



Civil Aerospace

Trading cash flow vs LTSA balance movement

01

Net LTSA balance explained



Civil Aerospace: Drivers of LTSA balance

Is driven by the
difference between
Invoiced EFH receipts
and P&L revenues
traded

£m	2018
Total Civil invoiced EFH receipts	3,431
Negative revenue catch-ups	(303)
EFH receipts > underlying revenue	(376)
Civil underlying LTSA revenue	2,752

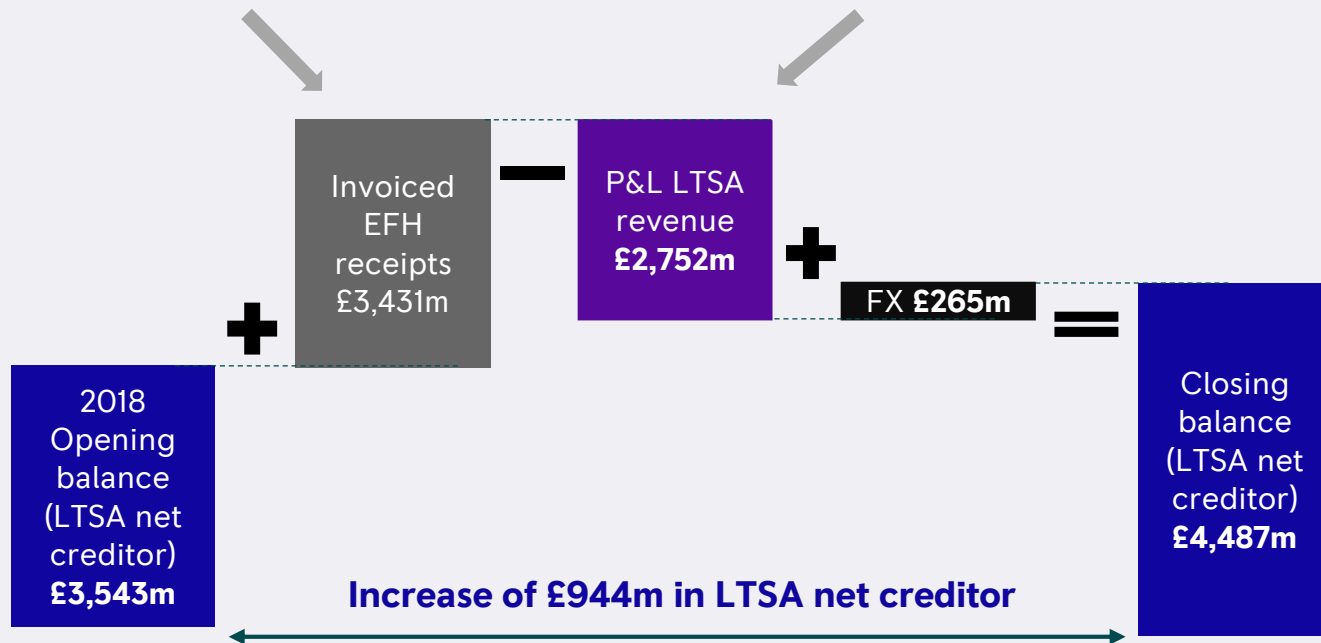
Invoiced EFH receipts

Reflects invoiced EFH receipts on long-term contracts across entire Civil LTSA-covered fleet:

large engine (14.3m EFH in 2018) + business aviation + regional*

P&L revenue

- Driven by cost (shop visit & other costs) across large engine, business aviation and regional fleets
- Recognised by contract, as costs incurred, at relevant contract margins



*excludes V2500 as not covered by a LTSA



Civil Aerospace net LTSA balance

Total increase
**£944m at reported
balance sheet level**

Increase of **£376m**
once catch-ups and
FX adjustment are
removed

How to understand the £944m balance sheet movement

	£m	
Total increase in net LTSA creditor	944	Adjusts out FX difference between underlying P&L and reported P&L/balance sheet
Exclude FX-driven increase	(265)	
Increase at achieved FX rates	679	
Less balance sheet impact from negative revenue catch ups	(303)	£303m* increase in net LTSA creditor due to negative catch-up adjustments (reducing revenues recognised in prior years)
Derived EFH receipts > underlying revenue	376	

**£376m represents underlying higher level of EFH receipts
received in excess of underlying P&L revenue traded**
(driven by costs incurred in year)

Broken down:

c.2/3 Widebody

c.1/3 Business & Regional



Civil Aerospace: LTSA balance change vs simple view of cash flow

Change in Civil net
LTSA balance **does
not reconcile directly**
with the Civil trading
cash flow summary

- Because they are
**fundamentally
different** things

Summary funds flow statement

£m	2018
Opening net (debt)/funds	(305)
Closing net funds/(debt)	611
Change in net funds	916
Underlying profit before tax	466
Depreciation and amortisation	756
Capital expenditure (PPE)	(905)
Expenditure on intangible assets	(680)
Working capital change	581
Civil Aerospace net LTSA balance change	944
Other	(405)
Trading cash flow	757

Net LTSA balance change £944m =

- FX in contract accounting (£265m)
- Contract accounting adjustments (£303m)
- Underlying EFH receipts in excess of underlying P&L revenue for all LTSA contracts (£376m) – widebody (c.2/3), business aviation & regional (c. 1/3)

**Difference between all LTSA
invoiced receipts & LTSA P&L
revenues**

Civil trading cash flow

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

WB aftermarket cash margin of £1.6bn =

- WB EFH cash receipts + T&M cash receipts
- LTSA and T&M shop visit costs, net RRSP flows and other LTSA costs

**Difference between just WB
aftermarket cash receipts &
cash costs, including T&M**

02

Explanatory notes

- IFRS 15 impact on revenue
- Catch ups
- FX



IFRS 15:

Application to
Civil long-term
service
agreements

- **Cost** (overhauls and other contract support costs) **drives revenue recognition** under IFRS 15
- **Cost is recognised as incurred in the P&L** – within cost of sale
- The **difference** between **invoiced EFH receipts in the cash flow and revenue recognised in the P&L goes to the balance sheet - in the LTSA balance**
- **The net LTSA balance does not reflect the difference between invoiced EFH cash receipts and overhaul/other LTSA costs** - i.e. it is discrete to aftermarket cash margin
- **The LTSA balance includes** widebody, business aviation & regional activities



Civil Aerospace: Catch-up adjustments

Impact P&L revenue

Impact the LTSA
balance

How & why do catch-up adjustments impact the LTSA balance?

Changes in forecast revenue or cost assumptions, lead to adjustments (positive or negative) to profit recognised on a contract to date . This adjustment to profit is primarily achieved through revenue

Such catch-up adjustments:

- **reduce** (negative adjustments) or **increase** (positive adjustments) revenue recognised in year
- So, **reduce** (positive adjustments) or **increase** (negative adjustments) the LTSA creditor balance

Negative catch-up

Revenue (P&L)



LTSA net creditor
(balance sheet)



Less revenue has been recognised. So difference between revenue and EFH receipts increases. Thus LTSA net creditor increases

Positive catch-up

Revenue (P&L)



LTSA net creditor
(balance sheet)



More revenue has been recognised. So difference between revenue and EFH receipts reduces. Thus LTSA net creditor reduces



Civil Aerospace: Contract accounting FX

Why do we need to
consider FX?

How & why does FX impact LTSA movements?

FX adjustments need to be considered when looking at the underlying change in LTSA net creditor balance due to the fact that reported balance sheet and income statement use different FX rates to the underlying income statement:

- **Reported balance sheet and reported income statement** translated using spot FX rates*
- **Underlying income statement** is translated using achieved FX rates (i.e. hedge rates)*

In **2018** the **currency-driven difference** between underlying and reported rates contributed to **£265m** of the £944m increase in the net LTSA creditor balance

**Note that there is also some dependence on the estimated long-term planning FX rate*