



2018 Half Year Results

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The Group



Group results

	H1 2018	H1 2017
Group underlying revenue (£m)	7,040	6,041
Group underlying profit before tax (£m)	73	(143)
EPS	2.5p	(8.1)p
Group free cash flow (£m)	(72)	(339)
Payment to shareholders (p/share)	4.6p	4.6p



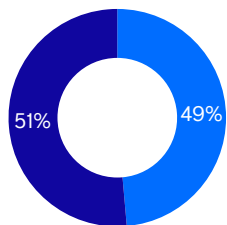
Group underlying income statement

£m	H1 2018	H1 2017
Revenue	7,040	6,041
Gross profit*	979	832
Commercial and administrative costs*	(571)	(535)
Net R&D charge	(318)	(424)
Other income & costs	51	43
Group underlying operating profit	141	(84)
Net financing charge	(68)	(59)
Group underlying profit before tax (PBT)	73	(143)

* Other Income previously report in Cost of Sales has been re-classified to commercial and admin costs aligned to 2017 reporting



Group revenue by segment



■ OE
■ Services

£m	H1 2018	H1 2017
Civil Aerospace	3,600	2,858
Defence	1,415	1,478
Power Systems	1,471	1,275
ITP	375	-
Corporate / Eliminations	(181)	-
Core businesses	6,680	5,611
Commercial Marine*	333	388
L'Orange**	89	104
Other***	(62)	(62)
Non-core businesses	360	430
Group underlying revenue	7,040	6,041

* Commercial Marine (Sale announced 6th July)

** L'Orange sold on 1st June 2018

***Other includes other smaller businesses



Group underlying operating profit by segment

£m	H1 2018	H1 2017
Civil Aerospace	(112)	(250)
Defence	162	180
Power Systems	80	26
ITP	40	-
Corporate / Eliminations	(24)	(26)
Core businesses	146	(70)
Commercial Marine*	(31)	(47)
L'Orange**	21	31
Other***	5	2
Non-core businesses	(5)	(14)
Group underlying operating profit	141	(84)

* Commercial Marine (Sale announced 6th July)

** L'Orange sold on 1st June 2018

***Other includes other smaller businesses



Group cash flow

£m	H1 2018*	H1 2017
Underlying profit before tax (PBT)	73	(143)
Depreciation & amortisation	313	331
Net working capital	129	324
Capital expenditure & intangibles	(669)	(599)
Other	128	(169)
Trading cash flow	(26)	(256)
Pension / tax / other	(46)	(83)
Group free cash flow	(72)	(339)
Shareholder payments	(85)	(85)
Base cash flow (exc. acquisitions & FX)	(157)	(424)



Group underlying research & development

£m	H1 2018	H1 2017
Gross R&D – Group	(687)	(645)
Net R&D – Group	(542)	(465)
Capitalised	241	84
Amortised	(17)	(43)
R&D charge to Income Statement – Group	(318)	(424)

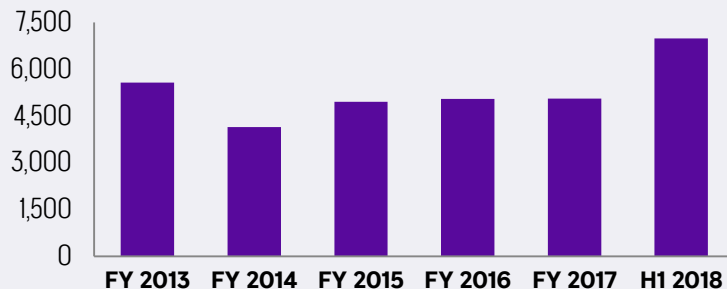


Balance sheet

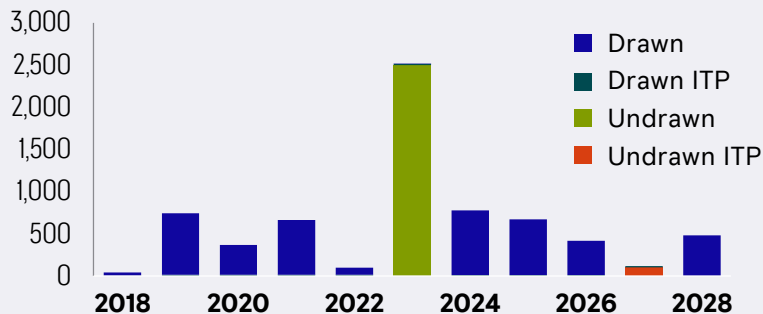
Strong liquidity position

Total liquidity
£6.9 billion

Total Liquidity (£ million)



Debt Maturities (£ million)



Investment grade credit rating and liquidity provide confidence and flexibility for:

- Customers signing long-term service agreements spanning decades
- Customer and supplier financing
- Investing in opportunities at the right time
- Suppliers and JV partners making long-term investments
- Weathering financial market uncertainties



Foreign exchange

Rolls-Royce hedges transactional FX

- Transactional exposure arises when revenue currencies differ from cost currencies
- Achieved rate is not typically affected by short-term spot rate movements unless new cover is taken; this impact is usually diluted
- \$37 billion USD:GBP hedge book
- Hedge book average rate is £/\$1.55
- \$3 billion EUR:USD hedge book
- Hedge book average rate is €/\$1.26

Rolls-Royce does not hedge against the impact of translational FX

- Translational exposure varies by source of revenues and profits
- Translational FX impact is driven by period average spot rates
- Translational impact increases as rate reduces

Half year translational impact of 0.01 unit of currency change in period average rates

	Revenue	Profit
USD	~£5 million	~£1 million
EUR	~£3 million	~£0 million
NOK	~£0 million	~£0 million



Foreign exchange – Translational impact

The impact of translational foreign exchange is driven by period average spot rates

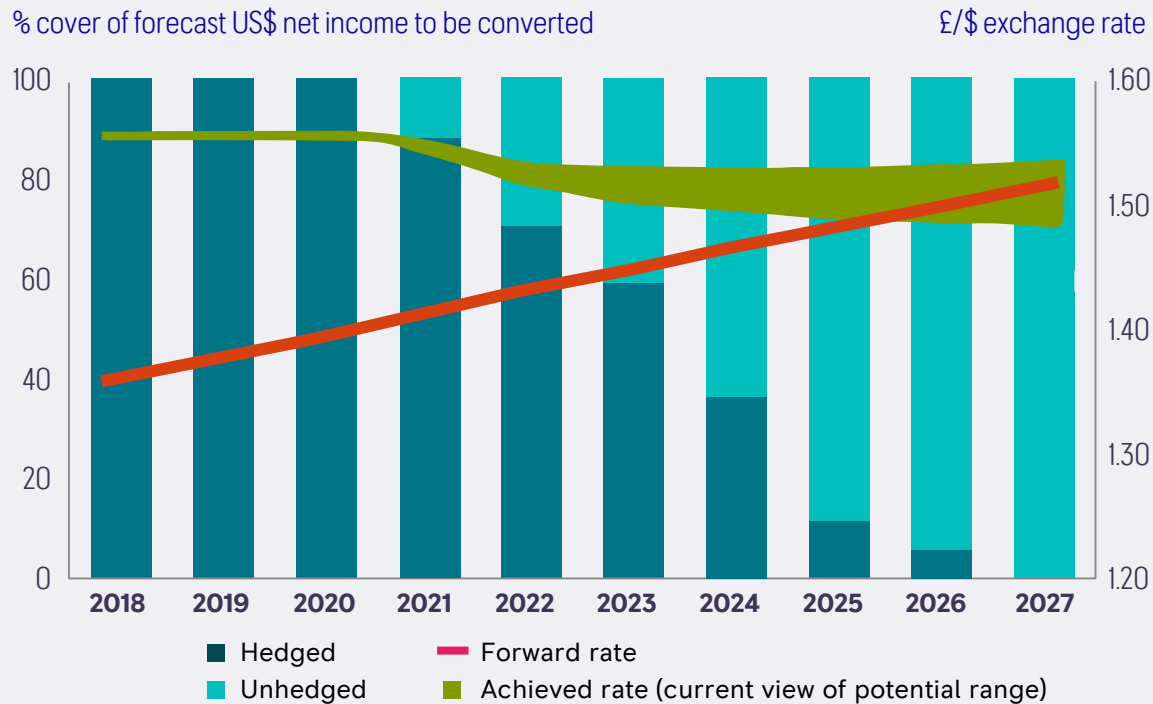
H1 2017 vs. H1 2018 £m	EXPOSURE		REVENUE IMPACT		UNDERLYING PROFIT IMPACT	
	Revenue	Profit	Inc FX	FX	Inc FX	FX
Group			7,040	(46)	141	(11)
Civil Aerospace	USD, EUR	USD, EUR	3,600	(5)	(112)	(12)
Defence	USD	USD	1,415	(63)	162	(11)
Power Systems	EUR, USD	EUR, USD	1,471	27	80	2
ITP	EUR, USD	EUR, USD	375	n/a	40	n/a
Non-core/Other*	NOK, EUR, USD	EUR, USD	179	(4)	(29)	9

Period average rates	H1 2018	H1 2017
USD	1.37	1.26
EUR	1.14	1.16
NOK	10.90	10.67



USD hedge book

Looking forward





Reconciliation to reported profit

£m	H1 2018	H1 2017
Underlying profit before tax	73	(143)
Mark-to-market adjustments on derivative contracts	(814)	1,399
Realised losses / (gains) on settled derivative contracts	240	342
Goodwill impairment	(160)	-
Exceptional restructuring	(179)	(31)
Trent 1000 exceptional costs	(554)	-
Acquisition and disposals	234	(62)
Other adjustments	(102)	(61)
Reported profit / (loss) before tax	(1,262)	1,444



Customer finance

Financial strength allows the Group to provide finance support to customers

Selective and designed to minimise risk:

- Gross and net exposures by counterparty, product type and year are limited by Board guidelines
- Commitments continually monitored with suitable exposure management policies in place
- Exposures audited every six months
- Exposures quantified using independent asset value appraisals

Broadly similar contingent liabilities (as of 30 June 2018)

- Total Discounted Gross Exposure: US\$186m (FY2017: \$196m)
- Total Discounted Net Exposure (less security): US\$80m (FY2017: \$72m)
- Total Discounted Net Stressed Exposure (assumes 20% asset discount): US\$92m (FY2017: \$86m)
- Liabilities are spread across multiple geographies, customers and aircraft



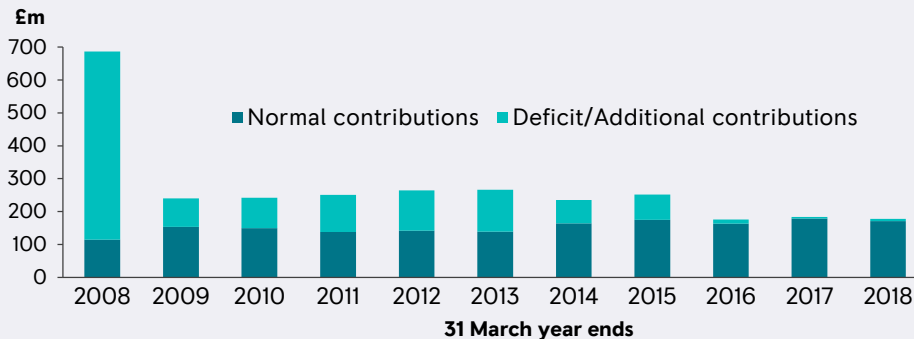
Pensions

UK plan

- 84% of gross liabilities and 95% of gross assets
- £13.2bn of assets and surplus of £2.5bn. £411m increase in surplus is primarily the result of plan assets outperforming liabilities measured on an IAS19* basis
- 92% of assets in low risk investments to match liabilities, this has been key to protecting our funding position in low yield environment
- Closed to new hires since 2007
- Statutory funding valuation completed as at 31 March 2017 confirmed a material surplus (112%). No deficit funding is required and the Trustee has agreed to use a proportion of surplus to reduce future service cost from 2018 to 2020
- YTD contributions of £44m (2017: £174m) – inclusive of contributions financed by employees under salary sacrifice arrangements. A major reduction in the historical level of UK contributions which included deficit funding

Overseas plans

- 16% of gross liabilities and 5% of gross assets
- Deficit of £1,308m (IAS19 basis) principally made up of
 - unfunded US healthcare/pension plans (£484m) and
 - German unfunded pension plans (£762m)
- YTD contributions of £42m (2017: £75m)



*IAS19 reporting basis discounts liabilities using a AA bond rate – while this is the required reporting method it does not match the method used to manage and fund the UK plan – which discounts liabilities using a curve to aligned to its Liability Driven Investments (gilt based). This significantly reduces the real funding volatility relevant for cash funding purposes rather than that shown by the IAS19 valuations



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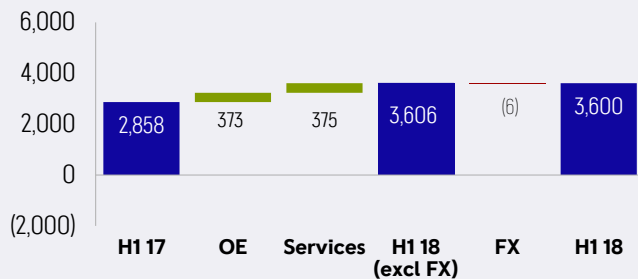
Civil Aerospace



Civil revenue, profit and gross margin

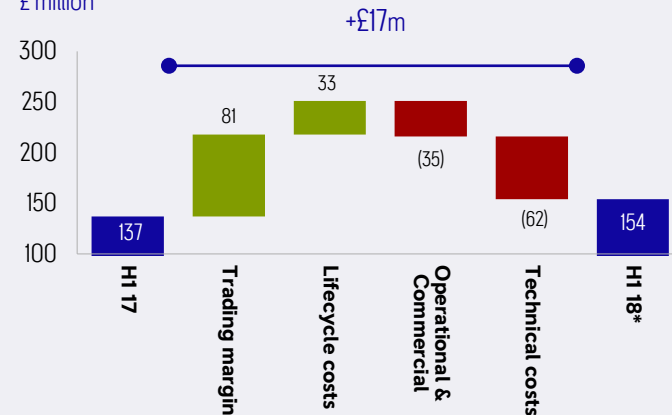
Revenue

£ million



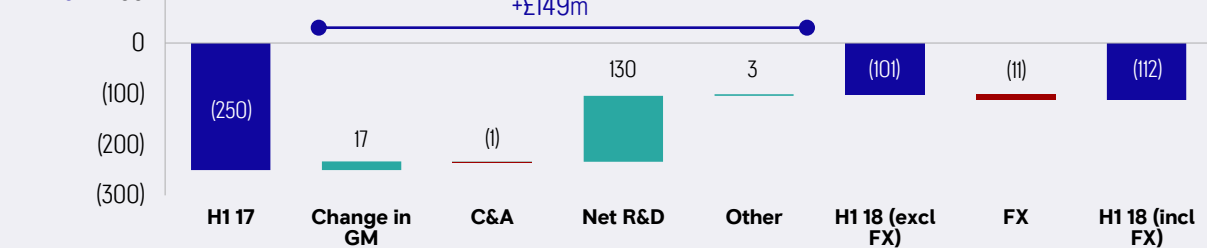
Underlying gross profit

£ million



Profit

£ million



* H1 18 Underlying gross profit @ 2017 FX



Trent engine products

Leading widebody market share

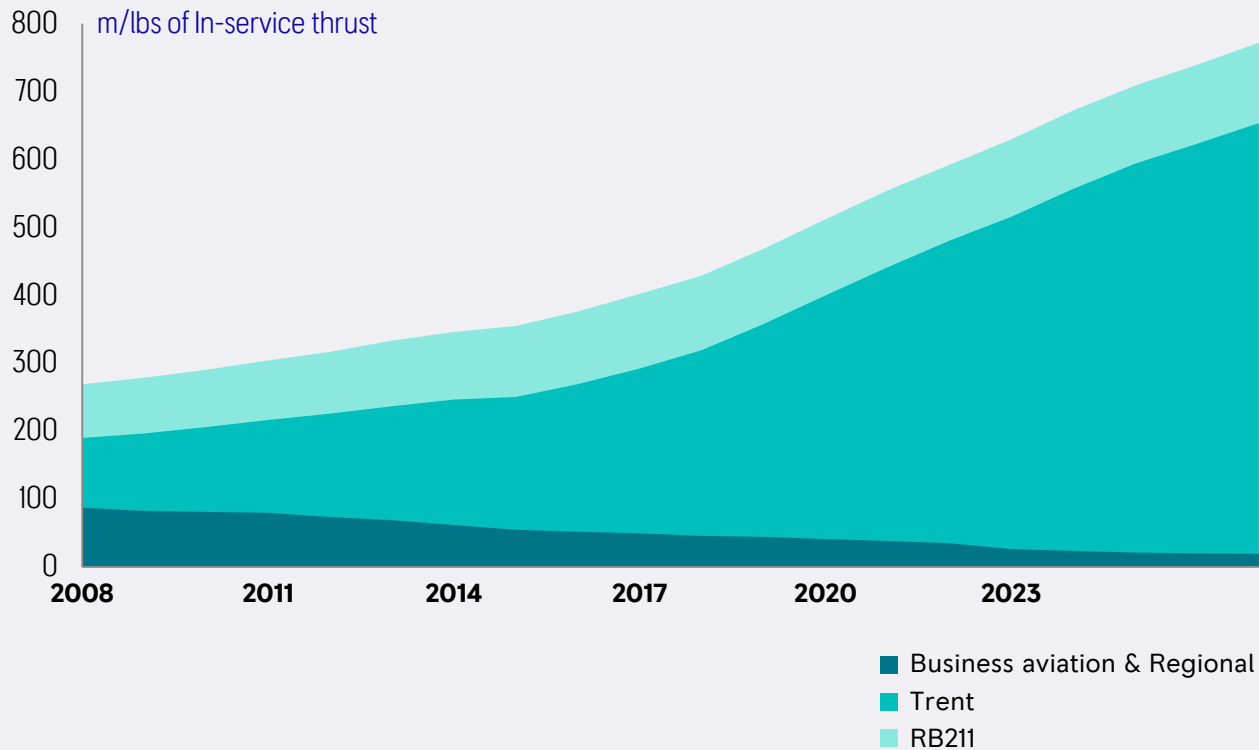
£m	Airframe	Market share*	Engines in service	Engines on order**
Trent 7000	Airbus A330neo	100%	0	458
Trent XWB	Airbus A350	100%	358	1379
Trent 1000	Boeing 787	36%	490	331
Trent 900	Airbus A380	53%	364	187
Trent 800	Boeing 777	40%	340	0
Trent 700	Airbus A330	60%	1,614	61
Trent 500	Airbus A340	100%	288	0
			3,454	2,416

* Share of total firm and announced programme sales with an engine decision (excludes cancelled orders)



In-service thrust

Growing market opportunities





Civil engine deliveries

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 H1
By engine																	
RB211 22B	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
RB211 524	4	2	5	7	0	5	4	0	0	0	0	0	0	0	0	0	0
RB211 535	26	14	6	0	2	0	1	1	0	0	0	0	0	0	0	0	0
RB211 Total	30	16	11	7	2	5	5	1	0	0	0	0	0	0	0	0	0
Trent 500	37	88	115	88	97	45	45	57	16	1	8	0	0	0	0	0	0
Trent 700	30	35	30	54	59	75	88	125	139	135	157	181	184	140	88	110	41
Trent 800	54	30	15	21	25	10	7	9	0	0	0	0	0	0	0	0	0
Trent 900					20	10	48	33	30	70	64	42	35	6	30	67	29
Trent 1000										18	46	59	79	106	122	109	73
Trent XWB-84													13	56	117	196	102
Trent XWB-97																1	14
Trent	121	153	160	163	201	140	188	224	185	224	275	282	311	308	357	483	259
Civil Large Engines	151	169	171	170	203	145	193	225	185	224	275	282	311	308	357	483	259
Tay	66	48	43	55	66	80	92	68	51	57	60	67	46	38	28	2	0
AE3007	288	217	242	168	113	135	135	32	55	31	43	78	48	34	20	8	2
BR700	127	96	131	161	155	183	216	172	184	232	290	326	334	332	244	190	104
Civil Small Engines	481	361	416	384	334	398	443	272	290	320	393	471	428	404	292	200	106
V2500*	224	216	237	327	319	308	351	347	371	418	220	0	0	0	0	0	0
Civil Total	856	746	824	881	856	851	987	844	846	962	888	753	739	712	649	683	365

* V2500 deliveries are recorded until the sale of Rolls-Royce's stake in International Aero Engines on 29th June 2012



Civil engine in-service installed fleet**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 H1
By engine																	
RB211 22B	48	48	36	36	12	15	9	12	9	6	6	3	3	3	3	3	3
RB211 524	794	829	815	796	791	769	706	643	638	617	530	455	352	302	278	266	266
RB211 535	1,108	1,154	1,192	1,168	1,174	1,158	1,102	1,078	1,056	1,052	1,028	1,026	1,012	908	868	826	844
RB211 Total	1,950	2,031	2,043	2,000	1,977	1,942	1,817	1,733	1,703	1,675	1,564	1,484	1,367	1,213	1,149	1,095	1,113
Trent 500	32	120	212	292	380	412	432	464	492	480	452	440	388	352	336	280	288
Trent 700	206	234	264	306	364	422	492	590	696	816	948	1,114	1,288	1,388	1,460	1,590	1,614
Trent 800	344	376	392	406	430	444	442	448	450	444	446	436	422	362	352	330	340
Trent 900	0	0	0	0	0	4	36	60	80	140	208	244	280	304	332	360	364
Trent 1000	0	0	0	0	0	0	0	0	0	6	44	84	164	260	384	476	490
Trent XWB-84	0	0	0	0	0	0	0	0	0	0	0	0	2	30	124	278	352
Trent XWB-97	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	6
Trent	582	730	868	1,004	1,174	1,282	1,402	1,562	1,718	1,886	2,098	2,318	2,544	2,696	2,988	3,314	3,454
Civil Large Engines	2,532	2,761	2,911	3,004	3,151	3,224	3,219	3,295	3,421	3,561	3,662	3,802	3,911	3,909	4,137	4,409	4,567
Spey	1,122	1,090	1,024	992	946	914	864	802	760	702	632	580	506	460	430	404	372
Tay	1,570	1,599	1,572	1,623	1,755	1,769	1,825	1,861	1,869	1,917	1,969	2,019	2,011	2,035	2,027	1,993	2,003
AE3007	1,702	1,934	2,164	2,328	2,458	2,564	2,520	2,528	2,562	2,550	2,544	2,598	2,534	2,468	2,326	2,302	2,390
BR700	704	864	990	1,144	1,272	1,446	1,560	1,752	1,910	2,128	2,362	2,696	2,964	3,388	3,642	3,858	3,972
Civil Small Engines	5,098	5,487	5,750	6,087	6,431	6,693	6,769	6,943	7,101	7,297	7,507	7,893	8,015	8,351	8,425	8,557	8,737
V2500*	855	930	1,054	1,196	1,348	1,492	1,613	1,722	1,852	2,002	0	0	0	0	0	0	0
Civil Total	8,485	9,178	9,715	10,287	10,930	11,409	11,601	11,960	12,374	12,860	11,169	11,695	11,926	12,260	12,562	12,966	13,304

* 50% of the total V2500 fleet included

** Installed engine base is net of retirements and excludes aircraft which are parked or in storage



Civil in-service thrust base (millions lbs)**

		2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018 H1
By engine	Thrust per engine (lbs)																	
RB211 22B	60,000	3	3	2	2	1	1	1	1	1	0	0	0	0	0	0	0	0
RB211 524	60,000	48	50	49	48	47	46	42	39	38	37	32	27	21	18	17	16	16
RB211 535	40,000	44	46	48	47	47	46	44	43	42	42	41	41	40	36	35	33	34
RB211 Total		95	99	99	97	95	93	87	82	81	79	73	69	62	55	52	49	50
Trent 500	56,000	2	7	12	16	21	23	24	26	28	27	25	25	22	20	19	16	16
Trent 700	72,000	15	17	19	22	26	30	35	42	50	59	68	80	93	100	105	114	116
Trent 800	92,000	32	35	36	37	40	41	41	41	41	41	41	40	39	33	32	30	31
Trent 900	70,000	0	0	0	0	0	0	3	4	6	10	15	17	20	21	23	25	25
Trent 1000	71,000	0	0	0	0	0	0	0	0	0	0	3	6	12	18	27	34	35
Trent XWB-84	84,000	0	0	0	0	0	0	0	0	0	0	0	0	0	3	10	23	30
Trent XWB-97	97,000															0	0	1
Trent		48	58	67	76	87	95	103	114	125	137	152	168	185	196	217	243	254
Civil Large Engines		143	157	166	172	182	188	190	196	206	216	226	237	247	251	269	292	304
Spey	11,000	12	12	11	11	10	10	10	9	8	8	7	6	6	5	5	4	4
Tay	15,000	24	24	24	24	26	27	27	28	28	29	30	30	30	31	30	30	30
AE3007	7,500	13	15	16	17	18	19	19	19	19	19	19	19	19	19	17	17	18
BR700	15,000	11	13	15	17	19	22	23	26	29	32	35	40	44	51	55	58	60
Civil Small Engines		59	63	66	70	74	78	79	82	84	88	91	97	99	105	107	109	112
V2500*	27,500	24	26	29	33	37	41	44	47	51	55	0	0	0	0	0	0	0
Civil Total		226	246	261	275	294	306	313	326	341	359	317	333	346	356	376	402	416
Fleet Growth			9%	6%	6%	7%	4%	2%	4%	5%	5%	-12%	5%	4%	3%	6%	7%	4%

* 50% of the total V2500 fleet included

** Installed engine base is net of retirements and excludes aircraft which are parked or in storage



03

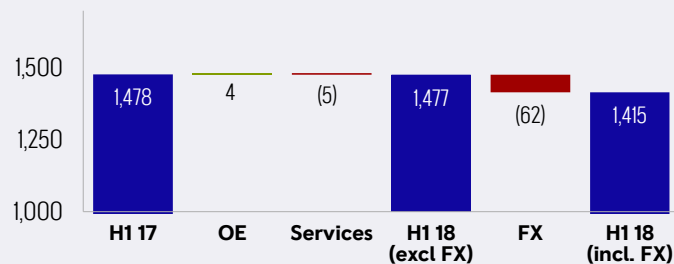
Defence



Defence revenue, gross profit and underlying profit

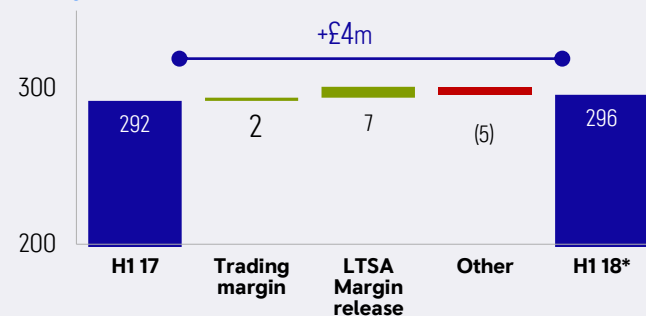
Revenue

£ million



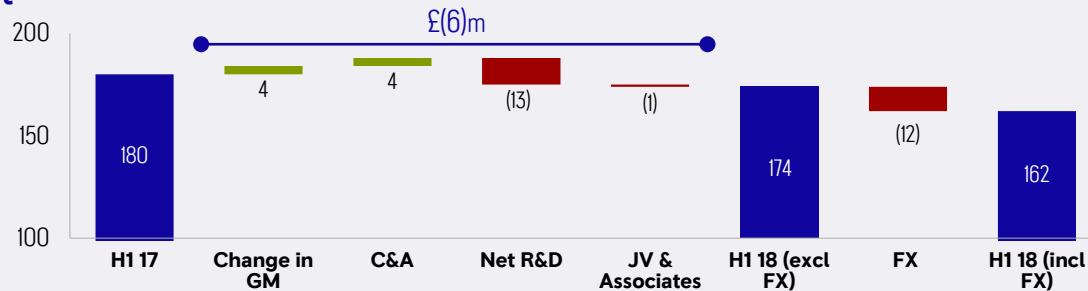
Underlying gross profit

£ million



Profit

£ million



* H1 2018 Underlying gross profit @ 2017 FX



Defence aero engine deliveries 2009-Present

	2009	2010	2011	2012	2013	2014	2015	2016	2017	H1 2018
Transport	218	265	289	305	296	239	266	286	323	147
Helicopters	323	343	412	438	479	418	307	278	226	95
Combat	103	102	103	113	108	81	69	74	38	11
Trainers/Other	18	0	10	8	10	6	7	23	18	5
Total	710	710	814	864	893	744	649	661	605	258



04

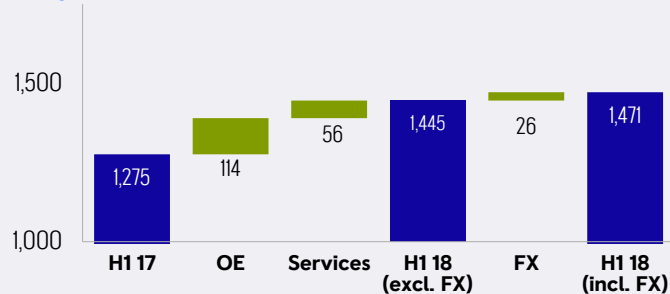
Power Systems



Power Systems revenue, gross profit and underlying profit

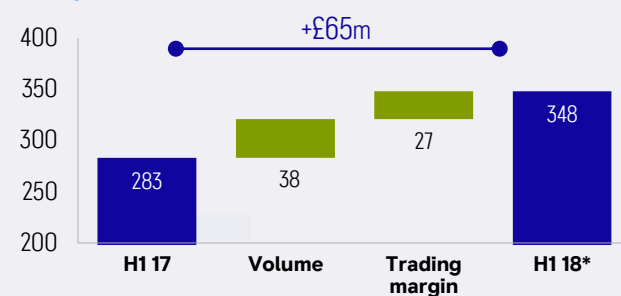
Revenue

£ million



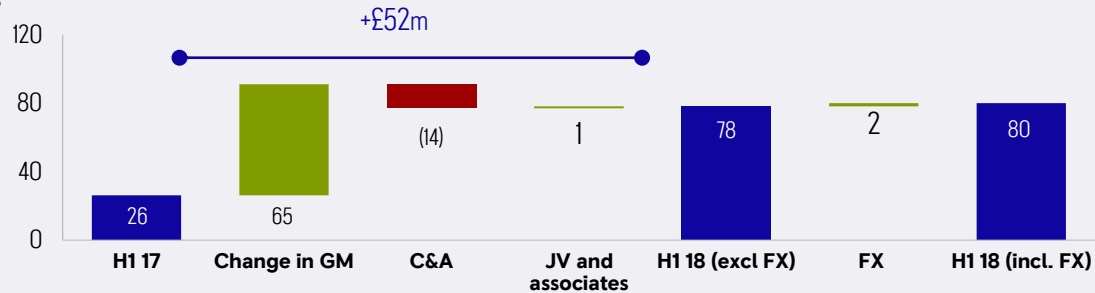
Underlying gross profit

£ million



Profit

£ million





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Safe harbour statement

This announcement contains certain forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of the Company's strategic transactions, are forward-looking statements. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this announcement, and will not be updated during the year. Nothing in this announcement should be construed as a profit forecast. All figures are on an underlying basis unless otherwise stated - see note 2 of the Financial Review section of the 2018 Half Year Results Statement for the definition.