Key Performance Indicators

Financial key performance indicators

Description	Why we measure it	How we have performed	
Order book **£78.5bn**	We measure our order book as an indicator of future business volume; however, its value may not be reflective of future revenue. [1]	The 3% decline principally reflects the current period where Civil Aerospace engine deliveries have outpaced new orders as Civil Aerospace customers focused on delivering against their backlog. Power Systems and Nuclear order books improved, reflecting greater activity.	£bn 2017 78.5 2016 80.9 2015 76.4 2014 73.7 2013 71.6
Order intake **£17.2bn**	Order intake is a measure of new business secured during the year and represents new firm orders, adjusted for the movement in the announced order book between the start and end of the period. [2]	Order intake was £1.9bn lower than achieved in 2016 due to Civil Aerospace customers focusing more on delivery of airframes than new sales campaigns. All other business units saw an improvement in their order books, including in Marine from what was a low base.	£bn 2017 17.2 2016 19.1 2015 18.2 2014* 19.0 2014** 19.4 2013 26.9
Underlying revenue **£15,090m**	Monitoring of revenue provides a measure of business growth. [3]	Underlying revenue rose 6% organically, [8] reflecting increased delivery volumes in both Civil Aerospace and Defence Aerospace plus improved end markets at Power Systems. Service revenue was 7% higher led particularly by growth in Civil Aerospace.	£m 2017 15,090 2016 13,783 2015 13,354 2014* 13,864 2014** 14,588 2013 15,505
Self funded R&D as a proportion of underlying revenue **6.9%**	This measure reflects the need to generate current returns as well as to invest for the future. [4]	Disciplined control of spend kept R&D stable as percentage of sales, with self-funded R&D increasing to £1.04bn. This was primarily due to expenditure within Civil Aerospace, focused on new engines coming into service, progress on next generation UltraFan and business jet development programmes.	% 2017 6.9 2016 6.8 2015 6.2 2014* 5.9 2014** 5.8 2013 4.8
Capital expenditure as a proportion of underlying revenue **5.1%**	To deliver on its commitments to customers, the Group invests significant amounts in its infrastructure. [5]	Capital expenditure rose as proportion of revenue, and was £764m in absolute terms, reflecting investment in modernising manufacturing processes and facility expansion within Civil Aerospace, upgrading of Defence Aerospace's Indianapolis site and expansion of our spare engine fleet to support the growing installed base of widebody engines.	% 2017 5.1 2016 4.5 2015 3.7 2014* 4.7 2014** 4.6 2013 4.4
Underlying operating profit **£1,175m**	This measure reflects the Group's underlying economic performance taking account of its hedging strategies. [6]	Organic [8] growth of 22% driven by revenue improvement, our focus on reducing fixed costs, higher capitalised R&D and product mix. This was despite higher costs incurred from in-service issues with Trent 1000 and Trent 900 fleets. Transformation programme benefits reached the top end of the targeted £200m run-rate reduction.	£m 2017 1,175 2016 915 2015 1,492 2014* 1,681 2014** 1,678 2013 1,831
Free cash flow **£273m**	In a business requiring significant investment, we monitor cash flow to ensure that profitability is converted into cash generation, both for future investment and as a return to shareholders. [7]	Cash generation was better than expected, notably in Power Systems, driven by improved profitability and strong working capital management which saw a £546m working capital inflow in the year. These more than offset higher capex and R&D and increased costs to resolve Civil Aerospace in-service engine issues.	£m 2017 273 2016 100 2015 179 2014* 447 2014** 254 2013 781

* Excluding Energy
** Including Energy

Non-financial key performance indicators †

Description	Why we measure it	How we have performed	
Customer delivery **91%**	To deliver on our commitments to our customers we measure the percentage of on-time deliveries to our customers including new equipment, spare parts, equipment repair and overhaul. This is tracked Group-wide in our scheduling and order fulfilment system.	We continued to improve our on-time delivery in a period where we are significantly increasing the output of our Trent engines.	% 2017 91% 2016 88%
Employee engagement **75**	This is measured through our employee opinion survey which produces a composite sustainable engagement score. The targets are based on absolute scores for six key questions within the overall survey.	We maintained our employee engagement score of 75 in 2017, which was the same as in 2016. However we fell short of our target of 77.	2017 75 2016 75

† These non-financial performance indicators are linked to our remuneration structure.

Notes

1 We measure our order book at our long-term planning exchange rate (LTPR) and list prices and include both firm and announced orders. In Civil Aerospace, it is common for a customer to take options for future orders in addition to firm orders placed. Such options are excluded from the order book. In Defence Aerospace, long-term programmes are often ordered for only one year at a time. In such circumstances, even though there may be no alternative engine choice available to the customer, only the contracted business is included in the order book. We only include the first seven years' revenue from long-term aftermarket contracts.

2 Any orders which were recorded in previous periods and which are subsequently cancelled, reducing the order book, are included as a reduction to intake. We measure order intake at constant exchange rates and list prices and, consistent with the order book policy of recording the first seven years' revenue from long-term aftermarket contracts, include the addition of the following year of revenue on long-term aftermarket contracts.

3 Underlying revenue is used as it reflects the impact of our foreign exchange (FX) hedging policy by valuing foreign currency revenue at the actual exchange rates achieved as a result of settling FX contracts in the year. This provides a clearer measure of the year-on-year performance.

4 We measure R&D as the self-funded expenditure before both amounts capitalised in the year and amortisation of previously capitalised balances. We expect to spend approximately 5% of underlying revenue on R&D although this proportion will fluctuate depending on the stage of development of current programmes. We expect this proportion will reduce modestly over the medium-term.

5 All proposed investments are subject to rigorous review to ensure that they are consistent with forecast activity and will provide value for money. We measure annual capital expenditure as the cost of property, plant and equipment acquired during the period and, over the medium-term, expect a proportion of around 4%. (Capital expenditure excludes additions arising from TotalCare Flex arrangements).

6 In particular: (a) revenue and costs denominated in US dollars and euros are presented on the basis of the exchange rates achieved during the year based on our FX hedge book; (b) similar adjustments are made in respect of commodity derivatives; and (c) consequential adjustments are made to reflect the impact of exchange rates on trading assets and liabilities, and long-term contracts, on a consistent basis.

7 We measure free cash flow as the movement in net debt/funds during the year, before movements arising from payments to shareholders, acquisitions and disposals, and FX.

8 Organic change is at constant translational currency, excluding M&A.