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Rolls Royce - The Engine of Change: Exploring Financial Growth and Equity Prospects

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60198

A Project carried out on the Master's in Finance Program, under the supervision of:

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Abstract
This report is part of the Rolls-Royce Equity Research Report and assesses Rolls-Royce's financial growth and equity prospects, focusing on its strategic outlook, financial situation, and comprehensive valuation. Key areas analyzed include the Defence and New Markets segments, which are expected to benefit from rising military expenditures and the increasing focus on net-zero carbon emission targets. An in-depth analysis of the financial health of the firm provides a picture of historical operational challenges and expected future growth opportunities. Significant parts of the firm's WACC are analyzed, supported by sensitivity analyses. Moreover, a CCA valuation provides an estimated share price based on Rolls-Royce's most relevant peers. The Defence segment demonstrates robust revenues during recent years, while the Small Modular Reactor business of Rolls-Royce is still in an early stage with great long-term opportunities. The report concludes that Rolls-Royce has strong growth potential, dependent on the successful delivery of its transformation program.

Keywords: Equity Research, Valuation, Aerospace & Defense

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This report is part of the Rolls-Royce – The Engine of Change Equity Report, developed by Patrick Kari and Jannik Schulze and should be read has an integral part of it.

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Introduction

The joint equity research report, titled "Rolls-Royce – The Engine of Change" aims to provide a comprehensive evaluation of Rolls-Royce Holdings PLC. It assesses the company's business model, market environment, financial performance, critical financial forecasts and an equity valuation while analysing critical risks, macroeconomic trends, and strategic developments. The purpose of this report is to deliver a detailed understanding of Rolls-Royce's growth drivers, operational challenges, and valuation potential to support informed investment decisions. Contributions to the report are divided into multiple sections and were split between both students.

This individual report delivers key analytical insights, offering substantial contributions to the joint work. It begins with a detailed overview of recent strategic developments driven by transformative initiatives, followed by an analysis of the historical share price trajectory. The industry overview examines critical market trends within the defence and nuclear sectors, while also emphasizing the competitive landscape. The financial health analysis provides a comprehensive evaluation of liquidity, capital structure, and profitability, considering the significant operational challenges the company has faced in recent years. Furthermore, the report features robust forecasts, including detailed revenue projections as well as profitability metrics over the forecast period. Significant components of the firm's WACC are analyzed, complemented by sensitivity analyses. Finally, a CCA valuation estimates Rolls-Royce's share price based on its most relevant peers.

Remaining sections of the joint report, prepared by my partner, primarily focus on the Civil Aerospace and Power Systems segments, including in-depth market analysis and revenue forecasts. His report also provides a general company description and an overview of all segments. A macroeconomic analysis, key risks, and ESG positioning have been examined to understand external factors. Additionally, he assesses future capital expenditures and working capital needs, offering a clear view on cash conversion and upcoming investments. To support the DCF valuation, he calculated the cost of debt as part of the WACC. Using this, along with APV valuations, he estimated the share value, backed by a scenario analysis to tackle uncertainties.

Based on our valuation, we assign a **HOLD** recommendation with a fair share price estimate of 613.28 GBX, including dividends, by December 2025. This reflects the company's strong market positioning and growth potential across core and emerging segments, such as Civil Aerospace and SMR. However, the recent share price appreciation has narrowed the gap to its intrinsic value, indicating limited short-term upside while still acknowledging the ongoing operational turnaround.

Company Overview

Recent Developments and Strategic Outlook

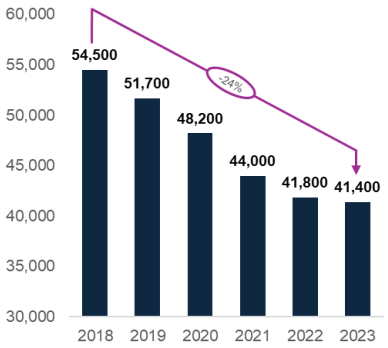

Exhibit 1: Headcount (2018 – 2023)

Exhibit 2: Transformative Program

Since 2018, Rolls-Royce has undertaken significant restructuring efforts triggered by challenges in their Civil Aerospace segment and external pressures, including the COVID-19 pandemic. With the aim of a more dynamic and cost-effective corporate, Rolls-Royce announced in 2018 a plan to cut 4,600 jobs over a two-year period. This action helped the firm to achieve around £400m in run-rate cost savings from the end of 2020. Nevertheless, the outbreak of the pandemic in 2020 had an enormous impact on Rolls-Royce, leading to the decision of an additional layoff of 9,000 employees and asset disposals generating proceeds of at least £2 billion. Key disposals included ITP Aero, Bergen Engines, and the Civil Nuclear Instrumentation and Control business, which enabled the company to stabilize its balance sheet and refocus resources on strategic priorities.

In 2022, Warren East stepped down from his position as Chief Executive after seven years in the role and having navigated many major crises of the company. Following this, Rolls-Royce welcomed Tufan Erginbilgic as its new CEO, who took over at the beginning of 2023. After his appointment he reviewed the strengths and weaknesses of the firm and launched a transformative program to reshape Rolls-Royce's operational efficiency, financial resilience and long-term strategic positioning. His vision builds on the restructuring initiatives that began in 2018 and prioritizes deleveraging the balance sheet, growing shareholder returns, and discretionary investments.

The strategy's main objective is to increase operational efficiency, with emphasis on cost reduction, supply chain optimization, and the development of a more streamlined organization. Subsequently, Rolls-Royce estimates in October 2023 that globally a further 2,000 to 2,500 roles will be removed, and additional divestments will generate £1.0bn-£1.5bn gross proceeds by 2028.

Historical Share Price Development

Rolls-Royce Holdings PLC (RR.L) went public on the London Stock Exchange in 1987 following the privatization by the UK government. As of December 2024, the stock is priced at approximately 583.80 GBX (16.12.2024), with a market capitalization of around £49.40 billion. As a significant player in the UK equity market, Rolls-Royce is a constituent of major indices like the FTSE 100 and the FTSE 350 Aerospace & Defense Index.

Comparing Rolls-Royce's historical share performance over the past decade with key benchmark indices shows that Rolls-Royce has underperformed not only the

Company	Annualized Returns		
Lastest	*3 yrs*	*5 yrs*	*10 yrs*
RR.L	**67.0%**	**19.6%**	**7.6%**
MSCI World	7.4%	11.9%	10.3%
FTSE 100	7.8%	5.5%	6.2%
MSCI World A&D	14.9%	6.5%	9.7%
FTSE 350 A&D	41.1%	18.8%	9.5%

Exhibit 3: Annualized Returns vs. Indices

global market, as represented by the MSCI World, but also against industry-specific indices such as the FTSE 350 Aerospace & Defense (A&D) and the MSCI World A&D Industry. Over this period, Rolls-Royce generated an annualized return of 7.6%, while the MSCI World, MSCI World A&D Industry and FTSE 350 A&D returned 10.3%, 9.7% and 9.5% respectively. Only the FTSE 100 underperformed in comparison with an annualized return of 6.2%. This performance underscores the prolonged challenges Rolls-Royce faced in aligning its operational efficiency and profitability with broader market and industry trends in the past.

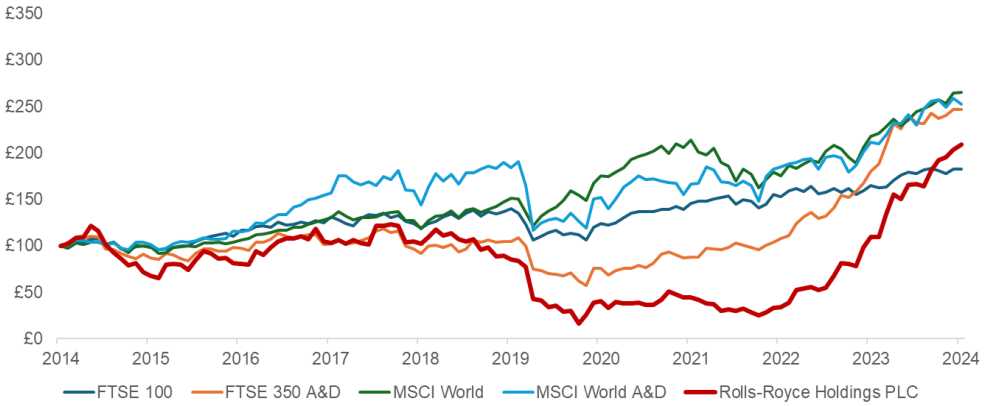

Exhibit 4: Historical Share Price Performance (2014 - 2024)

While the past decade reflects a period of significant operational challenges and macroeconomic pressures for Rolls-Royce, recent years have marked a remarkable turnaround. The company's share price has rebounded strongly, fueled by the recovery of global air travel post-COVID-19, improved operational efficiency, and transformative restructuring efforts. Notably, Rolls-Royce achieved an annualized return of 67.0% over the past three years, far surpassing its key benchmark indices and outperforming major competitors such as GE Aerospace, RTX, and Safran. To support its financial turnaround, the company suspended dividend payments from 2021 to 2023, prioritizing operational efficiency and restructuring. Nevertheless, dividend payments are set to resume in 2024, with a planned payout ratio of 30-40% of net profit after tax.

Company	Annualized Returns		
Lastest	*3 yrs*	*5 yrs*	*10 yrs*
RR.L	**67.0%**	**19.6%**	**7.6%**
GE	41.3%	24.5%	3.2%
RTX	11.0%	5.9%	5.7%
SAF.PA	24.8%	8.7%	15.1%
MTXGn.DE	21.6%	4.9%	16.2%
BAES.L	29.7%	16.2%	9.8%

Exhibit 5: Annualized Returns vs. Peers

Industry Overview

Market Analysis and Industry Trends

- Defence

The geopolitical tensions that arise from Russia's invasion on Ukraine, the conflict in Middle East, and the potential threat from China on Taiwan are highly relevant for the defence industry. In 2023, the total global military spendings amounted to a total of $2,443 billion. In real terms this reflects an increase of 6.8% year-on-year

which is the strongest increase since 2009. Furthermore, it is the first time since 2009 that governmental military expenditures have been rising in all five geographical locations defined by SIPRI (Africa; Americas; Asia and Oceania; Europe; Middle East)[1]. The most relevant conflict for Rolls-Royce is potentially the Russia-Ukraine conflict. As a result of the ongoing Russian threat, it can be observed that especially European countries have shown large increases in their military budgets. In 2024, the NATO expects that European allied defence expenditures will reach $380 billion due to the anticipation that 18 European member countries will reach the 2% of GDP spending target[2]. This trend of increasing military budgets is guided by the need of increased sovereign security as well as military aid to Ukraine. In 2023, Ukraine received at least $35 billion in military aid, with the USA contributing $25.4 billion of this total[3]. In 2023, Europe and the USA accounted for 37% and 28% of Rolls-Royce's total revenue respectively. Subsequently, the company is well-positioned to profit from increased defence spendings in these regions by capitalizing on its expertise in advanced aerospace propulsion systems. Although a potential policy shift under a Donald Trump administration, such as reduced military aid to Ukraine, could alter some defence priorities, Rolls-Royce's U.S. defence revenues are mainly driven by long-term contracts. Programs like the Future Long-Range Assault Aircraft (FLRAA) initiative and the MQ-25 Stingray engine contract for the U.S. Navy ensure a stable foundation for future growth.

Geopolitical tensions drive defense spending, creating opportunities for Rolls-Royce

Nevertheless, the growth in the defence sector is not only driven by higher military budgets. AI is also playing an important role in the defence industry. On the one hand, AI can be used to improve MRO processes, similar to the Civil Aerospace industry, leading to greater efficiency and cost-effectiveness. This trend helps to maintain a continuous supply of military aircraft, which is particularly important in times of geopolitical conflict[4]. Furthermore, AI can be utilized for the development of autonomous unmanned combat aircrafts. This is particularly interesting as there are ongoing efforts to establish manned-unmanned teaming's in future military operations[5]. While Rolls-Royce is not working on the development of advanced counter-drone systems which represents a trend in the defence industry, they are already involved in the construction of engines for various unmanned aerial vehicles (UAVs). Examples are the surveillance aircraft Northrop Grumman RQ-4 Global Hawk powered by a single AE 3007H turbofan engine and the aerial refuelling UAV Boeing MQ-25 Stingray powered by a single AE 3007N engine.

From MRO to Unmanned Aircrafts: AI shapes the defense industry's future

[1] Source: SIPRI, 2024
[2] Source: Breaking Defense, 2024
[3] Source: SIPRI, 2024
[4] Source: Deloitte, 2024
[5] Source: Singh, 2024

The growing importance of space capabilities in modern defense strategies

Another significant development in the defence industry is the growing emphasis on military space capabilities, highlighted by recent conflicts. The war in Ukraine has underscored the critical role of space in modern warfare, with Russia leveraging cyberattacks on space ground stations to support its invasion. As a result, the European Parliament published a "EU space strategy for security and defence", which outlines the strategic importance of space for security efforts[6]. Rolls-Royce is also aware of the increasing relevance of the space. To capture the benefits of this trends, Rolls-Royce started with the development of micro-reactors intended for space explorations. Subsequently, this reflects an opportunity for Rolls-Royce since every space mission depends on a power source, whether for communication or for life support during explorations[7].

- New Markets

Global demand for clean energy drives growth in small modular reactors

The growing global demand for reliable and clean energy sources is causing an increasing interest in innovative solutions such as Small-Modular-Reactors (SMRs). It is expected that the global market could reach USD 295 billion until 2043, which would correspond to a CAGR of 30% over the period[8]. As of 2024, several countries started to develop SMR designs, including the United States, Russia, China, and many more. Nevertheless, it should be noted that the development is still in the early stage with only four SMR designs worldwide that are in operation, located in Russia and China. Overall, 68 different SMR designs, from the design stage to operating stage, are confirmed to the International Atomic Energy Agency (IAEA)[9]. One of the companies shortlisted by the United Kingdom in the first phase of the Great British Nuclear Technology Selection Process is Rolls-Royce.

Governments and industries worldwide aim to meet net-zero carbon emission targets. Examples include the European Union and the United Kingdom that both published laws to reduce all greenhouse gas emissions to net-zero by 2050[10]. As result many countries worldwide increasingly invest in renewable energy and nuclear power. SMRs generate electricity and heat without producing greenhouse gas emissions during operation. In comparison to renewable energy sources, they do not rely on weather conditions. Subsequently, the SMR innovation could provide a consistent and reliable power supply while supporting the achievement of decarbonization goals.

[6] Source: European Union, 2023; Basham, 2024
[7] Source: Rolls-Royce, n.d.
[8] Source: Dale, 2023
[9] Source: IAEA, 2024
[10] Source: European Union, n.d.; UK Government; 2023

Competitive Landscape

Rolls-Royce operates in the highly competitive aerospace and defence industry, which is characterized by significant entry barriers. These markets require intensive investments in research and development, complex certification processes, and strong relationships with governments and aircraft manufacturers. Therefore, the competitors selected for comparison were based on their similarity to Rolls-Royce in terms of business model, customer base, geographical coverage, and profitability. Following our analysis, the main competitors can be identified as General Electric, RTX, Safran, MTU Aero Engines, and BAE Systems. Within this selection we focused on companies that are directly involved in manufacturing propulsion systems, while also considering firms that compete for the same aerospace and defence contracts but are not mainly producing engines.

General Electric Company, operating as GE Aerospace, is a global leader in jet and turboprop engines and integrated systems for commercial, military, business, and general aviation aircraft. The company was founded in 1892 and is headquartered in Boston, USA. As of 2023, GE engines power around 52% of the global widebody fleet[11], and the Defence and Systems divisions power two-thirds of combat and rotary aircraft worldwide. In comparison, Rolls-Royce holds 33% of the global widebody engine market, with a strong focus on this segment within its Civil Aerospace division. GE Aerospace, on the other hand, has a broader focus on both single-aisle and widebody commercial aircraft. Nevertheless, GE Aerospace's dominance in both commercial and defence markets, combined with its comparable product portfolio and global market share, positions the company as one of Rolls-Royce's key competitors.

RTX Corporation is the world's largest aerospace and defence company and is headquartered in Arlington, USA. It was established in 2020 by a merger of equals between Raytheon Company and the aerospace branches of United Technologies Corporation. The company operates through three divisions, namely Collins Aerospace, Pratt & Whitney (P&W), and Raytheon. While the conglomerate serves many different products in the aerospace and defence industry, P&W focuses on the development and manufacture of aircraft engines for commercial, military, business jet, and general aviation customers. Within the global engine market P&W holds a market share of 12% in widebody engines and 25% in narrowbody engines[12]. Subsequently, P&W acts as a main competitor to Rolls-Royce as both companies compete for market share in the high-performance engine industries for commercial and defence applications.

[11] Source: General Electric, 2023; Aerospace Global News, 2023
[12] Source: RTX, 2020; RTX, 2023, Aerospace Global News, 2023

Safran SA was founded in 2005, through the merger of Snecma and Sagem, two French companies specializing in aerospace, defence, and security technologies. The firm is headquartered in Paris and operates in aircraft propulsion, equipment, and interior manufacturing. As a major player in the aviation industry, Safran benefits from its CFM International joint venture with GE, which holds a dominant 72% market share in the narrowbody aircraft engine market. Additionally, the company has strong positions in European combat and military transport programs, as well as a leading role in the helicopter engine market[13]. Although the focus on single-aisle propulsion contrasts with Rolls-Royce's specialization in widebody aircraft engines and long-range business jets, its strong position in the aerospace propulsion industry makes it a significant competitor to Rolls-Royce.

MTU Aero Engines AG is Germany's leading engine manufacturer, providing commercial and military propulsion systems to its customers worldwide. The firm is headquartered in Munich and has its origin in the in 1913 founded company Rapp Motorenwerke which became later BMW. MTU Aero Engines frequently participates in joint ventures or consortiums for the development and production of engines. Examples include the production of the Geared Turbofan (GTF) engines for narrowbody aircrafts together with Pratt & Whitney and their involvement in manufacturing the Eurofighter Typhoon engine alongside Rolls-Royce[14]. Subsequently, MTU Aero Engines plays an important role in the aerospace engine industry. Nevertheless, it should be mentioned that Rolls-Royce operates on a much larger scale with a broader product portfolio that not only focuses on engines for aircrafts.

BAE Systems PLC is a leading provider of defence, aerospace and security solutions across air, land, sea, and cyber domains. The firm was founded in 1999 and is headquartered in London, UK. While BAE Systems does not directly manufacture aircraft engines, the firm specializes in military aircraft systems, airframe design, and advanced technologies[15]. As a result, BAE Systems and Rolls-Royce often compete for roles in the same governmental contracts, such as the Eurofighter Typhoon and the Global Combat Air Programme (GCAP). This overlap makes BAE Systems an important competitor in common markets, even though the two companies sometimes collaborate on large defence projects.

[13] Source: Safran, 2023; Aerospace Global News, 2023
[14] Source: MTU Aero Engines, 2023; MTU Aero Engines, n.d.
[15] Source: BAE Systems, 2023

Financial Health Analysis

To assess the financial health of Rolls-Royce, the company's financial data, liquidity ratios and capital structure over the last six years have been analysed in detail. Additionally, the impact of recent restructurings has been examined to evaluate their success and contribution to the company's recovery.

From 2018 to 2023, Rolls-Royce's revenue was observed to grow at a compound annual growth rate (CAGR) of 1.5%. This slow growth rate is mainly due to operational challenges in the Civil Aerospace segment and the strong negative impact of the COVID-19 crisis. Only from 2019 to 2020 Rolls-Royce's total revenue decreased by 25%. After the setback resulting from the crisis, Rolls-Royce was able to achieve a CAGR of 10.5% from 2020 to 2023. This annual growth is higher than the one of most of the main competitors as highlighted in Exhibit 6. While the CAGR in the defence sector has been only slightly higher in the last three years at 6.7% compared to 5.5% from 2018 to 2023, the Civil Aerospace and Power Systems divisions have improved dramatically. Revenue streams in the Defence segment have remained stable over time, despite the pandemic, as an increase in geopolitical tensions led to stable revenues. Comparing the CAGR over the last five years with that over the last three years in Civil Aerospace and Power Systems an improvement from -0.1% to 13.2% and from 2.9% to 13.2% can be observed, respectively. When considering the latest developments in revenues and the on-going restructuring efforts introduced by the current CEO, we believe that revenue growth will be stable in the future. Additionally, it should be mentioned that the historical revenues in the New Markets segment are insignificant, and we believe that they will strongly increase in the future after the introduction of their SMR technology.

Revenue CAGR (2020-2023)	
RR.L	**10.5%**
GE	-3.6%
RTX	6.8%
SAF.PA	12.5%
MTXGn.DE	10.5%
BAES.L	6.2%

Exhibit 6: Revenue CAGR vs. Peers (2020 – 2023)

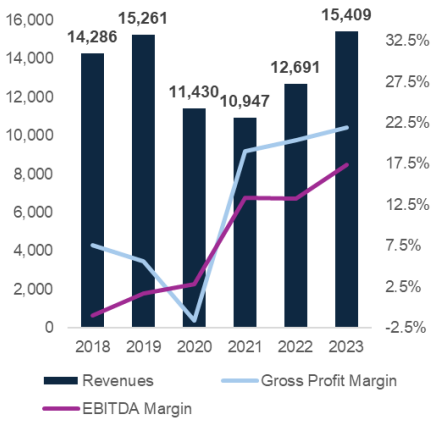

Exhibit 7: Revenues in £m & Profitability Margins (2018 - 2023)

An analysis of Rolls-Royce's historical financial performance shows a vast improvement in the gross profit margin from 7.6% in 2018 to 22% in 2023. Substantial cost savings and productivity gains, resulting from the restructuring program introduced in 2020, led to an improvement in gross profit from £-187 million to £2.1 billion in 2021 year-over-year. This enhancement in the operational efficiency resulted in an EBITDA-margin improvement from -1% in 2018 to 17.4% in 2023. As already discussed, the restructuring efforts included workforce reductions, supply chain optimization, and improved resource allocation, which collectively bolstered the firm's profitability. Overall, Rolls-Royce was able to raise its operating margin from -6.7% in 2018 to 11.1% in 2023.

A review of selected balance sheet items demonstrates that total assets and liabilities have been almost stable over time, with liabilities being slightly higher than assets. One major contributor to the high liabilities are contract liabilities. The

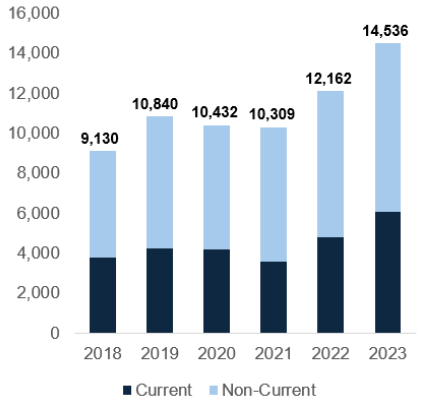

Exhibit 8: Contract Liabilities in £m (2018 - 2023)

sum of current and non-current contract liabilities increased from £9.13 billion in 2018 to £14.54 billion in 2023, representing a growth of 59.25% over five years. While contract liabilities are usually classified as non-core capital, the persistence of the liabilities leads to the decision that they are operationally relevant for Rolls-Royce. Furthermore, it is notable that intangible assets, PP&E, and right-of-use assets decreased over the analysed period. This resulted from ongoing disposal efforts such as the sale of ITP Aero and a more selective approach to investments. Lastly, the amount of almost £3 billion in deferred tax assets in 2023 may provide future tax benefits to the firm.

Liquidity Ratios						
	2018	2019	2020	2021	2022	2023
Current Ratio	1.13	1.07	1.05	1.19	1.15	1.21
Quick Ratio	0.84	0.78	0.78	0.86	0.81	0.89
Cash Ratio	0.33	0.30	0.25	0.23	0.19	0.25

Exhibit 9: Liquidity Ratios (2018 - 2023)

To analyse the liquidity of Rolls-Royce, standard liquidity ratios have been utilized. The current ratio improved from 1.13 in 2018 to 1.21 in 2023, indicating that Rolls-Royce can adequately meet short-term liabilities with its current assets. However, the ratio is only marginally above 1, suggesting limited headroom for financial flexibility. The quick ratio, which excludes inventory, followed a similar trend, rising from 0.84 in 2018 to 0.89 in 2023. Although it remains below 1, this improvement highlights better liquidity management, though the company may still face challenges in meeting short-term obligations without relying on inventory liquidation. The cash ratio, however, presents a more constrained picture. It declined from 0.33 in 2018 to a low of 0.19 in 2022 before rebounding slightly to 0.25 in 2023. This limited cash reserves indicate the importance of improving the cash generation which is a major part of the company's current strategy.

Exhibit 10: Shareholder's Equity vs. Accumulated Losses in £m (2018 - 2023)

In terms of solvency and capital structure, the debt-to-equity (D/E) ratio was considered unsuitable for assessing Rolls-Royce due to the persistent negative equity throughout the analysed period. Negative equity was driven by an increasing number of accumulated losses, rising from £3 billion in 2018 to £9.8 billion in 2022 before rebounding to £7.2 billion in 2023. Consequently, the interest coverage ratio, Debt-to-EBITDA and leverage ratio were used for the assessment. The interest coverage ratio significantly improved from -9.84 in 2018 to 4.97 in 2023. While the negative ratio in the past indicates that Rolls-Royce was unable to cover its interest expenses due to operating losses, the improved ratio reflects the better operational performance post-restructuring. Also, the Debt-to-EBITDA ratio improved dramatically from -31.29 in 2018 to 2.01 in 2023, representing that Rolls-Royce has not only improved profitability but has also managed its debt levels effectively. The leverage ratio remained negative throughout the period due to Rolls-Royce's negative equity position. Nevertheless, it improved from -4.34 in 2018 to -1.56 in 2023, showing progress in deleveraging efforts and stabilizing the company's capital structure.

Solvency & Capital Structure						
	2018	2019	2020	2021	2022	2023
Interest Coverage	-9.84	-5.07	-4.86	2.03	2.45	4.97
Debt-to-EBITDA	-31.29	19.95	22.76	5.17	3.32	2.01
Leverage ratio	-4.34	-1.68	-1.50	-1.67	-0.98	-1.56

Exhibit 11: Solvency & Capital Structure (2018 - 2023)

The recovery and operational stabilization in the recent years is reflected by the development of Return-on-Assets (ROA) and the asset turnover. The ROA

Return on Assets & Asset Turnover						
	2018	2019	2020	2021	2022	2023
ROA	-8%	-4%	-10%	0%	-4%	8%
Asset Turnover	53%	52%	37%	39%	47%	54%

Exhibit 12: Return on Assets (ROA) & Asset Turnover

improved from a negative -8.2% in 2018 to 7.9% in 2023, driven by restructuring efforts and recovering profitability post-pandemic. Asset turnover remained relatively stable, improving from 0.53 in 2018 to 0.54 in 2023, with a notable dip to 0.37 in 2020 during the pandemic. While the ROA highlights enhanced profitability from its asset base, the asset turnover suggests moderate efficiency in generating revenue, partially constrained by pandemic-related disruptions. Together, these metrics indicate Rolls-Royce's successful turnaround while pointing to opportunities for continued improvement.

The financial analysis of Rolls-Royce over the past six years highlights a company in recovery, with improving profitability, effective cost management, and stabilizing liquidity. Despite challenges such as negative equity and moderate asset utilization efficiency, Rolls-Royce has demonstrated significant operational progress, robust revenue growth post-pandemic, and effective debt management. These improvements position the company well for future stability and growth, supported by ongoing restructuring efforts and strategic initiatives.

Forecasts

Revenue Forecast

- Defence

Within the preparation of a credible revenue forecast for the Defence segment, two main revenue drivers have been identified, namely governmental contracts and defence budgets. These drivers are inherently complex due to limited visibility into contract-specific revenues and the multi-party nature of most agreements. Rolls-Royce often serves as a sub-contractor rather than the lead contractor, as seen in the FLRAA (Future Long-Range Assault Aircraft) program awarded to Bell-Textron. While the program's total value of $1.3 billion is publicly known, Rolls-Royce's specific revenue share remains unclear since it primarily supplies engines rather than manages the overarching contract.

Defence Key Market & Solution CAGRs	
Key Markets & Solutions	**CAGR**
Naval	**4.6%**
Naval Vessel Engine Market	4.0%
Naval Gas Turbine Market	5.1%
Marine Propeller Market	6.8%
Marine Engine Market	2.6%
Transport	**5.3%**
Military Transport Aircraft Market	0.2%
Maritime Patrol Aircraft Market	5.1%
Air-to-Air Refueling Market	10.5%
Combat	**4.6%**
Military Trainer Aircraft Market	4.9%
Military Aircraft Market	5.3%
Fighter Aircraft Market	3.7%
Submarines	**5.6%**
Submarine Propulsion Market	3.5%
Submarine Market	7.6%
Helicopter/Other	**3.5%**
Military Helicopter Market	2.9%
Helicopter Engine Market	4.2%
Military Expenditure CAGR	**4.8%**

Exhibit 13: Defence - Key Market & Solution CAGRs

To address these challenges, we adopted a systematic approach that combines both market-specific and macroeconomic analyses which allows for a more realistic and comprehensive forecast. First, we started with an analysis of the expected growth of the most important markets that get served within each sub-segment (Transport, Combat, Naval, Submarines, Helicopters). For example, the Transport sub-segment benefits from the growing demand for air-to-air refuelling systems, which are projected to grow at an annual rate of 10.5%. At the same time, the maritime patrol aircraft market is expected to grow steadily at 5.1% and the military transport market is expected to achieve only a CAGR of 0.15%. This leads to an expected CAGR of 4.2% for the key solutions provided within this sub-

segment. Following this analysis of market expectations related to Rolls-Royce's transport products, the same methodology was conducted for the other four Defence sub-segments.

To add more depth into our analysis, we analysed the development of the military expenditures from all the countries in which Rolls-Royce is generating revenues. Based on the data published by SIPRI, the total military expenditures of all the countries, Rolls-Royce is operating in, increased from $1,620 billion to $2,069 billion from 2018 to 2023. In our analysis, we first calculated the CAGR over the mentioned period for each country individually. Afterwards we used these CAGR's and calculated a weighted average CAGR based on their contribution to Rolls-Royce's revenues. For instance, the United States, a critical market for Rolls-Royce, has demonstrated steady growth in its defence spending, significantly influencing the weighted average budget growth rate. After weighting these regional defence budget CAGRs based on their revenue contribution, the analysis resulted in a weighted yearly defence budget growth of 4.8%. This information is valuable for the forecast as it is expected that defence budgets will further grow in the near future due to the current geopolitical tensions.

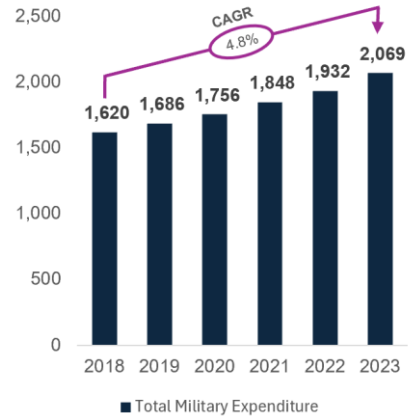

Exhibit 14: Total Military Expenditures across Operating Countries in £bn (2018 - 2023)

After analysing the market expectations and the military budget trends, we combined both approaches to get a final weighted CAGR per sub-segment. This CAGR reflects the growth of Rolls-Royce's key solutions by two-third and the military budget growth trend by one-third and is expected to fully realize in 2033. As a starting point in 2024, the five-year average historical growth rate is expected. From then on, the growth rate will gradually converge with the calculated CAGR over a period of ten years until 2033. This gradual alignment accounts for ongoing governmental agreements as well as Rolls-Royce's strong performance in segments like Combat in which it can be expected that the market will get outperformed in the near term.

Overall, the revenues in the Defence segment are expected to grow yearly by 6.0% over the forecasting period from 2024 to 2035. This represents a slight improvement in growth compared to the historical period from 2018 to 2023, which was 5.5%. This expected growth rate over the forecasting period can be further divided into an expected CAGR of 5.6% in OE sales and an expected CAGR of 6.4% in aftermarket services. The strongest contributor to the strong forecasted growth is the Combat sub-segment. This sub-segment is expected to achieve an CAGR of 7.6% in OE sales and 8.3% in aftermarket services. This strong prognosed growth reflects the effect of engines that are in service since several years like the EJ200 engine implemented in the Eurofighter Typhoon and future projects like the renewal of the engines of the B-52 fleet of the USA.

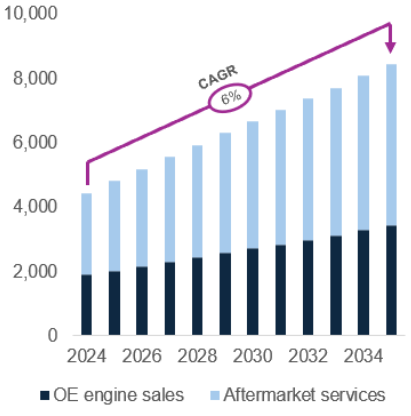

Exhibit 15: Defence Revenue Development in £m (2024 - 2035)

- New Markets

To build a sophisticated and reliable revenue forecast for the SMR business of Rolls-Royce, we analysed the progress made by Rolls-Royce in the design and development phase of the reactors and calculated potential sales of SMR units over the forecasting period. Therefore, we have conducted a bottom-up approach and identified the number of unit sales as the main revenue driver.

Progress in SMR development positions Rolls-Royce for UK and global opportunities

Driven by the energy security and decarbonization targets of many countries, the market for SMRs is very attractive for Rolls-Royce and can potentially deliver stable revenue inflows over the long-term. By July 2024, Rolls-Royce's SMR design successfully completed Step 2 of the Generic Design Assessment (GDA), known as the fundamental assessment. This advancement indicates that the design has met essential safety, security, and environmental standards. According to Chris Cholerton (Rolls-Royce SMR CEO), this gives the company an 18-month head start over the competition in the approval process, making it very likely that Rolls-Royce will be the selected partner for the SMR fleet project of the UK. In addition to the United Kingdom, Rolls-Royce is also trying to gain market share internationally with its SMRs. Successes to date include the fact that Czech Republic has already chosen Rolls-Royce as a partner and that they are one of the final two in the Swedish selection process. Furthermore, Rolls-Royce mentioned in their latest annual report that they are also engaged with the governments of Finland, USA, Poland, and Netherlands regarding potential SMR deployments. Notable to mention is that Rolls-Royce's SMR design with 470 MWe has a greater capacity than the designs of most of the peers as the general definition indicates that one unit produces up to 300 MWe.[16]

The vision of the Czech Republic is that Rolls-Royce will deploy up to 3 GW of SMR capacity in the country[17]. This capacity corresponds to around 7 units of Rolls-Royce's SMRs, with operational status targeted for the mid-2030s. Furthermore, plans are made by the UK to extend its nuclear energy capacity to 24 GW by 2050. This plan incorporates that SMRs are one key pillar of the strategy, with Rolls-Royce being well-positioned to be chosen as a partner. Moreover, Sweden announced an additional need of 100 to 250 TWh of electricity production over the next 25 years[18]. This need of electricity would translate to a need of 2 to 3 Rolls-Royce SMRs to meet this requirement, depending on the exact target.

[16] Source: World Nuclear News, 2024
[17] Source: Rolls-Royce, 2024a
[18] Source: Rolls-Royce, 2024b

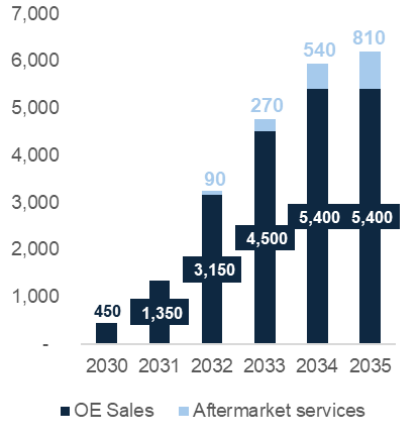

Exhibit 16: SMR Revenues in £m (2030 - 2035)

As mentioned by Rolls-Royce, the first deployments are expected to be in operation in the early- to mid-2030s. Following our analysis, we expect the first unit to be deployed in 2032, followed by 2 units in 2033 and 3 units in 2034 and 2035. This amounts to a total of 9 deployments within our forecasting period. Considering the need for 7 units by Czech Republic and additional units for the other countries this is seen as rather conservative. Nevertheless, this conservative approach is needed so that revenue inflows are not overestimated due to the regulatory burdens and potential construction delays. As those projects are long-term with a development phase of 2 to 3 years, we expect that 25% of revenue recognition per SMR will be considered 2 years prior delivery (e.g., after planning and design completion), the next 25% of revenue will be considered one-year prior delivery after another manufacturing milestone is achieved. After testing & commissioning in year 3 the missing 50 % of revenue will be recognised in Rolls-Royce's books. This approach aligns with the IFRS 15 standard which describes the revenue recognition over time. Moreover, we expect that each year from the first deployment onwards aftermarket revenue for service and maintenance will be generated. Aftermarket revenues are expected to be 5% of the selling price of the total number of units deployed until the corresponding year. Considering the price of £1.8 billion per unit which was announced by Rolls-Royce, total revenue of £6.2 billion is expected to be achieved in 2035 with further potential in the future.

Operating Performance and Margins

Based on the revenue forecast outlined earlier, Rolls-Royce is expected to achieve a group-wide revenue CAGR of 10.3 % over the forecasting period. This growth is driven by strong recovery in Civil Aerospace, robust demand in Defence, and continued expansion in Power Systems, along with the long-term potential of Small Modular Nuclear Reactors.

Margins on track for improvement following restructuring

Moreover, we have closely reviewed the profitability margins over the historical and forecasting period. Using the reformulated financial statements that focus solely on core activities, the gross profit margin rose from 15.7% to 21.0% over the historical period from 2018 to 2023. This significant improvement was a result of the latest restructuring efforts of the firm, which have delivered significant cost savings. A similar historical development is shown by the operating profit margin. While the operating profit margin dropped to -19.1% in 2020 due to the COVID-pandemic, the firm was able to continuously improve its profitability afterwards.

As Rolls-Royce has still an ongoing transformative program and focuses strongly on streamlining the operations and achieving higher returns, we believe that the firm still has room for profitability improvements. Between 2024 and 2035, we

anticipate the gross profit margin to rise from 23.6% to 28.7%, while the operating profit margin is expected to increase from 12.5% to 18.4%. Notably, this expected operating profit margin aligns with the company's mid-term targets of achieving 13-15% by 2027. The total revenue and profitability margin development is visualized in Exhibit 25 in the Appendix.

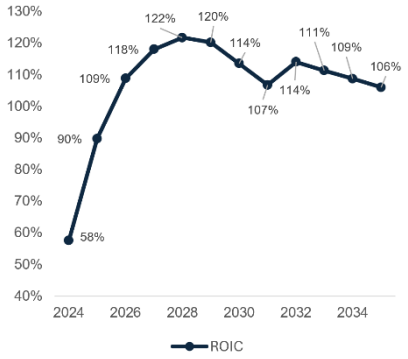

Exhibit 17: ROIC (2024 - 2035)

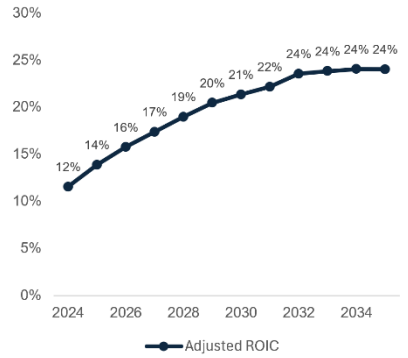

Exhibit 18: Adjusted ROIC (2024 - 2035)

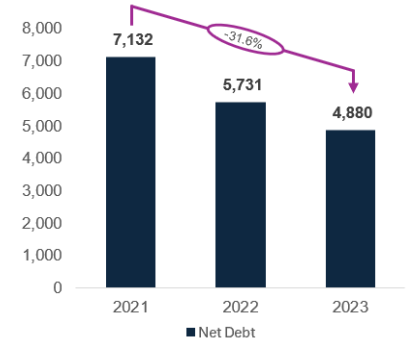

Exhibit 19: Net Debt in £m (2021 - 2023)

Return on Invested Capital

In evaluating Rolls-Royce's capital efficiency, the Return on Invested Capital (ROIC) based on the total core invested capital has been identified as unsuitable. Rolls-Royce persistently records extremely high amounts of contract liabilities within their balance sheet. For example, in 2023 the current and non-current contract liabilities are in total £14.5 billion, which reduces the core invested capital to £3.0 billion. Subsequently, applying the total core invested capital for the calculation results in unrealistic high ROIC figures, ranging from 58% to 122% over the forecasting period. Nevertheless, as we understand the importance of assessing the capital efficiency, we applied another calculation based on Rolls-Royce's own methodology to calculate the invested capital. Rolls-Royce calculates the invested capital as the sum of current assets and liabilities plus non-current assets. This estimation yields more realistic ROIC figures between 12% and 24% over the forecasting period, with steady improvement. Comparing to the WACC, the adjusted ROIC surpasses continuously the capital costs, demonstrating effective operational performance and capital allocation.

Valuation

Weighted Average Cost of Capital

- Capital Structure

An in-depth evaluation of Rolls-Royce's capital situation was carried out to align its target capital structure with its long-term strategic objectives. Over the past 3 years, Rolls-Royce has continuously reduced its net debt, as shown in Exhibit x. Moreover, one key component of the company's current strategy is deleveraging its balance sheet. Consequently, we believe the historical Debt-to-EV (D/V) ratio of 9% is not suitable for our forecast period. Instead, we have assumed a target D/V ratio of 1%, as this better reflects the company's ongoing efforts to enhance its financial resilience. This target ratio is more appropriate considering Rolls-Royce's focus on lowering leverage to improve its credit profile and align with investor expectations for a more stable capital structure.

- Cost of Equity

The Capital Asset Pricing Model (CAPM) was utilized to calculate the cost of equity. The risk-free rate was based on the 10-year UK government bond (gilt), reflecting a rate of 4.36%. This rate was selected due to Rolls-Royce's incorporation and primary listing in the UK, which makes UK gilts an appropriate proxy for the risk-free rate when valuing the company. The market risk premium was determined to be 5.48%, based on data from Professor Damodaran's research. This selection ensures consistency with industry practices and reflects a robust estimate of market-wide risk expectations.

For the Beta (β) calculation two methodologies have been applied. Firstly, we estimated the Beta of Rolls-Royce by performing a regression analysis of the company's historical closing stock prices against the MSCI World. Even though the firm is listed in the UK, the MSCI World was chosen over the FTSE 100 as reference index due to the multinational exposure of the firm. As commonly used in practice, our estimation was based on 5-year monthly data. This approach ensures to eliminate positive and negative market distortions and results in a relevered Beta of 1.4 based on the target capital structure. Secondly, we used another approach based on the Beta of Rolls-Royce's peers, by regressing each peer against the MSCI World. After calculating their 5-year monthly Betas, the median unlevered Beta was determined and subsequently relevered using Rolls-Royce's target capital structure, resulting in a relevered beta of 0.96. By averaging the outcomes of both methods, the combined relevered Beta was calculated to be 1.18, leading to a cost of equity of 10.81%.

WACC Inputs	
Risk-free Rate	4.36%
MRP	5.48%
Levered Beta	1.18
Cost of Equity	10.81%
Cost of Debt	4.61%
Tax Rate	15.05%
Debt-to-EV Ratio	1.00%
Equity-to-EV Ratio	99.00%
Target Debt-to-Equity	1.01%
WACC	**10.74%**

Exhibit 20: WACC Inputs

Sensitivity Analysis

To evaluate the robustness of Rolls-Royce's valuation, a detailed sensitivity analysis was conducted, focusing on the impact of key assumptions. The analysis primarily examined the WACC and long-term growth rate, as these are critical factors in the DCF valuation.

We started the analysis by adjusting the cost of equity and cost of debt by one percentage point (p.p.) to assess their impact on Rolls-Royce's projected WACC. A one p.p. increase in the cost of equity led to a 9% variation in the WACC, while a one p.p. change in the cost of debt resulted in a negligible impact of less than 1%. This disparity is attributed to the assumed capital structure, where debt constitutes only 1% of the enterprise value, placing significantly greater weight on the cost of equity. Furthermore, this highlights that particular interest needs to be placed in changes to Rolls-Royce's target capital structure as this could have significant influence on the underlying valuation.

Sensitivity Analysis - WACC						
		Cost of Debt				
		2.61%	3.61%	**4.61%**	5.61%	6.61%
Cost of Equity	8.81%	8.75%	8.75%	8.76%	8.77%	8.78%
	9.81%	9.74%	9.74%	9.75%	9.76%	9.77%
	10.81%	10.73%	10.73%	10.74%	10.75%	10.76%
	11.81%	11.72%	11.72%	11.73%	11.74%	11.75%
	12.81%	12.71%	12.71%	12.72%	12.73%	12.74%

Exhibit 21: Sensitivity Analysis - WACC

Sensitivity Analysis - DCF						
		WACC				
		8.74%	9.74%	**10.74%**	11.74%	12.74%
Terminal Growth Rate	1.50%	754.36	642.94	556.90	488.69	433.47
	2.00%	791.20	668.65	575.45	502.42	443.84
	2.50%	833.94	697.92	596.25	517.63	455.23
	3.00%	884.11	731.53	619.73	534.59	467.78
	3.50%	943.86	770.53	646.46	553.60	481.70

Exhibit 22: Sensitivity Analysis - DCF

In the next step, we analysed the impact of the projected WACC and the assumed terminal growth rate on Rolls-Royce's DCF share price. Therefore, we adjusted the WACC by one p.p. and the terminal growth rate by 0.5 p.p. The analysis revealed that both variables a have significant impact on the forecasted DCF share price. A one p.p. increase in the WACC would lead to a decrease in the share price of about 13%, while a 0.5 p.p. decrease in terminal growth results in a 3.5% decrease in share price. This demonstrates that while the valuation is sensitive to changes in both the WACC and the long-term growth rate, it is particularly impacted by variations in the WACC.

Relative Based Valuation – CCA

In this section, the valuation of Rolls-Royce was conducted using the trading comparables approach. Competitors were selected based on factors such as their business model, customer base, geographical coverage, and profitability. The chosen peer group, as outlined earlier, includes General Electric, RTX, Safran, MTU Aero Engines, and BAE Systems.

As Exhibit 23 shows, Rolls-Royce trades at a slight premium in terms of EV/Sales, EV/EBIT, and P/E compared to the peer median. The higher EV/Sales and P/E ratios might reflect market optimism about its future growth prospects. Following Rolls-Royce's recent challenges and restructuring efforts, the market likely assigns a higher valuation multiple to Rolls-Royce based on expectations of operational improvements and financial recovery. Moreover, the company's strong 33% market share in widebody engines positions it uniquely to benefit from the recovery of long-haul international travel. This segment has recovered more slowly than the narrowbody market, where many peers have greater exposure. As the widebody market continues to rebound, Rolls-Royce has more room to capitalize on future growth opportunities. This assumption aligns with GE's multiples, as its 52% market share in widebody engines, compared to Rolls-Royce's 33%, supports GE's higher EV/Sales of 3.39 and P/E of 38.11.

	EV/Sales	EV/EBITDA	EV/EBIT	P/E
RR.L	**3.06**	**16.06**	**22.83**	**32.37**
GE	3.39	21.47	25.18	38.11
RTX	2.43	15.74	19.18	20.82
SAF.PA	3.67	17.38	22.37	31.29
MTXGn.DE	2.58	13.54	17.71	23.48
BAES.L	2.50	16.51	20.28	18.00
Median	**2.58**	**16.51**	**20.28**	**23.48**

Exhibit 23: Valuation Multiples across Peers

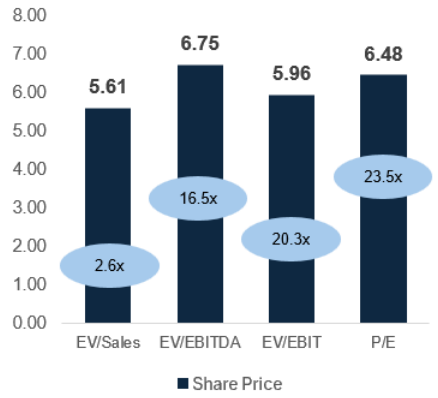

Exhibit 24: CCA Implied Share Price's

Referring to Exhibit 24, all metrics indicate a median share price ranging from £5.61 to £6.75. Compared to the current share price of £5.84 (16.12.24), the average of these four multiple valuations represents an undervaluation of 6.2%. This collectively supports the view that Rolls-Royce trades close to fair value, with upside potential dependent on successful execution of its restructuring initiatives and continued recovery in the widebody market. Nevertheless, it is important to acknowledge the limitations of directly comparing Rolls-Royce to its selected peers, as they vary significantly in their size and have slightly different focuses in their business models. However, the analysis has ensured the selection of the most relevant peers, focusing on other leading companies in the industry that align with Rolls-Royce's position as a market leader.

Appendix

Financial Statements

Balance Sheet Forecast

Reformulated Balance Sheet

in £m	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F	FY 2034F	FY 2035F
Total funds invested (Uses)																		
Core Business																		
Current Assets / Liabilities																		
Operating Cash	2,772	2,923	2,025	1,977	2,383	2,905	3,085	3,490	3,932	4,357	4,793	5,228	5,738	6,333	7,109	7,834	8,510	9,039
Trade receivables and other assets	4,690	5,065	5,455	5,383	6,936	8,123	8,442	9,551	10,762	11,925	13,117	14,307	15,703	17,330	19,455	21,438	23,289	24,737
Inventories	4,287	4,320	3,690	3,666	4,708	4,848	3,872	4,330	4,825	5,285	5,743	6,184	6,778	7,469	8,372	9,207	9,980	10,576
Contract Assets	2,057	2,095	1,510	1,473	1,481	1,242	1,858	2,036	2,216	2,397	2,580	2,765	2,951	3,139	3,328	3,522	3,723	3,933
Taxation recoverable	34	39	117	90	127	80	81	81	81	81	81	81	81	81	81	81	81	81
Trade payables and other liabilities	(8,292)	(8,450)	(6,653)	(6,016)	(6,983)	(6,896)	(6,981)	(7,807)	(8,700)	(9,529)	(10,355)	(11,150)	(12,220)	(13,466)	(15,094)	(16,600)	(17,993)	(19,067)
Contract liabilities	(3,794)	(4,228)	(4,187)	(3,599)	(4,825)	(6,098)	(5,808)	(6,166)	(6,499)	(6,810)	(7,100)	(7,370)	(7,619)	(8,104)	(8,593)	(9,092)	(9,612)	(10,153)
Current tax liabilities	(138)	(172)	(154)	(101)	(104)	(143)	(168)	(190)	(215)	(238)	(262)	(285)	(313)	(346)	(388)	(428)	(464)	(493)
Provisions for liabilities and charges	(915)	(799)	(686)	(449)	(615)	(515)	(677)	(766)	(863)	(957)	(1,052)	(1,148)	(1,260)	(1,390)	(1,561)	(1,720)	(1,868)	(1,984)
Net Working Capital (NWC)	**701**	**793**	**1,117**	**2,424**	**3,108**	**3,546**	**3,703**	**4,559**	**5,539**	**6,512**	**7,545**	**8,612**	**9,839**	**11,046**	**12,710**	**14,242**	**15,645**	**16,668**
Non-Current Assets / Liabilities																		
Intangible assets	5,295	5,442	5,145	4,041	4,098	4,009	4,095	4,219	4,383	4,581	4,814	5,079	5,382	5,730	6,140	6,601	7,107	7,638
Property, plant and equipment	4,929	4,803	4,515	3,917	3,936	3,728	3,638	3,622	3,677	3,787	3,947	4,149	4,399	4,701	5,076	5,504	5,972	6,449
Right-of-use assets	0	2,009	1,405	1,203	1,061	905	1,028	1,024	1,039	1,070	1,116	1,173	1,243	1,329	1,435	1,556	1,688	1,823
Deferred tax assets	2,092	1,887	1,826	2,249	2,731	2,998	3,028	3,025	2,981	2,898	2,775	2,609	2,413	2,181	1,894	1,571	1,215	841
Trade payables and other liabilities	(1,940)	(2,071)	(1,922)	(1,575)	(2,364)	(1,927)	(2,204)	(2,465)	(2,747)	(3,009)	(3,269)	(3,521)	(3,858)	(4,252)	(4,766)	(5,241)	(5,681)	(6,021)
Provisions for liabilities and charges	(649)	(1,812)	(930)	(1,046)	(1,656)	(1,449)	(1,558)	(1,763)	(1,986)	(2,201)	(2,421)	(2,641)	(2,898)	(3,199)	(3,591)	(3,957)	(4,299)	(4,566)
Contract liabilities	(5,336)	(6,612)	(6,245)	(6,710)	(7,337)	(8,438)	(8,910)	(9,413)	(9,873)	(10,294)	(10,680)	(11,031)	(11,348)	(12,070)	(12,799)	(13,542)	(14,316)	(15,122)
Deferred tax liabilities	(962)	(618)	(494)	(451)	(286)	(330)	(426)	(426)	(420)	(408)	(391)	(367)	(340)	(307)	(267)	(221)	(171)	(118)
Net Core Non-Current Assets	**3,429**	**3,028**	**3,300**	**1,628**	**183**	**(504)**	**(1,310)**	**(2,176)**	**(2,946)**	**(3,575)**	**(4,109)**	**(4,549)**	**(5,008)**	**(5,887)**	**(6,878)**	**(7,729)**	**(8,486)**	**(9,076)**
Core Invested Capital	**4,130**	**3,821**	**4,417**	**4,052**	**3,291**	**3,042**	**2,394**	**2,382**	**2,593**	**2,937**	**3,437**	**4,063**	**4,831**	**5,159**	**5,832**	**6,513**	**7,159**	**7,592**
Non-Core Business																		
Current Assets / Liabilities																		
Other financial assets	343	467	687	361	542	360	589	666	751	832	915	998	1,096	1,209	1,357	1,496	1,625	1,726
Post-retirement scheme surpluses	1,944	1,170	907	1,148	613	782	717	652	586	521	456	391	326	260	195	130	65	0
Assets held for sale	750	18	288	2,028	0	109	233	233	233	233	233	233	233	233	233	233	233	233
Short-term investments	6	6	0	8	11	0	5	5	5	5	5	5	5	5	5	5	5	5
Investments – joint ventures and associates	412	402	394	404	422	479	482	485	488	491	495	498	501	504	507	511	514	517
Other financial liabilities	(647)	(493)	(608)	(689)	(1,016)	(448)	(447)	(490)	(534)	(575)	(616)	(655)	(703)	(765)	(841)	(914)	(982)	(1,040)
Post-retirement scheme deficits	(1,303)	(1,378)	(1,580)	(1,373)	(1,033)	(1,035)	(949)	(863)	(776)	(690)	(604)	(518)	(431)	(345)	(259)	(173)	(86)	0
Liabilities associated with assets held for sale	(376)	(15)	(228)	(723)	0	(55)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)
Provisions: Tax related interest and penalties	(36)	(17)	(14)	(4)	(4)	(6)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(16)	(17)	(18)
Provisions: Claims and litigation	0	0	0	0	0	(11)	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Restructering	(119)	(21)	(100)	(6)	(2)	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Insurance	(51)	(21)	(25)	(16)	(11)	0	(12)	(13)	(15)	(17)	(18)	(20)	(22)	(24)	(27)	(30)	(33)	(35)
Net Non-Core Current Assets	**922**	**118**	**(280)**	**1,138**	**(478)**	**175**	**379**	**436**	**497**	**559**	**623**	**689**	**760**	**832**	**924**	**1,010**	**1,090**	**1,155**
Non-Current Assets / Liabilities																		
Investments – other	22	14	19	36	36	31	34	38	43	48	52	57	63	69	78	86	93	99
Other financial assets	22	86	107	46	141	34	94	106	120	133	146	159	175	193	216	238	259	275
Other financial liabilities	(3,542)	(3,094)	(3,046)	(2,715)	(3,230)	(1,983)	(2,139)	(2,297)	(2,454)	(2,598)	(2,737)	(2,867)	(3,012)	(3,238)	(3,498)	(3,749)	(3,995)	(4,217)
Provisions: Tax related interest and penalties	(26)	(38)	(19)	(10)	(12)	(16)	(14)	(16)	(18)	(20)	(22)	(24)	(27)	(29)	(33)	(36)	(40)	(42)
Provisions: Claims and litigation	0	0	0	0	0	(32)	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Restructering	(85)	(47)	(136)	(15)	(4)	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Insurance	(36)	(49)	(35)	(36)	(29)	0	(27)	(31)	(35)	(38)	(42)	(46)	(51)	(56)	(63)	(69)	(75)	(80)
Net Non-Core Non-Current Assets	**(3,644)**	**(3,128)**	**(3,109)**	**(2,694)**	**(3,098)**	**(1,966)**	**(2,053)**	**(2,200)**	**(2,344)**	**(2,477)**	**(2,603)**	**(2,722)**	**(2,852)**	**(3,061)**	**(3,300)**	**(3,531)**	**(3,758)**	**(3,965)**
Non-Core Invested Capital	**(2,722)**	**(3,010)**	**(3,389)**	**(1,556)**	**(3,576)**	**(1,791)**	**(1,674)**	**(1,764)**	**(1,846)**	**(1,918)**	**(1,980)**	**(2,032)**	**(2,092)**	**(2,229)**	**(2,376)**	**(2,521)**	**(2,667)**	**(2,810)**
Financial Operations																		
Excess Cash	2,202	1,520	1,427	644	224	879	2,671	3,022	3,405	3,773	4,150	4,527	4,968	5,483	6,155	6,783	7,368	7,826
Short-term Debt	(858)	(775)	(1,272)	(279)	(358)	(809)	(717)	(437)	(488)	(538)	(588)	(638)	(695)	(762)	(847)	(926)	(999)	(1,058)
Long-term Debt	(3,804)	(4,910)	(6,058)	(7,497)	(5,597)	(4,950)	(5,177)	(3,157)	(3,524)	(3,879)	(4,242)	(4,604)	(5,018)	(5,495)	(6,109)	(6,680)	(7,210)	(7,630)
Net Financial Debt	**(2,460)**	**(4,165)**	**(5,903)**	**(7,132)**	**(5,731)**	**(4,880)**	**(3,223)**	**(572)**	**(608)**	**(644)**	**(680)**	**(716)**	**(745)**	**(774)**	**(800)**	**(823)**	**(841)**	**(862)**
Equity attributable to ordinary shareholders	**(1,074)**	**(3,376)**	**(4,897)**	**(4,662)**	**(6,050)**	**(3,681)**	**(2,556)**	**(6)**	**87**	**324**	**725**	**1,263**	**1,943**	**2,104**	**2,604**	**3,116**	**3,598**	**3,868**
Non-controlling interest (NCI)	22	22	22	26	34	52	52	52	52	52	52	52	52	52	52	52	52	52
Total Equity	**(1,052)**	**(3,354)**	**(4,875)**	**(4,636)**	**(6,016)**	**(3,629)**	**(2,504)**	**46**	**139**	**376**	**777**	**1,315**	**1,995**	**2,156**	**2,656**	**3,168**	**3,650**	**3,920**
Total Funding	**1,408**	**811**	**1,028**	**2,496**	**(285)**	**1,251**	**720**	**618**	**746**	**1,019**	**1,457**	**2,031**	**2,740**	**2,930**	**3,456**	**3,992**	**4,491**	**4,782**

Cash Flow Forecast

Reformulated Cash Flow Map

in £m	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F	FY 2034F	FY 2035F
NOPLAT	1,054	(2,423)	(136)	421	1,414	1,754	2,149	2,593	3,061	3,577	4,132	4,615	5,158	5,885	6,494	7,087	7,593
Depreciation & Amortization	**1,315**	**2,455**	**1,009**	**1,004**	**1,029**	**988**	**982**	**994**	**1,020**	**1,059**	**1,110**	**1,171**	**1,245**	**1,334**	**1,439**	**1,557**	**1,683**
Amortisation and impairment of intangible assets	372	902	290	287	272	265	270	278	289	302	318	335	355	378	405	436	469
Depreciation and impairment of property, plant and equipment	532	821	462	430	423	398	389	387	393	405	422	443	470	502	542	588	638
Depreciation and impairment of right-of-use assets	411	732	257	287	334	325	323	328	338	352	370	393	420	453	491	533	576
Recurrent Gross Cash Flow	2,369	32	873	1,425	2,443	2,742	3,131	3,587	4,081	4,636	5,242	5,787	6,403	7,219	7,933	8,644	9,276
Less: Δ in Working Capital	92	324	1,307	684	438	157	856	980	973	1,034	1,067	1,227	1,206	1,664	1,532	1,403	1,023
Operating Cash	151	(898)	(48)	406	522	180	405	442	425	436	435	510	594	777	725	676	529
Trade receivables and other assets	375	390	(72)	1,553	1,187	319	1,109	1,211	1,163	1,192	1,190	1,396	1,627	2,125	1,983	1,851	1,448
Inventories	33	(630)	(24)	1,042	140	(976)	458	495	460	458	441	593	691	903	835	773	596
Contract Assets	38	(585)	(37)	8	(239)	616	179	180	181	183	185	186	188	189	193	201	210
Taxation recoverable	5	78	(27)	37	(47)	1	0	0	0	0	0	0	0	0	0	0	0
Trade payables and other liabilities	158	(1,797)	(637)	967	(87)	85	826	893	829	825	796	1,070	1,246	1,628	1,506	1,393	1,074
Contract liabilities	434	(41)	(588)	1,226	1,273	(290)	358	333	311	290	269	249	485	489	499	520	541
Current tax liabilities	34	(18)	(53)	3	39	25	22	24	23	24	24	28	32	42	40	37	29
Provisions for liabilities and charges	(116)	(113)	(237)	166	(100)	162	89	97	93	96	96	112	130	170	159	148	116
Less: Capital Expenditures	925	1,138	(950)	793	398	659	768	883	991	1,100	1,207	1,331	1,476	1,665	1,838	1,997	2,116
Intangible assets	519	605	(814)	344	183	351	394	442	488	535	583	638	703	788	867	941	1,000
Property, plant and equipment	406	533	(136)	449	215	308	373	441	504	565	624	693	772	877	971	1,055	1,116
Less: Δ in Right-of-use assets	2,420	128	55	145	178	448	319	343	369	398	427	463	505	559	612	665	711
Less: Δ in Deferred Tax Assets	(205)	(61)	423	482	267	30	(3)	(44)	(82)	(123)	(166)	(197)	(232)	(287)	(324)	(356)	(374)
Less: Δ in Trade payables and other liabilities	(131)	149	347	(789)	437	(277)	(261)	(282)	(262)	(261)	(251)	(338)	(393)	(514)	(475)	(440)	(339)
Less: Δ in Provisions for liabilities and charges	(1,163)	882	(116)	(610)	207	(109)	(205)	(223)	(215)	(220)	(220)	(258)	(300)	(392)	(366)	(342)	(267)
Less: Δ in Contract liabilities	(1,276)	367	(465)	(627)	(1,101)	(472)	(503)	(460)	(422)	(386)	(351)	(317)	(722)	(729)	(743)	(774)	(806)
Less: Δ in Deferred tax liabilities	344	124	43	165	(44)	(96)	0	6	12	17	23	28	33	40	46	50	53
Core Unlevered Free Cash Flow	**1,363**	**(3,019)**	**229**	**1,182**	**1,663**	**2,402**	**2,160**	**2,383**	**2,717**	**3,077**	**3,505**	**3,847**	**4,831**	**5,212**	**5,813**	**6,441**	**7,160**
Growth in %	-	*-322%*	*108%*	*416%*	*41%*	*44%*	*-10%*	*10%*	*14%*	*13%*	*14%*	*10%*	*26%*	*8%*	*12%*	*11%*	*11%*
Non operating result (after taxation)	(2,103)	155	(107)	229	512	84	158	250	312	366	413	451	486	529	564	600	634
Less: Δ in Non-Core Invested Capital	(288)	(379)	1,833	(2,020)	1,785	117	(90)	(82)	(71)	(62)	(52)	(59)	(137)	(147)	(145)	(146)	(142)
Non-Core Unlevered Free Cash Flow	**(1,815)**	**534**	**(1,940)**	**2,249**	**(1,273)**	**(33)**	**249**	**332**	**384**	**428**	**465**	**511**	**623**	**676**	**709**	**747**	**776**
Growth in %	-	*129%*	*-463%*	*216%*	*-157%*	*97%*	*854%*	*34%*	*16%*	*11%*	*9%*	*10%*	*22%*	*8%*	*5%*	*5%*	*4%*
Total Unlevered Free Cash Flow	**(452)**	**(2,485)**	**(1,711)**	**3,431**	**391**	**2,369**	**2,409**	**2,715**	**3,100**	**3,505**	**3,970**	**4,358**	**5,454**	**5,888**	**6,522**	**7,187**	**7,936**
Growth in %	-	*-450%*	*31%*	*301%*	*-89%*	*507%*	*2%*	*13%*	*14%*	*13%*	*13%*	*10%*	*25%*	*8%*	*11%*	*10%*	*10%*
Financing Result before taxes	**(178)**	**(813)**	**(863)**	**(2,420)**	**482**	**(263)**	**51**	**62**	**72**	**83**	**93**	**107**	**123**	**146**	**168**	**188**	**204**
Tax shield	(84)	(88)	1,227	496	(5)	66	(13)	(16)	(18)	(21)	(23)	(27)	(31)	(37)	(42)	(47)	(51)
Δ in Net Financial Capital	(1,705)	(1,738)	(1,229)	1,401	851	1,657	2,651	(36)	(36)	(36)	(36)	(29)	(29)	(26)	(23)	(18)	(20)
Δ Equity Book Value	(2,302)	(1,521)	239	(1,380)	2,387	1,125	2,550	92	237	401	538	679	161	500	513	481	270
Comprehensive income (loss) attributable to the Company	(1,311)	(3,169)	121	(1,274)	2,404	1,641	2,346	2,889	3,428	4,004	4,615	5,147	5,736	6,524	7,184	7,828	8,379
Financial Free Cashflow	**452**	**2,485**	**1,711**	**(3,431)**	**(391)**	**(2,369)**	**(2,409)**	**(2,715)**	**(3,100)**	**(3,505)**	**(3,970)**	**(4,358)**	**(5,454)**	**(5,888)**	**(6,522)**	**(7,187)**	**(7,936)**

Income Statement Forecast

Reformulated income statement *in £m*	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F	FY 2034F	FY 2035F
Operating and recurrent Activities																		
Underlying Revenues	**14,286**	**15,261**	**11,430**	**10,947**	**12,691**	**15,409**	**16,532**	**18,703**	**21,074**	**23,351**	**25,685**	**28,016**	**30,750**	**33,936**	**38,097**	**41,980**	**45,605**	**48,441**
Civil Aerospace	7,378	8,107	5,068	4,536	5,686	7,348	7,824	9,292	10,923	12,427	13,955	15,446	16,879	18,247	19,549	20,868	22,205	23,562
Defence	3,124	3,250	3,355	3,368	3,660	4,077	4,439	4,809	5,184	5,560	5,934	6,303	6,666	7,023	7,375	7,723	8,087	8,469
Power Systems	3,434	3,545	2,735	2,749	3,347	3,968	4,273	4,606	4,968	5,362	5,791	6,259	6,770	7,332	7,951	8,639	9,394	10,223
New Markets	0	0	5	2	3	4	2	5	8	12	18	23	450	1,350	3,240	4,770	5,940	6,210
Other businesses	0	0	273	303	0	12	2	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	(429)	(577)	(6)	(11)	(5)	0	(8)	(9)	(10)	(11)	(12)	(13)	(15)	(16)	(18)	(20)	(22)	(23)
ITP Aero (Discontinued in 2021)	*779*	*936*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Cost of Sales	**(12,046)**	**(12,919)**	**(12,043)**	**(8,951)**	**(10,214)**	**(12,178)**	**(12,637)**	**(14,132)**	**(15,749)**	**(17,250)**	**(18,744)**	**(20,184)**	**(22,120)**	**(24,376)**	**(27,323)**	**(30,049)**	**(32,571)**	**(34,515)**
Underlying Cost of Sales	(13,489)	(14,245)	(12,104)	(9,222)	(11,043)	(13,255)	(13,610)	(15,233)	(16,989)	(18,624)	(20,256)	(21,833)	(23,930)	(26,373)	(29,565)	(32,520)	(35,256)	(37,367)
Double accounted FX adjustments	1,443	1,326	61	271	829	1,077	973	1,101	1,241	1,375	1,512	1,649	1,810	1,998	2,243	2,471	2,685	2,852
Underlying Gross Profit	**2,240**	**2,342**	**(613)**	**1,996**	**2,477**	**3,231**	**3,894**	**4,571**	**5,325**	**6,101**	**6,942**	**7,832**	**8,630**	**9,560**	**10,775**	**11,932**	**13,034**	**13,926**
Civil Aerospace	493	622	(1,987)	474	853	1,394	1,875	2,313	2,825	3,338	3,893	4,475	4,890	5,286	5,664	6,046	6,433	6,826
Defence	690	669	684	721	726	804	917	1,033	1,158	1,291	1,432	1,581	1,672	1,762	1,850	1,938	2,029	2,125
Power Systems	866	909	678	778	918	1,050	1,124	1,231	1,349	1,479	1,623	1,782	1,958	2,154	2,374	2,620	2,894	3,200
New Markets	0	0	2	1	(1)	1	0.6	1	2	3	5	6	122	372	903	1,346	1,696	1,795
Other businesses	0	0	15	32	(29)	(15)	(16)	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	35	(64)	(5)	(10)	10	(3)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(16)	(18)	(19)	(20)
ITP Aero (Discontinued in 2021)	*156*	*206*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Operating Expenses	**(1,627)**	**(1,626)**	**(1,574)**	**(1,673)**	**(1,948)**	**(1,803)**	**(1,831)**	**(2,043)**	**(2,274)**	**(2,500)**	**(2,734)**	**(2,971)**	**(3,200)**	**(3,492)**	**(3,851)**	**(4,292)**	**(4,696)**	**(4,993)**
Civil Aerospace	(668)	(673)	(717)	(731)	(823)	(697)	(641)	(761)	(894)	(1,018)	(1,143)	(1,265)	(1,382)	(1,494)	(1,601)	(1,709)	(1,818)	(1,929)
Underlying Commercial and administrative costs	(336)	(299)	(310)	(297)	(371)	(354)	(289)	(343)	(403)	(458)	(515)	(570)	(623)	(673)	(721)	(770)	(819)	(869)
Underlying Research and development costs	(332)	(374)	(407)	(434)	(452)	(343)	(352)	(418)	(492)	(559)	(628)	(695)	(760)	(821)	(880)	(939)	(999)	(1,060)
Defence	(270)	(256)	(232)	(266)	(296)	(245)	(316)	(342)	(369)	(395)	(422)	(448)	(474)	(500)	(525)	(549)	(575)	(602)
Underlying Commercial and administrative costs	(170)	(151)	(146)	(161)	(174)	(173)	(188)	(204)	(220)	(236)	(252)	(267)	(283)	(298)	(313)	(328)	(343)	(359)
Underlying Research and development costs	(100)	(105)	(86)	(105)	(122)	(72)	(127)	(138)	(149)	(160)	(170)	(181)	(191)	(201)	(212)	(222)	(232)	(243)
Power Systems	(551)	(550)	(491)	(540)	(645)	(643)	(684)	(733)	(786)	(844)	(906)	(973)	(1,047)	(1,127)	(1,215)	(1,313)	(1,419)	(1,535)
Underlying Commercial and administrative costs	(363)	(374)	(331)	(383)	(441)	(456)	(451)	(482)	(515)	(551)	(589)	(631)	(676)	(726)	(780)	(840)	(905)	(976)
Underlying Research and development costs	(188)	(176)	(160)	(157)	(204)	(187)	(234)	(252)	(272)	(293)	(317)	(342)	(370)	(401)	(435)	(472)	(514)	(559)
New Markets	0	0	(47)	(71)	(131)	(161)	(155)	(167)	(179)	(193)	(208)	(225)	(232)	(299)	(429)	(631)	(786)	(822)
Underlying Commercial and administrative costs	0	0	(1)	(3)	(23)	(24)	(9)	(11)	(14)	(19)	(24)	(32)	(29)	(87)	(208)	(305)	(379)	(396)
Underlying Research and development costs	0	0	(46)	(68)	(108)	(137)	(146)	(156)	(165)	(174)	(184)	(193)	(202)	(212)	(221)	(326)	(407)	(426)
Other businesses	0	0	(35)	(30)	(2)	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Underlying Commercial and administrative costs	0	0	(26)	(20)	(2)	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Underlying Research and development costs	0	0	(9)	(10)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	(51)	(53)	(52)	(35)	(51)	(57)	(35)	(40)	(45)	(50)	(55)	(60)	(66)	(73)	(82)	(90)	(98)	(104)
Underlying Commercial and administrative costs	(51)	(53)	(52)	(35)	(51)	(57)	(35)	(40)	(45)	(50)	(55)	(60)	(66)	(73)	(82)	(90)	(98)	(104)
Underlying Research and development costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITP Aero (Discontinued in 2021)	(87)	(94)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underlying Commercial and administrative costs	(57)	(61)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underlying Research and development costs	(30)	(33)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Profit before taxes (EBIT)	**613**	**716**	**(2,187)**	**323**	**529**	**1,428**	**2,063**	**2,528**	**3,051**	**3,601**	**4,208**	**4,861**	**5,430**	**6,068**	**6,924**	**7,640**	**8,337**	**8,933**
Civil Aerospace	(175)	(51)	(2,704)	(257)	30	697	1,235	1,553	1,930	2,320	2,750	3,210	3,508	3,792	4,063	4,337	4,615	4,897
% - Operating profit margin	*-2.4%*	*-0.6%*	*-53.4%*	*-5.7%*	*0.5%*	*9.5%*	*15.8%*	*16.7%*	*17.7%*	*18.7%*	*19.7%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*
Defence	420	413	452	455	430	559	602	691	789	895	1,010	1,133	1,198	1,262	1,326	1,388	1,454	1,522
% - Operating profit margin	*13.4%*	*12.7%*	*13.5%*	*13.5%*	*11.7%*	*13.7%*	*13.6%*	*14.4%*	*15.2%*	*16.1%*	*17.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*
Power Systems	315	359	187	238	273	407	440	498	563	635	717	809	911	1,027	1,159	1,308	1,475	1,665
% - Operating profit margin	*9.2%*	*10.1%*	*6.8%*	*8.7%*	*8.2%*	*10.3%*	*10.3%*	*10.8%*	*11.3%*	*11.8%*	*12.4%*	*12.9%*	*13.5%*	*14.0%*	*14.6%*	*15.1%*	*15.7%*	*16.3%*
New Markets	0	0	(45)	(70)	(132)	(160)	(154)	(166)	(177)	(190)	(203)	(219)	(109)	73	474	714	910	973
% - Operating profit margin	-	-	*-900.0%*	*-3500.0%*	*-4400.0%*	*-4000.0%*	*-6929.2%*	*-3643.6%*	*-2213.8%*	*-1520.0%*	*-1155.6%*	*-955.3%*	*-24.3%*	*5.4%*	*14.6%*	*15.0%*	*15.3%*	*15.7%*
Other businesses	0	0	(20)	2	(31)	(15)	(16)	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	(16)	(117)	(57)	(45)	(41)	(60)	(42)	(48)	(54)	(60)	(66)	(72)	(79)	(87)	(97)	(107)	(117)	(124)
ITP Aero (Discontinued in 2021)	69	112	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxation	**(115)**	**338**	**(236)**	**(459)**	**(108)**	**(14)**	**(310)**	**(379)**	**(458)**	**(540)**	**(631)**	**(729)**	**(814)**	**(910)**	**(1,039)**	**(1,146)**	**(1,251)**	**(1,340)**
Statutory taxes	(116)	(136)	416	(61)	(101)	(336)	(516)	(632)	(763)	(900)	(1,052)	(1,215)	(1,357)	(1,517)	(1,731)	(1,910)	(2,084)	(2,233)
Tax Adjustments	1	474	(651)	(398)	(8)	322	206	253	305	360	421	486	543	607	692	764	834	893
Operating Result after tax (NOPLAT)	**498**	**1,054**	**(2,423)**	**(136)**	**421**	**1,414**	**1,754**	**2,149**	**2,593**	**3,061**	**3,577**	**4,132**	**4,615**	**5,158**	**5,885**	**6,494**	**7,087**	**7,593**
Non-Core Operations																		
Non-Operating Income (Expenses)	**(1,806)**	**(1,677)**	**36**	**99**	**185**	**354**	**(150)**	**(104)**	**(14)**	**46**	**94**	**135**	**164**	**192**	**229**	**255**	**281**	**303**
Derivative & FX adjustments	(24)	144	1,003	(40)	264	475	141	173	209	247	288	333	372	416	475	524	571	612
Programme exceptional charges	(976)	(1,409)	620	105	69	21	(40)	(15)	(6)	(2)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Restructuring exceptional charges	(331)	(151)	(470)	45	(47)	(102)	(125)	(125)	(69)	(38)	(21)	(11)	(6)	(3)	(2)	(1)	(1)	(0)
Acquisition accounting & M&A	183	(24)	(85)	(50)	(58)	(50)	(71)	(80)	(90)	(100)	(110)	(120)	(132)	(145)	(163)	(180)	(195)	(207)
Impairments & asset write-offs	(155)	(84)	(1,336)	9	(65)	8	(56)	(57)	(58)	(60)	(63)	(67)	(71)	(75)	(81)	(88)	(95)	(102)
Pension past-service credit	0	0	308	47	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other underlying adjustments	(130)	(12)	(4)	(17)	22	2	0	0	0	0	0	0	0	0	0	0	0	0
Business disposals (relevant for 2018 & 2019)	(358)	(139)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-core adjustments (relevant for 2018 & 2019)	(15)	(2)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underlying Share of results of joint ventures and associates	**32**	**109**	**179**	**91**	**123**	**162**	**217**	**237**	**255**	**268**	**284**	**298**	**315**	**327**	**341**	**356**	**373**	**390**
Gain / (loss) araising on disposal of businesses	**358**	**139**	**(14)**	**56**	**81**	**1**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**
Non-Core Result before taxes	**(1,416)**	**(1,429)**	**201**	**246**	**389**	**517**	**119**	**186**	**294**	**368**	**430**	**486**	**531**	**572**	**622**	**664**	**706**	**745**
Taxation	**266**	**(674)**	**22**	**(350)**	**(80)**	**(5)**	**(18)**	**(28)**	**(44)**	**(55)**	**(65)**	**(73)**	**(80)**	**(86)**	**(93)**	**(100)**	**(106)**	**(112)**
Statutory taxes	269	272	(38)	(47)	(74)	(121)	(30)	(47)	(73)	(92)	(108)	(121)	(133)	(143)	(156)	(166)	(177)	(186)
Tax Adjustments	(3)	(945)	60	(303)	(6)	117	12	19	29	37	43	49	53	57	62	66	71	75
Activities from discontinuing operations	**0**	**0**	**(68)**	**(3)**	**(80)**	**0**	**(17)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Profit for the year from ordinary activities	0	0	(68)	36	68	0	0	0	0	0	0	0	0	0	0	0	0	0
Costs of disposal of discontinued operations prior to disposal	0	0	0	(39)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss on disposal of discontinued operations	0	0	0	0	(148)	0	(17)	0	0	0	0	0	0	0	0	0	0	0
Result Non-Core after tax	**(1,150)**	**(2,103)**	**155**	**(107)**	**229**	**512**	**84**	**158**	**250**	**312**	**366**	**413**	**451**	**486**	**529**	**564**	**600**	**634**
Financing Activities																		
Financial Result before taxes	**(2,144)**	**(178)**	**(813)**	**(863)**	**(2,420)**	**482**	**(263)**	**51**	**62**	**72**	**83**	**93**	**107**	**123**	**146**	**168**	**188**	**204**
Financing Income	271	252	61	229	355	1,163	406	459	517	573	630	688	755	833	935	1,030	1,119	1,189
Financing Costs	(2,415)	(430)	(874)	(1,092)	(2,775)	(681)	(668)	(408)	(455)	(501)	(548)	(594)	(648)	(709)	(789)	(862)	(931)	(985)
Taxation	**403**	**(84)**	**(88)**	**1,227**	**496**	**(5)**	**66**	**(13)**	**(16)**	**(18)**	**(21)**	**(23)**	**(27)**	**(31)**	**(37)**	**(42)**	**(47)**	**(51)**
Statutory taxes	407	34	154	164	460	(113)	66	(13)	(16)	(18)	(21)	(23)	(27)	(31)	(37)	(42)	(47)	(51)
Tax Adjustments	(4)	(118)	(242)	1,063	36	109	0	0	0	0	0	0	0	0	0	0	0	0
Result Financial after tax	**(1,741)**	**(262)**	**(901)**	**364**	**(1,924)**	**477**	**(197)**	**39**	**47**	**54**	**62**	**70**	**80**	**92**	**110**	**126**	**141**	**153**
Results																		
Profit / (loss) for the year	(2,393)	(1,311)	(3,169)	121	(1,274)	2,404	1,641	2,346	2,889	3,428	4,004	4,615	5,147	5,736	6,524	7,184	7,828	8,379
Attributable to:																		
Ordinary shareholders	(2,401)	(1,315)	(3,170)	120	(1,269)	2,412	1,642	2,347	2,890	3,429	4,005	4,616	5,148	5,737	6,525	7,185	7,829	8,380
Non-controlling interests (NCI)	8	4	1	1	(5)	(8)	1	1	1	1	1	1	1	1	1	1	1	1
Profit / (loss) for the year	(2,393)	(1,311)	(3,169)	121	(1,274)	2,404	1,641	2,346	2,889	3,428	4,004	4,615	5,147	5,736	6,524	7,184	7,828	8,379
Other comprehensive (expense) / income (OCI)	182	(1,013)	(265)	41	522	(171)	0	0	0	0	0	0	0	0	0	0	0	0
Total comprehensive income / (expense) of the year	**(2,211)**	**(2,324)**	**(3,434)**	**162**	**(752)**	**2,233**	**1,641**	**2,346**	**2,889**	**3,428**	**4,004**	**4,615**	**5,147**	**5,736**	**6,524**	**7,184**	**7,828**	**8,379**

Additional Exhibits

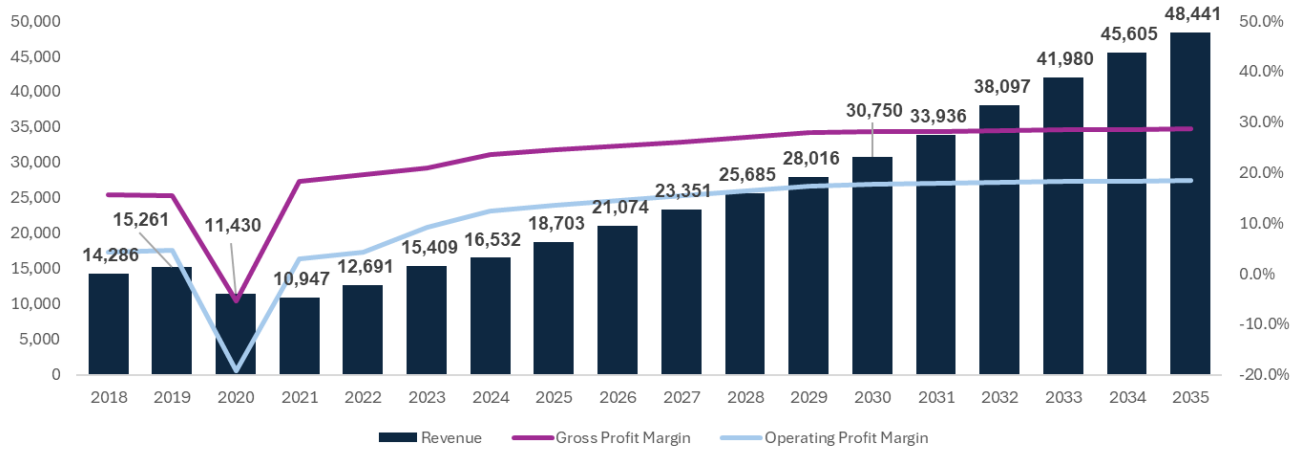

Exhibit 25: Revenue & Profitability Development (2018 - 2035)

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ROLLS-ROYCE HOLDINGS PLC

COMPANY REPORT

AEROSPACE & DEFENCE

17 DECEMBER 2024

STUDENT: JANNIK SCHULZE / PATRICK KARI

59196/60198@novasbe.pt

Rolls-Royce – The Engine of Change

Sustainable Growth Through Transformation

- Our recommendation is to **HOLD** Rolls-Royce Holdings PLC's shares based on a target price of^ 613.28 GBX by 31 December 2025 (thereof 9.65 GBX due to the expected FY25 dividend). This target price represents an **upside potential of 5.1%** compared to the current share price of 583.80 GBX.
- Market trends such as the ongoing **recovery** in global aviation, **increased** defence spending, and **growing demand** for sustainable energy solutions, provide supportive conditions for Rolls-Royce.
- **Growth projections remain strong across core segments**, with Civil Aerospace and Power Systems showing promising momentum, supported by **long-term opportunities in the SMR business.**
- Rolls-Royce's **ongoing transformation**, aimed at improving efficiency, reducing costs, and strengthening financial resilience, supports its long-term growth potential and strategic positioning.
- Rolls-Royce's strong market position and ongoing transformation program provide a solid investment case. However, the recent rally has brought the share price closer to its fair value, limiting further upside, hence the **HOLD** recommendation.

Company description

Rolls Royce Holdings PLC is a British multinational engineering company specializing in the Aerospace, Defence and Power Systems sectors. The company delivers engines for civil and military aircrafts, power solutions for land and sea applications and is at the forefront regarding the development of SMR's.

Recommendation:	**HOLD**
Price Target FY25:	**613.28 GBX**
Price (as of 17-Dec-24)	**583.80 GBX**

Refinitiv: RR.L

52-week range (GBX)	287.30 – 599.80
Market Cap (£m)	49,073
Outstanding Shares (m)	8,505

Source: Refinitiv

Source: Refinitiv; Analyst Visualization

(Values in £ millions)	2023	2024E	2025F
Revenues	15,409	16,532	18,703
Gross Profit	3,231	3,894	4,571
Operating Profit (EBIT)	1,428	2,063	2,528
Operating FCF	1,664	2,402	2,160
Gross Profit Margin	21.0%	23.6%	24.4%
Operating Profit Margin	9.3%	12.5%	13.5%
ROIC	43%	58%	90%
Adjusted ROIC	9%	12%	14%

Source: Analyst Estimation

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Company Overview

Company Description

Rolls-Royce Holdings PLC (Rolls-Royce) headquartered in London, United Kingdom (UK), is a multinational industrial technology company that designs and manufactures power system solutions for the use in air, land and sea applications. The company was founded in 1906 by Charles Rolls and Henry Royce and developed from a manufacturer of luxury automobiles into a leading company in the aviation industry. Following financial difficulties in 1971 and the spin-off of the automotive division in 1973, Rolls-Royce now focuses on aircraft engines and propulsion systems for the marine and energy sector. As of 2024, the company employs over 41,000 people in more than 48 countries worldwide.

One of the cornerstones of Rolls-Royce is its brand which stands for engineering excellence, reliability and technological innovation. Its products are used worldwide in safety-critical areas, which underlines the trust placed in the brand. Through continuous effort in research and development, Rolls-Royce has built a reputation as a pioneer in the provision of complex power solutions.

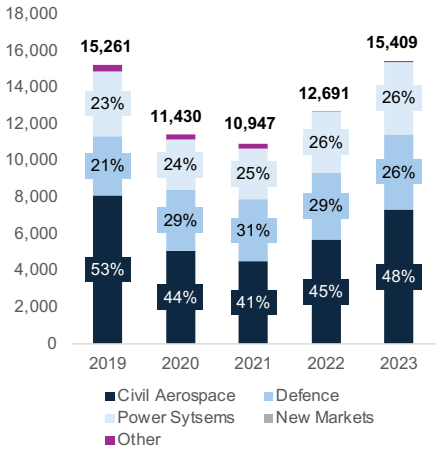

Exhibit 1: Revenue Split by Business Segment in £m (2019 – 2023)

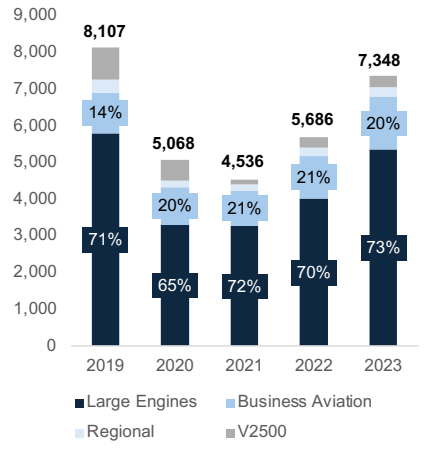

Exhibit 2: Revenue Split Civil Aerospace in £m (2019 – 2023)

Company Segments

Rolls-Royce operates across four business segments, namely Civil Aerospace (48% of revenue), Defence (26%), Power Systems (26%), and New Markets (0.03%). Revenue is split into Original Equipment (OE) and aftermarket services. OE focuses on the sale of new power applications and systems to original equipment manufacturers, while aftermarket services provide services such as maintenance, repair and overhaul. Each segment is further divided by product categories. Revenues in each segment are generated globally with a focus on North American, European, and Asian markets with the USA (28% of revenue) and UK (14% of revenue) each representing the countries with the highest share by individual country. Due to this distribution, the geographical exposure can be considered diversified.

The Civil Aerospace segment of Rolls-Royce specializes in manufacturing and servicing engines for large commercial aircraft, regional jets, and business jets. The large engine division, led by the Trent engine family, powers new generation widebody aircrafts like the Boeing 787, Airbus A350, and A330neo, achieving a 33% market share for large engines in service and 41% for engines on order. In Business Aviation, Rolls-Royce supplies advanced jets like the Gulfstream G700 and Bombardier Global 5500 with its Pearl and BR700 engines. This represents a growing segment due to its stability compared to commercial aviation and

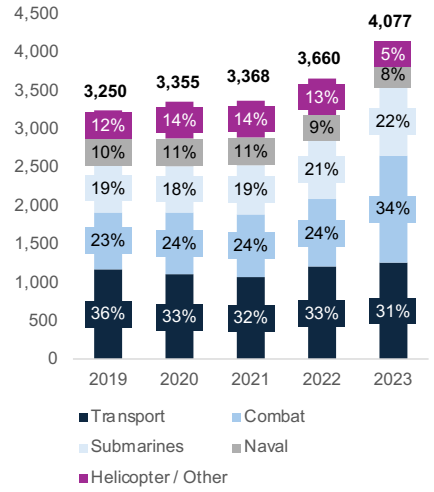

Exhibit 3: Revenue Split Defence in £m (2019 – 2023)

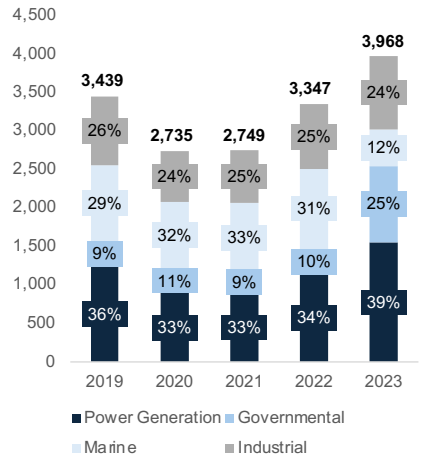

Exhibit 4: Revenue Split Power Systems in £m (2019 – 2023)

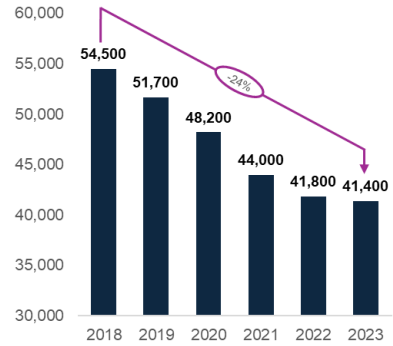

Exhibit 5: Headcount (2018 – 2023)

Rolls-Royce's strong market share of 70%. While Rolls-Royce exited the narrowbody market in 2012, it continues to supply components and aftermarket services for regional and narrowbody aircraft, contributing minimally to revenue within the Regional and V2500 divisions.

Rolls-Royce's Defence segment is a leading provider of propulsion solutions for military applications. It encompasses the development, manufacture and maintenance of engines for military aircraft, naval and submarines. These include engines for fighter jets such as the Eurofighter Typhoon, military transport aircraft such as the Lockheed C-130 Hercules, as well as propulsion solutions for submarines and naval vessels, including nuclear reactor systems for the British Royal Navy. Rolls-Royce shows promising market shares across all sub-segments with 25-30% in transport, 10-20% in combat, 100% for UK submarines, 15-20% for naval and 10-15% for helicopter solutions.

The Power Systems segment offers versatile energy systems, including MTU branded engines and power solutions for industrial, maritime and government related applications as well as emergency power solutions and battery systems. It combines traditional diesel and gas engines with technologies such as hybrid and hydrogen propulsion to drive decarbonization. Rolls-Royce holds >30% market share in governmental solutions, 15-20% in power generation and marine applications, and 10-15% in industrial power solutions. Revenue share from marine propulsion sharply dropped in 2023 due to the reclassification of the naval business into governmental power solutions.

Rolls-Royce's New Markets segment focuses on the development and commercialization of innovative technologies. After the decision to exit the electrical mobility division in 2023, the segment exclusively comprises the development of Small Modular Nuclear Reactors (SMRs). Since the SMR business is still in an early stage, no material revenues are recorded in this segment so far. However, Rolls-Royce's SMRs are currently in the advanced regulatory approval process in the UK. Moreover, the firm is the chosen partner of the Czech Republic and short-listed in the selection process from Sweden.

Recent Developments and Strategic Outlook

Since 2018, Rolls-Royce has undertaken significant restructuring efforts triggered by challenges in their Civil Aerospace segment and external pressures, including the COVID-19 pandemic. With the aim of a more dynamic and cost-effective corporate, Rolls-Royce announced in 2018 a plan to cut 4,600 jobs over a two-year period. This action helped the firm to achieve around £400m in run-rate cost savings from the end of 2020. Nevertheless, the outbreak of the pandemic in

2020 had an enormous impact on Rolls-Royce, leading to the decision of an additional layoff of 9,000 employees and asset disposals generating proceeds of at least £2 billion. Key disposals included ITP Aero, Bergen Engines, and the Civil Nuclear Instrumentation and Control business, which enabled the company to stabilize its balance sheet and refocus resources on strategic priorities.

Exhibit 6: Transformative Program

In 2022, Warren East stepped down from his position as Chief Executive after seven years in the role and having navigated many major crises of the company. Following this, Rolls-Royce welcomed Tufan Erginbilgic as its new CEO, who took over at the beginning of 2023. After his appointment he reviewed the strengths and weaknesses of the firm and launched a transformative program to reshape Rolls-Royce's operational efficiency, financial resilience and long-term strategic positioning. His vision builds on the restructuring initiatives that began in 2018 and prioritizes deleveraging the balance sheet, growing shareholder returns, and discretionary investments.

The strategy's main objective is to increase operational efficiency, with emphasis on cost reduction, supply chain optimization, and the development of a more streamlined organization. Subsequently, Rolls-Royce estimates in October 2023 that globally a further 2,000 to 2,500 roles will be removed, and additional divestments will generate £1.0bn-£1.5bn gross proceeds by 2028.

Historical Share Price Development

Rolls-Royce (RR.L) went public on the London Stock Exchange in 1987 following the privatization by the UK government. As of December 2024, the stock is priced at approximately 583.80 GBX (16.12.2024), with a market capitalization of around £49.073 billion. As a significant player in the UK equity market, Rolls-Royce is a constituent of major indices like the FTSE 100 and the FTSE 350 Aerospace & Defense Index.

Comparing Rolls-Royce's historical share performance over the past decade with key benchmark indices shows that Rolls-Royce has underperformed not only the global market, as represented by the MSCI World, but also against industry-specific indices such as the FTSE 350 Aerospace & Defense (A&D) and the MSCI World A&D Industry. Over this period, Rolls-Royce generated an annualized return of 7.6%, while the MSCI World, MSCI World A&D Industry and FTSE 350 A&D returned 10.3%, 9.7% and 9.5% respectively. Only the FTSE 100 underperformed in comparison with an annualized return of 6.2%. This performance underscores the prolonged challenges Rolls-Royce faced in aligning its operational efficiency and profitability with broader market and industry trends in the past.

Company	Annualized Returns		
Lastest	*3 yrs*	*5 yrs*	*10 yrs*
RR.L	**67.0%**	**19.6%**	**7.6%**
MSCI World	7.4%	11.9%	10.3%
FTSE 100	7.8%	5.5%	6.2%
MSCI World A&D	14.9%	6.5%	9.7%
FTSE 350 A&D	41.1%	18.8%	9.5%

Exhibit 7: Annualized Returns vs Indices

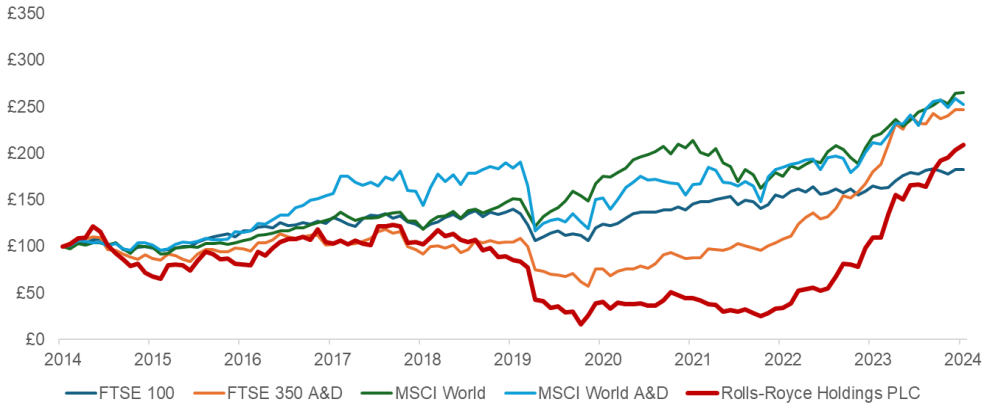

Exhibit 8: Historical Share Price Performance (2014 - 2024)

While the past decade reflects a period of significant operational challenges and macroeconomic pressures for Rolls-Royce, recent years have marked a remarkable turnaround. The company's share price has rebounded strongly, fueled by the recovery of global air travel post-COVID-19, improved operational efficiency, and transformative restructuring efforts. Notably, Rolls-Royce achieved an annualized return of 67.0% over the past three years, far surpassing its key benchmark indices and outperforming major competitors such as GE Aerospace, RTX, and Safran. To support its financial turnaround, the company suspended dividend payments from 2021 to 2023, prioritizing operational efficiency and restructuring. Nevertheless, dividend payments are set to resume in 2024, with a planned payout ratio of 30-40% of net profit after tax.

Company	Annualized Returns		
Lastest	*3 yrs*	*5 yrs*	*10 yrs*
RR.L	**67.0%**	**19.6%**	**7.6%**
GE	41.3%	24.5%	3.2%
RTX	11.0%	5.9%	5.7%
SAF.PA	24.8%	8.7%	15.1%
MTXGn.DE	21.6%	4.9%	16.2%
BAES.L	29.7%	16.2%	9.8%

Exhibit 9: Annualized Returns vs Peers

Industry Overview

Macroeconomic Analysis

The global economic outlook shows modest growth with projections of a stabilized but low GDP growth near-term. The International Monetary Fund (IMF) is forecasting global growth of 3.2% for 2024 and 2025, which represents a mediocre performance compared with pre-pandemic levels. Main reasons for this economic slowdown are disinflationary trends, monetary policy adjustments, geopolitical tensions, and supply chain disruptions. [1]

IMF GDP Growth Projections			
Year	Advanced Economies	Emerging Economies	World
2024	1.80%	4.20%	3.20%
2025	1.80%	4.20%	3.20%
2026	1.80%	4.20%	3.30%
2027	1.70%	4.00%	3.20%
2028	1.70%	3.90%	3.10%
2029	1.70%	3.90%	3.10%

Exhibit 10: GDP Growth Projections (2024 – 2029)

Global inflation rates in key markets showed signs of relief after its peak in 2022 and inflation is expected to normalize close to central banks' target of 2%[2]. This decline provides some kind of relief since the stabilization of input costs is lowering the overall production costs and further improves margins. Inflation is

[1] Source: IMF, 2024a
[2] Source: IMF, 2024b

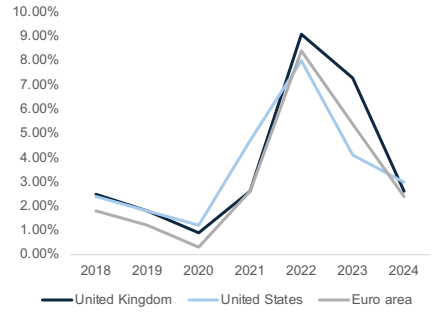

Exhibit 11: Inflation Development (2018 – 2024)

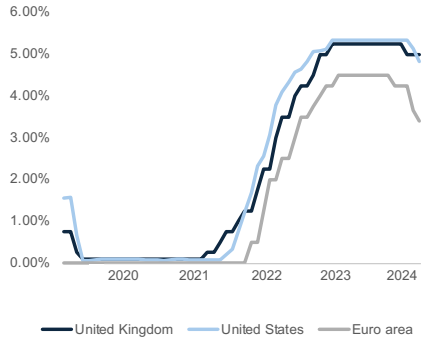

Exhibit 12: Interest Rate Development (2020 – 2024)

particularly important for Rolls-Royce since its business heavily relies on long-term contracts with its customers and the company is therefore partially limited in its ability to pass on costs to customers. Additionally, inflation is also affecting the available income of households, which could reduce future demand for air travel.

Over the past two years, interest rates continuously have risen across key markets due to the central bank's efforts to tackle inflation. For the future, the IMF expects interest rates to decrease toward their natural levels as inflation falls.[3] The current high interest environment represents a mixed outlook for Rolls-Royce. Higher financing costs increase the financial burden to cover interest payments, which could negatively impact the companies' profitability and cash flows. Furthermore, this rise could negatively impact the demand of new aircrafts, as airlines financing costs also increase. On the other hand, high interest rates could stabilize currency fluctuations by attracting capital inflows which could in return reduce financial risks associated with the global nature of Rolls-Royce's business model. This seems particularly important, since Rolls-Royce is generating a large share of its cash flows in US Dollar and Euro, while reporting financial statements in Pound Sterling.

Market Analysis and Industry Trends

- Civil Aerospace

Post-covid recovery fuels demand for air passenger traffic

The years 2023 and 2024 are characterized by further relief for the aerospace industry. According to the International Air Transport Association (IATA), demand for global air passenger traffic measured in revenue passenger kilometers, is expected to grow by 11.6% in 2024[4]. Airplane traffic is also expected to grow with 8% annually for the next three years before smoothing to an annually growth rate of 3.6% from 2027 onwards[5]. This increase means an almost complete recovery from the COVID-19 dip in 2020.

Airbus and Boeing with record-high order backlogs

As a result of this positive outlook, the demand for fleet expansion and aircraft replacement is continuously increasing. Airbus reported an increase in net orders of 255% in 2023 (2,094 orders) compared to 2022 (820 orders). Net orders in 2024 (as of end October 2024) decreased to 739 but this is predominantly due to a record-breaking high order backlog of over 8,500 aircrafts. Therefore, orders are expected to increase as the backlog is processed. Boeing reported an increase in net orders of 104% in 2023 (1,576 orders) compared to 2022 (771 orders). Similar to its competitor Airbus, Boeing also records a large order

[3] Source: IMF, 2024c
[4] Source: IATA, 2024
[5] Source: Airbus, 2024

backlog of more than 5,600 aircrafts which pushes the reported net orders in 2024 down to 378. For Rolls-Royce this signals a positive and predictable outlook for future OE engine deliveries.[6]

Supply chain issues remain persistent

On the production side the situation remains challenging as Airbus and Boeing are both still significantly behind their peak production levels. The post-pandemic production scale-up has exposed several supply chain issues at Tier-1 suppliers like Rolls-Royce, in addition to labor shortages, which have hindered aircraft manufacturers in reaching their delivery targets. The ongoing supply chain issues within the industry, coupled with the recently revealed quality issues at Boeing, have resulted in a discrepancy between aircraft production and demand. Consequently, airlines will have to extend the lifespan of their existing fleet. This extended lifespan benefits aftermarket service providers like Rolls-Royce since overhauls and shop visits are expected to increase with a growing fleet age.

Digitalisation and sustainable aviation as future trends

Digitalization and the use of Artificial Intelligence (AI) is rapidly changing whole industries. The use case of AI in aviation should also not be neglected. AI could make time-consuming simulations more efficient, particularly in the production of critical components such as engines. Within the aftermarket service segment AI could reshape the operational flight management by using predictive maintenance applications that predict the optimal timing for future shop visits and thus increase fleet efficiency and aircraft life span[7]. Another visible trend within the industry is the desired shift to Sustainable Aviation Fuel (SAF). New lower carbon fuels will be central to achieving net zero in the medium and are therefore in the spotlight of regulators, airlines and passengers. The IATA estimated that SAF could contribute around 65% to the reduction in emissions needed by aviation to reach net zero CO2 emissions by 2050[8]. For Rolls-Royce, these digital platforms, and the shift to SAF are not just trends, but necessities. Stricter regulations, the net-zero transition, and rising airline cost pressures will drive innovation essential for Rolls-Royce to sustain its leading position in aviation.

- Defence

The geopolitical tensions that arise from Russia's invasion on Ukraine, the conflict in Middle East, and the potential threat from China on Taiwan are highly relevant for the defence industry. In 2023, the total global military spendings amounted to a total of $2,443 billion. In real terms this reflects an increase of 6.8% year-on-year which is the strongest increase since 2009. Furthermore, it is

[6] Source: PwC, 2024
[7] Source: Deloitte, 2024a
[8] Source: IATA, n.d.

the first time since 2009 that governmental military expenditures have been rising in all five geographical locations defined by SIPRI (Africa; Americas; Asia and Oceania; Europe; Middle East)[9]. The most relevant conflict for Rolls-Royce is potentially the Russia-Ukraine conflict. As a result of the ongoing Russian threat, it can be observed that especially European countries have shown large increases in their military budgets. In 2024, the NATO expects that European allied defence expenditures will reach $380 billion due to the anticipation that 18 European member countries will reach the 2% of GDP spending target[10]. This trend of increasing military budgets is guided by the need of increased sovereign security as well as military aid to Ukraine. In 2023, Ukraine received at least $35 billion in military aid, with the USA contributing $25.4 billion of this total[11]. In 2023, Europe and the USA accounted for 37% and 28% of Rolls-Royce's total revenue respectively. Subsequently, the company is well-positioned to profit from increased defence spendings in these regions by capitalizing on its expertise in advanced aerospace propulsion systems. Although a potential policy shift under a Donald Trump administration, such as reduced military aid to Ukraine, could alter some defence priorities, Rolls-Royce's U.S. defence revenues are mainly driven by long-term contracts. Programs like the Future Long-Range Assault Aircraft (FLRAA) initiative and the MQ-25 Stingray engine contract for the U.S. Navy ensure a stable foundation for future growth.

Geopolitical tensions drive defense spending, creating opportunities for Rolls-Royce

Nevertheless, the growth in the defence sector is not only driven by higher military budgets. AI is also playing an important role in the defence industry. On the one hand, AI can be used to improve MRO processes, similar to the Civil Aerospace industry, leading to greater efficiency and cost-effectiveness. This trend helps to maintain a continuous supply of military aircraft, which is particularly important in times of geopolitical conflict[12]. Furthermore, AI can be utilized for the development of autonomous unmanned combat aircrafts. This is particularly interesting as there are ongoing efforts to establish manned-unmanned teaming's in future military operations[13]. While Rolls-Royce is not working on the development of advanced counter-drone systems, which represents a trend in the defence industry, they are already involved in the construction of engines for various unmanned aerial vehicles (UAVs). Examples are the surveillance aircraft Northrop Grumman RQ-4 Global Hawk powered by a

From MRO to Unmanned Aircrafts: AI shapes the defense industry's future

[9] Source: SIPRI, 2024
[10] Source: Breaking Defense, 2024
[11] Source: SIPRI, 2024
[12] Source: Deloitte, 2024
[13] Source: Singh, 2024

single AE 3007H turbofan engine and the aerial refueling UAV Boeing MQ-25 Stingray powered by a single AE 3007N engine.

The growing importance of space capabilities in modern defense strategies

Another significant development in the defence industry is the growing emphasis on military space capabilities, highlighted by recent conflicts. The war in Ukraine has underscored the critical role of space in modern warfare, with Russia leveraging cyberattacks on space ground stations to support its invasion. As a result, the European Parliament published a "EU space strategy for security and defence", which outlines the strategic importance of space for security efforts[14]. Rolls-Royce is also aware of the increasing relevance of space. To capture the benefits of these trends, Rolls-Royce started with the development of micro-reactors intended for space explorations. Subsequently, this reflects an opportunity for Rolls-Royce since every space mission depends on a power source, whether for communication or for life support during explorations[15].

- Power Systems

Increasing demand for reliable power solutions due to digitalisation

Current demand expectations across key markets in Power Systems show promising growth opportunities in various sub-segments. Within power generation, the increasing demand for cloud computing services and AI drives the rapid expansion of data centers and its corresponding energy demand. According to the International Energy Agency (IEA), data centers consumed around 460 TWh of electricity in 2022 and this amount is expected to double by 2026. Furthermore, the implementation of the "Industrial Internet of Things" (IIoT) represents a huge opportunity for manufactures due to the raising energy demand. Estimates predict that by 2025, 50% of manufactures will have implemented IIoT in operations[16]. These automation efforts will require additional and critical power solutions to ensure permanent and stable production.

Offshore growth boosted by wind expansion, luxury yacht demand strengthened by wealth and travel trends

Within the Marine sub-segment, the market for offshore supply and service vessels shows sustainable growth opportunities which is underlined by a study of the Global Wind Energy Council (GWEC). The study predicts total offshore wind capacity to rise from 75.2 GW in 2023 to almost 380 GW in 2030[17]. We expect that this increase in offshore wind parks also fuels demand for offshore vessel propulsion systems, particularly as systems become more efficient and sustainable. In the context of the yacht market, the luxury segment benefits from a 5.3% increase in billionaires in 2024 compared to 2023, reaching a new all-time

[14] Source: European Union, 2023; Basham, 2024
[15] Source: Rolls-Royce, n.d.
[16] Source: IEA, 2024; Lindquist, 2024
[17] Source: GWEC, 2024

high, and a projected 7.6% growth rate for luxury travel, supporting a positive outlook for luxury yacht propulsion systems[18].

Sustainable power systems are becoming a key expectation of customers

Sustainability is one of the most prominent factors characterizing the trends of the propulsion and energy sectors. Sustainable or electrified products are becoming a key expectation of customers and thus increasingly important across all divisions of Rolls-Royce Power Systems. From the support of alternative fuel variants to fuel consumption optimization, as well as the shift to electrified battery- or hybrid-based products for power generators, ship engines, or industrial vehicles, the opportunities are diverse. Implementing these advancements into the existing product portfolio is vital for the ongoing success of Rolls-Royce in this market segment. Especially as customers try to reach their own net-zero targets for sustainable operations.

Increased automation requires product adjustments

Automation is another key driver of innovation, with autonomous driving and shipping systems transforming operations for Rolls-Royce's customers. These advancements enable 24/7 operations with enhanced precision and consistency, delivering significant benefits. Nevertheless, they require precise adjustments and coordination of engine solutions to customer systems and requirements. Rolls-Royce's ability to integrate these options while maintaining its core offerings is critical to attract new orders and to be at the forefront of emerging technologies.

- New Markets

Global demand for clean energy drives growth in small modular reactors

The growing global demand for reliable and clean energy sources is causing an increasing interest in innovative solutions such as Small-Modular-Reactors (SMRs). It is expected that the global market could reach USD 295 billion until 2043, which would correspond to a CAGR of 30% over the period[19]. As of 2024, several countries started to develop SMR designs, including the United States, Russia, China, and many more. Nevertheless, it should be noted that the development is still in the early stage with only four SMR designs worldwide that are in operation, located in Russia and China. Overall, 68 different SMR designs, from the design stage to operating stage, are confirmed to the International Atomic Energy Agency (IAEA)[20]. One of the companies shortlisted by the United Kingdom in the first phase of the Great British Nuclear Technology Selection Process is Rolls-Royce.

[18] Source: Forbes, 2024; Deloitte, 2024b
[19] Source: Dale, 2023
[20] Source: IAEA, 2024

Governments and industries worldwide aim to meet net-zero carbon emission targets. Examples include the European Union and the United Kingdom that both published laws to reduce all greenhouse gas emissions to net-zero by 2050[21]. As result many countries worldwide increasingly invest in renewable energy and nuclear power. SMRs generate electricity and heat without producing greenhouse gas emissions during operation. In comparison to renewable energy sources, they do not rely on weather conditions. Subsequently, the SMR innovation could provide a consistent and reliable power supply while supporting the achievement of decarbonization goals.

Competitive Landscape

Rolls-Royce operates in the highly competitive aerospace and defence industry, which is characterized by significant entry barriers. These markets require intensive investments in research and development, complex certification processes, and strong relationships with governments and aircraft manufacturers. Therefore, the competitors selected for comparison were based on their similarity to Rolls-Royce in terms of business model, customer base, geographical coverage, and profitability. Following our analysis, the main competitors can be identified as General Electric, RTX, Safran, MTU Aero Engines, and BAE Systems. Within this selection we focused on companies that are directly involved in manufacturing propulsion systems, while also considering firms that compete for the same aerospace and defence contracts but are not mainly producing engines.

General Electric Company, operating as GE Aerospace, is a global leader in jet and turboprop engines and integrated systems for commercial, military, business, and general aviation aircraft. The company was founded in 1892 and is headquartered in Boston, USA. As of 2023, GE engines power around 52% of the global widebody fleet[22], and the Defence and Systems divisions power two-thirds of combat and rotary aircraft worldwide. In comparison, Rolls-Royce holds 33% of the global widebody engine market, with a strong focus on this segment within its Civil Aerospace division. GE Aerospace, on the other hand, has a broader focus on both single-aisle and widebody commercial aircraft. Nevertheless, GE Aerospace's dominance in both commercial and defence markets, combined with its comparable product portfolio and global market share, positions the company as one of Rolls-Royce's key competitors.

[21] Source: European Union, n.d.; UK Government; 2023
[22] Source: General Electric, 2023; Aerospace Global News, 2023

RTX Corporation is the world's largest aerospace and defence company and is headquartered in Arlington, USA. It was established in 2020 by a merger of equals between Raytheon Company and the aerospace branches of United Technologies Corporation. The company operates through three divisions, namely Collins Aerospace, Pratt & Whitney (P&W), and Raytheon. While the conglomerate serves many different products in the aerospace and defence industry, P&W focuses on the development and manufacture of aircraft engines for commercial, military, business jet, and general aviation customers. Within the global engine market P&W holds a market share of 12% in widebody engines and 25% in narrowbody engines[23]. Subsequently, P&W acts as a main competitor to Rolls-Royce as both companies compete for market share in the high-performance engine industries for commercial and defence applications.

Safran SA was founded in 2005, through the merger of Snecma and Sagem, two French companies specializing in aerospace, defence, and security technologies. The firm is headquartered in Paris and operates in aircraft propulsion, equipment, and interior manufacturing. As a major player in the aviation industry, Safran benefits from its CFM International joint venture with GE, which holds a dominant 72% market share in the narrowbody aircraft engine market. Additionally, the company has strong positions in European combat and military transport programs, as well as a leading role in the helicopter engine market[24]. Although the focus on single-aisle propulsion contrasts with Rolls-Royce's specialization in widebody aircraft engines and long-range business jets, its strong position in the aerospace propulsion industry makes it a significant competitor to Rolls-Royce.

MTU Aero Engines AG is Germany's leading engine manufacturer, providing commercial and military propulsion systems to its customers worldwide. The firm is headquartered in Munich and has its origin in the in 1913 founded company Rapp Motorenwerke which became later BMW. MTU Aero Engines frequently participates in joint ventures or consortiums for the development and production of engines. Examples include the production of the Geared Turbofan (GTF) engines for narrowbody aircrafts together with Pratt & Whitney and their involvement in manufacturing the Eurofighter Typhoon engine alongside Rolls-Royce[25]. Subsequently, MTU Aero Engines plays an important role in the aerospace engine industry. Nevertheless, it should be mentioned that Rolls-Royce operates on a much larger scale with a broader product portfolio that not only focuses on engines for aircrafts.

[23] Source: RTX, 2020; RTX, 2023, Aerospace Global News, 2023
[24] Source: Safran, 2023; Aerospace Global News, 2023
[25] Source: MTU Aero Engines, 2023; MTU Aero Engines, n.d

BAE Systems PLC is a leading provider of defence, aerospace and security solutions across air, land, sea, and cyber domains. The firm was founded in 1999 and is headquartered in London, UK. While BAE Systems does not directly manufacture aircraft engines, the firm specializes in military aircraft systems, airframe design, and advanced technologies[26]. As a result, BAE Systems and Rolls-Royce often compete for roles in the same governmental contracts, such as the Eurofighter Typhoon and the Global Combat Air Programme (GCAP). This overlap makes BAE Systems an important competitor in common markets, even though the two companies sometimes collaborate on large defence projects.

Financial Health Analysis

To assess the financial health of Rolls-Royce, the company's financial data, liquidity ratios and capital structure over the last six years have been analyzed in detail. Additionally, the impact of recent restructurings has been examined to evaluate their success and contribution to the company's recovery.

From 2018 to 2023, Rolls-Royce's revenue was observed to grow at a compound annual growth rate (CAGR) of 1.5%. This slow growth rate is mainly due to operational challenges in the Civil Aerospace segment and the strong negative impact of the COVID-19 crisis. Only from 2019 to 2020 Rolls-Royce's total revenue decreased by 25%. After the setback resulting from the crisis, Rolls-Royce was able to achieve a CAGR of 10.5% from 2020 to 2023. This annual growth is higher than the one of most of the main competitors as highlighted in Exhibit 13. While the CAGR in the defence sector has been only slightly higher in the last three years at 6.7% compared to 5.5% from 2018 to 2023, the Civil Aerospace and Power Systems divisions have improved dramatically. Revenue streams in the Defence segment have remained stable over time, despite the pandemic, as an increase in geopolitical tensions led to stable revenues. Comparing the CAGR over the last five years with that over the last three years in Civil Aerospace and Power Systems an improvement from -0.1% to 13.2% and from 2.9% to 13.2% can be observed, respectively. When considering the latest developments in revenues and the on-going restructuring efforts introduced by the current CEO, we believe that revenue growth will be stable in the future. Additionally, it should be mentioned that the historical revenues in the New Markets segment are insignificant, and we believe that they will strongly increase in the future after the introduction of their SMR technology.

Revenue CAGR (2020-2023)	
RR.L	**10.5%**
GE	-3.6%
RTX	6.8%
SAF.PA	12.5%
MTXGn.DE	10.5%
BAES.L	6.2%

Exhibit 13: Revenue CAGR vs Peers (2020 – 2023)

[26] Source: BAE Systems, 2023

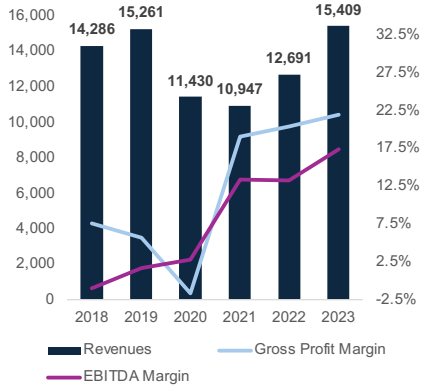

Exhibit 14: Revenues in £m & Profitability Margins (2018 – 2023)

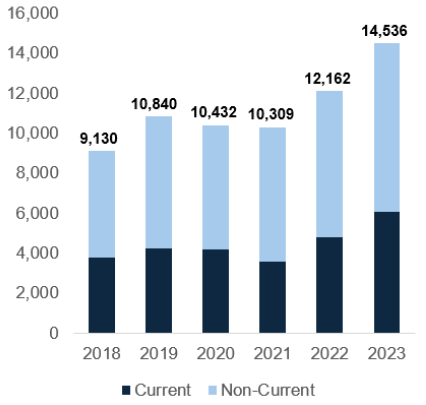

Exhibit 15: Contract Liabilities in £m (2018 – 2023)

Liquidity Ratios						
	2018	2019	2020	2021	2022	2023
Current Ratio	1.13	1.07	1.05	1.19	1.15	1.21
Quick Ratio	0.84	0.78	0.78	0.86	0.81	0.89
Cash Ratio	0.33	0.30	0.25	0.23	0.19	0.25

Exhibit 16: Liquidity Ratios (2018 – 2023)

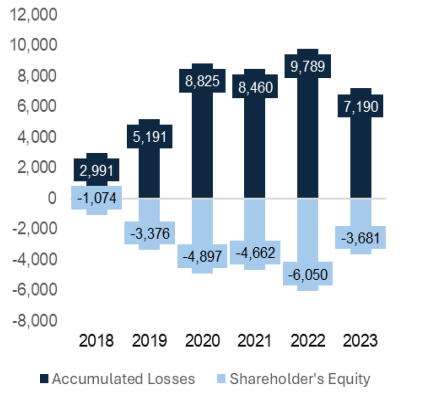

Exhibit 17: Shareholder Equity vs. Accumulated Losses in £m (2018 – 2023)

An analysis of Rolls-Royce's historical financial performance shows a vast improvement in the gross profit margin from 7.6% in 2018 to 22% in 2023. Substantial cost savings and productivity gains, resulting from the restructuring program introduced in 2020, led to an improvement in gross profit from £-187 million to £2.1 billion in 2021 year-over-year. This enhancement in the operational efficiency resulted in an EBITDA-margin improvement from -1% in 2018 to 17.4% in 2023. As already discussed, the restructuring efforts included workforce reductions, supply chain optimization, and improved resource allocation, which collectively bolstered the firm's profitability. Overall, Rolls-Royce was able to raise its operating margin from -6.7% in 2018 to 11.1% in 2023.

A review of selected balance sheet items demonstrates that total assets and liabilities have been almost stable over time, with liabilities being slightly higher than assets. One major contributor to the high liabilities are contract liabilities. The sum of current and non-current contract liabilities increased from £9.13 billion in 2018 to £14.54 billion in 2023, representing a growth of 59.25% over five years. While contract liabilities are usually classified as non-core capital, the persistence of the liabilities leads to the decision that they are operationally relevant for Rolls-Royce. Furthermore, it is notable that intangible assets, PP&E, and right-of-use assets decreased over the analyzed period. This resulted from ongoing disposal efforts such as the sale of ITP Aero and a more selective approach to investments. Lastly, the amount of almost £3 billion in deferred tax assets in 2023 may provide future tax benefits to the firm.

To analyze the liquidity of Rolls-Royce, standard liquidity ratios have been utilized. The current ratio improved from 1.13 in 2018 to 1.21 in 2023, indicating that Rolls-Royce can adequately meet short-term liabilities with its current assets. However, the ratio is only marginally above 1, suggesting limited headroom for financial flexibility. The quick ratio, which excludes inventory, followed a similar trend, rising from 0.84 in 2018 to 0.89 in 2023. Although it remains below 1, this improvement highlights better liquidity management, though the company may still face challenges in meeting short-term obligations without relying on inventory liquidation. The cash ratio, however, presents a more constrained picture. It declined from 0.33 in 2018 to a low of 0.19 in 2022 before rebounding slightly to 0.25 in 2023. These limited cash reserves indicate the importance of improving the cash generation which is a major part of the company's current strategy.

In terms of solvency and capital structure, the debt-to-equity (D/E) ratio was considered unsuitable for assessing Rolls-Royce due to the persistent negative equity throughout the analyzed period. Negative equity was driven by an increasing number of accumulated losses, rising from £3 billion in 2018 to £9.8 billion in 2022 before rebounding to £7.2 billion in 2023. Consequently, the

interest coverage ratio, Debt-to-EBITDA and leverage ratio were used for the assessment. The interest coverage ratio significantly improved from -9.84 in 2018 to 4.97 in 2023. While the negative ratio in the past indicates that Rolls-Royce was unable to cover its interest expenses due to operating losses, the improved ratio reflects the better operational performance post-restructuring. Also, the Debt-to-EBITDA ratio improved dramatically from -31.29 in 2018 to 2.01 in 2023, representing that Rolls-Royce has not only improved profitability but has also managed its debt levels effectively. The leverage ratio remained negative throughout the period due to Rolls-Royce's negative equity position. Nevertheless, it improved from -4.34 in 2018 to -1.56 in 2023, showing progress in deleveraging efforts and stabilizing the company's capital structure.

Solvency & Capital Structure						
	2018	2019	2020	2021	2022	2023
Interest Coverage	-9.84	-5.07	-4.86	2.03	2.45	4.97
Debt-to-EBITDA	-31.29	19.95	22.76	5.17	3.32	2.01
Leverage ratio	-4.34	-1.68	-1.50	-1.67	-0.98	-1.56

Exhibit 18: Solvency & Capital Structure (2018 – 2023)

The significant recovery and operational stabilization in recent years is reflected by the development of Return-on-Assets (ROA) and the asset turnover. The ROA improved from a negative -8.2% in 2018 to 7.9% in 2023, driven by restructuring efforts and recovering profitability post-pandemic. Asset turnover remained relatively stable, improving from 0.53 in 2018 to 0.54 in 2023, with a notable dip to 0.37 in 2020 during the pandemic. While the ROA highlights enhanced profitability from its asset base, the asset turnover suggests moderate efficiency in generating revenue, partially constrained by pandemic-related disruptions. Together, these metrics indicate Rolls-Royce's successful turnaround while pointing to opportunities for continued improvement.

Return on Assets & Asset Turnover						
	2018	2019	2020	2021	2022	2023
ROA	-8%	-4%	-10%	0%	-4%	8%
Asset Turnover	53%	52%	37%	39%	47%	54%

Exhibit 19: ROA & Asset Turnover (2018 – 2023)

The financial analysis of Rolls-Royce over the past six years highlights a company in recovery, with improving profitability, effective cost management, and stabilizing liquidity. Despite challenges such as negative equity and moderate asset utilization efficiency, Rolls-Royce has demonstrated significant operational progress, robust revenue growth post-pandemic, and effective debt management. These improvements position the company well for future stability and growth, supported by ongoing restructuring efforts and strategic initiatives.

Risk- and ESG Assessment

Risk of transformation failure

Central to Rolls-Royce's future profitability is its execution of its transformation program and the corresponding focus on cost reduction, efficiency gains, and financial resilience. With a failure of this program, the company risks enduring operational inefficiencies, weakened financial performance, and a diminished competitive position in the aerospace and defence market. Due to these significant long-term effects, we classify the risk with a high economic impact on the company. However, due to ongoing and successful restructuring efforts since 2018 with a low to medium probability of risk.

Operational risk

Operating in an industry which is dependent on high reliability and safety standards, the operational risk due to failures of products is one of the most important risks for Rolls-Royce. Systematic engine failures within the Civil Aerospace or Defence segment could not only lead to grounded aircrafts which are costly for Rolls-Royce's clients but also to serious accidents that could put human lives at risk. As this could result in compensations and penalties with an additional reputation damage, we classified the risk with a high potential economic impact. Even though Rolls-Royce has put multiple measures in place to ensure a functional quality management, latest recuring issues with its Trent 1000 engine indicate a non-negligible likelihood of potential technical failures[27]. We therefore classified the probability of risk as medium.

High dependence on air traffic and defence spending

Given the nature of Rolls-Royce's business model, the company faces a high dependence on the demand in air traffic and defence spending. A slowdown in global air travel or cuts in government's defence budget could lead to a significant decline in revenues and thus represents a material risk. We therefore classified the risk with a high economic impact. However, due to the latest market expectations which signal a promising outlook with a low-medium risk probability.

Risk of supply chain disruptions

Another current and highly relevant risk for Rolls-Royce is the risk of disrupted supply chains. These disruptions may arise from global factors such as material shortages, logistical bottlenecks or geopolitical tensions. The consequences of such risks include delayed deliveries, increased costs, and reputational damage, particularly in industries where reliability is critical. Therefore, we classified this risk with a medium to high economic impact and due to the current relevance in Rolls-Royce's business environment with a high probability of risk.

Currency risk

The global operation of Rolls-Royce subjects the firm to a variety of economic risks. Most importantly the currency risk. Since its two main competitors are US Dollar-denominated, Rolls-Royce keeps a fixed dollar price list for its products to ensure competitive parity, regardless of the development of the GPB[28]. This imposes the company with a significant currency risk, since Rolls-Royce is reporting its financial statements in Pound Sterling but cannot pass the currency risk to its customers. We classified the currency risk with a medium economic impact as the amount has a significant volume and with a medium probability of risk due to the ongoing hedging efforts.

[27] Source: Casey, 2024
[28] Source: Williams, 2010

ESG Positioning

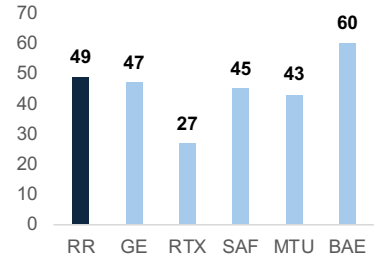

Exhibit 20: ESG Score Comparison

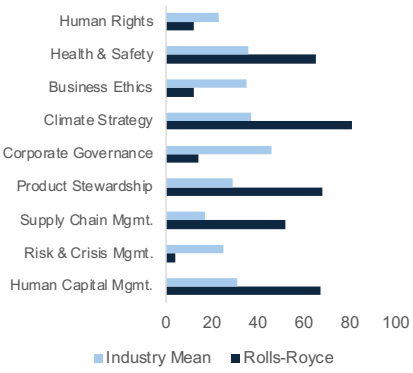

Exhibit 21: ESG Benchmarking

Sustainability within the aerospace and defence industry developed into one of the industry's cornerstones. Exhibit 20 shows that Rolls-Royce's management has positioned the company in a competitive position compared to its main peers, as the overall ESG score is just above the peer average of 45.2 according to the S&P Global assessment framework. This score is driven by the multiple ongoing ESG initiatives within the company. Concerning environmental aspects, Rolls-Royce committed itself to reach net-zero carbon emissions from operations and facilities and that all products are compatible with net-zero targets by 2050. Following this, significant progress was already made in the development of a sustainable product portfolio. In 2023, Rolls-Royce announced the successful test of all its in-production large Civil Aerospace engines on SAF. In Rolls-Royce Power Systems, already 80% of the portfolio is ready for the use of alternative fuels and the SMR business could play an important role in Europe's green energy transition. When looking at the overall ESG performance broken down by dimension in Exhibit 21, we receive valuable insights into potential strengths and weaknesses. The company performs extraordinary regarding its climate strategy, product stewardship and human capital management, which positions Rolls-Royce as a leader in sustainable innovation and workforce engagement. However, deficits arise in the areas of corporate governance, ethics and crisis management which could potentially undermine stakeholder trust, increase the probability in reputational damage and exposes Rolls-Royce to heightened operational and financial risks. It will become a key challenge for Rolls-Royce to balance its strengths with improvements in weaker areas to ensure a holistic ESG reputation.

Forecasts

Revenue Forecast

- Civil Aerospace

To build a reliable and comprehensive revenue forecast for the Civil Aerospace segment, we used a bottom-up approach by identifying the key revenue drivers for Rolls-Royce's Large Engine business. Due to the low revenue share and the limited availability of data for the Business Engine-, Regional and V2500 businesses, the sophisticated approach focusses solely on the Large Engine business, whereas simplified methods were used for the other sub-segments within Civil Aerospace.

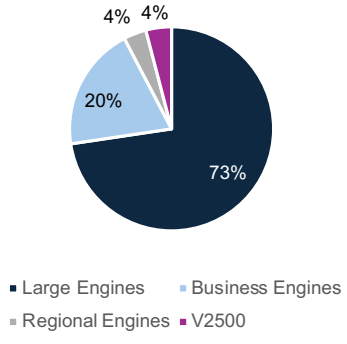

Exhibit 22: Revenue Split Civil Aerospace 2023

Aircraft type	Prod. target per month	Market share Rolls-Royce
Boeing 787	10 (2026)	27%
Airbus A350	12 (2028)	100%
Airbus A330neo	4 (2024)	100%

Exhibit 23: Production Targets Airbus & Boeing

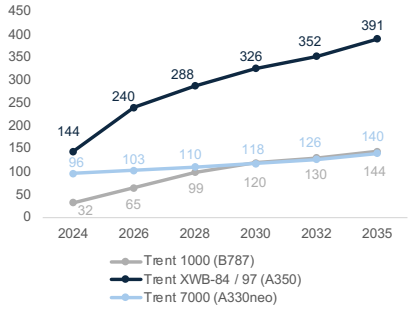

Exhibit 24: Development Large Engine Deliveries (2024 – 2035)

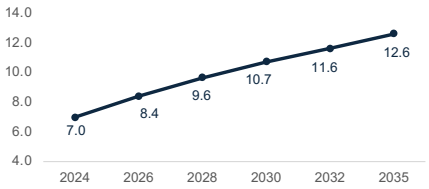

Exhibit 25: Development Average Revenue per Large Engine in £m (2024 – 2035)

The primary driver of revenue from the sale of OE within Civil Aerospace has been identified as the number of engine deliveries. Since many aircrafts offer multiple engine configurations from different manufacturers, we analyzed the for Rolls-Royce relevant aircraft types. Rolls-Royce holds a 100% market share as the exclusive engine supplier for the Airbus A330neo and A350 and a 27% share for the Boeing 787. To forecast future engine deliveries, we assessed Airbus and Boeing's monthly production targets for these aircraft types, assuming they will achieve their medium-term goals. Once these targets are met, we project production rates to grow in line with the growth of the global aircraft market size[29]. By annualizing production targets, multiplying by the number of engines per aircraft, and applying Rolls-Royce's market share for each type, we calculated yearly engine deliveries. This results in compound annual growth rates (CAGRs) of 13.5% for Trent 1000 deliveries, 9.3% for Trent XWB, and 3.5% for Trent 7000 during the forecast period. Another key revenue driver is the average revenue per engine delivery. To model this, we projected growth from 2023 to align with the revenue-weighted inflation rate of Rolls-Royce. This approach accounts for short- and medium-term price increases driven by supply chain challenges and critical material costs, while assuming stabilization in the long-term. Finally, total large engine OE revenues were calculated by multiplying the total engine deliveries by the average revenue per delivery.

Business jet engine deliveries were estimated by aligning the 2023 year-on-year growth rate with the business jet market CAGR of 4.1% by 2032[30]. Average revenue per business engine follows the same method as large engines. OE revenue for V2500 engines is expected to steadily decline, as Rolls-Royce exited the International Aero Engines joint venture in 2012, which is responsible for the production and sale of V2500 engines for the Airbus A320 family. Additionally, more and more Airbus A320s are reaching the end of their lifespan and are replaced by the A320neo. However, Rolls-Royce still acts as a supplier of spare parts and the engine is expected to be in service until 2045[31]. We therefore used the historical six-year median for the 2024 estimate, converging to the six-year minimum by the forecast's end to reflect the phase-out of the division for Rolls-Royce while accounting for spare parts demand.

Aftermarket services are another key revenue source for the Civil Aerospace segment, mainly driven by engine flying hours (EFH) and shop visits, which include major refurbishments and checks/repairs. Most large engines sold by

[29] Source: Precedence Research, 2024
[30] Source: Yahoo Finance, 2024
[31] Source: Kjelgaard, 2023

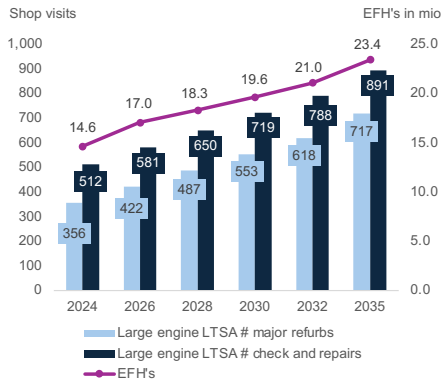

Exhibit 26: Development EFH and Shop Visits (2024 – 2035)

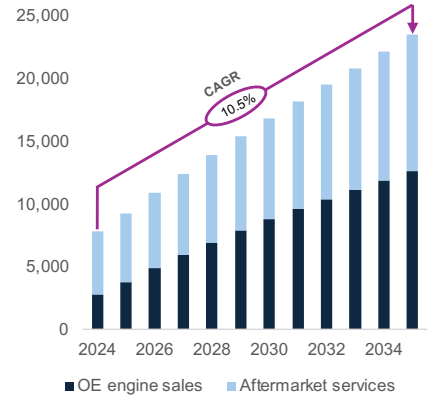

Exhibit 27: Civil Aerospace Revenue Development in £m (2024 – 2035)

Rolls-Royce are maintained under long-term service agreements (LTSAs), where airlines pay per EFH for maintenance to ensure safety, compliance, and performance. EFHs are expected to grow with international air traffic, surpassing pre-pandemic levels by 2025, aligning slightly below Rolls-Royce's projections. Corresponding LTSA shop visits are therefore also expected to increase with past trends resulting in a CAGR of 6.6% for major refurbs and 5.3% for checks/repairs. Average revenue per shop visit is expected to increase with the revenue weighted inflation rate of Rolls-Royce to account for pricing adjustments. Total large engine aftermarket revenue is calculated by multiplying shop visits by average revenue per visit.

Service revenues for business-, regional and V2500 engines were estimated with a simplified approach as data for EFH's and shop visits is lacking. In this approach, we have taken the six-year historical average growth rates for the business- and regional engine sub-segments and converged it with the Global Aircraft MRO CAGR of 3.5% until 2032[32]. For V2500 engines, we kept the average six-year growth rate constant across the forecasting period. We expect service revenues for this engine type to increase with a lower rate than the overall market due to the increasing number of A320 retirements and the reduced activity of Rolls-Royce in this sub-segment of Civil Aerospace.

Overall, expected revenues in Civil Aerospace show strong growth dynamics resulting in a projected CAGR of 10.5% across the forecasting period. Growth will be driven primarily by the expected high deliveries of large engines, as aircraft manufacturers such as Airbus and Boeing have high order backlogs and production is therefore expected to expand further. Aftermarket services are also expected to increase, however with a slight slower growth then OE sales as advanced technology like the use of AI for optimal maintenance planning will drive efficiency in the MRO market. Furthermore, OE sales experienced a more pronounced decline during the pandemic, creating a larger recovery runway as market conditions normalize and demand for new aircraft engines accelerates.

- Defence

Within the preparation of a credible revenue forecast for the Defence segment, two main revenue drivers have been identified, namely governmental contracts and defence budgets. These drivers are inherently complex due to limited visibility into contract-specific revenues and the multi-party nature of most agreements. Rolls-Royce often serves as a sub-contractor rather than the lead contractor, as seen in the FLRAA (Future Long-Range Assault Aircraft) program

[32] Source: Spherical Insights LLP, 2024

awarded to Bell-Textron. While the program's total value of $1.3 billion is publicly known, Rolls-Royce's specific revenue share remains unclear since it primarily supplies engines rather than manages the overarching contract.

Defence Key Market & Solution CAGRs	
Key Markets & Solutions	**CAGR**
Naval	**4.6%**
Naval Vessel Engine Market	4.0%
Naval Gas Turbine Market	5.1%
Marine Propeller Market	6.8%
Marine Engine Market	2.6%
Transport	**5.3%**
Military Transport Aircraft Market	0.2%
Maritime Patrol Aircraft Market	5.1%
Air-to-Air Refueling Market	10.5%
Combat	**4.6%**
Military Trainer Aircraft Market	4.9%
Military Aircraft Market	5.3%
Fighter Aircraft Market	3.7%
Submarines	**5.6%**
Submarine Propulsion Market	3.5%
Submarine Market	7.6%
Helicopter/Other	**3.5%**
Military Helicopter Market	2.9%
Helicopter Engine Market	4.2%
Military Expenditure CAGR	**4.8%**

Exhibit 28: Defence – Key Markets & Solutions CAGRs

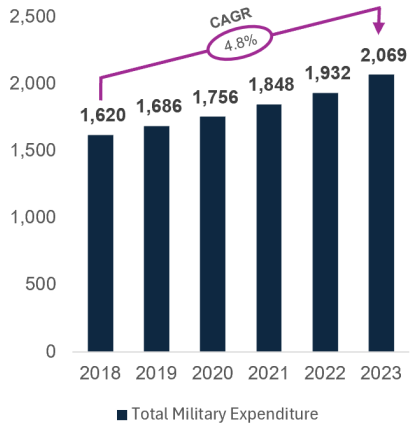

Exhibit 29: Total Military Expenditures across Operating Countries in £bn (2018 – 2023)

To address these challenges, we adopted a systematic approach that combines both market-specific and macroeconomic analyses which allows for a more realistic and comprehensive forecast. First, we started with an analysis of the expected growth of the most important markets that are served within each sub-segment (Transport, Combat, Naval, Submarines, Helicopters). For example, the Transport sub-segment benefits from the growing demand for air-to-air refueling systems, which are projected to grow at an annual rate of 10.5%. At the same time, the maritime patrol aircraft market is expected to grow steadily at 5.1% and the military transport market is expected to achieve only a CAGR of 0.15%. This leads to an expected CAGR of 4.2% for the key solutions provided within this sub-segment. Following this analysis of market expectations related to Rolls-Royce's transport products, the same methodology was conducted for the other four Defence sub-segments.

To add more depth into our analysis, we analyzed the development of the military expenditures from all the countries in which Rolls-Royce is generating revenues. Based on the data published by SIPRI, the total military expenditures of all the countries Rolls-Royce is operating in, increased from $1,620 billion to $2,069 billion from 2018 to 2023. In our analysis, we first calculated the CAGR over the mentioned period for each country individually. Afterwards we used these CAGR's and calculated a weighted average CAGR based on their contribution to Rolls-Royce's revenues. For instance, the United States, a critical market for Rolls-Royce, has demonstrated steady growth in its defence spending, significantly influencing the weighted average budget growth rate. After weighting these regional defence budget CAGRs based on their revenue contribution, the analysis resulted in a weighted yearly defence budget growth of 4.8%. This information is valuable for the forecast as it is expected that defence budgets will further grow in the near future due to the current geopolitical tensions.

After analyzing the market expectations and the military budget trends, we combined both approaches to get a final weighted CAGR per sub-segment. This CAGR reflects the growth of Rolls-Royce's key solutions by two-third and the military budget growth trend by one-third and is expected to fully realize in 2033. As a starting point in 2024, the five-year average historical growth rate is expected. From then on, the growth rate will gradually converge with the calculated CAGR over a period of ten years until 2033. This gradual alignment accounts for ongoing governmental agreements as well as Rolls-Royce's strong

performance in segments like Combat in which it can be expected that the market will get outperformed in the near term.

Overall, the revenues in the Defence segment are expected to grow yearly by 6.0% over the forecasting period from 2024 to 2035. This represents a slight improvement in growth compared to the historical period from 2018 to 2023, which was 5.5%. This expected growth rate over the forecasting period can be further divided into an expected CAGR of 5.6% in OE sales and an expected CAGR of 6.4% in aftermarket services. The strongest contributor to the strong forecasted growth is the Combat sub-segment. This sub-segment is expected to achieve a CAGR of 7.6% in OE sales and 8.3% in aftermarket services. This strong prognosed growth reflects the effect of engines that are in service since several years like the EJ200 engine implemented in the Eurofighter Typhoon and future projects like the renewal of the engines of the B-52 fleet of the USA.

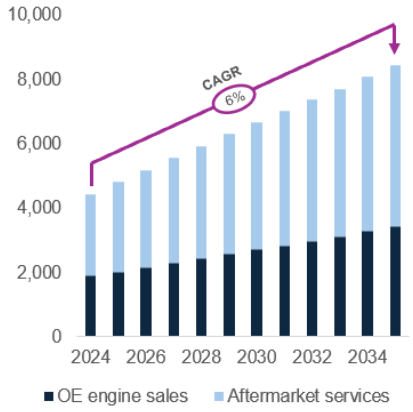

Exhibit 30: Defence Revenue Development in £m (2024 – 2035)

- Power Systems

To build a robust revenue forecast in the Power Systems segment, we focused on the main revenue driver, namely the demand for energy or propulsion systems in Rolls-Royce's key markets. Therefore, we further divided this driver into the expected development of key markets that get served and the expected development of key solutions which get sold to the customer base. This method was used since detailed information's such as sales volumes and delivery schedules, are extremely limited, further complicating any attempt to forecast revenue development on a product-by-product basis.

We started with an analysis of the expected growth of the most important markets that are served within each sub-segment (Power Generation; Governmental; Marine; Industrial). The Power Generation sub-segment for example serves critical sectors such as data centers, industrial manufacturing, and utilities all of which are growing with different future growth rates. Similar to our approach within the Defence segment, we calculated a combined market CAGR which comprises of the different growth rates from the individual key markets. This method was used across all sub-segments and their individual key markets within Power Systems. A detailed list of all key markets and their corresponding expected growth rates can be observed in Exhibit 31.

Power Systems Key Market CAGRs	
Key Market	**CAGR**
Power Generation	**9.0%**
Data Center Market	11.4%
Industrial Manufacturing Market	7.5%
Utility Market	8.0%
Governmental	**6.3%**
Land Defence Market	7.4%
Naval Market	5.1%
Marine	**4.4%**
Commercial Marine Market	3.0%
Yacht Market	5.8%
Industrial	**6.3%**
Locomotive Market	7.1%
Mining Vehicle Market	5.5%

Exhibit 31: Power Systems – Key Market CAGRs

Power Systems Key Solutions CAGRs	
Key Solutions	**CAGR**
Power Generation	**12.7%**
Diesel Power Systems	7.0%
Gas Power Systems	4.3%
Battery Energy Storage Systems	26.9%
Governmental	**5.2%**
Military Ground Vehicle Propulsion Systems	6.5%
Naval Vessel Engines	4.0%
Marine	**6.7%**
Marine Propulsion Systems	4.4%
Marine Automation and Control Systems	8.9%
Industrial	**4.5%**
Industrial Engines	4.5%

Exhibit 32: Power Systems – Key Solutions CAGRs

After analyzing the key markets, our focus turned to the corresponding key solutions - specifically, the products Rolls-Royce provides to these markets. For instance, for the data center market Rolls-Royce offers Battery Energy Storage Systems as solutions. We then again calculated a combined CAGR for the key-solutions in each sub-segment as shown as in Exhibit 32. Subsequently we combined the development of key markets and key solutions similarly to the

revenue forecast for the Defence segment to get a final CAGR per sub-segment. The weighted CAGR puts a 1/3 weight in the key markets and a 2/3 weight on the key solutions. This combined CAGR is expected to be fully realized by 2033. Revenue growth for OE and aftermarket revenue starts with the historical five-year average in 2024, gradually aligning with the combined CAGR over ten years.

Overall, revenues in Power Systems are expected to grow with a CAGR of 8.3% over the forecasting period. This growth is mainly driven by the Power Generation sub-segment which shows strong growth, with historical OE sales at 12.3% and aftermarket services at 11.1%, converging to a baseline growth of 11.4%, driven by rising energy demands in production and supported by the increasing adoption of sustainable solutions, such as hybrid systems. Governmental revenue growth is expected to slow down, with OE and aftermarket sales moving from around 11% to 5.6% by 2033, reflecting strong demand in the short- to medium term with reduced growth in defence propulsion systems over the long term as global security situation is expected to ease. Marine revenue growth is projected to rise to 5.9% by 2033, supported by projected increasing demand in commercial shipping and luxury yacht markets. Industrial growth, while improving to 5.1%, remains the lowest due to strategic de-prioritization and historically weak performance.

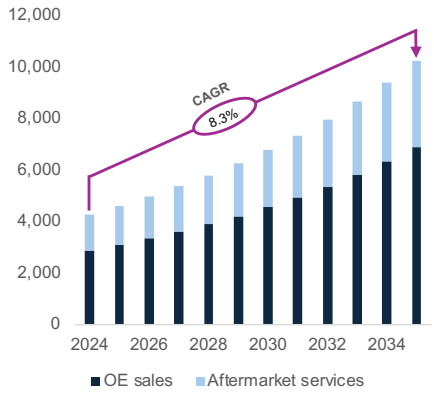

Exhibit 33: Power Systems Revenue Development in £m (2024 – 2035)

- New Markets

To build a sophisticated and reliable revenue forecast for the SMR business of Rolls-Royce, we analyzed the progress made by Rolls-Royce in the design and development phase of the reactors and calculated potential sales of SMR units over the forecasting period. Therefore, we have conducted a bottom-up approach and identified the number of unit sales as the main revenue driver.

Progress in SMR development positions Rolls-Royce for UK and global opportunities

Driven by the energy security and decarbonization targets of many countries, the market for SMRs is very attractive for Rolls-Royce and can potentially deliver stable revenue inflows over the long-term. By July 2024, Rolls-Royce's SMR design successfully completed Step 2 of the Generic Design Assessment (GDA), known as the fundamental assessment. This advancement indicates that the design has met essential safety, security, and environmental standards. According to Chris Cholerton (Rolls-Royce SMR CEO), this gives the company an 18-month head start over the competition in the approval process, making it very likely that Rolls-Royce will be the selected partner for the SMR fleet project of the UK. In addition to the United Kingdom, Rolls-Royce is also trying to gain market share internationally with its SMRs. Successes to date include the fact that Czech Republic has already chosen Rolls-Royce as a partner and that they

are one of the final two in the Swedish selection process. Furthermore, Rolls-Royce mentioned in their latest annual report that they are also engaged with the governments of Finland, USA, Poland, and Netherlands regarding potential SMR deployments. Notable to mention is that Rolls-Royce's SMR design with 470 MWe has a greater capacity than the designs of most of the peers as the general definition indicates that one unit produces up to 300 MWe.[33]

The vision of the Czech Republic is that Rolls-Royce will deploy up to 3 GW of SMR capacity in the country[34]. This capacity corresponds to around 7 units of Rolls-Royce's SMRs, with operational status targeted for the mid-2030s. Furthermore, plans are made by the UK to extend its nuclear energy capacity to 24 GW by 2050. This plan incorporates that SMRs are one key pillar of the strategy, with Rolls-Royce being well-positioned to be chosen as a partner. Moreover, Sweden announced an additional need of 100 to 250 TWh of electricity production over the next 25 years[35]. This need for electricity would translate to a need of 2 to 3 Rolls-Royce SMRs to meet this requirement, depending on the exact target.

As mentioned by Rolls-Royce, the first deployments are expected to be in operation in the early- to mid-2030s. Following our analysis, we expect the first unit to be deployed in 2032, followed by 2 units in 2033 and 3 units in 2034 and 2035. This amounts to a total of 9 deployments within our forecasting period. Considering the need for 7 units by Czech Republic and additional units for the other countries this is seen as rather conservative. Nevertheless, this conservative approach is needed so that revenue inflows are not overestimated due to the regulatory burdens and potential construction delays. As those projects are long-term with a development phase of 2 to 3 years, we expect that 25% of revenue recognition per SMR will be considered 2 years prior delivery (e.g., after planning and design completion), the next 25% of revenue will be considered one-year prior delivery after another manufacturing milestone is achieved. After testing & commissioning in year 3 the missing 50 % of revenue will be recognized in Rolls-Royce's books. This approach aligns with the IFRS 15 standard which describes the revenue recognition over time. Moreover, we expect that each year from the first deployment onwards aftermarket revenue for service and maintenance will be generated. Aftermarket revenues are expected to be 5% of the selling price of the total number of units deployed until the corresponding year. Considering the price of £1.8 billion per unit which was

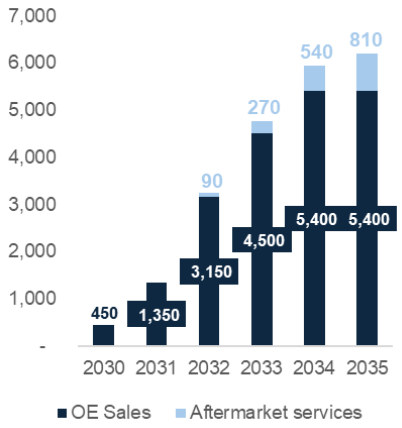

Exhibit 34: SMR Revenues in £m (2030 – 2035)

[33] Source: World Nuclear News, 2024
[34] Source: Rolls-Royce, 2024a
[35] Source: Rolls-Royce, 2024b

announced by Rolls-Royce, total revenue of £6.2 billion is expected to be achieved in 2035 with further potential in the future.

Operating Performance and Margins

Based on the revenue forecast outlined earlier, Rolls-Royce is expected to achieve a group-wide revenue CAGR of 10.3 % over the forecasting period. This growth is driven by strong recovery in Civil Aerospace, robust demand in Defence, and continued expansion in Power Systems, along with the long-term potential of Small Modular Nuclear Reactors.

Margins on track for improvement following restructuring

Moreover, we have closely reviewed the profitability margins over the historical and forecasting period. Using the reformulated financial statements that focus solely on core activities, the gross profit margin rose from 15.7% to 21.0% over the historical period from 2018 to 2023. This significant improvement was a result of the latest restructuring efforts of the firm, which have delivered significant cost savings. A similar historical development is shown by the operating profit margin. While the operating profit margin dropped to -19.1% in 2020 due to the COVID-pandemic, the firm was able to continuously improve its profitability afterwards.

As Rolls-Royce has still an ongoing transformative program and focuses strongly on streamlining the operations and achieving higher returns, we believe that the firm still has room for profitability improvements. Between 2024 and 2035, we anticipate the gross profit margin to rise from 23.6% to 28.7%, while the operating profit margin is expected to increase from 12.5% to 18.4%. Notably, this expected operating profit margin aligns with the company's mid-term targets of achieving 13-15% by 2027. The total revenue and profitability margin development is visualized in Exhibit 54 in the Appendix.

Capital Expenditures

Capital Expenditures (Capex) of Rolls-Royce consist of investments in Property, Plant and Equipment (PP&E) as well as investments in intangible assets. Right-of-use assets were not considered in Capex as they represent the capitalization of lease obligations rather than an outflow of cash to maintain them. Historically, Capex of Rolls-Royce ranged between 11.1% and 4.6% of sales with a strong decreasing trend. This trend aligns with Rolls-Royce's past restructuring efforts, which included divestments of business units, strategic cost efficiencies and a disciplined approach to capital allocation. This focus on efficiency has led to a more streamlined organization, allowing Rolls-Royce to allocate capital more effectively and reduce Capex relative to revenue. We expect that Rolls-Royce will maintain a low percentage of Capex to sales of 4.8% over the forecasting period as the transformation continues and reorganization of the company is still

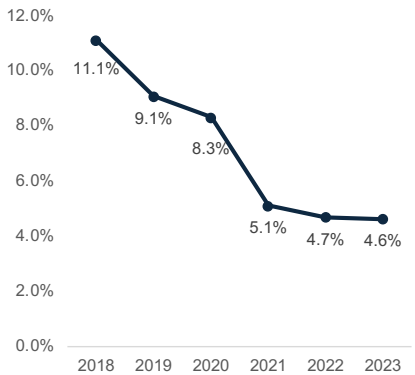

Exhibit 35: Development Capex as % of Revenue (2018 – 2023)

ongoing. Furthermore, Rolls-Royce announced to implement zero-based-budgeting in 2024 which is expected to eliminate unnecessary or non-value-adding expenditures, reducing overall spending, including capital expenditures.

Despite the low Capex to sales ratio, increasing demand in Rolls-Royce's core segments and the anticipated production start of Rolls-Royce SMR require higher total amounts of investment in PP&E and intangible assets to ensure smooth production and to protect new engineering technologies with patents. These dynamics and the expected increase in revenues lead to a Capex CAGR of 10.2% across the forecasting period as shown as in Exhibit 52 in the Appendix.

Working Capital Management

Net working capital (NWC) is commonly used as a key indicator of a company's liquidity and operational efficiency and comprises of multiple items. One component of NWC is the operating cash which represents the cash a company needs to cover its day-to-day operational expenses, such as paying suppliers or employees. Operating cash was forecasted by using the median operating cash-to-sales ratio of competitors over a historical timespan of eight years.

Other components of NWC include accounts receivable, inventory, and accounts payable, all of which are expressed in days and are benchmarked against the median performance of Rolls-Royce's competitors. In 2023, Rolls-Royce's Cash Conversion Cycle (CCC) was 164 days, exceeding the peer median of 122 days, signaling further room for improvement in working capital management. Rolls-Royce outperformed peers in Days Sales Outstanding (DSO) at 88 days compared to 116. We expect that Rolls-Royce can overall sustain its advantage due to its ongoing efficiency efforts. However, with a slight increase in DSO as the economic slowdown could lead to adjusted payment terms. Therefore, we forecasted accounts receivable with the historical average in collection days. Days Payables Outstanding (DPO) aligns with peers at 67 days, with slight decline forecasted based on the six-year historical minimum. For Days Inventory Outstanding (DIO), Rolls-Royce gets outperformed at 143 days compared to 93 days of its peers. Rolls-Royce also recognized this and therefore targets a significant reduction in inventory days. We acknowledged this and forecasted inventory with the six-year minimum in inventory days which leads to meaningful improvements in DIO. This method seems reasonable as the expected DIO in 2035 is still slightly higher than the median of its peers and thus considers arising challenges, such as long production cycles or the complexity of products. A detailed overview of the NWC development is presented in Exhibit 53 in the Appendix.

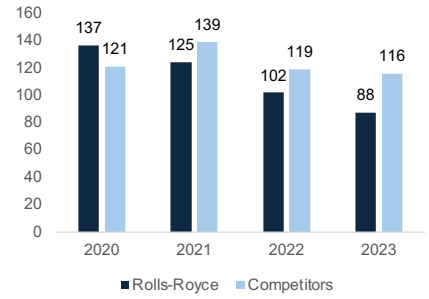

Exhibit 36: DSO Development (2020 – 2023)

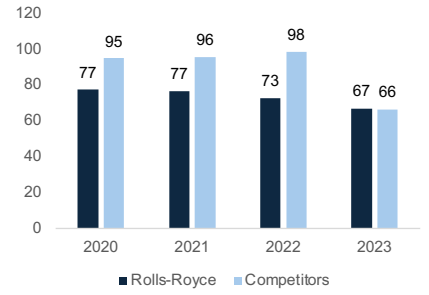

Exhibit 37: DPO Development (2020 – 2023)

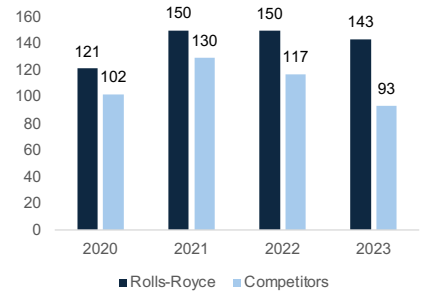

Exhibit 38: DIO Development (2020 – 2023)

Return on Invested Capital

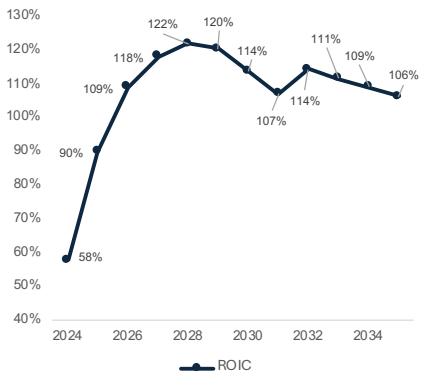

Exhibit 39: ROIC (2024 – 2035)

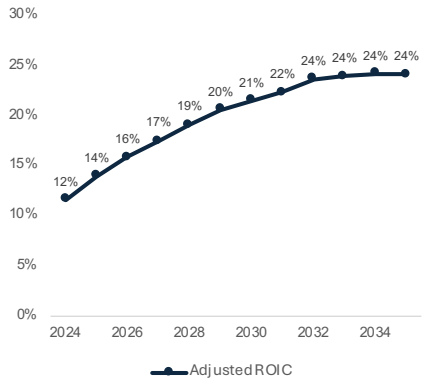

Exhibit 40: Adjusted ROIC (2024 – 2035)

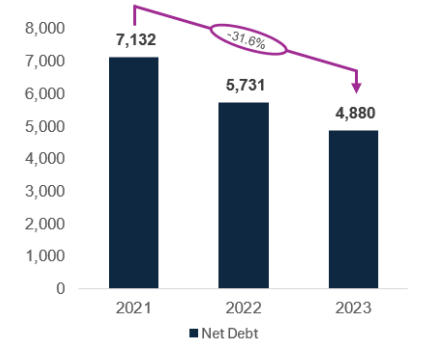

Exhibit 41: Net Debt in £m (2021 – 2023)

In evaluating Rolls-Royce's capital efficiency, the Return on Invested Capital (ROIC) based on the total core invested capital has been identified as unsuitable. Rolls-Royce persistently records extremely high amounts of contract liabilities within their balance sheet. For example, in 2023 the current and non-current contract liabilities are in total £14.5 billion, which reduces the core invested capital to £3.0 billion. Subsequently, applying the total core invested capital for the calculation results in unrealistic high ROIC figures, ranging from 58% to 122% over the forecasting period. Nevertheless, as we understand the importance of assessing the capital efficiency, we applied another calculation based on Rolls-Royce's own methodology to calculate the invested capital. Rolls-Royce calculates the invested capital as the sum of current assets and liabilities plus non-current assets. This estimation yields more realistic ROIC figures between 12% and 24% over the forecasting period, with steady improvement. Comparing to the WACC, the adjusted ROIC surpasses continuously the capital costs, demonstrating effective operational performance and capital allocation.

Valuation

Weighted Average Cost of Capital

- Capital Structure

An in-depth evaluation of Rolls-Royce's capital situation was carried out to align its target capital structure with its long-term strategic objectives. Over the past 3 years, Rolls-Royce has continuously reduced its net debt, as shown in Exhibit 41. Moreover, one key component of the company's current strategy is deleveraging its balance sheet. Consequently, we believe the historical Debt-to-EV (D/V) ratio of 9% is not suitable for our forecast period. Instead, we have assumed a target D/V ratio of 1%, as this better reflects the company's ongoing efforts to enhance its financial resilience. This target ratio is more appropriate considering Rolls-Royce's focus on lowering leverage to improve its credit profile and align with investor expectations for a more stable capital structure.

- Cost of Equity

The Capital Asset Pricing Model (CAPM) was utilized to calculate the cost of equity. The risk-free rate was based on the 10-year UK government bond (gilt), reflecting a rate of 4.36%. This rate was selected due to Rolls-Royce's incorporation and primary listing in the UK, which makes UK gilts an appropriate proxy for the risk-free rate when valuing the company. The market risk premium

was determined to be 5.48%, based on data from Professor Damodaran's research. This selection ensures consistency with industry practices and reflects a robust estimate of market-wide risk expectations.

For the Beta (β) calculation two methodologies have been applied. Firstly, we estimated the Beta of Rolls-Royce by performing a regression analysis of the company's historical closing stock prices against the MSCI World. Even though the firm is listed in the UK, the MSCI World was chosen over the FTSE 100 as reference index due to the multinational exposure of the firm. As commonly used in practice, our estimation was based on 5-year monthly data. This approach ensures to eliminate positive and negative market distortions and results in a relevered Beta of 1.4 based on the target capital structure. Secondly, we used another approach based on the Beta of Rolls-Royce's peers, by regressing each peer against the MSCI World. After calculating their 5-year monthly Betas, the median unlevered Beta was determined and subsequently relevered using Rolls-Royce's target capital structure, resulting in a relevered beta of 0.96. By averaging the outcomes of both methods, the combined relevered Beta was calculated to be 1.18, leading to a cost of equity of 10.81%.

WACC Inputs	
Risk-free Rate	4.36%
MRP	5.48%
Levered Beta	1.18
Cost of Equity	10.81%
Cost of Debt	4.61%
Tax Rate	15.05%
Debt-to-EV Ratio	1.00%
Equity-to-EV Ratio	99.00%
Target Debt-to-Equity	1.01%
WACC	**10.74%**

Exhibit 42: WACC Inputs

- Cost of Debt

In order to determine Rolls-Royce's cost of debt, the market values of all current outstanding bonds were examined. Therefore, we calculated a weighted yield-to-maturity (YTM) by weighting the individual YTM's of these bonds against the outstanding debt in Pound Sterling. To account for the possibility of default we adjusted the weighted YTM by the loss given default and the corresponding default probability. Ultimately, cost of debt was derived by subtracting the product of the loss given default of 54.67% and the probability of default of 0.13% from the weighted YTM. Loss given default for Rolls-Royce was defined as the industry standard, which was retrieved from Bloomberg, whereas the default probability was sourced from Refinitiv. This calculation yields underlying cost of debt of 4.61% and after-tax cost of debt of 3.91%. After-tax cost of debt was determined by adjusting the cost of debt by the average effective tax rate of 15.05%.

The final WACC yields 10.74% and was calculated by weighting the cost of equity and the after-tax cost of debt by their respective proportions of Rolls-Royce's projected future capital structure.

Cashflow Based Valuation – DCF and APV

A discounted cash flow model (DCF) was used as the main valuation method in this analysis. To account for the possibility of default, a default case has been

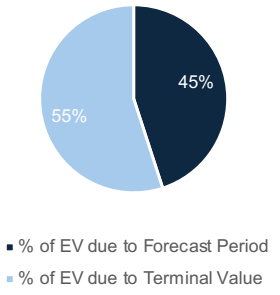

Exhibit 43: Contribution to Enterprise Value 2025

added which adjusts the cash flows from the base case by the loss given default. Final expected cash flows were derived by weighting the cash flows from the base case and the default case with the corresponding probability of default and their counter probability. The projected long-term GDP growth rate from 2031-2035 of 2.5% was used as the terminal growth rate of cash flows[36]. By applying this cautious approach to estimate the terminal value, we ensure that the terminal value reflects sustainable, economy-aligned assumptions. After discounting the final expected cash flows with Rolls-Royce's projected WACC the enterprise value was adjusted by the expected net debt in 2025. This results in an equity value adjusted by non-controlling interest (NCI) of £50,710m. By dividing this amount by the current number of outstanding shares, a fair share price of 596.25 GBX was derived. Since we assumed a changing capital structure for Rolls-Royce, an adjusted present value (APV) valuation was conducted additionally to the DCF to further confirm the DCF valuation. The APV valuation resulted in a marginal 1% difference compared to the DCF resulting in a fair share price of 602.81 GBX. This emphasizes the need to consider that both methods use different methods for evaluating the tax shield.

Sensitivity Analysis

To evaluate the robustness of Rolls-Royce's valuation, a detailed sensitivity analysis was conducted, focusing on the impact of key assumptions. The analysis primarily examined the WACC and long-term growth rate, as these are critical factors in the DCF valuation.

Sensitivity Analysis - WACC						
		Cost of Debt				
	596.25	2.61%	3.61%	**4.61%**	5.61%	6.61%
Cost of Equity	8.81%	8.75%	8.75%	8.76%	8.77%	8.78%
	9.81%	9.74%	9.74%	9.75%	9.76%	9.77%
	10.81%	10.73%	10.73%	10.74%	10.75%	10.76%
	11.81%	11.72%	11.72%	11.73%	11.74%	11.75%
	12.81%	12.71%	12.71%	12.72%	12.73%	12.74%

Exhibit 44: Sensitivity Analysis – WACC

We started the analysis by adjusting the cost of equity and cost of debt by one percentage point (p.p.) to assess their impact on Rolls-Royce's projected WACC. A one p.p. increase in the cost of equity led to a 9% variation in the WACC, while a one p.p. change in the cost of debt resulted in a negligible impact of less than 1%. This disparity is attributed to the assumed capital structure, where debt constitutes only 1% of the enterprise value, placing significantly greater weight on the cost of equity. Furthermore, this highlights that particular interest needs to be placed in changes to Rolls-Royce's target capital structure as this could have significant influence on the underlying valuation.

Sensitivity Analysis - DCF						
		WACC				
	596.25	8.74%	9.74%	**10.74%**	11.74%	12.74%
Terminal Growth Rate	1.50%	754.36	642.94	556.90	488.69	433.47
	2.00%	791.20	668.65	575.45	502.42	443.84
	2.50%	833.94	697.92	596.25	517.63	455.23
	3.00%	884.11	731.53	619.73	534.59	467.78
	3.50%	943.86	770.53	646.46	553.60	481.70

Exhibit 45: Sensitivity Analysis – DCF

In the next step, we analyzed the impact of the projected WACC and the assumed terminal growth rate on Rolls-Royce's DCF share price. Therefore, we adjusted the WACC by one p.p. and the terminal growth rate by 0.5 p.p. The analysis revealed that both variables have a significant impact on the forecasted DCF share price. A one p.p. increase in the WACC would lead to a decrease in

[36] Source: Conference Board, 2024

the share price of about 13%, while a 0.5 p.p. decrease in terminal growth results in a 3.5% decrease in share price. This demonstrates that while the valuation is sensitive to changes in both the WACC and the long-term growth rate, it is particularly impacted by variations in the WACC.

Relative Based Valuation – CCA

In this section, the valuation of Rolls-Royce was conducted using the trading comparables approach. Competitors were selected based on factors such as their business model, customer base, geographical coverage, and profitability. The chosen peer group, as outlined earlier, includes General Electric, RTX, Safran, MTU Aero Engines, and BAE Systems.

As Exhibit 46 shows, Rolls-Royce trades at a slight premium in terms of EV/Sales, EV/EBIT, and P/E compared to the peer median. The higher EV/Sales and P/E ratios might reflect market optimism about its future growth prospects. Following Rolls-Royce's recent challenges and restructuring efforts, the market likely assigns a higher valuation multiple to Rolls-Royce based on expectations of operational improvements and financial recovery. Moreover, the company's strong 33% market share in widebody engines positions it uniquely to benefit from the recovery of long-haul international travel. This segment has recovered more slowly than the narrowbody market, where many peers have greater exposure. As the widebody market continues to rebound, Rolls-Royce has more room to capitalize on future growth opportunities. This assumption aligns with GE's multiples, as its 52% market share in widebody engines, compared to Rolls-Royce's 33%, supports GE's higher EV/Sales of 3.39 and P/E of 38.11.

	EV/Sales	EV/EBITDA	EV/EBIT	P/E
RR.L	**3.06**	**16.06**	**22.83**	**32.37**
GE	3.39	21.47	25.18	38.11
RTX	2.43	15.74	19.18	20.82
SAF.PA	3.67	17.38	22.37	31.29
MTXGn.DE	2.58	13.54	17.71	23.48
BAES.L	2.50	16.51	20.28	18.00
Median	**2.58**	**16.51**	**20.28**	**23.48**

Exhibit 46: Valuation Multiples across Peers

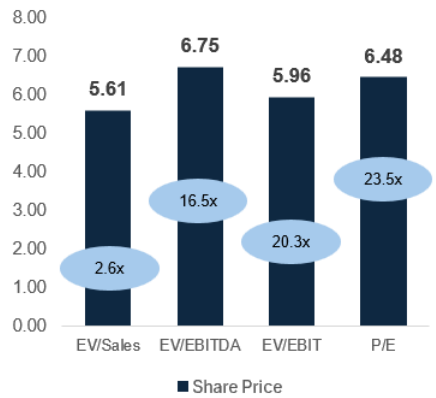

Exhibit 47: CCA implied Share Price

Referring to Exhibit 47, all metrics indicate a median share price ranging from £5.61 to £6.75. Compared to the current share price of £5.84 (16.12.24), the average of these four multiple valuations represents an undervaluation of 6.2%. This collectively supports the view that Rolls-Royce trades close to fair value, with upside potential dependent on successful execution of its restructuring initiatives and continued recovery in the widebody market. Nevertheless, it is important to acknowledge the limitations of directly comparing Rolls-Royce to its selected peers, as they vary significantly in their size and have slightly different focuses in their business models. However, the analysis has ensured the selection of the most relevant peers, focusing on other leading companies in the industry that align with Rolls-Royce's position as a market leader.

Scenario Analysis

Pessimistic Scenario

Rolls-Royce's reliance on global air traffic, with the Civil Aerospace segment contributing 48% of revenue in 2023, makes the company vulnerable to external factors like recessions, geopolitical instability, and rising oil prices, which could reduce demand for air travel, engine deliveries, and engine flying hours. The COVID-19 pandemic's 60% drop in air passengers highlighted the industry's fragility[37]. Such shocks not only reduce revenue but also create operational and financial challenges, potentially slowing Rolls-Royce's financial transformation. Therefore, we have factored in the potential for slower global air traffic growth and challenges in executing the transformation program as key considerations in this scenario. To properly reflect those risks, we assumed a lower revenue growth for the Civil Aerospace segment of 4 p.p. per year compared to the base case. Furthermore, we accounted for lower profitability by lowering the gross profit margins by one p.p. per year and by increasing the percentage of SG&A costs of sales by 1% per year. These assumptions yield a share price of 427.40 GBX for the pessimistic case which represents a delta of -28.3% compared to the base case. We assume the pessimistic scenario to have a probability of 20% as most factors lie outside of Rolls-Royce's influence.

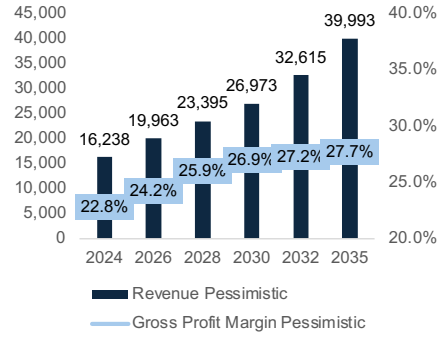

Exhibit 48: Revenue & Margin Development in £m – Pessimistic Case (2024 – 2035)

Optimistic Scenario

In a favorable economic environment, Rolls-Royce sees increased demand across all segments, driven by a strong growing aviation sector, higher than expected defence spendings and ongoing global investments in energy and mobility. Operationally, Rolls-Royce can enhance efficiency through digital tools and supply chain optimization while prioritizing aligning with industry trends and expectations. In the best-case scenario, all these factors synergistically contribute to an extraordinary growth projection, reflected in an increase in stronger revenue growth of 0.8 p.p. per year compared to the base case for each segment. Additionally, we assumed that Rolls-Royce would be able to improve gross profit margins by 0.25 p.p. and to realize cost improvements in SG&A and R&D costs to sales of 1% across each segment due its successful and synergy generating transformation program. These assumptions yield a share price of 663.62 GBX for the optimistic case which represents a delta of +11.3% compared to the base case. To maintain conservative expectations, the optimistic scenario is assigned a probability of 10%.

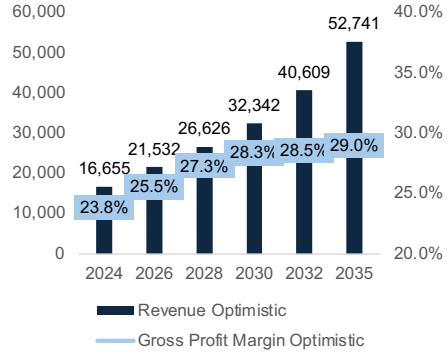

Exhibit 49: Revenue & Margin Development in £m – Optimistic Case (2024 – 2035)

[37] Source: ICAO, 2021

- Base Case w/o SMR Business

Rolls-Royce entered the SMR business in 2021 and is currently in the design and certification phase of its reactors. Future revenues and potential costs are therefore highly speculative and rely on multiple assumptions. Production delays, lack of orders and problems with certification processes can occur as possible obstacles. Due to this uncertainty, we developed a third scenario which excluded Rolls-Royce's SMR business from all revenue and cost streams. Besides excluding the SMR business, all assumptions are similar to the base case. Excluding the SMR business yields a share price of 568.49 GBX with a delta of -4.7% compared to the base case. This relatively small delta highlights our cautious approach when including SMR into the base case to not distort the valuation through speculative assumptions.

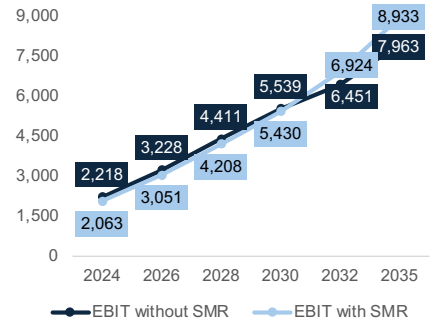

Exhibit 50: Development EBIT with and without SMR Business in £m (2024 – 2035)

Recommendation

Based on our valuation, we assign a **HOLD** rating to Rolls-Royce with a fair share price estimate of 613.28 GBX, including dividends, by 31 December 2025. This is derived from a weighted average of cash flow-based valuations (80% weight: 599.53 GBX) and a CCA (20% weight: 620.03 GBX), yielding a price of 603.63 GBX excluding dividends. Adding the expected dividend in 2025 of 9.65 GBX, we arrive at the final valuation. This approach emphasizes cash flow-based valuations as the most accurate reflection of intrinsic value, complemented by market-based multiples. Our overall recommendation is underpinned by Rolls-Royce's robust market positioning, ongoing operational turnaround, and significant growth potential across core and emerging business segments like Civil Aerospace and SMR. However, the substantial share price appreciation over the past year has narrowed the gap to its intrinsic value, suggesting more limited upside potential in the near term while reflecting the progress of the ongoing turnaround.

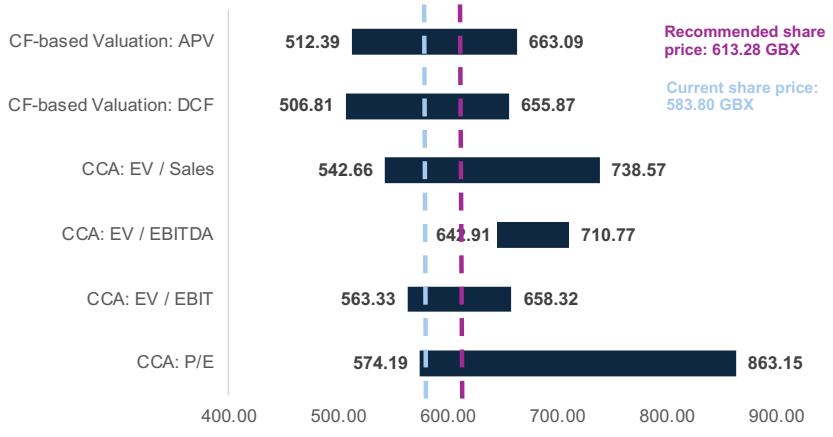

Exhibit 51: Football Field - Valuation

Appendix

Financial Statements

Balance Sheet Forecast

Reformulated Balance Sheet

in £m	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F	FY 2034F	FY 2035F
Total funds invested (Uses)																		
Core Business																		
Current Assets / Liabilities																		
Operating Cash	2,772	2,923	2,025	1,977	2,383	2,905	3,085	3,490	3,932	4,357	4,793	5,228	5,738	6,333	7,109	7,834	8,510	9,039
Trade receivables and other assets	4,690	5,065	5,455	5,383	6,936	8,123	8,442	9,551	10,762	11,925	13,117	14,307	15,703	17,330	19,455	21,438	23,289	24,737
Inventories	4,287	4,320	3,690	3,666	4,708	4,848	3,872	4,330	4,825	5,285	5,743	6,184	6,778	7,469	8,372	9,207	9,980	10,576
Contract Assets	2,057	2,095	1,510	1,473	1,481	1,242	1,858	2,036	2,216	2,397	2,580	2,765	2,951	3,139	3,328	3,522	3,723	3,933
Taxation recoverable	34	39	117	90	127	80	81	81	81	81	81	81	81	81	81	81	81	81
Trade payables and other liabilities	(8,292)	(8,450)	(6,653)	(6,016)	(6,983)	(6,896)	(6,981)	(7,807)	(8,700)	(9,529)	(10,355)	(11,150)	(12,220)	(13,466)	(15,094)	(16,600)	(17,993)	(19,067)
Contract liabilities	(3,794)	(4,228)	(4,187)	(3,599)	(4,825)	(6,098)	(5,808)	(6,166)	(6,499)	(6,810)	(7,100)	(7,370)	(7,619)	(8,104)	(8,593)	(9,092)	(9,612)	(10,153)
Current tax liabilities	(138)	(172)	(154)	(101)	(104)	(143)	(168)	(190)	(215)	(238)	(262)	(285)	(313)	(346)	(388)	(428)	(464)	(493)
Provisions for liabilities and charges	(915)	(799)	(686)	(449)	(615)	(515)	(677)	(766)	(863)	(957)	(1,052)	(1,148)	(1,260)	(1,390)	(1,561)	(1,720)	(1,868)	(1,984)
Net Working Capital (NWC)	**701**	**793**	**1,117**	**2,424**	**3,108**	**3,546**	**3,703**	**4,559**	**5,539**	**6,512**	**7,545**	**8,612**	**9,839**	**11,046**	**12,710**	**14,242**	**15,645**	**16,668**
Non-Current Assets / Liabilities																		
Intangible assets	5,295	5,442	5,145	4,041	4,098	4,009	4,095	4,219	4,383	4,581	4,814	5,079	5,382	5,730	6,140	6,601	7,107	7,638
Property, plant and equipment	4,929	4,803	4,515	3,917	3,936	3,728	3,638	3,622	3,677	3,787	3,947	4,149	4,399	4,701	5,076	5,504	5,972	6,449
Right-of-use assets	0	2,009	1,405	1,203	1,061	905	1,028	1,024	1,039	1,070	1,116	1,173	1,243	1,329	1,435	1,556	1,688	1,823
Deferred tax assets	2,092	1,887	1,826	2,249	2,731	2,998	3,028	3,025	2,981	2,898	2,775	2,609	2,413	2,181	1,894	1,571	1,215	841
Trade payables and other liabilities	(1,940)	(2,071)	(1,922)	(1,575)	(2,364)	(1,927)	(2,204)	(2,465)	(2,747)	(3,009)	(3,269)	(3,521)	(3,858)	(4,252)	(4,766)	(5,241)	(5,681)	(6,021)
Provisions for liabilities and charges	(649)	(1,812)	(930)	(1,046)	(1,656)	(1,449)	(1,558)	(1,763)	(1,986)	(2,201)	(2,421)	(2,641)	(2,898)	(3,199)	(3,591)	(3,957)	(4,299)	(4,566)
Contract liabilities	(5,336)	(6,612)	(6,245)	(6,710)	(7,337)	(8,438)	(8,910)	(9,413)	(9,873)	(10,294)	(10,680)	(11,031)	(11,348)	(12,070)	(12,799)	(13,542)	(14,316)	(15,122)
Deferred tax liabilities	(962)	(618)	(494)	(451)	(286)	(330)	(426)	(426)	(420)	(408)	(391)	(367)	(340)	(307)	(267)	(221)	(171)	(118)
Net Core Non-Current Assets	**3,429**	**3,028**	**3,300**	**1,628**	**183**	**(504)**	**(1,310)**	**(2,176)**	**(2,946)**	**(3,575)**	**(4,109)**	**(4,549)**	**(5,008)**	**(5,887)**	**(6,878)**	**(7,729)**	**(8,486)**	**(9,076)**
Core Invested Capital	**4,130**	**3,821**	**4,417**	**4,052**	**3,291**	**3,042**	**2,394**	**2,382**	**2,593**	**2,937**	**3,437**	**4,063**	**4,831**	**5,159**	**5,832**	**6,513**	**7,159**	**7,592**
Non-Core Business																		
Current Assets / Liabilities																		
Other financial assets	343	467	687	361	542	360	589	666	751	832	915	998	1,096	1,209	1,357	1,496	1,625	1,726
Post-retirement scheme surpluses	1,944	1,170	907	1,148	613	782	717	652	586	521	456	391	326	260	195	130	65	0
Assets held for sale	750	18	288	2,028	0	109	233	233	233	233	233	233	233	233	233	233	233	233
Short-term investments	6	6	0	8	11	0	5	5	5	5	5	5	5	5	5	5	5	5
Investments - joint ventures and associates	412	402	394	404	422	479	482	485	488	491	495	498	501	504	507	511	514	517
Other financial liabilities	(647)	(493)	(608)	(689)	(1,016)	(448)	(447)	(490)	(534)	(575)	(616)	(655)	(703)	(765)	(841)	(914)	(982)	(1,040)
Post-retirement scheme deficits	(1,303)	(1,378)	(1,580)	(1,373)	(1,033)	(1,035)	(949)	(863)	(776)	(690)	(604)	(518)	(431)	(345)	(259)	(173)	(86)	0
Liabilities associated with assets held for sale	(376)	(15)	(228)	(723)	0	(55)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)
Provisions: Tax related interest and penalties	(36)	(17)	(14)	(4)	(4)	(6)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(16)	(17)	(18)
Provisions: Claims and litigation	0	0	0	0	0	(11)	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Restructering	(119)	(21)	(100)	(6)	(2)	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Insurance	(51)	(21)	(25)	(16)	(11)	0	(12)	(13)	(15)	(17)	(18)	(20)	(22)	(24)	(27)	(30)	(33)	(35)
Net Non-Core Current Assets	**922**	**118**	**(280)**	**1,138**	**(478)**	**175**	**379**	**436**	**497**	**559**	**623**	**689**	**760**	**832**	**924**	**1,010**	**1,090**	**1,155**
Non-Current Assets / Liabilities																		
Investments – other	22	14	19	36	36	31	34	38	43	48	52	57	63	69	78	86	93	99
Other financial assets	22	86	107	46	141	34	94	106	120	133	146	159	175	193	216	238	259	275
Other financial liabilities	(3,542)	(3,094)	(3,046)	(2,715)	(3,230)	(1,983)	(2,139)	(2,297)	(2,454)	(2,598)	(2,737)	(2,867)	(3,012)	(3,238)	(3,498)	(3,749)	(3,995)	(4,217)
Provisions: Tax related interest and penalties	(26)	(38)	(19)	(10)	(12)	(16)	(14)	(16)	(18)	(20)	(22)	(24)	(27)	(29)	(33)	(36)	(40)	(42)
Provisions: Claims and litigation	0	0	0	0	0	(32)	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Restructering	(85)	(47)	(136)	(15)	(4)	0	0	0	0	0	0	0	0	0	0	0	0	0
Provisions: Insurance	(36)	(49)	(35)	(36)	(29)	0	(27)	(31)	(35)	(38)	(42)	(46)	(51)	(56)	(63)	(69)	(75)	(80)
Net Non-Core Non-Current Assets	**(3,644)**	**(3,128)**	**(3,109)**	**(2,694)**	**(3,098)**	**(1,966)**	**(2,053)**	**(2,200)**	**(2,344)**	**(2,477)**	**(2,603)**	**(2,722)**	**(2,852)**	**(3,061)**	**(3,300)**	**(3,531)**	**(3,758)**	**(3,965)**
Non-Core Invested Capital	**(2,722)**	**(3,010)**	**(3,389)**	**(1,556)**	**(3,576)**	**(1,791)**	**(1,674)**	**(1,764)**	**(1,846)**	**(1,918)**	**(1,980)**	**(2,032)**	**(2,092)**	**(2,229)**	**(2,376)**	**(2,521)**	**(2,667)**	**(2,810)**
Financial Operations																		
Excess Cash	2,202	1,520	1,427	644	224	879	2,671	3,022	3,405	3,773	4,150	4,527	4,968	5,483	6,155	6,783	7,368	7,826
Short-term Debt	(858)	(775)	(1,272)	(279)	(358)	(809)	(717)	(437)	(488)	(538)	(588)	(638)	(695)	(762)	(847)	(926)	(999)	(1,058)
Long-term Debt	(3,804)	(4,910)	(6,058)	(7,497)	(5,597)	(4,950)	(5,177)	(3,157)	(3,524)	(3,879)	(4,242)	(4,604)	(5,018)	(5,495)	(6,109)	(6,680)	(7,210)	(7,630)
Net Financial Debt	**(2,460)**	**(4,165)**	**(5,903)**	**(7,132)**	**(5,731)**	**(4,880)**	**(3,223)**	**(572)**	**(608)**	**(644)**	**(680)**	**(716)**	**(745)**	**(774)**	**(800)**	**(823)**	**(841)**	**(862)**
Equity attributable to ordinary shareholders	**(1,074)**	**(3,376)**	**(4,897)**	**(4,662)**	**(6,050)**	**(3,681)**	**(2,556)**	**(6)**	**87**	**324**	**725**	**1,263**	**1,943**	**2,104**	**2,604**	**3,116**	**3,598**	**3,868**
Non-controlling interest (NCI)	22	22	22	26	34	52	52	52	52	52	52	52	52	52	52	52	52	52
Total Equity	**(1,052)**	**(3,354)**	**(4,875)**	**(4,636)**	**(6,016)**	**(3,629)**	**(2,504)**	**46**	**139**	**376**	**777**	**1,315**	**1,995**	**2,156**	**2,656**	**3,168**	**3,650**	**3,920**
Total Funding	**1,408**	**811**	**1,028**	**2,496**	**(285)**	**1,251**	**720**	**618**	**746**	**1,019**	**1,457**	**2,031**	**2,740**	**2,930**	**3,456**	**3,992**	**4,491**	**4,782**

Cash Flow Forecast

Reformulated Cash Flow Map

in £m	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F	FY 2034F	FY 2035F
NOPLAT	1,054	(2,423)	(136)	421	1,414	1,754	2,149	2,593	3,061	3,577	4,132	4,615	5,158	5,885	6,494	7,087	7,593
Depreciation & Amortization	**1,315**	**2,455**	**1,009**	**1,004**	**1,029**	**988**	**982**	**994**	**1,020**	**1,059**	**1,110**	**1,171**	**1,245**	**1,334**	**1,439**	**1,557**	**1,683**
Amortisation and impairment of intangible assets	372	902	290	287	272	265	270	278	289	302	318	335	355	378	405	436	469
Depreciation and impairment of property, plant and equipment	532	821	462	430	423	398	389	387	393	405	422	443	470	502	542	588	638
Depreciation and impairment of right-of-use assets	411	732	257	287	334	325	323	328	338	352	370	393	420	453	491	533	576
Recurrent Gross Cash Flow	2,369	32	873	1,425	2,443	2,742	3,131	3,587	4,081	4,636	5,242	5,787	6,403	7,219	7,933	8,644	9,276
Less: Δ in Working Capital	92	324	1,307	684	438	157	856	980	973	1,034	1,067	1,227	1,206	1,664	1,532	1,403	1,023
Operating Cash	151	(898)	(48)	406	522	180	405	442	425	436	435	510	594	777	725	676	529
Trade receivables and other assets	375	390	(72)	1,553	1,187	319	1,109	1,211	1,163	1,192	1,190	1,396	1,627	2,125	1,983	1,851	1,448
Inventories	33	(630)	(24)	1,042	140	(976)	458	495	460	458	441	593	691	903	835	773	596
Contract Assets	38	(585)	(37)	8	(239)	616	179	180	181	183	185	186	188	189	193	201	210
Taxation recoverable	5	78	(27)	37	(47)	1	0	0	0	0	0	0	0	0	0	0	0
Trade payables and other liabilities	158	(1,797)	(637)	967	(87)	85	826	893	829	825	796	1,070	1,246	1,628	1,506	1,393	1,074
Contract liabilities	434	(41)	(588)	1,226	1,273	(290)	358	333	311	290	269	249	485	489	499	520	541
Current tax liabilities	34	(18)	(53)	3	39	25	22	24	23	24	24	28	32	42	40	37	29
Provisions for liabilities and charges	(116)	(113)	(237)	166	(100)	162	89	97	93	96	96	112	130	170	159	148	116
Less: Capital Expenditures	925	1,138	(950)	793	398	659	768	883	991	1,100	1,207	1,331	1,476	1,665	1,838	1,997	2,116
Intangible assets	519	605	(814)	344	183	351	394	442	488	535	583	638	703	788	867	941	1,000
Property, plant and equipment	406	533	(136)	449	215	308	373	441	504	565	624	693	772	877	971	1,055	1,116
Less: Δ in Right-of-use assets	2,420	128	55	145	178	448	319	343	369	398	427	463	505	559	612	665	711
Less: Δ in Deferred Tax Assets	(205)	(61)	423	482	267	30	(3)	(44)	(82)	(123)	(166)	(197)	(232)	(287)	(324)	(356)	(374)
Less: Δ in Trade payables and other liabilities	(131)	149	347	(789)	437	(277)	(261)	(282)	(262)	(261)	(251)	(338)	(393)	(514)	(475)	(440)	(339)
Less: Δ in Provisions for liabilities and charges	(1,163)	882	(116)	(610)	207	(109)	(205)	(223)	(215)	(220)	(220)	(258)	(300)	(392)	(366)	(342)	(267)
Less: Δ in Contract liabilities	(1,276)	367	(465)	(627)	(1,101)	(472)	(503)	(460)	(422)	(386)	(351)	(317)	(722)	(729)	(743)	(774)	(806)
Less: Δ in Deferred tax liabilities	344	124	43	165	(44)	(96)	0	6	12	17	23	28	33	40	46	50	53
Core Unlevered Free Cash Flow	**1,363**	**(3,019)**	**229**	**1,182**	**1,663**	**2,402**	**2,160**	**2,383**	**2,717**	**3,077**	**3,505**	**3,847**	**4,831**	**5,212**	**5,813**	**6,441**	**7,160**
Growth in %	*-*	*-322%*	*108%*	*416%*	*41%*	*44%*	*-10%*	*10%*	*14%*	*13%*	*14%*	*10%*	*26%*	*8%*	*12%*	*11%*	*11%*
Non operating result (after taxation)	(2,103)	155	(107)	229	512	84	158	250	312	366	413	451	486	529	564	600	634
Less: Δ in Non-Core Invested Capital	(288)	(379)	1,833	(2,020)	1,785	117	(90)	(82)	(71)	(62)	(52)	(59)	(137)	(147)	(145)	(146)	(142)
Non-Core Unlevered Free Cash Flow	**(1,815)**	**534**	**(1,940)**	**2,249**	**(1,273)**	**(33)**	**249**	**332**	**384**	**428**	**465**	**511**	**623**	**676**	**709**	**747**	**776**
Growth in %	*-*	*129%*	*-463%*	*216%*	*-157%*	*97%*	*854%*	*34%*	*16%*	*11%*	*9%*	*10%*	*22%*	*8%*	*5%*	*5%*	*4%*
Total Unlevered Free Cash Flow	**(452)**	**(2,485)**	**(1,711)**	**3,431**	**391**	**2,369**	**2,409**	**2,715**	**3,100**	**3,505**	**3,970**	**4,358**	**5,454**	**5,888**	**6,522**	**7,187**	**7,936**
Growth in %	*-*	*-450%*	*31%*	*301%*	*-89%*	*507%*	*2%*	*13%*	*14%*	*13%*	*13%*	*10%*	*25%*	*8%*	*11%*	*10%*	*10%*
Financing Result before taxes	**(178)**	**(813)**	**(863)**	**(2,420)**	**482**	**(263)**	**51**	**62**	**72**	**83**	**93**	**107**	**123**	**146**	**168**	**188**	**204**
Tax shield	(84)	(88)	1,227	496	(5)	66	(13)	(16)	(18)	(21)	(23)	(27)	(31)	(37)	(42)	(47)	(51)
Δ in Net Financial Capital	(1,705)	(1,738)	(1,229)	1,401	851	1,657	2,651	(36)	(36)	(36)	(36)	(29)	(29)	(26)	(23)	(18)	(20)
Δ Equity Book Value	(2,302)	(1,521)	239	(1,380)	2,387	1,125	2,550	92	237	401	538	679	161	500	513	481	270
Comprehensive income (loss) attributable to the Company	(1,311)	(3,169)	121	(1,274)	2,404	1,641	2,346	2,889	3,428	4,004	4,615	5,147	5,736	6,524	7,184	7,828	8,379
Financial Free Cashflow	**452**	**2,485**	**1,711**	**(3,431)**	**(391)**	**(2,369)**	**(2,409)**	**(2,715)**	**(3,100)**	**(3,505)**	**(3,970)**	**(4,358)**	**(5,454)**	**(5,888)**	**(6,522)**	**(7,187)**	**(7,936)**

Income Statement Forecast

Reformulated income statement *in £m*	FY 2018A	FY 2019A	FY 2020A	FY 2021A	FY 2022A	FY 2023A	FY 2024E	FY 2025F	FY 2026F	FY 2027F	FY 2028F	FY 2029F	FY 2030F	FY 2031F	FY 2032F	FY 2033F	FY 2034F	FY 2035F
Operating and recurrent Activities																		
Underlying Revenues	**14,286**	**15,261**	**11,430**	**10,947**	**12,691**	**15,409**	**16,532**	**18,703**	**21,074**	**23,351**	**25,685**	**28,016**	**30,750**	**33,936**	**38,097**	**41,980**	**45,605**	**48,441**
Civil Aerospace	7,378	8,107	5,068	4,536	5,686	7,348	7,824	9,292	10,923	12,427	13,955	15,446	16,879	18,247	19,549	20,868	22,205	23,562
Defence	3,124	3,250	3,355	3,368	3,660	4,077	4,439	4,809	5,184	5,560	5,934	6,303	6,666	7,023	7,375	7,723	8,087	8,469
Power Systems	3,434	3,545	2,735	2,749	3,347	3,968	4,273	4,606	4,968	5,362	5,791	6,259	6,770	7,332	7,951	8,639	9,394	10,223
New Markets	0	0	5	2	3	4	2	5	8	12	18	23	450	1,350	3,240	4,770	5,940	6,210
Other businesses	0	0	273	303	0	12	2	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	(429)	(577)	(6)	(11)	(5)	0	(8)	(9)	(10)	(11)	(12)	(13)	(15)	(16)	(18)	(20)	(22)	(23)
ITP Aero (Discontinued in 2021)	*779*	*936*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Cost of Sales	**(12,046)**	**(12,919)**	**(12,043)**	**(8,951)**	**(10,214)**	**(12,178)**	**(12,637)**	**(14,132)**	**(15,749)**	**(17,250)**	**(18,744)**	**(20,184)**	**(22,120)**	**(24,376)**	**(27,323)**	**(30,049)**	**(32,571)**	**(34,515)**
Underlying Cost of Sales	(13,489)	(14,245)	(12,104)	(9,222)	(11,043)	(13,255)	(13,610)	(15,233)	(16,989)	(18,624)	(20,256)	(21,833)	(23,930)	(26,373)	(29,565)	(32,520)	(35,256)	(37,367)
Double accounted FX adjustments	1,443	1,326	61	271	829	1,077	973	1,101	1,241	1,375	1,512	1,649	1,810	1,998	2,243	2,471	2,685	2,852
Underlying Gross Profit	**2,240**	**2,342**	**(613)**	**1,996**	**2,477**	**3,231**	**3,894**	**4,571**	**5,325**	**6,101**	**6,942**	**7,832**	**8,630**	**9,560**	**10,775**	**11,932**	**13,034**	**13,926**
Civil Aerospace	493	622	(1,987)	474	853	1,394	1,875	2,313	2,825	3,338	3,893	4,475	4,890	5,286	5,664	6,046	6,433	6,826
Defence	690	669	684	721	726	804	917	1,033	1,158	1,291	1,432	1,581	1,672	1,762	1,850	1,938	2,029	2,125
Power Systems	866	909	678	778	918	1,050	1,124	1,231	1,349	1,479	1,623	1,782	1,958	2,154	2,374	2,620	2,894	3,200
New Markets	0	0	2	1	(1)	1	0.6	1	2	3	5	6	122	372	903	1,346	1,696	1,795
Other businesses	0	0	15	32	(29)	(15)	(16)	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	35	(64)	(5)	(10)	10	(3)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(16)	(18)	(19)	(20)
ITP Aero (Discontinued in 2021)	*156*	*206*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Operating Expenses	**(1,627)**	**(1,626)**	**(1,574)**	**(1,673)**	**(1,948)**	**(1,803)**	**(1,831)**	**(2,043)**	**(2,274)**	**(2,500)**	**(2,734)**	**(2,971)**	**(3,200)**	**(3,492)**	**(3,851)**	**(4,292)**	**(4,696)**	**(4,993)**
Civil Aerospace	(668)	(673)	(717)	(731)	(823)	(697)	(641)	(761)	(894)	(1,018)	(1,143)	(1,265)	(1,382)	(1,494)	(1,601)	(1,709)	(1,818)	(1,929)
Underlying Commercial and administrative costs	(336)	(299)	(310)	(297)	(371)	(354)	(289)	(343)	(403)	(458)	(515)	(570)	(623)	(673)	(721)	(770)	(819)	(869)
Underlying Research and development costs	(332)	(374)	(407)	(434)	(452)	(343)	(352)	(418)	(492)	(559)	(628)	(695)	(760)	(821)	(880)	(939)	(999)	(1,060)
Defence	(270)	(256)	(232)	(266)	(296)	(245)	(316)	(342)	(369)	(395)	(422)	(448)	(474)	(500)	(525)	(549)	(575)	(602)
Underlying Commercial and administrative costs	(170)	(151)	(146)	(161)	(174)	(173)	(188)	(204)	(220)	(236)	(252)	(267)	(283)	(298)	(313)	(328)	(343)	(359)
Underlying Research and development costs	(100)	(105)	(86)	(105)	(122)	(72)	(127)	(138)	(149)	(160)	(170)	(181)	(191)	(201)	(212)	(222)	(232)	(243)
Power Systems	(551)	(550)	(491)	(540)	(645)	(643)	(684)	(733)	(786)	(844)	(906)	(973)	(1,047)	(1,127)	(1,215)	(1,313)	(1,419)	(1,535)
Underlying Commercial and administrative costs	(363)	(374)	(331)	(383)	(441)	(456)	(451)	(482)	(515)	(551)	(589)	(631)	(676)	(726)	(780)	(840)	(905)	(976)
Underlying Research and development costs	(188)	(176)	(160)	(157)	(204)	(187)	(234)	(252)	(272)	(293)	(317)	(342)	(370)	(401)	(435)	(472)	(514)	(559)
New Markets	0	0	(47)	(71)	(131)	(161)	(155)	(167)	(179)	(193)	(208)	(225)	(232)	(299)	(429)	(631)	(786)	(822)
Underlying Commercial and administrative costs	0	0	(1)	(3)	(23)	(24)	(9)	(11)	(14)	(19)	(24)	(32)	(29)	(87)	(208)	(305)	(379)	(396)
Underlying Research and development costs	0	0	(46)	(68)	(108)	(137)	(146)	(156)	(165)	(174)	(184)	(193)	(202)	(212)	(221)	(326)	(407)	(426)
Other businesses	0	0	(35)	(30)	(2)	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Underlying Commercial and administrative costs	0	0	(26)	(20)	(2)	0	(0)	0	0	0	0	0	0	0	0	0	0	0
Underlying Research and development costs	0	0	(9)	(10)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	(51)	(53)	(52)	(35)	(51)	(57)	(35)	(40)	(45)	(50)	(55)	(60)	(66)	(73)	(82)	(90)	(98)	(104)
Underlying Commercial and administrative costs	(51)	(53)	(52)	(35)	(51)	(57)	(35)	(40)	(45)	(50)	(55)	(60)	(66)	(73)	(82)	(90)	(98)	(104)
Underlying Research and development costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
ITP Aero (Discontinued in 2021)	(87)	(94)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underlying Commercial and administrative costs	(57)	(61)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underlying Research and development costs	(30)	(33)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Operating Profit before taxes (EBIT)	**613**	**716**	**(2,187)**	**323**	**529**	**1,428**	**2,063**	**2,528**	**3,051**	**3,601**	**4,208**	**4,861**	**5,430**	**6,068**	**6,924**	**7,640**	**8,337**	**8,933**
Civil Aerospace	(175)	(51)	(2,704)	(257)	30	697	1,235	1,553	1,930	2,320	2,750	3,210	3,508	3,792	4,063	4,337	4,615	4,897
% - Operating profit margin	*-2.4%*	*-0.6%*	*-53.4%*	*-5.7%*	*0.5%*	*9.5%*	*15.8%*	*16.7%*	*17.7%*	*18.7%*	*19.7%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*	*20.8%*
Defence	420	413	452	455	430	559	602	691	789	895	1,010	1,133	1,198	1,262	1,326	1,388	1,454	1,522
% - Operating profit margin	*13.4%*	*12.7%*	*13.5%*	*13.5%*	*11.7%*	*13.7%*	*13.6%*	*14.4%*	*15.2%*	*16.1%*	*17.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*	*18.0%*
Power Systems	315	359	187	238	273	407	440	498	563	635	717	809	911	1,027	1,159	1,308	1,475	1,665
% - Operating profit margin	*9.2%*	*10.1%*	*6.8%*	*8.7%*	*8.2%*	*10.3%*	*10.3%*	*10.8%*	*11.3%*	*11.8%*	*12.4%*	*12.9%*	*13.5%*	*14.0%*	*14.6%*	*15.1%*	*15.7%*	*16.3%*
New Markets	0	0	(45)	(70)	(132)	(160)	(154)	(166)	(177)	(190)	(203)	(219)	(109)	73	474	714	910	973
% - Operating profit margin	-	-	*-900.0%*	*-3500.0%*	*-4400.0%*	*-4000.0%*	*-6929.2%*	*-3643.6%*	*-2213.8%*	*-1520.0%*	*-1155.6%*	*-955.3%*	*-24.3%*	*5.4%*	*14.6%*	*15.0%*	*15.3%*	*15.7%*
Other businesses	0	0	(20)	2	(31)	(15)	(16)	0	0	0	0	0	0	0	0	0	0	0
Corporate and inter-segment	(16)	(117)	(57)	(45)	(41)	(60)	(42)	(48)	(54)	(60)	(66)	(72)	(79)	(87)	(97)	(107)	(117)	(124)
ITP Aero (Discontinued in 2021)	69	112	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Taxation	**(115)**	**338**	**(236)**	**(459)**	**(108)**	**(14)**	**(310)**	**(379)**	**(458)**	**(540)**	**(631)**	**(729)**	**(814)**	**(910)**	**(1,039)**	**(1,146)**	**(1,251)**	**(1,340)**
Statutory taxes	(116)	(136)	416	(61)	(101)	(336)	(516)	(632)	(763)	(900)	(1,052)	(1,215)	(1,357)	(1,517)	(1,731)	(1,910)	(2,084)	(2,233)
Tax Adjustments	1	474	(651)	(398)	(8)	322	206	253	305	360	421	486	543	607	692	764	834	893
Operating Result after tax (NOPLAT)	**498**	**1,054**	**(2,423)**	**(136)**	**421**	**1,414**	**1,754**	**2,149**	**2,593**	**3,061**	**3,577**	**4,132**	**4,615**	**5,158**	**5,885**	**6,494**	**7,087**	**7,593**
Non-Core Operations																		
Non-Operating Income (Expenses)	**(1,806)**	**(1,677)**	**36**	**99**	**185**	**354**	**(150)**	**(104)**	**(14)**	**46**	**94**	**135**	**164**	**192**	**229**	**255**	**281**	**303**
Derivative & FX adjustments	(24)	144	1,003	(40)	264	475	141	173	209	247	288	333	372	416	475	524	571	612
Programme exceptional charges	(976)	(1,409)	620	105	69	21	(40)	(15)	(6)	(2)	(1)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Restructuring exceptional charges	(331)	(151)	(470)	45	(47)	(102)	(125)	(125)	(69)	(38)	(21)	(11)	(6)	(3)	(2)	(1)	(1)	(0)
Acquisition accounting & M&A	183	(24)	(85)	(50)	(58)	(50)	(71)	(80)	(90)	(100)	(110)	(120)	(132)	(145)	(163)	(180)	(195)	(207)
Impairments & asset write-offs	(155)	(84)	(1,336)	9	(65)	8	(56)	(57)	(58)	(60)	(63)	(67)	(71)	(75)	(81)	(88)	(95)	(102)
Pension past-service credit	0	0	308	47	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other underlying adjustments	(130)	(12)	(4)	(17)	22	2	0	0	0	0	0	0	0	0	0	0	0	0
Business disposals (relevant for 2018 & 2019)	(358)	(139)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Non-core adjustments (relevant for 2018 & 2019)	(15)	(2)	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Underlying Share of results of joint ventures and associates	**32**	**109**	**179**	**91**	**123**	**162**	**217**	**237**	**255**	**268**	**284**	**298**	**315**	**327**	**341**	**356**	**373**	**390**
Gain / (loss) araising on disposal of businesses	**358**	**139**	**(14)**	**56**	**81**	**1**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**	**53**
Non-Core Result before taxes	**(1,416)**	**(1,429)**	**201**	**246**	**389**	**517**	**119**	**186**	**294**	**368**	**430**	**486**	**531**	**572**	**622**	**664**	**706**	**745**
Taxation	**266**	**(674)**	**22**	**(350)**	**(80)**	**(5)**	**(18)**	**(28)**	**(44)**	**(55)**	**(65)**	**(73)**	**(80)**	**(86)**	**(93)**	**(100)**	**(106)**	**(112)**
Statutory taxes	269	272	(38)	(47)	(74)	(121)	(30)	(47)	(73)	(92)	(108)	(121)	(133)	(143)	(156)	(166)	(177)	(186)
Tax Adjustments	(3)	(945)	60	(303)	(6)	117	12	19	29	37	43	49	53	57	62	66	71	75
Activities from discontinuing operations	**0**	**0**	**(68)**	**(3)**	**(80)**	**0**	**(17)**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Profit for the year from ordinary activities	0	0	(68)	36	68	0	0	0	0	0	0	0	0	0	0	0	0	0
Costs of disposal of discontinued operations prior to disposal	0	0	0	(39)	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Loss on disposal of discontinued operations	0	0	0	0	(148)	0	(17)	0	0	0	0	0	0	0	0	0	0	0
Result Non-Core after tax	**(1,150)**	**(2,103)**	**155**	**(107)**	**229**	**512**	**84**	**158**	**250**	**312**	**366**	**413**	**451**	**486**	**529**	**564**	**600**	**634**
Financing Activities																		
Financial Result before taxes	**(2,144)**	**(178)**	**(813)**	**(863)**	**(2,420)**	**482**	**(263)**	**51**	**62**	**72**	**83**	**93**	**107**	**123**	**146**	**168**	**188**	**204**
Financing Income	271	252	61	229	355	1,163	406	459	517	573	630	688	755	833	935	1,030	1,119	1,189
Financing Costs	(2,415)	(430)	(874)	(1,092)	(2,775)	(681)	(668)	(408)	(455)	(501)	(548)	(594)	(648)	(709)	(789)	(862)	(931)	(985)
Taxation	**403**	**(84)**	**(88)**	**1,227**	**496**	**(5)**	**66**	**(13)**	**(16)**	**(18)**	**(21)**	**(23)**	**(27)**	**(31)**	**(37)**	**(42)**	**(47)**	**(51)**
Statutory taxes	407	34	154	164	460	(113)	66	(13)	(16)	(18)	(21)	(23)	(27)	(31)	(37)	(42)	(47)	(51)
Tax Adjustments	(4)	(118)	(242)	1,063	36	109	0	0	0	0	0	0	0	0	0	0	0	0
Result Financial after tax	**(1,741)**	**(262)**	**(901)**	**364**	**(1,924)**	**477**	**(197)**	**39**	**47**	**54**	**62**	**70**	**80**	**92**	**110**	**126**	**141**	**153**
Results																		
Profit / (loss) for the year	(2,393)	(1,311)	(3,169)	121	(1,274)	2,404	1,641	2,346	2,889	3,428	4,004	4,615	5,147	5,736	6,524	7,184	7,828	8,379
Attributable to:																		
Ordinary shareholders	(2,401)	(1,315)	(3,170)	120	(1,269)	2,412	1,642	2,347	2,890	3,429	4,005	4,616	5,148	5,737	6,525	7,185	7,829	8,380
Non-controlling interests (NCI)	8	4	1	1	(5)	(8)	1	1	1	1	1	1	1	1	1	1	1	1
Profit / (loss) for the year	(2,393)	(1,311)	(3,169)	121	(1,274)	2,404	1,641	2,346	2,889	3,428	4,004	4,615	5,147	5,736	6,524	7,184	7,828	8,379
Other comprehensive (expense) / income (OCI)	182	(1,013)	(265)	41	522	(171)	0	0	0	0	0	0	0	0	0	0	0	0
Total comprehensive income / (expense) of the year	**(2,211)**	**(2,324)**	**(3,434)**	**162**	**(752)**	**2,233**	**1,641**	**2,346**	**2,889**	**3,428**	**4,004**	**4,615**	**5,147**	**5,736**	**6,524**	**7,184**	**7,828**	**8,379**

Additional Exhibits

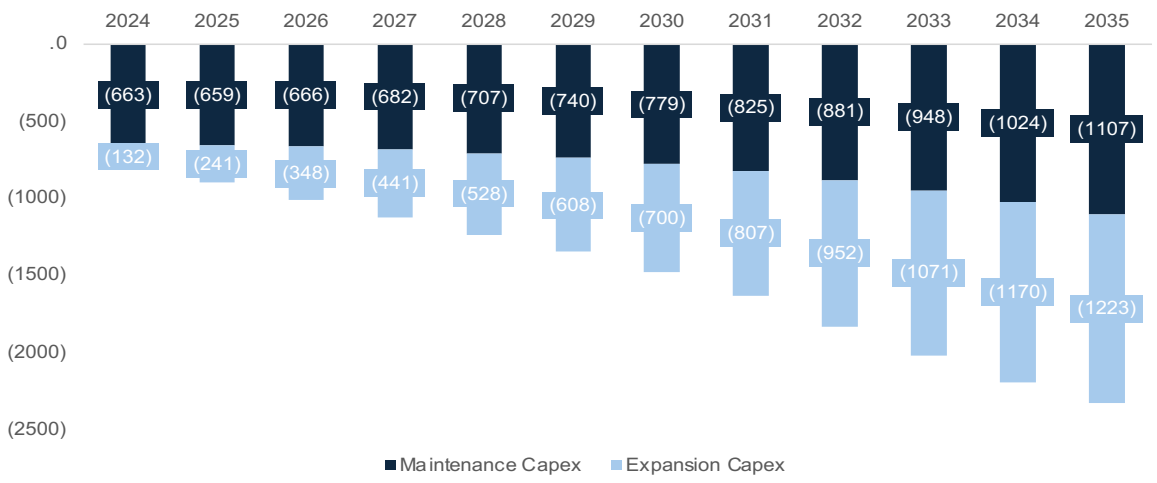

Exhibit 52: Capex Development in £m (2024 – 2035)

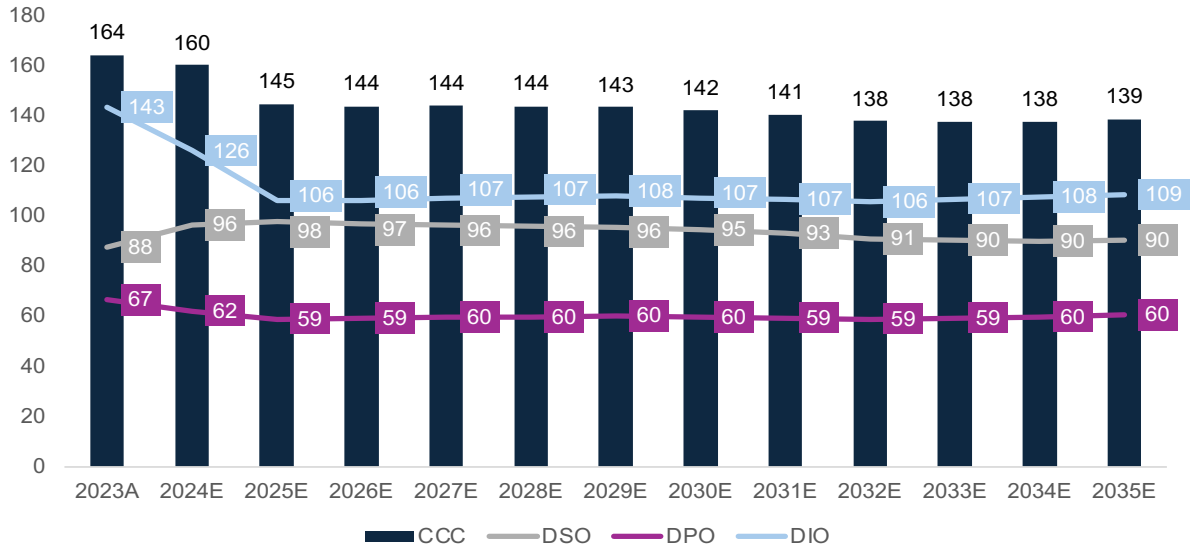

Exhibit 53: Cash Conversion Development (2023 – 2035)

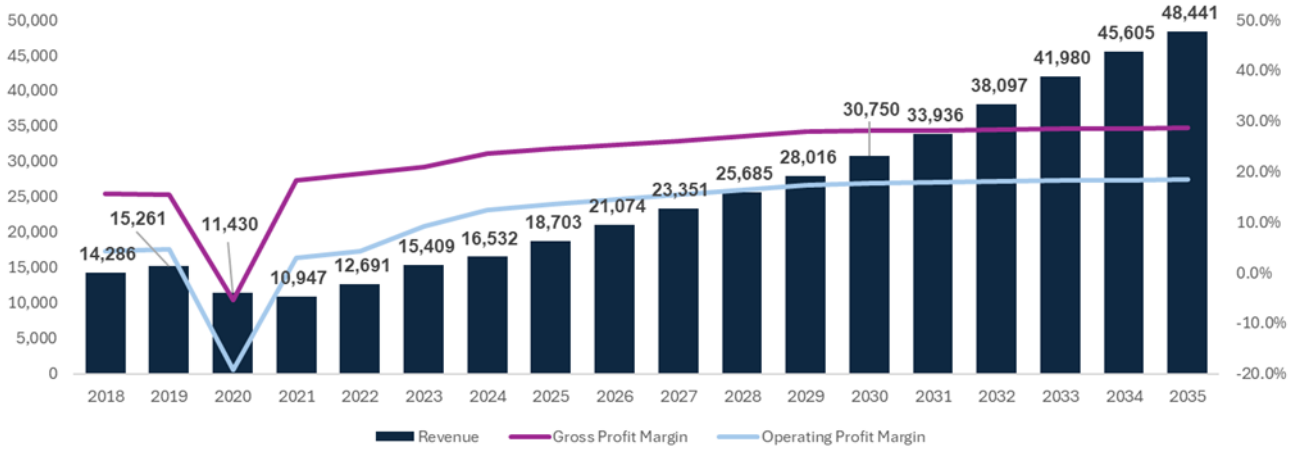

Exhibit 54: Development Operating Performance in £m (2018 – 2035)

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Report Recommendations

Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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