



ROLLS-ROYCE



Rolls-Royce is a global company combining distinct engineering disciplines to deliver high-performing power and propulsion solutions in the air, at sea and on land, building long-term relationships with our customers through service packages.

OUR DIVISIONS

Civil Aerospace

Pushing the boundaries of possibility for large commercial and business aviation engines, delivering new levels of efficiency and sustainability, supported by flexible and innovative services that maximise aircraft availability.



Defence

Market leaders in military air (notably in transport and combat) and naval power solutions, and supplier of nuclear propulsion for all UK Royal Navy submarines.



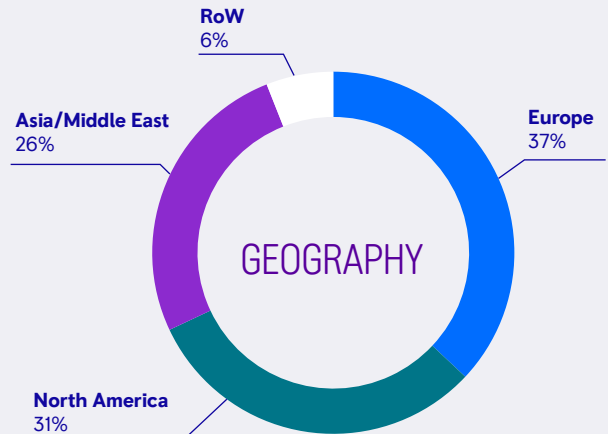
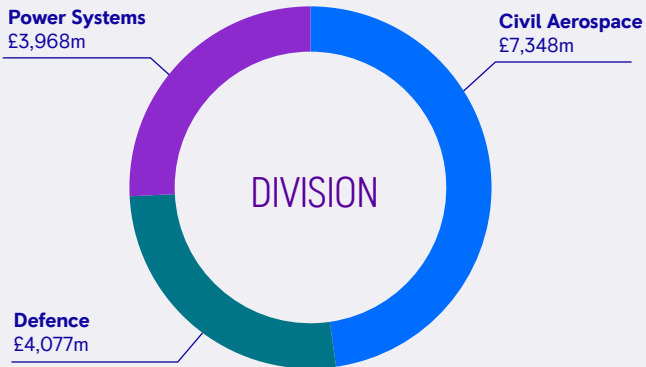
UK MOD
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Power Systems

Leading supplier of emergency power in safety-critical installations and integrated propulsion systems for ships and heavy land vehicles.



REVENUE BY BUSINESS AND GEOGRAPHY (FY223)



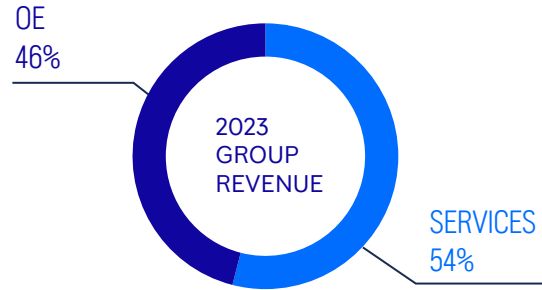
Our New Markets division contributed £4m underlying revenue to the Group



OUR BUSINESS MODEL

We develop and deliver complex power and propulsion solutions for safety-critical applications in the air, at sea and on land. The lifecycle of our products includes development, production and service. Our products stay in production for decades and our customers use them for decades.

Although there are many different products, services, customers and contracts throughout the Rolls-Royce portfolio, below is a rough outline of how we recognise revenue, profit and cash.



ORIGINAL EQUIPMENT (OE)

- When an engine is sold, we recognise the revenue and profit/loss at the time of sale
- Revenue recognised in the P&L is the price after concession (discount)
- Any revenue relating to Risk and Revenue Sharing Partners (RRSP) is treated as part of the ‘cost of sale’
- In terms of cash, we often receive deposits around contract award and the balance at delivery
- On dual-source aircraft programmes (e.g. Trent 1000 for Boeing 787) the airframer pay a list price for engines. When the aircraft is delivered, we then pay any discount to the airline customer. As a result, while the engines are sat with the airframer we hold on to a portion of the cash as a concession

SERVICES

Long Term Service Agreement (LTSA)

- Revenue is recognised on LTSA contracts as cost is incurred. Revenue is calculated using the contract margin %, based on the estimated overall price and cost of the contract
- LTSA contracts have a combination of regular (e.g. engine health monitoring) and intermittent, lumpy overhaul costs
- Overhauls drive significant revenue recognition, which means we tend to see low revenues recognised in early stages of service agreements
- If the overall contract margin changes during the life of the contract, it results in a contract ‘catch-up’ in the accounts to update historically recognised revenue and profit to reflect the impact of the new margin forecasts for the overall contract
- Most LTSA contracts receive cash based on Engine Flying Hours (EFH). This drives a LTSA balance that connects profit and cash flow

Time & Material (T&M)

- Time & Material refers to aftermarket revenues generated at a point in time, as opposed to being part of a long-term contract
- This could be overhauling an engine for a customer where the engine is not on a long-term service agreement or selling Life Limited Parts (LLPs) which are not always included in LTSA contracts
- The customer would contact the maintenance facility (this could be within Rolls-Royce, a JV or an approved third party) and pay them directly. The maintenance facility may buy some new parts from Rolls-Royce to fit during the event
- Sales of Time & Material overhaul services are generally recognised on delivery to the customer

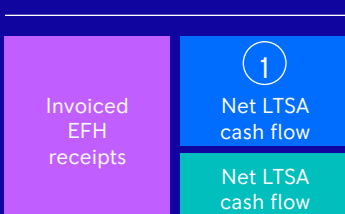
UNDERSTANDING THE LTSA BALANCE

The LTSA balance is the cash received from the customer (based on flying hours) but not yet traded in the P&L (based on cost incurred).

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

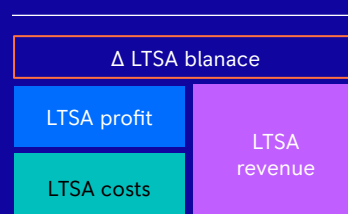
Cash flows



Difference between invoiced EFH receipts & revenue recognised

2 P&L revenue is driven by LTSA costs

P&L



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

FINANCIAL PERFORMANCE FOR PAST 5 YEARS

£m	2023	2022	2021	2020	2019
Underlying revenue	15,409	12,691	10,947	11,430	15,450
Underlying operating profit/(loss)	1,590	652	414	(2,008)	808
Profit/(loss) for the year from continuing operations	1,050	158	10	(3,997)	306
Group FCF	1,285	505	(1,485)	(4,255)	873
Shareholder payments	0	0	(4)	(92)	(224)

GUIDANCE FOR 2024

	FY24 guidance	FY23	FY22
Operating profit	£2.1bn – £2.3bn	£1,590m	£652m
Free cash flow from continuing operations	£2.1bn – £2.2bn	£1,285m	£505m

DEBT

(£m)	31 December 2023	31 December 2022	Net debt	Credit ratings
Issued Bond Notes ¹	3,995	3,995	FY23 £(2.0)bn	Moody's ⁶ : Baa3
UKEF £1bn loan (undrawn) ²	1,000	1,000	FY22 £(3.3)bn	Fitch ⁷ : BBB-
Revolving Credit Facility (undrawn) ³	2,500	2,500	FY21 £(5.2)bn	S&P ⁸ : BBB
UKEF £1bn loan (undrawn) ⁴		1,000		All positive outlook
Bank Loan Facility (undrawn) ⁵		1,000		
Total committed borrowing facilities	7,495	9,495		

¹May 2028
²September 2027
³November 2026
⁴March 2026
⁵January 2024
⁶August 2024
⁷March 2024
⁸August 2024

OUTLOOK FOR 2024

- As we continue to deliver our strategy, we expect further improvements towards all our mid-term targets. This is despite the impact of continued supply chain challenges, which we expect to persist for 18-24 months, geopolitical uncertainty and inflationary pressures.
- In Civil Aerospace, we expect:
 - 2024 large engine flying hours will grow to 100-110% of 2019's level
 - 500-550 total OE deliveries
 - 1,300-1,400 total shop visits.
 - Civil net LTSA Creditor growth at the low end of the mid-term range (£0.8-1.2bn)
- Additional detail is included in the [results presentation](#) and [supplementary data slides](#).



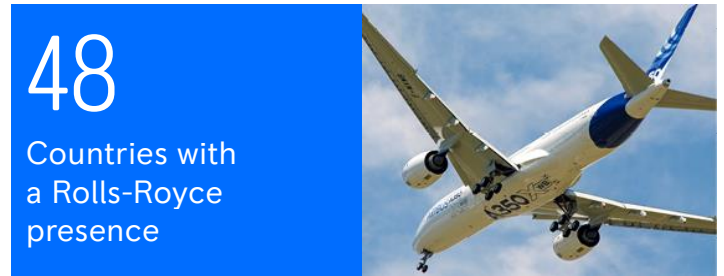
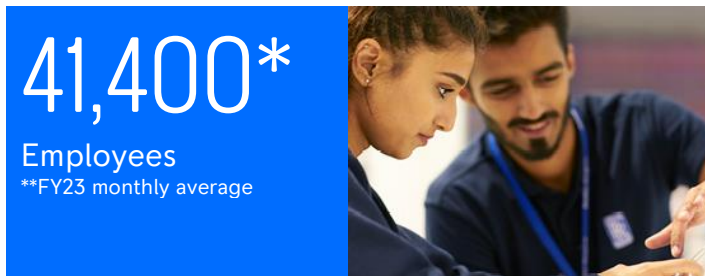
GROUP MID-TERM GUIDANCE

	Mid-term guidance
Operating profit	£2.5bn – £2.8bn
Operating margin	13-15%

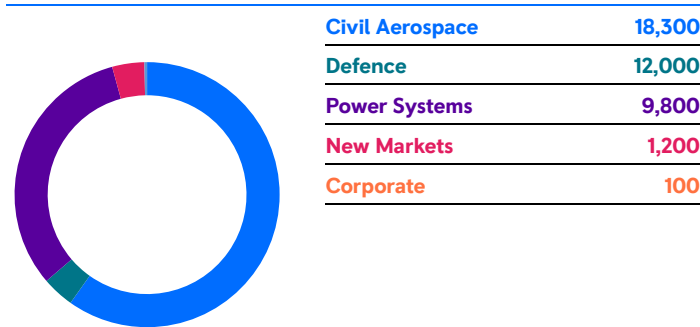
In 2023 at our [Capital Markets Day](#), we also set divisional mid-term targets for operating margin:



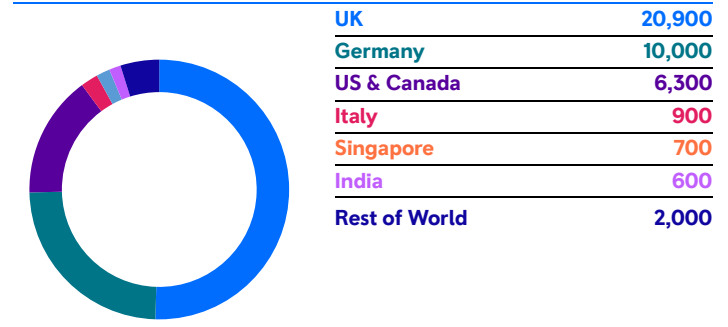
OTHER USEFUL METRICS



Employees by division



Employees by region



Rolls-Royce recently announced plans for a simpler, more streamlined organisation in the next phase of its multi-year transformation, which estimates that 2,000 to 2,500 roles will be removed globally. The new structure will create a more agile business that is better able to serve customers and continue to create and maintain world-class products.

Gross R&D expenditure: £1.4bn FY23

Net R&D spend: £0.7bn FY23

We operate in highly complex and technical fields where being digitally enabled is an important differentiator. Engine design today is radically enhanced by the digitalisation of engineering, and digital manufacturing enables us to work more quickly, with less waste and with fewer defects. We are able to leverage digital and AI to customer experience, how we operate efficiently and in preparing for the future.

Our sustainability approach ensures we operate our business and deliver our strategy in an ethically, environmentally and socially responsible manner.

We remain committed to helping our customers embrace net zero and we remain steadfast in our opinion that Rolls-Royce has an important role to play in the energy transition. The pace and level of our investment, however, will vary across the business depending on the market opportunity, fit with strategy and our capability.

- Net zero by 2050
- In the UK, we are already using a blend of 10% SAF in our Civil Aerospace and Defence testing activities
- All Civil engines in production, SAF compliant in 2023
- Targets for gender and ethnic diversity by 2025