

15 June 2018

ROLLS-ROYCE OUTLINES MID-TERM AMBITION CAPITAL MARKETS EVENT JUNE 2018

- **Details on restructuring plan; run-rate net cost savings of £400m p.a. by end of 2020**
- **Well-placed to now exceed free cash flow of £1bn by 2020; mid-term ambition for free cash flow per share to exceed £1**
- **Mid-term ambition for through-cycle cash flow return on invested capital of 15%**
- **Update on Trent 1000 cash costs for 2018 – Group free cash flow guidance maintained**

Rolls-Royce is today hosting its 2018 Capital Markets Event with investors and financial analysts at which we will be providing further details of our fundamental restructuring and our mid-term financial ambitions for the company. We will also provide an update on progress made within Power Systems and the growth outlook for this business.

Restructuring: a fundamental change to structure, culture, processes and people

Reflecting our ongoing drive for pace and simplicity, we confirmed on 14 June a proposed restructuring, the goal of which is to enable us to deliver improved returns, higher margins and increased cash flow allowing us to continue to invest for the future. This restructuring follows a comprehensive review of our structure, culture, processes and people with a view to creating a much simpler, healthier and dynamic organisation with clearer accountabilities, greater productivity and quicker decision-making. Further details of this plan, its expected savings and associated implementation costs will be discussed at today's event.

Over the next 24 months, we expect this proposed restructuring will lead to the reduction of approximately 4,600 roles, predominantly in the UK, with around a third of these expected to leave by the end of 2018. The programme is expected to gain further momentum through 2019, with full implementation of headcount reductions and structural changes by mid-2020.

The total cash cost of the restructuring is expected to be £500m which includes the cost of redundancies and required systems investments to facilitate the programme. Full year net cost savings from this restructuring are expected to reach a run-rate of £400m per annum by end 2020.

As Chief Executive Warren East said *“After a decade of significant investment we are committed to delivering significantly improved returns while continuing to invest in the innovation needed to realise our long-term ambition to be the world’s leading industrial technology company. It is never an easy decision to reduce our workforce, but we must create a commercial organisation that is as world-leading as our technologies.”*

KPIs: Mid-term ambition to deliver in excess of £1 per share of free cash flow

We will outline today our revised KPIs, focussing on CPS (cash flow per share) and CROIC (cash flow return on invested capital). As we exit a period of intense investment in our Civil Aerospace business and as benefits from our restructuring plan start to deliver, we are committed to generating significantly improved returns. Our mid-term ambition is to exceed £1 per share of free cash flow generation (15p in 2017) and to reach a cash flow return on invested capital of 15% through the cycle (9% in 2017).

Stephen Daintith, Chief Financial Officer, said: *“We are coming out of a significant investment cycle and are poised to deliver much improved returns. To achieve this we must focus on reducing further the original equipment cash deficit per engine, increasing our aftermarket cash margins and ‘bending the fixed cost curve’ by focusing on R&D, capital expenditure and commercial and administration costs. The restructuring programme is a key enabler to delivering reductions in our fixed costs while allowing our businesses to be more accountable for their own costs. Our mid-term ambition is to deliver free cash flow per share of over £1 and to generate annual cash flow return on invested capital of 15% through the cycle.”*

Power Systems: Attractive growth with mid-term ambition to deliver mid-teens margin

We will present today an in-depth overview of Power Systems, its key market positions and growth prospects. Power Systems is an example of one of our businesses which has already made significant progress in its transformation, delivering record operating profit margins and strong cash flow in 2017. It has been positioning itself for future growth through a streamlined product portfolio across a range of fuel types and a focus on digitally-enabled services enabling significantly enhanced life cycle services offerings. Looking ahead we have ambitious targets for further improvement and growth, with a medium-term ambition for Power Systems to achieve revenue growth 3-5% points above underlying GDP and an operating profit margin in the mid-teens (11.3% in 2017).

Trent 1000 update: FY18 Group FCF guidance maintained despite additional £100m costs

As previously announced, over the last few months we have encountered further in-service challenges with our Trent 1000 Package C and B engines, necessitating an increased level of

inspection and intervention. At the time of our FY17 results in March we had anticipated that the cash costs associated with in-service issues on both the Trent 1000 and 900 would broadly double from the £170m incurred in 2017. Our current assessment is that the further issues encountered with Trent 1000 since our 7 March announcement could lead to combined additional 2018 cash costs of around £100m. We have, however, successfully enacted a number of short-term discretionary cost mitigation actions separate to, and outside of, the proposed restructuring plan, which we expect to offset these incremental costs. As such our FY18 free cash flow guidance remains unchanged at around £450m + /- £100m.

The event will commence at 08.45 BST and will be available for media and other interested parties to watch live on our website <http://www.rolls-royce.com/investors.aspx>

This announcement has been determined to contain inside information.

About Rolls-Royce Holdings plc

1. Rolls-Royce pioneers cutting-edge technologies that deliver the cleanest, safest and most competitive solutions to meet our planet's vital power needs.
2. Rolls-Royce has customers in more than 150 countries, comprising more than 400 airlines and leasing customers, 160 armed forces, 4,000 marine customers including 70 navies, and more than 5,000 power and nuclear customers.
3. Annual underlying revenue was £15 billion in 2017, around half of which came from the provision of aftermarket services. The firm and announced order book stood at £78.5 billion at the end of December 2017.
4. In 2017, Rolls-Royce invested £1.4 billion on research and development. We also support a global network of 31 University Technology Centres, which position Rolls-Royce engineers at the forefront of scientific research.
5. Rolls-Royce employs 55,000 people in 50 countries. More than 19,400 of these are engineers.
6. The Group has a strong commitment to apprentice and graduate recruitment and to further developing employee skills. In 2017 we recruited 313 graduates and 339 apprentices through our worldwide training programmes.

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