Rolls-Royce Holdings plc

2019 Environmental, Social & Governance Event

03 April 2019

Safety

Safe Harbour

Mobile Phones

Notices

Agenda for today

08:15	**Welcome** Ian Davis (Chairman)
08:25	**Business Update** Warren East (CEO)
08:40	**Governance** • **Innovative Governance** Ian Davis (Chairman) • **Board Apprentice Programme** Summer Smith (VP, Talent Management and Diversity & Inclusion) • **Corporate Governance Code** Pamela Coles (Chief Governance Officer) • **Audit Committee** Lewis Booth (Audit Committee Chairman)
09:00	**Environmental** • **Emphasis on Sustainability** Sir Frank Chapman (Safety, Ethics & Sustainability Committee Chairman) Sir Kevin Smith (Science & Technology Committee Chairman) • **Sustainable Power through Technology** Paul Stein (Chief Technology Officer)
09:15	**Social** • **Our Culture** Harry Holt (Chief People Officer) • **Employee Engagement** Irene Dorner (Employee Champion)
09:30	*Break*
09:45	**Breakout sessions**
10:45	**Re-group for feedback & wrap-up**
11:00	*Refreshments and close at 11:30*

Welcome

Ian Davis

Chairman

Business Update

Warren East

Chief Executive

Results summary

Solid progress

Underlying core revenue	Underlying core PBT
£14.3bn ↑ 10%*	£483m ↑ £184m*

Core underlying EPS	Underlying core operating margin
17.4p 2017: 4.4p	4.4% ↑ 140bps*

Core free cash flow	'Dividend' per share
£641m 2017: £318m	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

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

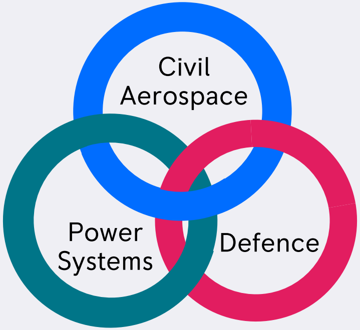
Structure to enable change

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

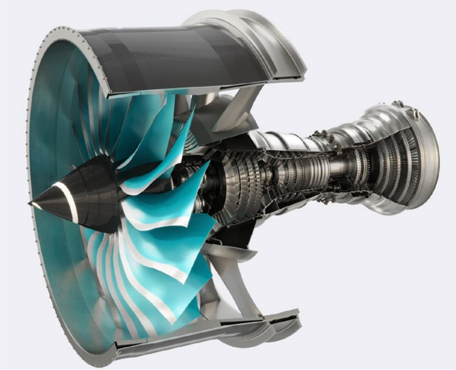
Lean
HEAD OFFICE

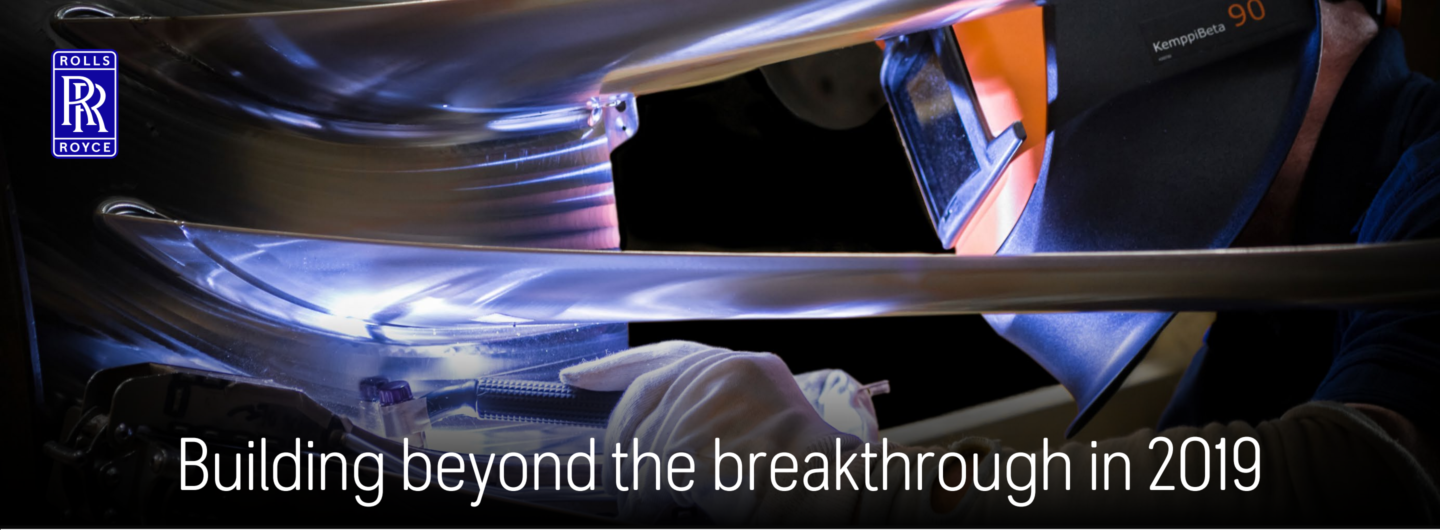
Following ITP Aero acquisition in December 2017, ITP Aero operates and reports as a separate business unit

Investment in innovation is key for our future development

Net R&D spend of £1.1bn in 2018

- Continued progress on UltraFan: 10% more fuel efficient than Trent XWB and significant weight, noise and fuel burn reduction
- 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





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

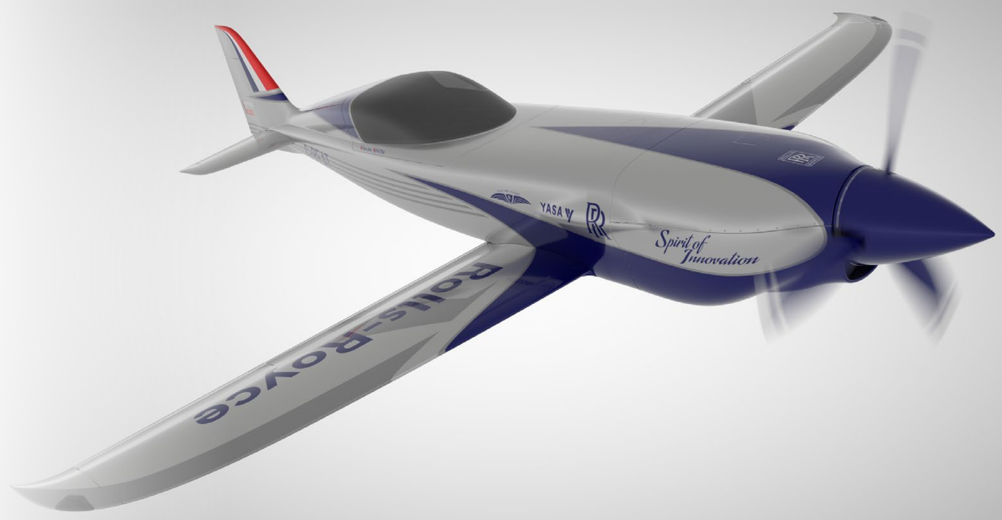
People & culture

- 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

Q&A



Governance

Ian Davis

Chairman

Innovative Governance

Key trends in governance

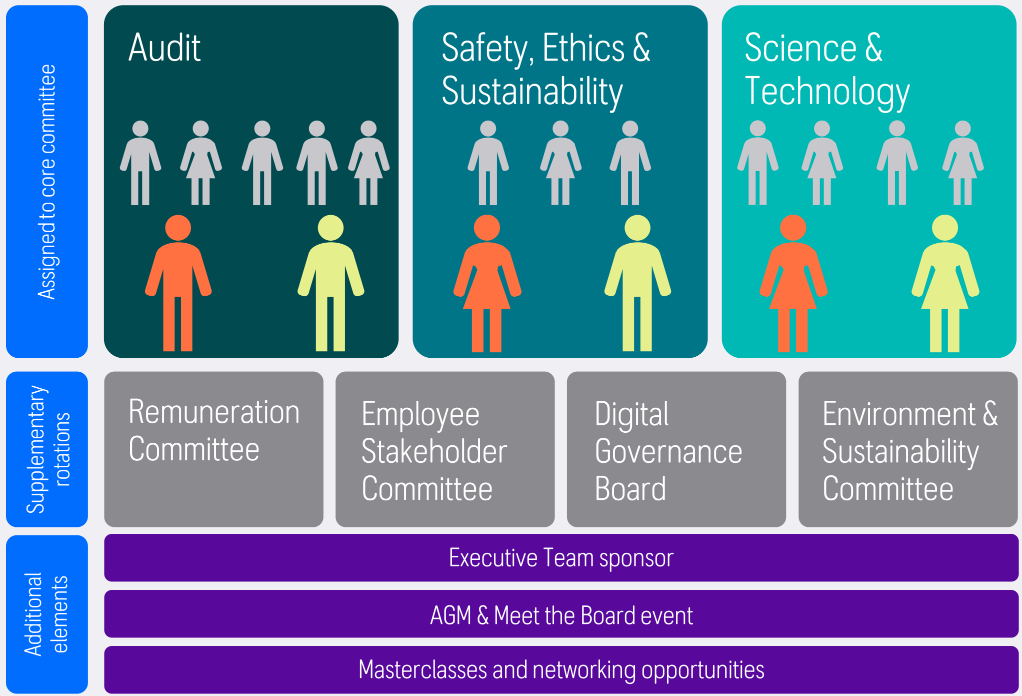
- Focus on corporate purpose, culture and risk
- ‘Democratisation’ of company and board - workforce engagement
- Increasing importance of ESG to investors and society
- Increased scrutiny of financial, audit and ethical integrity
- Transparency of everything

Board Apprentice Programme

Summer Smith

VP, Talent Management and Diversity & Inclusion

Board Apprentice Programme outcomes



Board Apprentice Programme

Pamela Coles

Chief Governance Officer

Corporate Governance Code

UK Corporate Governance Code 2016

- Fully compliant

UK Corporate Governance Code 2018

- Board review of governance initiatives and programmes during 2018
- Reported in the spirit of the 2018 Code where possible

Stakeholder engagement

- Review of different stakeholder groups and activities
- Identified opportunities to strengthen relationships
- See pages 66 – 68 of the 2018 Annual Report and www.rolls-royce.com

Audit Committee

Lewis Booth

Audit Committee Chairman

Audit Committee

Transition to PwC as external auditors

- Monitoring workplan and activities

FRC – Audit Quality Review team

- KPMG's audit of y/e 2017 financial statements

IFRS15

Contract accounting

- Abnormal costs of Trent 1000 issues
- Impact of A380 curtailment
- Onerous contract review

Review of restructuring costs

Risk management

Environmental

Sir Frank Chapman

Safety, Ethics & Sustainability Committee Chairman

Sir Kevin Smith

Science & Technology Committee Chairman

Emphasis on sustainability

Additional emphasis on sustainability in 2019 and environmental performance

- Renamed Safety, Ethics & Sustainability Committee from 1 April 2019 – taking the lead on sustainability
- Oversight of environmental strategy, developed by the management-led Environmental & Sustainability Committee
- Supported by the Science & Technology Committee - environmental impact of new products and technology
- Revised terms of reference on www.rolls-royce.com

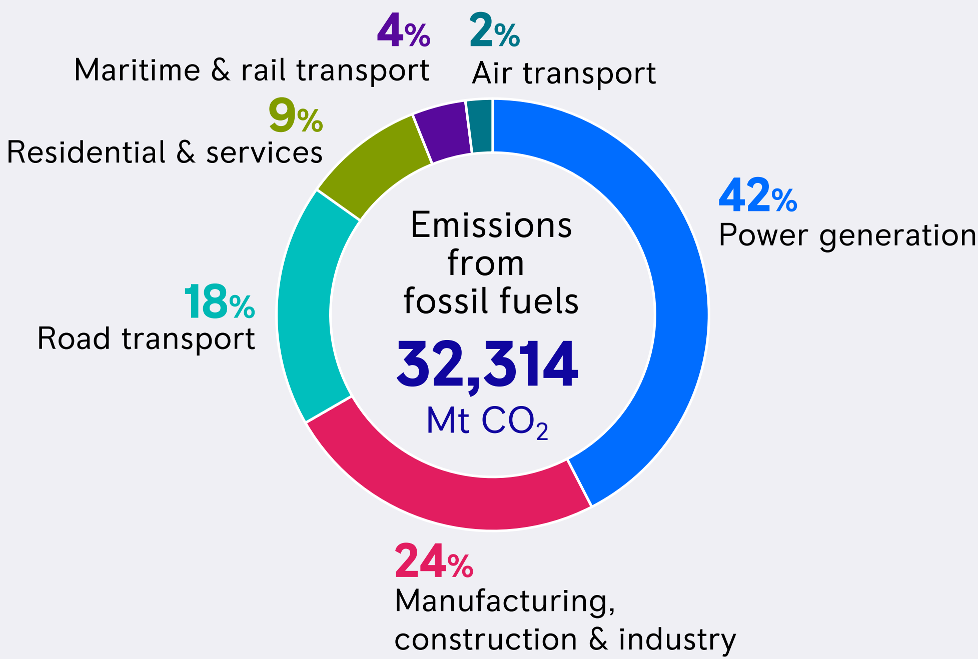
Sustainable Power through Technology

An environmental perspective on Rolls-Royce technology

Paul Stein
Chief Technology Officer

Rolls-Royce technology contributes to the decarbonisation of several sectors

- Aviation
- Maritime & Railway
- Power Generation

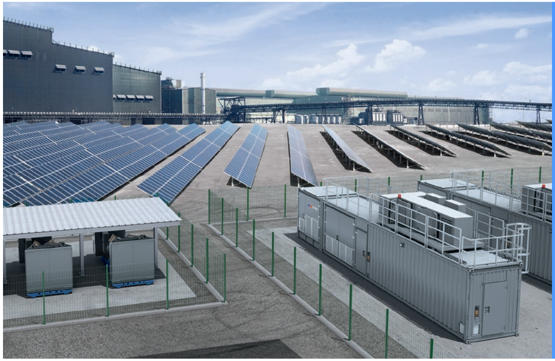


Source: IEA CO_2 Emissions from Fuel Combustion, OECD/IEA, Paris, 2018

Our Group environmental approach

Reducing the environmental impact of our products

15%
reduction in CO_2
since Trent 700



Developing new technologies and capabilities

Two thirds
of our technology is directed at lowering environmental impact

Reducing the impact of our business operations

Targeting
zero emissions
by 2030

Environmental strategy for decarbonising aviation

Increasingly more fuel efficient products

1%
increase in fuel efficiency per year

© Boeing

Supporting sustainable fuels

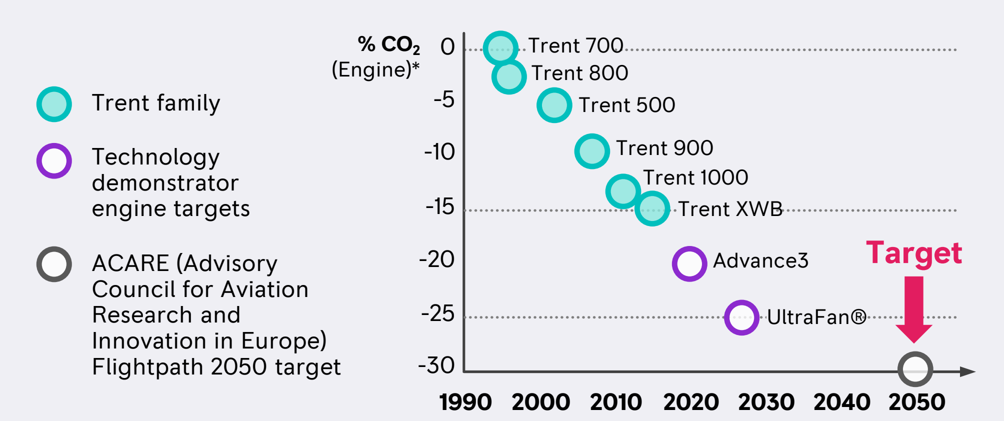
Working with fuels industry on sustainable biofuel-kerosene blends

Breakthrough technology especially electrification

E-Fan X and M250 Hybrid demonstrators in 2020-2021

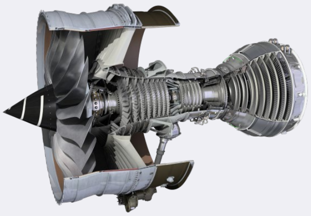
Working towards our Flight Path 2050 goals

CO_2 (Engine)



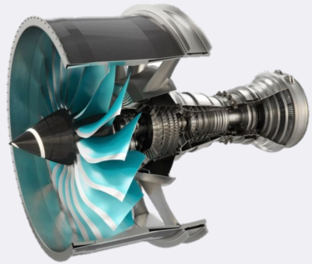
Trent XWB

The world's most efficient large aero engine in service today



UltraFan®

Delivering a 25% improvement in fuel efficiency relative to Trent 700

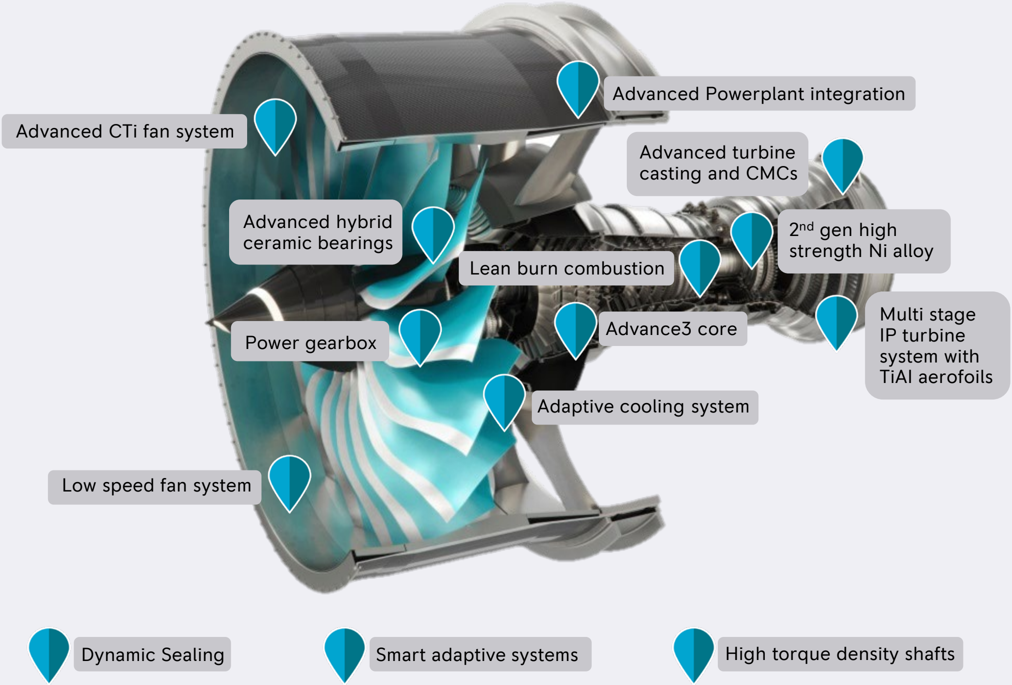


*Normalised by thrust

UltraFan® key technologies

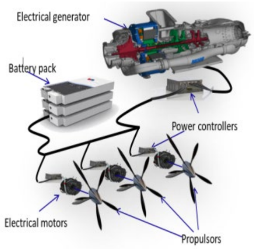
10% more fuel efficient than Trent XWB

Breakthrough geared fan architecture combined with new advanced engine core



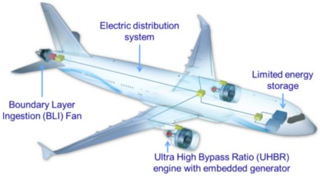
Electrification of Civil Aviation

2025 EVTOL



Regional hybrid 2030

2040 Middle of market & widebody



Alternative fuels and hybrid for Power Systems

Biogas engines

Highly efficient combined heat and power systems from climate-neutral regenerative fuels

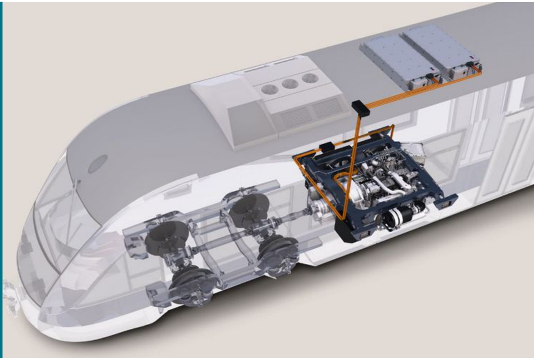
LNG engines

22% less CO_2

90% less NO_x in comparison to liquid fuels

Hybrid trains

Up to
30% less CO_2 emissions



Decarbonising power generation

Microgrids
Complementary to increase in variable renewable energy sources

Small Modular Reactors (SMRs)
Zero carbon energy at £60/MWh

Operations and facilities

Investing in low carbon operations reduces cost and risk of rising energy prices and volatility

Targeting zero scope 1 + 2 emissions from our operations and facilities by 2030*

Absolute GHG emissions ($ktCO_2e$)

2030 TARGET	0
2018	381
2017	392
2016	405
2015	432
2014 BASELINE	484

* excluding product test and power generation

Social

Our culture

Harry Holt

Chief People Officer

Our culture to deliver our vision & strategy

VISION	Pioneering the Power that Matters		
STRATEGY	Champion electrification	Reinvent with digital / Vitalise existing capabilities	Transform our business
	Build balanced portfolio		
ENABLERS	Business system	People framework	

Our desired culture

CARE

Creating a working environment where each of us is able to be at our best

GROWING BEHAVIOURS

- Embrace **A**gility
- Be **B**old
- Pursue **C**ollaboration
- Seek **S**implicity

CORE VALUES

- Trusted to deliver excellence
- Act with integrity
- Operate safely

Achieving our desired culture

Embedding our values & behaviours	Significant change to the leadership cadre	A culture & framework for leadership learning

Anti-bullying & harassment	Performance enablement

Measuring cultural change

Measuring progress:	Progress so far:
Ethics helpline statistics	Increased helpline usage and reduced response time
% change in leadership cadre	Enterprise Leadership Group 35% smaller & 30% new
Employee survey scores	Results stable for three years
LiveWell accreditation	76% UK sites accredited
Safety balanced scorecard	Reduced total reportable injury rate year-on-year
D&I targets	Progress made against targets*

* See pages 46 and 74 of the 2018 Annual Report

Diversity & inclusion

Accelerating through our restructure programme

- Improved business unit accountability
- Comprehensive, coherent & integrated targets
- Stronger leadership focus
- Enhanced Employee Resource Group network

Attract & recruit

- Training for hiring managers:
  - recruit the best
  - unconscious bias
- Gender neutral job descriptions and offer letters
- Early career diversity improvement activities
- Inclusive social media campaigns

Retain

- Focus on diverse talent retention through restructure
- Diverse restructure selection panels
- D&I training for people leaders
- Flexible working arrangements
- Learning through exit surveys and feedback

Develop

- Increased diversity on key talent development programmes
- Succession planning with focus on diverse talent
- Next Generation Female Leaders Programme

Employee Engagement

Irene Dorner
Employee Champion

Employee Engagement

Employee opinion survey

- New, simple and outcome-driven employee survey
- Greater leadership accountability where leaders must live up to our leadership expectations

Anti-bullying and harassment

- Current reality that bullying and harassment is prevalent in parts of our organisation
- Approach to engage everyone, everywhere and create a workplace where we can all be at our best

Employee Champion

- Sharing feedback with the Board
- New Rolls-Royce North America Employee Champion

Safe harbour statement

This presentation may contain forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and guidance may be updated from time to time. This presentation is intended to provide information to shareholders, and is not designed to be relied upon by any other party or for any other purpose, and the Company and its Directors accept no liability to any other person other than that required under English law. Latest information will be made available on the Group's website. By their nature, these statements involve risk and uncertainty, and a number of factors could cause material differences to the actual results or developments.

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