

Rolls Royce Holdings plc

2011 Full Year Results Transcription

Speaker key

JR	John Rishton, Chief Executive Officer
MM	Mark Morris, Finance Director
CS	Colin Smith
JG	Jim Guyette
NC	Nick Cunningham
DP	David Perry
MT	Mike Terrett
ZK	Zafar Khan
CC	Carter Copeland
AG	Andrew Gollan
GH	Gordon Hunting
BF	Ben Fidler
CF	Celine Fornaro
RV	Rupinder Vig
SG	Simon Goodson

JOHN RISHTON, CHIEF EXECUTIVE OFFICER

JR Good morning, thank you for joining us today. Let me start by introducing my colleagues from the board. On my right first is Mark Morris, our Finance Director, taking over of course from Andrew Shilston; Mike Terrett, our Chief Operating Officer; Colin Smith, who is Director of Engineering and Technology; and my farthest right, Jim Guyette who's President of Rolls-Royce North America.

And I've worked out that my colleagues on the platform have 109 years of experience with Rolls-Royce and the good news is that when I sit down, there'll be 110 years of experience with Rolls-Royce. So I'm confident that we will be able to address any of your questions, if not answer them.

I'm going to give you an overview of the business and then Mark will take you through the numbers and then, of course, we'll have Q&A. So as I hope you will have read this morning, we ended 2011 with a record order book of £62.2 billion, up 5% on 2010. Record underlying revenue of £11.3 billion, up 4% and record underlying profit of £1.16 billion, up 21% on the previous year and this against a backdrop of a difficult economic

environment, especially in Europe. This performance is a real tribute to the people of Rolls-Royce, who have worked so hard, to our suppliers who support us, and, of course, to our customers, who continue to trust us. These results are not down to luck, but are the consequence of a consistently applied strategy, a strategy that many are familiar with that is summarised on this slide. We address four global markets, Civil, Defence, Marine and Energy. We have invested, we are investing and we will continue to invest in technology, capability and infrastructure. These are the sources of our competitive advantage.

We benefit from our competitive portfolio, not only in original equipment, but in services as well. We continue to grow our installed base, a hugely valuable asset for the company that, based on the surprise at the value of our IAE holding, is not fully appreciated by everyone. And the provision of product-related services is essential for us and our customers.

This strategy has produced significant growth in the last decade. Let me remind you of the scale of that change.

In the last ten years, the business has been transformed. If I had said in 2002 where we would be at the end of 2011, I doubt that many would have believed me. And if I remind you of some of the headwinds, it is even more remarkable.

The SARS epidemic, a soaring oil price, commodity inflation, global financial crisis, recession and more recently the Eurozone challenges have all buffeted the markets in which we operate. So our strategy has been very well shock tested and has still delivered substantial growth. And as we have grown geographically, grown our product offering, grown OE and services, we have become an increasingly resilient business. As you can see, since 2002, revenue has doubled, the order book has trebled and profit has more than quadrupled, while the share price has risen from just over £1 to £7.85 at yesterday's close. And in addition to being a growth stock, we have more than doubled our payments to shareholders.

The transformation of our business and the expansion of our portfolio have given us an even more powerful platform for future growth, while the size of our order book underpins our confidence that we will double our revenues again in the decade again before taking acquisitions into account.

In 2011, we took three major strategic decisions about the future shape and size of the business. Firstly, we acquired Tognum with our partners Daimler. You will, I hope, have seen Tognum's preliminary numbers for 2011. Revenue of nearly €3 billion, up 16% on 2010, EBIT of €345 million, up 43% and a margin of 11.6%, up from 9.4%.

This is a strong, successful and growing business, a world leader in high-speed diesels. Our product ranges are highly complementary and with three world-class brands, Tognum, Rolls-Royce and Daimler, working together, I am confident that this will be an outstanding acquisition and partnership.

At the Paris Air Show, we announced with Airbus that Rolls-Royce will be the exclusive provider for the long-range A350-1000. As you know, we are the sole provider for the A350 family and have taken orders of more than 1,100 XWB engines, which makes it our fastest selling Trent engine yet.

The engine programme is on time and the A350 flying test bed will take off for the first time this month.

The third major decision was the sale of our financial holding in IAE, surprising many with the embedded value. At the same time, we announced plans to form a new joint venture with Pratt & Whitney to build engines for the next generation of mid-sized aircraft.

Three very important actions, but there were many others. In Civil Aerospace, we celebrated the first commercial flight of the Boeing 787 Dreamliner powered by a Trent 1000 engine. The Trent XWB engine is performing well and already has more than 1,500 hours of testing. It is the most efficient jet engine in the world.

We also delivered BR725 engines to Gulfstream for their new flagship G650 jet that will enter service in 2012.

In Defence Aerospace, the TP400 engine for the Airbus A400M was certified and is on course to enter service in 2013. It has already flown over 8,000 hours. Our LiftFan system for the F35B Joint Strike Fighter continues to make good progress during intensive flight tests.

And last month we were delighted that probationary stages was lifted and the first STOVL aircraft have been delivered to the US Marines. Set against this, we were of course disappointed that the alternate engine for the F35 was terminated. Elsewhere the EJ200 for the Typhoon received praise for its outstanding operational performance over Libya.

In Marine we received an order to power a further ten US Navy Littoral Combat Ships, our largest ever surface fleet order. In submarines, the UK government announced that its next generation of nuclear submarines will be powered by our latest pressurised water reactor technology. We also secured the first two orders for our award winning Environship, a cargo vessel powered by liquid natural gas.

We continue to invest in our network of service centres, opening or expanding another

five during the year to bring us closer to our customers. In energy, we won our biggest ever single contract to supply Petrobras, Brazil's leading oil company, with 32 turbine powered generators for its offshore operations.

Investment continues in our Civil Nuclear business. We signed a number of MoUs with major prime nuclear contractors, as we look to leverage our capability in this sector, and signed a €250 million contract to supply instrument and control technology to the world's biggest reactor upgrade programme in France.

So we delivered a lot in 2011. Where will our focus be in coming years? First, delivering on our promises. We have made substantial commitments to our customers and quite rightly they expect a lot of us. Our job is therefore to deliver our record order book on time and to specification. Second, we need to decide where we want to invest for future growth and just as importantly where we don't. Thirdly, improving financial performance. While our financial performance has been good, we can do a lot better. We are growing and volume is a financial friend. We have invested and will continue to invest in new efficient plant and equipment and we are constantly looking at how we can become more productive. We will improve margins over time and as our supply chain gradually settles into shape, we will improve substantially cash generation, in particular from working capital.

I've been working for Rolls-Royce for a year and have learnt a lot I have visited many countries and many of our facilities. I have met customers and suppliers and, of course, investors. I have said it before, but it's worth repeating. This is an outstanding company with outstanding people, professional, committed, enthusiastic and hardworking.

As I have described, the business has been transformed in the last decade, showing increasing resilience as its products, OE and services and its markets have grown hugely. The foundations are strong, the prospects are exceptional and this is a very exciting place to work. The work we do is essential. It is mission critical.

We are trusted to deliver excellence and we strive to achieve that everywhere every day. When we remember what we looked like at the turn of the century and we think about what has been achieved since then, it gives us and I hope it will give you enormous confidence about what we can achieve in the future. Thank you.

MARK MORRIS, FINANCE DIRECTOR

MM Good morning, everyone. I'm delighted to be presenting my first set of results as Finance Director. I represent 25 of the 110 years that John just spoke about. I've been Group

Treasurer for the last ten years and I hope you take from that that I'm well immersed in the business and have a good understanding of the business.

As usual, I'm going to restrict my comments to the underlying performance. You all have the published data and the headline figures as well as the underlying, but it is the underlying figures that we look at as a business in terms of how we look and manage the business.

What I'm going to do this morning, I'm going to talk a little bit about the trade and performance at the Group level and then I'm going to drill down a little bit into each of the segments and pull out some highlights. I'm then going to provide guidance for 2012 and, just to be clear, the guidance that I'm going to give will be excluding the impacts of IAE and Tognum.

And then finally I'm going to give you an update on Tognum and IAE, two of the key strategic decisions we took in 2011. So to the Group highlights, as John stated, it's been a good year. Order book is up 5%, reflecting good order flow. Order intake of £16 billion is up 33% year on year, approximately half of the order book from emerging markets.

This underpins our confidence in the future and provides great visibility of growth over the next decade. As we said before, we doubled revenues in the last decade and we're confident of doubling the revenues again in the next decade organically. Revenue's up 4% underpinned by strong performance in aftermarket, which is up 9%, while OE revenues were down 1% despite good performance from Civil, but countered by lower OE revenues in Marine, which I will come on to later. We should not forget these are big businesses with a number of moving parts. Profit up 21% is well ahead of turnover, which represents a combination of a better mix, productivity, FX and a number of one-offs, including the £30 million net contribution from Tognum.

I will cover these in the slide in a minute. Cash, we're pleased with the cash performance. We started the year with £1.5 billion of cash. We've invested £1.5 billion of cash. The business has generated over £200 million to end up with a net cash balance of £223 million. On top of that liquidity remains strong at 2.5 billion.

Finally shareholder payments, the increase of 9%, to 17.5% for the full year reflects our confidence in the business and the size of the growing order book.

So let's look at some key components of growth on the profit chart. So we're going to start off with the £955 million for 2010. Trading of £52 million represents increases in volume, predominantly Civil and Defence, unit cost improvements, higher contributions from profits from JVs, lower restructuring charges, offset by higher manpower, slightly higher Civil Nuclear bid costs and IT costs, all reflecting where we are in the investment

cycle. The £52 million represents 3.8% growth on base trading, which is broadly comparable with Group revenue rises of around 4%.

Net one-offs, now, you know about these. There are three particular items. There's SDSR, which is the termination settlement which was a £60 million benefit in 2011. The Trent 900 incidents which you're all familiar with, which was a charge of £56 million in 2010 and £18 million in 2011 and finally the Trent DLE £26 million charge, which we took in 2010, which makes up that £124 million bar.

Net foreign exchange comprises of £64 million of transactional benefit offset by £10 million of translational negative. Now, net R&D is higher as we guided and again this reflects where we are in the investment cycle. Due to the phasing of new development programmes, where we are spending more. It's important to recognise there are really three components here.

There's what we spend, what we capitalise or expense and what we amortise. And for those of you who came to the investor conference we held in November last year, you'll recall we did a bit of a deep dive on R&D and just to remind you a little bit, we spend about £1 billion on average on R&D a year gross.

About half of that is what we fund privately. It's somewhere in the order of 4-5% of turnover. The components in terms of where we are also reflect where we are in various points in the programme. So we only capitalise between engine certification and entry into service.

And you'll recall the Trent 1000 went into service in September last year, so we've stopped capitalising the Trent 1000. The next main programme that'll be capitalised will be the Trent XWB, which will not start until Q4 2011. So the higher R&D charge reflects slightly higher spend, higher amortisation and lower capitalisation.

But as a guide for next year, you can expect the R&D charge to rise significantly as we have lower levels of capitalisation, higher amortisation and higher expensing. Entry fees are lower and this again purely reflects where we are in the programme, Trent XWB and where it is, where the majority is, so we're £17 million lower there.

And then finally to underlying profit pre-acquisitions of £1127 million. I want you to remember this number because this is your base number for guidance, pre-acquisition. We add in the net effect of £30 million Tognum contribution and that brings us to our reported underlying figure of £1157 million.

Okay, moving on to the group cash flow, so if we take our £1157 million, this is how we're turning our profit into cash, we add back non-cash items, depreciation, amortisation of £410 million, up slightly over £367 million for 2010 and again reflecting

where we are in the investment cycle. Net working capital reflects a number of moving parts.

Inventory was up a £150 million, really reflecting buffering as we build new factories and get ready for the increase in load. Deposits were down £126 million reflecting where we were in the OE order cycle. But both more than offset by an improvement in net debtors and creditors. I expect this position to reverse for 2012.

Capex and intangibles of £775 million reflects continued investment as we tool up to meet the rising load. It's worth remembering that we delivered 2,000 Trents over the last 18 years and we're due to deliver 2,000 Trents over the next five years. So a significant ramp-up in orders and deliveries.

Of course, investment is not just about building the factories. You're aware of Seletar and Crosspointe. In addition to that of course we do factory refreshes. We have to put the expensive kit that goes in them and we do regular refreshes and updates of existing factories for productivity improvements and of course IT modernisation as we globalise.

This is a continuum. We're investing heavily because it's the right thing to do and reflects the confidence we have in our order book. And return on capital employed of 18% is also a good return on our investment. Capex goes hand in hand with R&D and expect this to rise in 2012. Other relates to financial RSP payments, provision utilisation and the difference between JV profits and dividends, cash dividends.

We focus on trading cash flow as items to the right tend to be largely fixed and escalating or specific in the case of acquisitions. 80% cash conversion in 2011 demonstrates good cash conversion in the underlying business, but again I expect this to be lower as we move into 2012, as we invest for the rising load.

Pensions and tax representing £410 million. Obviously rising taxes as we're generating more profits and in jurisdictions where tax rates are slightly higher and then finally servicing our shareholders and investors, £315 million increase, brings us to our base cash flow of £210 million. Obviously the acquisitions we add in to our reported figure of £1310 million.

So let's have a look at the business segments and see how they fared in 2011. Firstly, Civil, there's a lot going on here, but I'm just going to pick out a few themes. In a tough environment, a strong portfolio is allowing us to continue to grow the order book, extending visibility. Up 7%, including an order intake of £11 billion which is up 47% year on year.

It's worth noting that the order book contains 250 million pounds of thrust compared to our installed base of 400 million pounds of thrust. So a significant stored value in the

order book. Just turning to OE revenues and service revenues. OE Revenues, growth is ahead of aftermarket. It's primarily due the leveraging effect of large engine deliveries.

You can see that engine deliveries were up 14% and again the leverage effect of larger thrust and higher value engines has contributed to that. Aftermarket revenues up at 10%, slightly higher than where we guided at the half year and this is predominantly due to a number of time and material contracts switching to TotalCare.

So profit and revenues, profit growth of 27%, let's remember include the effect of the Trent 900 incidents. So adjusting for these one-offs, profit growth is around 15% and broadly in line with revenues. The remaining difference is due to a combination of mix, volume, unit cost, FX, partially dampened by higher R&D and lower entry fee receipts.

So turning now to Defence. The defence business performed well, despite pressures on defence spending in Europe and the USA. We continue to benefit from the diversity of our portfolio, having 24 engine programmes across 103 countries with 160 customers and with platforms that range from transport through to heavy combat.

This provides a natural shock absorber as well export opportunities to the emerging markets. Remember, transport represents around 50% of our defence business and troop mobility, humanitarian aid and movement of materials is always going on in and out conflict times.

The 7% decrease in the order book is partially down to the SDSR termination settlement which represents about half of the decrease and the rest is due to a decrease in the order intake during the year, which at 1.7 billion was 16% down on 2010.

The strong profit growth has benefit from the SDSR termination settlement of 60 million. When we adjust for this profit growth is around 2%. This lower growth reflects the volume, mix and unit cost movements, and R&D on the basis of where we've had lower capitalisation of some of the defence programmes.

So to Marine, now, let's just put some context around Marine. There are three segments in our Marine business. Offshore, which normally represents around 50% of turnover, a little lower last year due to lower OE deliveries at around 40%. Merchant, which is normally around 20% and Naval which includes our submarines business, which is around 30%.

The order book declined 8% primarily reflecting the phasing of investment decisions in offshore. You need to understand that Marine is a much shorter cycle business with lead times typically around nine to 12 months.

However, we're encouraged by the order intake, which is a good lead indicator, which rose 15% in 2011 to 2.1 billion. And we're confident the order book will grow again in

2012, although we continue to expect to see price pressure going forward.

Overall OE revenues... sorry, overall revenues in Marine were down 12% due to a 23% decline in OE revenues, which was partially offset by a 9% improvement in aftermarket revenues. We said at the half year that OE revenues would come back strongly in the second half. That didn't happen, which is disappointing.

Despite encouraging bid activity, some customers just chose to defer deliveries. However, what is encouraging about the Marine business is that we were able to continue to leverage off our expanding network of service centres, adding four more and expanding one during the year, to see strong growth in service revenues.

As guided, profit was broadly similar to 2010. The 3% decline relative to a drop in revenues of 12% reflects improved revenue mix, an increased focus on cost, quality and operation performance. So finally on to Energy. Again, let's just provide some context, as to how I view this 1.2 billion business.

I would characterise it as having a mature, well-established and profitable oil and gas business, which represents about 55% of turnover and then a number of less mature businesses in power generation, civil nuclear and low carbon technologies, which we continue to invest in, which suppresses financial performance in this segment.

We need to be careful with the significance we attach to percentages, as these are of smaller numbers, too. So to the order book, which increased 28%, driven by significant demand in the O&G sector and included our largest order in O&G to Petrobras in Brazil. Order intake was up 57% at 1.5 billion.

Revenue declined by 3%, largely due to phasing of OE deliveries in Powergen, while demand for aftermarket products and services continued to grow with an increase of 10%. Profits fell 11% as a result of lower revenue and primarily from our investment in civil nuclear.

Okay, now on to financial strength, I've just got three items up here, really, but I think it's important in a long-term business like ours... the importance of having a strong balance sheet is key to us. A credit rating... a good investment credit rating is key when we have long-term contracts with governments and customers that are extending 20 years.

People want to know that we're going to be around over that sort of period. We have strong liquidity at 2.5 billion at the end of the year. We have access to all the global debt markets and debt maturities are well spread to 2019, with no material refinancing until 2013.

This underpins our long-term commitments and gives us confidence, flexibility and options. So on to group underlying guidance, now, just remember, this is excluding the

impact of Tognum and IAE and the base core underlying PBT number is 1127. So what we have said, for the group we expect to see good growth in revenues and profits.

We expect cash flow to be around breakeven and this really reflects the continued investment at where we are in the cycle, higher R&D, higher Capex, and obviously growing working capital. In the segments, for Civil, we're guiding good growth in revenues and strong growth in profits. In Defence, modest growth in revenues and profits.

In Marine, modest increase in revenues and profits broadly flat, reflecting increasing price pressures. Energy, we expect growth revenues and some improvements in profits. So some housekeeping for your models, some other relevant data for you. Foreign exchange for 2012 will be neutral.

There'll be a significant increase in R&D charge and again this reflects there'll be lower levels of capitalisation and therefore higher levels of amortisation and expensing. Cash, as I've already guided, we expect there'll be a modest increase in capital expenditure and similar for R&D, too.

Overall, I'm pleased with where we are heading, when we consider that we are guiding at the group level good growth in revenue and profits against the current economic backdrop when we take into account higher Capex and R&D, no FX benefits and no tailwinds, such as that from SDSR for 2011.

And when I overlay Tognum and IAE, it is only going to get better. So let's just remind ourselves where we are with Tognum and IAE. So the status on Tognum, it's a JV, a joint bid we did with Daimler. Between us, we now own over 99% of the shares. We've invested 1.5 billion as our share.

And our next steps, we're currently in the due legal process, which is referred to as squeeze-out, which is to extract the remaining shareholders. Tognum will announce its result on March the 8th and obviously if we're successful with the legal process, eventually the group will delist.

Our assumptions for the first half is we will equity account for Tognum and for the second half full consolidation. We will continue to report Tognum for 2012 as a single segment. Finally on to IAE and again, you're aware we announced some restructuring IAE where we're looking to sell our equity stake and still remain as a subcontractor.

But at the same time we also announced a new JV with Pratt & Whitney for the middle of the market. Both are awaiting regulatory approval and we are just in due process at the moment. Upon completion and assuming we gain approval, the order book will reduce by about 4 billion. We'll receive 1.5 billion as our share at closing.

There'll be a small reduction in 2012 revenues and profits for the full year would rise by 140 million. Obviously you'll need to do some pro rata-ing to the extent that happens later in the year. So I think with that concludes my part and I'll hand over to John for Q&A. Thank you.

Q&A

JR Thanks very much, Mark. I suspect after such a clear presentation there'll be relatively few questions. We'll go to our normal format. If you could wait for the microphone before you ask your question. If you could raise your hand, wait for the microphone, state your name and the company that you're representing, that'll be very helpful and then we'll attempt to answer those questions. So over to you.

NC Morning, it's Nick Cunningham from Agency Partners. Two questions, coming out of those last two slides, if I may. First of all, looking at the 140 million pro rata full year uplift that comes from the IAE transaction, does that imply that you're assuming that the payment... I refer to it as the earn out payment that you're getting from Pratt is greater than 140 million, then?

Because presumably if reported sales are going down, reports of profits must go down accordingly, particularly if you're booking a subcontractor margin and then that's being sort of more than made up for by the payment from Pratt. First of all, is that a reasonable assumption?

And secondly, different question, but on Tognum, do you have the intention of buying the Daimler half of Tognum? If you do, how will you finance it? Would you have to issue paper in order to continue to finish the year with net cash, as you've said that you want to in the past?

JR Thank you. Let me take the second question first. Daimler are our long-term partners and that's the position, as simple as that. So I'm not going to get into speculation about buying it, not buying it, how we'd finance it. That's not up for discussion. Daimler have been and are and I'm sure will be terrific partners and that's how we regard that joint venture.

In terms of IAE, I'm going to suggest Mark, if he wants to, add any comments to it, but what I would say is, you know, just stand back a little bit, which is there are some technicalities going on and then there's the bigger picture.

The bigger picture is clearly we're getting a significant payment reflecting the installed value of the base and a pull ahead of the earnings of some of that, which is the 140

million... the 1.5 billion and I think the 1.5 billion was significantly more than most people would have estimated the value of that installed base.

So the point that I've made and I'll continue to make is people should reflect on what that means for the total installed base of Rolls-Royce. Then there are technicalities about what we're actually doing. This is a financial transaction.

We continue obviously to still make parts and products for the V2500 engine and we continue to assemble it as well. So there's a technicality in terms of who has the orders, which goes down, a little bit of jiggling around with the revenue and then the income streams.

And I think where you're going is you're kind of getting down and getting sort of into some really detailed granular information and we've just stood back and given you... painted a broad picture. But, Mark, I don't know if you want to add anything to that.

MM Yes, I think all I would say is, look, there's a number of moving parts in IAE, like we have within Rolls. We have OE sales, we have spares sales and we have total contract accounting and of course when you unpick, you know, they all change, how we take profit, and I think that's one of the things you need to recognise.

But, you know, recognise we used to have a third of all the revenue that came from IAE. We've monetised some of that by selling our equity stake. We continue to be a supplier and will make a return on the work we do, in terms of both what we manufacture and we assemble.

And, of course, we continue to get a share of the aftermarket, which is effectively a royalty stream, but is obviously based on engine flying hours. So I think that sort of gives you a sort of good picture of where we're going and the number, I think, just reflects, you know, our assessment in the first year of how that will look.

NC Thanks. Could I just follow up? Is that possible? Just on the earn-out stream or the royalty stream or whatever, you've said it, possibly, about \$2 billion in total. It declines each year. It's front-end weighted. It's mostly in the first five years, so whether we want to back it out or leave it in, we still need a sort of point of departure and an idea of the gradient in order to be able to come up with some sort of realistic forecast, looking forward, because it's clearly going to be very material to your outcome over that period of time.

MM Well, I think the only answer I can give to that is we don't give guidance beyond the year we're in. So I mean, we're not going to do that for you.

JR So we'll get the regulatory approval. We hope to get that this year and then we'll provide updates to you. Think about the value of the installed base and the impact that means

for the rest of the business, that's the first thing.

The second thing is the new joint venture that we've established or will establish we hope with Pratt & Whitney, which gives us access back into this very large and important market in the future. So there are those two elements that I would focus on and encourage you to focus on.

DP David Perry from Goldman Sachs, apologies, three questions, please. Easiest one, could you just tell us on the Civil aftermarket in 2011, just for the full year, what it was pre and post FX? The second one is can you just clarify your defence EBITDA guidance for 2012?

You talk about modest growth in profit. Do we strip out the SDSR for the starting point or do we leave that in and it's modest growth of what you reported? And then perhaps a more detailed question that I'm most interested is the supply chain. You alluded to improvements you're going to make there. Could you just give us more colour in terms of the how, the timing and the potential upside, please? Thank you.

JR Okay, well, if I take the last question first and give you an overview of that. I'm going to ask Mike Terrett to make a few comments and then ask Mark to address your other two questions. As the company is growing, as we have invested in significant new plant and equipment, the obvious examples would be the investments that we've made in Singapore, the investments we've made in Crosspointe, as well as the investments we've made in the UK, refreshing much of our plant and equipment, the expansion that we're seeing takes time to, one, fill up the system and then get production up to a certain level.

So if I take Seletar as the example, we will officially open Seletar next week. There will be a very gradual ramp-up in production in Seletar during the course of the year. So in that ramp-up, what we will see in the supply chain is a build-up of inventory and then once we reach full production, you will see that inventory level coming down, as we reach a level of efficiency and productivity that you don't get to in the initial build-up. And then you multiply that around the system, clearly we're sitting on quite a lot of inventory, so over time, and I would emphasize this is a gradual process, there are significant opportunities for us to improve that working capital position as we grow and as we become more efficient and as we get through the launch phases of many of these new facilities, Mike, I think you're far better placed to comment on inventory than me.

MT Yes, thanks, John, nice lead-in. Yes, the volume's our friend, our new programmes are our friend, the investments that we make in technology, not just in the R&D, the technical side, the manufacturing technology, all of those are benefits to us over a long period of

time and that's really the core of what we're driving in the supply chain.

As John said, getting to volume actually has some costs and some investment requirements. You can go and physically see these in Singapore, in Virginia, in the UK, not just the externals, which are relatively cheap, but the internals, where the advanced manufacturing machines are.

And they give us both a near-term challenge in terms of investment, which is very exciting, but also give us the longer term opportunity to put in later machine tool standards, later processes, newer processes, for us to drive productivity in the long term, because these are long-term programmes. The XWB, we're building the first engines for flight test this year.

Development engines are clearly running. That gives us an opportunity to build a platform for 25 years of production and a further 25 years of aftermarket. That's a much better place to be than sitting on legacy products, which are nearing the end of their life. So it's a whole series of phased opportunities that we're taking in the supply chain.

That's both our internal supply and the 75% or so of the engines that are produced in the external supply chain and I would like to stress how pleased we are with our partners and our suppliers who are actually also investing in facilities, factories and processes alongside us.

Again, largely off the back of the new products that we're developing pretty much in every segment, albeit the ones you hear most about are the big Trents in the Civil segments. Hope that helps, David.

MM David, I think you asked two questions. The first one was on FX and the impact on aftermarket for 2011 on Civil. The short answer to that is it's around about 4%.

DP So organic aftermarket?

MM Aftermarket growth for civil was 10% for the year and the impact of FX was about 4%.

DP Okay, so six organic and then in the Defence?

MM Your second question which was, what is my guidance based off? And the answer is it's our reported of £376 million.

DP So why such an improvement in Defence EBDITA in 2012, the underlying must be much better?

MM Yes, I understand what you're doing. You're stripping out SDSR and getting your number back down to £ 315 million. Well, it's a combination of where we are in the cycle, and a number of moving parts. You've got first of all, higher top-line growth. You've got some unit cost improvements. You've got the benefits of some R&D.

There are various moving parts which we're not going to break out, but having done our

guidance, that's where we come out.

DP As Mark Morris, new CFO, what's your definition of good? Because we've got £1127 million as a base.

JR I think it's the same as Andrew Shilston's.

JR If I just come back to Defence and your question there. I think clearly the guidance we're giving for 2012 will be a little surprising maybe against the backdrop of defence budget positions that many of you have in your heads, but if you reflect on our position, if you reflect on the markets that we operate in as Mark says, we have 160 customers, 103 countries, although the US and the UK are clearly the biggest.

Where our markets are, we're actually in a slightly different position to many other defence companies, so we get a slightly different result, which is why when I've been speaking to people, whilst my optimism and enthusiasm about the Defence would have been higher a year ago than it was today based on the budget cuts and the budget positions that we have, actually, we're okay in terms of our defence business, which I think is probably a slight surprise to some of you.

ZK Zafar Khan from SocGen. Just wanted to go back to Nick's question on the 140 million that you're talking about for this year from the IAE transaction, the benefit to your EBIT line. Is that an on-going benefit or is there an element of one-off in that 140?

JR Okay, let me get Mark go answer the question, but the 140 is not this year. The 140 is in the 12 months once we've got regulatory approval, just to make sure that's crystal clear. Mark, do you want to...?

MM Well, again you're asking me to give you guidance beyond 2012.

ZK I'm not asking for guidance. All I'm asking you is the 140 that you get in the first full year, is there an element of one-off in that or is that an on-going thing?

MM No, I think as Nick alluded to, there's some pull forward as we... as part of the deal of what we've done in terms of how we structured it over the 15 year period effectively, but we're not going to get into the details of exactly what the rate of change is year on year.

JR We've been crystal clear.

MM It's just one part on a much bigger business.

JR 140 in the first 12 months and then declining over a period of time, but we're not going to go there [?] any more.

ZK Thank you.

CC Carter Copeland, Barclays Capital. Just wondered if you might elaborate a little bit more on the Civil aftermarket. You said that the like for like organic growth was 6%, but you also called out the TCA conversions providing some uplift to that number. I wondered if

you might comment on what extent that would further reduce that organic number and if there's any phasing, that number would imply I think a little bit of a weakening second half versus first half in our growth profile and I wondered if you might comment about TCA conversions and how that weighed, first half, second half, or what we should think about the underlying growth?

JR One of the great dangers of providing information is that all you want is more information, which is understandable. What I would say is let me go back to the guidance that we've given for Civil for 2012. So to cut to that, which is good revenue growth and strong profit growth. I'm not going to give any further breakdowns of that and I'm not going to get sucked into the detail of exactly where this is because I'm not personally convinced it's entirely helpful. We saw, you know, good performance in Civil, good growth in Civil in 2011 and we expect that to continue, but unless, Mark, you have anything more that you wish to add, I don't want to get sucked into more granularity about who did what, why and when.

MM I think the danger is you just get sucked in looking piece by piece by piece and there's lots of moving part and remember we're a long-term business. I think that just trying to measure something from one half to another half is not really representative of a natural underlying trend, so no, I don't really want to sort of get staked out in the sun of saying everything else is here, here and here, you know, because I think the premise of our philosophy and strategy is having a broad portfolio and split between OE and aftermarket, recognises that when we produce our group results, there are pluses and minuses in each of the little subsectors and trying to be sort of held accountable for various subsector gets quite difficult. It's guidance at the end of the day.

JR Andrew Shilston left him some advice when he left...

AG Thank you, Andrew Gollan from Investec. A couple of questions, firstly on some of the divisional guidance you've given, Marine and Energy. Firstly Marine, you talked and mentioned quite a lot of pricing pressure. We've got a few dynamics going on there in terms of growing aftermarket and the OE story that's happened over the last year or so. How do we think about that going forward? Because the margin has improved significantly. We've got clearly some new dynamics coming in. What should we think in terms of forecasting forward? Secondly on Energy, similarly, actually, you said that investment in Civil Nuclear is one of the factors holding back the margin, but still the margins are very sub-optimal there. What is the longer-term trend? I mean it should be up, but it's a long way down, so how far should we be thinking?

JR I think we spoke a little bit about Energy at the half year and, you know, if I look at the

various elements of that, as Mark has said, there's the sort of five elements in the energy sector. Oil & Gas, which is a good profitable business, Power Generation which needs to improve and is important in terms of proving equipment that is subsequently provided to the Oil & Gas, so there's a linkage there.

Civil Nuclear is a fledgling business. I think I've described an opportunity for us to grow. It's an area that we spend a lot of time on and we're investing money in a variety of ways and I'm confident that will be a successful business in the future, but as I've said to a number of you, it's one of the few businesses around that makes our Civil aviation business look short cycle.

So that will take some time to develop and mature, but I think we're in a very good position based on the capabilities and skills that we have, the relationships that we've built up over time with the prime contractors in that industry and I'm sure that that will be a profitable and successful business out into the future.

I think the other two businesses, Tidal and Fuel Cells, are the ones where, you know, we're giving some serious thought to and again I referred a little bit to this at the half year. In terms of what is the business case? What are we doing? And what are we really good at? And what I would say is, you know, if I take the Tidal business, we're really good at parts of that.

You know, it's a propeller with a turbine. Okay, we do that at Marine, so we're good at that, but what are we not so good at? Well, putting things on the seabed isn't one of our core skills, getting power off the seabed on to the land and then getting it to the grid isn't something that Rolls does, so how do we go about this for the future?

We're wrestling that to the ground as... you know, as we're speaking here, there are people giving thought to that, so to come back to your question, Energy's going to improve over time, but we've got to wrestle some of those things to the ground in terms of what do we want to be and where are we going with some elements of it?

And then there's the Civil business that is growing and developing and what period of time does that take? Energy's performance is going to improve, but it won't be, as I said at the half year, something that we wave a magic wand at and it transforms over time.

And whilst we may be frustrated by that financial performance, I've got to say, you know, in the last three years, it has been a profitable contributor, whereas in the previous four years, it was a loss-making area, so it's already notched up a step. It needs obviously to improve in the future because it is a drag on the overall business.

In terms of Marine guidance, I'm not going to get drawn into any more than we've said. Clearly you're all aware of the marine environment, the various pressures there are on

that, particularly on the very large merchant elements of that business, which we're not in and the pricing pressure that is being exerted there.

We see that in a variety of parts of the business. If you went back two or three years ago, people were concerned about getting equipment, not what price they paid. Now they're concerned about what price they pay as well as getting equipment, so the dynamics have changed a little bit in that industry and that's the pressure that we and everybody else is seeing and that's why we are, like most other people, focusing very hard on our costs and how productive we are and how efficient we can be, which is one of the contributory factors as to how we managed to compensate for the OE demand in the second half of 2011. But the guidance is clear and laid out in the press release, anything else?

AG Okay and just one more quick question please.

AG Well, on dividends, once you get the profit uplift from IAE... I mean, you've had a progressive policy for many years now, do we expect that to be progressive still in line with earnings? Do we see a step up as a result of that because of the new level of profitability of the group?

JR It will undoubtedly be a topic of important conversation at the board when we get to that stage.

GH Gordon Hunting of Fiske. A particular question for Colin Smith because he hasn't had any yet, poor chap. Much more to the point of various airlines not wanting to use three-shaft engines, they much prefer two as being safer, does that mean you're expecting competition on the A350 XWB from either of the two two-shaft manufacturers?

JR As you rightly say, that is a question that is going to head towards Colin in terms of three-shaft and two-shaft, what would I would say before I pass to Colin is having got an exclusive position on the A350-1000 and having sold 1,100 of these on the other derivatives, we're in a particularly good position on that aircraft.

And whilst the other engine manufacturers have the opportunity to come and compete with us, we're confident that we have a strong competitive position. But, Colin, maybe you'd like to talk a little about threes and twos.

CS Well, I'd correct perhaps a misunderstanding. I don't see there's any fundamental difference in safety between three-shaft and two-shaft. They're both incredibly reliable machines from a fundamental concept point of view and the safety across all of civil aerospace, all the manufacturers, is improving year on year.

It's phenomenal how good. For instance, the inflight shutdown rate now on any of the big engines, it's something between 20 and 40 times better than any certification

requirement at all. So from a safety point of view, Gordon, there's absolutely nothing to call on.

GH Thank you.

JR The next one just... we'll go over to other side of the room.

ES It's Ed Stacey from Espiritu Santo. It's just one question on the Civil division and the margin uplift in 2012. In 2011, if we strip out the effect of the one-offs getting better and the FX improvement, then your operational leverage sort of boost to margins was very little, which was as per your guidance for the year, but then in 2012, you do have a sort of like for like margin improvement it seems, so what is there a sort of more favourable mix coming through or something?

JR Mark, will you answer?

MM Yes, I think it's first of all higher volumes and the particular mix of units that we're selling in terms of the margins that we expect on them and obviously continuing growth in aftermarket revenues. So again even with those additional R&D headwinds, that's factored into our guidance so...

JR Thanks, Mark. Colin's delighted and thanks you, Gordon, for asking the question, but I know that Jim is getting concerned about not having a question. Maybe we have here... because I know this is going to go towards Jim.

RV Rupinder Vig, Morgan Stanley. Yes, two questions, actually one is for Jim. Perhaps the question for Jim first so he doesn't feel left out as well. Just around IAE, you know, we've heard from John quite a lot about the logic behind selling the stake, I mean, from your perspective, given your role there, what's your Rolls-Royce's logic and what do you see as the future IAE?

And then a question perhaps more for Mark on the kind of R&D side. Is the increase in R&D and Capex, a lot of it is obviously manpower, but is it primarily coming through in Civil or will it be across the business?

JR Jim, would you like to have a run at that?

JG Well, thank you for including me. With respect to IAE, I have been on the IAE board for probably ten or 11 years, so I have lived with this collaboration, which is probably one of the most successful collaborations that the industry has seen in the engine arena. And I think one in which shareholders on both sides have benefited greatly.

A great product, a great reputation in the market place, so I think we start from a very good base. The difficulty came about when the Airbus company decided that it wanted to launch its new airplane, the NEO, and we could not make a business case to launch a new engine for the NEO. Pratt & Whitney was in a different phase of development with

respect to their new engine and they felt they could. So it put the partnership out of alignment and it became increasingly difficult because your customer base had the previous style of engine, the V2500, and on a go forward basis with new airplanes coming aboard, they wanted to take advantage of the new Pratt &Whitney engine.

So it became very difficult, very hard to go in and renegotiate contracts with airlines that you had contracts going out into the future and it simply didn't work the way it had in the past. So we've all felt that the best way forward was for us to move out of the partnership at this time, take in the \$1.5 billion, have the revenue stream going forward on power by the hour.

And also maintain our industrial position, but then even more importantly, to make sure that the partnership could reform for the next narrow-body airplane. So I think there's great logic to it and I will tell you that the partners, I think, feel very comfortable with this position.

JR Mark, would you like to have a go?

MM Yes, your question in relation to R&D for 2012, so again, let's just recap what I said earlier on. So we expect to see a modest increase in R&D spend but quite a significant increase in the R&D P&L charge and again this just reflects the various components and I'll come on to sort of a broad split of where we're spending the activity. So let's just at where we are in the cycle.

John just reminded me that I inadvertently referred to 2011 as opposed to 2012 with respect to Trent XWB, but the next large engine which will be capitalised will be the Trent XWB when we look to engine certification in quarter four, 2012. So there's a lot lower levels of capitalisation going on during 2012, which is one of the reasons the R&D P&L charge is rising as we expense and we amortise what we've already expense more and we amortise what we've already capitalised. In relation to where are we spending it, I mean, the short answer is we spend it in all our businesses, but Civil takes the lion's share, but there is growing activity in areas like Civil and Marine.

And, of course, again when we talk about R&D, at the sort of broad level, you've got to remember there are three sub-components to that: there's Research & Technology, which I normally refer to as the sort of science projects; there's R&D, which is the productionisation of our engines and development of them;

And then there's Sustaining Engineering, which is continual improvement throughout the life of them. So all of those are being worked on and at any point in time, the spend reflects where we are in the cycle and the P&L really reflects what we're capitalising and what we're not capitalising. Ben.

- BF Ben Fidler from Deutsche. A couple of questions, the first one just on FX. You talk about no transactional benefit in 2012. You have reasonable visibility presumably on the hedge rates based on the scale of the hedge book.
- As we look beyond '12, should we expect to see it at the current spot rate, should we expect to see any further transaction benefits or should we think of those as having now pretty much played out the business?
- MM Well, as you know from the press release, you've got a pretty good idea of the size of our hedge book. At the year end, it was round about 22 billion with an average rate of about 1.60. We have guided for 2012 a neutral impact from FX and that's transactional FX we're really talking about.
- Obviously we don't give guidance beyond that, but I don't think it takes a brain surgeon to realise when the average rate in our book is around 1.60 where you think there is a lot of potential uplift at the moment so.
- BF Thank you. The second question is... sorry to come back to this point of R&D, but whether you're able to give us any steer in any way as to... I mean, the 4-5% range you give, that's effectively up around 120 million delta between the top and the bottom of the range, which is about a 20% impact on Civil profits, based on the number you reported last year.
- Should we think top end, bottom end of the range looks more... I mean it sounds like you're steering more towards in the short term the top end of the range. Would that be a correct...?
- MM Yes, I think... I've given you guidance which is a modest increase in spend and, you know, I think as David referred to, I think the Rolls-Royce lexicon is sort of relatively well-established out there so... and a significant increase in the R&D charge, but I'm not sort of I think getting into more detail than that at the moment.
- JR The real answer to your question is that Mark and Colin wrestle each other to the ground on this and the outcome will be exactly who's wrestled who to the ground?
- BF Colin looks like he's got a bit of a weight advantage. No offence there.
- CS I'll just sit back.
- BF One final question, just coming back to an answer to one you had earlier on, on Defence, I mean, what you seem to be implying is we should we think of Defence as a broadly 17% margin division as being sustainable.
- My question is just, scratching my head slightly, in the current defence environment, why we're now looking at a business that is structurally 300-400 basis points higher margin than it's ever been and how sustainable that is.

JR Again, if I refer back to what we've said. We've given guidance for 2012. We have not said anything about the future nation. You shouldn't read into that that the world comes to an end after 2012. And think back about the dynamics of what it is that we sell and how that works in practice. Again I've made a couple of comments in terms of the budget position.

I'm going to ask Jim just to comment a little bit in terms of where we are in the US budget just to make sure that you're clear, but when people talk about defence budget cuts, people shouldn't think that the defence budget is going from 100 to nothing overnight.

In many cases, it's a reduction in the rate of increase rather than even a reduction in the rate of absolute amount, but, Jim, maybe I could ask you to make a few comments about it as the US is such an important area and I think that that's...

JG For 2012, we have great visibility with respect to defence budget and I think also it's important to recognise the area in which we play a significant role, which is transport. These are very important solid programmes where there are some long-term commitments, multi-year contracts.

The C-130J, the V-22 Osprey in particular are major components to this. The LiftSystem for the Joint Strike Fighter, again a very important technology that only Rolls-Royce has. No other company has that technology. So I would ask you to just think about that. Moving back now to the defence budget process, we have to recognise that this is a very complicated year politically in the US. I think I have said that politely. Being impolite, we have a dysfunctional Congress and we have an election year and this means that the clarity that we would like to have on a go forward basis is not quite as good because nothing is going to happen until after the election.

But what I would say is that there has been, I think, a great deal of work done by the new Secretary of Defense and I will tell you, we are very impressed with the strategic thinking that has gone on because this is not simply a haircut. It is looking at what are the capabilities that the US requires and the budget is being tailored accordingly.

Recognising again the political issues, I think a quite good process of a slow reveal of what the budget is going to look like for 2013 is underway. The President will be sending his budget officially to the Congress next week, but in advance of that, there have been some press conferences that have outlined the current thinking.

If we take that in and look at it for Rolls-Royce, I would describe it as a couple of bruises, nothing major, some bruises and I don't think that anyone in this environment is immune from reductions. But again we don't see a major hit. Now, I say we don't see that based

on what we know today.

Now, you have to recognise that the process in the US takes the President's requests, moves them to the Congress. The Congress will deal with them and a couple of the bruises that I mentioned may not come about, because the Congress may reverse them, but I think the important point is our bread and butter programmes, the big programmes, are intact.

What's also true, and I think you're probably thinking more on the aviation side, but you'll have to remember we also have a naval business that is important in the US. The big programmes there, the DDG-1000, the newest destroyer, those three ships are still in the budget as we know it today.

The Littoral Combat Ship which is an important part of the go forward US Navy, those ships in our judgement are going to be built. The Navy needs that capability. The other business that we have in the US that's part of the naval... it's kind of something you don't see a lot of, but it's an important part and that is in the US, we build all of the propellers for the surface combatants in the US Navy and we also have other products on ships as well, so again our naval business is well balanced and I think it is well placed and I would also say to you that other companies would like to be positioned as we're positioned. This is not dropping off a cliff.

BF Thank you. Thanks a lot, Jim, and thanks for clarifying I suppose the top line environment. My question was as much as anything trying to get to the margin aspect, which is, you know, we've been a sort of 12-13% division for the last three-four years. We're suddenly now becoming a 16½-17% division if my maths is broadly correct.

JR And my answer... I'll go back to my answer, which is we've given you the guidance for 2012 and that's what we're going.

BF But the question really is what's driving that in 2012?

JR We've given you the answer in terms of... like Jim's talked a little bit about, Mark's talked about it and I've talked about it and we're going to stop there.

BF Okay, thank you very much.

JR We're going to start circling around again, but we have one new question just in the middle of the back and then we'll come back to the front.

CF Hi, good morning, Celine Fornaro, Bank of America Merrill Lynch. One question if I may on the working capital for next year... I mean for 2012, sorry, on the guidance. So basically as far as I understand, you've got an inventory build-up somewhat related to the new plants.

How much of this inventory's under your control or how much risk should we add on to

that if Boeing fails to deliver on more 787s this year than what they're currently planning?
So how much of this inventory is really under your control?

JR Yes, I think Mark's right. I think Mike, if you would like to have a run at that.

MT Well, strictly speaking all of our inventory's under our control in the sense that we schedule in a controlled manner. Just to talk about the process we follow if that may help. In all of our sectors, we run what we call what a sales and operation review board where we take in a contractual position, our long-term views, which we talk deeply with the air framers about in Civil and other primes about their production schedules, the progress, which customers we're going to win. We put that into a sales schedule which we then flow down into our supply chain at a piece part level using our new ERP system. So we actually know, really, every time we look at forward planning, we know in real detail down to part number and at contract over a period of more than 12 months, significantly more than 12 months what inventory we have and where it is in our system and why we have that inventory, whether it be for schedule variation, for smoothing, or for buffering against risks and we understand that in really great detail. Now, clearly when we have a macro problem of the nature of past slippages on the 787 and the A380, that clearly can have a macro effect that's quite significant.

But we've proven quite agile in recent years at being able to respond to those signals by staying close to the air framer and also making timely and appropriate decisions. You are quite right in what you said earlier that, you know, a significant amount of that inventory is to do with new programmes and new capability.

Now, if I just bring out two facilities, we are actually bringing on board the Seletar facility in Singapore this year, which will double our output of finally assembly and double our output of wide chord fan blades. The other half being what we currently have in the UK.

But clearly we have to go through a product proving process to make sure those facilities are the same in terms of capability as the UK and that has an inventory. Similarly as I mentioned earlier, we were building flight test engines for the A350 XWB flight test this year.

Again that's an inventory requirement. Both of which are fantastically good for the business, but are near term absorbers of cash to later become tremendous generators of cash. So we have great visibility and strictly speaking we're in control.

Any macro issue that happens, we will be as agile as anybody in responding to it. But as we see the programmes today, we see good progress, good control in our major air framers and we work very closely with them.

CF Sorry, what about the US plants? You didn't really talk about these.

MT Our US plants... as you know, we've built a new plant in Crosspointe. It's ahead of our Singaporean plant in the sense that we started producing first parts about a year ago and that's now ramping up into volumes. We've recently gone into production in the lift fan factory in Indianapolis, which is a small but spectacular modern facility that really excites everybody who goes to see it. We've also put a lot of investment into our older plants in the US to... whilst the outside shell looks older, what we've actually put into it... For example in Mount Vernon, our Energy plant, we've improved the flow lines and we've actually improved the machinery inside the older plants. It's less visible. It is a Capex investment and it is therefore a longer-term development. And then we've got plants elsewhere in the world, including the UK.

JG Maybe if I could just add on to that. We are investing for the future. We're investing for growth. We're investing in technology. We're investing in people. That's true throughout our company, but also true in the US. We've just announced an investment in the US in Mississippi for another outdoor test facility. We're ready to make an announcement in Indianapolis about a new bit of work that's coming in that will require a small new facility and we are also looking at another project for our new Crosspointe facility in Virginia. So those investments are being made and they're being made not just for product that is being made in America, but for product that is being made globally. So I think that this is really an important point when you look at 2012. It's an important year for investment, but again it's not just plant. It's about technology, people.

CF Follow on from that, it's about the unit costs. I know in the past, Rolls used to guide about unit costs and how we should think about that from year to another. Is there any comment, any colour that we could have on 2012?

MT Yes, let me deal with that if I may, John. Well, again, stepping back to use John's phrase, my life and my team's life is surrounded by one purpose really, which is to make sure that not only do we deal with growth, but we actually do it with improving productivity.

So our aim is always to meet or beat escalation pressures with our productivity improvements and do that on a continuous basis. So everything we've talked about in terms of investments, our attitudes, people, plant, processes, all about making sure we drive productivity in everything we do faster than pressures that come on us from an escalation perspective and we've been successful in doing that and it comes out in the financial numbers which have been mentioned today. We're basically not in a position to give a simple number because the range of our products is very diverse, from Marine products to Civil to Defence to Energy.

They're quite diverse products. We have a lot of new products being introduced, going through learner processes, the ones I've just talked about. So to actually give a number would be meaningless. The numbers best come out in the overall numbers, which we've given you in some detail.

And the improvements that we're making which are on the productivity things we share with you at different times during the year and whenever we give an update.

SG Ladies and gentlemen, we're almost out of time, so we'll have to go for two questions please.

AG Two for me please. Just coming back to civil aftermarket, two sub-questions, then. Time and materials at the half year, I think you talked about some of the trends in terms of slightly improving forward bookings and arisings. How is that panning out now? We've had six months down the line and looking ahead.

And then secondly back to the TCA conversion issue. For us, that's a new phenomenon. It's the first time we've heard that. How did that come about? Is it a strategic change in what you're trying to do with your time and material business in terms of locking into long-term contracts? You know, just a bit of an explanation around what this means, given that you've... notwithstanding the fact that you don't want to give any financial guidance or impact.

JR Mark, maybe you can talk to those and I'll come back at the end.

MM Your two sub-questions, so first one, which really related to T&M activity during the year. I think it's fair to say that we're always pursuing time and material opportunities like many of the other players are out there. It's driven largely by the airlines themselves wanting to bring their aircraft and their engines in for overhaul.

And, of course, as we've seen growth in ASMs and more aircraft coming out of those that were parked... people looking to bring aircraft back into service will naturally start to drive up time and material activity, so the answer is yes, some of that 10% growth in aftermarket revenues also reflects more activity in time and materials from where we thought we were at the beginning of the year.

In relation to your next question, I don't think it's a change in strategy at all. We have always been keen to sell the virtues of total care and long-term service agreements. We think there is sound logic not just for ourselves, but also for airlines. I mean, at the end of the day, it removes the lumpiness in terms of scheduling. It removes the issues around having to schedule because we take care of all that.

And arguably we sit at the top of the knowledge curve because at the end of the day we have more data than anybody else. We know which ops are available and we can utilise

that to our advantage in scales of economy to help drive down the costs and therefore share those benefits with our airline customers. And so that's part and parcel.

So what you see when we talk about 70% of our aftermarket now sort of captured on some form of long-term service agreements, you will see that on the newer programmes, that's probably closer to around 90%, but on the older programmes, it may be around sort of 50% or even lower on some of them.

And of course what airlines are doing along with us trying to convince them of the sound economic logic for it is trying to move them from time and materials on to total care and, of course, what you saw in part of last year is a number of airlines recognising that outsourcing had those benefits and that's what you're seeing, so it will happen.

It's difficult to sort of forecast at what point, you know... it's like all things. We will continue to market the virtues and benefits of total care and success will depend on where the airline is in its thinking effectively.

DP David Perry, two real quick ones, I hope. Just the tax rate was very low in 2011. Can you just give some colour on 2012? And also your cash flow guidance, just to double-check, presumably that is before any dividend payment. You say flat cash flow over the year or broadly flat cash.

MM Let me just take your first question first, then. So tax, so underlying, I think it came out at about 22.7 versus 24.7 for 2010, I think. The two main components there really are some prior year adjustments, sort of release of provisions and the effect of joint venture profits, which is an accounting effect on the underlying effectively.

I think if you strip out the joint venture effect, it gets to about 23.6-7. Simon can give you the exact numbers, but it's around there. In terms of our guidance, I mean obviously we always guide around our base cash flow, so that will have included our views on where we see post-tax pension payments and so on.

DP Sorry, just your tax rate, for underlying only in 2012, where does it go?

MM I think in the press release we're guiding around 24%.

DP Sorry, I didn't see that. And in cash flow, you say broadly flat cash in 2012, is that after paying the dividend?

MM Yes.

JR Thank you very much for joining us. If I might just make a... just a couple of comments. I think that the good numbers or set of numbers that you've seen from the company in 2011 really reflect the application of this consistent strategy that John Rose and Ralph Robins before him have applied over many years and will continue to apply in the future. I would say that as the management and the people that work for Rolls, we are confident

about the future but, and this is very important, not complacent. As Jim has said and I have said and a number of others have said. We are and we will continue to invest in future growth. Thanks very much for coming today. Thank you.