Rolls-Royce

Investors' Update

October
2017

Headlines

Half year financial results
1 August

XWB-97 and 1000 TEN engine certifications
18 & 31 August

UltraFan® Power Gearbox sets new aerospace record
4 September

IR activity: Upcoming dates

w/c 27 November
US governance roadshow (NYC)

Events and conferences

21 November
Warren East, CEO – JPM Best of British Conference (London)

29 November
Warren East, CEO – Goldman Sachs Conference (London)

29 November
IR only – Credit Suisse Industrials Conference (Miami)

4 December
IR / Civil Marketing – Berenberg Conference (near London)

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Welcome to our October 2017 newsletter

Since our last Investors' Update in June, we have had a busy summer; announcing our Half Year 2017 results in August, then investor roadshows in the UK, Europe and several US cities. We also attended various broker conferences and the DSEI trade show.

As before, several of the more popular questions asked by investors on our travels are repeated in our Q&A on page 5.

News flow has focused on civil aerospace, including certifications and first flights.

I would also like to take this opportunity to introduce Richard Foster, who joined the team mid-year. We now have a strong team in situ, well placed to tackle your questions and information needs.

We have a few more conferences, investor meetings and IR led roadshows to complete before the end of the year. I look forward to seeing many of you as we get out and about.



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Corporate news

Half year results
1 August

We announced our 2017 half-year results to the market at the London Stock Exchange, with our new CFO, Stephen Daintith presenting for the first time. All materials are available on our website including webcast and transcript of the event. **Read more**

IR news

IR Update

We were pleased to get the opportunity to meet with a considerable proportion of our investors since the Half Year results, both on our formal roadshow which encompassed a number of locations in the UK and across the US, and at recent investor conferences. We were also delighted to welcome a number of investors to our stand at the DSEI defence trade show. Our guests browsed our stand, with exhibits from our Defence Aerospace, Marine and Power Systems businesses, and met with the business executives responsible for these products.

Looking forward, our autumn/winter conference activity is focused on late November and the first week of December, where we will be at conferences in/near London and Miami, together with a US Governance / IR-only roadshow. Do please get in touch if we are going to be in your neighbourhood.

And finally, may I just remind people that we no longer publish formal IMS statements, hence there is no date set in our calendar. As discussed in the Q&A on page 5, we prefer to provide trading updates at more appropriate times in our business and IR cycles.



Photo: DSEI stand with displays of high performance MTU; EJ200 (Typhoon) and MT30 (marine gas turbine) engines. Out of picture were Marine exhibits including hybrid system solutions and engine health monitoring for naval vessels.

Business news: Civil Aerospace

Trent 7000 powers Airbus A330neo first test flight

19 October

The Trent 7000, the latest member of the Trent family of engines, successfully powered the new Airbus A330neo into the skies for its first test flight.

Read more



United Airlines incremental XWB order

6 September

Rolls-Royce is to provide additional Trent XWB engines to United Airlines following the airline's announcement that it will update and expand the number of Airbus A350 XWB aircraft on order from 35 A350-1000 to 45 A350-900. Long-term TotalCare® service support will be provided for all the engines.

Read more

Trent XWB-97 receives flight certification

31 August

The Trent XWB-97, the latest and most powerful variant of the Trent XWB, received formal flight certification, leading the way to the engine entering into service later this year.

Read more

Trent 1000 TEN receives EASA certification

18 August

The Trent 1000 TEN, which will power all variants of the Boeing 787 Dreamliner, has been granted full flight certification from the European Aviation Safety Agency (EASA). This important milestone comes as the first set of passenger engines are delivered to the Boeing facilities in Seattle, ready for entry into service later this year.

Read more

Business news: Defence

Services contract signed with US Air Force for C-130J fleet

20 September

Rolls-Royce has reached agreement with the US Air Force to continue to provide support for the propulsion systems for its fleet of C-130J aircraft, through a five-year MissionCare® contract.

Read more

Business news: Power Systems

Bergen to deliver power plants to two Bangladesh power stations

11 September

RRPS subsidiary Bergen Engines signed two power plant contracts for power stations in Bangladesh, with a combined output of 262MW. The first deliveries for a facility in Rangpur will take place this year, with the option of a second power plant in 2018 for a power station in Ashuganj.

Read more

Research and Technology, Product Development

Google Cloud-based machine learning for autonomous ships

3 October

Rolls-Royce has signed a deal with Google to develop further its intelligent awareness systems, improving existing vessel safety and essential to making autonomous ships a reality. The agreement, believed to be the first in the marine sector, allows Rolls-Royce to use Google's Cloud Machine Learning Engine to further train the company's artificial intelligence-based object classification system for detecting, identifying and tracking objects a vessel can encounter at sea.

Read more

Technology for the electrically-assisted charging of MTU engines

25 September

MTU has acquired the exclusive rights of use for a new patented technology from the development and engineering services provider, G+L innotec, for the electrically-assisted charging of off-highway combustion engines in the power range above 450kW. Joint development plans are underway to offer MTU engines with this technology from 2021 for engines in applications including ships, emergency gensets and land vehicles.

Read more

UltraFan® Power Gearbox sets new aerospace record

4 September

The Power Gearbox successfully reached 70,000 horsepower, a new record for the world's most powerful aerospace gearbox, just months after testing began at our dedicated facility in Dahlewitz, Germany. The Power Gearbox will play a central role in the company's next-generation UltraFan® engine, helping to deliver improved efficiency over a wide range of thrust.

Read more

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Q&A & Appendices

Q1) I am aware you no longer publish IMS statements, can you please explain the rationale

A) In November 2014, the UK Financial Conduct Authority removed the requirement in the Disclosure and Transparency Rules for companies to publish interim management statements (IMSs). This decision was an early adoption of an EU decision to remove the requirement - the overarching rationale by the regulators was to try and reduce the market focus on short-term trading – particularly relevant for sectors with longer term investment cases such as utilities and A&D.

Rolls-Royce issued its last formal IMS in November 2015 and since then we have elected to publish a combination of trading updates and these periodic Investor Update newsletters. We believe these offer more timely and informative information that the prescriptive nature and scheduling of the IMS format, but are ad hoc by nature and thus rarely pre-announced.

One consequence is that we do not have a set calendar for our publications other than the full-year and half-year results. As a result we are not able to answer queries as to when we next plan to issue an update, as this will be wholly dependent on circumstances and our assessment of market conditions. We do also take note of our upcoming IR calendar, as we have historically chosen to provide a trading update in advance of significant management IR engagement, such as the Farnborough or Paris air shows. But in either case we will not confirm in advance whether, or when, we will make such an announcement – so please understand our non-committal responses when asked!

Q2) How should we think about the OE cash loss reduction profile (installed engines) for the XWB-84

A) As a key driver of reducing cash losses on OE sales of installed large engines (spare engines, without TotalCare aftermarket agreements, are sold at a cash profit), we have been asked about our progress to date. In response we have been reiterating the comments made at the half year results; in that we have made good progress year to date and expect - when we provide an update at the full year- to be able to report a more material 2017 figure than the 7% average unit cash loss improvement for 2016.

In discussion, investors have asked about the main drivers of improvement in losses and the different contribution of pricing effects and reduced manufacturing costs. Overall, there will probably be a slightly large contribution from pricing effects. Given the mix of deliveries at this stage the main drivers are largely pricing. We would expect this to normalise to an extent over time as unit costs improve. It is fair to say that the contribution from mix changes and cost reductions will vary from year to year. As a result, the unit loss improvement profile is not guaranteed to be linear, but in the absence of detailed delivery schedules, this might be a reasonable modelling assumption.

Q3) What's driving the 17% growth in Civil Aerospace large engine service revenue?

A) The growth reflects increased revenue from TotalCare contracts from our expanding fleet of in-production Trent engines together with an increased level of time and material activity, including higher volumes of RB211 overhauls than in H1 2016. Revenue in H1 2017 also benefitted from an incremental £46m of contract accounting effects which contributed 4% of the 17% growth.

Q4) How do I reconcile the £(739)m cash outflow for "property, plant, equipment and other intangibles" in your original Civil Aerospace trading cash flow in 2016 with the £(0.3)bn on capital expenditure in Stephen's "simpler view of 2016" slide (slide 22) of the Half Year results presentation?

A) The civil "simpler view" slide is a preliminary analysis of the components of cash flow within Civil Aerospace which we plan to refine over time. We're placing more prominence on the structure than the specifics of the rounded figures, which represent a combination of pure cash and cash proxies. Consequently, whilst some of the differences between the £(739)m and the £(0.3)bn are easily explained, it is not possible to fully reconcile between them. The £(0.3)bn in the new disclosure only covers traditional property, plant and equipment. The £(739)m includes approximately £(0.1)bn of capitalised R&D, which is covered within the £(0.6)bn of R&D cash within the new analysis. It also contains capitalised certification costs and other intangibles which are largely reflected within the "working capital and other" category in the new view, together with some residual depreciation.

Q5) Several of the larger marine industry suppliers are reporting better underlying market conditions. Has anything changed at Rolls-Royce's Marine business or are you as cautious as previously?

A) As we set out in our half year statement, our Marine outlook has not changed. Despite positive signs of recovery in some commercial marine markets, these are regrettably being offset by sustained weak conditions in offshore oil and gas. Given our significant exposure to this segment, we remain very cautious on the outlook for the business as a whole.

Our focus remains on creating a leaner, more efficient business which can respond more quickly to market recoveries with relevant products and services. As a result, we are completing the restructuring activities announced to date, investing in new technologies, particularly around ship automation and intelligence, and engaging with customers to try and win the new business that will drive a sustainable recovery.