



2018

Full Year Results

28 February 2019

2018 Full Year Results
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Jennifer Ramsey

Head of Investor Relations



Agenda for today

Introductions

Jennifer Ramsey

Highlights

Warren East

Financial Review

Stephen Daintith

Business Outlook

Warren East



Safety

Safe
Harbour

Mobile
Phones



Notices



Highlights

Warren East

Chief Executive



Group Overview



Results summary

Solid progress

Underlying core revenue

£14.3bn ↑ 10%*

Underlying core PBT

£483m ↑ £184m*

Core underlying EPS

17.4p 2017: 4.4p

Underlying core operating margin

4.4% ↑ 140bps*

Core free cash flow

£641m 2017: £318m

'Dividend' per share

11.7p 2017: 11.7p

* Organic change



2018 Full Year Results overview

Civil Aerospace

Engine flying hour growth; OE loss reduced; new engines launched; good progress introducing technical fixes on Trent 1000

Power Systems

Excellent progress driven by strength across key markets and growth in service revenues

Defence

Solid year with strong order backlog, additional new contracts in aerospace; continued success in naval market and services

Restructuring

On track with ~1,300 net headcount reduction; run-rate savings of £400m per annum by end 2020

Financial

Strong revenue growth, core FCF more than doubled, material strengthening of balance sheet, exceptional charges

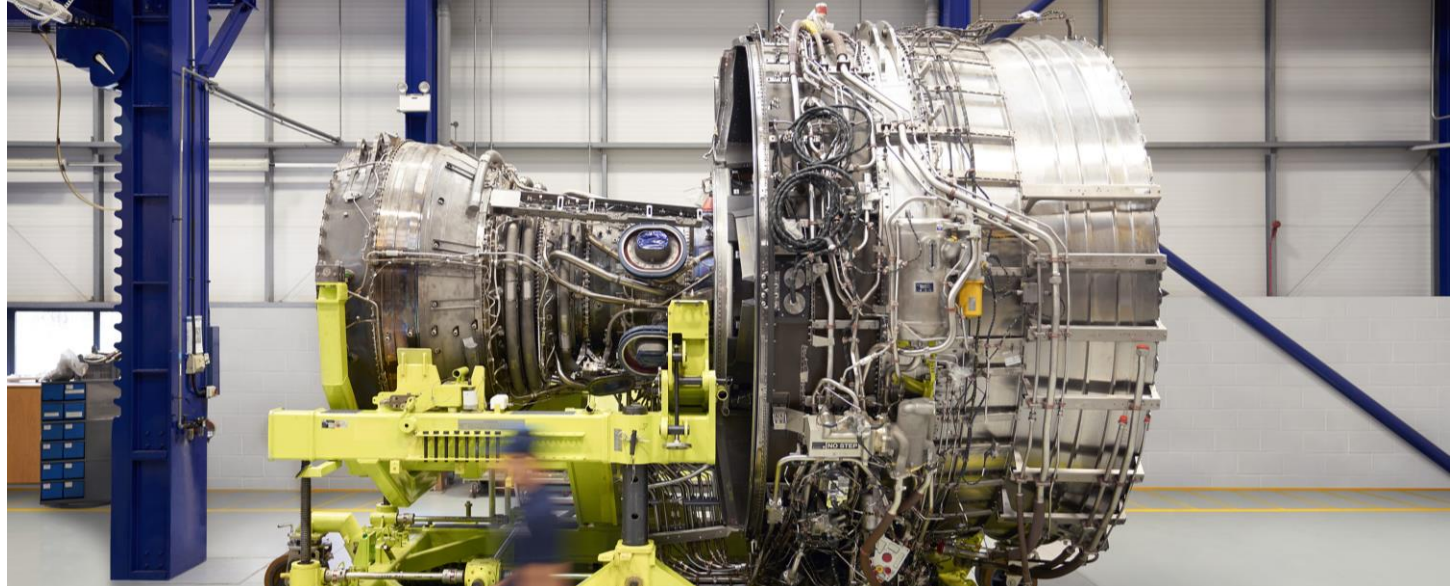


Business update



Civil Aerospace

Large engine fleet
health remains
strong overall



Growth

14%

growth in large engine
flying hours

Deficit reduction

13%

reduction in large
engine OE losses

Trent XWB-84

99.9%
dispatch rate,
achieving
>3 million
flying hours

Trent 7000

Entered into
service on
Airbus
A330neo

Pearl 15

Launched for
business
aviation



Trent 1000 financial impact

- Unacceptable level of customer disruption
- Good progress introducing technical fixes
- Cash cost in 2018 of £431m



Expected cash cost profile*

- Total cash costs up
£100m to c.£1.5bn
- 2019: £450m
- 2020: at least £100m
lower
- Falling materially
beyond 2020

* Cash costs to mitigate in-service issues
on Trent 900 in 2018 were £14m

Trent 1000 P&L treatment

- Full Year £790m
exceptional charge
- Higher than at Half
Year reflecting a
greater proportion of
overall costs
requiring exceptional
cost treatment



Trent 1000 update on technical fixes

Progress over the
last year

Engine variant	Action	Status	Date of FAA/EASA approval
Package C	IPC blade redesign - completed	Certified	December 2018
TEN	Hard life limit removed Moved to inspection regime		December 2018 - EASA February 2019 - FAA
	IPC blade redesign – underway	Awaiting certification	Expected Q3 2019
Package B	IPC blade redesign – underway	Awaiting certification	Expected Q4 2019

Trent 1000
aircraft on ground
due to in-service
issues





Widebody production and deliveries

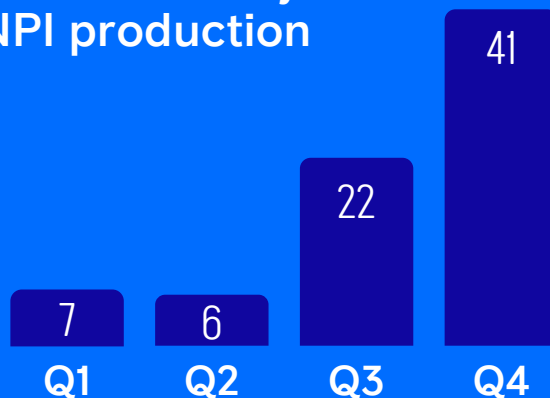
Widebody engines



2018 production challenges

- Supply chain capacity constraints
- New product mix
- Internal learning curve

2018 Quarterly NPI production



Ramp-up in Trent 7000 production

Full Year 2018 **32 engines** January 2019 **11 engines**



Update on Civil Aerospace programmes

Focus on meeting existing customer commitments



Emirates Agreement

- Order secured for Trent 7000 to power 40 Airbus A330neo aircraft, TotalCare secured
- Additional order for 30 Airbus A350 aircraft, powered by Trent XWB, TotalCare secured
- Trent 900 engines to be provided for 14 further Airbus A380s, superseding previous deals
- Airbus to end A380 deliveries in 2021
- Rolls-Royce to support whole Trent 900 fleet in service

New Midsize Airplane

- Decision to withdraw from current competition to power Boeing's proposed NMA platform
- Product maturity at entry into service key
- Primary focus remains on our current engine programmes
- Committed to development of new technologies, including the UltraFan engine



Trent XWB

Excellent entry
into service

Trent XWB-84

460 engines in service
23 operators

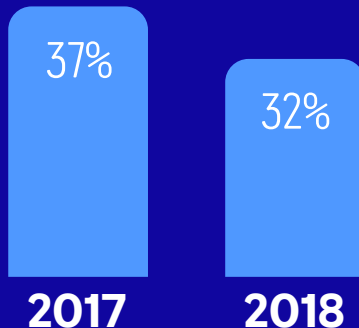
**Total cumulative
fleet hours**

>3m

**Dispatch
reliability**

99.9%

Solid progress on Trent XWB-84
engine cash deficit reduction



Trent XWB-97

28 engines in service
2 operators

**Entered
into service**

Feb 2018

**Flying
hours**

>54,000

In-service engine
performance in line
with expectations



Power Systems

Excellent progress
with 15% underlying
revenue growth



Order intake

>20%
growth driven
by strength
across diverse
range of
markets

Service growth

ValueCare
Agreements
gaining
momentum

Operating profit

20%
increase
reflects
increased
sales volume

JV in China

Production started
in April 2018;
>100 engines built

Product launches

in power generation as
well as R&D in gas,
automation and electrical



Defence

Another solid year



© ROK Navy

Order backlog

17%

Growth in order backlog

A330 MRTT

Deliveries to
three new
customers

Team Tempest

Progress on
UK's combat
capability

MT30

Further orders
- continued
success in the
naval market

Structure

Integration of defence
aerospace, naval marine
and submarines



ITP Aero



Revenue growth

6%
led by
progress in
civil aerospace
OE

Capacity growth

8%
to cater for
future growth

Capital investment

£60m
including new
facilities
focused on
external engine
parts

Milestones

575
engines and modules
serviced across network

R&D

Good progress on
UltraFan turbine
technology development



Restructuring



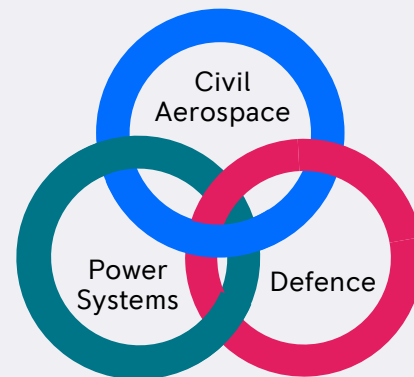
Structure to enable change

Creating the conditions for the businesses to solve the problems themselves

- Significantly reduced central costs
- Empowered businesses, more control of own costs
- Shared vision and clear accountability

Each business to deliver improving returns

CUSTOMERS



GROUP BUSINESS SERVICES

Lean
HEAD
OFFICE



Restructuring progress

- Established Group Business Services, to bring together 2,000 employees as a multi-function corporate service organisation
- Established an Innovation Hub to create genuine competitive advantage
- Key behavioural metrics embedded in incentivisation
- Proposed headcount reduction of 4,600 FTEs with ~1,300 in 2018 and a further 2,000 – 2,500 in 2019
- Target run-rate savings of £400m per annum by end 2020





Portfolio management

Transactions build on the actions we have taken over the last two years to simplify our business



L'Orange sale completed

- Sale agreed at enterprise value of €673m
- Purchased by Woodward Inc, USA
- Completed 1 June 2018

Commercial Marine sale announced

- Sale agreed at enterprise value of £500m
- Purchased by KONGSBERG, Norway
- Trading agreement with Power Systems
- Completion expected in first half 2019

Investment & innovation



Investment in current technologies



Dedicated to optimising our current technologies:

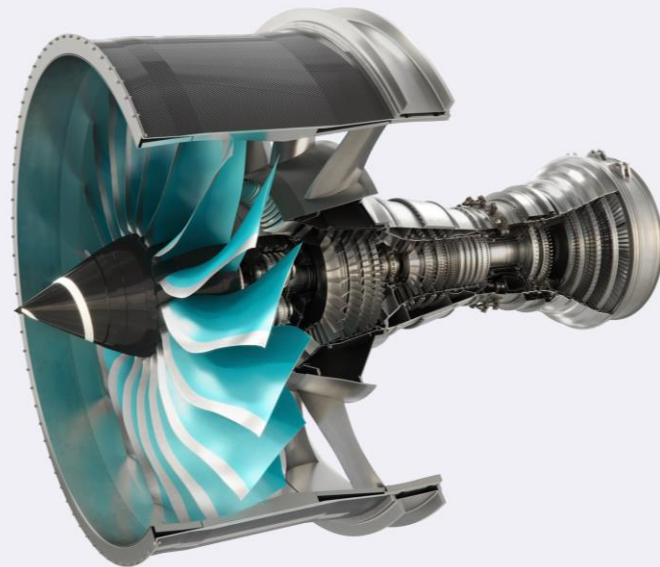
- Enhancing manufacturing and service technologies and techniques
- Optimising design for cost reduction
- Developing digital twins
- Improving in-service performance and time-on-wing



Innovation for the future

Continued progress on UltraFan aero engine architecture

- World's most powerful aerospace gearbox driving large low speed fan
- 10% more fuel efficient than Trent XWB (the most efficient aero engine)
- Significant weight, noise and fuel burn reductions
- Engine core demonstrator run at full power
- Successful start of icing tests on new lean burn and low emission combustion system



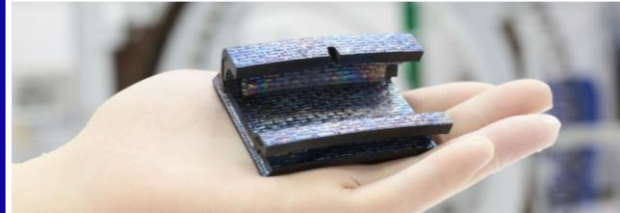


Innovation for the future

Net R&D spend of
£1.1bn in 2018

Investment in innovation is key for our future development:

- Developments in small scale full-electric and hybrid-electric flight
- Micro-grid offering launched
- Exploring how robotics could revolutionise engine maintenance
- Continued investment in material science
- 892 patents approved for filing; a new record for Rolls-Royce





Financial Review

Stephen Daintith

Chief Financial Officer



Agenda for today

01

Full year results

02

Business unit review

03

Accounting policy updates

04

Guidance



01

Full year results



Results summary

Strong results,
a further step towards
our ambitions

Underlying core revenue

£14.3bn ↑ 10%*

Underlying core PBT

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Core Underlying EPS

17.4p 2017: 4.4p

Underlying core operating margin

4.4% ↑ 140bps*

Core free cash flow

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'Dividend' per share

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Core & Non-core business reporting format

A reminder of our reporting format

£m

Civil Aerospace	x
Power Systems	x
Defence	x
ITP Aero	x
Corporate/eliminations	x
Core business	x
Commercial Marine	x
L'Orange	x
Non-core business	x
Group underlying result	x

Core business
Key focus of Group operations

Non-core business

- Commercial Marine
- L'Orange

Core = Group for 2019



Group Underlying results

Strong revenue growth, significant operating profit and FCF improvement

Group EPS increased from **2.3p to 16.0p**

£m	Underlying Revenue	Organic change	Underlying op. profit	Organic change
Civil Aerospace	7,378	+12%	(162)	+55%
Power Systems	3,484	+15%	317	+20%
Defence	3,124	0%	427	-4%
ITP Aero	779	+6%	67	+3%
Corporate/eliminations	(429)	-	(16)	-
Core business	14,336	+10%	633	+71%
Non-core business*	731	-16%	(17)	-45%
Group underlying result	15,067	+8%	616	101%

Strong progress in Civil Aerospace and Power Systems, Defence solid



Core Business Underlying results

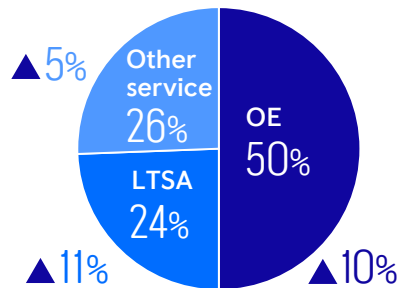
Significant free cash flow
improvement

£m	2018	2017	Change	Organic change
Core underlying revenue	14,336	12,786	+12%	+10%
Core underlying gross profit	2,256	1,998	+13%	+4%
<i>Gross margin %</i>	<i>15.7%</i>	<i>15.6%</i>	<i>+10bps</i>	<i>-80bps</i>
Commercial & administrative costs	(991)	(955)	+4%	-2%
Research & development costs	(650)	(724)	-10%	-14%
Joint ventures & associates	32	14	+129%	+150%
Core underlying operating profit	633	317	+100%	+71%
<i>Underlying operating margin</i>	<i>4.4%</i>	<i>2.5%</i>	<i>+190bps</i>	<i>+140bps</i>
Financing costs	(150)	(106)	+42%	+38%
Core underlying profit before tax	483	211	272	184
Core underlying EPS	17.4p	4.4p	+13.0p	+8.7p
Core free cash flow	641	318	323	-
Core CPS	34.5p	17.3p	17.2p	-
Group CROIC	12%	13%	-	-

Improved operating margin



Continued underlying growth in Core OE & LTSA revenue



£m	2018	2017	Change	Organic change
OE revenue	7,184	6,244	+15%	+10%
LTSA service revenue	3,469	3,015	+15%	+11%
Other service revenue	3,683	3,527	+4%	+5%
Core underlying revenue	14,336	12,786	+12%	+10%
Gross margin (%)	15.7%	15.6%	+10bps	-80bps

Good growth across all revenue streams

Gross margin +90bps YoY pre Civil contract accounting adjustments



Core business R&D

Net R&D
cash spend up
£80m

Investing close to
£1.4bn
across the Group

2018
expected to be
peak year for R&D
cash spend

£m	2018	2017	Organic Change
Gross R&D	1,378	1,337	0%
Third party contributions	(272)	(348)	-22%
Net R&D cash spend	1,106	989	+8%
Capitalised	(498)	(347)	+40%
Amortisation & impairment	42	82	-53%
Net R&D P&L charge	650	724	-14%

£1,106m net R&D cash spend in 2018

- Around two-thirds R&D spend in **Civil Aerospace** with increased investment in:
 - UltraFan
 - Advance development programmes
 - New business aviation family (Pearl 15)
- Increase spend in **Defence** on future programme investment
- **Power Systems** continued R&D focus on gas strategies and power generation



Core business C&A

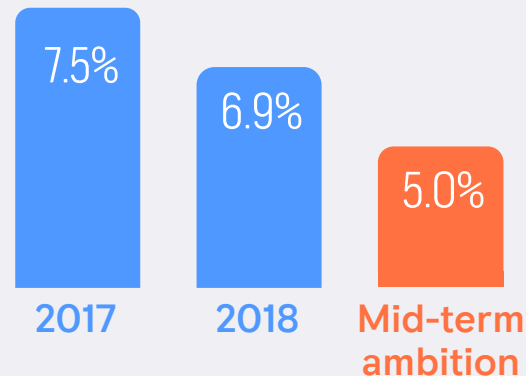
Full Year Core C&A
reduced by
£18m

Further reduction as
% of sales expected in
2019

Commercial & administrative
costs declining organically

£m	2018	2017	Organic Change
Core Business	(991)	(955)	-2%

C&A as a % of sales



Mid-term ambition maintained – C&A to fall as % of sales

- Restructuring savings
- Mid-term ambition of 5% sales remains
- Mainly as a result of headcount reduction



Restructuring & exceptional costs incl. Trent 1000

£1.4bn
exceptional charge

Total
£1,414m

Trent 1000
£790m

Trent 900
£186m

Restructuring
£317m

Gender equalisation provision
£121m

Group Other
£223m £94m



Summary funds flow

Group FCF up
£309m

Core FCF
£641m

£m	2018	2017	Change
Underlying profit before tax (PBT)	466	199	267
Depreciation and amortisation	756	652	104
Working capital change	581	(219)	800
Civil Aerospace net LTSA balance change	944	1,379	(435)
Capital expenditure (PPE)	(905)	(730)	(175)
Expenditure on intangible assets	(680)	(647)	(33)
Other	(405)	(186)	(219)
Trading cash flow	757	448	309
Pension contribution vs P&L charge	59	(9)	68
Tax paid	(248)	(180)	(68)
Group free cash flow	568	259	309

Material improvement in Group free cash flow to £568m despite £431m Trent 1000 in-service costs



Cash flow: underlying working capital reduction

Overall 2018
'underlying' working
capital reduction of
£581m
(2017: £(219)m)

Underlying working capital reduction **£581m**

- ▲ Materially higher payables at **Civil** and **Power Systems** driven by increased trading
- ▲ c. £400m supplier payment term standardisation led by **Civil**
- ▲ Improved overdue debt collection
- ▼ c. £150m concession unwind in **Civil** due to changing widebody programme mix
- ▼ Higher receivables in **Civil** and **Power Systems** driven by increased trading activity
- ▼ Increased inventory reflecting operational challenges in **Civil** and volume growth in **Power Systems**



Cash flow:

Civil Aerospace LTSA receipts

Represents
deferred revenue

Will continue
reflecting flying
hour growth

Change in Civil Aerospace net LTSA balance £944m

- ▲ Customer receipts driven by WB engine flying hour growth +14%; and increased Business Aviation EFH
- ▼ Cash outflow due to increased major WB LTSA shop visits; up from 240 to 286
- ▼ Cash outflow reflecting higher check and repair WB LTSA shop visits; up from 356 to 569
- ▲ Negative contract accounting catch-up adjustment c. £300m: adjusts for difference between revenue and cash flow

Cash receipts
higher than revenue - core part of our business model



Group balance sheet

Further strengthening in 2018

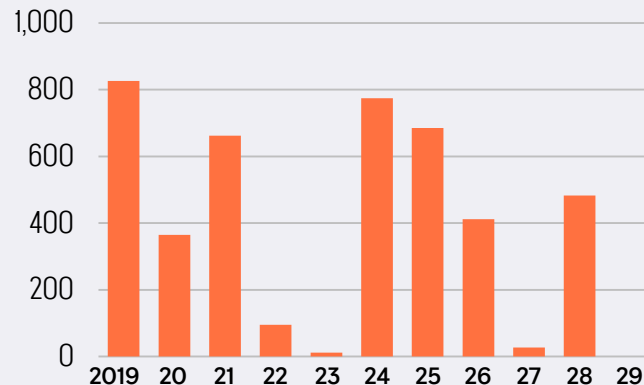
Drivers of £43m higher financing cost:

- increased carry costs of pre-funding debt maturities ahead of Brexit
- inclusion of ITP Aero
- discounting of balance sheet provisions

- Materially improved free cash flow £568m
- Completed disposal of L'Orange; net proceeds of €673m (£584m)
- Announced sales of Commercial Marine; EV of £500m. Expected net proceeds of around £350m to £400m
- Issued €1.1bn (£968m) of bonds at attractive rates: pre-funding all existing debt maturities to end 2019
- Reiterating ambition to return to a single A rating

£m	2018	2017
Cash	4,980	2,956
Debt	(4,369)	(3,261)
Net cash/(debt)	611	(305)
Undrawn facility	2,500	2,106
Liquidity	7,480	5,062

Debt maturity (£m)





Shareholder payments

- 2018 Final payment maintained; **7.1p** per share
- 2018 Total payment of **11.7p** per share

- Committed to restoring shareholder payments to an appropriate level over time; FCF key driver of growth
- Aspire to mid-term **2.5x FCF / dividend cover** through cycle
- View in the context of overall capital allocation priorities

Strong balance sheet:
improve credit rating

Fund organic Investment:
drive growth & technology leadership

Payment to shareholders:
increase dividend as FCF grows

M&A:
disciplined & selective



02

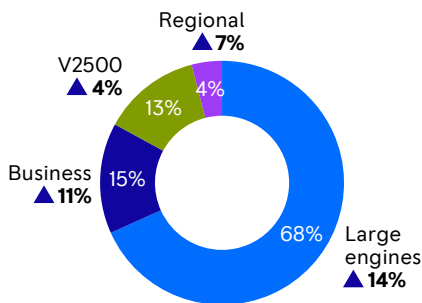
Business unit review



Civil Aerospace

Strong growth in revenue. Operating loss reduced by **£189m**

Revenue by type



£m	2018	2017	Change	Organic change
OE revenue	3,119	2,890	+8%	+8%
Services – LTSA	2,752	2,461	+12%	+12%
Services – T&M/other	1,507	1,247	+21%	+21%
Underlying revenue	7,378	6,598	+12%	+12%
Gross profit	493	473	+4%	+5%
Gross margin %	6.7%	7.2%	-50bps	-40bps
Operating loss	(162)	(343)	+53%	+55%
Operating margin %	-2.2%	-5.2%	+300bps	+310bps

- **Underlying revenue** – strong T&M services growth and increase OE revenue; good LTSA growth but suppressed by negative contract catch-ups
- **Gross profit** – lower OE deficits, increased spare engine volumes & higher spare part sales; gross margin pre contract catch-ups 10.4% in 2018 (2017: 9.4%)
- **Operating result** – Good growth despite £276m negative catch-ups. £188m net R&D capitalisation increase drove lower R&D charge; C&A costs reduced



Engine sales

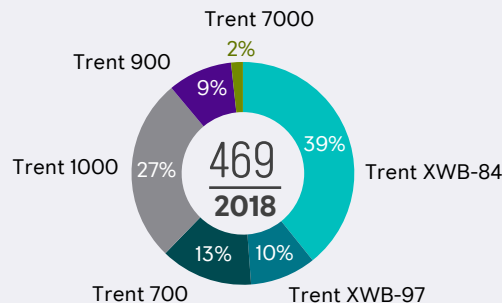
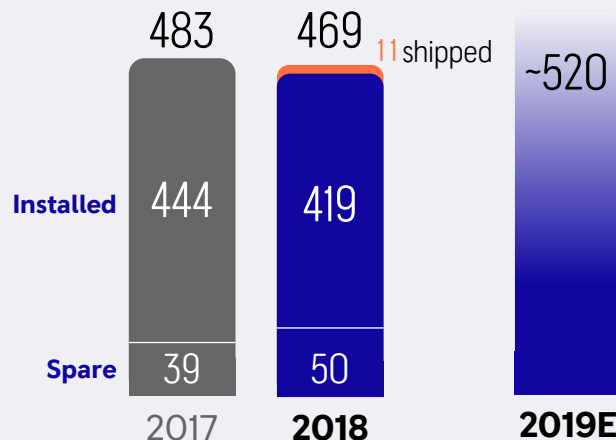
Solid result against backdrop of challenges

**c.2,300
WB engines on order**

	In service	On order
Trent 700	1,636	34
Trent 7000	2	484
Trent XWB	460	1,319
Trent 900	400	162
Trent 1000	546	289

Year end 2018 data

Widebody sales



OE engine sales volumes

Installed OE engine sales:

- + Initial Trent XWB-97 sales
- + Initial Trent 7000 sales
- Trent 700 A330ceo production wind-down

Increased spare engines:
to support growth in new programmes

Supplier challenges:
decreasing over 2019

Business aviation engines:
Sales + 17 engines and introduction of new Pearl 15 engine



Civil Aerospace: key cash drivers

Good progress on
widebody OE unit loss
reduction

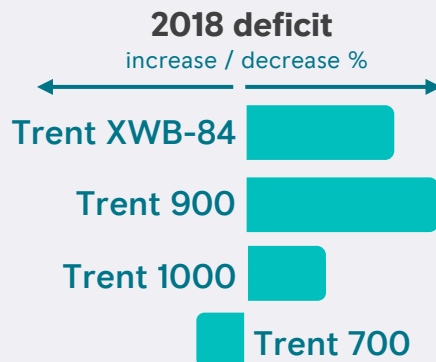
~£100m

↑ OE loss

Average OE loss

£1.4m

13%
reduction



Ongoing drive for OE cost
reductions across the portfolio

XWB-84:

32% improvement in unit loss

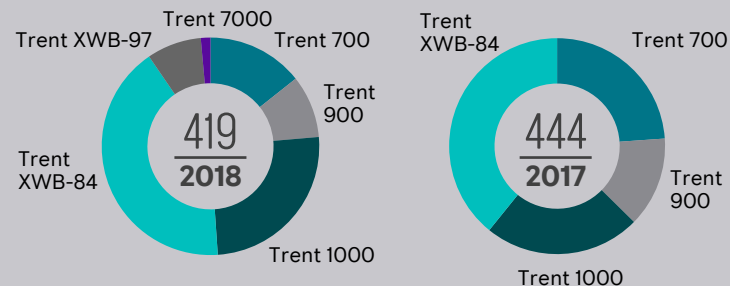
Trent 900:

2017 temporary pricing impact

Trent 700:

end-of-life pricing headwind

Installed Engine Sales Volumes

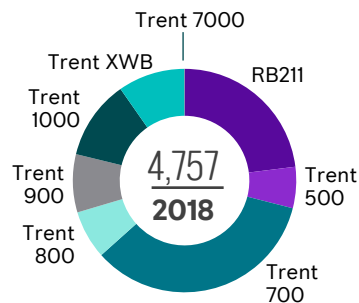




Civil Aerospace: key cash drivers

Strong Widebody
EFH growth

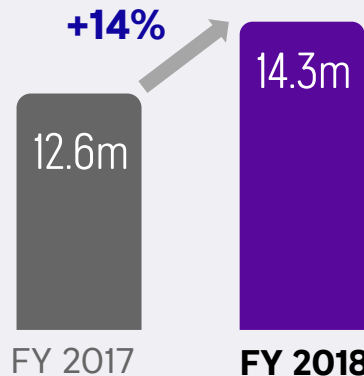
Stable Business
Aviation EFH



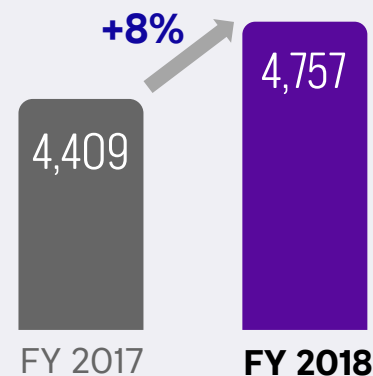
Large engine
in-service fleet

2 EFH growth

Large engine invoiced EFH



Large engine in-service fleet



- Continued growth of Trent 700, Trent 1000 and Trent XWB fleets

- Growth in Trent 1000 and Trent XWB fleets
- Good performance in mature engine transitions



Civil Aerospace: key cash drivers

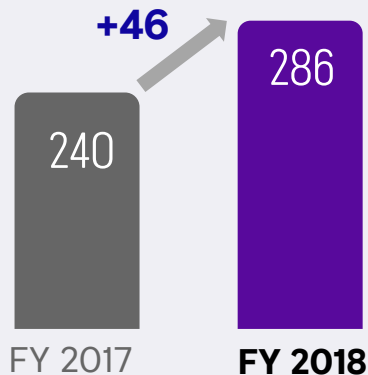
Growing fleet driving
increased shop visits

£200m

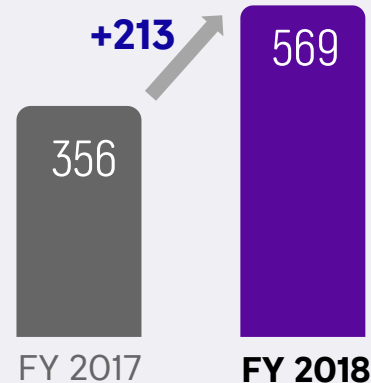
benefit to cash flow
from widebody
aftermarket cash
margin

3 Shop visits

Widebody LTSA
major shop visits



Widebody LTSA
check & repair visits



- Increase in Trent 700 engine first overhauls

- Accelerated maintenance activity on Trent 1000



Civil Aerospace: Trading cash flow

Widebody underlying
cash margin up
£400m

£bn		2018		2017
Original equipment	419@ £1.4 m	(0.6)	444@ £1.6 m	(0.7)
Underlying services	14.3 m TotalCare EFH	1.6	12.6m TotalCare EFH	1.4
Spare engines		0.3		0.2
WB Cash Margin (underlying)		1.3		0.9
Trent 1000 disruption costs		(0.4)		(0.1)
WB Cash Margin		0.9		0.8
Business, regional, & V2500		1.0		1.0
Operations & engineering costs		(0.7)		(0.7)
Cash Gross Margin		1.2		1.1
R&D, Capex & C&A costs		(1.7)		(1.5)
Working capital		0.7		0.4
Trading Cash Flow		0.2		0.0

Over mid-term:

- R&D, Capex and C&A costs should decline
- Further progress in WB cash margin
- Working capital change more normalised



Power Systems

Strong revenue and profit growth driven by end market strength

£m	2018	2017	Change	Organic change
OE	2,322	1,956	+19%	+18%
Services	1,162	1,052	+10%	+10%
Underlying revenue	3,484	3,008	+16%	+15%
Gross profit	882	797	+11%	+10%
<i>Gross margin %</i>	25.3%	26.5%	-120bps	-120bps
Operating profit	317	261	+21%	+20%
<i>Operating margin %</i>	9.1%	8.7%	+40bps	+40bps

- **Underlying revenue:** double-digit growth in both OE and Services
- **Gross Margin:** -120bps reduction; product mix (increased lower margin sales in construction and agricultural markets) offsetting benefit from increased volumes and improved factory utilisation
- **Operating profit:** +20% YoY and 40bps margin improvement led by volume growth



Power Systems Overview

Strong performance in the year - increased OE volumes and services growth

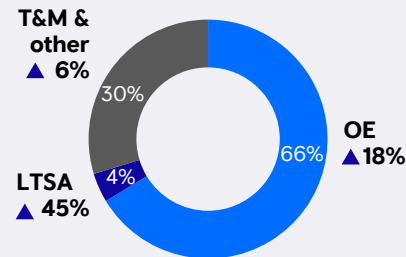
Increased order book cover underpinning confidence for 2019

- **OE revenue growth +18%**
Volume growth in most markets; significant “pre-buy” boost within Construction and Agricultural; PowerGen down due to strong PY comparison base
- **Services revenue +10%**
Increased engine running in commodity exposed markets driving demand for spare parts
- **Strong order book**
>20% increase in order intake YoY; better order cover ratio than PY
- **Outlook**
Mid single digit revenue growth; higher operating margins led by improved product mix

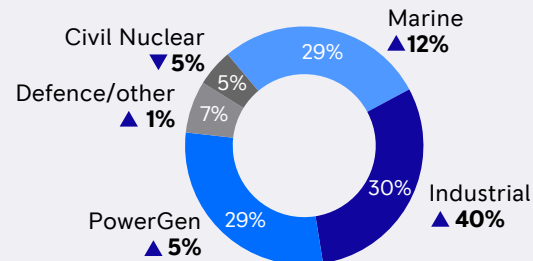
Underlying revenue

£3,484million

By type



By end market





Defence

Solid performance;
margins impacted by
higher R&D spend on
future technology

- Moving into investment phase
- T&M/other decline as Dreadnought contract moved from services to OE phase

£m	2018	2017	Change	Organic change
OE	1,452	1,398	+4%	+6%
Services – LTSA	530	467	+13%	+16%
Services – T&M/other	1,142	1,315	-13%	-12%
Underlying revenue	3,124	3,180	-2%	+0%
Gross profit	690	728	-5%	-3%
Gross margin (%)	22.1%	22.9%	-80bps	-80bps
Operating profit	427	454	-6%	-4%
Operating margin (%)	13.7%	14.3%	-60bps	-50bps

- **Underlying revenue:** broadly flat
- **Gross Margin:** fell 80bps YoY, with lower Combat volumes and Submarines margins, partially offset by increased demand for Multi-Role Tanker Transport engines and improved Long Term Service Agreement margin
- **Operating margin:** down 50bps; higher R&D spend supporting future technology development, partly offset by reduced C&A



Defence

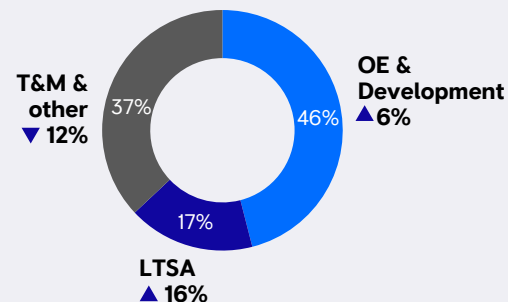
Stable revenues,
declining margins as
investment ramps
into 2019

- **Solid OE revenue +6%**
Transport and Submarines growth,
offset by lower Combat volumes
- **Services revenue fallen 4%**
Increased LTSA offset by
Submarines contract phasing
- **Strong orders 1.3x book to bill**
Closing order backlog £6.8bn
- **Increased R&D investment in
future products**
- **Outlook**
Stable revenue, ongoing R&D
investment, near-term declines in
MoD revenue, substantial cost
savings through the modernisation
programme at Indianapolis

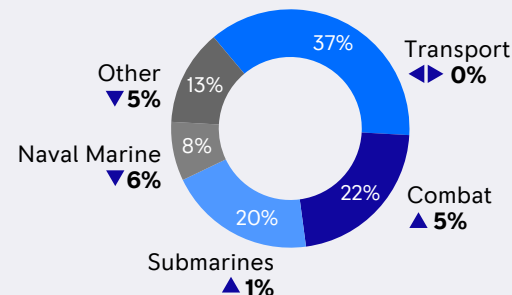
Underlying revenue

£3,124million

By type



By end market





ITP Aero

Strong revenue growth;
modest operating profit
improvement

£m	2018	2017*	Change	Organic change
OE	666	554	+20%	+19%
Services - LTSA	113	171	-34%	-35%
Underlying revenue	779	725	+7%	+6%
Gross profit	156	159	-2%	-3%
Gross margin (%)	20.0%	21.9%	-190bps	-200bps
Operating profit	67	65	+3%	+3%
Operating margin (%)	8.6%	9.0%	-40bps	-30bps

*ITP Aero was acquired on 19 December 2017. Prior year comparatives are unaudited and are presented for comparison purposes only

- Underlying revenue growth driven by higher Civil Aerospace deliveries across Trent and P&W programmes
- Gross profit decline of 3% - improvement in underlying margin, but affected by share of Trent 1000 in-service costs
- 30bps decline in operating margin % as a result of lower gross profit, partly offset by reductions in C&A and R&D



ITP Aero

Growth in Civil OE and installed fleet

- **OE revenue up 19%**
Growth in Civil programmes
- **Services revenue 35% decline**
Impact due to share of Trent 1000 in service issues

- **Operational highlights**
600th Low Pressure
Turbine delivered for the Trent
XWB 84

Investment in new capacity in Spain
and Mexico

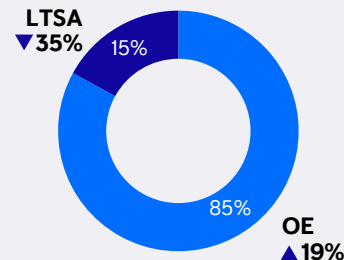
More than 575 MRO serviced
engines and modules

- **Outlook**
Around 10% revenue and profit
growth

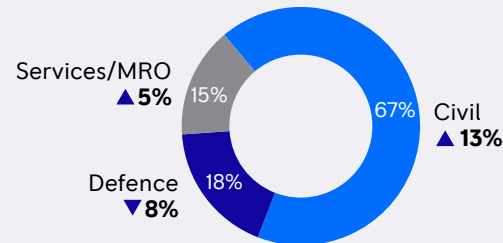
Underlying revenue

£779million

By type



By end market





03

Accounting policy updates



Group balance sheet

Will be impacted by
IFRS 16
from 2019

Debt increase of
£2.1bn

IFRS 16

- Effective from 1 January 2019 with adjustment to reserves on that date
- Property and aircraft engines most material: c.£1.3bn engine assets added to balance sheet
- Short-term improvement in operating profit but negligible impact on profit before tax

Lease asset

£1.8bn



Lease liability

£2.1bn



Reduction in PBT

negligible



No change to cash flows



Order backlog

(£bn)	2018	2017
Civil	52.3	45.7
Power Systems	3.1	2.4
Defence	6.8	5.8
ITP	0.9	1.1
Total	63.1	55.0

IFRS 15 unrecognised revenue

- Requires disclosure of the amount of revenue from our customer contracts that has not yet been recognised
- Includes only firm purchase orders, net of any discounts and the entirety of any contracted aftermarket revenue
- Replaces previous order book value, prepared including all OE orders at list price and seven years of aftermarket contracted revenues

Order backlog

2018	2017
£63.1bn	£55.0bn



04

Guidance



2019 Outlook

£m	2018 Core	2019 Outlook
Underlying revenue		
Civil Aerospace	7,378	Around 10% growth
Power Systems	3,484	Mid single-digit growth
Defence	3,124	Stable
ITP Aero	779	Around 10% growth
Core	14,336	
Underlying operating profit		
Civil	(162)	Approaching breakeven
Power Systems	317	Margins around 100bps higher
Defence	427	Margins around 100bps lower
ITP Aero	67	Margins stable
Core	633	£700m +/- £100m
Free cash flow	641	£700m +/- £100m

A further step towards at least £1bn of FCF in 2020



Measuring our returns

Focus on two core cash flow based measures:

- Core cash flow per share (CPS)
- Group cash return on invested capital (CROIC)

Now
34.5p*

Now
12%

CPS

CROIC

**Mid-term
ambition**

Exceed
£1 per share


At least **15%**
through cycle



Business outlook

Warren East

Chief Executive

A close-up photograph of a person wearing a white glove, working on a large, metallic, curved engine component. The scene is illuminated with blue and purple light, creating a high-tech atmosphere.

Building beyond the breakthrough in 2019

Customers

- Increase production volume
- Expand service network
- Mitigate disruption from in-service issues

Technology

- Revitalise service
- Develop new engine architecture
- Advance electrification projects

People & culture

- Build a resilient business
- Continue restructuring programme
- Further simplify processes
- Diversity & inclusion

Financial progress

- Continue improving free cash flow
- Further strengthen balance sheet
- Enhance capital allocation discipline



Develop: Our long-term vision and strategy

Creating the leading
industrial technology
company

Pioneering the Power that Matters

Rolls-Royce pioneers cutting edge technologies that deliver the cleanest, safest and most competitive solutions to meet our planet's vital power needs

Champion
electrification



Reinvent with digital



Vitalise existing capabilities



Transform our
Business



Build balanced portfolio



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 2018 Full Year Results Statement for the definition.