Jennifer Ramsey
Head of Investor Relations
Agenda for today

Introductions
Jennifer Ramsey

Highlights
Warren East

Financial Review
Stephen Daintith

Business outlook
Warren East
Notices
Highlights

Warren East
Chief Executive
## Results summary

“encouraging results”

<table>
<thead>
<tr>
<th>Category</th>
<th>2017</th>
<th>Change</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Underlying revenue</strong></td>
<td>£15.1bn</td>
<td>6%</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying gross profit</strong></td>
<td>£2,973m</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying PBT</strong></td>
<td>£1.07bn</td>
<td>25%</td>
<td></td>
</tr>
<tr>
<td><strong>Operating margin</strong></td>
<td>7.8%</td>
<td>100bps*</td>
<td></td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td>£273m</td>
<td></td>
<td>£100m</td>
</tr>
<tr>
<td><strong>‘Dividend’ per share</strong></td>
<td>11.7p</td>
<td></td>
<td>11.7p</td>
</tr>
</tbody>
</table>

* Percentage change at constant currency
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”

<table>
<thead>
<tr>
<th>Nuclear</th>
<th>Retrofit</th>
<th>Astute</th>
<th>Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Milestones reached for safety-critical systems in Finland and France</td>
<td>Operational and delivery improvement</td>
<td>Raynesway facility to support Dreadnought programme</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Marine</th>
<th>Ship intelligence</th>
<th>Cost savings</th>
<th>Strategic review</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leadership through continued R&amp;D investment</td>
<td>Restructuring led to a 13% reduction in C&amp;A costs</td>
<td>of commercial marine operations announced</td>
<td></td>
</tr>
</tbody>
</table>
ITP Aero

“acquisition of outstanding stake”

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

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

Sales by market

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

FY17 Financials (€m)*

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>850</td>
</tr>
<tr>
<td>EBIT</td>
<td>71</td>
</tr>
<tr>
<td>Margin</td>
<td>8.4%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(7)</td>
</tr>
</tbody>
</table>

Contribution to FY17 (£m)

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>JV Profit</td>
<td>19</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(14)</td>
</tr>
</tbody>
</table>

*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”

Achieved

£200m

Run-rate cost savings at top end of previous guidance

Simplicity

Good progress, more to follow

- 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
Rebuild: Trust & confidence in long-term growth prospects

“doing what we said we would do”

- Greater financial transparency
- Acting on our promises
- Delivering

CMD PRESENTATION
“...Transform restructuring programme to be implemented by 2016...incremental gross cost savings £150-200m pa”

2017 HY RESULTS PRESENTATION
‘in March next year, share ideas around what sort of group KPIs...setting return on capital targets, cash return on capital targets...’

FURTHER SIMPLIFICATION OF BUSINESS
Broad details at March 2017 results and more detailed CMD later in the year

2016 FY RESULTS STATEMENT
“...20% reduction in top two layers of senior management... roughly 50% of targeted cost savings...identified”

2017 FY RESULTS STATEMENT
“...review of our strengths and investment opportunities, to define and appropriate vision ... will be shared during 2017”

Q3 TRADING UPDATE
“...strategic direction...the growth in electrification and digitalisation will offer substantial and wide-ranging opportunities...”
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
Transform our Business
Vitalise existing capabilities
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

01 Full year results

02 Business unit review

03 IFRS 15 and other accounting policy updates

04 Outlook and guidance
### Underlying Results Overview

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

Encouraging results
### Increasing OE & LTSA revenues

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
<th>Change</th>
<th>Organic change</th>
</tr>
</thead>
<tbody>
<tr>
<td>OE revenue</td>
<td>7,687</td>
<td>7,027</td>
<td>+9%</td>
<td>+6%</td>
</tr>
<tr>
<td>LTSA service revenue</td>
<td>3,695</td>
<td>3,375</td>
<td>+9%</td>
<td>+8%</td>
</tr>
<tr>
<td>Other service revenue</td>
<td>3,708</td>
<td>3,381</td>
<td>+10%</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Group revenue</strong></td>
<td>15,090</td>
<td>13,783</td>
<td>+9%</td>
<td>+6%</td>
</tr>
<tr>
<td><strong>Gross margin (%)</strong></td>
<td>19.7%</td>
<td>20.4%</td>
<td>-70bps</td>
<td>-100bps</td>
</tr>
</tbody>
</table>

- 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

<table>
<thead>
<tr>
<th>£m</th>
<th>2017</th>
<th>2016</th>
<th>Organic Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross R&amp;D</td>
<td>1,392</td>
<td>1,331</td>
<td>+1%</td>
</tr>
<tr>
<td>Third party contributions</td>
<td>(357)</td>
<td>(394)</td>
<td>-12%</td>
</tr>
<tr>
<td><strong>Net R&amp;D spend</strong></td>
<td>1,035</td>
<td>937</td>
<td>+7%</td>
</tr>
<tr>
<td>Amortisation</td>
<td>83</td>
<td>87</td>
<td>-7%</td>
</tr>
</tbody>
</table>
| Capitalised  
  - incl. policy application change: £83m | (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

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![R&D Spend Composition](chart.png)

- **Commercial Marine**
- **Power Systems**
- **Defence**
- **Civil**
**Civil Aerospace R&D**

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

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**Ultrafan**

**Targeting 25% fuel efficiency improvement**

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

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**Impact on Group R&D capitalisation (£m)**

- 2017 impact: £83m
- 2018E: ~£400
- 2017 impact: £342

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**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

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2017 Full Year Results

Property information: strictly private and confidential ©2018 Rolls Royce
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
Business Unit review
## Civil Aerospace: overview

Solid growth in revenue and operating profit

Cash flow flat on prior year

### Underlying revenue

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

*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
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
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

<table>
<thead>
<tr>
<th>Year</th>
<th>Deficit Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>(7)%</td>
</tr>
<tr>
<td>2017</td>
<td>(37)%</td>
</tr>
</tbody>
</table>

### Targeting break-even by 2020

- **2015**
  - Price (net of RRSP share)
  - Engine unit cost

**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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large engines</td>
<td>4,137</td>
<td>4,409</td>
</tr>
<tr>
<td>Trent fleet</td>
<td>2,988</td>
<td>3,314</td>
</tr>
</tbody>
</table>

**Invoiced flying hours**

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

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large engines</td>
<td>11.2m</td>
<td>12.6m</td>
</tr>
<tr>
<td>In-production fleet growth</td>
<td>8.0m</td>
<td>9.7m</td>
</tr>
</tbody>
</table>

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

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

Installed large engine fleet up 7%
## Civil Aerospace: trading cash flow

<table>
<thead>
<tr>
<th></th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Original Equipment</td>
<td>444£1.6m</td>
<td>320£1.6m</td>
</tr>
<tr>
<td>Services</td>
<td>12.6m invoiced EFH</td>
<td>11.2m TotalCare EFH</td>
</tr>
<tr>
<td>Spare engines</td>
<td>0.2</td>
<td>0.2</td>
</tr>
<tr>
<td><strong>Widebody Cash Margin</strong></td>
<td><strong>0.8</strong></td>
<td><strong>0.7</strong></td>
</tr>
<tr>
<td>Business &amp; Regional</td>
<td>0.7</td>
<td>0.7</td>
</tr>
<tr>
<td>V2500</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Operations</td>
<td>(0.4)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Engineering</td>
<td>(0.3)</td>
<td>(0.3)</td>
</tr>
<tr>
<td><strong>Cash Gross Margin</strong></td>
<td><strong>1.1</strong></td>
<td><strong>1.0</strong></td>
</tr>
<tr>
<td>Commercial &amp; administration</td>
<td>(0.3)</td>
<td>(0.3)</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>(0.7)</td>
<td>(0.6)</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>(0.5)</td>
<td>(0.4)</td>
</tr>
<tr>
<td>Working capital/ other</td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Trading cash flow</strong></td>
<td><strong>0.0</strong></td>
<td><strong>0.0</strong></td>
</tr>
</tbody>
</table>

- **Cash growth from large engine services more than offsetting higher volume OE deficits**
- **Capex for production volume capacity and engines to support the fleet**
- **R&D for ongoing development of engines coming into service**
## Major Civil Aerospace drivers

Significant drivers of cash flow over the next 5 years

<table>
<thead>
<tr>
<th>In production</th>
<th>In service</th>
<th>On order</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trent 700</td>
<td>1,590</td>
<td>74</td>
</tr>
<tr>
<td>Trent 7000</td>
<td>-</td>
<td>440</td>
</tr>
<tr>
<td>Trent XWB</td>
<td>278</td>
<td>1,424</td>
</tr>
<tr>
<td>Trent 900</td>
<td>360</td>
<td>244</td>
</tr>
<tr>
<td>Trent 1000</td>
<td>476</td>
<td>366</td>
</tr>
</tbody>
</table>

| Over 2,500 engines on order |

### Widebody

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

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: 125%
- Engine flying hours: +9%
- 2016: 88, 2017: 110
- Dispatch reliability in 2017: 99.9%

Trent 800 (330 in service)
- Total cumulative fleet hours: 28m
- 13 aircraft transitions in 2017

Trent 7000 (EIS due in 2018)
- Powered first flight of Airbus A330neo
- Preliminary flight test results look encouraging
- Entry into service mid-2018

Trent XWB-84 (278 in service)
- 2017 avg. engine cash deficit: ↓37%
- reduction in installed engine cash deficit in 2017
- 2017 avg. dispatch reliability: 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 797-10 flight
- Entered into service in November 2017

In-service issues understood and being addressed proactively

Capacity growth in Trent 1000 MRO capability ↑2x

2017 impact from in-service issues
£(179)m profit £(119)m cash

Trent 900 (360 in service)
2017 deliveries 30 to 67

↑123% 30 67 2016 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**

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

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
Performance push
- OE sales and service push
- Working capital optimisation
- Material cost reduction

Structural cost reduction
- Engine variants
- Footprint
- C&A cost
- R&D cost

2018 Focus
- High customer satisfaction with digital products
- Competitive through costs awareness
- Future orientated footprint
- Lean and high margin portfolio

Consistent Target Operating Model (TOM)
- Revenue increase through customer focus
- Strengthen China position

Achieving structural cost reductions
Further improvement opportunities to come
Defence
Aerospace: overview

Margins impacted by lower LTSA lifecycle cost reductions

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

Resilient performance with good second half production increase
### Defence Aerospace: 2017 drivers

#### 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

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

#### 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

<table>
<thead>
<tr>
<th>US (c. 60% revenues)</th>
<th>UK (c. 15% revenues)</th>
<th>Export (c. 25% revenues)</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Strong position on Transport &amp; Patrol fleets but significant competition from A&amp;D majors</td>
<td>▪ 2010 MoD Defence review drove significant budget constraints</td>
<td>▪ Principally leveraging existing UK technologies</td>
</tr>
<tr>
<td>▪ Growing impact of US DoD pricing regulations (15% of contracts); mainly Combat and R&amp;D</td>
<td>▪ Tornado retirement, current Typhoon service contract ends in next 12 months</td>
<td>▪ OE/service dynamics more similar to Civil: airframer/customer</td>
</tr>
<tr>
<td>▪ Benefits expected from Indianapolis plant upgrade</td>
<td>▪ Heavily regulated environment: growing impact of SSPR on margins</td>
<td>▪ Combat opportunities in mid-longer term</td>
</tr>
<tr>
<td></td>
<td>▪ Expectation of limited LTSA cost improvement benefits in medium term</td>
<td>▪ Near-term technology upgrade opportunities</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Current timing headwinds on TP400 and legacy spares</td>
</tr>
</tbody>
</table>

### Near term challenges
Marine: drivers

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

<table>
<thead>
<tr>
<th>£m</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,077</td>
<td>1,114</td>
</tr>
<tr>
<td>Operating profit</td>
<td>(25)</td>
<td>(27)</td>
</tr>
</tbody>
</table>

Nuclear: drivers

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

<table>
<thead>
<tr>
<th>£m</th>
<th>2017</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>818</td>
<td>777</td>
</tr>
<tr>
<td>Operating profit</td>
<td>38</td>
<td>45</td>
</tr>
</tbody>
</table>

1 UNDERLYING REVENUE

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

2 GROSS MARGIN

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

3 OPERATING MARGIN

- 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
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 LTSAs – 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

<table>
<thead>
<tr>
<th></th>
<th>Current accounting 2017</th>
<th>Change</th>
<th>IFRS 15 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>OE revenue (£m)</td>
<td>7,687</td>
<td>(928)</td>
<td>6,759</td>
</tr>
<tr>
<td>AM revenue (£m)</td>
<td>7,403</td>
<td>(480)</td>
<td>6,923</td>
</tr>
<tr>
<td><strong>Total revenue (£m)</strong></td>
<td><strong>15,090</strong></td>
<td><strong>(1,408)</strong></td>
<td><strong>13,682</strong></td>
</tr>
<tr>
<td>Operating profit/(loss) (£m)</td>
<td>1,175</td>
<td>(854)</td>
<td>321</td>
</tr>
<tr>
<td>Reserves (£bn)</td>
<td>6.2</td>
<td>(5.2)</td>
<td>1.0</td>
</tr>
</tbody>
</table>

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
## 2018 Outlook

### New segment format

### Underlying revenue

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017 IFRS 15</th>
<th>2018 Outlook</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Aerospace</td>
<td>6,613</td>
<td>High single-digit growth</td>
</tr>
<tr>
<td>Defence</td>
<td>3,184</td>
<td>Stable</td>
</tr>
<tr>
<td>Power Systems</td>
<td>3,106</td>
<td>High single-digit growth</td>
</tr>
<tr>
<td>Other*</td>
<td>779</td>
<td></td>
</tr>
<tr>
<td><strong>Group</strong></td>
<td><strong>13,682</strong></td>
<td><strong>Mid single-digit growth</strong></td>
</tr>
</tbody>
</table>

### Underlying operating profit

<table>
<thead>
<tr>
<th>Segment</th>
<th>2017 IFRS 15</th>
<th>2018 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil</td>
<td>(330)</td>
<td>Losses up to third lower</td>
</tr>
<tr>
<td>Defence</td>
<td>451</td>
<td>Margins around 250bps lower</td>
</tr>
<tr>
<td>Power Systems</td>
<td>319</td>
<td>Margins stable</td>
</tr>
<tr>
<td>Other*</td>
<td>(119)</td>
<td></td>
</tr>
<tr>
<td><strong>Group operating profit</strong></td>
<td><strong>321</strong></td>
<td><strong>£400m +/- £100m</strong></td>
</tr>
</tbody>
</table>

### Free cash flow

<table>
<thead>
<tr>
<th>2017 IFRS 15</th>
<th>2018 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>273</td>
<td><strong>£450m +/- £100m</strong></td>
</tr>
</tbody>
</table>

### ITP Aero (excluded from above)*

<table>
<thead>
<tr>
<th>Segment</th>
<th>€m</th>
<th>2018 Forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying revenue</td>
<td>827</td>
<td>Double-digit growth</td>
</tr>
<tr>
<td>Underlying operating profit</td>
<td>75</td>
<td>Modest decline</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>(7)</td>
<td>FY18: €(70)-€(80)m. Closer to breakeven in 2019</td>
</tr>
</tbody>
</table>

* 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

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

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

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

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>2018 H1</th>
<th>2017 H1</th>
<th>Change</th>
<th>Organic change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil Aerospace</td>
<td>x,xxx</td>
<td>x,xxx</td>
<td>+x%</td>
<td>+x%</td>
<td></td>
</tr>
<tr>
<td>Defence</td>
<td>x,xxx</td>
<td>x,xxx</td>
<td>+x%</td>
<td>+x%</td>
<td></td>
</tr>
<tr>
<td>Power Systems</td>
<td>x,xxx</td>
<td>x,xxx</td>
<td>+x%</td>
<td>+x%</td>
<td></td>
</tr>
<tr>
<td>ITP</td>
<td>xxx</td>
<td>xxx</td>
<td>+x%</td>
<td>+x%</td>
<td></td>
</tr>
<tr>
<td>Other/eliminations</td>
<td>(xxx)</td>
<td>(xxx)</td>
<td>+x%</td>
<td>+x%</td>
<td></td>
</tr>
<tr>
<td><strong>Group continuing</strong></td>
<td><strong>x,xxx</strong></td>
<td>x,xxx</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Final dividend</th>
<th>Full year dividend</th>
<th>Cash cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>7.1p</td>
<td>11.7p</td>
<td>£214m</td>
</tr>
</tbody>
</table>
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
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
- Reïnvent with digital
- Transform our Business
- Vitalise existing capabilities
- Build balanced portfolio
Fit for purpose

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

**Existing five operating businesses**

- Civil Aerospace £8.0bn
- Power Systems £2.9bn
- Defence Aerospace £2.3bn
- Nuclear £0.8bn
- Marine £1.1bn

**New core business units**

- Civil Aerospace £8.0bn
- Power Systems £3.1bn
- Defence £3.2bn

*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