2019
Full Year Results

28 February 2020

Highlights

Warren East

Chief Executive

Results summary

After challenging first half, we had a **good** end to the year & delivered a **strong** 2019 free cash flow

Underlying core revenue
£15.3bn ↑ +6%*

Underlying core operating profit
£810m ↑ +25%*

Core free cash flow
£911m 2018: £648m

Underlying core PBT
£587m ↑ +17%*

'Dividend' per share
11.7p 2018: 11.7p

Core underlying EPS
15.9p 2018: 17.3p

* Organic change

Delivery
Key achievements

In 2019 we have delivered on:

- Strong trading performance
- Significant progress on Trent 1000 fixes
- Restructuring
- Portfolio simplification
- Progressed our low carbon strategy

Entering 2020 with conviction and good underlying momentum

Market environments

Civil Aerospace

- Large engine installed base grew 6% in 2019 and now exceeds 5,000
- In 2019 passenger air traffic returned to the long run average of 4-5% growth per annum
- Airframer widebody build rate reductions announced
  - WB engine deliveries: c.450 in 2020 & 400-450 p.a. over next few years

Power Systems

- **New markets and applications;** increasing services penetration
- **Geographical expansion into new regions**
- **Growing revenues -** ahead of peers

Defence

- **Significant pipeline of new programme opportunities:**
  - **US:** B-52 re-engining; Future Vertical Lift
  - **UK:** Team Tempest - power and propulsion system

Journey towards zero net carbon and sustainability across our markets

Decarbonisation of our core markets

Pursuing the Rolls-Royce sustainability strategy

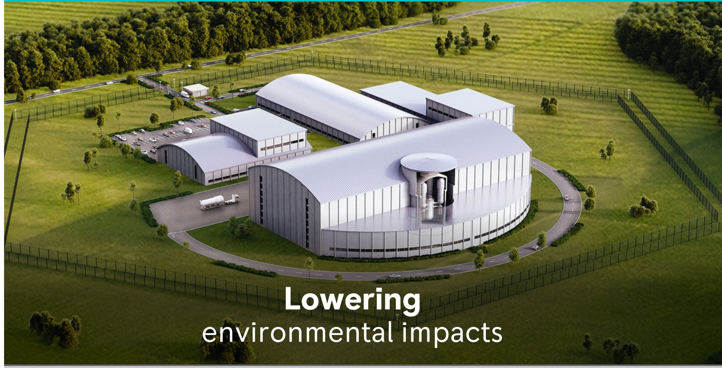
2019 saw significant steps towards our ambition to be a **leader in low carbon technologies**

Products

Reducing
fuel consumption, emissions and noise

- 1% average annual aero engine efficiency improvement
- Continue to evolve the gas turbine with progress on UltraFan design
- Power Systems first to market with hybrid train powerpack

Technology



Lowering
environmental impacts

- Grew group electrical capabilities; acquisition of Siemens' eAircraft & majority stake in Qinous
- Grant funding from UK government for SMR preliminary design
- Working with the fuels industry to increase the availability of sustainable alternative fuels

Operations

- Set up of microgrid facility in Friedrichshafen, Germany
  - Coupled with solar will deliver 30% of the site's energy demand
- New green power purchase agreement (PPA) for all our UK purchased electricity

Business update

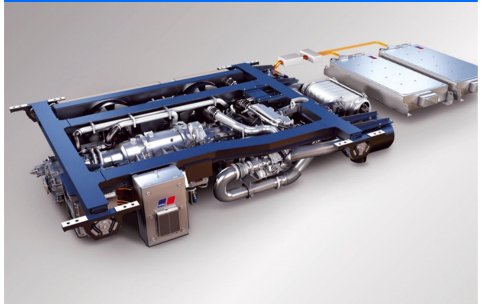
2019
Full Year Results
Overview

Civil Aerospace

Revenue +10%
Profit +£195m

- 64% market share in WB gross orders in 2019
- Record delivery of 510 WB engines
- Second Pearl engine application launched

Power Systems



Revenue +4%
Profit +15%

- Strong financial performance and 1.0x book:bill despite challenging end markets
- Strong growth in new geographic markets
- Progress on hybrid strategy with orders for MTU rail systems

Defence

Revenue +1%
Profit -7%

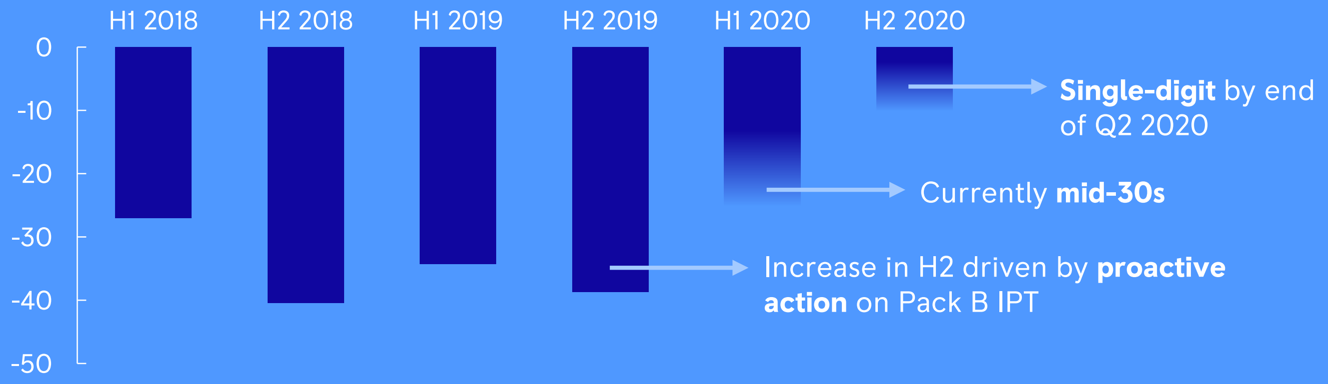
- All time record order intake of £5.3bn, 1.6x book:bill
- Strong cash performance
- Service revenue up 4%
- Increasing R&D to drive new product pipeline

Trent 1000

In service cash cost expectations **unchanged since November update**

- Trent 1000 MRO capacity tripled since 2017, further expansion in 2020
- Trent 1000 spare engine pool doubled in 2017-2019; a further ~50% increase will be delivered in 2020
- £578m cash costs in 2019, the peak year for such costs

Enabling a rapid reduction in aircraft on the ground (AOG)

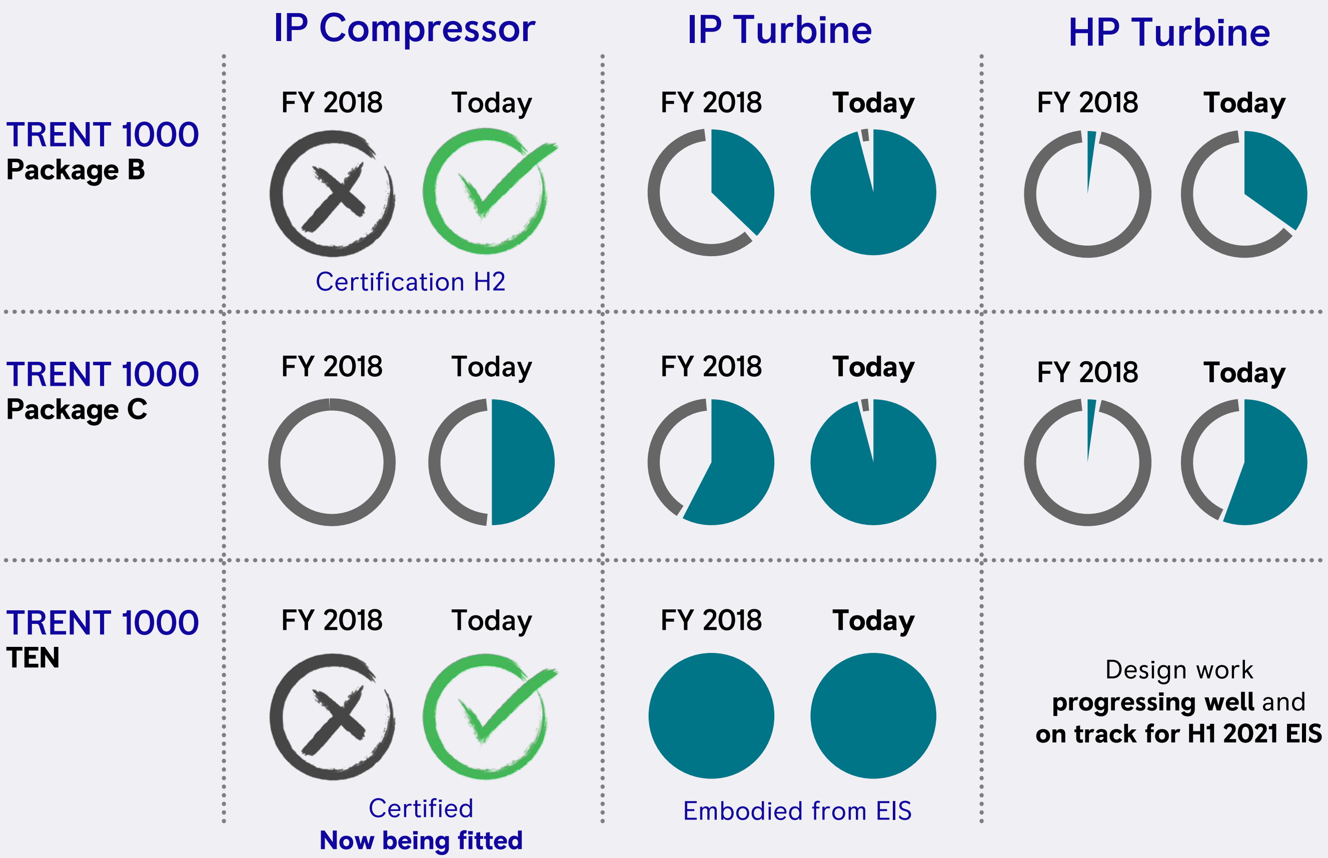


Trent 1000

Significant progress resolving issues

8 of the 9 fixes designed and **7 certified**

Progressing well on designing fix for Trent 1000 **TEN HPT**



Trent XWB
Excellent entry-into-service

Trent XWB-84 fleet leading engines are now **entering 5th year in service and reaching our expectations for durability** at the outset of the programme

- The world's **most efficient** large aero engine in service
- Most important new engine programme: **over 50%** of expected annual deliveries
- Fleet leaders in service for **over 3,500 cycles** and **over 22,000 hours** without shop visits
- **Our most reliable engine**
  - 99.9% dispatch reliability
  - 0.003 unplanned engine removals for every 1,000 flight hours
  - Excellent in-flight disruption statistics (turn-backs, surges, shutdowns)

2019

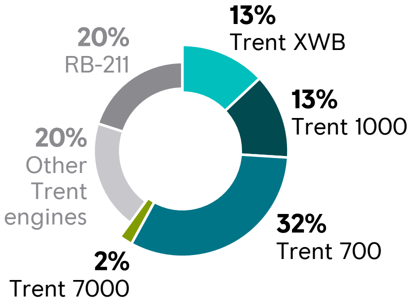
>650 engines in-service
13% of installed fleet

Mid-term

~1,800 in-service
~30% of installed fleet

Other large engine programme performance

Installed fleet



Trent 1000

13% of 2019 installed base

- Strong progress to solve durability; 8 of 9 fixes designed; progress on TEN HPT revised blade; continuing on embodying fixes into the fleet
- Grounded aircraft (AOG) represent ~1% of total Rolls-Royce widebody fleet
- AOGs fallen to mid-30s, continue to target single-digit by end of Q2

Trent 700

32% of 2019 installed base

- Proven market favourite on the A330, with >60% share and >1,600 in service
- Lowest noise and lifetime fuel burn on the A330ceo
- 54m hours flown, time-on-wing doubled since entry into service
- Today 25th anniversary: very first Trent 700 engine completed delivery flight to Cathay Pacific

Trent 7000

2% of 2019 installed base

- Shared architecture with Trent 1000 TEN, but improved durability
- Redesigned TEN IP compressor blade embodied
- No IP Turbine issue: redesigned blade embodied from EIS
- Significantly lower HPT risk: lower thrust climb rating than Trent 1000

Widebody

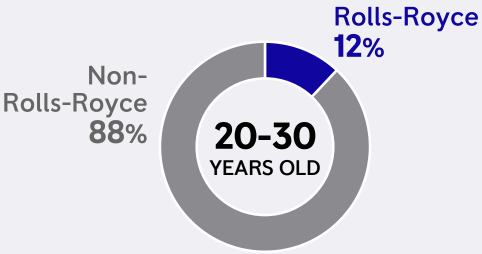
Medium term outlook

Our **young fleet** and strong **market position** leaves us less exposed to retirements and well placed to **capture replacement opportunities**

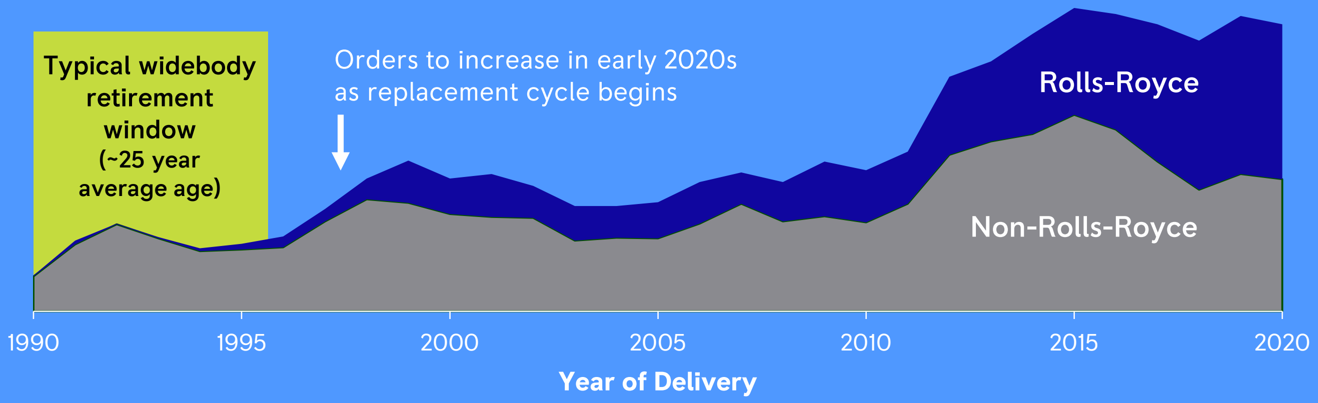
Well placed to capture new demand: ~55% market share of widebody order book

- Rolls-Royce widebody fleet is less than 8 years old on average
- Non-Rolls-Royce widebody fleet is ~13 years on average

Widebody Installed Base



Number of widebody aircraft in service by year of delivery



Transformation

Corporate structure

Created simpler structure with clear accountability in each division and leaner, agile HQ

Transformation driven by:

- Simplifying our organisational structure
- Investing in digitalisation & automation
- Streamlining processes
- Enabling our people

Reduced indirect workforce by 10% and achieved run-rate savings of £269m

Product Development

- **Product change process:** reduced complexity
- **End-to-end digital design:** 15% reduction in engineering hours

Operations

- **Plant productivity improvement**
- **Lead-time reduction**
  - 10 day build time on Trent 1000

Services

- **Additional MRO capacity**
- **Growth in on wing & near wing capability**
  - 17% increase in activity from prior year

Balancing our Capital Allocation

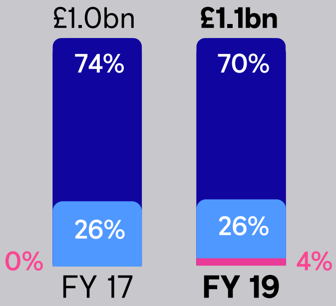
Ramping up investment in next generation technologies and balancing across our portfolio

Existing products

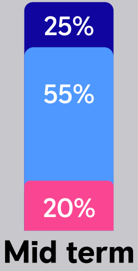
Future technologies

R&D Spend

- Delivering and enhancing current production portfolio
- Next generation gas turbines
- Low carbon (electrical), hybrid, fuel cells



Continuing to invest at least **£1bn per year**



- **UltraFan will be 10% more efficient** than Trent XWB
- Continued spend in Defence towards **major upcoming opportunities** (B-52, Future Vertical Lift, Tempest)
- **Transforming Power Systems** with a focus on gas and hybrid – MicroGrids, hybrid trains, yachts

- **~£200m spend p.a. on low carbon technology** by mid-term, balanced across the divisions
- **Leveraging our entire portfolio** to drive electrical. Bringing products to market in Power Systems first
- **Small Modular Reactor (SMR)**: leading a consortium in UK's largest national engineering collaboration

Financial Review

Stephen Daintith

Chief Financial Officer

Agenda for today

01

Full year results

At a glance

After a challenging first half we delivered a **strong end to the year**

- Underlying **operating profit growth 25%**
- **Strong core FCF of £911m** – good Civil Aerospace aftermarket growth, Trent 1000 insurance receipts secured
- **Civil Aerospace** – further strong improvement in operating profit
- **Gross debt reduction £1.1bn**; net cash position improved to £1.4bn

Revenue
underlying results

Delivering **strong growth across the Group**

Revenue (£m)	2019	Organic Change		2019 Guidance (As provided in 2018 Preliminary Results)	2018*
Civil Aerospace	8,107	+10%	✓	10% growth	7,378
Power Systems	3,545	+4%	✓	mid-single digit growth	3,434
Defence	3,250	+1%	✓	stable	3,124
ITP Aero	936	+21%	✓	10% growth	779
Other/Eliminations	(577)	-	-	-	(429)
Core Business	**15,261**	**+6%**	-	-	**14,286**
Non core	189	-	-	-	781
Group	**15,450**	**+7%**	-	-	**15,067**

* 2018 core restated to remove Civil Nuclear North America Services business from Power Systems to Non core

In line or better than guidance for every business

Operating profit
underlying results

Core operating profit **increased 25% YoY**

Strong performance into the year-end

Operating Profit (£m)	2019	2019 Margin	vs Guidance	2019 Guidance (As provided in 2018 Preliminary Results)	2018 Margin	2018*
Civil Aerospace	44	0.5%	✓	closer to break-even	(2.2)%	(162)
Power Systems	357	10.1%	✓	~100 bps higher margin	9.2%	315
Defence	415	12.8%	✓	~100 bps lower margin	13.7%	427
ITP Aero	111	11.9%	✓	stable margin	8.6%	67
Other	(117)	-	-	-	-	(16)
Core Business	**810**	**5.3%**	✓	**600-800**	**4.4%**	**631**
Non core	(2)	-	-	-	-	(15)
Group	**808**	5.2%	-	-	4.1%	616

* 2018 core restated to remove Civil Nuclear North America Services business from Power Systems to Non core

Margin guidance met or exceeded in every business

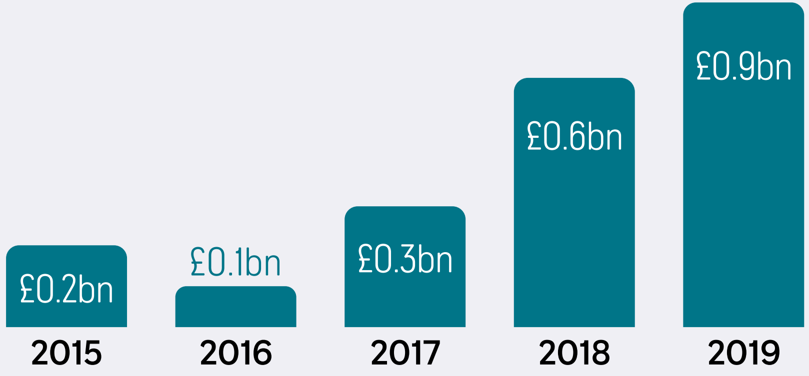
Strong Core FCF £911m

Further step towards our ambition to deliver **£1 cash per share in the mid-term**

£811m improvement in FCF since 2016 low-point

- **Strong end to 2019** following challenging first half;
  - Q4 inventory reduction
  - Disciplined spend control
  - Improved Q4 trading in Power Systems
  - Trent 1000 - secured insurance receipts of £173m
- **Improved quality**: Materially lower contribution from net receivables/payables
- **CROIC** stable at 12% despite ongoing high level of R&D investment

Material free cash flow improvement



Group FCF of £873m, +£305m

Drivers of £305m year-on-year improvement

Improved sustainable cash flow

Operational cash flow improvement

+£507m

- Increased operating profit
- Growth in Civil deferred revenue (LTSA)
- Lower PPE capex as large projects end
- R&D cash spend stable; lower capitalisation

Lower working capital contribution

£(50)m

- Materially lower receivables / payables change

Peak year for Trent 1000 costs

£(152)m

- Higher provision usage partly offset by insurance receipt
- Lower cash tax and other items

Summary funds flow

Core FCF
~£911m

Receivable and payables contribution £623m lower than 2018

£m		2019	2018	Change
+£507m	**Underlying Operating Profit**	**808**	616	**192**
	Growth in Civil deferred revenue (LTSA)	754	679	75
	D&A in excess of lease payments	749	756	(7)
	PPE capex	(747)	(905)	158
	Capitalised R&D and certification costs	(496)	(533)	37
	Other intangible capex	(95)	(147)	52
£(50)m	Change in inventory	(43)	(616)	573
	Change in net receivables/payables	574	1,197	(623)
£(152)m	Provisions utilisation (primarily Trent 1000)	(506)	(242)	(264)
	Insurance receipts (Trent 1000)	173	-	173
	Net interest, pensions, tax and other	(298)	(237)	(61)
	Group Free Cash Flow	**873**	**568**	**305**
	Of which: Core Free Cash Flow	911	648	263

Working capital improvements

Focus on durable working capital improvements

Key actions:

£390m

reduction in inventory in H2

- Delivery growth in Civil Aerospace and Power Systems in Q4
- Tight focus on supply chain management; will continue through 2020
- Buffer inventory of Series 1600 in Power Systems will reduce in 2020
- Continuing improvement in S&OP process; increased frequency, focused

£574m

increase in net receivables/payables

- ~£200m in Defence driven by order intake and subsequent deposits
- More disciplined collection of overdue debts reducing from 20% to 15% driving ~£130m contribution

Significantly improved cash position

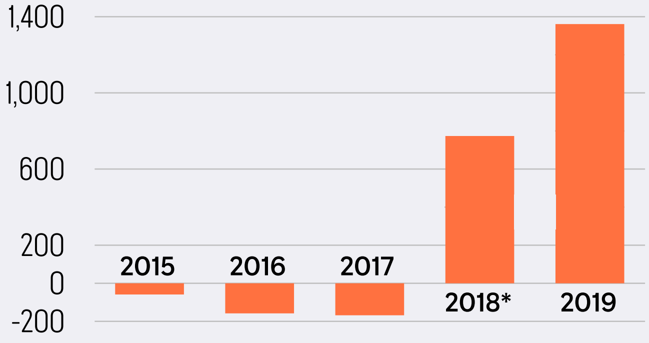
£1.1bn reduction in gross debt

Maintain ambition to return to a single A rating

- **Year end net cash £1.4bn +£0.5bn YoY**
  - Led by Group FCF of £873m
  - Commercial Marine & Power Development proceeds of £453m
- **£1.1bn reduction in gross debt:**
  - Repayment of £500m bond at maturity (H1 2019)
  - Early repayment of £523m of EIB loans (H2 2019)
- **£6.9bn of liquidity** including £4.4bn cash balance and £2.5bn undrawn RCF

	IFRS 16	Pre IFRS 16	
£m	**2019**	**2018**	**2017**
Cash	4,449	4,980	2,956
Debt	(3,088)	(4,140)	(3,124)
Net cash/(debt) excl. Leases	**1,361**	**840**	**(168)**
Leases	(2,354)	(229)	(137)
Net cash/(debt) incl. Leases	**(993)**	**611**	**(305)**

Net cash/(debt) position excl. leases



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Progress on key levers

Progress on our three fundamental levers

2019 saw further progress delivered on key drivers of cash flow improvement

OE widebody average loss	Widebody aftermarket cash margin	C&A, R&D, Capex
£0.2m improvement per engine	**£0.3bn** improvement	**280bps** lower as % sales
Trent XWB-84 leads average loss reduction	Strong growth in U/L aftermarket cash margin	Restructuring building momentum

Progress achieved towards CMD targets*

~£0.4m/engine	~£500m	~400bps
Improvement since 2017	Increase since 2017	Lower since 2017

* 2018 CMD baseline is FY 2017

Reduced OE average loss per engine

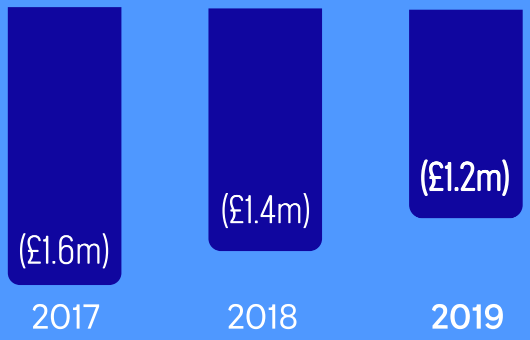
£0.2m
improvement per engine

14% unit loss reduction despite shift to new programmes

Trent XWB-84
22% reduction in OE losses

Widebody engine deliveries

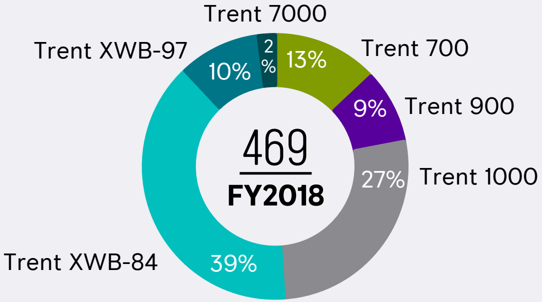
Widebody avg. OE losses*



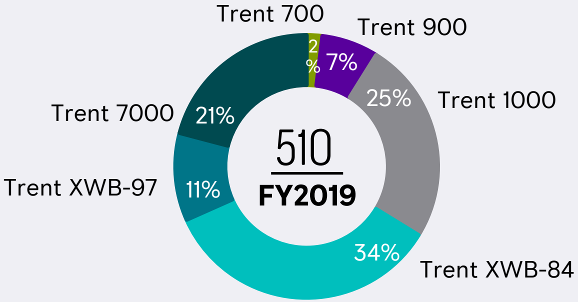
* Installed widebody engines

Significant mix shift to new programmes

2018 OE deliveries



2019 OE deliveries

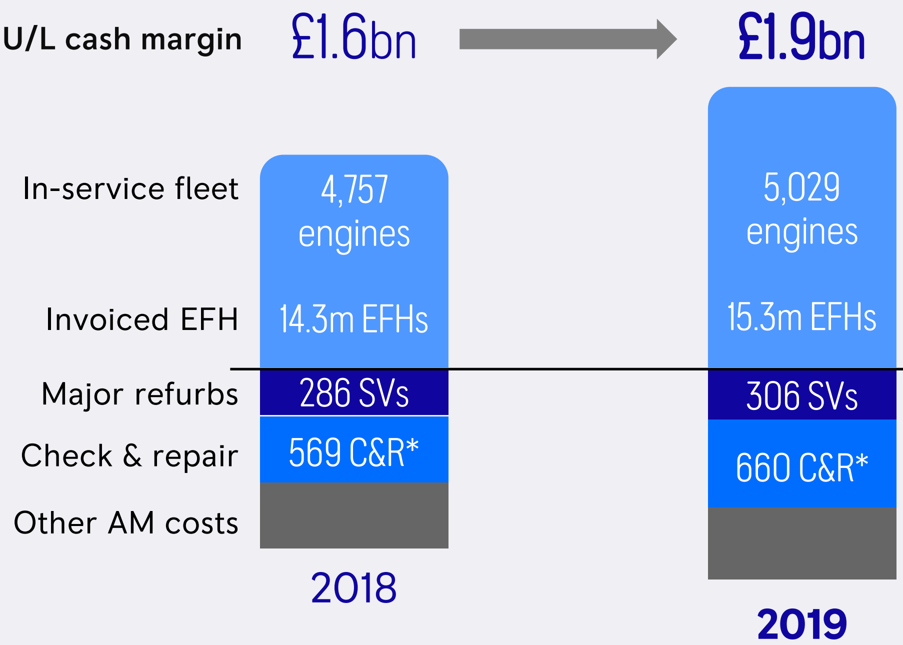


Civil Aerospace aftermarket cash margin

£0.3bn
improvement

Strong improvement in aftermarket cash margin

Widebody aftermarket cash margin
(pre-Trent 1000 costs)



Drivers of improved income:
- 7% EFH growth
- Strong T&M growth
- Price escalation
- Growth in pay at shop visit events

▲ Income
▼ Costs

*Check & repair visits include Trent 1000 in-service related visits
Note chart illustrative. Not to scale

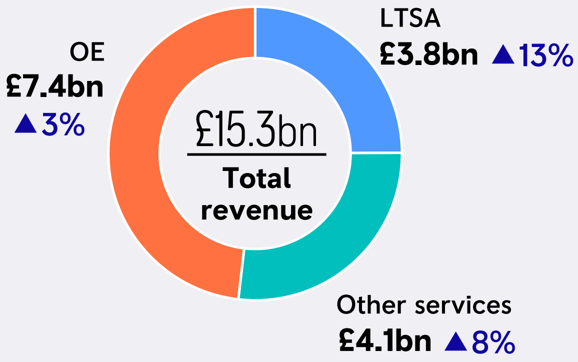
Delivering ahead of CMD ambition

Driving value from services across the Group

Services now represents **more than 50%** of our revenue

Recurring, visible, higher margin business

Core underlying revenue split



£7.9bn services - driven by:

Civil £4.9bn

- ~90% of Trent engines covered by LTSAs
- Installed fleet ~5,000 large engines, ~9,000 small engines

Power Systems £1.2bn

- Growing services penetration up from 33% of revenues to ~40% by mid-term
- ~146,000 installed base

Defence £1.8bn

- ~16,000 engines in service
- Services order book grown ~50% since 2015

Generating higher returns from services

- Extending time-on-wing in Civil and Defence Aerospace
- Optimising repair technologies to reduce maintenance costs
- Increasing use of digital capabilities

Bending the fixed cost curve

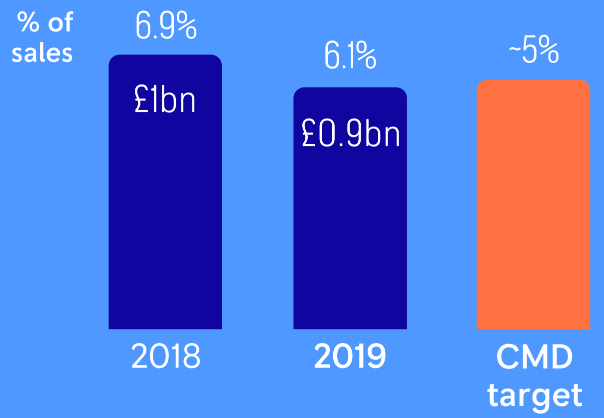
280bps
lower;
now 18.4% of sales

Progress showing in our cost control efforts

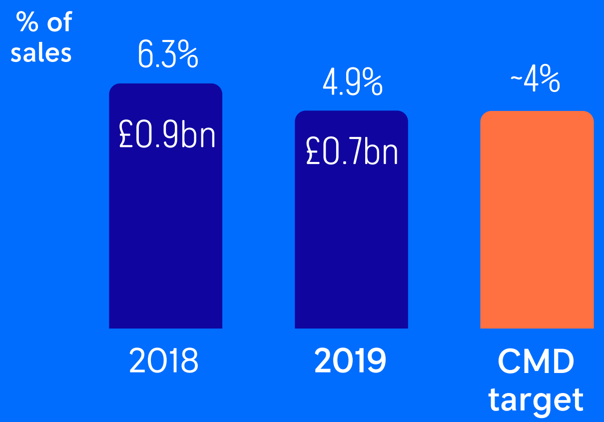
Summary

- C&A costs down 4%, £938m from £977m
- PPE capex reduction £158m as major capital projects near completion
- R&D investment at highest levels £1,108m (2018: £1,106m) but falls as % of sales

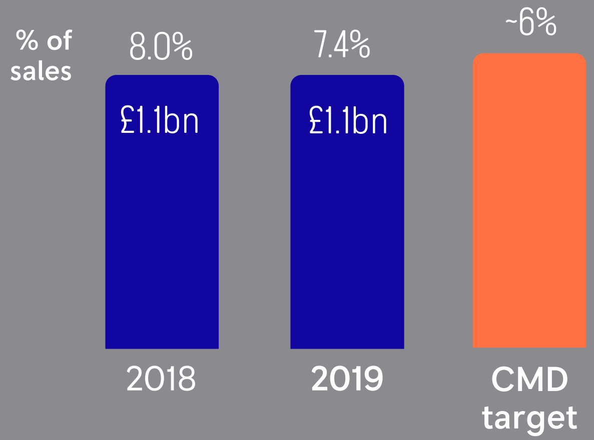
C&A



PPE capex



R&D and certification

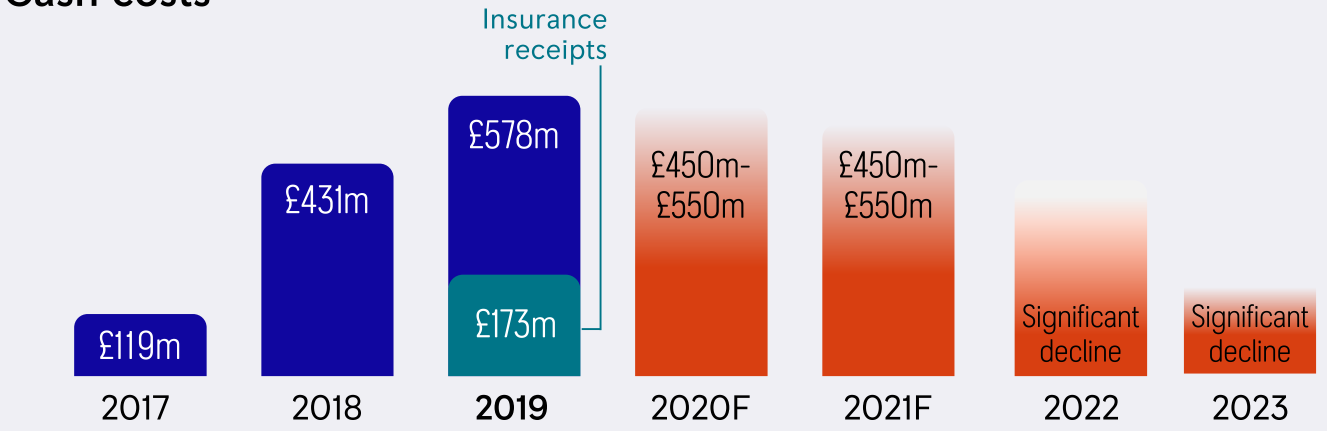


Trent 1000 in-service cash costs

2019 is the peak year for cost at £578m

- In-service cash cost expectations unchanged since November update
- ~£2.4bn total in-service cash costs (2017-2023)
- 2019 is the peak year for cost at £578m
- £173m insurance receipts secured in December

Cash costs



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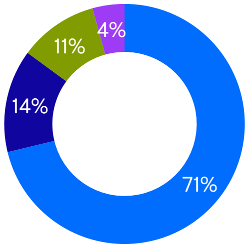
Business unit review

Civil Aerospace

Operating profit
£44m

Underlying revenue by end market



Large engines	▲	15%
Business	▲	4%
V2500	▼	11%
Regional	▲	19%

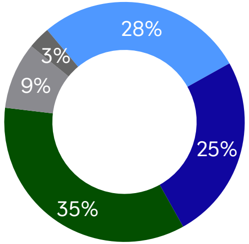
£m	**2019**	2018	**Change**	**Organic change**
OE revenue	3,246	3,119	+4%	+4%
Services – LTSA	3,138	2,752	+14%	+14%
Services - T&M/other	1,723	1,507	+14%	+14%
Underlying revenue	**8,107**	7,378	**+10%**	**+10%**
Gross profit	622	493	+26%	+25%
Gross margin %	*7.7%*	*6.7%*	*+100bps*	*+90bps*
Operating result	**44**	(162)	**+206**	**+195**
Operating margin %	*0.5%*	*(2.2)%*	*+270bps*	*+260bps*

- **Underlying revenue**: Large engine major shop visits up 7%, OE Widebody sales volumes up 41 to 510 engines
- **Gross profit**: Higher servicing activity and increased spare part sales, lower impact from negative contract catch-ups. FX headwinds on USD customer deposits
- **Operating result**: Higher gross profit, increased JV profit reflecting increased servicing activity, reduced C&A costs offset by R&D spend

Power Systems

Robust growth and margin improvement in challenging markets

Underlying revenue by end market



Marine	▲	1%
Industrial	▼	17%
PowerGen	▲	24%
Defence / other	▲	30%
Civil Nuclear	▼	4%

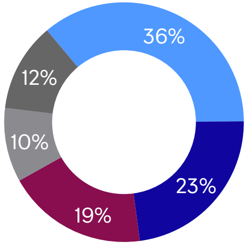
£m	**2019**	2018	**Change**	**Organic change**
OE	2,386	2,310	+3%	+4%
Services – LTSA	134	128	+5%	+6%
Services – T&M/Other	1,025	995	+3%	+4%
Underlying revenue	**3,545**	3,434	**+3%**	**+4%**
Gross profit	909	866	+5%	+6%
Gross margin %	*25.6%*	*25.2%*	*+40bps*	*+50bps*
Operating profit	**357**	315	**+13%**	**+15%**
Operating margin %	*10.1%*	*9.2%*	*+90bps*	*+90bps*

- **Underlying revenue**: OE growth led by strong progress in PowerGen, services up +4% led by good LTSA growth of +6%
- **Gross profit**: driven by sales growth and improved gross margin due to product mix
- **Operating profit**: higher gross profit, £11m lower R&D charge offset by additional IT spend as we expanded our digital solutions capability

Defence

Stable sales, excellent year for order intake and cash flow

Underlying revenue by end market



Transport	▼	3%
Combat	▲	8%
Submarines	▲	1%
Naval Marine	▲	20%
Other	▼	9%

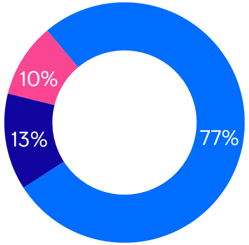
£m	**2019**	2018	**Change**	**Organic change**
OE	1,461	1,452	+1%	-2%
Services – LTSA	566	530	+7%	+3%
Services – T&M/other	1,223	1,142	+7%	+5%
Underlying revenue	**3,250**	3,124	**+4%**	**+1%**
Gross profit	669	690	-3%	-6%
Gross margin %	*20.6%*	*22.1%*	*-150bps*	*-160bps*
Operating profit	**415**	427	**-3%**	**-7%**
Operating margin %	*12.8%*	*13.7%*	*-90bps*	*-110bps*

- **Underlying revenue**: Overall up 1% led by 4% growth in services revenue. OE modest decline driven by temporary reduction in OE transport volumes
- **Gross profit**: reduction reflects product mix - lower Trent 700 MRTT volumes, lower LTSA margin due to non-repeat of one-off customer settlements
- **Operating profit**: lower gross profit, modest increase in R&D £4m partially offset by a reduction in C&A costs £22m

ITP Aero

Good growth on Trent and non Rolls-Royce programmes

Underlying revenue by end market



Civil	▲ 40%
Defence	▼ 14%
Services / MRO	▼ 18%

£m	**2019**	2018	**Change**	**Organic change**
OE	782	666	+17%	+19%
Services	154	113	+36%	+37%
Underlying revenue	**936**	779	**+20%**	**+21%**
Gross profit	206	156	+32%	+33%
Gross margin %	*22.0%*	*20.0%*	*+200bps*	*+200bps*
Operating profit	**111**	67	**+66%**	**+67%**
Operating margin %	*11.9%*	*8.6%*	*+330bps*	*+330bps*

- **Underlying revenue**: higher civil OE volumes and non-repeat of 2018 Trent 1000 aftermarket impact, benefit of ~£50m from simplification of contractual terms with Civil Aerospace
- **Gross profit**: 33% improvement driven by higher OE volumes and improved pricing, ~£25m profit benefit from simplification of contractual terms – net neutral to Group
- **Operating profit**: higher gross profit partially offset by modestly higher C&A and R&D

04

Guidance

2020 outlook

Operating profit growth **around 15%**

Core FCF at **least £1bn**

Guidance excludes any material impact from COVID-19 in 2020

£m	2019	2020 Outlook
Underlying revenue		
Civil Aerospace	8,107	Stable to low single-digit growth
Power Systems*	3,306	Low single-digit growth
Defence	3,250	Stable to low single-digit growth
ITP Aero	936	Stable
Corporate / eliminations	(577)	Stable
Core	**15,022**	Stable to low single-digit growth
Underlying operating profit		
Civil	44	50-100bps margin improvement^
Power Systems*	375	0-100bps margin improvement
Defence	415	Stable
ITP Aero	111	50-100bps margin improvement
Corporate / eliminations	(117)	£(60)-(80)m
Core	**828**	**Around 15% growth**

^Civil Aerospace profit improvement despite headwind from £100-150m lower capitalisation of R&D in 2020

*For guidance purposes Power Systems 2019 is shown excluding Bergen, which is included in non-core to reflect treatment from 2020

2020 funds flow guidance

Operating profit growth across all our of business

Continued progress against our key cash drivers in 2020

Guidance excludes any material impact from COVID-19 in 2020

~£1bn Operating profit

Growth around 15%

~£750m +/- ~£150m	**LTSA deferred revenues broadly stable year-on-year**
~£(600)m +/- ~£50m	**Capital spend* above D&A broadly stable year-on-year**
~£600m +/- ~£150m	**Working capital contribution led by inventory unwind**
~£(500)m +/- ~£50m	**Movement in provisions** – largely Trent 1000
~£(250)m +/- ~£50m	**Other** (tax, interest, pension)

= at least **£1bn FCF**

*Capital spend includes PPE capex, intangibles additions, and IFRS 16 lease costs (capital + interest portion)

Business outlook

Warren East

Chief Executive

2020 outlook

"The momentum we gained in 2019 underpins our confidence for the year ahead…

Core operating profit growth is expected to be around 15% with at least £1bn of FCF in 2020,

as we drive towards our ambition to exceed

£1 of free cash flow per share in the mid-term

(at least £1.9bn FCF)"

Guidance excludes any material impact from COVID-19 in 2020

Managing COVID-19

A macro-risk for 2020

COVID-19 is likely to have an impact on air traffic growth in the near term, however **long term growth trends remain intact**

Procedures in place **to ensure the health, safety & wellbeing** of our people

We are actively monitoring the situation & **taking appropriate actions.** We will update the market as appropriate

- Civil Aerospace:
  - c.**10%** of total WB OE backlog to Greater China airline customers
  - c.**20%** of total annual Civil EFH from Greater China routes
- Power Systems: c.**10%** of revenue derived from Greater China
- **Direct supply-chain risk minimal:** small number of key tier one suppliers in the Greater China region, all of whom have resumed operations

2020 priorities

Customers

- Meet customer commitments
- Bring Trent 1000 AOGs down to single digits

Operations

- Drive operational excellence and reduced inventory
- Achieve £400m run-rate savings on restructuring

Finance

- Deliver significant operating profit growth
- Free cash flow of at least £1bn

People & culture

- Deliver leaner and more agile organisation
- Improve employee engagement and productivity

Long-term priorities

Realise our ambition to be the **world's leading industrial technology company**

- Embed **behavioural change** and a **desire for continuous improvement**
- Drive **operational and financial improvement**; exceed **£1 per share FCF** in the mid term
- Transition **to low carbon power**: a **growth opportunity** we can seize through increasingly **efficient engines** & using **innovation** to become a **disruptor in new areas**
  - **Deliver zero emissions** from operations and facilities by **2030**
  - Play a **leading role** in enabling the vital sectors we're part of to get to **net zero carbon by 2050**