Rolls-Royce

Investors' Update

Dec 2016

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IR activity: H1 2017 dates

14 February
Full Year Results

Early March
2016 Annual Report published

Events and conferences

February
Warren East (CEO) - Post-results roadshow (London and Edinburgh)

Dates TBC
Warren East (CEO) - Post-results roadshow (US)

8-9 March
John Dawson (Director / Head of IR) at the Citi West Coast symposium

Welcome to our fifth newsletter and our last one in 2016.

Since our last update in September we have had a busy autumn, focused largely on preparing for our Capital Markets event in November. At the same time, the team have been out and about, presenting at conferences, meeting investors and hosting a site visit to Derby.

In addition, we have made a number of important announcements, as set out above, including confirming new appointments and outlining additional Marine restructuring activities.

At our November event we also set out our initial work on IFRS15 and its implications for historic and future reporting.

As usual we've included a few questions and answers at the end of the newsletter, reflecting some of the key topics raised during our recent roadshows. These include questions on market capacity, the ramp up of XWB production and our balance sheet post IFRS15.

I hope you have found these newsletters useful. All feedback is welcome as we look to improve our communication further in 2017. In the meantime, I would like to wish you a restful Christmas and a prosperous New Year.

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Corporate news

Executive Appointments

September & November 2016

We made several senior appointments in September. Simon Kirby, Chief Executive of high speed train HS2, was appointed to the newly created role of COO and joins early in 2017. **Read more.** Stephen Daintith, currently CFO at media group DMGT plc, joins as Group CFO later in the New Year. **Read more.**

In addition, in November we announced the appointment of Andreas Schell as CEO of Rolls-Royce Power Systems, succeeding Ulrich Dohle who retires at the end of the year. More on that later.

Capital Markets Event

15-16 November 2016





Many analysts and investors joined us in November for our Capital Markets day. The event provided an opportunity to talk to business management both over dinner the night before and throughout the day itself. In addition, during the detailed plenary sessions, we reviewed progress to date on our transformation, outlined next steps in our update of strategic priorities and set out the key findings of our review of IFRS15.



Various members of the executive leadership team presented during the day together with selected members of their teams. As well as short presentations, the business teams hosted smaller break-out sessions, structured around our strategic priorities of delivering engineering, operational and aftermarket excellence. Each team prepared videos discussing their session which are now available online. Worth reviewing if you have time.

Read more

ITP valuation confirmed

28 November 2016

The due diligence exercise for the acquisition of the outstanding 53.1% stake in ITP owned by SENER was concluded and confirmed the valuation at €720m. The deal is subject to regulatory clearances and is expected to complete early in 2017. The consideration will be payable in 8 tranches over 24 months, and each payment can be satisfied by shares, shares and cash or shares at our discretion. **Read more**

IR news

IR Calendar

Alongside the events described above, the team have been active with CEO/CFO or IR-only roadshows in the US, UK and in Europe, including a broad range of investor conferences, giving a chance for as many of our investors to meet face to face. We are busy preparing our schedule for the first half of 2017. Do please get in touch if you would like to be notified when we are planning to be in your location.

Business news: Civil Aerospace

Trent 1000-TEN powers Boeing 787 for first time

8 December 2016

The Rolls-Royce Trent 1000 TEN has powered a Boeing 787 Dreamliner flight for the first time. The flight, which took off and landed at Boeing Field, Seattle, Washington, US, marks the latest phase in the engine's development programme.

The Trent 1000 TEN has also been selected to power the first test flight of the Boeing 787-10 version of the Dreamliner next year. This means the Trent 1000 will have powered the first flight of every version of the 787. It will, in fact, power all variants of the Boeing 787 Dreamliner family.

Read more

Vietnam Airlines' MOU for Trent XWB

6 September 2016

Rolls-Royce has welcomed the decision by Vietnam Airlines to sign a memorandum of understanding for ten additional Airbus A350-900 aircraft, powered by the Trent XWB engine. Vietnam Airlines became the world's second operator of the aircraft in June last year and already has 14 A350-900s in service and on order.

Read more

Trent XWB-97 on first test flight of Airbus A350-1000

24 November 2016



The latest version of the Rolls-Royce Trent XWB powered the Airbus A350-1000 aircraft to the skies for the first time. The Trent XWB-97 is the sole powerplant for the longer range A350-1000, due to enter service next year. The Trent XWB-97's increased 97,000lb thrust is achieved through a combination of new high-temperature turbine technology, a larger engine core and advanced fan aerodynamics.

Read more

Business news: Defence Aerospace

C-130 makes first flight with 3.5 engine upgrade

1 December 2016

The first U.S. Air Force C-130H aircraft to be fully equipped with the Rolls-Royce T56 Series 3.5 engine upgrade has completed its first flight, demonstrating significant improvement in fuel efficiency, lower operating temperatures and improved high-altitude performance. ANG Director Lt. Gen. L. Scott Rice lauded the engine improvements in performance and reliability.

Read more

USAF names Rolls-Royce as superior supplier for 3rd year in a row

21 September 2016

Rolls-Royce has been named as a top tier US Air Force Superior Supplier for the third year in a row. Rolls-Royce is the only engine company to be named a Tier 1 Superior Supplier by the Air Force for three years in a row.

Read more

Business news: Marine

Marine accelerates transformation programme

1 December 2016

As a result of continuous weakness in the maritime market, plans were announced to accelerate the transformation of the Marine business. Planned measures include a further simplification of the structure of the business, with a streamlining of the senior management team, and a series of cost reduction initiatives which will result in the loss of around 800 roles worldwide and an estimated £45-50m of annualised savings from mid-2017. Costs of this restructuring are expected to be around £20m, split between 2016 and 2017.

Read more

Contract for equipment for world's largest tugs

24 October 2016

We signed a contract to deliver propulsion and deck machinery for 13 new tugs, including five which will have a direct bollard pull of around 150 tonnes and at 45m x 17m makes them the world's largest of their kind to date. The order includes both large azimuth thrusters and winch packages.

Read more



Business news: Power Systems

Appointment of Andreas Schell as new CEO

2 November 2016

Andreas Schell was appointed to succeed Dr Ulrich Dohle as CEO of Rolls-Royce Power Systems who retires at the end of the year.

Andreas has a wealth of international leadership expertise, running large complex organisations involved in high-technology engineering across a number of sectors including aerospace and automotive in Germany, the UK and US. He has experience in operational transformation programmes, strategy and the development of new business models, products and markets. He joins Rolls-Royce from UTC Aerospace Systems and will work alongside Dr Dohle until the end of the year to ensure an effective transition.

Read more

Most powerful MTU engines to be supplied to Fincantieri

5 October 2016

Rolls-Royce is to supply 14 of its highest-power MTU diesel engines for the seven new multi-purpose ocean-going patrol vessels that are being built for the Italian Navy by Fincantieri. Each engine will produce10,000 kW of power and are to be shipped from 2017 onwards.

Read more



Business news: Nuclear

Reactors restart with digital I&C systems installed

15 November 2016

Two years after being awarded a contract to upgrade safety-critical Instrumentation and Control (I&C) systems for Fortum's Loviisa nuclear power plant in Finland, Rolls-Royce has successfully installed and commissioned the first digital I&C systems. The modernisation project, which is due for completion by the end of 2018, involves upgrading analogue I&C systems with digital safety I&C systems

Read more

Rolls-Royce 'Preferred Bidder' for Hinkley Point C

9 September 2016

We were awarded 'preferred bidder' status for a contract to supply an integrated nuclear emergency diesel system for Hinkley Point C nuclear power station in Somerset, comprising an MTU diesel generator made by Rolls-Royce Power Systems and Rolls-Royce patented instrumentation and control technology (I&C). The preferred bidder status has been awarded as the next stage in early works for Hinkley Point.

Read more

Research and Technology, Product Development

Most powerful Aerospace Gearbox runs for first time

24 October 2016

The world's most powerful aerospace gearbox, the Rolls-Royce Power Gearbox (PGB) was run for the first time, marking a significant step in the development of its new UltraFan™ engine design.

The first run, at the company's facility in Dahlewitz, Germany, marks the start of a series of tests which will see the gearbox reach up to 100,000 horsepower. The power gearbox is a vital component of the UltraFan™ design as it enables the engine design to offer efficient power over a wide range of take-off thrusts.

Read more

Development centre opens in Indianapolis

21 September 2016

The new Rolls-Royce Development Center (RRDC) in Indianapolis, USA was formally opened. The new facility is part of the modernisation of the Indianapolis operation. Systems and methods will be tested in this pre-production and development environment for future production lines.

Read more



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Rolls-Royce

Q&A & Appendices

Q1. There have been some hints of overcapacity in widebody. Given the substantial ramp-up of large engine deliveries which you have planned, do these overcapacity concerns pose a risk to your plans?

The long term demand outlook for widebody aircraft remains positive, in our view, driven by long term growth in GDP and a growing population with disposable income for travel. As with any trend, it may not progress in a linear fashion. Various factors influence this; short term changes in supply and demand from passengers, oversupply or undersupply of new airframes, shortages in installed capacity, changes in oil prices etc. New airframes also generate step changes in efficiency and drive significant order book growth that sometimes then takes time to unwind and can be naturally followed by a period of order softness. This is a phenomenon that is affecting the market today; we have been ahead of the trend in orders for a few years so we may see a few years of being behind the trend to compensate.

Orders for widebody engines have been more modest this year but given the size of our existing order backlog, the majority of these recent orders probably won't come through as revenues until 2020 or so. The strength and regional diversity of our order book means that we are not overexposed to particular geopolitical tensions or GDP growth slowdown in any particular region and we can look to take advantage of growing markets, such as India and Iran.

From a parking perspective, this is a phenomenon that mainly impacts older aircraft or those with a structural inefficiency. As our fleet is relatively young, the majority of our engines should not be affected today, although you can see specific effects where fleets are smaller or the second hand market is illiquid. In order to overcome any issues, we're focusing on making sure operators can choose the best engine option for them. To that end we've set up a dedicated team to manage transitions and, since doing so, we've successfully migrated many engines, Trent 700s and Trent 800s in particular, onto new ownership. This is work in progress, particularly as our fleet matures and we're continuing to focus on this area and on offering flexible end of life services that provide the right solutions to our customers.

Q2. Does the practice of certain carriers flying narrowbody planes on traditional widebody, longer-haul, routes worry you?

We are not overly concerned by this development. While the use of the A321 on suitable transatlantic routes (those of limited range) potentially provides limited downward pressure on our market opportunity, we're seeing orders for widebody aircraft in China for use on routes that would traditionally have been served by narrowbody aircraft due to high passenger densities. The use of narrowbody planes for these longer-haul routes is of course more complex and the economic attractiveness is heavily influenced by factors including cabin densities, gate fees, gate times, cargo considerations and timetable management - lots of factors for operators to consider.

Q3. Could you provide some more detail as to how the XWB ramp-up will be achieved and the key risks to a successful delivery?

Our challenge is clear; over the next 7-10 years we will be delivering engines and spares to support around 800 airframe orders for the A350. As a result, we're ramping up production progressively over the next few years to support Airbus's long-term build rate. As always, there is risk associated with the rate of volume growth.

We are in the middle of an industrial modernisation programme which seeks to transition less modern, more labour intensive factories and manufacturing methods to more automated factories with greater levels of repeatability. We've recruited additional staff in our engine assembly areas to support increased engine production rates and are on track within production.

A key determinant of a successful ramp is a shift in our culture and way of working. We need to become a leaner organisation, with less waste, less rework and more streamlined processes. We are already making positive strides to this end. At the Capital Market Event in November we shared several examples of where we've achieved lead time reductions by changing how tasks were fundamentally approached.

As regards our suppliers, the increase in production will inevitably create certain pressure points within our supply chain and we will work with our suppliers to proactively manage these. We constantly assess our supply chain in order to ensure we are closely monitoring the key risk areas.

Whilst we shouldn't under-estimate the level of challenge involved in executing the ramp, it's is a challenge we are firmly focused on.

Q4. How have the rating agencies responded to the additional disclosure on IFRS 15 that you provided at the Capital Market Event? What would be the implications for Rolls-Royce if ratings agencies decided to issue a downgrade?

Development of the markets understanding of IFRS15 and its implications for Rolls-Royce has been underway since the summer. This has applied equally to our engagement with the rating agencies as well as debt and equity investors and commentators. IFRS15 has no impact on cash flows, but does change the way we present our revenue and profit. We have met with both Moody's and S&P over the last few weeks and based on discussions so far they have seen no reason to change their recommendations.

Of course, IFRS15 is only one of several things rating agencies, like analysts, will take into consideration when making recommendations. Changes to underlying performance, both profit and cash, uncertainty surrounding the SFO investigation and the balance sheet impact of the acquisition of the outstanding share of ITP would be three examples of the factors that could also influence their recommendations.