IFRS 15 *Revenue from Contracts with Customers*

Restatement of 2016

During the first half of 2017 Rolls-Royce has continued to refine policies on the detailed interpretation of the application of IFRS 15. Alongside today's trading statement, we are publishing an update on IFRS 15 *Revenue from Contracts with Customers* which evaluates its application to our 2016 results. This follows on from the work presented at the Capital Market Day in November 2016, where using 2015 as an example, the company evaluated how the standard would have changed underlying revenue and profit for Civil Aerospace if it had been applied to that year.

The following IFRS 15 principles and consequences have previously been highlighted:

- Cumulative profit and cash flow recognised over the life cycle of a product is not changed by the new standard
- No change to in-year cash flow
- There are significant changes to the timing of revenue and profit recognition:
  - Original Equipment: changed to more closely reflect the cash received on original equipment sales
  - Aftermarket: changed to match the timing of actual work done to provide aftermarket services, irrespective of the commercial value of implicit activities (this new aftermarket approach is known as the 'input' method)

For 2016 underlying results, IFRS 15 changes result in adverse estimated adjustments to Civil Aerospace revenues of £0.8bn for original equipment (OE) sales and £0.5bn for aftermarket services (AM). For operating profit the impact is £0.6bn and £0.2bn for OE and AM respectively.

- Drivers of change in revenue and profit are largely led by:
  - Elimination of linked profit on OE accounting
  - Removal of the 'capitalisation' of linked and unlinked engine losses and adjustments in both OE and AM accounting for the related 'depreciation'
  - Reduction in the magnitude of beneficial long-term contract accounting adjustments
  - When applied to CorporateCare® service packages in business aviation, the input method required by the new standard also has an adverse effect on the timing of AM revenue and profit recognition (included in the above estimated adjustments)
- From a balance sheet perspective, if IFRS 15 had been applied to the 2016 closing Civil Aerospace TotalCare® net asset and Contractual Aftermarket Rights balances then approximately £3.9bn of transition adjustments (post tax) would have been applied to reduce shareholder reserves.
- The analysis previously published for 2015 has been reviewed in light of the refinements undertaken for the 2016 exercise. There were no material changes to the 2015 revenue or profit analysis but the 2015 post-tax balance sheet adjustment would have been £0.2bn higher than the £3.0bn referenced in the 2016 Annual Report.

The new standard will be adopted from January 2018. When 2017 full year results are presented in March 2018, the intention is for them to be prepared and reported under existing standards as well as on an IFRS 15 basis.

A more detailed analysis of the 2016 figures are included as an appendix to the H1 2017 slideshow and available through the investor relations tab on the Rolls-Royce website.