



2017

Full Year Results

2017 Full Year Results





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



Results summary

“encouraging results”

Underlying revenue

£15.1bn

↑ 6%*

Underlying gross profit

£2,973m

↑ 1%*

Underlying PBT

£1.07bn

↑ 25%*

Underlying operating margin

7.8%

↑ 100bps*

Free cash flow

£273m

2016: £100m

‘Dividend’ per share

11.7p

2016: 11.7p

* Percentage change at constant currency



FY17 overview

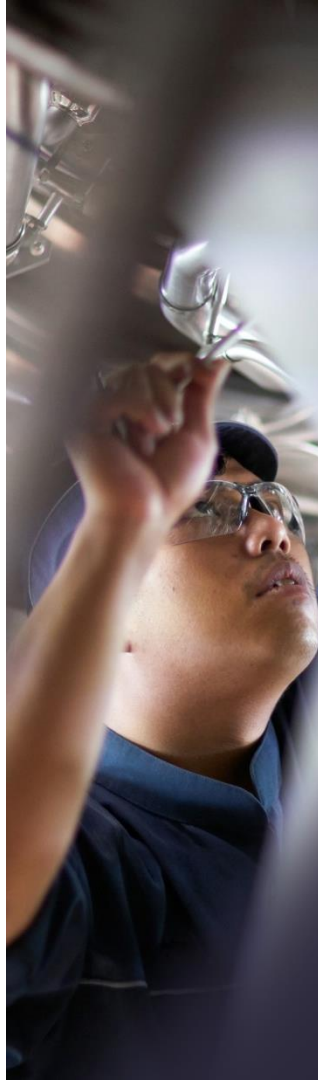
Operational summary

- Large engine flying hours up 12%; in-production Trents up 22%
- Large engine deliveries up by 35% to a record 483
- Trent XWB-84 OE economics cash deficit down 37%
- Strong recovery in Power Systems under new leadership
- Successful UltraFan® power gearbox power testing and Advance3 engine first run completed
- Reinvigorated Executive Leadership Team
- Significant in-service issues; in-year £170m cash cost



Challenges in Civil

“increasing challenge of managing significant in-service engine issues”



Trent 1000

lower than expected durability of intermediate and high-pressure turbine blades and compressor rotor blades

Trent 900

lower than expected durability of high pressure turbine blades

Mitigation

- re-designing affected parts to be fully embodied on Trent 1000 by 2022
- extended life turbine blade already being rolled-out on Trent 900 and further re-designs underway which will be available in 2020
- cash costs estimated to double to a peak in 2018, then fall by £100m in 2019
- substantial majority of work expected in 2018 & 2019; not expected to be fully complete until 2022



Progress in Civil

“achieved a number of important operational and technological milestones”

Aero engines for the large commercial aircraft, regional jet and business aviation markets



Ramp up

35%
growth in large engine deliveries

Growth

12%
growth in large engine invoiced flying hours

Deficit reduction

37%
reduction in Trent XWB-84 cash deficit

New engines

Three new engines progress into service

New technology

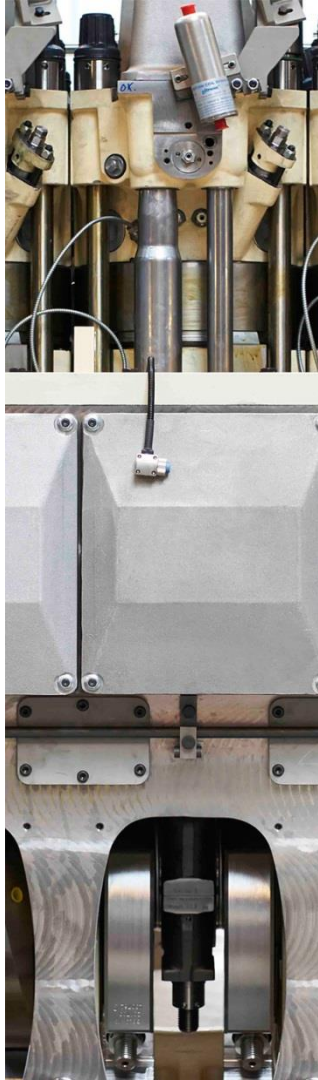
Advance3 demonstrator completed initial ground test



Progress in Power Systems

“encouraging momentum”

Provides high-speed and medium-speed reciprocating engines, propulsion systems and distributed energy solutions



Transform

New leadership team driven significant efficiencies

Meaningful

Improvement in profitability and cash flow

Simplify

>20% reduction in product variants

Potential

Digitalisation provides potential to leverage installed base

R&D

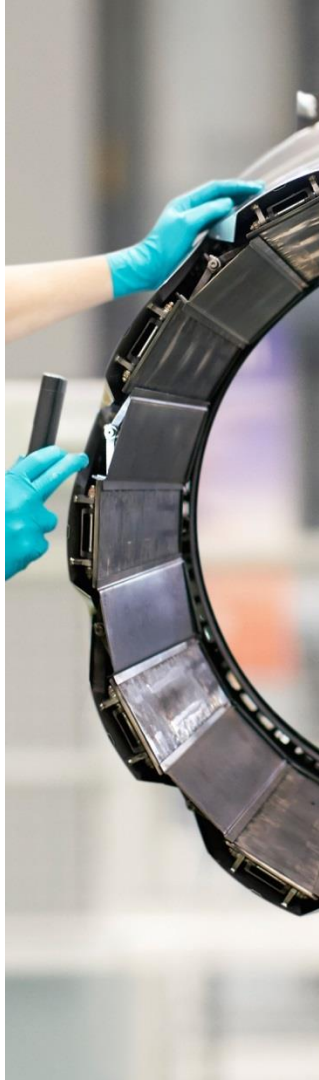
Focus on low-emission technology



Progress in Defence Aerospace

“another solid year”

Leading positions in defence aero engines for military transport and patrol aircraft



Access

Sales and distribution agreement significantly improves coverage and reach

Upgrade

All key milestones in modernisation of US facilities delivered

Renewal

\$1.4bn of US DoD service contract renewals for >18% of in-services engines

V-22 Osprey

First OE export order with Japan

Service

Two new service delivery centres in UK and India



Progress in Nuclear and Marine

“executing on
restructuring
programmes”

Nuclear

Retrofit

Milestones
reached for
safety-critical
systems in
Finland and
France

Astute

Operational
and delivery
improvement

Investment

Raynesway
facility to
support
Dreadnought
programme

Marine

Ship intelligence

Leadership
through
continued
R&D
investment

Cost savings

Restructuring
led to a 13%
reduction in
C&A costs

Strategic review

of commercial
marine
operations
announced



ITP Aero

“acquisition of
outstanding stake”

ITP Aero is an aero
engine component
designer and
manufacturer with 3,500
employees in six
countries



Sales by market



- In-service support (MRO activity)
- Defence
- Civil aerospace market

The business is mainly
driven by a range of
good platform
positions across Large,
Narrow and business
aviation for Rolls-
Royce and other aero
engine manufacturers

FY17 Financials (€m)*

Revenue	850
EBIT	71
Margin	8.4%
Free cash flow	(7)

Contribution to FY17 (£m)

JV Profit	19
Free cash flow	(14)

*Current accounting; unaudited figures



Priorities for 2017



Strengthen

...our focus on engineering, operational and service excellence

Sustain

...the strong start to our transformation programme

Rebuild

...trust and confidence in our long-term growth prospects

Develop

...our long-term vision and strategy



Strengthen: Engineering excellence

“sustaining significant R&D expenditure is fundamental to our strategy and long-term growth”

- Engineering restructured
- CTO appointed
- New programmes - Trent 1000-TEN, Trent XWB-97 and Trent 7000
- Created electrical expertise group

Engineering innovation

704

Patents approved for filing

R&D spend (net)

£1,035m

Produced our first all digital engine design

Engineering in practice

Advance3

Successfully completed initial ground tests runs for Advance3



Strengthen: Operational excellence

“our new factories
have already
undergone a digital
transformation”

- Creating an agile, highly productive and cost competitive manufacturing footprint
- Invested £764m in tangible capital expenditure
- Rapid adoption of advanced digital techniques

Production ramp

483

Record number of Civil
Aerospace large engines
delivered in 2017

Productivity improvement

10hrs → 5min

100 live automation projects
– recently installed Robotic
Masking Cell reduces
processing time from 10hrs
to 5min

Operating margin improvement

+410bp

Operating margin
improvement in Power
Systems from management
actions



Strengthen: Service excellence

“service focus is driven by customer demand for reliability and availability”

- Civil Aerospace worked to minimise customer disruption from in-service Trent 1000 and Trent 900 fleet issues
- Defence Aerospace opened two further dedicated Service Delivery Centres
- Power Systems commenced first availability contract

In-service support

24/7

New Airline Aircraft Availability Centre opened combining latest digital data management to plan operations and maintenance, driving efficiencies

Life cycle cost reduction

>£100m

Delivered in Defence Aerospace Services by simplified business processes and the application of data analytics

Service model replication

>20yrs

Power Systems MTU commenced first availability contract with Hitachi for UK intercity programme covering 36 trains



Sustain: Strong start to our transformation programme

“achieved top end
of our original
estimates”

- Completed our transformation programme originally outlined in November 2015
- Internal communication is key
- Cultural change starts at the top
- New restructuring plan aims to take this to the next level

Achieved

£200m

Run-rate cost savings at top end
of previous guidance

Simplicity

Good progress,
more to follow

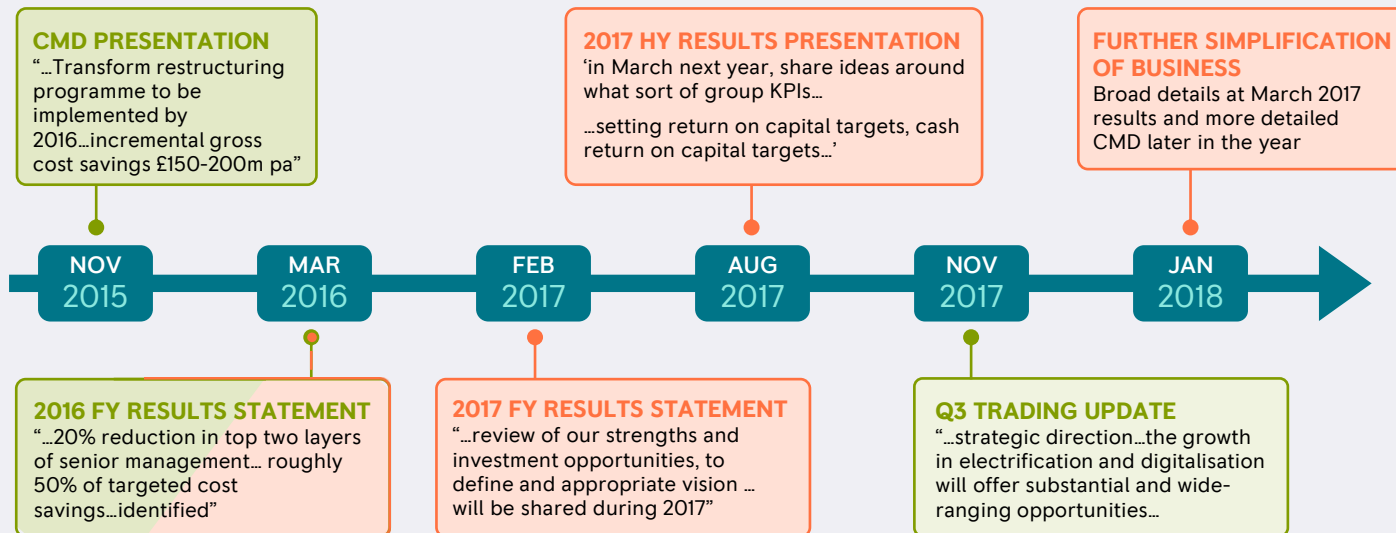


Rebuild:

Trust & confidence
in long-term
growth prospects

“doing what we said
we would do”

- Greater financial transparency
- Acting on our promises
- Delivering





Rebuild:

Trust & confidence
in long-term
growth prospects

“around £1bn by
around 2020”

Cash growth drivers

- Increase in cash inflows from engine flying hours on growing installed base
- Increasing contribution from non-Aero businesses
- Reduction in cash outflows from Civil engine production
- Indirect cost reduction
- Increasing service visits but focus on service cost reduction
- Flat R&D/capex to maintain technological innovation momentum



Develop: Our long-term vision and strategy

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



Priorities for 2017



Strengthen

...our focus on engineering, operational and service excellence



Sustain

...the strong start to our transformation programme



Rebuild

...trust and confidence in our long-term growth prospects



Develop

...our long-term vision and strategy





Financial Review

Stephen Daintith

Chief Financial Officer



Agenda

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Full year results

02

Business unit review

03

**IFRS 15 and other accounting
policy updates**

04

Outlook and guidance



01

Full year results



Underlying Results Overview

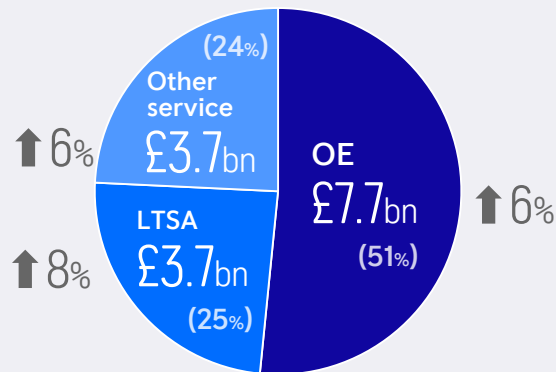
£m	2017	2016	Change	Organic change
Underlying revenue	15,090	13,783	+9%	+6%
Underlying gross profit	2,973	2,818	+6%	+1%
<i>Gross margin %</i>	<i>19.7%</i>	<i>20.4%</i>	<i>-70bps</i>	<i>-100bps</i>
Research and development costs	(737)	(862)	-15%	-18%
C&A	(1,168)	(1,158)	+1%	-3%
Underlying operating profit	1,175	915	+28%	+22%
Underlying operating margin	7.8%	6.6%	+120bps	+100bps
Free cash flow	273	100	n/a	

Encouraging results



Increasing OE & LTSA revenues

£m	2017	2016	Change	Organic change
OE revenue	7,687	7,027	+9%	+6%
LTSA service revenue	3,695	3,375	+9%	+8%
Other service revenue	3,708	3,381	+10%	+6%
Group revenue	15,090	13,783	+9%	+6%
Gross margin (%)	19.7%	20.4%	-70bps	-100bps



- Good visibility of revenues
- Strong growth across all 3 revenue streams
- Gross margin compression as ↑OE in mix



R&D

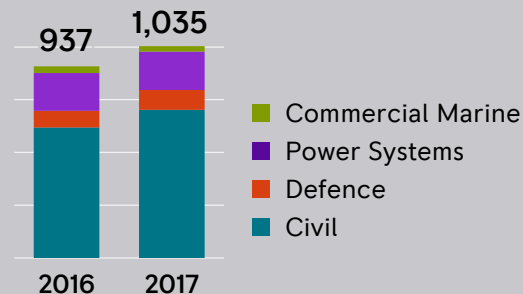
Net R&D up 7%

Increase of c.£50m
in net R&D
expected in 2018

£m	2017	2016	Organic Change
Gross R&D	1,392	1,331	+1%
Third party contributions	(357)	(394)	-12%
Net R&D spend	1,035	937	+7%
Amortisation	83	87	-7%
Capitalised <i>- incl. policy application change: £83m</i>	(342)	(99)	+236%
RRSP contributions, net	(39)	(63)	-38%
R&D charge	737	862	-18%

R&D £1.035bn net R&D in 2017

- Increased investment in **Civil Aerospace**:
 - 3 widebody engines nearing/entered EIS
 - Advance development programmes
 - Ultrafan (gearbox testing in 2017)
- Defence** and **Power Systems** spend is stable

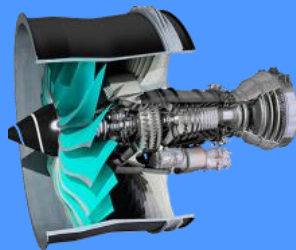




Civil Aerospace R&D

Higher capitalisation
also Civil Aerospace
driven – programme
stage of completion
and policy application
refinement

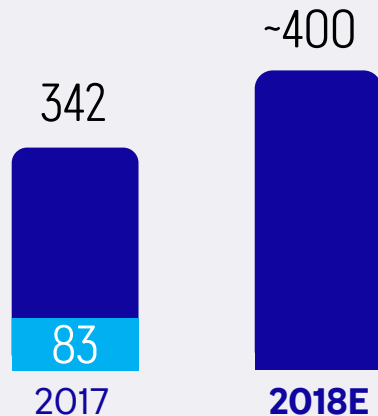
Ultrafan



Targeting 25% fuel efficiency improvement

- increased propulsive efficiency (greater thrust)
- improvements to the thermal cycle efficiency (emissions)
- airframe integration benefit (life of components)

Impact on Group R&D capitalisation (£m)



R&D policy application refinement

- Better aligns R-R's approach with European aerospace peers
- Expands period of capitalisation; now also includes engine upgrades
- Appropriate governance and controls in place

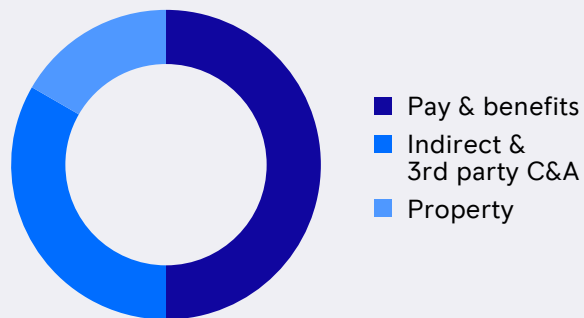
2017 impact:
£83m



C&A

Focus for initial phase
of our restructuring
programme

C&A costs: £1,168m



“Lean corporate centre
– empowered businesses”

Commercial & Administration
costs include:

- General management
- Communications
- Finance, HR, Legal
- Strategy & business development
- Administration & support



Group cash flow

£273m* - ahead of expectations

Around £450m expected in 2018

* Excluding ITP Aero

Material drivers of £173m growth in FCF in 2017

- Cash outflows from higher installed engine production in Civil
- + Increased cash revenues from aftermarket growth
- Trent 900/1000 engine issues
- + Strong Power Systems margin improvement
- Increased capex on facility modernisation
- Higher future programme R&D investment mainly in Civil
- + Improved working capital management

Trading cash flow

£138m increase to £462m

- Higher tax
- + Pension benefit

Free cash flow

£173m increase to £273m



02

Business Unit review



Civil Aerospace: overview

Solid growth in
revenue and
operating profit

Cash flow flat on
prior year

£m	2017	2016	Change	Organic change
OE	3,818	3,357	+14%	+12%
AM - LTSA	2,941	2,631	+12%	+10%
AM - T&M/other*	1,264	1,079	+17%	+17%
Underlying revenue	8,023	7,067	+14%	+12%
Gross margin	1,192	1,185	+1%	-2%
Gross margin %	14.9%	16.8%	-190bps	-220bps
Operating profit	520	367	+42%	+34%
Operating margin %	6.5%	5.2%	+130bps	+100bps
Trading cash flow	38	43		
<i>Cash conversion</i>	7%	12%		

*Other includes contract payment from IAE based on V2500 flying hours

Record widebody deliveries, strong flying hour growth;
increased costs for in-service issues



Civil Aerospace: drivers

Record deliveries

Double-digit
EFH growth

In-service fleet costs
increased

1 UNDERLYING REVENUE

- OE growth: increase in large engine deliveries (up 35%)
- Service growth: widebody flying hours up 12%
- Widebody installed fleet up 7% to 4,409
- Business aviation services (+18%)

2 GROSS MARGIN REDUCTION

- Margin impacted by greater percentage of OE
- But growth in widebody and business aviation services
- Offset by cost of In-service issues on Trent 1000/900

3 OPERATING MARGIN SLIGHT IMPROVEMENT

- Reflects gross margin decline
- Increased R&D capitalisation
 - £83m policy application refinement
- C&A higher: 2017 restructuring provisions taken



Key Civil cash drivers

The road map to a growing Civil FCF

1 OE ECONOMICS

- Cash margin per engine sold
- Trent XWB-84 progressing towards break-even by 2020

2 SERVICE VALUE

- Growth in installed engine base
- Growth in flying hours
- Shop visit efficiencies
- Average age of widebody fleet

3 COST MANAGEMENT AND CAPITAL

- Focus on operations /C&A costs (restructuring)
- Disciplined capital allocation on capex and R&D
- Working capital management

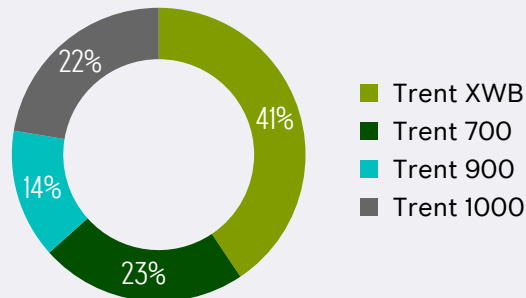


Engine deliveries

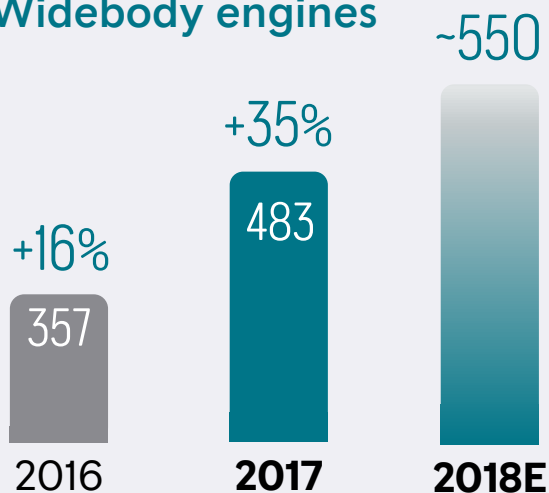
Record numbers

Further growth in 2018

2017 deliveries



Widebody engines



Record levels of widebody deliveries

Fewer business jets
(200 down from 292)

Both are cash headwinds

Around 550 large engine deliveries expected in 2018



Installed engine economics

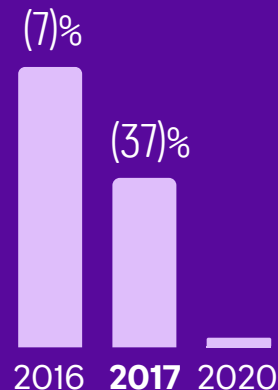
Overall average installed engine cash deficit remained flat at £1.6m

Good progress on Trent XWB-84

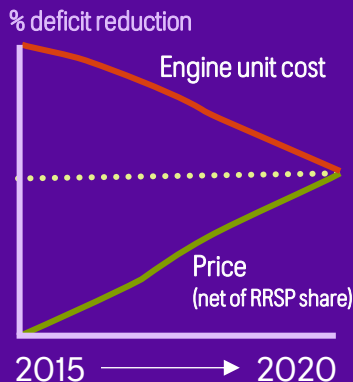
Trent XWB-84 economics

- Much better progress in 2017
- Launch pricing burn off combined with unit cost reduction

Trent XWB-84 cash deficit reduction

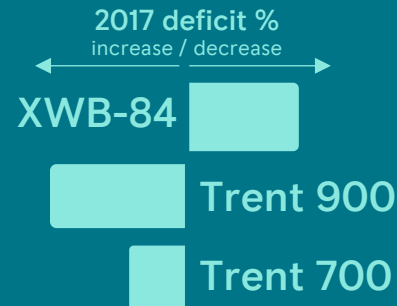


Targeting break-even by 2020



Other widebody installed engine economics

- Reduction from Trent XWB-84 diluted by price pressure on other programmes:
 - Trent 700: end-of-life pricing headwind
 - Trent 900: temporary pricing impact





Fleet performance

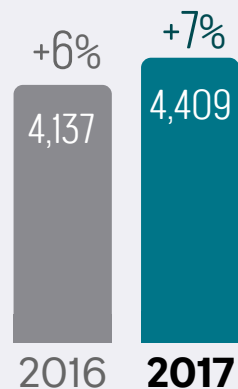
In-service fleet

Trent engine growth driving increase in widebody fleet

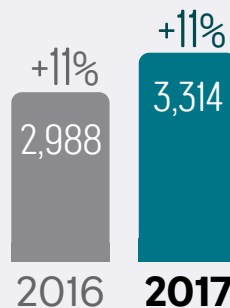
Invoiced flying hours

In-production fleet growth, with high TotalCare coverage, driving increase in aftermarket cash

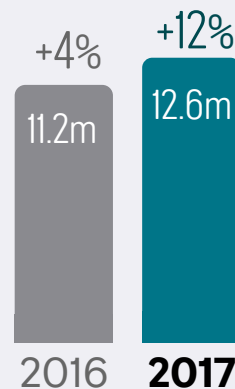
Large engines



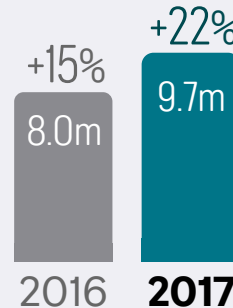
Trent fleet



Large engines



In-production fleet growth



In-production fleet excludes Trent 500 and Trent 800, which are included in the Trent fleet calculation of 3,314

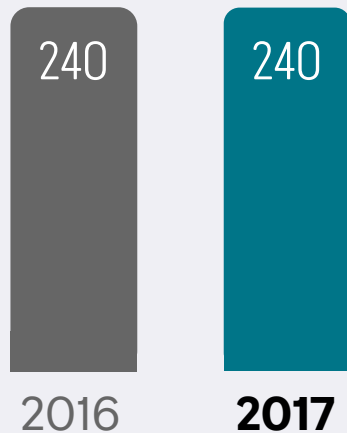


Major Engine refurbishment overhauls – LTSA

Flat number of overhauls despite growing fleet

c.350 check & repair overhauls

Large engines



Installed large engine fleet up 7%

Growth in refurbishment overhauls of younger fleet offset by decline in legacy engine overhauls

Significant step down in regional overhauls in 2016

Business aviation overhauls increasing



Civil Aerospace: trading cash flow

£bn		2017		2016
Original Equipment	444@ £1.6m	(0.7)	320@ £1.6m	(0.5)
Services	12.6m invoiced EFH	1.3	11.2m TotalCare EFH	1.0
Spare engines		0.2		0.2
Widebody Cash Margin		0.8		0.7
Business & Regional		0.7		0.7
V2500		0.3		0.3
Operations		(0.4)		(0.4)
Engineering		(0.3)		(0.3)
Cash Gross Margin		1.1		1.0
Commercial & administration		(0.3)		(0.3)
R&D		(0.7)		(0.6)
Capital expenditure	Capex for production volume capacity and engines to support the fleet	(0.5)		(0.4)
Working capital/ other		0.4		0.3
Trading cash flow		0.0		0.0

Cash growth from large engine services more than offsetting higher volume OE deficits

R&D for ongoing development of engines coming into service



Major Civil Aerospace drivers

Significant drivers of cash flow over the next 5 years

In production	In service	On order
Trent 700	1,590	74
Trent 7000	-	440
Trent XWB	278	1,424
Trent 900	360	244
Trent 1000	476	366

Over 2,500 engines on order

Widebody	2017	Over the next 5 years
Installed engine deliveries	444	CAGR c.5%
Spare engine deliveries	39	CAGR c.5%
Installed cash deficit per engine	£(1.6)m	c.£(0.4)m
In-service fleet	4,409	CAGR c.8%
Invoiced flying hours	12.6m	CAGR c.10%
LTSA refurb shop visits	240	c.600-700
R&D and capex	£1.2bn	Broadly stable
C&A	£0.3bn	Stable

5 yr figures indicative of likely trend



Programmes

Solid in-service performance by over 80% of fleet

Trent 700 is significant generator of cash

Trent 700 (1,590 in service)

2017 deliveries

↑25%

88

2016

110

2017

Engine flying hours

+9%

Dispatch reliability in 2017

99.9%

Trent 7000 (EIS due in 2018)

- Powered first flight of Airbus A330neo
- Preliminary flight test results look encouraging
- Entry into service mid-2018



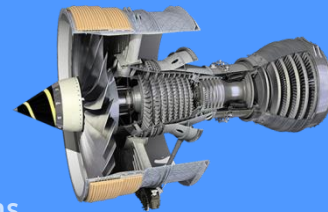
Trent 800 (330 in service)

Total cumulative fleet hours

28m

13

aircraft transitions in 2017



Trent XWB-84 (278 in service)

2017 avg. engine cash deficit

↓37%

reduction in installed engine cash deficit in 2017

Dispatch reliability in 2017

99.9%

Flying hours +240%

Total cumulative fleet hours

1.2m

currently in service with 17 operators



Programmes

Cost of Trent 1000 and Trent 900 in-service issues: £170m cash cost in 2017

Expect majority of the work to be undertaken in 2018 and 2019

Remedial cash costs expected to double in 2018, then fall by around £100m in 2019

Trent 1000 (476 in service)

Total cumulative fleet hours

>4.5_m

Engine flying hours

+45%

Trent 1000-TEN

- Powered first Boeing 787-10 flight
- Entered into service in November 2017

In-service issues understood and being addressed proactively

Capacity growth in Trent 1000 MRO capability

↑2_x

2017 impact from in-service issues

£(179)_m profit £(119)_m cash

Trent 900 (360 in service)

2017 deliveries

30 to 67

↑123%

30

2016

67

2017

Engine flying hours

+11%

- Emirates now operating 5 RR-powered aircraft
- Technical solutions defined for current in-service issues

2017 impact from in-service issues

£(48)_m profit £(51)_m cash



Power Systems: overview

Encouraging signs
for 2018

Strong services
growth

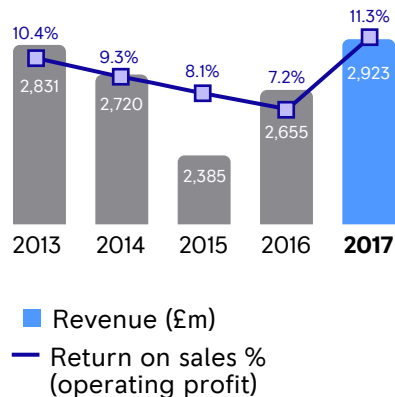
Impressive cash flow
generation

£m	2017	2016	Change	Organic change
OE	1,961	1,810	+8%	+1%
Services	962	845	+14%	+6%
Underlying revenue	2,923	2,655	+10%	+3%
<i>Gross margin</i>	842	702	+20%	+12%
<i>Gross margin %</i>	28.8%	26.4%	+240bps	+240bps
Operating profit	330	191	+73%	+61%
<i>Operating margin %</i>	11.3%	7.2%	+410bps	+410bps

Excellent performance : improving markets &
benefits of transformation



Power Systems: drivers



1 UNDERLYING REVENUE

- Better end-market environment
- Stable OE but growing services (+6%) revenues
- Services broadened market reach:
 - US demand
 - REMAN offering

2 GROSS MARGIN

- 240bp improvement: product mix benefit
- Improved H1-H2 balance helping factory utilisation
- RRPS 2018 focus on direct material costs

3 OPERATING MARGIN

- Focused R&D spend (down 6%)
- C&A costs down 7%

Record revenues, record margin



Power Systems:

RRPS 2018 transformation

Achieving structural cost reductions

Further improvement opportunities to come

Performance push

- OE sales and service push ————— **~£350m**
Revenue impact 2017 vs 2015
- Working capital optimisation ————— **~7%**
Net working capital reduced vs 2015
- Material cost reduction ————— **~4%**
EBIT impact 2017 vs 2015

Structural cost reduction

- Engine variants ————— **~30%**
Reduction vs 2015
- Footprint ————— **~6%**
Sqm reduction 2017 vs 2015
- C&A cost ————— **~3%**
Reduction vs 2015
- R&D cost ————— **~12%**
Reduction vs 2015

2018 Focus

High customer satisfaction
with digital products

Consistent Target
Operating Model (TOM)

Competitive through
costs awareness

Revenue increase
through customer focus

Future orientated
footprint

Lean and high margin
portfolio

Strengthen China
position



Defence Aerospace: overview

Margins impacted by
lower LTSA lifecycle
cost reductions

£m	2017	2016	Change	Organic change
OE	966	890	+9%	+4%
AM - LTSA	413	462	-11%	-13%
AM - T&M	896	857	+5%	+1%
Underlying revenue	2,275	2,209	+3%	-1%
<i>Gross margin</i>	575	564	+2%	-2%
<i>Gross margin %</i>	25.3%	25.5%	-20bps	-20bps
Operating profit	374	384	-3%	-7%
<i>Operating margin %</i>	16.4%	17.4%	-100bps	-100bps

Resilient performance with good
second half production increase



Defence Aerospace: 2017 drivers

1 UNDERLYING REVENUE

- OE revenue up:
 - Transport & Patrol partly offset by lower Combat sales
- Growing Combat services: F-35B LiftSystem and Typhoon (Saudi)
- Lower export spares & UK Sea King fleet retirement

2 GROSS MARGIN

- Adverse margin mix:
 - lower legacy spares volumes
 - lower one-off LTSA releases
 - but non-repeat of TP400 charges (2016: £31m)

3 OPERATING MARGIN

- R&D costs up 10% on future Transport programme spend
- £14m headwind as 2016 benefitted from release of restructuring provisions

Margins impacted by spares, LTSA and R&D investment



Defence Markets overview

US

(c. 60% revenues)

- Strong position on Transport & Patrol fleets but significant competition from A&D majors
- Growing impact of US DoD pricing regulations (15% of contracts); mainly Combat and R&D
- Benefits expected from Indianapolis plant upgrade

UK

(c. 15% revenues)

- 2010 MoD Defence review drove significant budget constraints
- Tornado retirement, current Typhoon service contract ends in next 12 months
- Heavily regulated environment: growing impact of SSPR on margins
- Expectation of limited LTSA cost improvement benefits in medium term

Export

(c. 25% revenues)

- Principally leveraging existing UK technologies
- OE/service dynamics more similar to Civil: airframer/customer
- Combat opportunities in mid-longer term
- Near-term technology upgrade opportunities
- Current timing headwinds on TP400 and legacy spares

Near term challenges



Marine: drivers

£m	2017	2016
Revenue	1,077	1,114
Operating profit	(25)	(27)

1 UNDERLYING REVENUE

- Revenues down 9% reflecting declining OE activity in weak markets
- Services stable on low 2016 base; H2 improvement in Naval revenues

2 GROSS MARGIN

- Cost-cutting programmes mitigating volume declines
- Product mix helped by higher margin services

3 OPERATING MARGIN

- R&D spend flat, focused on thrusters & ship intelligence
- C&A costs 13% lower, reflecting continued progress in cost-cutting

Nuclear: drivers

£m	2017	2016
Revenue	818	777
Operating profit	38	45

- Revenue up 4%: Dreadnought build activity
- H2 strength submarine phasing
- Civil Nuclear activity in new-build/services

- Margin broadly flat
- Costs impacted as spend on key submarines delivery performance

- Higher engineering spend / R&D on SMR concept design
- Headwind from 2016 R&D credit of £6m



03

IFRS 15 and other accounting policy updates



IFRS 15

no change
to cash

Will bring greater
transparency

The first year of
adoption – still
learning

No change
to in-year
cash

No change to
total profit or
cash over the
life of a long
term contract

Significantly
improves
transparency
on Civil
Aerospace OE
– much closer
to cash

Continue long-
term contract
accounting for
LTSA's –
accounting
adjustments
remain a
feature



Civil Aftermarket: greater forecasting challenge

- first year of adoption
- sensitivity to phasing of overhauls
- mix/workscope of overhauls



IFRS 15 2017 analysis

Principal Group
impact is from Civil
Aerospace

Bigger profit
adjustment than
expected due to
higher margin 'linked'
Trent 700 sales

Group underlying	Current accounting 2017	Change	IFRS 15 2017
OE revenue (£m)	7,687	(928)	6,759
AM revenue (£m)	7,403	(480)	6,923
Total revenue (£m)	15,090	(1,408)	13,682
Operating profit/(loss) (£m)	1,175	(854)	321
Reserves (£bn)	6.2	(5.2)	1.0

Key drivers of difference
- £0.7bn of Widebody
cash deficit

2017 IFRS 15 figures are preliminary and as processes and procedures are further embedded during 2018 it is possible that some changes may result



Major IFRS 15 drivers

OE revenue and margin

Recognise a profit, or a loss where costs exceed price

- Unit volumes
- Unit cost
- Sales prices net of concessions
- Risk and revenue partner share of revenues

Service revenue and margin

Recognise revenue on long term service contracts as cost is incurred

- Refurbishment overhaul volumes
- Refurbishment overhaul costs
- Other repair costs
- Other costs (transportation, lease engines, engine health monitoring)
- Risk and revenue partner share of revenues
- Revenue calculated each year based on contract margin % through the life of the contract



Accounting issues on the horizon

IFRS 9

Financial Instruments

Simplified accounting for financial instruments

- Effective from 1 January 2018 with adjustment to reserves on that date
- No restatement of comparatives
- No change to hedge accounting for foreign exchange
- Not expected to have a material effect

IFRS 16

Leases

All leases on balance sheet

- Effective from 1 January 2019 with adjustment to reserves on that date
- No restatement of comparatives
- Good progress on policies and impact assessment
- Property and aircraft engines most material

04

Outlook and guidance



2018 Outlook

New segment format

£m	2017 IFRS 15	2018 Outlook
Underlying revenue		
Civil Aerospace	6,613	High single-digit growth
Defence	3,184	Stable
Power Systems	3,106	High single-digit growth
Other*	779	
Group	13,682	Mid single-digit growth
Underlying operating profit		
Civil	(330)	Losses up to third lower
Defence	451	Margins around 250bps lower
Power Systems	319	Margins stable
Other*	(119)	
Group operating profit	321	£400m +/- £100m
Free cash flow	273	£450m +/- £100m
ITP Aero (excluded from above)*	€m	
Underlying revenue	827	Double-digit growth
Underlying operating profit	75	Modest decline
Free cash flow	(7)	FY18: €(70)-€(80)m. Closer to breakeven in 2019

* Other includes Commercial Marine and HQ. ITP Aero; excluded from Group commentary, 2017 unaudited figures



Outlook commentary

Civil Aerospace

- Revenue growth from higher OE delivery volumes and services activity
- Higher services activity driving profit growth. Around £50m increased R&D capitalisation
- Increased cashflow from continued flying hour growth and further working capital improvements
- But higher deliveries of cash deficit OE engines at lower unit losses. Higher Trent 1000 and 900 in-service costs

ITP Aero

- Double-digit revenue growth driven by strong increase in delivery volumes of new civil programmes
- Margin contraction driven by mix change. Lower volumes of higher margin Defence engines with strong growth in less profitable Civil OE engines
- Higher cash outflow as a result of investments and contributions to third party programmes. Cash flow expected to move to breakeven in 2019

Defence

- Headwinds from timing changes on export activity and in contract mix, higher investment to support new product development
- Expected non-repeat of £30m favourable timing benefit from a spares distribution contract

Power Systems

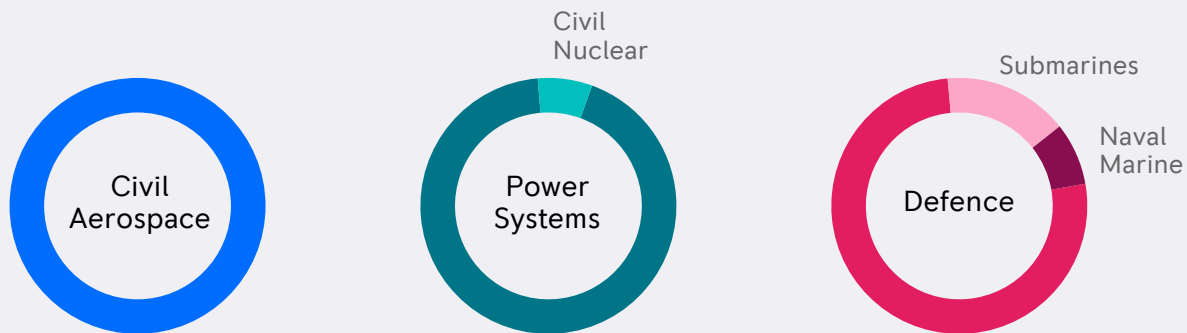
- Continued recovery in naval, oil & gas, construction and agriculture end markets
- Product mix towards lower margin mining and construction & agricultural products
- Higher R&D spend on alternative fuel solutions



H1 2018 format

How we expect
to report at the
half year

£m	2018 H1	2017 H1	Change	Organic change
Civil Aerospace	x,xxx	x,xxx	+x%	+x%
Defence	x,xxx	x,xxx	+x%	+x%
Power Systems	x,xxx	x,xxx	+x%	+x%
ITP	xxx	xxx	+x%	+x%
Other/eliminations	(xxx)	(xxx)		
Group continuing	x,xxx	x,xxx		





Group cash flow

2018 outlook

£450m FCF
+/- £100m

- ↓ Cash outflows from higher installed engine production in Civil
- ↑ Increased cash revenues from aftermarket growth
- ↓ Increase in-service costs
- ↑ Reduction in C&A costs
- ↑ Further working capital improvements
- ↓ Higher tax



Dividend

- Dividend held steady at same level as 2016
- Part of overall capital allocation considerations
- Conscious linkage to FCF generation
- Board to review policy in 2018

Final dividend

7.1_p

Full year dividend

11.7_p

Cash cost

£214_m



Summary



Priorities for 2018 remain the same

Capital Markets Event

- Target mid-June
- Restructuring programme update
- Group KPIs
- Capital allocation strategy

Costs

- Restructuring announced
- Pace & simplicity

Cash

- Enhanced analysis
- Changing the internal language
- Incentive schemes

Clearing the fog

- IFRS15
- Drivers of performance
- Simpler view

Balance sheet and capital allocation

- Greater discipline in businesses, new investment approval process
- Rebuilding balance sheet strength
- Dividend policy
- Return on capital metric

Enhance Finance team

- New recruits
- Clear 2018 priorities:
 - Finance Operating Model
 - Value-Based Modelling
 - Free Cash Flow
 - Finance Academy



Summary

1

Delivering
priorities

2

Improving
financial
performance

3

With a focus
on cash

4

Restructuring
programme
driving pace &
simplification
& efficiency



Business outlook

Warren East

Chief Executive



Vision & strategy

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

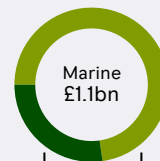
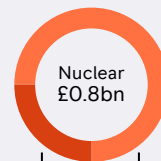
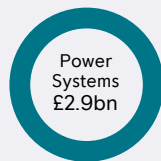


Build balanced portfolio

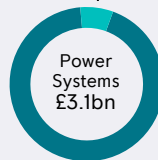
Fit for purpose

- Restructuring announced - five to three business units
- Strategic review of commercial marine

Existing five operating businesses



New core business units*



Civil Nuclear
£0.2bn

Submarines
£0.6bn

Naval Marine
£0.3bn

Commercial Marine
£0.8bn

Operation subject to a review of strategic options

*Following ITP Aero acquisition in December 2017, it will operate and report as a separate business unit



Priorities for 2018

“to make meaningful progress in meeting our strategic, operational and financial goals in 2018”

CUSTOMERS

mitigate impact to rectify in-service issues, ramp up large engine production, grow service capabilities



TECHNOLOGY

focus through product digitalisation, electrification and revitalisation



RESILIENCE

through adaptability with a spotlight on safety, diversity & inclusion, and the highest ethical standards



FINANCIAL PROGRESS

delivering improving free cash flow, strengthening balance sheet, more disciplined capital allocation



2017

“encouraging results”

Operational focus on ramp-up, delivery performance, new product introductions, management of in-service issues and embedding transformation

2018

“significant progress”

Meaningful progress in free cash flow generation

Continued management of in-service issues, operational ramp up in Civil large engine deliveries

Continued technological innovation

Clear priorities for the team

Restructure to better serve customers

Crystallise opportunities from installed base

Demonstrate long term investment case

Use technology to build competitive edge

Growth expectations remain positive

Long-term market demand in Aerospace, Defence and Power Systems remain positive

Civil Aerospace order book supports growing installed base



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 2017 full year results statement for the definition.