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Rolls-Royce Holdings plc

Rolls-Royce 2025 Full Year Results Transcript

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Participants:

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Jeremy Bragg

Head of Investor Relations, Rolls-Royce Holdings plc

So good morning everyone and welcome to our 2025 Results Presentation.

I'm Jeremy Bragg and I'm Head of Investor Relations. And I'm joined today here by Tufan, our CEO; and Helen, our CFO.

So before we begin today's presentation, I'm required to show you the safe harbour statement on Slide 2.

So the full results materials can be downloaded from the Investor Relations section of our website. And today, we're going to cover, firstly, our financial and strategic progress over the past three years, the 2025 results in detail and our guidance for '26, and our upgraded mid-term targets.

And after the presentation, there will be time for questions in the room and, if time, from our audience online. (Operator Instructions)

And for those of you in the room also, very excitingly -- and I hope you've seen this already -- we've got the full-size model of our UltraFan 30, along with some of our engineers who'd be delighted to talk to you about it after the presentation. So please do go and have a look at that. It's amazing.

Okay. So before handing over to Tufan, I'd like to show you a short film to highlight some of the progress that we've made this year.

(video playing)

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Good morning, everybody. It is great to see you all here. Jeremy actually stole some of my thunder, but I was going to talk about UltraFan 30.

I hope you spend some time with Simon and our great engineers, frankly. If you didn't, as Jeremy suggested, you should.

So it is a Narrowbody demonstrator model, I'm sure. And they actually told me, our engineers, you asked great questions. I don't know why they were surprised about that. But so you asked great questions.

But as Jeremy said, I think I'll touch on UltraFan 30 in my presentation very briefly. But also, as Jeremy said, today in the presentation, it is going to take around an hour because we are going to cover '25 results as we normally do.

But we have lots of granularity the way we run the business. Therefore we are going to talk about mid-term with lots of detail. But more importantly, beyond mid-term, also with lots of granularity. So then obviously we will open up for Q&A.

So our transformation of Rolls-Royce into a high-performing, competitive, resilient and growing business continues at pace.

Over the last three years, we have significantly improved our safety and operational capabilities and our customer service. 2025 marks another year of strong financial and strategic delivery, building on the substantial progress that we have made over the past two years.

One year ago, we set a mid-term margin target of 15% to 17%. We achieved that margin last year, three years earlier than planned. And we expect 2026 to be another strong year.

Our 2026 guidance sees us delivering our previous mid-term operating profit target two years earlier than planned.

Today, we are upgrading our mid-term targets which are still based on a 2028 timeframe.

Given our strong balance sheet and sustainably growing profit and free cash flow, we are pleased to announce a GBP 7 billion to GBP 9 billion share buyback programme for the period 2026 to '28. This is the first multiyear buyback in Rolls-Royce history and is a clear indication of our confidence in cash flow growth in the mid-term and beyond.

Our transformation has unlocked significant growth opportunities from both our existing and new businesses. I'm proud of what we achieved over the past three years, and we are not done yet.

Our transformation has delivered a step change in performance across the group. This has been achieved despite a challenging external environment including supply chain and tariffs.

Let me give you an overview of our progress over the last three years.

In 2025, group operating profit was GBP 3.5 billion, five times higher than in 2022. And operating margin has more than tripled to 17.3%. All divisions have contributed.

In Civil Aerospace, operating profit was around 15 times higher and operating margin was more than eight times higher than in 2022. This was driven by stronger aftermarket performance, a doubling of profit in business aviation and increased spare engine profitability.

In Defence, operating profit has grown by roughly 60% over the past three years. And operating margin has risen to 14.4%. This was primarily driven by higher transport aftermarket profit, stronger combat performance and submarine growth.

In Power Systems, operating profit has tripled, with operating margin more than double that of 2022. The largest driver is power generation, where we have restructured the business to deliver a 12 times increase in operating margins since 2022, alongside governmental and battery storage which achieved breakeven last year.

The improvement in operating profit has also been supported by our efficiency and simplification programme. Group free cash flow of 3.3% is six times higher than 2022 with

stronger cash generation across all divisions. The increase has primarily been driven by higher operating profit.

Strong cash flow was delivered as we continue to invest in the business, with investment in 2025 doubling that of 2022.

Return on capital, a key metric has risen by almost four times to around 19% last year. This represents a significant value creation and best-in-class ratio within the industry.

I will now focus on how we are driving higher margins and cash flows from our Civil Aerospace LTSA contracts. This is a key driver of performance improvement to the mid-term and beyond. The chart on the left shows we are driving higher contract and LTSA margins over time across our in-production engines.

The top line on the chart is the average margin across all signed contracts even if the engines are not yet delivered. This is a leading indicator for the LTSA margin that will be booked in our income statement in the future. This is the second line in the chart.

Our contract margin will increase by 19 percentage points between 2022 and 2028. This will drive around 28 percentage point increase in the income statement margin over the same period. This improvement has been driven by our six levers that we have mentioned before. Around 10 percentage points of this increase is driven by commercial improvements.

We have a new framework which has driven improved margins on contracts since 2022. This applies to new, renewing and renegotiated contracts. The remainder is largely driven by the operational improvements that we are making, the biggest of which is time on wing. I will talk to that later.

When I first shared this with you last year, I talked about how our actions can drive further improvements to both lines. This is exactly what has happened.

We are managing our business very differently. Our new value stream framework allows us to make purposeful, proactive and granular interventions to drive stronger performance.

We now expect our contract margins to be 2 percentage points higher and our LTSA margins to be 8 percentage points higher than we set out last February.

The 8 percentage points improvement in LTSA margins reflects three things.

First, further operational improvements, notably time on wing on the Trent XWB-84, where we are systematically raising the cyclic life of the engine through a combination of compressor blade modification and critical parts life increase built on improved analysis of

millions of hours of operating data. We have further refined and accelerated this programme and now expect it to have higher impact.

Second, new and renewing contracts coming in a better commercial terms than we previously targeted including further progress, renegotiating onerous and low-margin contracts.

Third, strong execution to date which has allowed us to release contingencies. Our actions to drive higher LTSA margins have created billions of pounds of value.

Now let me talk to you about a new chart on the right-hand side of the slide which shows that the majority of the LTSA cash benefits are still to come. The cash value of our LTSA contracts has more than quadrupled since 2022. More than two-thirds of this increase is driven by our actions which have resulted in billions of pounds of additional cash generation over the life of these contracts. And less than a third relates to volume growth.

Put another way, if our LTSA aftermarket contracts had remained at '22 margin levels, the cash value of these contracts would be less than a third of the size they are today. Even by the end of 2028, only 25% of the incremental cash associated with these contracts will have been achieved which means that majority of the cash value of these improvements will come beyond the mid-term.

As these contracts are extended which is usually the case, this value will go up further. This chart focuses on the cash value that we created with our aftermarket contracts.

It is worth remembering that we have also renegotiated our OE contracts which have created billions in additional value, as I shared with you before. Only around 30% of the cash value of our OE renegotiations will be realized by the end of 2028.

Let me give you a perspective on our LTSA margins and cash improvements. The commercial and operational improvements that we are making will drive higher LTSA margins and continued LTSA balance growth for many years, a higher EFH rate and a lower density of shop visits due to time on wing improvements are both drivers of higher LTSA margin and LTSA balance growth.

Our higher LTSA margin brings a higher profit realization per shop visit in the income statement, while those shop visits happen less frequently due to our time on wing initiatives.

As a result of all these, our operating profit and cash flows grow with LTSA margins increasing. The LTSA balance also continues to grow despite increasing profit realizations for as long as the installed fleet is growing. This is what we mean when we talk about driving sustainable and high-quality growing cash flows.

We continue to deliver strong disciplined progress across our four strategic pillars. I already talked about how we are driving higher LTSA margins. I will now selectively cover some of the other achievements last year.

First, portfolio choices and partnerships.

In Civil Aerospace, we are continuing to expand our MRO capacity which has supported more than a 50% increase in shop visits since 2022.

Last year, we added new capacity in Derby, Dahlewitz, and Singapore, and took steps which will grow our MRO network capacity by a further 20% by the mid-term to support future fleet growth. This includes BAESL in China, our new MRO centre, with Turkish Technic in Istanbul and with Emirates and Air France-KLM.

In Power Systems, we added capacity in Germany and our two sites in the U.S., Aiken and Mankato, to support continued power generation and governmental growth.

We are also continuing to invest in upgrading our engines to enable growth. This includes both our next-generation Series 4000 engine to be released in 2028 which targets the data centre market with a significantly improved power density alongside the development of an upgraded military engine.

In Defence, the ramp-up of new programmes is supported by significant investments we have made in Indianapolis, totalling around USD 1 billion over the past decade, and we continue to invest in this site.

Second, strategic initiatives.

We are making strong progress with our time on wing initiatives. We now target more than 100% increase in durability across our in-production engines, with more than half of this improvement target already delivered. This increase compared to our previous target of more than 80% reflects critical part life extensions for the Trent XWB-84.

We have extended and accelerated this programme and have refined the fleet-wide benefits and improvements associated with XWB-84 EP which will offer more than a 1% fuel burn benefit and improved time on wing.

Other key time on wing milestones included the certification of the first phase of improvements for the Trent 1000 XE in June. The second phase of HPT blade improvements for both Trent 1000 and 7000 were certified in December. And our planned improvements for XWB-97 remain on track to be completed by the end of 2027.

We are continuously seeking to improve time on wing of all our engines, not only those under this programme.

For example, we have implemented enhancements with the Trent 900 that will improve time on wing by up to 30%. This all means that we expect shop visits to approach peak in 2026 before falling to 1,300 to 1,400 in the mid-term.

Beyond the mid-term, shop visits will grow at a proportionately lower rate due to our time on wing improvements. We are driving down shop visit costs across our in-production engines.

By the mid-term, XWB-84 shop visit costs will half versus 2029 with 44% reduction already achieved by the end of last year.

We are also examining further ways to drive down shop visit costs using new digital and AI tools.

In Defence, we are seeing growing demand for our mature products driven by rising defence spending.

In the UK and the U.S., we secured key aftermarket contracts worth over GBP 1.5 billion covering EJ200 and AE 2100 engines. Turkey and the UK also signed an agreement to export 20 Eurofighter aircraft with an option for more in the future. This combined with new aircraft orders from Italy, Germany and Spain now provide visibility of EJ200 production into the 2030s.

In addition, we saw strong order intake for new programmes including GCAP and MV-75.

Third, efficiency and simplification.

As you can see from the slide, we have delivered efficiency and simplification benefits of GBP 600 million and gross third-party procurement savings of GBP 1.2 billion since 2022 which are both above our CMD targets and support a further improvement in our total cash cost to gross margin ratio.

Fourth, lower carbon and digitally enabled businesses. Rolls-Royce SMR is making progress in the UK and the Czech Republic, where the activity is ramping up.

In digital, last year, we launched our AI platform, AiRR, AI in Rolls-Royce, which has capabilities in generative and agentic AI. This platform is at the core of our efforts to develop and deploy high-value AI capabilities across engineering, MRO and the supply chain.

AiRR will drive improved intelligent engine monitoring and planning, reducing turnaround times and the product and shop visit costs.

We are creating a digital thread across our engineering and manufacturing operations to enhance product quality and shorten the timeframes of new product introductions.

Turning now to our guidance for 2026.

We expect underlying operating profit of GBP 4 billion to GBP 4.2 billion with a performance improvement across all core divisions.

We expect free cash flow of GBP 3.6 billion to GBP 3.8 billion, driven primarily by operating profit and continued LTSA balance growth in Civil Aerospace. This guidance includes a continued supply chain headwind which will be gone by the mid-term. Helen will talk you through our cash flow guidance in detail later.

We are upgrading our mid-term targets which remain based on 2028 timeframe. This reflects the strong performance delivered through our transformation over the past three years and the increased potential we now see in the business.

We now target operating profit of GBP 4.9 billion to GBP 5.2 billion, and operating margin target is 18% to 20%.

Our mid-term target for free cash flow is GBP 5 billion to GBP 5.3 billion, stronger free cash flow will be driven by higher operating profit and continued LTSA balance growth.

Finally, we expect to deliver a return on capital of 23% to 26%, highlighting the value creation potential of the business. We expect this to be among the highest returns on capital in the industry.

So the key drivers behind our mid-term operating profit and margin targets. The increase compared to previous targets is primarily driven by three things: higher aftermarket profit across LTSA and time and materials in Civil Aerospace, stronger profit in power generation and governmental in Power Systems, supported by further efficiency and simplification benefits across the group.

The detail by division. The largest step-up will come from Civil Aerospace, where we now target mid-term margin of 21% to 23%.

Operating profit growth will be driven by five factors.

First, stronger aftermarket profit performance. We are driving higher LTSA margins in the mid-term and beyond through new and renegotiated contracts and operational improvements, as I covered before.

Second, improved wide-body OE profitability. We expect rising wide-body deliveries and Trent XWB installed engine deliveries will be breakeven or positive.

Over the last three years, we captured more than 50% of wide-body deliveries. This has driven up our share of the installed fleet from 34% to 38%. We expect 6% to 7% per year growth in our installed fleet to the mid-term. This is ahead of the market.

Third, a further increase in business aviation performance, driven by commercial optimisation efficiencies and growth. We expect continued strong growth in Rolls-Royce powered business aviation aircraft deliveries to the mid-term, where we remain a clear market leader. These OE deliveries will come with improved profitability alongside continued aftermarket profit growth.

Fourth, higher profitability on spare engines, reflecting commercial optimisation and mix.

And fifth, these benefits will be partly offset by a reduced contribution from contractual improvements.

By 2028, we will have worked through our onerous contracts. But as we are continuing to improve the business, we, therefore expect some benefit from contract catch-ups in 2028.

The next largest step-up will come from Power Systems, where we now target a mid-term margin of 18% to 20%. We now see an improved growth outlook in governmental and in power generation which significantly improved profitability.

Operating profit growth in Power Systems will be driven by four factors.

First, power generation, where we still expect OE revenue growth of around 20% per year, driven by data centres. Power generation revenues are coming at improving margins as we continue to enhance the business model. Data centre demand remains very strong. A significant portion of our growth to the mid-term is already underpinned by firm orders.

Second, governmental, where we now expect OE revenue growth of around 20% per year to the mid-term, above our previous guidance of 12% to 14% growth. This reflects our strong market positions and improved visibility of orders.

Third, marine, where we still expect OE revenue growth of 5% to 7% per year. And fourth, battery storage where we expect double-digit OE revenue growth.

Across Power Systems, a significant portion of our operating profit comes from services which makes our business more robust. We expect continued strong growth in services revenues which supports margin improvements.

In Defence, we continue to target a margin of 14% to 16%.

Operating profit will be mainly driven by self-help. We expect higher operating profit across all subsegments with increased aftermarket profit and higher OE volumes, alongside productivity improvements due to capacity expansion.

We see significant growth beyond the mid-term as new programmes ramp up. Across the group, we are already underway with the next phase of efficiencies, ensuring that we tightly manage costs and deliver disciplined growth as the group scales up. This will be supported by an increase in investment in digital alongside GBS, where we are expanding our activities and capabilities in India and Poland and zero-based budgeting.

With that, I will now pass on to Helen.

Helen McCabe

Chief Financial Officer, Rolls-Royce Holdings plc

Thank you, Tufan. Good morning, everyone.

Before I get into the detail, let me start by saying how pleased I am with our progress. 2025 has been another year of strong delivery.

We are embedding distinctive performance management. We have real momentum as we continue on our transformation. The results, they are strong, double-digit growth across revenue, profit and free cash flow. Every division is delivering. Balance sheet resilience has been rebuilt. And we are rewarding our shareholders with growing distributions.

Group highlights. Group revenues grew by 14% to GBP 20 billion with good end market growth, especially across Civil and Power Systems. Group operating profit grew by around 40% to GBP 3.5 billion, driven by our strategic initiatives including commercial optimisation.

Operating margin grew by 3.2 percentage points to 17.3%. And free cash flow, it grew by over GBP 800 million to GBP 3.3 billion.

Strong cash flow in the period meant that we closed the year with a net cash position of GBP 1.9 billion, that's almost GBP 1.5 billion higher than a year ago.

Return on capital, it rose to 18.9% for the year, representing significant value creation. And these results, along with our actions to further expand earnings and cash potential have enabled us to declare a final dividend of 5p per share for 2025 and our first multiyear buyback programme as we follow through in our capital frame commitments.

As I said, a strong set of results.

Now the detail by division, starting with Civil Aerospace. Civil delivered the largest year-on-year improvement in profit and cash.

Our strategic initiatives are delivering.

Operating profit grew to GBP 2.1 billion, a 41% increase. Operating margin grew to 20.5%, an increase of 3.9 percentage points. And revenues grew to GBP 10.4 billion, an increase of 15% with strong service revenue growth of 21%. Large engine revenue growth was 30% and driven by higher LTSA shop visits and commercial optimisation.

OE deliveries of 483 were 9% lower than in 2024 as we align deliveries to airframe production schedules. These schedules reflected the impact of industry-wide supply chain issues while end market demand remains strong. Deliveries comprised 259 large engines which included a slightly lower number of spare engines compared to 2024.

And business aviation deliveries of 224 were almost all Pearl engines, an increase of 26% year-on-year in Pearl which was offset by the legacy BR engines which are approaching end of production.

Total shop visits. They grew to 1,440, an increase of 10%. Of these, 517 were large engine refurbishments. That compares to 430 last year. Higher shop visits were supported by our actions to drive stronger MRO performance as we expanded capacity, strengthened processes, and leveraged AI tools across the network.

For example, we are now rolling out AI tools which more accurately predict maintenance needs for our engines, using on wing data and going well beyond what was previously possible. Higher visits were also supported by improvements in the availability of parts across the supply chain. And I'll come back to the supply chain in a moment.

Now operating profit in more detail, three factors drove that 41% increase.

First, stronger performance of large engine aftermarket, driven by a higher number of shop visits alongside higher time and material profits.

Second, higher spare engine profitability, slightly lower year-on-year volumes were delivered with improved margins and mix.

And third, net contractual margin improvements. They were GBP 392 million. That compares to GBP 235 million in 2024. The GBP 392 million comprised a net benefit of GBP 166 million in onerous contracts and GBP 226 million from catch-ups.

We made further significant progress renegotiating onerous aftermarket contracts, continuing to find win-win solutions with our customers, allowing us to release onerous contract provisions in the year.

We also achieved key time on wing milestones, notably on the XWB-84 which resulted in a contract catch-up benefit. These two factors contributed to a gross benefit of GBP 553 million in the period. This was partially offset by an additional charge of GBP 161 million which was taken mostly in the first half across both onerous and catch-ups due to ongoing product cost inflation in the supply chain.

So a few moments on the aerospace supply chain. When we spoke to you in July, we shared that we expected the supply chain to remain challenging through 2026. That is still our view. The industry continues to see product cost inflation. Availability for some parts remains constrained, but overall, it is improving.

Our procurement savings and targeted supply chain programmes are helping to mitigate these impacts.

For example, our actions supported an increase of over 20% in finished parts delivered and an improvement of around 10% in average MRO turnaround times in the year.

So despite continuing challenges, we are managing it very tightly and our actions are working.

Now turning to cash. Civil delivered a trading cash flow of GBP 2.5 billion compared to GBP 2 billion in the prior year. The increase in cash delivery was driven by higher operating profit alongside a slightly lower LTSA balance growth.

In summary, a very strong delivery from civil on profit, margin and cash.

Defence, where we continue to make good strategic progress across key programmes, we captured growing demand from both mature and new programmes, ranging from the EJ200 for Eurofighter to GCAP, the next generation combat aircraft, to the MV-75, the future long-range assault aircraft.

Order intake for the year stood at GBP 5.5 billion, with a book-to-bill ratio of 1.1x. And order backlog was GBP 17.4 billion, equivalent to over three years of revenue with order cover for 2026 standing at around 90%.

Turning to the financials. And you may recall that 2024 included a one-off benefit in submarines, so masking the underlying growth we are delivering. Revenues, they stood at GBP 4.8 billion, an increase of 8% year-on-year. Excluding the one-off, growth was 14% which was driven by all segments.

Operating profit, it stood at GBP 689 million, an increase of 9%, and operating margins of 14.4% were broadly flat year-on-year.

Growth in operating profit reflected improved transport OE performance with higher volumes and a more favourable mix which included higher margins from international sales and improved combat OE profits. These were partially offset by the absence of the one-off benefit in submarines.

Cash flow, it stood at GBP 745 million compared to GBP 591 million in the prior year. Higher cash was driven by operating profit growth alongside a stronger working capital delivery.

So a good delivery from Defence as we position us -- which positions us well for future growth.

Power Systems, an excellent performance as we captured profitable growth in power gen and governmental.

Operating profit grew to GBP 852 million, a 60% increase year-on-year. And operating margins grew to 17.4%, a 4.5 percentage point increase.

Order intake was GBP 6.1 billion, a 21% increase with a book-to-bill ratio of 1.2x.

OE order cover for the whole of Power Systems is now close to 80% for 2026 with a growing order cover for both '27 and '28.

Demand remains particularly strong in power gen which saw an order intake growth of 31%, with strong growth in data centres, and also in governmental where orders grew 15%.

Revenues, they grew to GBP 4.9 billion, an increase of 19%.

Power gen and governmental revenue growth was 30% and 14%, respectively. Data centre revenue growth was 35%. That operating profit growth of 60% was driven by three factors.

First, a standout performance in power generation, notably data centres, where we continue to capture strong volume growth and benefit from improved mix in the high-power density sector. All this, we did with strong product cost management, allowing our commercial optimisation actions to flow through to the bottom line.

The second factor, a strong performance in governmental, especially services where we are well positioned to capture growing defence spending across land and naval.

And third, battery energy storage systems which achieved breakeven in the period, an important milestone for this young and fast-growing business.

Cash flow, it increased to GBP 658 million, almost 50% higher than the prior year, driven by higher operating profit, partially offset by higher investments and working capital as we supported disciplined growth.

In summary, great work from Power Systems.

Now the funds flow.

We delivered GBP 3.3 billion of free cash flow, more than GBP 800 million higher than in 2024. The principal driver of increased free cash flow was operating profit which grew by almost GBP 1 billion.

Other factors included net investments.

At over GBP 250 million, they were similar to last year and included a higher level of capital expenditure across what is now a more focused portfolio.

We continue to invest for growth across all businesses. Our investment approach remained disciplined, strategic and agile as we captured growth opportunities.

Investments in the period included those for improving time on wing, developing UltraFan technology and growing MRO capacity in Civil, boosting data centre capacity across Germany and the U.S. in Power Systems, and for developing future programmes in our U.S. Indianapolis site in Defence.

The net LTSA balance. It grew by GBP 600 million, around GBP 100 million lower than in '24. Growth was driven by higher engine flying hours and an improved normalized EFH rate. This was partially offset by a higher number of shop visits including a record number of Trent 1000 refurbishments as well as managing supply chain headwinds.

Working capital, we released over GBP 400 million of working capital in the year. That's on top of the release of GBP 280 million in 2024, an excellent performance given industry-wide supply chain challenges and as we supported revenue growth. Working capital culture and discipline across the group is now much stronger.

Next, provisions. They were an outflow of just under GBP 300 million, around GBP 120 million higher than in 2024 as we continue to successfully renegotiate and trade through onerous contracts.

Then over-hedge costs. As guided, they were around GBP 150 million, broadly similar to 2024 levels.

And finally, cash tax. It increased to GBP 555 million, around GBP 170 million higher than in '24, reflecting increased profits. So a strong cash delivery in the year.

Tufan spoke to 2026 cash flow guidance.

Let me give you some additional colour.

We expect the net LTSA balance growth to be broadly similar to the 2025 level. This reflects continued growth in large engine flying hours to 115% to 120% of 2019 levels, a higher normalized EFH rate, a higher number of shop visits to between 1,480 to 1,550, and a similar cash impact of GBP 150 million to GBP 200 million from the supply chain.

In addition, we expect a higher level of net investments, an outflow in provisions as we continue to progress commercial renegotiations and cash tax costs to be around GBP 200 million higher.

Now moving to mid-term free cash flow.

We are driving for sustainable, high-quality cash flow growth. We are targeting between GBP 5 billion and GBP 5.3 billion of free cash flow in the mid-term, growth of up to GBP 2 billion compared to 2025. The main elements that underpin this growth are: operating profit, growth of between GBP 1.4 billion to GBP 1.7 billion over the period is key. Every division contributes with significant profit growth, especially in Civil and Power Systems which Tufan has already spoken to.

Then LTSA, by the mid-term, we expect the net LTSA balance to grow in the GBP 0.8 billion to GBP 1.2 billion range with large engine flying hours growing to between 130% to 140% of 2019 levels. Business aviation hours continuing to grow, our actions driving a higher normalized EFH rate and improved time on wing which will see shop visits approaching peak in 2026, then fall to between 1,300 to 1,400 in 2028.

In addition, we expect the cash drag from the supply chain to be gone by the mid-term. And for currency, the consumption of our legacy hedge book means our mid-term guidance assumes a blended forex rate of USD 1.33 to the pound compared to USD 1.44 in 2025 which will drive a higher sterling equivalent for our dollar-based inflows.

Next, investments.

Our new mid-term plan includes a higher level of investments compared to the previous one. We will continue to prioritize safety and strategic growth. And looking across the period, we expect investments to average above depreciation and amortization. Working capital. We will continue with a focused approach while supporting business growth.

By the end of this year, we expect to have almost delivered our original 2027 GBP 2 billion gross savings target, and we have plans to go further. Across the period, we expect to release working capital with 2028 being broadly neutral. Then the cash cost of closing out over hedge positions will be gone by the end of 2026. And as our profits grow, cash tax payments will naturally increase.

As I said, we are driving a higher cash delivery underpinned by quality earnings and net LTSA balance growth with a disciplined working capital mindset alongside continued investments to support future growth.

Capital frame, it's worth taking a few moments to reflect on the progress we've made over the last three years. It's significant, Rolls-Royce today is in a fundamentally different position. We are resilient and have financial flexibility to invest and to reward our shareholders.

Since the start of our transformation, we have materially improved operating leverage, taking our total cash cost to gross margin ratio to 0.36x, a best-in-class ratio.

We have rebuilt the balance sheet, reducing gross debt by around GBP 1.5 billion and improving net debt by over GBP 5 billion to end 2025 in a net cash position.

We have taken the company from sub-investment grade to strong investment grade with all three of our rating agencies. This increased resilience allowed us last year to pay our first dividend in over five years and complete our first share buyback in 10 years, returning GBP 1.9 billion to our shareholders. And all this we did as we continued to increase investments to support growth for years to come.

And to close 2025, we are happy to share that the Board is recommending a final dividend of 5p per share, representing a full year dividend of 9.5p per share, a 60% increase year-on-year and a payout ratio of 32%, competitive and evidence of our commitment to growing shareholder returns.

Looking forward, we will continue to strike the right balance between preserving a strong balance sheet, delivering competitive returns to shareholders and retaining flexibility for further investment opportunities, both organic and inorganic. Tufan will touch on some of the long-term growth opportunities that we see and where we have built and earned the right to win.

With a strong balance sheet, significant investments to support long-term growth and confidence in our future, we are pleased to announce our first multiyear buyback programme. A three-year programme to 2028 which will total between GBP 7 billion and GBP 9 billion.

Taken together with our commitment to regular and growing dividends, this represents a return to shareholders of over 75% of free cash flow between 2026 and 2028 based on our mid-term targets. We will update you annually on the amount we intend to return each year.

For 2026, the buyback will total GBP 2.5 billion which includes the GBP 200 million interim tranche already completed.

As I pass to Tufan, let me say thank you to our teams. I know many of you are watching today.

It is your hard work that has made all we have achieved possible. Thank you and well done. And as we turn to 2026, it will be busy. There is lots we want to do, and we are very excited by what lies ahead. Thank you.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Okay. Now thanks, Helen.

I want to talk about beyond mid-term because we believe we can talk about beyond mid-term with lots of granularity that not many people will be able to do. So our transformation is taking the company to a place which has opened up growth opportunities which were not there before.

We have positioned Rolls-Royce to benefit from several positive long-term trends including world GDP growth with a rising middle class, higher defence spending, digitalization and AI, and the energy transition including nuclear renaissance.

In addition, the actions we have taken and continue to take will drive profitable growth.

We have unlocked significant opportunities within our existing businesses.

In Civil Aerospace, we hold leading positions in wide-body and business aviation.

In widebody, we expect growing deliveries beyond the mid-term with improved OE profitability.

We are also continuing to improve our LTSA margins beyond the mid-term as you have heard. By '28, only half of our LTSA contracts will be on new terms which means there will be a sustained benefit beyond the mid-term as more contracts come in with higher margins.

Our time on wing initiatives conclude at the end of 2027, leaving us with a highly competitive engine portfolio and the full cash benefits will not be realized until beyond the mid-term.

Our fleet is relatively young and our initiatives to keep engines earning has been highly successful.

Take for example, the Trent 700, our largest mature engine fleet. This engine has been in service more than 30 years. But around actually a little bit more than 40% of programmes, total flying hours are still to come.

Over the last three years, only 6% of Trent 700 have been retired. Almost 40% of the fleet have been extended or transitioned to new passenger operators and a further 4% transition to freighter contracts.

The A330 is a popular aircraft for freighter conversions, with Rolls-Royce capturing almost 90% of all A330ceo conversions over the life of the programme. Growing new engine deliveries, coupled with efforts to keep engines earning will drive continued installed fleet growth significantly beyond the mid-term.

Looking further out, UltraFan will secure our position on the next generation of wide-body aircraft.

In business aviation, we are cementing our position in the growing and resilient long-range and ultra long-range segment.

We have strong positions on the latest large cabin jets including G700, G800 and Falcon 10X. Deliveries of these platforms are just starting to ramp up and will remain in production for many years.

Thanks to our actions, we generate positive OE margins on all new business aviation deliveries. All this means that our wide-body and business aviation fleet will continue to generate substantial OE and aftermarket revenues for many years with growing operating margins and cash flow.

In Defence, we hold leading positions in transport and combat. We expect sustained demand for our mature profitable products, such as the EJ200 for Eurofighter, but we now have visibility of deliveries into the 2030s, the LiftSystem for the F-35B and our AE family of engines.

We are investing to enhance and extend our leading position in transport engines.

Beyond the mid-term, growth accelerates as several major programmes ramp up. GCAP will be a leading combat aircraft programme with a significant export potential. Rolls-Royce will hold a significant share in this programme which will potentially be larger than Eurofighter. GCAP production ramps up in the mid-30s.

In submarines, we expect long-term growth driven by the AUKUS partnership alongside the renewal of the UK fleet. MV-75, previously known as FLRAA will also ramp up from '28 from a life of 30 to 40 years including OE and aftermarket. This will be a very large programme leading to production of thousands of engines and expanding to additional opportunities over and above the initial U.S. Army contract.

On the B-52, we expect to deliver around 600 engines with production starting by 2030.

We are also actively pursuing combat growth opportunities in international markets.

We see a growing trend toward autonomous in defence. Given our capabilities, we are well placed to capitalize on this multi-billion pound opportunity. Rolls-Royce will power the U.S. Navy's in MQ-25, the first autonomous aerial refueler in aviation history, and we already powered the Global Hawk, unmanned aerial surveillance aircraft.

We are investing further to position Rolls-Royce for future autonomous opportunities.

For example, in two years, we developed and tested our Orpheus engine demonstrator.

In Power Systems, we anticipate sustained power generation growth driven by data centres. Rolls-Royce is uniquely positioned to help the hyperscalers with their future data centre power demands including backup power, prime power and with SMRs.

Our next-generation Series 4000 engines which will be released in 2028, targets the ever-increasing power demands of AI data centres with a 20% higher power density. This differentiated product will create commercial opportunities and a new market access.

In governmental, rising defence spending supports both land and naval applications, where we are the incumbent supplier on the main European NATO platforms.

In the U.S., where we have had notable success with the U.S. Coast Guard and Navy. And we are also finding new opportunities to support on land and naval.

In addition, we see attractive opportunities with battery storage, marine and in industrial applications like mining and rail.

To summarise, our existing businesses are well positioned to deliver significant growth with rising operating margins and growing cash flows well beyond the mid-term. This growth will be delivered by a combination of market growth and self-help actions.

Now I will focus on two additional and significant growth opportunities that our transformation has unlocked. The first is nuclear. Rolls-Royce has unique nuclear capabilities that positions us extremely well in this fast-growing market.

We are already the leading SMR player in Europe, following success in the UK and Czech Republic, and have started the regulatory process in the U.S.

We see a total addressable market of more than 400 SMRs by 2050. We expect to be a leading player in this market.

Our first projects have already started to generate revenues and profits. Cash flows will be positive on a project basis throughout. The SMR business will be profitable and cash generative by 2030 with strong profit and cash flow growth thereafter.

Our aim is to commission two SMRs per year by the mid-2030s, rising to eight per year at maturity.

Our business model is highly differentiated as the largest SMR available on the market, where we offer the whole power plant with truly modular construction. This business will be cash generative with a high return on capital employed.

We see an adjacent opportunity in advanced modular reactors which further leverages our deep nuclear capability and power conversion experience. AMRs are smaller, more flexible power plants with potential commercial and defence applications.

The second opportunity is Narrowbody. Our UltraFan technology positions us strongly for the next generation of Narrowbody aircraft. The Narrowbody market is large and would offer meaningful synergies with our wide-body and business aviation activities.

We are building a Narrowbody sized demonstrator with up to 30,000 pounds of thrust which will be ground tested by 2028. We expect UltraFan to deliver a significant improvement in

fuel burn versus today's Narrowbody engines as well as meeting the time on wing expectations for customers in this market.

We have already invested significantly into UltraFan and will continue to do so as we look to re-enter the narrowbody market in partnership.

To summarize, the growth outlook for our existing businesses is very strong.

In addition, these new opportunities which have -- which we have unlocked through our transformation further enhance that trajectory, uniquely positioning Rolls-Royce for a profitable growth.

To close, we are delivering on our proposition to transform Rolls-Royce into a high-performing competitive, resilient and growing business.

We have achieved a step change in financial performance over the past three years.

We expect further strong progress this year and we have set new upgraded mid-term targets for 2028.

These targets are already significantly underpinned by our actions -- by the actions that we have taken and the investments that we have made.

Our strong balance sheet and sustainably growing free cash flow gives us the confidence to announce a multiyear buyback programme from '26 to '28. This is in addition to our regular and growing dividends.

We remain committed to increasing shareholder distributions in line with our profitable growth.

We are also excited about Rolls-Royce's growth prospects beyond the mid-term.

I would like to finish today's presentation by giving you a perspective on the resulting business that we have been building from the first day, actually.

We are transforming Rolls-Royce into a highly competitive and sustainably distinctive business. A business with advantaged products and technologies with significantly improved safety and operational capabilities and excellence in customer service with a differentiated mindset and a distinctive performance culture, with a strong balance sheet and best-in-class efficiency and with high quality of earnings. This, in turn, opens up more opportunities for profitable growth.

We believe our growth potential is now unmatched, as we have more optionality for further growth than many other companies.

We expect significant continued profitable growth from our existing businesses through a combination of market growth and self-help actions and are unlocking new opportunities such as nuclear and Narrowbody.

Because of this, we expect continued expansion in operating profit, margins and cash flows well beyond the mid-term. This will benefit all the Rolls-Royce stakeholders.

I'm very proud of the Rolls-Royce team and what we delivered so far. And I am even more excited about what we will deliver in the future.

Thank you for listening.

Now we are going to open it up for questions.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

I already see some -- can I start there and I can -- I think you have the microphone there.

Sam Burgess

Analyst, Goldman Sachs

Sam Burgess, Goldman Sachs. Two questions, starting with one for you, Tufan. Any colour on your latest thinking on the programme share Rolls-Royce might like on any future narrowbody partnership? And how might this discussion look given most of the narrowbody programme partners probably don't want to lose share would be helpful.

And then for Helen, are the benefits of AI engine diagnostic tools built into your new mid-term LTSA margin improvement forecast, or is the technology today too nascent to build this in at the moment?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Okay. Thanks.

For the narrowbody, I think this is the way to think about that, frankly.

We have a good capability, engineering capability. And on top of that, I think given the developments we made with UltraFan, we already spent, by the way, more than GBP 1 billion on UltraFan. And the new technologies we are incorporating and continue to incorporate in UltraFan, that positions us really well for narrowbody.

So therefore yes, we are -- we prefer partnership. We are talking to multiple parties.

I said it in the past, I'm going to say it because it is correct. More importantly, they want to talk to us. And two airframers, obviously we work with the Airbus and Boeing, and they're actually keen that we participate in narrowbody.

So I think I'm afraid I cannot comment on -- at the right time we can talk about it, but I cannot comment on which partnerships, et cetera, but that's our preference.

But at the same time we continue to develop our demonstrator, et cetera. We are not actually waiting for partnership. You've seen the demonstrator model outside, but that actually continues.

Over to you.

Helen McCabe

Chief Financial Officer, Rolls-Royce Holdings plc

Fantastic. Thank you.

So in relation to AI, so it's probably worth standing back. I mean there's lots happening in this space. But what we've spoken to you about is where we have very deliberate concrete plans, yes.

So there is substance behind it. And those we have built into our mid-term projections going forward. So maybe just a couple of examples because there is a lot happening in this area.

I shared with you the example about on-wing maintenance and how we actually can better predict while the engine is still flying, if we actually can do the repairs on wing or it needs to be brought into an MRO shop.

Combined with that, we're actually developing, and it's been rolled out, I think it's actually beginning of March. We're rolling out another AI agent which allows us along with the ongoing data analysis to actually plan more effectively how we take the flow of work through the MRO.

So you imagine a scenario where you understand the scope of work that needs to be done, and then you combine that with how you actually plan MRO scheduling.

And I think Simon is with us today. I see Alan, Simon. Simon is up there.

So Simon and Alan, so we've got our Chief Engineers with us today. And there's one AI agent, and we were the first to actually get this certified from EASA.

If you want to know more about it, Simon, is your man. And it's to do with technical variations -- yes, technical variance. And this is where you need to make a particular change, as you can imagine, very, very labour-intensive.

So we've actually put AI across that. And we've reduced the effort by 75%, yes. And it's the first AI agent that has EASA approval. So we have got very specific use cases which we have developed.

Simon and the team, particularly from an engineering perspective, are all over those. And where they are that detailed and they have the KPIs to support them and there's governance around them, those we have built into the plan.

Something that we continue to track and monitor very carefully, but also what's happening in the back office as well. Tufan spoke about GBS.

As an example, we have rolled out across some of our back-office work a new tool which automates balance sheet reconciliations. Not the most exciting, but a very important thing. And it's now highly automated, more than 90% of those.

I mean can you imagine the efficiency that things like that drives. So those are just some of the very practical real things that we're doing in a purposeful way.

Sam Burgess

Analyst, Goldman Sachs

Really helpful, thank you.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

I believe NVIDIA talked about strategic partnership in the back office with us yesterday. So I think digital is going to play a bigger role. I promise you, so I'm coming, but there are some hands there.

Nick Cunningham

Analyst, Agency Partners

So Nick Cunningham from Agency Partners.

I wanted to carry on pursuing the narrowbody strategy question, if possible. I realise you're limited what you can say about partners. But all the other engine makers seem to offer various problems and obstacles in terms of partnering with them. Should we think about you going perhaps outside of the engine makers, particularly because I think the big issue is going to be having the capacity in this very high-volume segment?

And then second question on that is there's been a lot of discussion in the press about you looking for potential launch aid, risk and revenue-sharing, government loans. Do you actually need that? I mean because that -- typically in the past, that's been very -- produce a very good return to the government.

So it's been expensive for the borrower. You have very strong cash flows and you have a lot of technical confidence. Do you need to share that risk at that expense?

And then a very final question. The expensive bit of developing engines at the back end of it when you're prototyping and certificating. So do we need to think about this as being somewhere out in the 2030s in terms of where the actual cost is incurred?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Okay. Lots of questions there.

I think your government question, let me be very clear. We are not asking for any loan from anybody, not to mention government, okay? We are not that Rolls-Royce.

We just announced sort of our mid-term targets to you. But it's actually, it's a lot simpler than that, okay?

Industrial strategy of UK said, narrowbody, entering narrowbody is once in a generation opportunity for UK because it will create up to 40,000 jobs, significant sort of gross value add initially will be GBP 100 billion.

But if you think generations, a lot more than that contribution to the economy, big economic growth, the single biggest economy. This is actually, if you read the industrial strategy, that's what you will read.

So it is not actually uncommon that government support, R&T and R&D, and our competitors get 2, 3x what we do. They are not actually launched, as you know like ATI type of stuff.

So we are talking about that kind of support rather than loan this, loan that, et cetera. We don't need any loan.

But we are in a competitive world. If my competitors are getting 2x, 3x I do, I think that support, we will appreciate.

In terms of partners beyond engine makers, we are talking to more people. But as you accepted yourself, I cannot comment on it.

In terms of spend, obviously this has multiple spends in it, like R&T spend, we have been obviously investing already. R&D spend will -- we are now building demonstrator by 2028.

Obviously it is in our -- all the budgets that you see, by the way. It's not in addition to that. Will be there.

And if you actually think about -- it will depend on core engine commonality and how many variants airframers choose to have. Cost will vary.

But let's say, with partnership, it may vary for us, GBP 3 billion to GBP 5 billion, GBP 6 billion, that's in the next 12 years.

So that's how you may want to think about it. And then there is some investment with industrialisation, but that is absolutely the far end of it because why would they invest right now for that.

But hopefully, that answers that question.

Ian Douglas-Pennant

Analyst, UBS

Ian Douglas-Pennant with UBS.

Thinking about the long term on Civil, is there a possibility now that you can exceed peer margins given enough time? Or is the ambition to get in line with them? And if you -- if so, what gives you confidence that you do have the potential to exceed?

The second question is on Power Systems. Are you -- to what extent are you limited by your own industrial capacity in terms of growth from here? Can you give us any insight on where your industrial capacity is and where it's going to?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Great.

So nobody called me actually so far, thanks, Ian, that I want to be in line.

So we -- because that was never the aspiration in my life. So get in line is not a great aspiration for me, frankly. So that hopefully answers a part of your question, but I'm going to answer it more.

So I would say this. I think we made strong progress. Everybody was worrying about our wide-body margins should be lower. No, you don't have scale. Do you remember those days? Nobody asked me anymore. But so there, we proved all that wrong, effectively.

And here is how I will answer. Our mid-term targets are strong targets definitely. If you look at competitively our operating profit and cash growth targets, actually strong targets.

On Civil Aerospace, if I can answer the question, do I see potential to grow the margins beyond the mid-term target? My answer would be yes, okay? So I think that's how I would answer it.

On industrial capacity for power gen, specific. We are not limiting, frankly, because we are -- we don't want to speculatively get ahead of it, but actually, we are putting some slack in the system. Therefore if you go to Mankato because I was actually there last year, and Aiken, you will see we are effectively power gen, effectively, we are doubling power gen capacity.

We have some planned -- we call them system plants like Mankato will be -- is in that category then the engine plants, Aiken in that category. So we are actually doubling the capacity of both because our -- one of our differentiation, we actually -- we don't sell single engine.

We sell gensets with control systems around that. So I think we are not limited. You asked how much. Last time you sort of -- you wrote saying, I'm not sure, market share.

I think our market share to be specific in deliveries because you can go to market share in installed, and that will be different because our market share in installed is lower, but in deliveries, it's around 25%.

So what's our capacity deliveries per year, around 9 gigawatt, we believe total delivery is around 36 gigawatts. So that should -- that's where 25% comes, obviously. But that's right now.

But next year, I may tell you different capacity because we are investing to grow, right, on this.

Ian Douglas-Pennant

Analyst, UBS

Thank you it's nice to hear that somebody reads my research, I appreciate it.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Thanks, Ian.

Chloe Lemarie

Analyst, Jefferies

Thank you, Chloe Lemarie from Jefferies.

I have a first follow-up and then two questions, please. The first very quick one on narrowbody. Should we understand that you're ruling out going -- like re-entering the market on your own and just strictly looking for partnership?

And then the -- my first question is on pricing power. So we've seen great pricing power in power gen over the recent years. On governmental, we keep hearing about risks that government seek pricing reduction as volumes grow and some OEMs are seeing margin expense. So on those two segments, how are you seeing pricing evolve to your mid-term targets?

And last question, can we talk about shop visit costs because you've been talking in the past about XWB average cost reduction, but the mix might actually skew that to the upside. So net-net, how should we think about average cost per visit?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

That was one question, was it? So I think narrowbody is -- I'm not ruling out anything, but our strong preference is partnership, and there are opportunities for partnership, and it's not one.

On power gen, here's how you may want to think. In my presentation, I deliberately talked about power gen will come with improving margins because of three things. I think pricing power in a way, we would like to be competitive on pricing.

So therefore there is given the competitive intensity, there is a limit, but I think our product is really good. And frankly, with new products that will come in '28, because it is going to be so differentiated that you can price accordingly. That's one thing you should think about.

Second thing is, I think Helen mentioned in her presentation, she said two things.

For aerospace, she said we still see product cost increase which is true because supply chain environment is challenging.

She also said, we manage well in Power Systems because supply chain is not equally challenging in Power Systems, and we built a new -- totally new team in supply chain in Power Systems. And they've done a spectacular job that actually, we hardly get any product cost inflation there. And therefore whatever pricing you do, that flows through.

And then the mix, we have been increasing higher power sales, power density sales to data centres, obviously higher power has higher margins. But that's power gen.

I think governmental, you are always in some -- within your guardrails, even the deal starts, frankly. So I think we will continue to be in those guardrails.

But the strong contribution, governmental contracts are actually good in Power Systems. But the real sort of value creation even more aftermarket because in governmental, services tends to be strong, whether it's spare parts, whether it is overhaul sort of all that actually is there.

In terms of shop visits costs we talk about XWB-84 definitely. And we see -- and that's important, right? Because that's an engine scaling up, right? Why did I focus on OE XWB deliveries? Since the beginning.

In fact, some of you asked two meetings ago I think here, why only XWB, you pick and choose these things? No. We don't pick and choose and present to you.

We run the business by making choices rather than pick and choose the good news to you. We focus a deliberate effort with priority to make XWB OE deliveries breakeven and positive because we knew that's where the scale up was coming. Why waste your effort, right?

Same thing applies here. We are actually also thinking about, especially digital that Helen talked about, will help reduce our shop visit costs definitely.

Helen McCabe

Chief Financial Officer, Rolls-Royce Holdings plc

Across all engines.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Yes, across all engines.

Rory Smith

Analyst, Oxcap

Rory Smith from Oxcap. Thank you for taking my questions.

I just want to come back to this point on Civil Aero margins. You've upgraded the medium-term target. It's now closer to my number than it was before. So that's sort of personally reassuring. But I just wanted to –

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

You are ahead of the curve, clearly.

Rory Smith

Analyst, Oxcap

I just wanted to come back to some of the moving pieces. The LTSA slide, in particular, is very helpful. So thank you for that. I did want to ask about time and materials. I note the sort of V2500 service revenues are down year-on-year. Is there a risk that there is some moderation in '27 before we get to a sort of (inaudible) in 2028? That's my first question.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

So I think -- so I mean in terms of margins, I didn't know you were ahead of the curve, but it is good to get there.

So I think those LTSA slides we obviously do it on purpose. It should give you lots of granularity more than any other company will provide to you, sort of where this business is going. And David and I had a good chat on that in our romantic trip to Paris, I say, romantic

trip, I say, because David, as you know he was on sell at that time. And I'm going to Paris Air Show.

I sit in Eurostar I'm doing whatever I'm doing, waiting for the train to depart. And somebody shows up and says -- I don't know if you remember, David, somebody says, probably you are the -- I am the last person you would like to see, but this is my seat.

So he actually sits just across me. And at that time I don't know what happened, Eurostar probably on purpose. Normally, a trip takes two hours and a bit. It took this time three hours and a bit. So that's the trip. He was questioning me how bad our LTSA contracts are and so on and so forth.

But therefore whenever I hear LTSA margins, David, I remember you in the best possible way. But anyway, I think we have been actually improving these margins.

Obviously that has a lot to do with operating margin improvement, especially if you add to that OE profitability improving. And if you add to that business aviation profitability improving which I told you sort of, I think it all adds up to effectively. Therefore we are talking about even beyond mid-term with lots of granularity because one thing you guys probably appreciate by now but power of our -- we keep talking about performance culture.

Power comes from so embedded in the organisation. Everything we present to you, it is bottom up, embedded, owned and performance managed.

I'm not sure every -- this is my fourth company. I'm not sure every company can say that, I think. But those margins, T&M, we continue to improve T&M, frankly.

So we told you in mid-term, we expect sort of aftermarket to grow and T&M is obviously part of that, but I'm not going to say more than that.

Rory Smith

Analyst, Oxcap

I mean now it's more of an answer than I could have hoped for. So thank you.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

You didn't expect David's story, didn't you?

Rory Smith

Analyst, Oxcap

You'll always have Paris. Are you talking to Boeing about 777X given the delays on that programme and the latest durability concerns on GE9X?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

So I think individual conversations, I'm sure you appreciate, I'm not in the liberty to comment here. But we work with Boeing on multiple things very closely, absolutely.

Jeremy has a question. But Jeremy, I'll go there first, and I'm going to come to you.

Sorry, okay. Jeremy, I'll come to you just there and then David.

Ross Law

Analyst, Morgan Stanley

Morning everyone Ross from Morgan Stanley. Two questions, please.

First, on Power Systems margin target. If you look at one of your peers, they're not quite consistently generating margins in excess of 20% in their equivalent business. So should we think about that for Power Systems? Or given your earlier comment about not wanting to be in line, is it potentially higher than that?

And then just secondly, on SMR, any update on the timing of the UK contract?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

So I think I really encourage you guys because we do look at it even for us, with all due respect to you, we know our numbers probably better. But it is hard to take out portfolio to make the comparison with our peers because actually both, if you look at two main competitors, Caterpillar and Cummins, they have some same portfolio, but they have very different portfolios, and they break them apart.

What we call Power Systems shows up Power Systems and Distributions in them, and a part of Power Systems and Distributions.

So therefore when you are comparing because some part of like industrial turbines is a very, very profitable place right now which we don't have, right? So some comparison, I really encourage you to be careful about.

If you look at our margin, 18% to 20% we gave you mid-term, do we see improvement on that? Yes, my answer would be we do, okay? When the scale goes up, some of the dynamics I explained before that, I'm not going to explain again, but also scale obviously helps in these things.

So David?

David Perry

Analyst, J.P. Morgan

Tufan, all I can say is we'll always have Paris. So just two questions.

On Civil Aero, you've given us very clear positives driving the margin, the LTSA, where I was wrong, and lower losses on OE. But what about headwinds? Are there headwinds in there like rising R&D in the next few years or less spare engines that we should think about?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Yes. I think in terms of investments, obviously what Helen said in mid-term and she was describing cash of mid-term, she said investments in mid-term, higher than last year's mid-term targets. Yes. We continue to invest in the business, and that's the right thing to do. Therefore but they are already there.

I'm not -- I wouldn't call them headwinds frankly. They are part of doing business, I would say.

Actually, in terms of -- the only -- if you are thinking profit which I gave you already, David, the only thing which won't be in mid-term is the -- because by that time we will have been done by onerous contracts. You are not going to have that benefit.

I don't call it headwind because cash benefits will continue to come because when you renegotiate a contract, you know how our accounting works, you booked the profit, but actually cash benefit comes up. And quite a few contracts, we renegotiated. Actually, there is a step-up in cash, right?

EFH rate, for example, steps up because obviously the other party wants lower impact early years than future years, and that dynamic causes that. So it's not a headwind for cash, but it is

a headwind definitely for -- when you look at our '28 targets, you need to take that into account. I would like to think there are very strong targets, like 50% increase.

In spite of onerous benefit not being there, right? You need to think in terms of actually, cash has more going for it because also supply chain hit will not be there because that's actually strictly speaking, but it is right now cash hit, although it was also profit hit at some point.

Helen McCabe

Chief Financial Officer, Rolls-Royce Holdings plc

And just on your onerous, as you said, we won't have that benefit by the mid-term, but we'll still have a level of catch-up because of what we are doing from an operational and commercial perspective.

David Perry

Analyst, J.P. Morgan

And the other one, I was just wondering about was spare engines. I don't know if you commented on it, but current in the mix and where you expect it to be in the next few years?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

Spare engines are very similar in terms of quantity. But we said our profitability went up. That's what we said, and that's true.

Some of it with mix because, for example, 97 has better margins on it. So that's the mix element. But some of it sort of our framework helping.

David Perry

Analyst, J.P. Morgan

Okay. Can I just throw one in on Defence. If the U.S. does do a large increase in its defence budget which Trump has proposed, what sort of opportunities do you see for Rolls-Royce?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

I think -- I mean we have great programmes in the U.S. that like MV-75. That's a very, very large programme.

So we cannot talk about the number because we are not allowed to talk about the number. Therefore I'll say it, but 30, 40 years, it is a very, very big programme.

And then B-52, and we are working on autonomous. My answer to you, I think apart from combat and transport because some of that spend, David, will be, what, Golden Dome. And frankly, we are not a weapon company, Golden Dome, we will not necessarily participate.

But I think we are in great programmes in both in the UK and in the U.S. and quite a few of those programmes have enormous export potential that they are very, very big programmes. And our focus right now I said it, MV-75, '28, by 2030, B-52 will come. We are actually on track fully on that, GCAP will scale up mid-30s, and obviously AUKUS and the UK fleet.

If you look at -- and then autonomous will come on top because autonomous, right now I see as a new opportunity that, frankly, we haven't made money. We had enormous capability. We are actually ahead of competition. Therefore we are doing MQ-25, right? But contribution to us was almost zero.

So therefore that is one opportunity which will not be only in the U.S. but also in the UK that maybe beyond mid-term, it will actually come.

Jeremy?

Jeremy Bragg

Head of Investor Relations, Rolls-Royce Holdings plc

So three questions. The first of which is from Ben Heelan of Bank of America, and that pertains to the LTSA balance growth which is a little bit lower than expected in '25 and '26.

Can you help us understand why and the outlook for the longer term and how that plays into what you're doing with LTSA margin? So that's question one.

Question two I'm consolidating a few here is around SMRs which is at what point do you reach maturity when you're doing eight a year? And do you plan to remain the majority owner of that business?

And then question three is around Trent 1000, the great work we've been doing on time on wing. And will that translate to market share improvements?

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

I'm going to ask Helen to answer LTSA balance growth.

On SMRs, yes, I said in my presentation, Ben, that we are going to get to 8, probably you are talking about 2040 maturity time on the SMRs. Trent 1000, Ben, that is definitely the sort of ambition we have. That's why we improved the engine. Right now we have an engine.

First of all, I will say, hopefully, you guys follow this that when we say something, we actually deliver. When I first talked to leasing companies on Trent 1000, some of the very prominent leasing company CEOs told me, okay, two more CEOs before you told us about Trent 1000, and now you are talking about it. Actually, you sent me all sorts of takes saying, actually, I don't believe what you are talking about. Did we actually deliver? Yes. We delivered what we call BoM B, 25% of our fleet is already on BoM B, okay? We not only delivered, we are executing at pace.

Did we actually deliver BoM C? Yes. It was certified last year. We are starting to apply.

So between BoM B and BoM C, that's more than 130% improvement on time on wing.

So that takes Trent 1000 to four to six years, right, if you think about cycle times before they come to the shop visit as opposed to nine months to 12 months which is -- I mean our -- some of our supply chain issues, because none of you asked, but I'm going to say it, well why do you think it is going to disappear by mid-term this supply chain issues, because there is the generic supply chain issues that Helen talked about, I'm not going to repeat.

Then every company has slightly specific supply chain issue, like Airbus talks about something, and I'm not going to speculate on what they talk about, but you know.

But for us, Trent 1000 was the biggest issue because when the supply chain is limited, your shop visit capability is limited which we are improving. Every nine months, 12 months engines come back, that's a problem for us.

So therefore when we say it is going to disappear by mid-term, we say it with some confidence because of BoM B and BoM C applications. Therefore that's where that's where it comes from.

But four to six years, this is a very competitive engine right now. Yes, our ambition, Ben, is to sell that more.

Over to you. I think I covered SMR.

Helen McCabe

Chief Financial Officer, Rolls-Royce Holdings plc

So LTSA, so thank you for the question, Ben.

So I mean 2025, it came in at 0.6. I mean so not too far away from the range. And as you know there are lots of things which contribute to LTSA, particularly shop visit mix. So particularly in the second half, I referenced record number of Trent 1000.

Tufan, when he spoke actually, I also spoke about that, and it gets back to this romantic weekend that we keep coming back to. It gets back to the quality of LTSA that we're actually driving as well.

We've got what we call higher realizations because we're driving better margins. So you actually pulled down more of your LTSA as well. So that's good because you're keeping more of that profit. So that's really 2025.

In relation to 2026, we expect it to be around the same level as 2025. And that's because particularly because of BoM B, we've got a higher number of shop visits. We see approaching peak, yes, as we get more of that fleet through complete BoM B, it was 25%, as Tufan said, at the end of the year. It's actually now more than 25% at the end of February, and we still got that drag from supply chain.

And then we just think about how we drive LTSA growth going forward. Those five key factors which we've spoken about before. Engine flying hours continue to grow, both across widebody and business aviation, engine flying hour rate, as Tufan spoke to around how we're driving better margins, time on wing. We get the full benefit of that beyond the mid-term. Supply chain drag is gone. So that feeds into LTSA. And then, of course, currency also helps that.

And one thing I would say on currency and, I know a couple of you are very eagle eyed, and you'll probably look at the supplemental. These mid-term targets that we've delivered has actually got a slightly worse currency in them than our previous ones.

I was expecting a question on that. It's about 0.02 worse by 2028, yes, just because of the way that the blended rate falls out. But we still get a benefit from that.

But where I go with that is actually our mid-term cash flow targets, yes, are still incredibly, incredibly compelling with that slight drag from the currency. But that's how you should think about LTSA.

Tufan Erginbilgic

Chief Executive Officer, Rolls-Royce Holdings plc

I think Jeremy, do you want to know more? Okay. Great.

I think we are done. So I'm going to close.

First of all, thanks for listening. I know it was a long presentation, but we want to give you more insight into, not only mid-term, but also beyond mid-term. But thanks for your great questions as well.

So I think I will say this, we made great progress. And that progress, you can look at financials, you made this much money, this much cash. Yes, that's one way of looking at it. But I really encourage you to also look at what growth potential that created, profitable growth potential which I really said in my presentation because I meant it, it is actually unmatched, that kind of growth sort of profile.

All the slides I showed you, we obviously took the numbers off, but they are not mock ups. I will tell you that. Beyond mid-term, they are not mock ups.

So I think that is -- now our task is to go and execute on that as well as we have done the last three years. In fact, actually, our aspiration in the end is to do even better.

So with that, thanks for coming. Have a great day.

Jeremy Bragg

Head of Investor Relations, Rolls-Royce Holdings plc

Thank you so much.