

12 December 2018

ROLLS-ROYCE HOLDINGS PLC FULL YEAR GUIDANCE CONFIRMED

Trading Update

Rolls-Royce reconfirms its financial guidance for 2018 profit and free cash flow. Specifically, we expect both group and core profit and cash flow for 2018 to be in the upper half of our full year guidance range, as shown below:

Guidance on a consistent basis as provided at FY 2017 results		
	Group (incl. non-core ¹ , excl. ITP Aero)	Core ² (Incl. ITP Aero)
Operating profit	£400m +/- £100m ³	£450m +/- £100m ³
Free cash flow	£450m +/- £100m ³	£400m +/- £100m ³

¹ Non-core includes L'Orange, Commercial Marine and other / eliminations

² Core includes Civil Aerospace, Defence, Power Systems and ITP Aero and excludes L'Orange and Commercial Marine

³ Expected to be in the upper half of the guidance range

Civil Aerospace

The strong large engine flying hour growth we reported in the first half has continued into the second half of the year. As guided previously, we expect full year growth to be in the mid-teens range.

As indicated in our statement on 26 October 2018, we expect to deliver around 500 large engines to our customers in 2018, lower than our March 2018 engine projection of around 550 large engines. This reflects supply chain challenges that are affecting the whole civil aero engine sector and also early stage production ramp-up challenges on our new Trent 7000 engine. As we move into 2019 we are confident that Trent 7000 production and delivery volumes will increase significantly to meet our customer commitments.

We have continued to make progress reducing large engine OE unit losses and will provide more details on this with our full year results in February 2019.

Work continues to progress well with the regulatory authorities on the certification of the newly-designed intermediate pressure compressor blades for the Trent 1000 Package C engines. Once certified, this new design of blade can then be fitted to Package C engines as they come in for overhaul, helping to reduce the current customer disruption on this engine variant.

Despite significantly increasing our Trent 1000 related maintenance, repair and overhaul capacity over the last twelve months, the number of aircraft on ground remains at a high level. We sincerely regret the disruption that this has caused our customers. We are determined and confident that as we execute our plans we will see a significant improvement in aircraft on ground as we progress through the first half of 2019.

Power Systems

In Power Systems, the strong growth seen in the first half of 2018 has continued through the second half, driven by good growth in almost all end markets.

Order intake has been strong with a number of key orders secured in the second half, notably the first agreements for MTU Hybrid PowerPacks: with Porterbrook in the UK, Iarnród Éireann Irish Rail in Ireland and Abellio Rail Mitteldeutschland in Germany. In line with our strategy for Power Systems to become an integrated solutions provider, we also launched turnkey microgrid solutions and took a strategic stake in Berlin-based start-up Qinous to develop energy storage and further micro-grid capability.

Defence

Defence trading progress has remained in line with our full year guidance, with revenues expected to remain stable.

We secured an important order in the second half for our AE 3007 engines, being selected by Boeing to power the US Navy's new MQ-25 Stingray aircraft. The MT30 continues to prove its success in the Naval market, having secured a further application this year with selection for Japan's 30FFM frigate programme, and with negotiations progressing to secure further export contracts. We also made good progress towards securing a substantive role in delivering a new combat engine platform, through Defence's position as one of four partner companies in Team Tempest – a collaboration set up to explore a range of concepts for the UK's Future Combat Air strategy.

ITP Aero

ITP Aero continues to trade in line with expectations.

We announced the groundbreaking ceremony for the new ITP Aero facilities in Bizkaia, Spain that will focus on the design and manufacturing of Externals, which are components used in aircraft engine-dressing such as fluid systems, structures and others.

Restructuring

The restructuring we announced on 14 June 2018 remains on track. The focus in 2018 has been on establishing our new operating model and on delivering the targets previously communicated; specifically, a 4,600 headcount reduction over the next two years, with around a third of these taking place before the end of this year. We are confident that the end result will be a simpler, leaner and more agile organisation that drives culture change through pace, simplicity, efficiency and empowerment.

Commercial Marine Sale

The disposal process of the Commercial Marine business is proceeding to plan and completion is expected towards the end of Q1 2019. We expect net proceeds of around £350m to £400m dependent upon the final outturn working capital on completion.

The UK exiting the European Union

Rolls-Royce notes the decision by the UK Government to delay the vote on the proposed Withdrawal Agreement and political declaration. We will continue to implement our contingency plans until we are certain that a deal and transition period has been agreed.

Specifically, we are working with EASA to transfer design approval for large aero engines to Germany, where we already carry out this process for business jets. This is a precautionary and reversible technical action which we do not anticipate will lead to the transfer of any jobs.

We have begun to build inventory as a contingency measure, in line with the timetable that we gave in the summer. We have been liaising with all our suppliers and have reviewed our logistics options and have the required capacity available. At this point we have contingency plans in place and will update the market when we have clearer visibility.

Other

Our 2018 Full Year results will be announced on 28 February 2019.

About Rolls-Royce Holdings plc

1. Rolls-Royce pioneers cutting-edge technologies that deliver the cleanest, safest and most competitive solutions to meet our planet's vital power needs.
2. Rolls-Royce has customers in more than 150 countries, comprising more than 400 airlines and leasing customers, 160 armed forces, 4,000 marine customers including 70 navies, and more than 5,000 power and nuclear customers.
3. Annual underlying revenue was £15 billion in 2017, around half of which came from the provision of aftermarket services. The firm and announced gross order book stood at £78.5 billion at the end of December 2017.
4. In 2017, Rolls-Royce invested £1.4 billion on research and development. We also support a global network of 31 University Technology Centres, which position Rolls-Royce engineers at the forefront of scientific research.
5. Rolls-Royce employs 55,000 people in 50 countries. Approximately 19,400 of these are engineers.
6. The Group has a strong commitment to apprentice and graduate recruitment and to further developing employee skills. In 2017 we recruited 313 graduates and 339 apprentices through our worldwide training programmes.

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