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ROLLS-ROYCE TARGETS A STEP CHANGE IN MID-TERM PERFORMANCE

- Clear vision and strategy will create a high performing, competitive, resilient and growing business
- Mid-term targets set to deliver record future performance: operating profit of £2.5bn-£2.8bn, operating margin of 13-15%, free cashflow of £2.8bn-£3.1bn and return on capital of 16-18%
- Improved financial performance will create a stronger balance sheet and investment grade profile for the benefit of all stakeholders
- Focused strategy has identified investment priorities, partnership opportunities and supports a £1bn-£1.5bn gross disposal programme over next 5 years
- Current trading is in line with expectations and guidance for 2023 reconfirmed

Rolls-Royce is today holding a Capital Markets Day in which we are setting mid-term financial targets that will represent a step change in our financial performance.

Chief Executive Tufan Erginbilgic said:

“Rolls-Royce is at a pivotal point in its history. After a strong start to our transformation programme, we are today laying out a clear vision for the journey we need to take and the areas where we must focus. We are creating a high performing, competitive, resilient and growing Rolls-Royce that will have the financial strength to control and shape its own destiny. We are confident in our ability to achieve these ambitions and have a clear and granular plan to deliver on our targets. We have made significant progress, with 2023 profit and cash forecast to be materially ahead of 2022.”

“We are setting compelling and achievable financial targets for the mid-term which will take Rolls-Royce significantly beyond any previous financial performance. This will benefit not just our shareholders but our people, customers and partners. We are building ‘one Rolls-Royce’. A company that can fully realise its potential, ensuring the excellence and innovation that helped shape the modern world, endures long into the future.”

Mid-term targets

We aim to make Rolls-Royce financially stronger and more resilient than it has been before. In the mid-term this means achieving:

- Operating profit of £2.5bn-£2.8bn,
- Operating margin of 13-15% with
- Free Cash Flow of £2.8bn-£3.1bn and
- Return on capital of 16-18%.

We have also set divisional mid-term targets for operating margin:

- Civil Aerospace has the biggest step change, improving from 2.5% in 2022 to 15-17%.
- In Defence we plan to improve from 11.8% in 2022 to 14-16%.
- In Power Systems, our shortest cycle and most diverse business, we plan to improve from 8.4% in 2022 to 12-14%.

These targets are based upon our expectations for a 2027 timeframe. We expect a progressive, but not necessarily linear, improvement year-on-year, and if we can accelerate the achievement of our ambitions we will. These targets, the performance improvements that underpin them and the actions we require to achieve them, are owned across the Group and supported through rigorous performance management and clear lines of accountability. Our strong start to 2023 provides further confidence in our ability to deliver.

Strategic update

In February, we launched our transformation programme and strategic review to set out what we needed to do to take us to a new level of performance. We are building on our strong foundations and advantaged businesses to create a Rolls-Royce that can unlock its full potential.

Our new strategy will deliver our Rolls-Royce proposition. To:

- build a high performing, competitive and resilient business with profitable growth,
- grow sustainable free cash flows and
- build a strong balance sheet and grow shareholder returns.

It is based on four pillars:

1. **Portfolio choices & partnerships:** The markets we are choosing to operate in, businesses we want to invest in, and partnerships that will create truly winning positions.
2. **Advantaged businesses & strategic initiatives:** How we will create a competitive business, expand our earnings potential and improve our performance.
3. **Efficiency & simplification:** The importance of a company-wide focus to drive synergies that enable us to be more competitive and simplify the way we operate; and
4. **Lower carbon & digitally enabled businesses:** Our commitment to the energy transition, building on the tangible progress we have made to date, and capturing the benefits of becoming more digitally enabled.

Portfolio choices and partnerships: We are today setting out the strategic choices that we have made across the Group and providing details of the strategic initiatives that will deliver the step change in financial performance we are targeting.

In Civil Aerospace, we will focus on the widebody commercial airline market and business aviation where we can leverage the value from our Trent and Pearl engine families while investing for the future with our world-leading UltraFan engine programme. In Defence, we have opportunities for stronger performance and an increase in customer-funded investment across Transport, Combat and Submarines, where recently announced platform wins and international co-operations will drive further future growth. We can also leverage our expertise in adjacent nuclear fields such as Small Modular Reactors (SMRs) and micro-reactors, which have both defence and civilian applications. In Power Systems, we will focus on our Power Generation, Governmental and Marine end-markets, where we see the strongest demand and an opportunity for better returns from our power-dense and reliable solutions.

In specific instances, partnerships can help to strengthen our market positions, build capability and scale, as well as de-risk and reduce capital investment. Our mid-term targets are not reliant upon securing such new partnerships and we will only partner if the potential for further value creation exists. In Civil Aerospace, we believe we are well positioned to re-enter the narrowbody market, by choosing a partnership approach for the next new engine programme, and our UltraFan technology is a vital step towards this. For our SMR venture, a broad set of partners will strengthen our position to deliver the overall solution and reduce the future capital call. In Power Systems, our focused strategy in power generation will make this business more efficient and competitive, and drive faster, profitable growth. We are also considering potential partnerships in Power Generation and Battery Energy Storage Systems to further grow our market position, broaden our offering and benefit from cross business synergies.

We are also clear where we will not invest and re-allocate capital to parts of the business where we can generate more value. We are today announcing a Group-wide divestment program, targeting gross proceeds of between £1.0bn and £1.5bn over the next five years, which do not form part of our Free Cash Flow

targets. We will only sell assets at the right time and at the right price. For example, in Rolls-Royce Electrical we are looking at options to exit in the short run or alternatively for the right value, reduce our position to minority with an intention to exit fully in the mid-term. We believe, given the world-class capability we have built in Advanced Air Mobility, that this will represent good value to a third party and will allow us to focus on our core electrical engineering activities in Power Systems, Defence and Civil Aerospace.

Strategic Initiatives and Efficiency & Simplification

Our strategy is underpinned by granular strategic initiatives that are owned by each division. The largest step change in performance is in our Civil Aerospace division, where our 6 levers to improve widebody LTSA margins (extending time on wing, lowering shop visit costs, reducing product costs, keeping engines earning, implementing a new value-driven pricing strategy, and driving rigour on contractual terms and conditions) are key to achieving our targets. Time and material, spare engines and original equipment also contribute to improving profitability. Business Aviation initiatives also deliver strong performance improvement. In Power Systems, significant improvements are expected from initiatives focused on cost optimisation and key accounts in Power Generation and near-term growth in Governmental. In Defence, performance was already good, but there is still an opportunity to improve with commercial optimisation and efficiency initiatives. Across all of our businesses our efficiency initiatives and the choices we make will deliver sustainable savings of £400m-£500m in the mid-term, making us more competitively advantaged, resilient and fit for the future.

Financial Framework

We are building a stronger balance sheet and aiming to achieve an investment grade profile in the near-term. From a leverage perspective, we will significantly improve our net debt to EBITDA ratio. This is supported by our sustainable growth in free cash flows, some of which we will deploy to reduce our gross debt. The increasing strength of our resulting liquidity position means we may look to close some of our more expensive undrawn facilities early. Once we have strengthened the balance sheet, we intend to re-establish shareholder distributions. Thereafter, we will optimise between shareholder distributions and further investing in the business.

Trading update and outlook

Our current trading is in line with the guidance provided with our Half Year results on 3 August 2023 and our guidance for the year is unchanged. Engine flying hours for large civil engines on long term service agreements were 86% of 2019 levels for the 10 months to end of October and in line with our expectation for 80%-90% for the full year. Our next scheduled update will be on 22 February 2024, when we will publish our Full Year 2023 results and provide guidance for 2024.

Due to physical capacity constraints, the Capital Markets Day event is by invitation only but there will also be a webcast starting at 12:30pm UK time today lasting for approximately four hours. The webcast details are available on our website www.rolls-royce.com/investors and a replay will be made available after the event.

For further information, please contact:

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About Rolls-Royce Holdings plc

1. Rolls-Royce develops and delivers complex power and propulsion solutions for safety-critical applications in the air, at sea and on land. Our products and service packages enable our customers to connect people, societies, cultures and economies together; they meet the growing need for power generation across multiple industries; and enable governments to equip their armed forces with the power required to protect their citizens.
2. Rolls-Royce has customers in more than 150 countries, comprising more than 400 airlines and leasing customers, 160 armed forces and navies, and more than 5,000 power and nuclear customers. We are committed to making our products compatible with net zero carbon emissions to meet customer demand for more sustainable solutions.
3. Annual underlying revenue was £12.69 billion in 2022, and underlying operating profit was £652m.
4. Rolls-Royce Holdings plc is a publicly traded company (LSE: RR., ADR: RYCEY, LEI: 213800EC7997ZBLZJH69)

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Note on forward-looking statements

This press release may contain projections and forward-looking statements. The words "believe", "expect", "anticipate", "intend" and "plan" and similar expressions identify forward-looking statements. All statements other than statements of historical facts included in this press release, including, without limitation, those regarding the Company's financial position, potential business strategy, potential plans and potential objectives, are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the Company's present and future business strategies and the environment in which the Company will operate in the future. Further, certain forward-looking statements are based upon assumptions of future events which may not prove to be accurate. The forward-looking statements in this press release speak only as at the date of this press release and the Company assumes no obligation to update or provide any additional information in relation to such forward-looking statements.

The merits or suitability of investing in any securities previously issued or issued in future by the Company for any investor's particular situation should be independently determined by such investor. Any such determination should involve, inter alia, an assessment of the legal, tax, accounting, regulatory, financial, credit and other related aspects of the transaction in question.