – strategic review

- 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

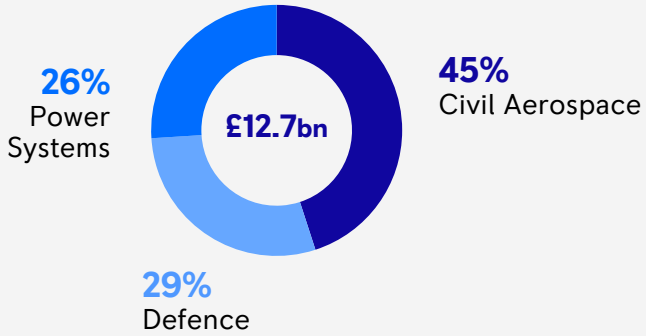
Higher priority on deleveraging the balance sheet and shareholder payments.



Financial performance

FY 2022 results summary

Underlying revenue by business – FY 2022



Improved orders, revenue, profit and cash flow in 2022

- Strong new order wins in Civil Aerospace and Defence and a record order book in Power Systems
- Underlying operating profit of £652m, £238m higher than the prior year, with the increase driven by Civil Aerospace and Power Systems
- Free cash flow from continuing operations of £505m, £2.0bn higher than prior year, led by engine flying hour recovery
- Net debt of £3.3bn, down from £5.2bn at end 2021, due to disposals and improved cash flow
- Underlying operating profit guidance of £0.8-£1.0bn and free cash flow of £0.6-£0.8bn in 2023; includes early benefits from transformation

Underlying operating profit	Free cash flow	Net debt
£652m	£505m	£3.3bn

All figures as at 2022 Full Year Results

Guidance and outlook

2023 group guidance

Operating profit £0.8bn - £1.0bn

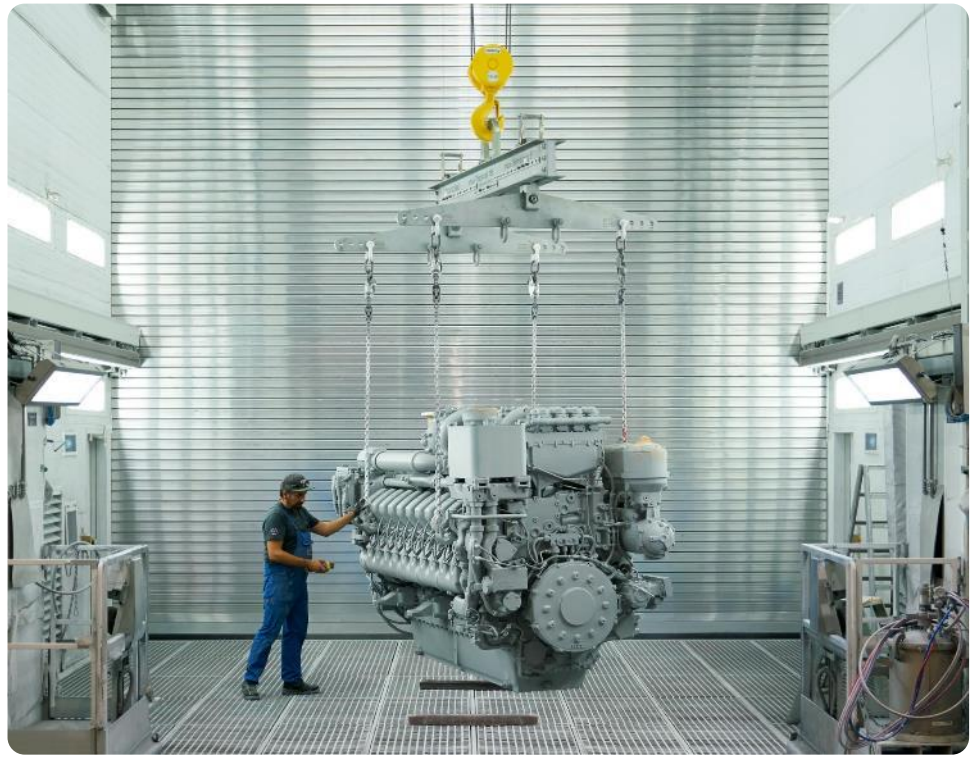
FCF £0.6bn - £0.8bn

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

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	

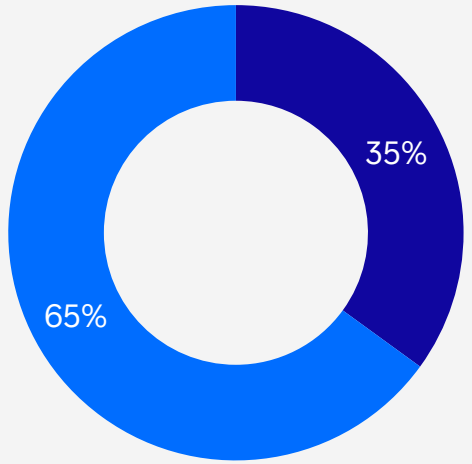
Large engine operational inputs

190	248	10.0m
OE deliveries	Major shop visits	LTSA engine flying hours (EFH)

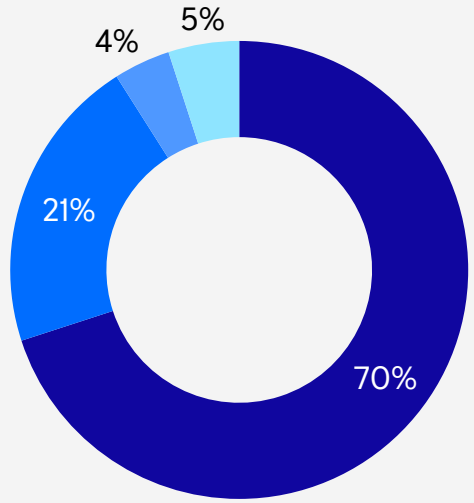
Total Civil Aerospace operational inputs

355	1,044	13.2m
OE deliveries	Total LTSA shop visits	LTSA engine flying hours (EFH)

Underlying revenue splits



OE	▲ 23%
Services	▲ 26%



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

Defence

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	

Order intake

£5.4bn

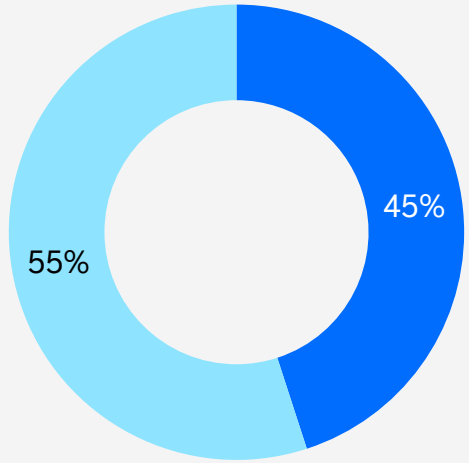
Up 131%
1.5x book to bill

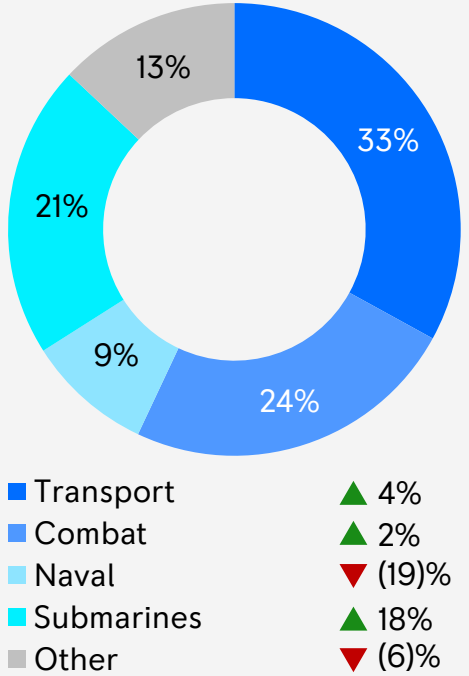
Order backlog

£8.5bn

2023 sales cover
c.86%

Underlying revenue splits





Power Systems

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)	

Order intake

£4.3bn

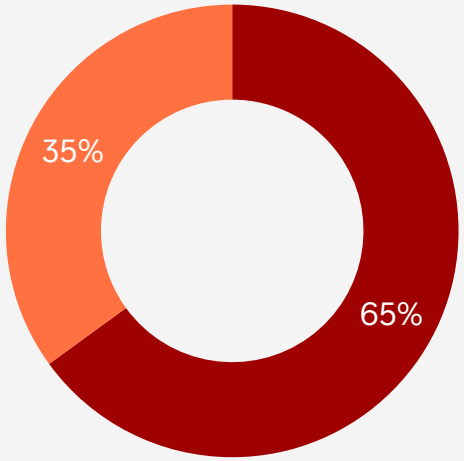
Up 29%
1.3x book to bill

Order backlog

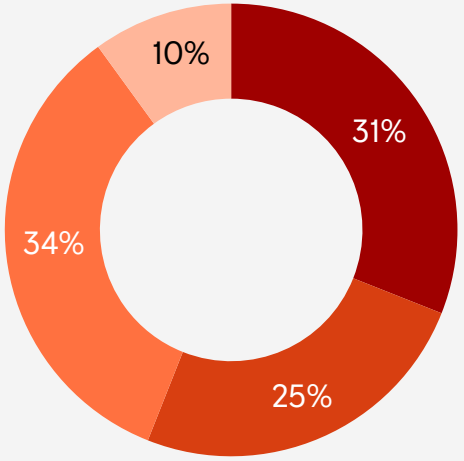
£4.0bn

2023 sales cover
c.76%

Underlying revenue splits



- OE ▲ 26%
- Services ▲ 16%



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

New markets

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)	

Employees

c1,000

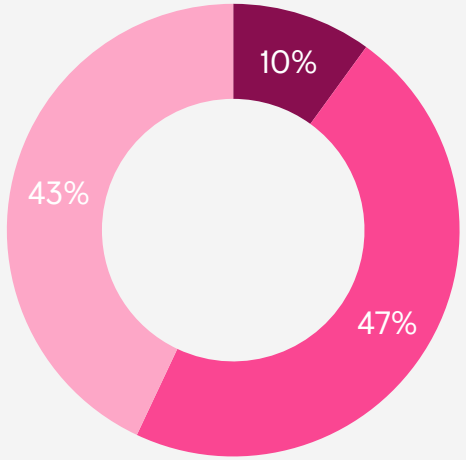
(+80% vs FY21)
(FTE at period end)

R&D Spend

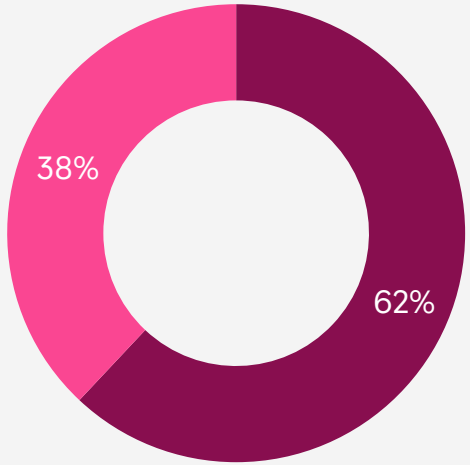
£108m

(+£40m y/y)

£490m SMR committed funds



£108m R&D spend



▲ 29%

▲ 156%

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

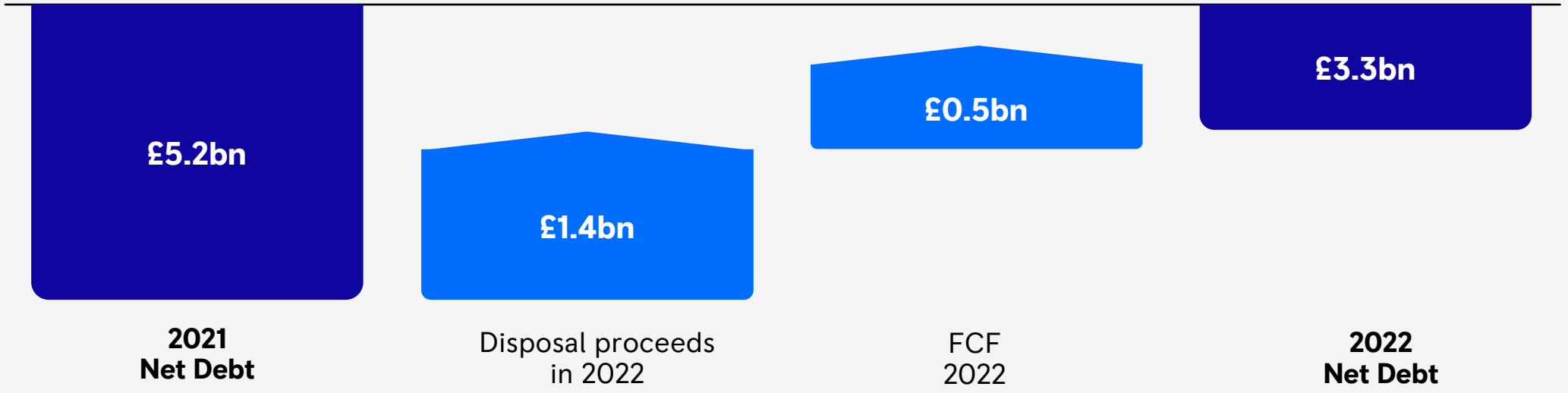
2 £0.3bn
Working capital movements

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

What we do

Our business groups

Civil	Power Systems	Defence	Electrical	SMR
				
35 types of commercial aircraft powered by us	40,000 customers in 11 different industries	160 customers in over 103 countries	NEW MARKET	NEW MARKET
15,400 installed base around the world	20,000 reciprocating engines sold per year	16,000 engines in service around the world	£67m Research & Development	£41m Research & Development
17,900 total employees	9,400 total employees	11,100 total employees	≈ 500 total employees	≈ 500 total employees

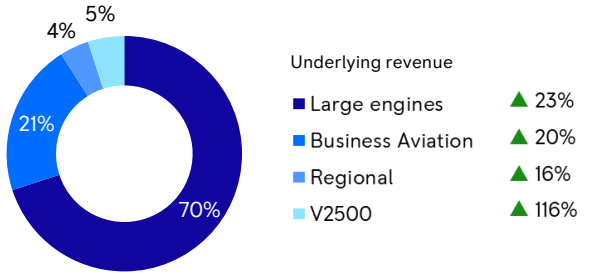
Our markets

CIVIL AEROSPACE

Civil Aerospace is a major manufacturer of aero engines for the large commercial aircraft, regional jets and business aviation markets. The business uses its engineering expertise, in-depth knowledge and capabilities to provide through life service solutions for its customers.

£5,686m
Underlying revenue

£143m
Underlying operating profit

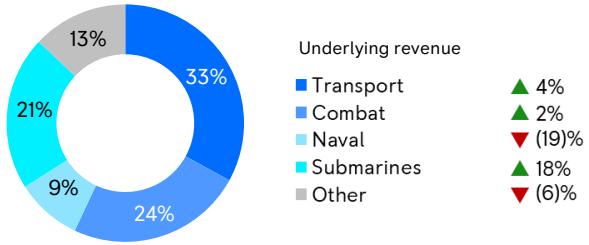


DEFENCE

Defence is a market leader in aero engines for military transport and patrol aircraft with strong positions in combat and trainer applications. It has significant scale in naval and designs, supplies and supports the nuclear propulsion plant for all of the UK Royal Navy's nuclear submarines.

£3,660m
Underlying revenue

£432m
Underlying operating profit

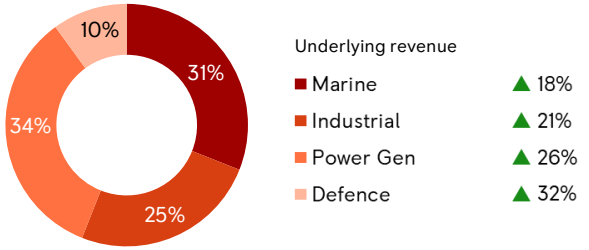


POWER SYSTEMS

Power Systems, with its product and solutions brand mtu, is a world-leading provider of integrated solutions for onsite power and propulsion, developing sustainable solutions to meet the needs of its customers.

£3,347m
Underlying revenue

£281m
Underlying operating profit

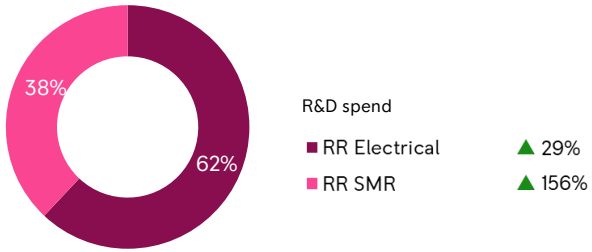


NEW MARKETS

New Markets are early-stage businesses. They leverage our existing, in-depth engineering expertise and capabilities to develop sustainable products for new markets, focused on the transition to net zero.

£3m
Underlying revenue

£(132)m
Underlying operating loss



Civil Aerospace value drivers and outlook

Civil Aerospace Investor Day was held in Derby in May 2022 and provided deeper view into the value drivers and medium term outlook

All related presentation materials and videos are on our website

Leading products in growing markets

Embedded value in a growing installed base

Driving cost reduction, efficiency and margin expansion

Investing in technologies to lead in sustainable aviation

Value drivers

- Maximise Service Receipts
- Service Cost Reduction
- OE Margin Improvement
- Business Aviation Growth
- Investment Cycle

Key drivers of Civil Aerospace value

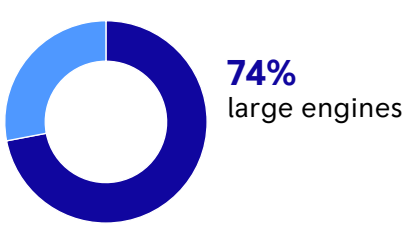
Creating value from a growing and maturing fleet as the market for international passenger travel recovers

Retaining the operational efficiency and productivity gains already delivered to drive further margin expansion

Maximise service receipts	Services cost reduction	OE margin improvement	Business Aviation growth	Investment cycle
• Market recovery • Contract extensions and aircraft transitions • Service scope and pricing	• Extend time on wing • Reduce shop visit cost	• Reduce component and assembly costs • Productivity and cost base improvement • Purchasing strategy	• Pearl engine programme ramp-up and OE cost reduction	• Less intense new product introduction • Focus on cost reduction and product maturity • Capital light approach utilising partnerships

Leading products in growing markets

Civil Aerospace 2022 underlying revenue



* Tay | Gulfstream IV, G300, G400, G350 and G450. BR710 | Bombardier GX, Global 5000 & 6000, Gulfstream V, G500 & G550

** Legacy large engine fleet also includes: RB211, Trent 500, Trent 800 & Trent 900 (~1850 engines in service or stored)

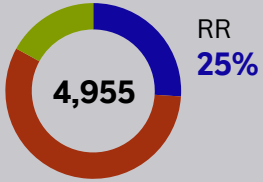
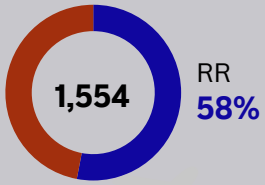
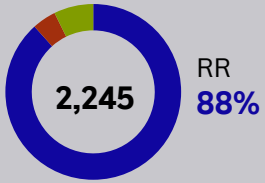
Business Aviation Portfolio

In Service	In Production	In Flight-test	In Development
			
Tay* BR710* AE3007	**Gulfstream G650 BR725** **Bombardier 5500/ 6500 Pearl 15**	**Gulfstream G700 Pearl 700**	**Dassault Falcon X Pearl 10X**
6,300 engines in service	960 BR725 & 100 Pearl 15 engines in service	Strong order book	Positive market response

Widebody Portfolio

Market leading legacy large engine**	35% market share	Sole-source	Sole-source	Sole-source
				
A330 Trent 700	**Boeing 787 Trent 1000**	**A350-900 Trent XWB-84**	**A350-1000 & A350F Trent XWB-97**	**A330neo Trent 7000**
1,718 Trent 700 engines average age: 11 years	730 engines average age: 6 years	848 engines average age: 3 years	132 engines average age: 3 years Freighter launched	158 engines average age: 2 years

We are well positioned to outperform market growth

	Rolls-Royce Fleet age	Share of in Service (# aircraft)	OE outlook	Future EFH potential
Legacy large engines	**13 years** (Trent 700: 11 Years)		Trent 700 for military MRTT only	 Trent 700
New generation large engines	**4 years** Trent 1000/7000, XWB-84/97		 Powering **4** out of **5**, sole source on **3**	 Trent 1000/7000, Trent XWB-84/97
Business Aviation	**9 years**	 	 Sole source on **8** out of **11** on large cabin long-range platforms	 Tay, BR710, BR725, Pearl 15/700/10X

In service includes storage: AC numbers
Business Aviation – large cabin and very long range sector only
Source: Cirium - May 2022 (as presented at Civil Investor Day)

Investing in technologies to shape the future of aviation

We play a vital role in the decarbonisation of our industry

The transition to net zero represents a tremendous opportunity for Rolls-Royce

Markets

WIDEBODY	NARROWBODY	REGIONAL	COMMUTER / eVTOL	BUSINESS AVIATION
Strengthen and sustain core business	Ambition to re-enter market	Growth through new technology	Disrupt with new technology	Explore new market segments

Step change in efficiency of gas turbines

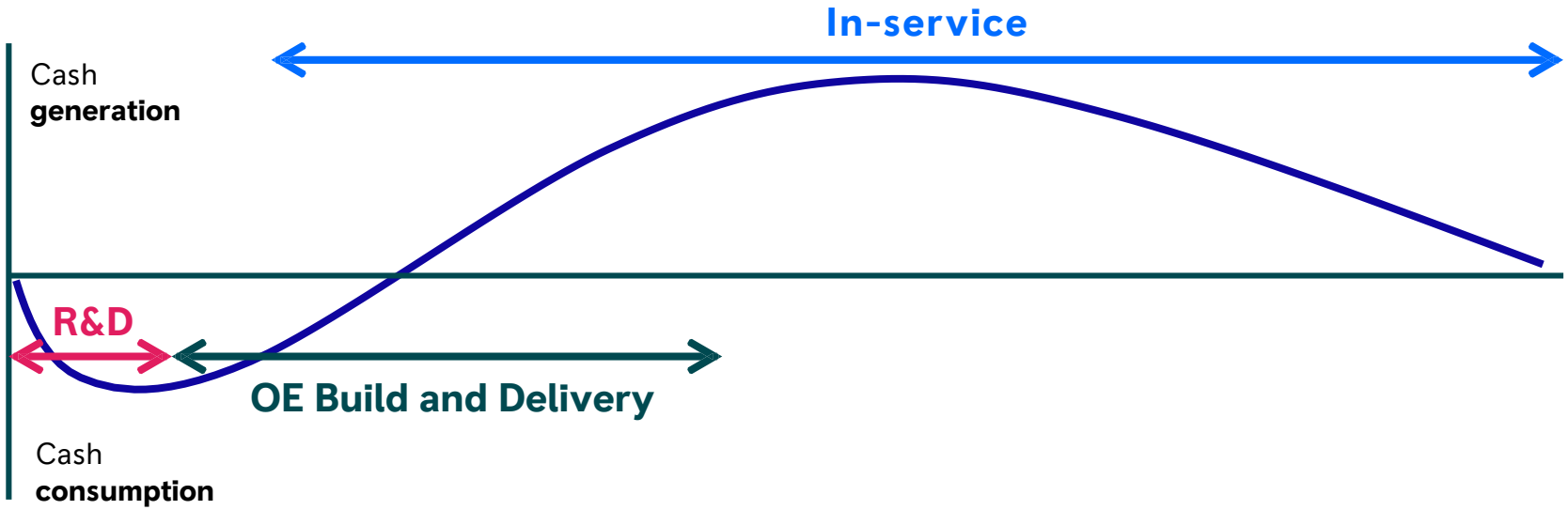
Leading SAF demonstration and adoption

Developing disruptive technologies (electrical, hybrid and hydrogen)

Civil Aerospace investment cycle

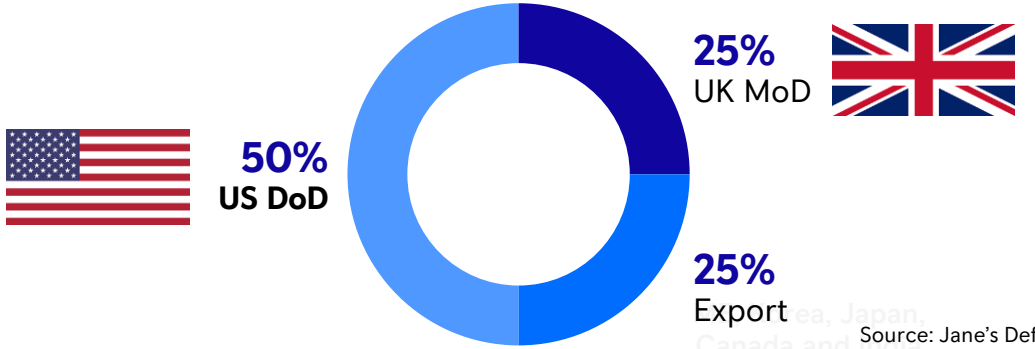
Long investment cycles supported by:

- Access to government funding for technology development
- Risk and revenue sharing partnerships for programme investment
- Supply chain and services joint ventures to access capability and spread investment cost



Defence

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



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

Long term drivers of defence spending

- **US:** large new programmes for US DoD (including B-52 and FLRAA)
- **UK:** commitment to maintain fighting capability through Project Tempest and UK-led Next-Generation fighter programmes
- **Export Markets:** continued growth including naval products, transport aero engines and Eurofighter typhoon exports and potential involvement in Australian submarines
- **Level of geopolitical tensions**

Power Systems

Record order book and order intake in 2022

Diversified end markets and mission critical services

40,000+ customers

Energy transition opportunity

Power Generation
34% of Sales

- Mission critical backup power for data centres, hospitals and other infrastructure

Marine
31% of Sales

- Government focused customer base with stable, robust demand
- Large yacht propulsion and systems

Industrial
25% of Sales

- Oil & Gas, mining, construction and transport

Defence
10% of Sales

- Defence end markets driven by Government spending and political stability

Medium and Long Term Outlook

Power Generation	Marine	Industrial	Defence
• Sustained driven by economic recovery • Data centre usage • Trend towards decentralized power grid • Digitalization trend driving data centre demand	• Long term demand in yachts driven by UHNWIs • Structural trend towards low emissions in commercial vehicles to benefit the group	• Potential growth opportunities over the medium term through focus on efficient, lower carbon solutions, e.g. hybrid rail power pack	• Sustained growth with a view to being a global power company based on low carbon technologies

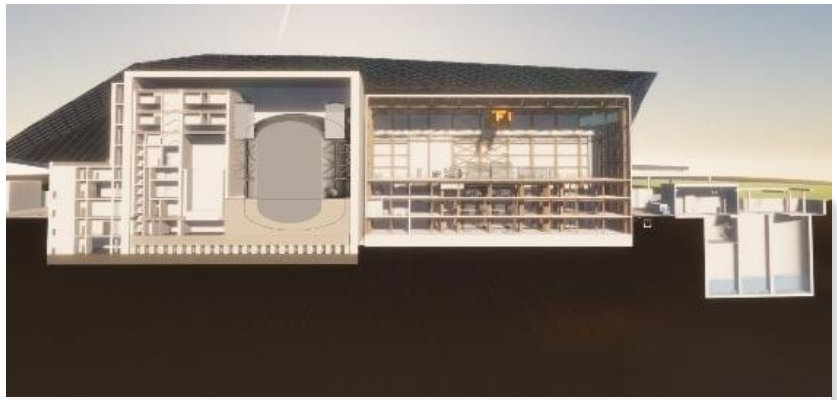
New Markets

Leveraging synergies across the group

Rolls-Royce Electrical

Complete power and propulsion systems for all-electric and hybrid-electric applications.

Our research and portfolio stretches from electric motors across power electronics, control systems and battery systems to power generation.



Rolls-Royce SMR

Small Modular Reactors are 470MW, 50Hz, nuclear power stations designed to help decarbonise global power generation

Factory production of modules lowers cost and risk with repeatable precision engineering and predictable build programme with just 500 days on site for the modular build.

Sustainability & ESG

Our sustainability approach

We focus on areas where we can make the most material contributions to a sustainable future, informed by our impacts as a business, supported by global frameworks such as the United Nations Sustainable Development Goals, and the expectations of our all stakeholders.

We look to operate and act in an ethically, environmentally and socially responsible manner, by:

Managing and minimising environmental impacts across our value chain

Creating a positive social impact for our people, our partners, and communities

Maintaining the highest standards of ethics and compliance

Underpinned by our values and behaviours

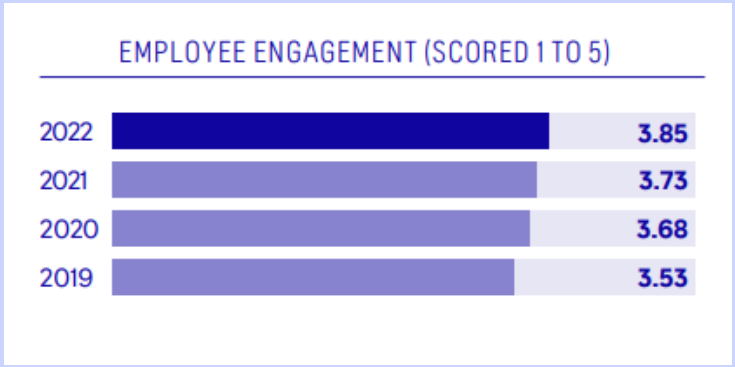
Governance

The **Board** has oversight of climate-related risks and opportunities impacting the Group and all Board Committees have climate-related issues as part of their remit.

The **Executive Team** is responsible for managing climate-related risks and opportunities on a day-to-day basis and for delivering the roadmaps to achieve our decarbonisation strategy.

The **Independent environmental advisory committee** comprises world-class external experts and academics in climate science, materials science and environmental policy, and provides input and independent critique of our sustainability and environment policy and strategy.

Remuneration policy

		How we define it	Link to remuneration
Employee engagement		In 2019, we introduced a new survey, Gallup Q12. Responses are scored on a scale of one to five. The employee engagement score averages the responses to all 12 questions	Employee engagement performance against our target accounts for up to 10% of the Rolls-Royce Incentive Plan
Sustainability	The metrics for the Rolls-Royce Incentive Plan combine short-term measures which focus on in-year performance, with longer-term strategic measures. The sustainability metric is a longer term measure with targets set at the start of 2021, which will form 5% of the 2023 Rolls-Royce Incentive Plan	Targets for the three year performance period ending 31 December 2023 relate to product compatibility with sustainable fuels.	This metric accounts for up to 5% of the Rolls-Royce Incentive Plan for 2023

OUR DECARBONISATION STRATEGY

Our decarbonisation strategy starts with the emissions in our own operations, extends to our value chain and ultimately focuses on the contribution we can make to the global transition.

Since joining the Race to Zero and making our commitment to reach net zero carbon emissions by 2050, we have made considerable progress in the development and execution of our decarbonisation strategy.

Our decarbonisation strategy has three interconnected pillars:

01

MAKING OUR OPERATIONS NET ZERO CARBON

02

DECARBONISING COMPLEX, CRITICAL SYSTEMS AT THE HEART OF GLOBAL SOCIETY, BY

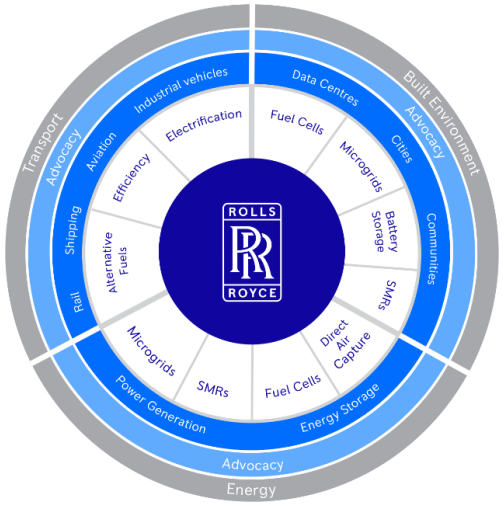
a. enabling our products to be used in a way that is compatible with net zero

b. pioneering new breakthrough technologies that can accelerate the global energy transition

03

CREATING THE NECESSARY ENABLING ENVIRONMENT, WITH PUBLIC AND POLICY SUPPORT TO ACHIEVE THIS AMBITION

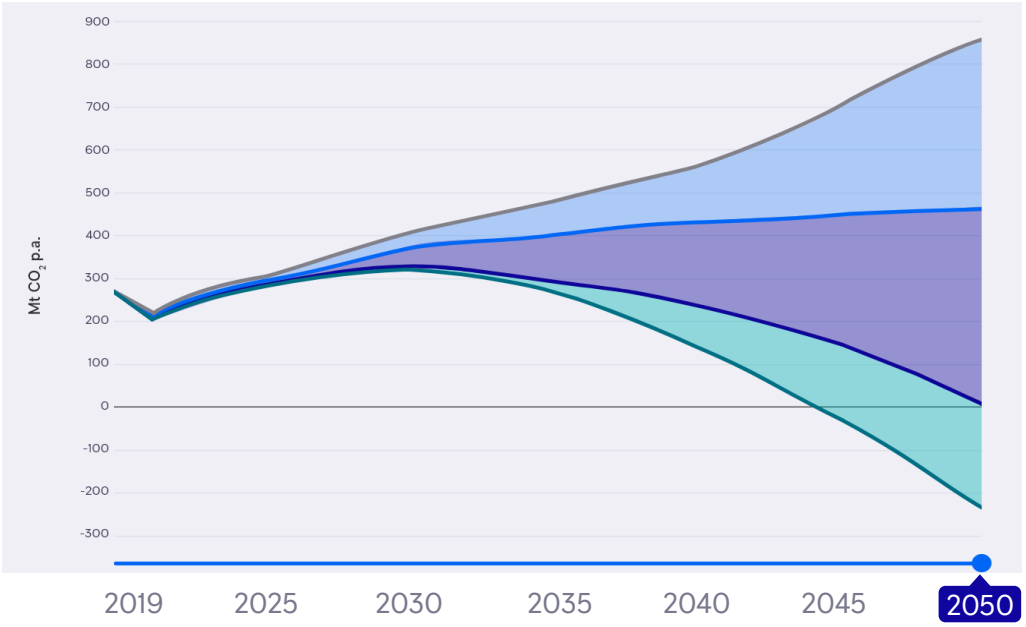
We have a fundamental role to play in meeting the challenge of climate change



Applying technical pathways to decarbonise complex, critical systems

Rolls-Royce Products in Service

Change in Annual CO_2 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

Out 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.

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

Progress since joining UN Race to Zero

Operations and facility emissions (scope 1 + 2)

EMISSION SOURCE	2019	2020	2021	2022
Scope 1: emissions from office, manufacturing and production facilities	110 kt CO_2e	109 kt CO_2e	85 kt CO_2e	92 kt CO_2e
Scope 1: emissions from product testing activities	135 kt CO_2e	126 kt CO_2e	132 kt CO_2e	142 kt CO_2e
Scope 2: emissions from the purchase of electricity, heat, steam and cooling for our facilities	144 kt CO_2e	91 kt CO_2e	93 kt CO_2e	86 kt CO_2e
Total scope 1 + 2 emissions	389 kt CO_2e	325 kt CO_2e	310 kt CO_2e	319 kt CO_2e
Total scope 1 + 2 emissions normalised by revenue (kt CO_2e/ £m)	0.0243 kt CO_2e/ £m revenue	0.0283 kt CO_2e/ £m revenue	0.0276 kt CO_2e/ £m revenue	0.0236 kt CO_2e/ £m revenue

Use of sold product emissions (scope 3, category 11)

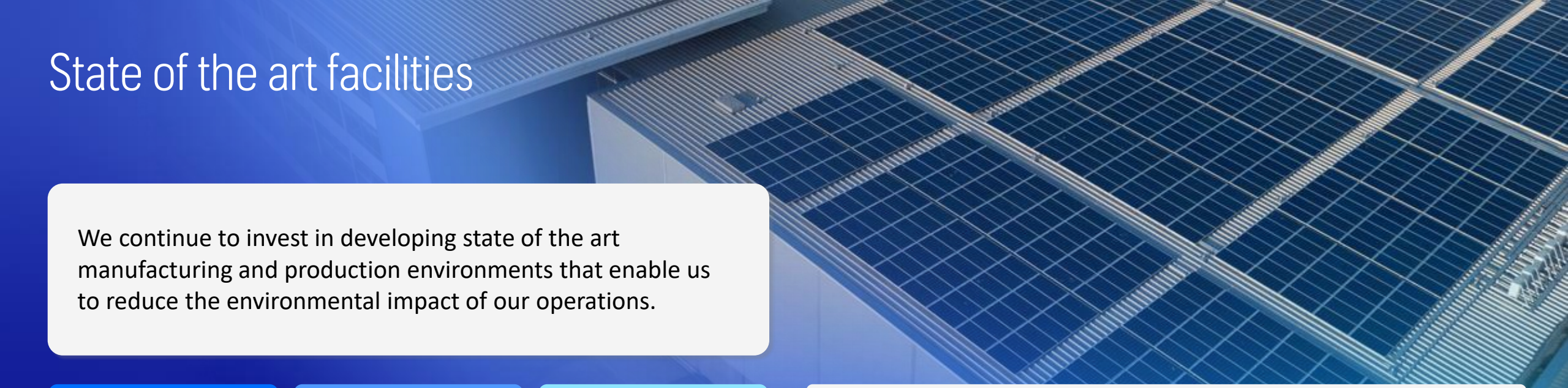
Emissions associated with the use of sold products (scope 3, category 11) for 2022 have been calculated in accordance with the GHG Protocol.

The calculation methodology can be summarised as:

Number of units sold within reporting year
X
Number of hours of operations for each unit over its in-service lifetime
X
Typical fuel usage per hour of operational life
X
Lifecycle CO2 emissions per kg of fuel used
X
Weight-based allocation factor (where applicable)

USE OF SOLD PRODUCT EMISSIONS	2022 EMISSIONS
Use of sold products on a fossil fuel based pathway	87.3 Mt CO_2e
Use of sold products on a fossil fuel based pathway without weight-based adjustment	274.5 Mt CO_2e
Use of sold products on a fossil fuel based pathway normalised by original equipment revenues	0.015 Mt CO_2e/ £m OE revenue
Use of sold products on a sustainable fuel based pathway	70.1 Mt CO_2e
Use of sold products on a sustainable fuel based pathway without weight-based adjustment	197.6 Mt CO2e
Use of sold products on a sustainable fuel based pathway normalised by original equipment revenues	0.012 Mt CO_2e/£m OE revenue

State of the art facilities



We continue to invest in developing state of the art manufacturing and production environments that enable us to reduce the environmental impact of our operations.

Energy consumption (MWh/£m)

-35%

2022 vs 2014

Total solid and liquid waste (t/£m)

3.41

vs target 3.31

Recycling & recovery rate (%)

61.4

vs target 68%

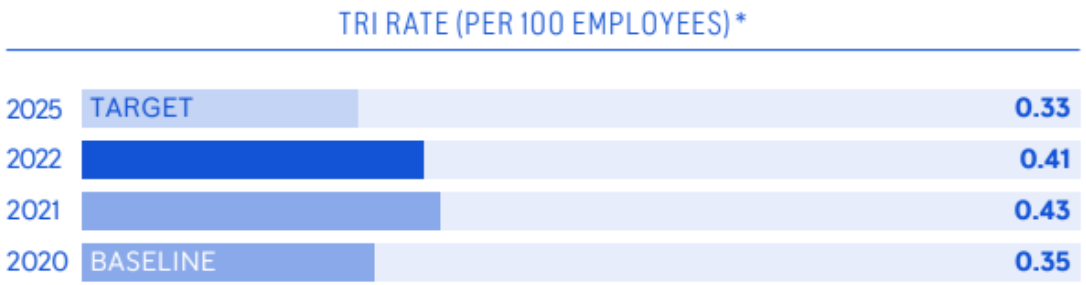
Revert Programme: Our closed loop recycling programme

- We use over 20,000 tonnes of high value metal alloys each year.
- Almost 95% of a used aero engine can now be recycled and around half of the recovered material is of such high quality it can be safely used again to make a new engine.
- We save 300,000 MWh of energy and 80,000 tonnes of CO_2 each year compared to using virgin materials.

Our people

We work to create an environment where everyone at Rolls-Royce can be at their best.

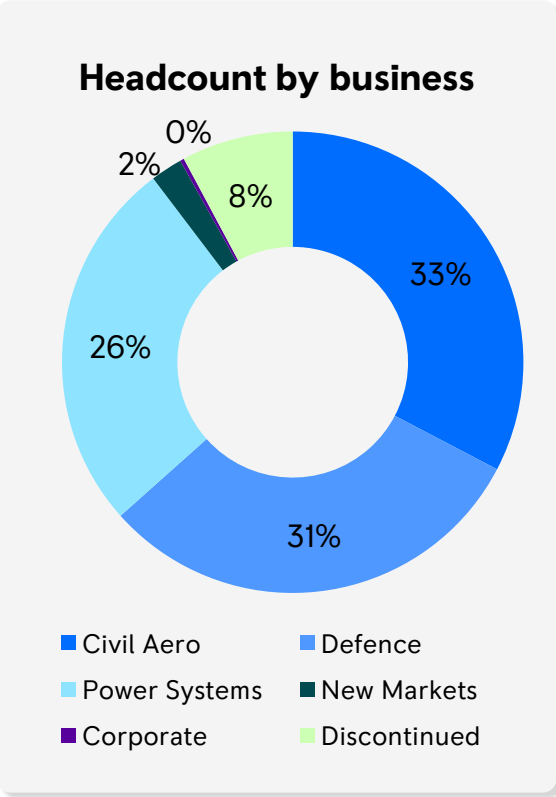
- safety, health and wellbeing of our people;

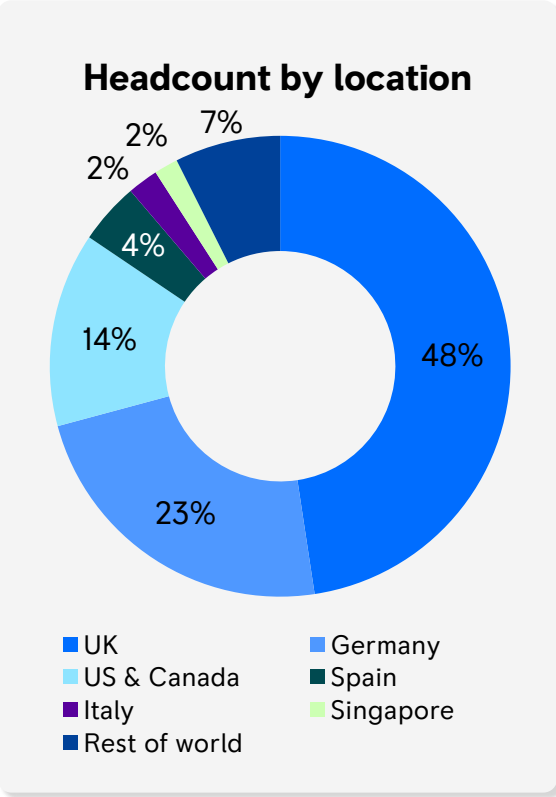


- creating an environment of inclusion and belonging;
- promoting a learning environment by continuing to directly engage our colleagues with digital content and enhanced learning tools;
- leadership capability;
- listening and engagement – hear what we do well and what areas we need to focus on, and do better; and
- community investment and focus on STEM.

Progress on gender diversity (% female representation)

33%	22%	18%
Board level	Senior leaders	All company





Safety

Rolls-Royce provides mission critical products that people's lives depend on. Our commitment to the safety of our products is therefore at the heart of our 'Operate Safely' core value.

The Rolls-Royce Product Safety Policy sets out the five principles which we have established to ensure we keep our products safe and our customers, operators and the general public free from danger, injury and loss. These are implemented and overseen by the Rolls-Royce Company Product Safety Review Board and governed by the Board Safety and Ethics Committee.

Ethics

We are committed to maintaining high ethical standards underpinned by our values and behaviours to create a working environment where everyone at Rolls-Royce and those we work with can be at their best. Our code of conduct (Our Code) and associated Group policies form a key part of the Rolls-Royce framework.

In 2022, 76 employees (vs 45 in 2021) left the business for reasons related to breaches of Our Code.

Anti-bribery and corruption

Our Code and associated anti-bribery and corruption policy clearly set out our commitment to zero tolerance of bribery and corruption in any form. In 2022, we embedded our Group policies into our digital Code to improve accessibility for our employees. We have continued to make improvements on our bribery and corruption risk assessment and controls, following recommendations made by an independent review of our ethics and compliance programme undertaken in 2021.

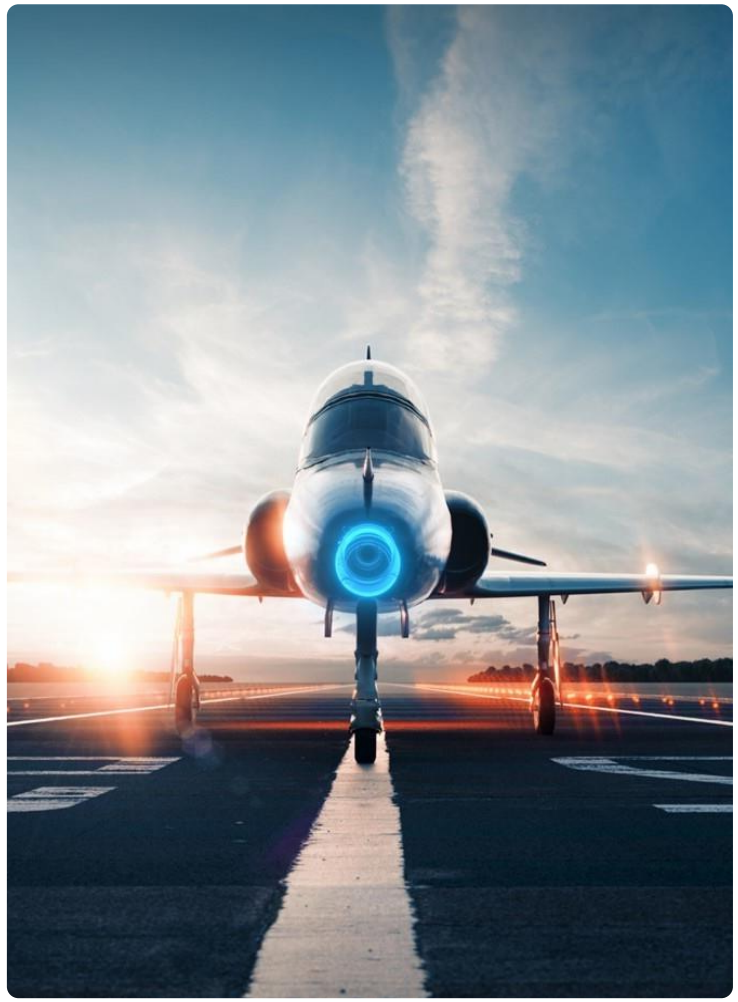
Human rights and anti-slavery

We operate in accordance with human rights requirements through strict compliance with strategic export laws and sanctions regulations in the countries where we operate. Our due diligence activities are embedded within our ethics, people, export control and procurement programmes. Human rights risks in our value chain are identified and assessed through a range of channels including our speak up line, country and sector risk analysis, screening platforms and self-assessment questionnaires.

Additional information

FY 2023 outlook and guidance

	2022	2023
Operating profit	**£652m**	**£0.8bn - £1.0bn**
Free cash flow from continuing operations	**£505m**	**£0.6bn - £0.8bn**
Significant profit items:		
Civil LTSA catch-ups	£319m	£100m - £200m
Significant cash flow items:		
LTSA creditor growth	£792m	£500m-£700m
Net OE engine concession payments	nm	c£(200)m
Over-hedge costs	£(326)m	£(389)m
Disruption due to supplier fires	-	c£(100)m
Civil Aerospace drivers:		
Total engine deliveries	355	400-500
Large LTSA EFH as % of 2019	65%	80% - 90%
Total shop visits	1,044	1,200 - 1,300
Other guidance:		
Interest paid (including fees)	£(352)m	c£25m - £75m lower
Cash tax	£(174)m	£(160)m – (£190)m
Pensions (in excess of PBT charge)	£(32)m	Broadly stable



Drivers of Civil LTSA balance change

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

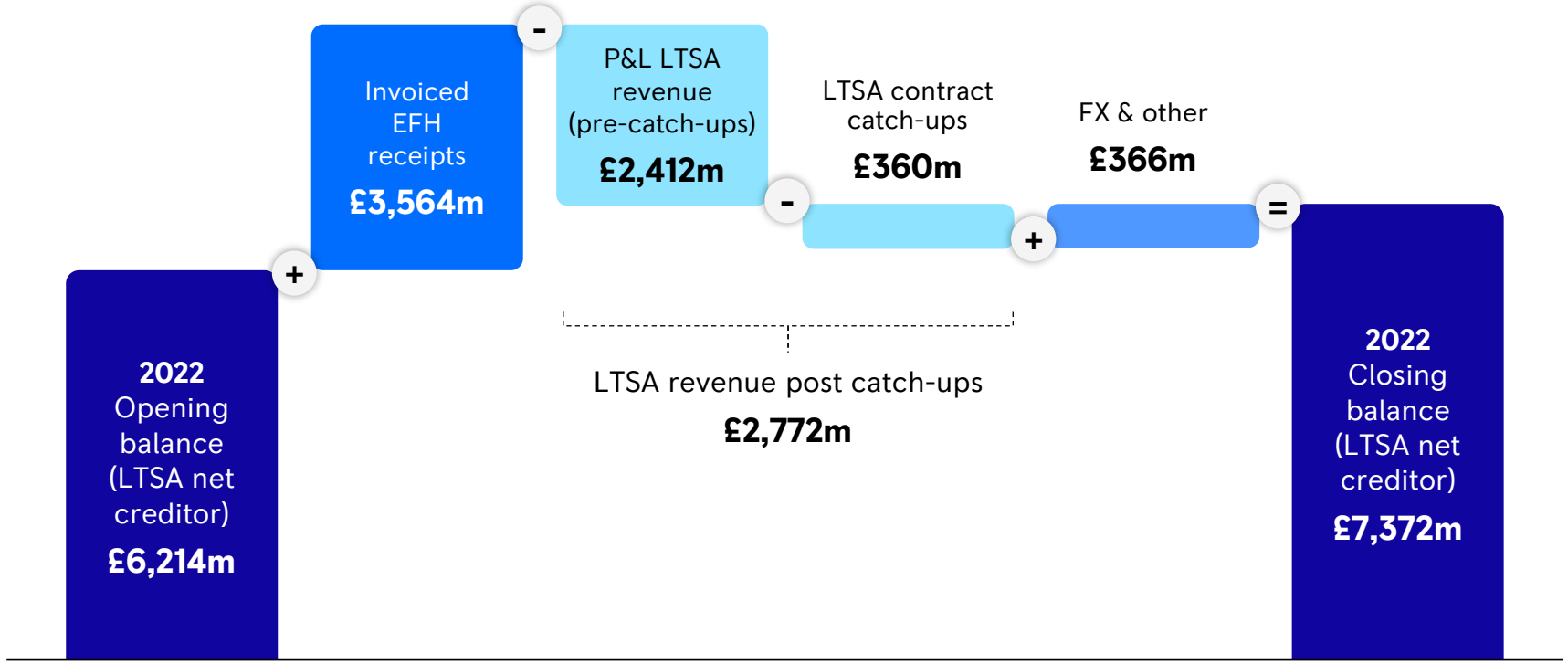
Invoiced EFH receipts

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

P&L revenue

Driven by cost (e.g. shop visits) across large engine, business aviation and regional fleets

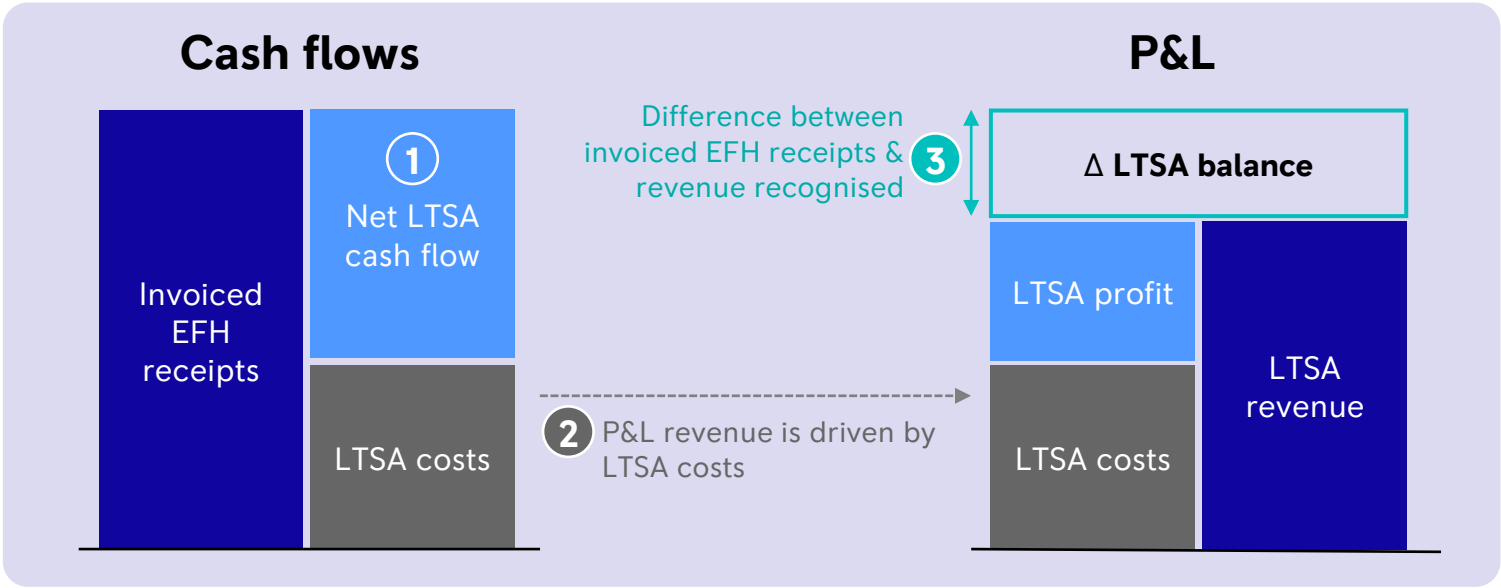
Recognised by contract, as costs incurred, at relevant contract margins



Understanding the LTSA balance

The LTSA balance is the connection between profit and cash flow

Looking at **profit + the change** in the LTSA balance together provides a view of net LTSA cash flows and looks through the noise of any contract catch-up impacts



1. Cash is driven by flying hour receipts and shop visit costs:
Net LTSA cash flow = invoiced flying hour receipts - LTSA costs (largely shop visits)

2. P&L revenue is driven by costs (costs are broadly aligned between profit and cash, minor timing differences):
LTSA revenue = LTSA costs / (1 – contract margin)

3. The LTSA balance connects the P&L with cash flow. It represents any EFH receipts not booked in revenue:
Change in LTSA balance = invoiced EFH receipts – P&L revenue recognised

P&L profit and the LTSA balance change together therefore gives a view of net LTSA cash flows:
P&L profit + Δ in LTSA balance ≈ net LTSA cash flow

LTSA example

Illustrative example of a single contract

P&L profit + change in LTSA balance = cash profit

	$m	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Cash flow	Engine flying hours	100	100	100	100	100	500
	$ per EFH	10	10	10	10	10	10
	Invoiced EFH receipts	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**5,000**
	Shop visit costs					-2,000	-2,000
	Other ongoing costs	-100	-100	-100	-100	-100	-500
	Total costs	**-100**	**-100**	**-100**	**-100**	**-2,100**	**-2,500**
C	**Cash profit**	**900**	**900**	**900**	**900**	**-1,100**	**2,500**
	Contract margin						*50%*
P&L	LTSA revenue (driven by costs)	200	200	200	200	4,200	5,000
	Total costs	-100	-100	-100	-100	-2,100	-2,500
A	**P&L profit**	**100**	**100**	**100**	**100**	**2,100**	**2,500**
Balance sheet	Opening LTSA balance	0	800	1,600	2,400	3,200	
B	+ invoiced EFH receipts	1,000	1,000	1,000	1,000	1,000	
B	- P&L LTSA revenue	-200	-200	-200	-200	-4,200	
	Closing LTSA balance	**800**	**1,600**	**2,400**	**3,200**	**0**	

A	**P&L profit**	**100**	**100**	**100**	**100**	**2,100**	**2,500**
B	**+ change in LTSA balance**	**800**	**800**	**800**	**800**	**-3,200**	**0**
C	**= Cash profit**	**900**	**900**	**900**	**900**	**-1,100**	**2,500**

LTSA example
Catch-up in year 4

In year 4 due to cost reduction efforts the estimated cost of the shop visit in year 5 on this contract reduces to $1,500 (from $2,000), improving the lifetime margin to 60%

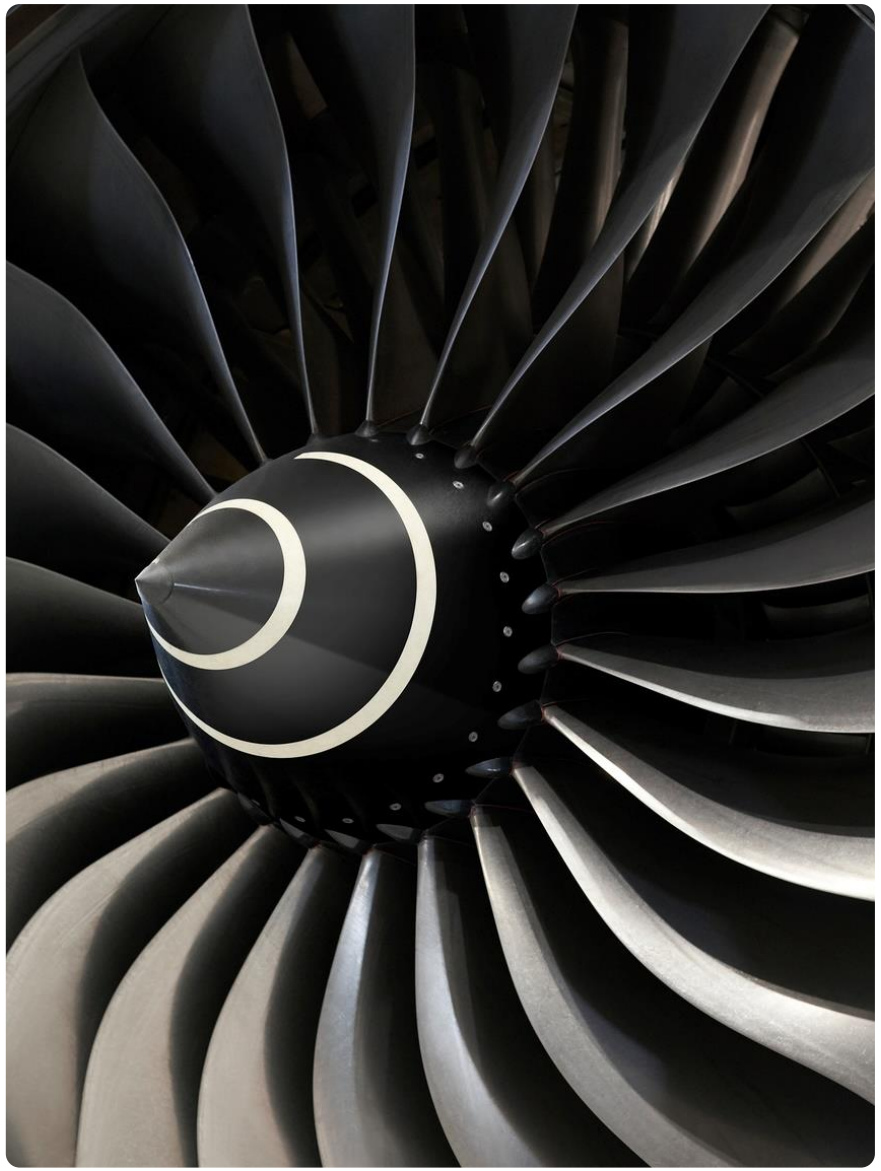
Year 4 revenue is therefore $400:

- **$250** due to in-year costs of $100 at the new 60% margin
- Plus a **$150** contract catch-up adjustment to bring historic revenue in years 1-3 to the new correct level ($300 costs at 60% margin = $750 revenue)

	$m	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Cash flow	Engine flying hours	100	100	100	100	100	500
	$ per EFH	10	10	10	10	10	10
	Invoiced EFH receipts	**1,000**	**1,000**	**1,000**	**1,000**	**1,000**	**5,000**
	Shop visit costs					-1,500	-1,500
	Other ongoing costs	-100	-100	-100	-100	-100	-500
	Total costs	**-100**	**-100**	**-100**	**-100**	**-1,600**	**-2,000**
C	**Cash profit**	**900**	**900**	**900**	**900**	**-600**	**3,000**
	Contract margin						*60%*
P&L	LTSA revenue (driven by costs)	200	200	200	400	4,000	5,000
	Total costs	-100	-100	-100	-100	-1,600	-2,000
A	**P&L profit**	**100**	**100**	**100**	**300**	**2,400**	**3,000**
Balance sheet	Opening LTSA balance	0	800	1,600	2,400	3,000	
B	+ invoiced EFH receipts	1,000	1,000	1,000	1,000	1,000	
B	- P&L LTSA revenue	-200	-200	-200	-400	-4,000	
	Closing LTSA balance	**800**	**1,600**	**2,400**	**3,000**	**0**	
A	**P&L profit**	**100**	**100**	**100**	**300**	**2,400**	**3,000**
B	**+ change in LTSA balance**	**800**	**800**	**800**	**600**	**-3,000**	**0**
C	**= Cash profit**	**900**	**900**	**900**	**900**	**-600**	**3,000**

Civil Aerospace revenues by engine type

£m	2022	2021	Organic change[1]
Original Equipment	**1,982**	**1,612**	**23%**
Large engine	1,516	1,297	17%
Business aviation	447	310	45%
V2500	19	5	280%
Service	**3,704**	**2,924**	**26%**
Large engine	2,492	1,958	27%
Business aviation	721	654	8%
Regional	229	187	17%
V2500	262	125	110%
Total	**5,686**	**4,536**	**25%**



[1] Organic change is the measure of change at constant translational currency applying full year 2021 average rates to 2022.

Trent engine products

Widebody backlog and market share

	Airframe	Market share*	Engines in service	Engines on order
Trent 7000	Airbus A330neo	100%	170	372
Trent XWB	Airbus A350	100%	886	784
Trent 1000	Boeing 787	33%	662	125
Trent 900	Airbus A380	48%	252	0
Trent 800	Boeing 777	40%	184	0
Trent 700	Airbus A330	60%	1,178	1
Trent 500	Airbus A340	100%	80	0
Total			**3,412**	**1,282**

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

Civil Aerospace engine deliveries

By engine	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Trent 500	8	-	-	-	-	-	-	-	-	-	-
Trent 700	157	181	184	140	88	110	63	10	2	2	1
Trent 800	-	-	-	-	-	-	-	-	-	-	-
Trent 900	64	42	35	6	30	67	44	34	15	1	2
Trent 1000	46	59	79	106	122	109	125	126	82	12	5
Trent XWB-84			13	56	117	196	184	178	109	120	96
Trent XWB-97						1	45	56	34	29	23
Trent 7000							8	106	22	31	63
Civil Large Engines	**275**	**282**	**311**	**308**	**357**	**483**	**469**	**510**	**264**	**195**	**190**
Tay	60	67	46	38	28	2	-	-	-	-	-
AE3007	43	78	48	34	20	8	10	4	-	-	-
BR700	290	326	334	332	244	190	205	191	112	70	77
Pearl							2	24	72	44	88
Civil Small Engines	**393**	**471**	**428**	**404**	**292**	**200**	**217**	**219**	**184**	**114**	**165**
V2500*	220	-	-	-	-	-	-	-	-	-	-
Civil Total	**888**	**753**	**739**	**712**	**649**	**683**	**686**	**729**	**448**	**309**	**355**

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

Civil Aerospace in-service installed fleet*

By engine	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
RB211 22B	6	3	3	3	3	3	3	3	3	3	-
RB211 524	530	455	352	302	278	266	242	210	82	80	85
RB211 535	1,028	1,026	1,012	908	868	826	850	824	576	658	682
RB211 Total	**1,564**	**1,484**	**1,367**	**1,213**	**1,149**	**1,095**	**1,095**	**1,037**	**661**	**741**	**767**
Trent 500	452	440	388	352	336	280	284	240	68	92	80
Trent 700	948	1,114	1,288	1,388	1,460	1,590	1,636	1,606	1,054	1,146	1,178
Trent 800	446	436	422	362	352	330	334	320	134	176	184
Trent 900	208	244	280	304	332	360	400	428	68	168	252
Trent 1000	44	84	164	260	384	476	546	658	538	604	662
Trent XWB-84	-	-	2	30	124	278	432	590	562	666	762
Trent XWB-97	-	-	-	-	-	-	28	70	96	98	124
Trent 7000	-	-	-	-	-	-	2	80	90	130	170
Trent	**2,098**	**2,318**	**2,544**	**2,696**	**2,988**	**3,314**	**3,662**	**3,992**	**2,610**	**3,080**	**3,412**
Civil Large Engines	**3,662**	**3,802**	**3,911**	**3,909**	**4,137**	**4,409**	**4,757**	**5,029**	**3,271**	**3,821**	**4,179**
Spey	632	580	506	460	430	404	360	284	252	236	210
Tay	1,969	2,019	2,011	2,035	2,027	1,993	2,009	1,946	1,892	1,866	1,838
AE3007	2,544	2,598	2,534	2,468	2,326	2,302	2,448	2,472	2,028	2,124	1,954
BR700	2,362	2,696	2,964	3,388	3,642	3,858	4,098	4,322	4,314	4,382	4,442
Pearl	-	-	-	-	-	-	-	-	36	84	120
Civil Small Engines	**7,507**	**7,893**	**8,015**	**8,351**	**8,425**	**8,557**	**8,915**	**9,024**	**8,522**	**8,692**	**8,564**
Civil Total	**11,169**	**11,695**	**11,926**	**12,260**	**12,562**	**12,966**	**13,672**	**14,053**	**11,793**	**12,513**	**12,743**
Fleet growth	**-13%**	**5%**	**2%**	**3%**	**2%**	**3%**	**5%**	**3%**	**-16%**	**6%**	**2%**

* Installed engine base is net of retirements and excludes aircraft which are parked or in storage
Fleet data from Cirium excludes aircraft temporarily parked due to COVID-19

Transactional foreign exchange

Rolls-Royce hedges transactional FX

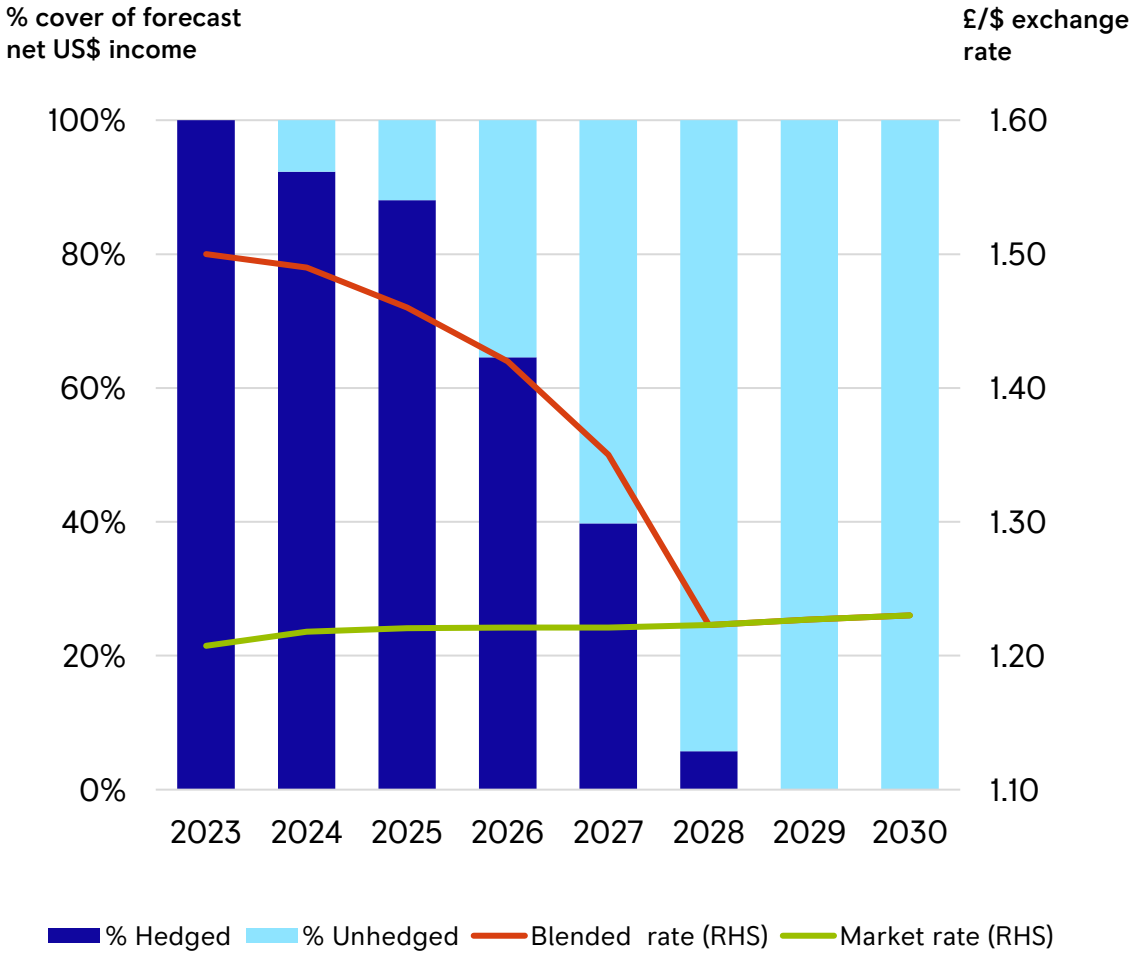
- Transactional exposure arises when revenue currencies differ from cost currencies
- Achieved rate is not typically affected by short-term spot rate movements unless new cover is taken; this impact is usually diluted
- $19 billion GBP:USD hedge book (average rate £/$1.53)
- $2 billion EUR:USD hedge book (average rate €/$1.22)
- Each 1 $ cent change in the £/US$ hedge rate impacts underlying operating profit and pre-tax cash by c£20-30m

USD hedge book cash costs of closing out over-hedge positions

Costs are included in Group FCF definition

2023-2026 are future cash outflows

£m	2020	2021	2022	2023	2024-2026	Total
Cash cost	186	452	326	389	321	1,674



Translational foreign exchange

The impact of translational foreign exchange is driven by period average spot rates

Period average rates	2022	2021
USD	**1.24**	1.38
EUR	**1.17**	1.16

	Exposure	Underlying revenue impact		Underlying operating profit impact	
2022 vs. 2021 £m	**Revenue/Profit**	**Including FX**	**FX**	**Including FX**	**FX**
Group		12,691	210	652	41
Civil Aerospace	USD, EUR	5,686	24	143	19
Defence	USD, EUR	3,660	214	432	19
Power Systems	EUR, USD	3,347	(28)	281	(2)
New Markets	EUR, USD	3	-	(132)	-
Other Businesses	EUR	-	-	(31)	-
Corporate / eliminations		(5)	-	(41)	5

Rolls-Royce does not hedge against the impact of translational FX

- Translational exposure varies by source of revenues and profits
- Translational FX impact is driven by period average spot rates
- Translational impact increases as rate reduces

Translational impact of 0.01 unit of currency change in period average rates

	Revenue	Profit
USD	£16 million	£3 million
EUR	£41 million	£3 million

Safe harbour statement and contact details

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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.


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