



# 2020

## Full Year Results

11 March 2021





## Safe harbour statement

This announcement contains certain forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of the Company's strategic transactions, are forward-looking statements. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement, and will not be updated during the year. Nothing in this announcement should be construed as a profit forecast. All figures are on an underlying basis unless otherwise stated - see note 2 of the Financial Review section of the 2020 Full Year Results Statement for the definition.



# 2020 Performance Summary

**Warren East**

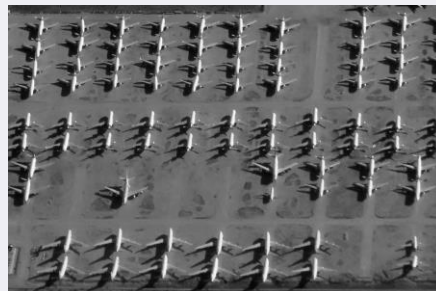
Chief Executive Officer



## Safeguarding our people and business

In a year of unprecedented disruption we focused on **protecting our people and our business**

We also continued to pursue our **long-term commitment to drive innovation in sustainable lower-carbon power solutions**



### We focused on protecting our people and our business

#### Our people

Immediate actions to keep our people safe while serving our customers  
Working with our people to deliver necessary restructuring



#### Our communities

Provided practical assistance to the community; manufacturing PPE, supporting education and working on ventilators



#### Our investments

Continue to invest in low carbon future technology  
Launched the Emergent Alliance – a global community using data analytics to assist recovery





## Group performance

Our FY 2020 performance was severely impacted  
by the COVID-19 pandemic

**We responded decisively and effectively to  
challenging market conditions**

### **FY 2020 Results summary**

- Group free cash outflow of £(4.2)bn, driven by Civil Aerospace
- Rapid mitigating actions reduced in-year cash costs by over £1.0bn
- £7.3bn additional liquidity secured, including £2.0bn rights issue
- Major restructuring programme implemented targeting £1.3bn savings
- Strong progress in 2020 with approximately 7,000 roles removed
- Potential disposals announced to generate >£2bn proceeds



## Business highlights

Our businesses responded well to the varying level of impact from COVID-19, and continued to pursue strategic priorities



### Civil Aerospace

- Sharp reduction in demand due to COVID-19
- Major restructuring underway to re-position the business
- Good progress on in-service durability issues (zero AoG)

### ITP Aero

- Civil (~70% revenue) impacted by COVID-19
- Defence (~30% revenue) performed resiliently



### Power Systems

- Diversified end market exposure increased resilience
- Structural growth and market share driving gains in China
- Investments targeted to support low-carbon solutions



### Defence

- Steady growth with stable demand
- Good support from government customers
- Effective mitigations to protect operations and supply

MATERIALLY IMPACTED

Widebody

Regional & V2500

Business Aviation

Commercial  
(industrial, power gen, marine)

Governmental  
(naval & coastguard)

Government customers

RESILIENT



# 2020 Results Summary

**Stephen Daintith**

Chief Financial Officer



## Group underlying results

Significant impact from largely **one-time, COVID-19 related charges**, mostly taken in the first half

Underlying £m		FY 2020	FY 2019	Change	Organic change <sup>1</sup>
Revenue	①	11,763	15,450	(3,687)	(3,582)
Gross (loss) / profit	②	(512)	2,387	(2,899)	(2,872)
Gross margin %		(4.4)%	15.4%	(19.8)%pt	(19.9)%pt
Operating (loss) / profit		(1,972)	808	(2,780)	(2,782)
Operating margin %		(16.8)%	5.2%	(22.0)%pt	(22.2)%pt
Financing costs	③	(1,986)	(225)	(1,761)	(1,763)
<b>(Loss) / profit before tax</b>		<b>(3,958)</b>	583	<b>(4,541)</b>	<b>(4,545)</b>

<sup>1</sup> Organic change at constant translational currency ('constant currency') applying 2019 average rates to 2020 and excluding M&A. All commentary is provided on an organic basis unless otherwise stated.

£1,061m

### ① ~£1.1bn underlying revenue charges

Civil LTSA contract catch-ups due to lower forecast future flying hours

£974m

### ② ~£1.3bn underlying gross profit charges

Drop-through of Civil LTSA contract catch-ups (post-RRSPs)

£213m

Up-front recognition of expected future losses on a small number of contracts

£86m

Specific customer provisions and customer credit rating deterioration

£1,705m

### ③ ~£1.7bn underlying finance charge

Action to reduce hedge book by \$11.8bn to match lower expected USD inflows





## Divisional performance

Material COVID-19 impact in Civil Aerospace and ITP Aero

Less severe impact in Power Systems

Strong performance in Defence

£m	Underlying Revenue	Organic change <sup>1</sup>	Underlying operating (loss)/profit	Organic change <sup>1</sup>
Civil Aerospace	5,089	(3,025)	(2,574)	(2,612)
Power Systems	2,745	(530)	178	(192)
Defence	3,366	125	448	34
ITP Aero	705	(240)	68	(43)
Corporate/Eliminations	(389)	192	(70)	46
Non-core businesses	247	(104)	(22)	(15)
<b>Total Group</b>	<b>11,763</b>	<b>(3,582)</b>	<b>(1,972)</b>	<b>(2,782)</b>

<sup>1</sup> Organic change at constant translational currency ('constant currency') applying 2019 average rates to 2020 and excluding M&A. All commentary is provided on an organic basis unless otherwise stated.

- **Civil Aerospace:** substantial impact from COVID-related one-time charges (£1.3bn at operating result), as well as lower volumes across OE and aftermarket
- **Power Systems:** decline in revenues led by industrial end markets and short-cycle services; profit lower due to reduced volumes, under-utilisation & adverse mix
- **Defence** delivered organic revenue growth and margin improvement despite the COVID-19 pandemic
- **ITP Aero** impacted by the same trends as Civil Aerospace and Defence, positive profit contribution



## 2020 cash mitigations successfully delivered

>£1bn 2020 savings successfully delivered versus pre-COVID budget

### Pay & Benefits



~£500m

- 10% pay cut in 2020 for senior management
- Accessed government furlough schemes
- Restructuring role reductions

### Capex



~£300m

- Paused non-essential capital spending from April
- Re-phased and delayed certain capital programmes
- PPE capex of £600m vs. pre-COVID budget of £900m

### Engineering (incl R&D)



~£200m

- COVID-19 has delayed airframer timelines for new aircraft programmes, allowing re-phasing of Civil Aero R&D spend
- Reduced spend on certain longer-dated projects



Modest additional savings across other indirect cost, e.g. travel & subcontractors

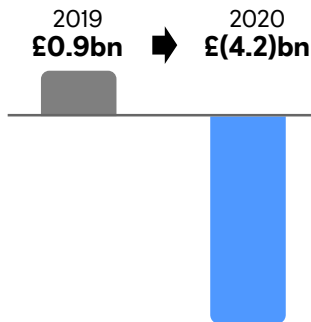
>£1bn

cash mitigations delivered during 2020



## Free cash flow: explaining 2020 deterioration

£5.1bn reduction YoY



1

~£(3.0)bn  
Operating  
performance

~£(2.8)bn Civil Aerospace impact, including:

>£(2.2)bn aftermarket: 57% fall in WB flying hours; reduced T&M and V2500 receipts

~£nil OE: WB installed OE benefit offset by lower spare & business jet

~£(0.6)bn other: primarily COVID-19 headwinds (including cost under-recoveries)

£(0.2)bn Power Systems & ITP impact partially offset by Defence resilience

2

~£(2.1)bn  
Working capital

~£(0.4)bn non-repeat of 2019 inflow

~£(1.1)bn invoice factoring: cessation of factoring during H1

~£(0.6)bn other: £(1.2)bn reduction in receivables/payables due to lower volumes in Civil Aerospace, offset by £0.6bn inventory improvement

3

<£0.1bn  
Other impacts

including:

£0.4bn lower capital spend: reduced PPE capex & intangibles spending

£(0.2)bn derivative close out costs: cost of closing unutilised FX hedges and derivatives

>£1bn cash mitigations

Helped to partially offset volume headwinds & under-recoveries, reduce indirect costs & investment



## Summary funds flow: £(4.2)bn free cash outflow in 2020

Civil Aerospace market deterioration and working capital outflow drove cash deterioration

£m	FY 2020	FY 2019	Change
<b>Underlying operating (loss) / profit</b>	<b>(1,972)</b>	808	<b>(2,780)</b>
Depreciation, amortisation and impairment	951	1,068	(117)
Civil Aero net LTSA contract balance change	479	754	(275)
Movement in provisions*	(195)	(333)	138
Change in inventory	588	(43)	631
Change in receivables / payables	(2,207)	492	(2,699)
Lease payments (inc. interest)	(379)	(319)	(60)
PPE capex	(579)	(747)	168
Intangibles capex	(316)	(591)	275
Derivative settlement costs	(202)	-	(202)
Interest, tax, pensions & other	(353)	(216)	(137)
<b>Group Free Cash Flow</b>	<b>(4,185)</b>	873	<b>(5,058)</b>

**1** £(3.0)bn  
Operating performance impact in Civil Aerospace, ITP & Power Systems

**2** £(2.1)bn  
Working capital YoY change: invoice factoring impact & impact of lower volumes in Civil

**3** <£0.1bn  
Other impacts: Management mitigations on capital spending offset FX costs & interest

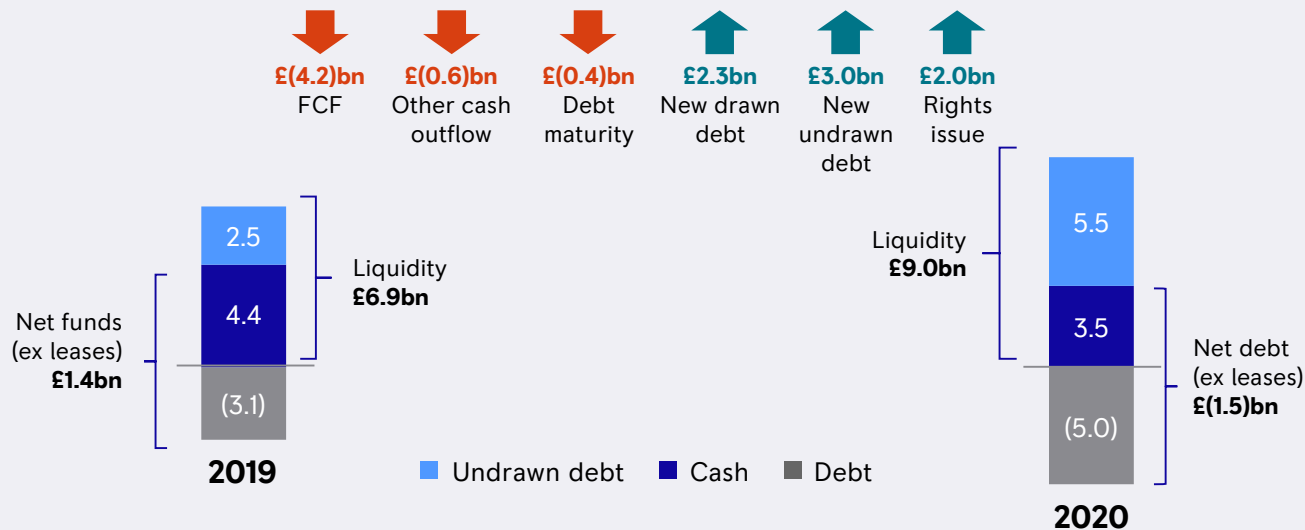


## Liquidity strengthened to £9.0bn

We have sufficient liquidity headroom even in a downside scenario, and before disposal proceeds

- Rights issue and additional debt utilised to create sufficient liquidity even in a “severe but plausible” downside scenario
- New debt is long-dated with limited maturities before 2025
- £5.5bn undrawn debt (£2.5bn RCF, £2.0bn (part backed by UKEF) and £1.0bn syndicated loan facilities)
- In addition to the £9.0bn FY20 position: approvals received for £1.0bn increase to the UKEF part-backed loan, intention to keep undrawn

### Liquidity strengthened to ~£9bn despite COVID-19



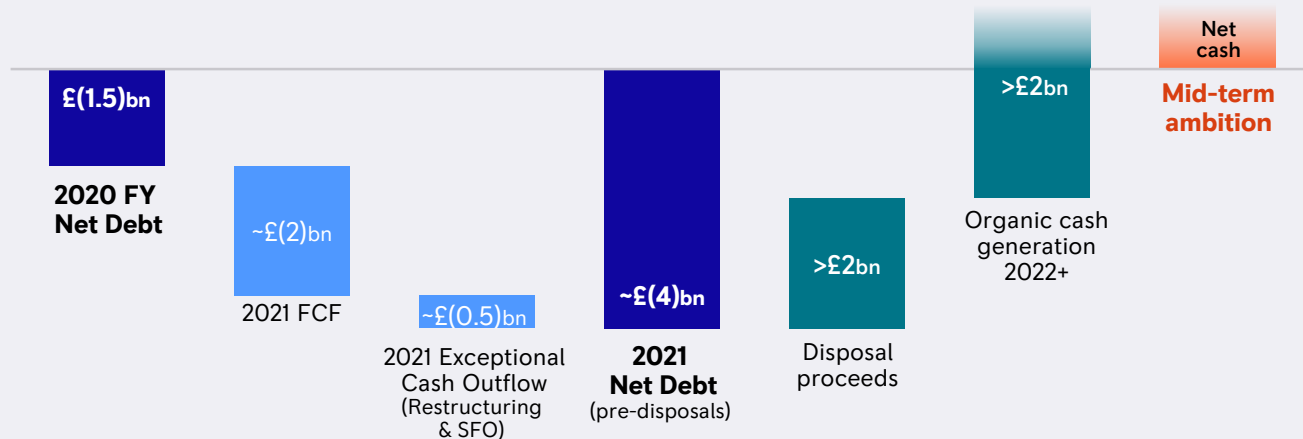


## Strengthening our balance sheet

Alongside organic cash generation from 2022, our disposal programme underpins our ambition to reach a **net cash position in the medium term, consistent with an investment grade credit rating**

### Disposal proceeds and organic cash generation drive de-leveraging

Net debt progression (pre-leases)



- Exit 2020 with **net debt of £1.5bn** (pre-leases), helped by £2bn rights issue
- 2021 impacted by further FCF outflow and final material below-FCF costs (restructuring & SFO)
- **Improving net debt from 2022** led by organic cash generation
- Good early progress on disposals despite uncertain market environment
- **At least £2bn proceeds achieved by early 2022**



## Progress on disposals

Significant early progress with two disposals announced

Continue to target at least £2bn by early 2022

### Disposals agreed

- **Civil Nuclear** instrumentation & control (I&C) sale agreed with Framatome
- **Bergen** engines business sale agreed with TMH International
- Combined 2019 revenue of ~£0.3bn; **no material impact to future profit or cash flow**



### ITP Aero progress

- **ITP Aero:** Hucknall facility & Barnoldswick activity transferring to ITP to enhance value
- **Disposal process underway with multiple interested parties**
- Expected to represent a **significant portion of the >£2bn target**



### Further actions

- Advisors appointed and early-stage processes underway for **additional assets**
- Expect **further progress by the end of 2021** on all processes
- Assets across multiple divisions in the Group





Recovery and Outlook

**Warren East**

Chief Executive Officer





## Positioning for the recovery and creating a sustainable future

1

Restore financial performance

- Market recovery in Power Systems & Defence resilience
- Deliver fundamental restructuring in Civil Aerospace
- Position business to deliver >£750m FCF as early as 2022

2

Maximise value from existing capabilities

- Civil Aerospace: realise value from installed base
- Power Systems: focus on high-growth end markets
- Defence: win strategic opportunities

3

Science-led innovation in sustainable power

- Improve gas turbine efficiency and SAF\* compatibility
- Develop low carbon solutions: electric, hybrid and hydrogen
- Capitalise on adjacent opportunities (e.g. SMRs)

Restore performance, maximise value and focus on sustainable power



\*Sustainable Aviation Fuel



## Despite uncertainty, prevailing views expect a GDP recovery in 2021

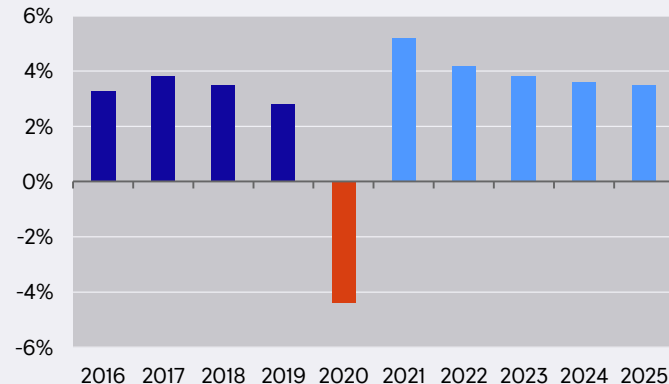
Government support packages and underlying demand are expected to drive a “V” shaped recovery

There is continued optimism about a sharp rebound in global GDP

Vaccine roll-outs, testing and ongoing government support measures are supportive

However, **short-term** new COVID variants and national restrictions create uncertainty

**Global GDP Growth (%)**  
IMF (2020 estimate, 2021-2025 forecasts)



**Civil Aerospace and ITP Aero:** Above-GDP growth driven by fast-growth economies with low penetration of flights per person, some travel displaced by advances in virtual platforms for business connectivity

**Power Systems:** Short-cycle recovery with customer demand for power systems closely linked to economic growth

**Defence:** Government defence spending reflects global geopolitical tension and governments' budgets

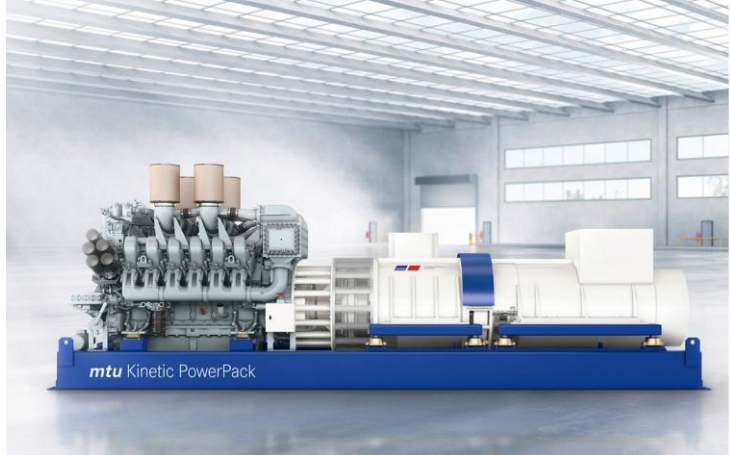


## Power Systems & Defence

Continue to be the bedrock  
of financial performance  
and cash generation

With **accelerating growth  
potential from the middle  
of the decade**

\* £3.2bn (adjusted for Civil Nuclear I&C  
& Bergen disposals)



### Power Systems

- **Revenue to return to approximately 2019 levels by 2022\*** as GDP-driven short-cycle markets rebound
- **Margins to return to >10% by 2022** with further improvement towards **'mid-teens'** thereafter



### Defence

- **Resilient performance through COVID-19 pandemic**
- Revenues broadly stable through to 2022
- Continuing to offset customer pricing headwinds & investment through cost-savings

**Strong cash conversion supports Group cash flow recovery**

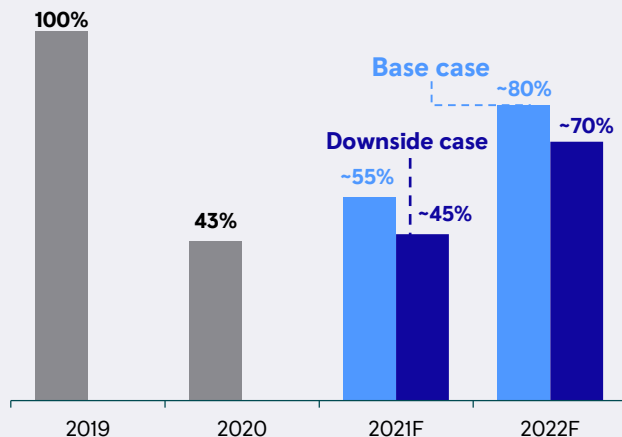


## Near term air traffic outlook is uncertain, but vaccines and testing support recovery

Recovery remains difficult to predict with a range of potential outcomes

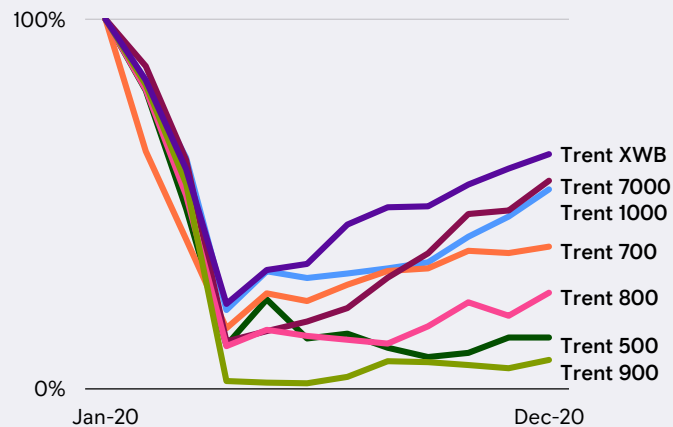
### Modest EFH recovery in 2021, accelerating from H2

Large engine LTSA EFH as % of 2019 levels



### Airlines continue to favour newer aircraft

Sample of engine utilisation from January 2020



- Steady recovery in 2020 from the April low point through to December, before pausing due to renewed travel restrictions
- **A sustained renewed recovery requires:**
  - Effective vaccine roll-out
  - Improved airport testing and health passport adoption
  - Government co-operation to open travel corridors
- Short-haul and leisure expected to rebound first, followed by long-haul and business travel



## Fundamental restructuring

We were quick to act, implementing a fundamental restructuring programme to reduce costs Group-wide and consolidate our Civil Aerospace footprint

## Operating Cost



- Total role reduction of more than **9,000**
- **~7,000 exits in 2020**
- Use of voluntary severance and attrition
- **Engaging with unions & supporting employee mental health**



- Subcontractor spend in Civil Aero reduced to **<1/3 pre-COVID level**
- Continued **strict cost control** on travel & expenses
- Footprint reduction and lower load **reduces other indirect** spend

~£1bn

## Capital prioritisation



- Targeting peer range of **3-4% of sales** (2020: 5%)
- **Expanded third-party MRO network** to meet demand growth in Civil Aero
- **Capital-light approach** to spare engines

>£300m

>£1.3bn annual cost savings by end 2022

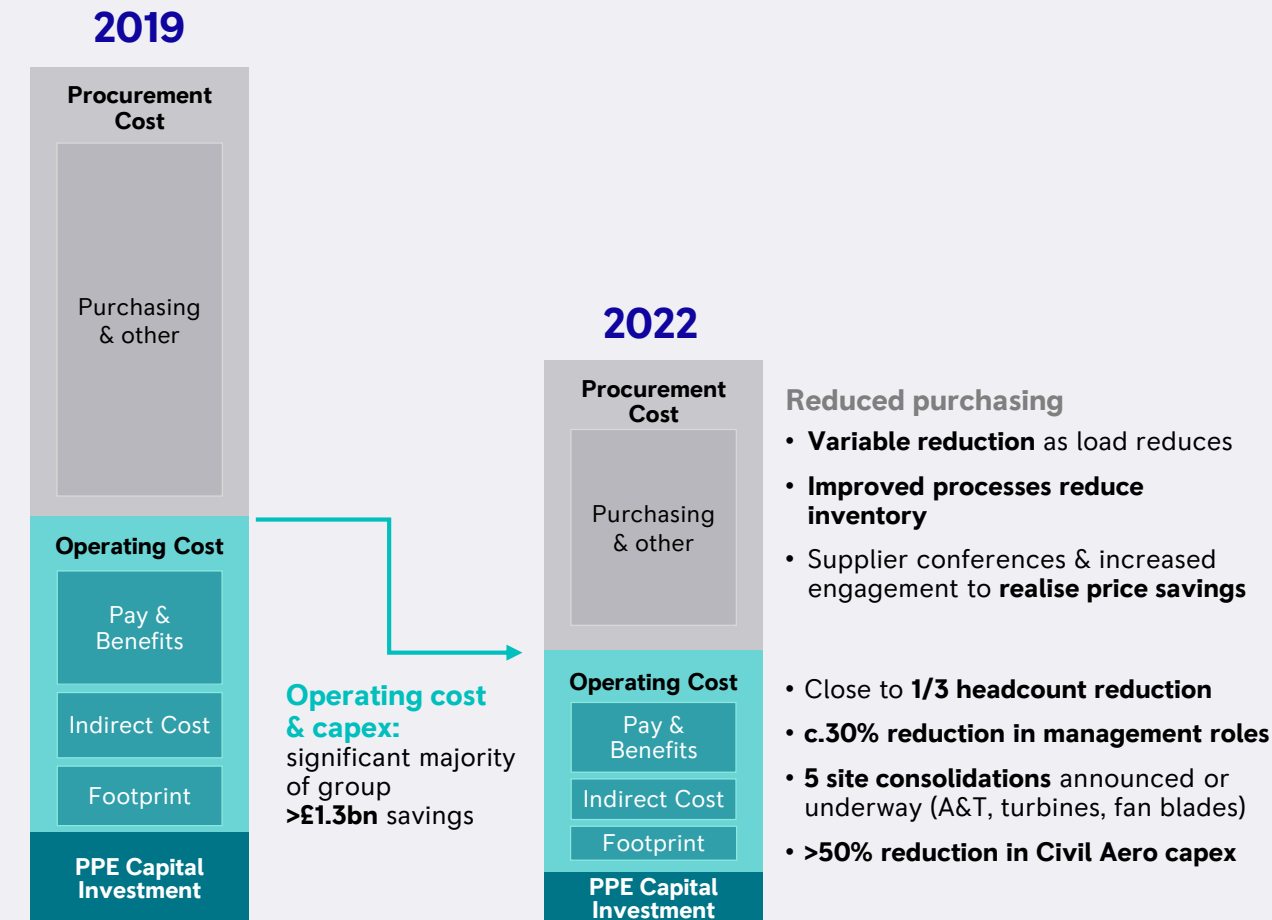


## Changing the economics of Civil Aerospace

Leaving a business with **high operating leverage and sustainable cash generation in a smaller market**

**Note:**

*Graphic not to scale*



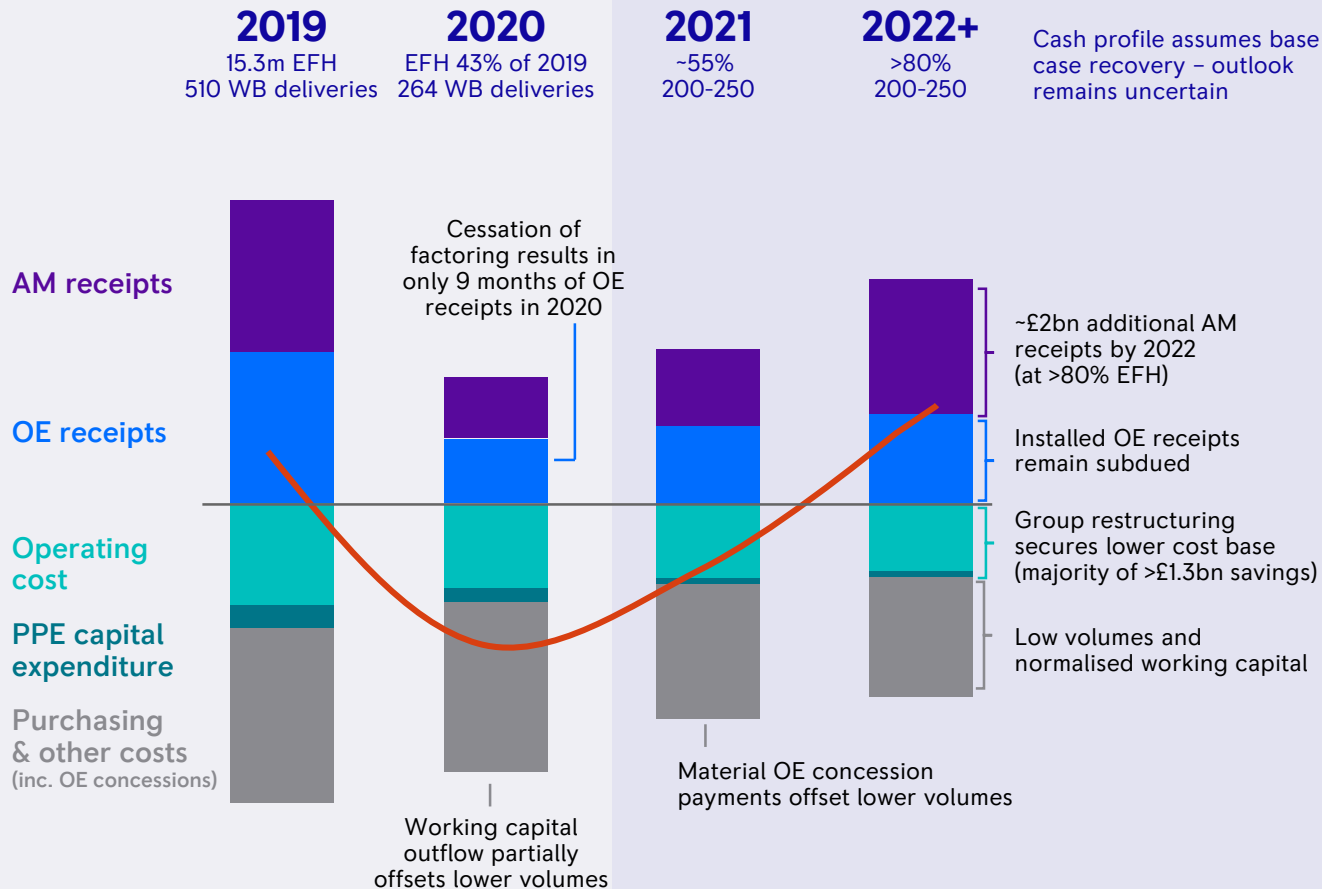


## Cost actions support strong cash flow when market recovers

Substantially lower cost base ensures stronger underlying cash generation than pre-COVID levels once flying hours recover

Note:  
Graphic not to scale  
Excludes hedge close-out costs

## Illustrative Civil Aerospace cash flows



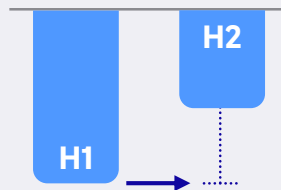


## Group near-term outcomes

Emerging with stronger cash generation and a growth platform based on low carbon technology

# 2021

2021 cash outflow  
H1-weighted



# ~£2bn

free cash outflow

- Anticipate **material H1 outflow** due to working capital & low EFH
- Working capital timing uncertain with material concession outflows driven by timing of airframer deliveries
- Aim to reach **positive cash flow at some point during H2** as cost savings increase, EFH recovers and working capital eases

as early as  

# 2022

**Targeting >£750m FCF as early as 2022**

- Substantial cost reduction underpins improvement
- However, **remains contingent on recovery in flying hours** to >80% of 2019 levels and 200-250 WB deliveries
- Excludes any potential impact from disposals

**>£750m includes burden from temporary headwinds**

£100m-£200m Trent 1000 costs  
~£300m Hedge book costs  
Continued **organic growth**







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Restore performance, maximise value and focus on sustainable power



\*Sustainable Aviation Fuel



## Maximising value from existing capabilities

Realising the value of our installed base, growing strategic opportunities and focusing on high-growth end markets.



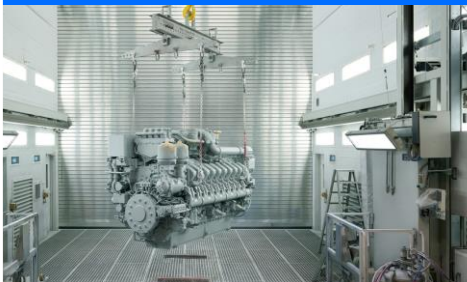
### Civil Aerospace



- Past investment to build installed base of >5,000 large engines and >7,000 business jet engines
- Major investment cycle largely complete, fleets amongst youngest in respective markets
- Primary focus on extracting aftermarket value
- Continue efforts to reduce cost of components



### Power Systems



- Installed base >150,000 engines; expansion into complete system solutions
- Growing strategic position in China
- Commercialising electrical, hybrid and hydrogen technology alternatives



### Defence



- Over £7bn estimated lifetime value from:
  - B-52 new engine programme; >650 engines; outcome expected 2021
  - Future vertical lift programme; >4,000 engines; outcome expected 2022
- Installed base 16,000 engines, through-life upgrades on in-service engines; growing export market

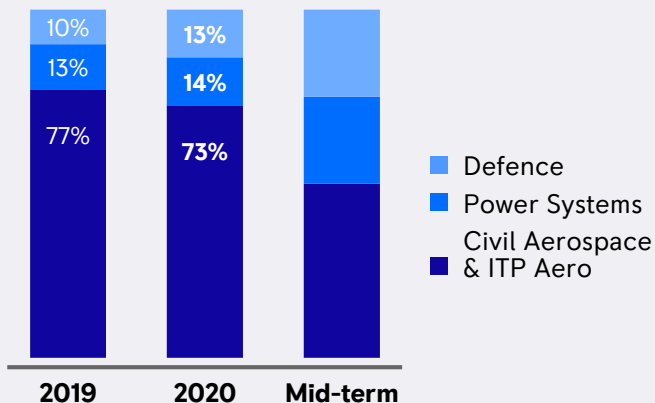


## Investing for the future

Targeting approx. 20% annual R&D spend on low carbon solutions including SMRs, hybrid, hydrogen and electric power technologies, by 2023

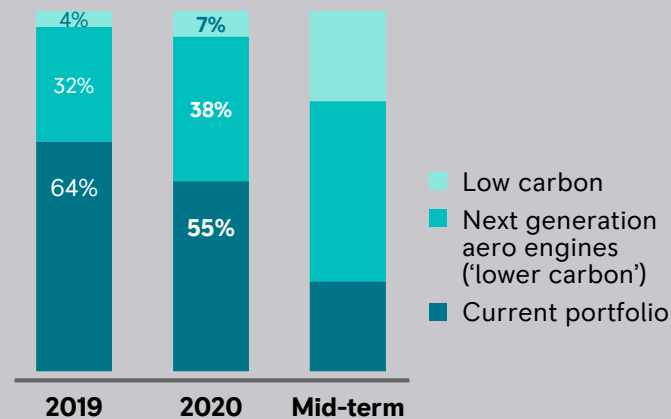
### Pivoting towards Power Systems and Defence

Engineering (inc. R&D) and capital spend



### Accelerating focus on low carbon

Self-funded R&D



Low carbon technologies includes investments in electric, hybrid, hydrogen and nuclear solutions. Next gen aero engines primarily relates to UltraFan and future Defence engines

## Net zero ambitions

- Joined UN Business Ambition for 1.5°C and UN Race to Zero campaigns
- Committed to enabling the vital sectors in which we operate to achieve net zero by 2050
- Committed to becoming a carbon neutral business by 2050: net zero greenhouse gas emissions from operations and facilities by 2030 (ex-product development/safety testing) and fully compatible by 2050



## Low carbon technologies

Improving engine efficiency and ensuring compatibility with more sustainable fuels.

Our hybrid-electric solutions further reduce CO<sub>2</sub> impact.



## UltraFan: next generation aero engine

- Scalable engine architecture offers market optionality
- 25% more fuel efficient and 100% sustainable aviation fuel compatible
- Incorporates ALECSys Lean Burn Combustor
- Progressing to final assembly in 2021

## Sustainable fuels

- 100% non-blended sustainable aviation fuel successfully tested in Widebody, Business Jet and Defence
- Power Systems' Power Lab exploring synthetic fuels
- Power-to-X: go-ahead for the PtX Lab Lausitz as a competence center for green hydrogen and its downstream products



## Hybrid power

- MTU Series 2000 hybrid propulsion for yachts; more power, low noise
- World's first E2SG demonstrator by Defence to support Tempest
- Expanded position in uninterruptable power market with acquisition of Kinolt



## Enabling net zero

Innovating across a wide range of net zero technologies and across multiple markets



## Hydrogen

- Member of European Clean Hydrogen Alliance
- Exploring the fundamentals of H2 in aviation
- Partnership with Daimler Truck / Volvo on stationary H2-powered fuel-cell generators in finalisation
- MTU Series 500 engine for power generation to be available for operation with biogas and compatible with H2

## Energy Storage

- Majority stake acquisition of Qinous, central to our microgrid solutions, enabling renewable power and energy storage
- Expanded product portfolio to include mtu EnergyPack scalable battery storage systems, installed in Costa Rica, Cook Islands and Germany



## Small Modular Reactors

- Nuclear power solution to deliver low carbon electricity with potential to power sustainable aviation fuel or H2 production
- Joint venture vehicle underway with UK Government support
- First power targeted by 2030



## Enabling net zero: electric aviation

Focused on near-term revenue generation: technology progress leading to commercial opportunities across multiple markets



## Urban Air Mobility

- First commercial contract for electric propulsion units to power an eVTOL vehicle (with Vertical Aerospace)
- CityAirbus eVTOL demonstrator flight test programme

## Commuter and regional

- Collaboration with Tecnam and Widerøe to cover all elements of developing and delivering the zero-emissions 'P-Volt' commuter aircraft
- Continued development of gas turbine hybrid-electric propulsion system for Apus i-5 regional aircraft
- 2.5MW generator currently on test in Norway



## Small propeller

- 1,500+ missions flown across 2-4 seat demonstrators with EASA EPU certification plan in-progress
- Successful ground tests of ACCEL aircraft demonstrating energy storage technology for UAM and commuter markets



## Summary

### Decisive and effective actions to address challenging market conditions

- ✓ >£1bn in-year cash savings achieved in 2020 from one-off mitigating actions
- ✓ Strengthened liquidity to increase resilience and support long-term strategy
- ✓ Strong progress on fundamental restructuring programme
- ✓ Commenced programme of disposals to raise >£2bn in proceeds

### Well positioned for recovery and for a lower-carbon future

- ✓ Fundamental restructuring to deliver permanent cost efficiencies
- ✓ Lower capital spend phase in Civil Aviation, increased R&D and capex on Power Systems, Defence and lower-carbon solutions
- ✓ Committed to support the decarbonisation of our end-markets
- ✓ Actively growing our lower-carbon technology

