Rolls-Royce Holdings plc

2014 Full-Year Results

John Rishton, Chief Executive

Trusted to deliver excellence

Rolls-Royce

Rolls-Royce Holdings plc

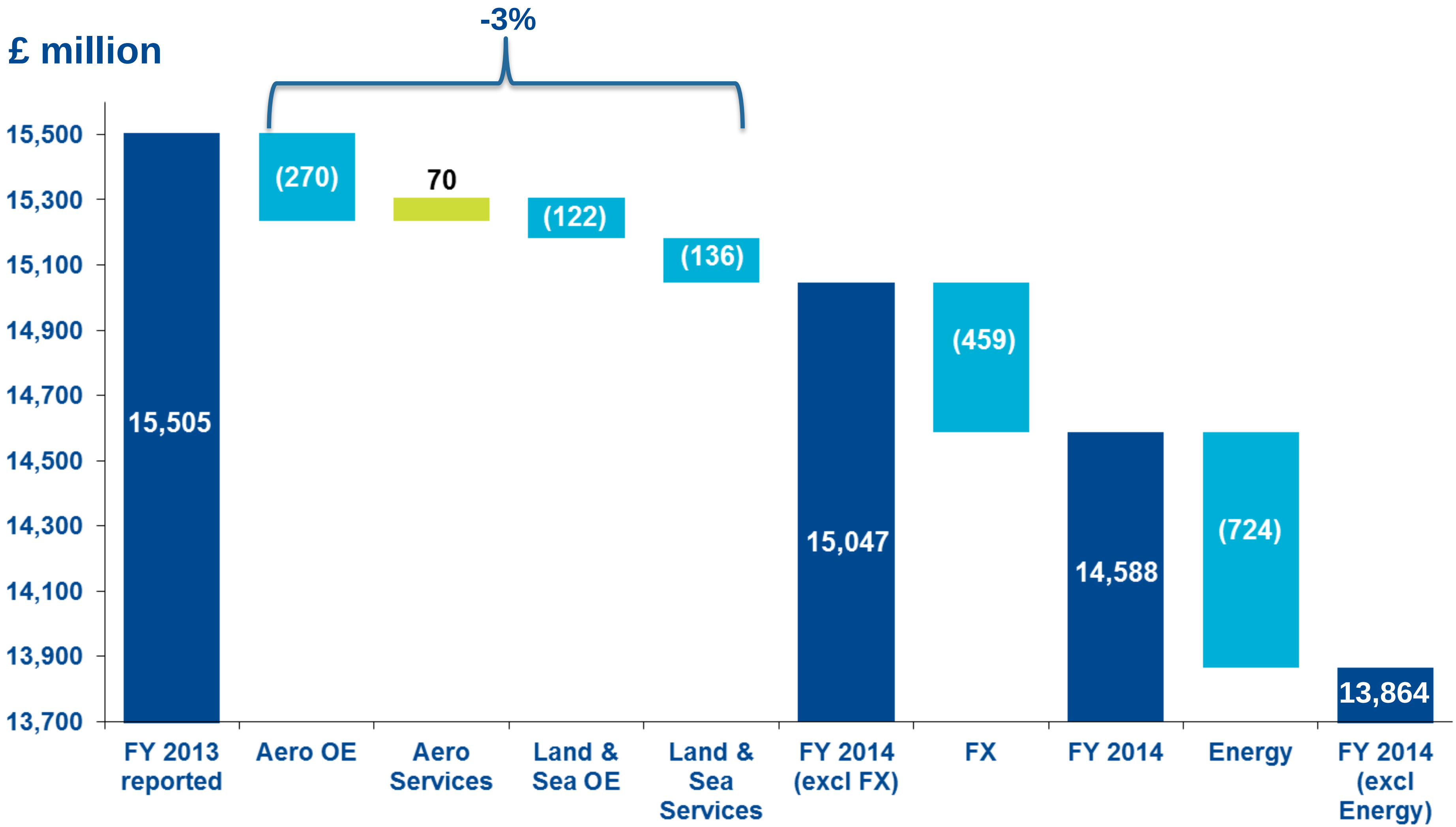
2014 Full-Year Results

David Smith, Chief Financial Officer

Group highlights of 2014 performance

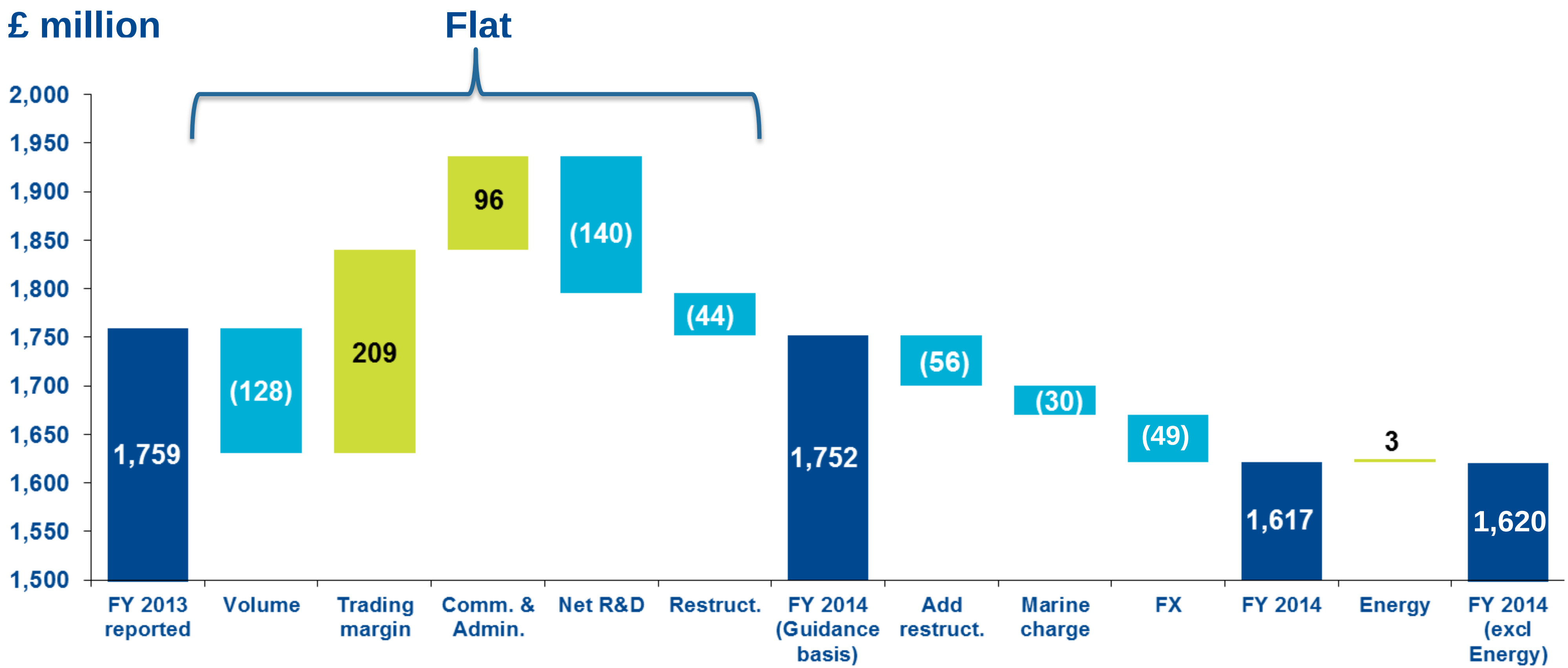
	2013	2014
Order book (£ billion)	**71.6**	**73.7**
Excluding divested Energy business	70.4	73.7
Revenue (£ million)	**15,505**	**14,588**
Excluding divested Energy business	14,634	13,864
Profit before tax (£ million)	**1,759**	**1,617**
Excluding divested Energy business	1,695	1,620
Return on sales (%)	**11.8**	**11.5**
Excluding divested Energy business	12.1	12.1
Free cash flow (£ million)	**781**	**254**
Excluding divested Energy business	778	447
Earnings per share (p)	**65.6**	**65.3**
Payment to shareholders (p)	**22.0**	**23.1**

Group revenue 2014 vs. 2013



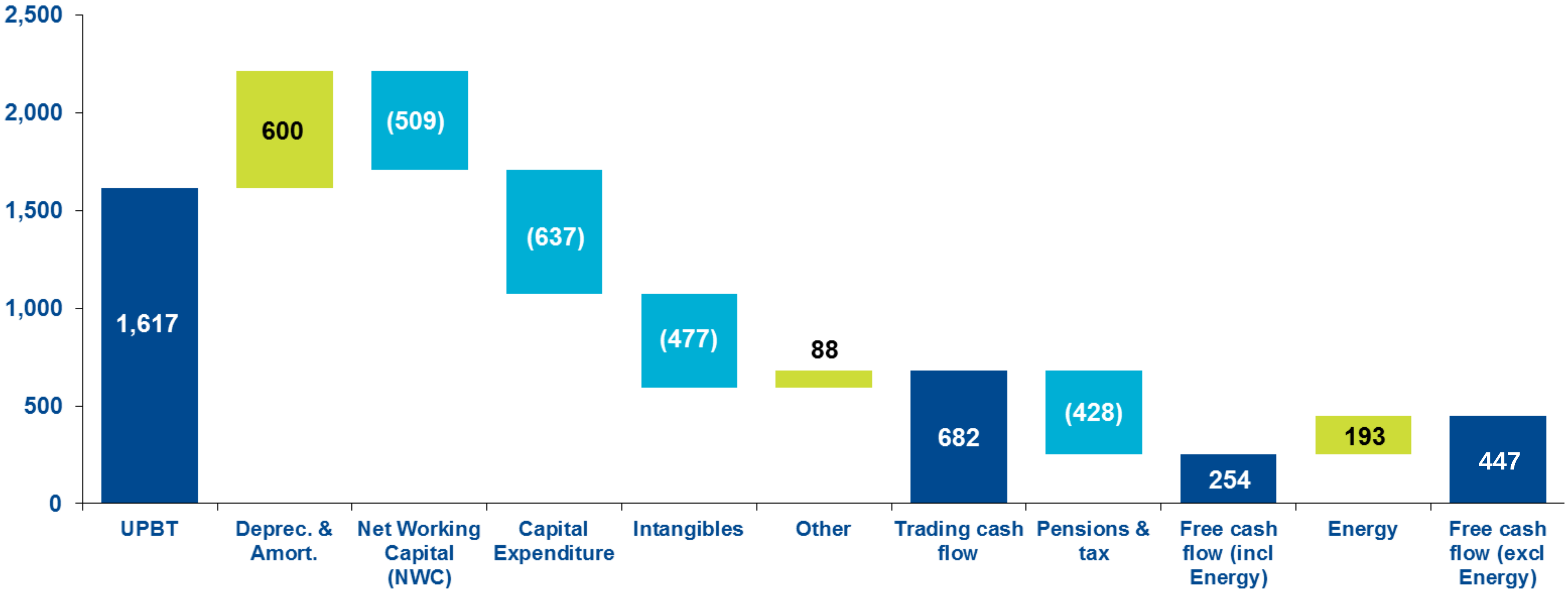
Rolls-Royce

Group profit 2014 vs. 2013

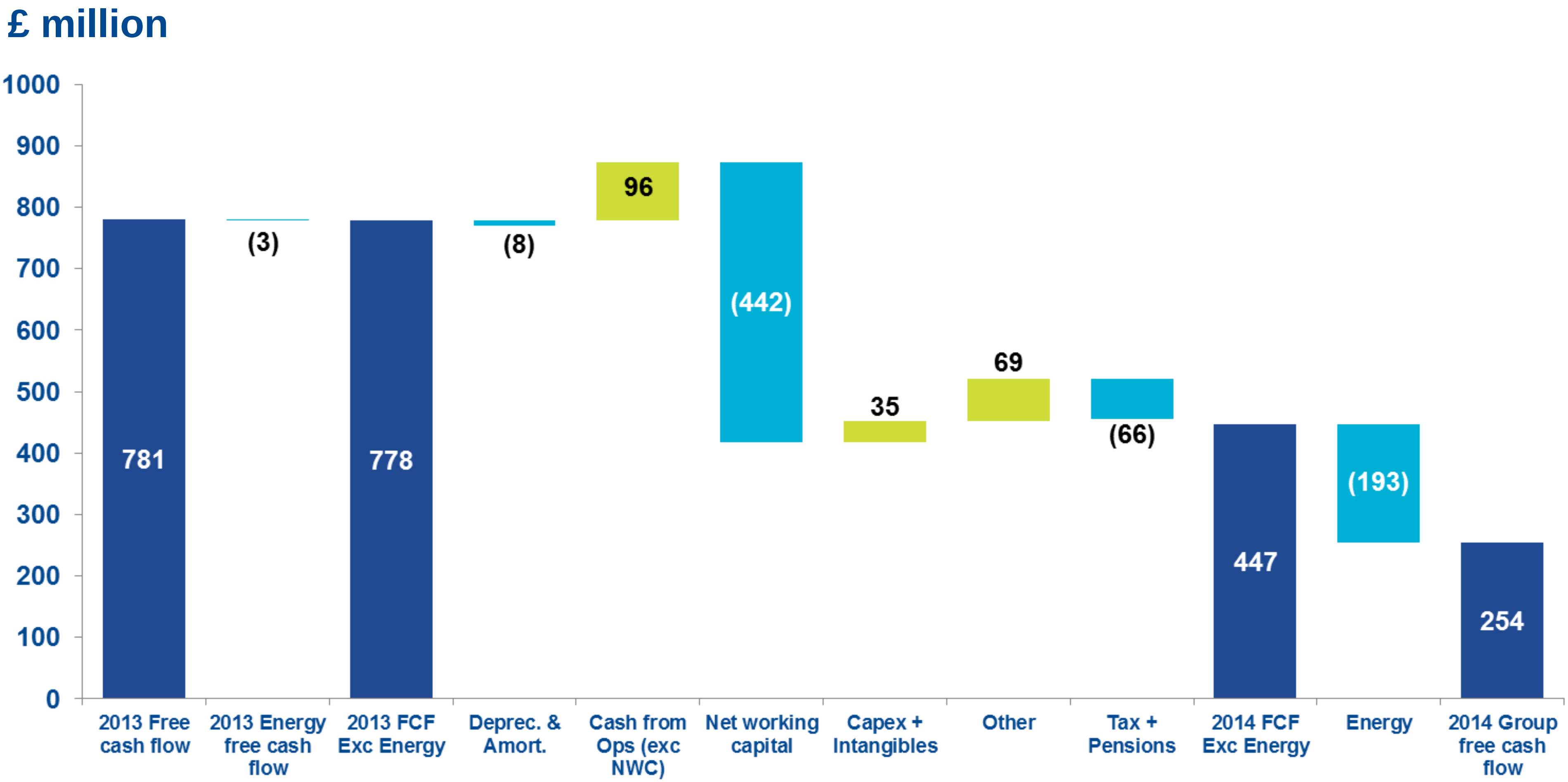


Group 2014 profit vs. free cash flow

£ million



Group free cash flow 2014 vs. 2013

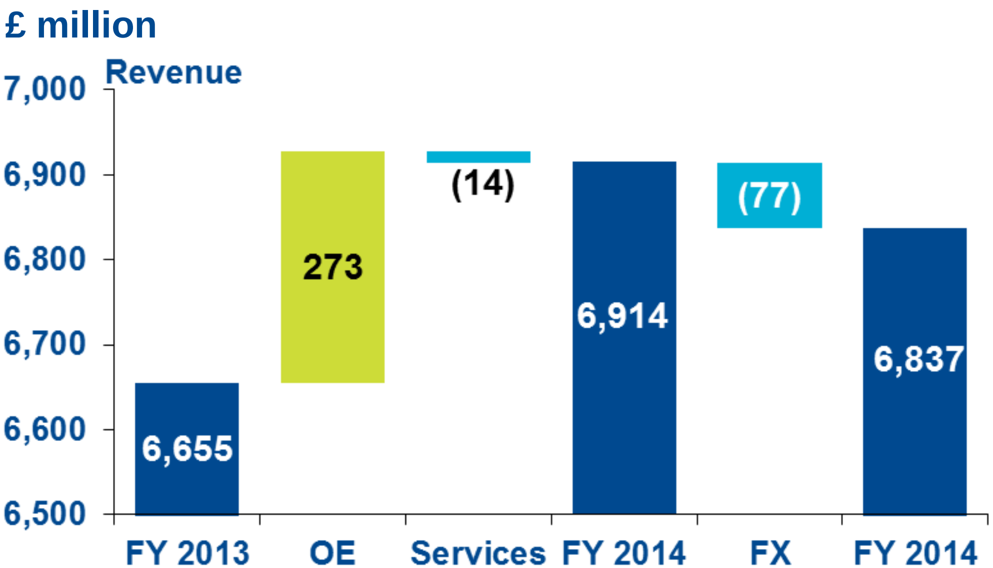


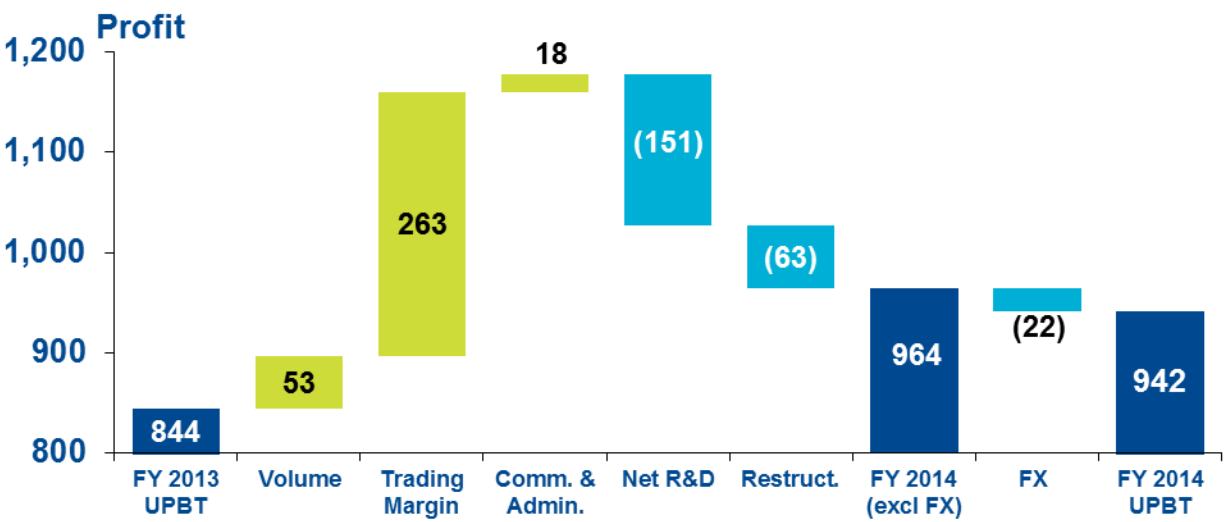
Group financial strength

Credit rating	**S&P: A/Stable** **Moody's: A3/Stable** *Maintain investment-grade rating*
Strong liquidity	**Total liquidity £4.1 billion** **Share buyback**
Debt maturities	**Spread to 2026** **No material maturities 2015 – 2016**
Risk management	**Foreign exchange and commodity hedging**

Business Segment Performance

Civil Aerospace





Drivers

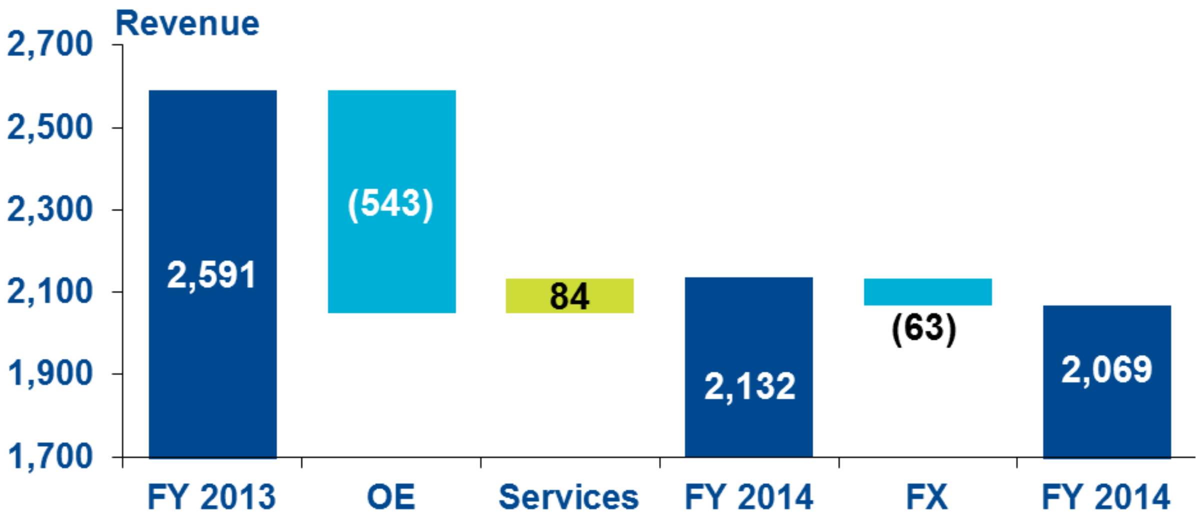
Order book
- Up 5%

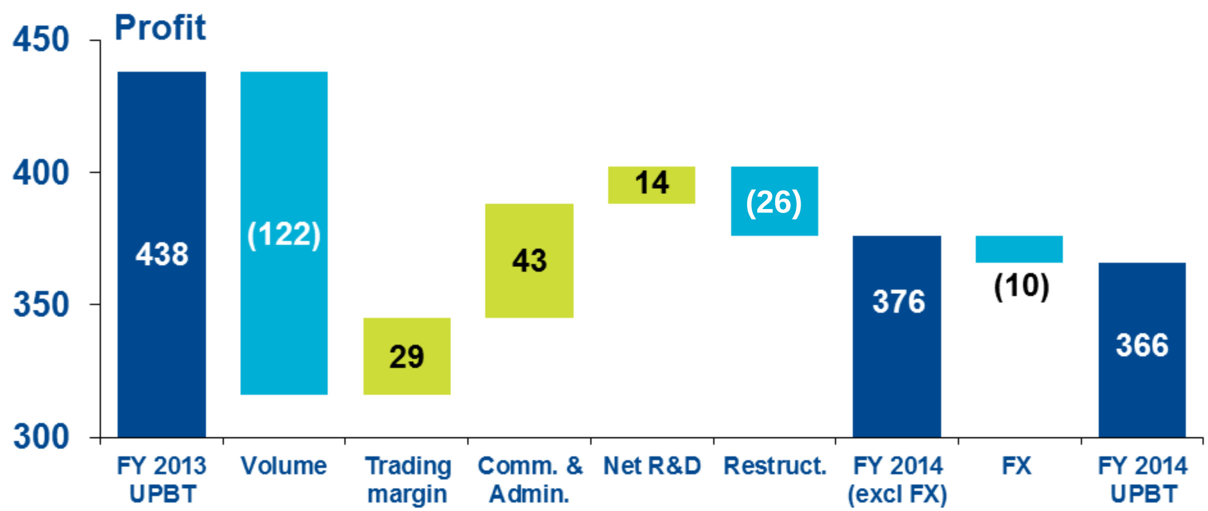
Revenue
- Strong OE growth

Profit
- Higher volumes
- TotalCare contract catch up
- Higher restructuring
- Higher R&D

Defence Aerospace

£ million





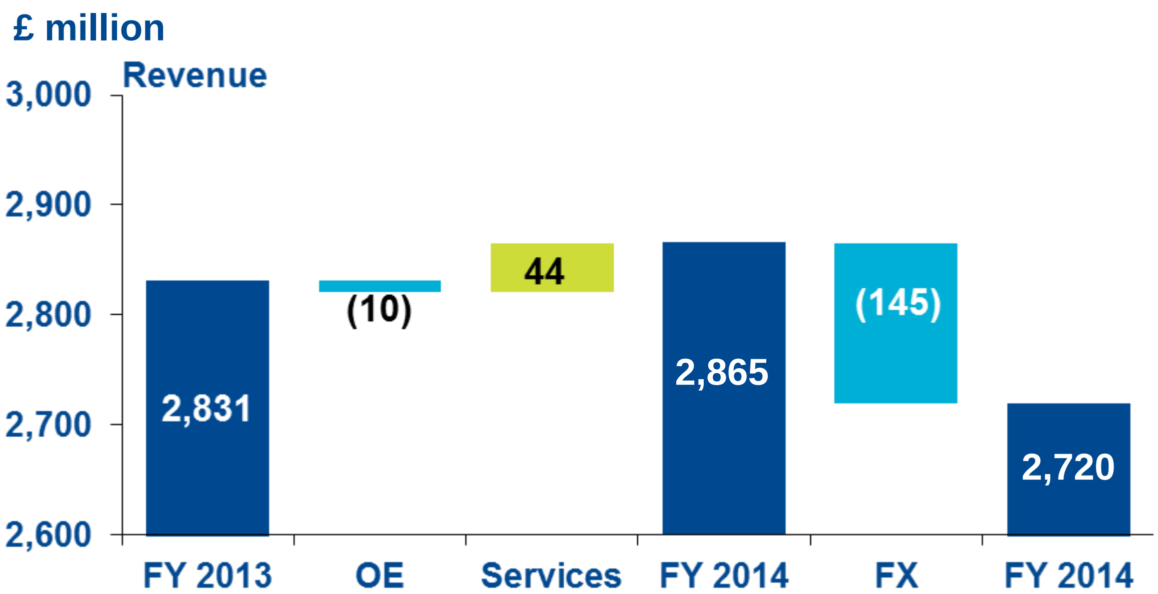
Drivers

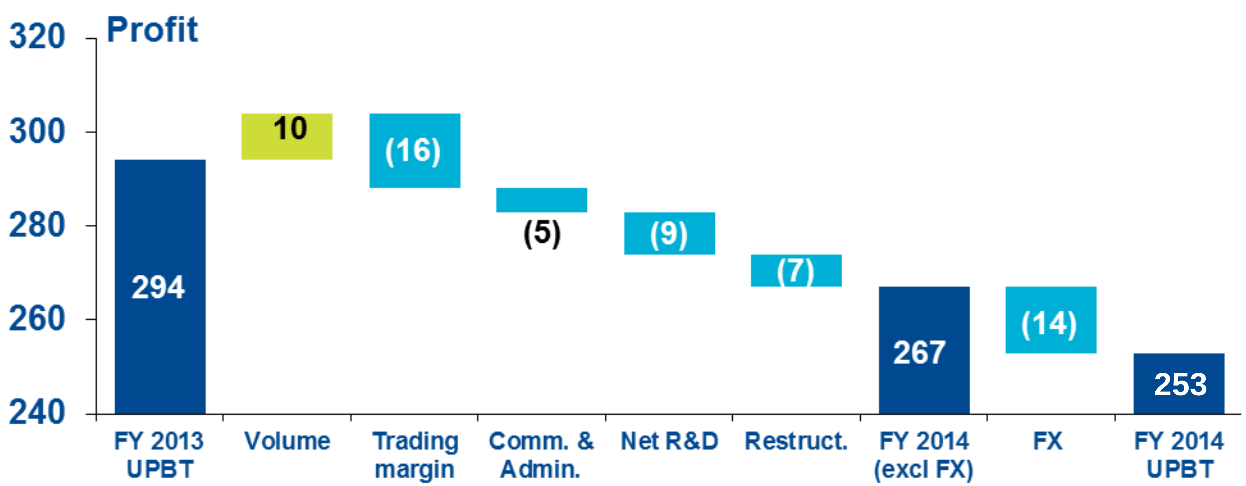
Order book
- Up 12%

Revenue
- Lower volumes

Profit
- Lower volumes
- Cost reduction benefits
- Favourable mix shift towards aftermarket

Power Systems





Drivers

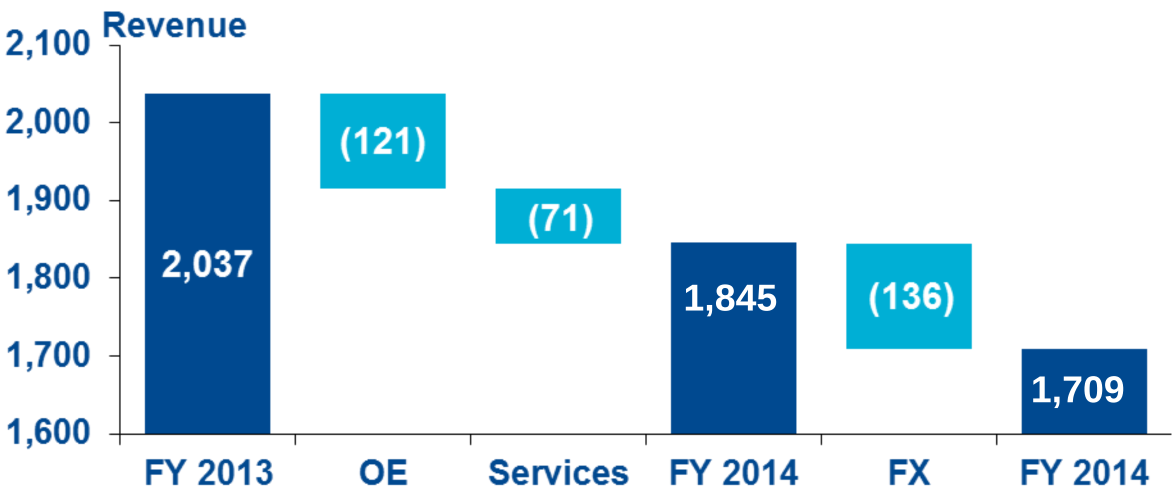
Order book
- Up 2%

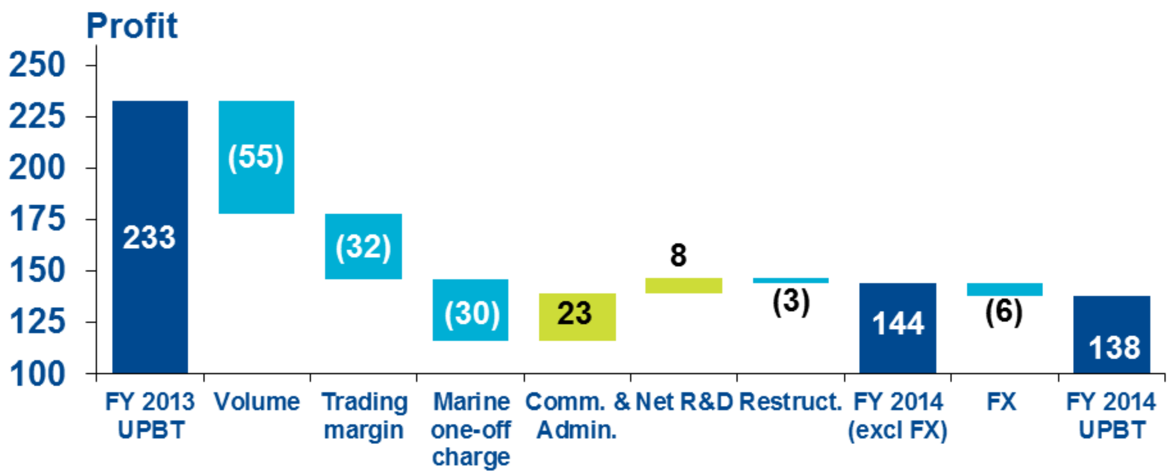
Revenue
- Foreign exchange
- Sector mix changes

Profit
- Foreign exchange
- Bergen performance

Marine

£ million





2013 figures restated to exclude Submarines, now part of Nuclear & Energy

Drivers

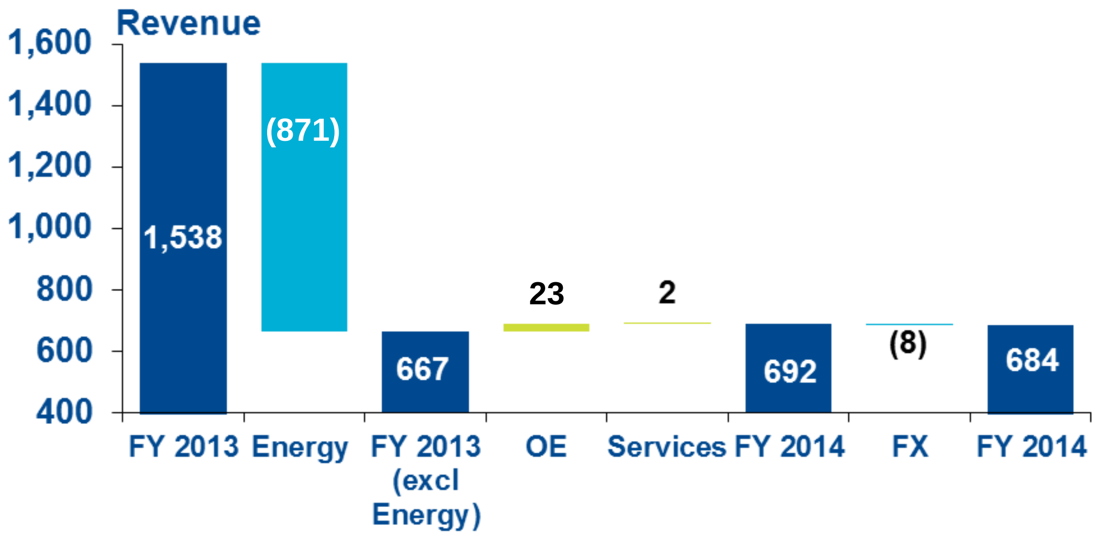
Order book
- Down 3% due to foreign exchange

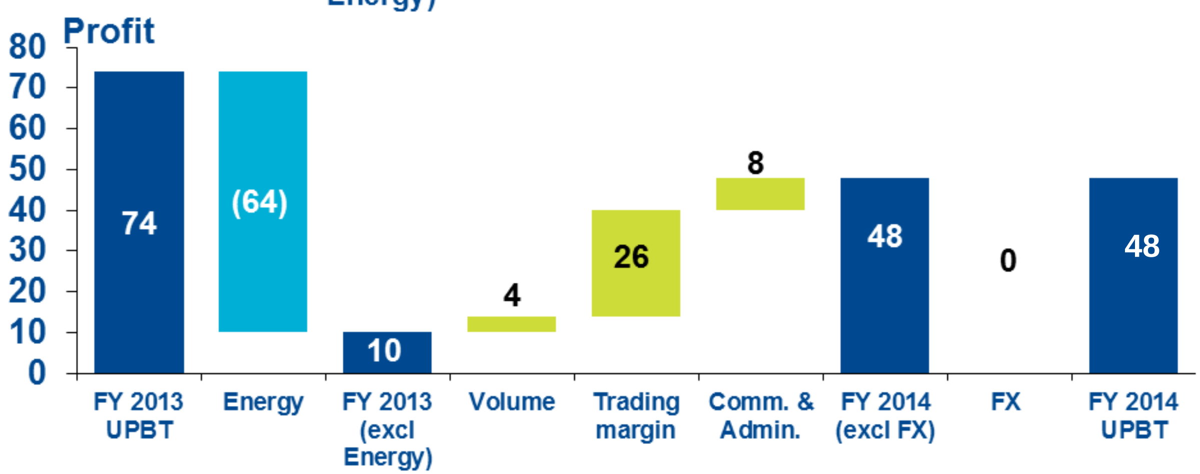
Revenue
- Foreign exchange
- Oil price weakness

Profit
- Lower volumes
- One-off charge
- Adverse mix shift
- Cost reduction

Nuclear & Energy

£ million





2013 figures restated to include Submarines, previously in Marine

Drivers

Ongoing Nuclear business

Order book
- Down 4%

Revenue
- Submarines growth

Profit
- Higher volumes
- Efficiency improvements
- Non-repeat of 2013 charges

More uncertain near-term environment

Oil prices

GDP forecasts

Geopolitics

Metal prices

Currency volatility

2015 Group guidance

Guidance at constant 2014 foreign exchange		
(excluding Energy)	**2014**	**2015 Guidance**
Revenue (£ billion)	**13.9**	**13.4 – 14.4**
Profit before tax (£ million)	**1,620**	**1,400 – 1,550**
Free cash flow (£ million)	**447**	**200** **+/- 150**
Earnings per share (p)	**65.3**	**60 – 66**
Results expected to remain weighted to H2 as in 2014		
Capital expenditure (£ million) **(Property, plant, and equipment)**	**649** **4.7% of revenue**	**~600**
Net R&D spend (£ million)	**819** **5.9% of revenue**	**~750**
Tax rate (%)	**24**	**24**

2015 Segment guidance

Guidance at constant 2014 foreign exchange	Revenue (£ million)		Profit (£ million)	
Aerospace	**2014**	**2015**	**2014**	**2015**
Civil Aerospace	6,837	*7,000 – 7,300*	942	*800 – 900*
Defence Aerospace	2,069	*1,900 – 2,100*	366	*360 – 410*
Land & Sea				
Power Systems	2,720	*2,500 – 2,750*	253	*200 – 250*
Marine	1,709	*1,450 – 1,650*	138	*90 – 120*
Nuclear	684	*670 – 730*	48	*40 – 50*

Roadmap: Our transformation

2011-2013 → **2014-2017** → **2018-2020**

2011-2013
Began focus on 4Cs

- ✓ Customer
- ✓ Concentration
- ✓ Costs
- ✓ Cash

2014-2017
Transforming our business; growing our installed base

- ❑ Rising Civil Large Engine deliveries
- ❑ Restructuring/ underutilisation
- ❑ Land & Sea cost & integration focus

2018-2020
Delivering the benefits

- ❑ Growing installed base, cash & margins
- ❑ 20% footprint reduction
- ❑ Technology investment
- ❑ Land & Sea growth

Focus on costs – operational efficiency

Focus on cost and collaboration with suppliers on OE and spares

Strong programme on lifecycle costs

Deployment of lean processes throughout the business

Reducing indirect costs and improving efficiency

Focus on costs – transformation of industrial base

Significant investment in new capacity, technology, and capability

Multi-year program through 2020

Aero restructuring announcement

Operating leverage

Land & Sea cost focus increasing

Focus on free cash flow

Near-term	Medium-term
Investment	OE margins improving as exit launch phase
Restructuring	Aftermarket revenue and cash rising
Low-margin OE at launch	Capital expenditure efficiency
Net working capital growth	Inventory efficiencies
Cost improvement actions	

Summary

2014 challenging year

2015 – 2017 continues key transformation phase

Preparing for growth: Civil Large Engine volumes double

Multi-year transformation programme through end of decade

Long-term model very attractive

Rolls-Royce Holdings plc

2014 Full- Year Results

John Rishton, Chief Executive

Key messages

Fundamentals strong – continuing investment in future growth

Addressing growing pains

Taking decisive action to build a stronger company

Customer
Improving quality, delivery, reliability and responsiveness

Customer awards
Airbus Supply Chain and Quality Improvement Award
US Air Force: First tier supplier
US Defense Logistics Agency: First tier supplier
Aviation International News: First place for quality of support

Concentration

Sharpening our focus

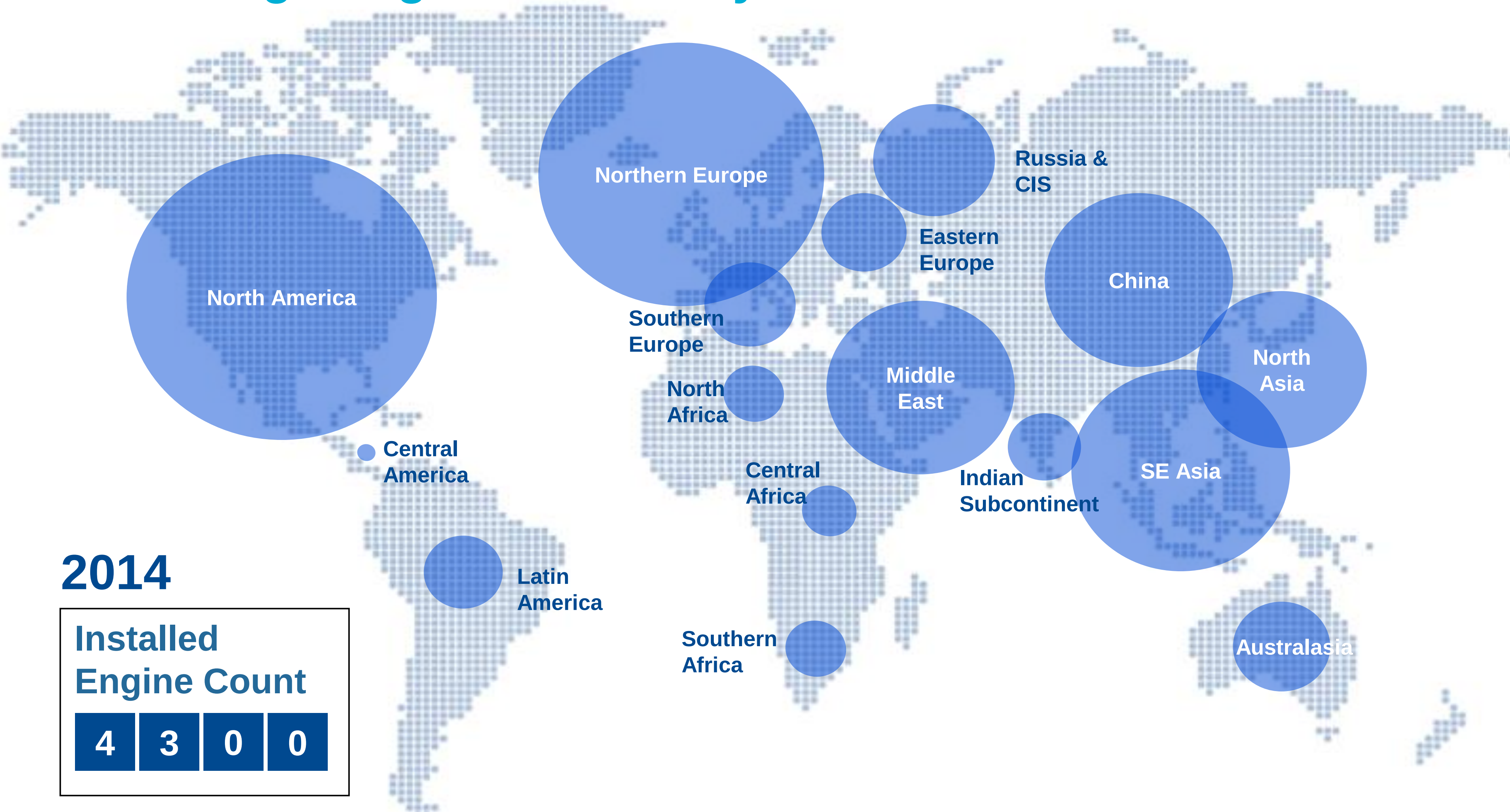
Sold	Bought
Energy	Power Systems
Fuel Cells	Aero Engine Controls
Tidal Generation	R Brooks
RTM 322	HyperTherm
Well Intervention	SmartMotor

Cost & Cash

Making progress across the business

Progress across the Group
Group gross margin up 1.7pp
Time on wing Trent 700/Trent 800 doubled
Defence return on sales improved
Inventory reduced £140 million
Indirect headcount reduced 18%
Aero restructuring: 2,600 headcount reduction
Operational footprint by 2020 reduced by >20%

Civil Large Engine fleet today



2014

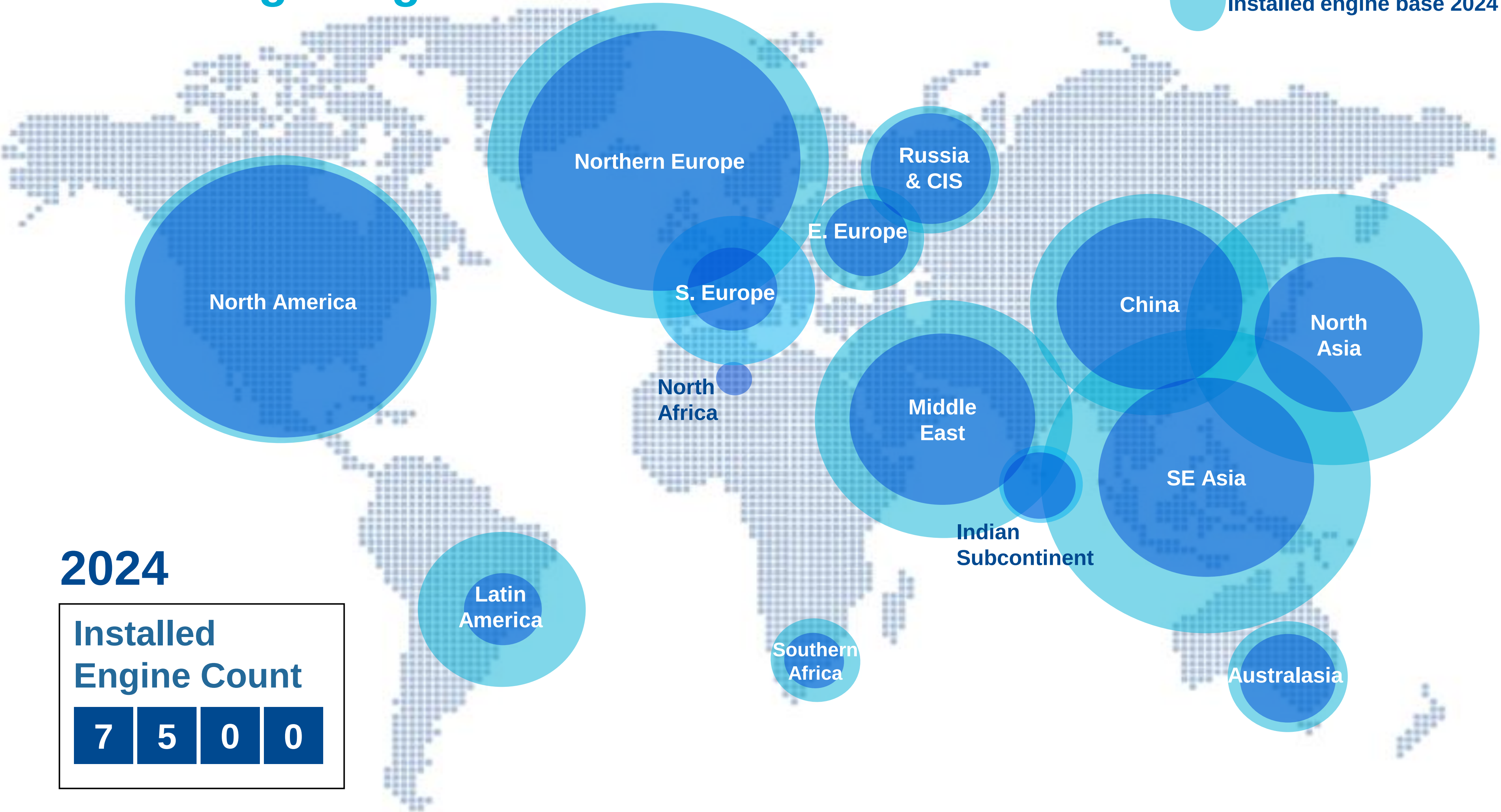
Installed Engine Count

4 3 0 0

Installed engine base 2014

Installed engine base 2024

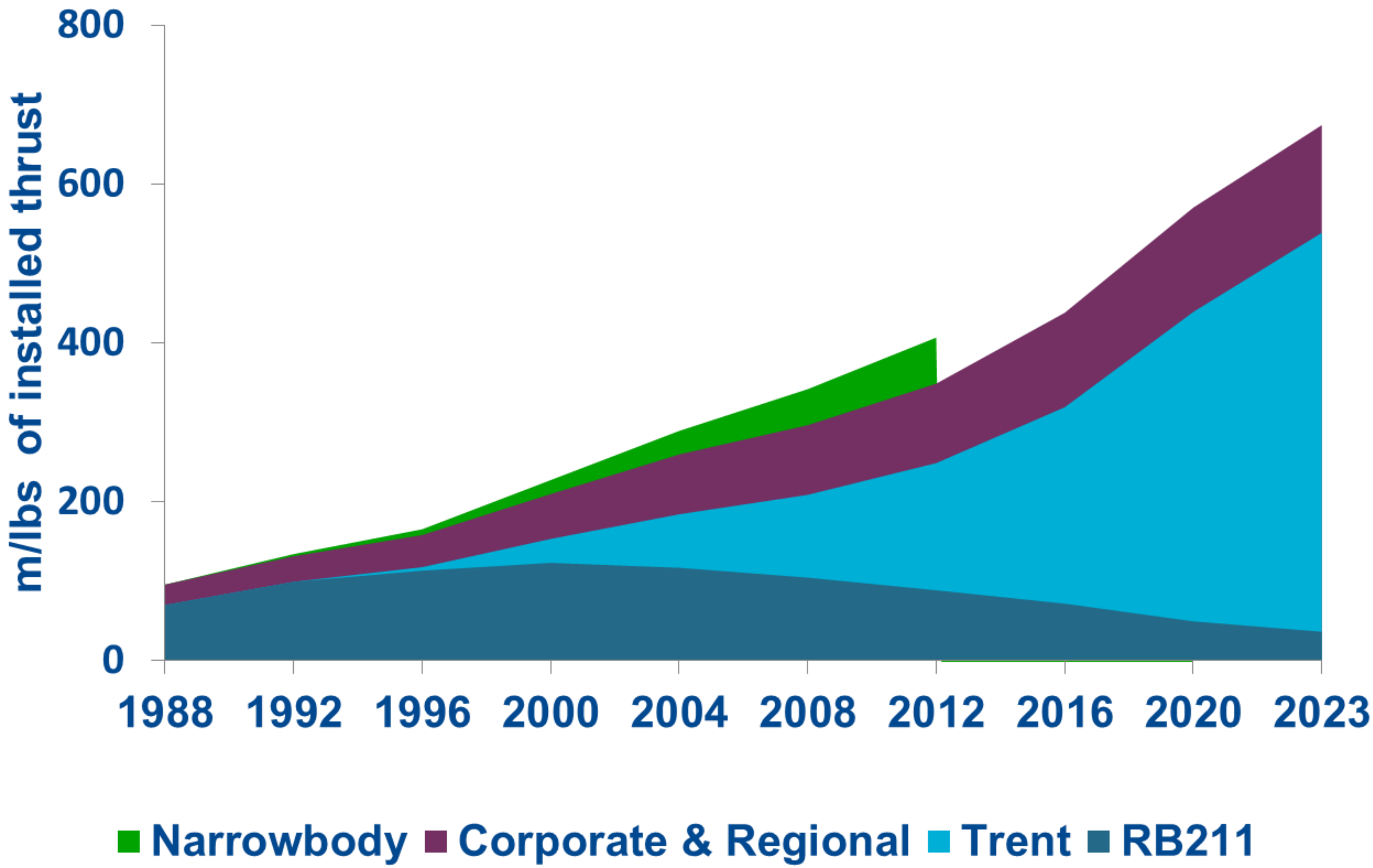
Civil Large Engine fleet in 2024



Trusted to deliver excellence

Rolls-Royce

Long-term growth driven by installed thrust



Group logic

Industrial

- **Advanced engineering capability**

Commercial

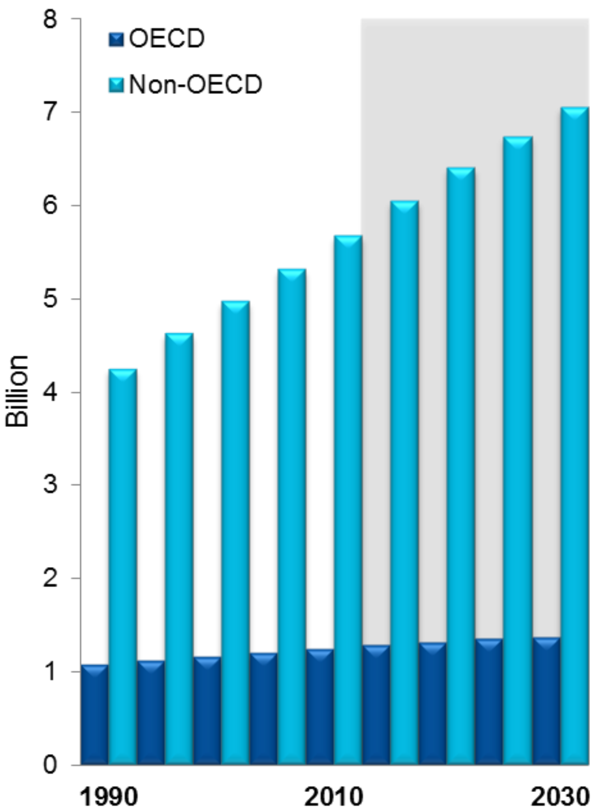
- **Scale, breadth, and balance**

Strategic

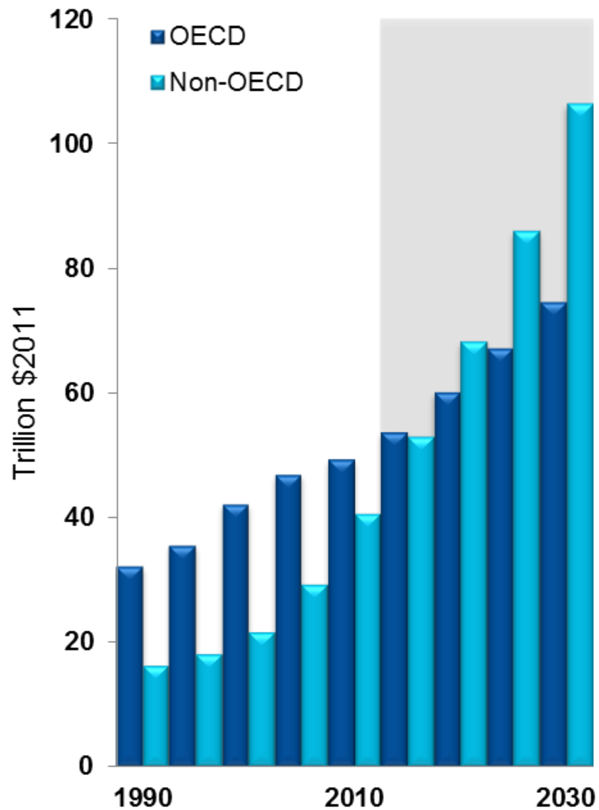
- **Long-term growth markets**

Long-term global trends underpin profitable growth

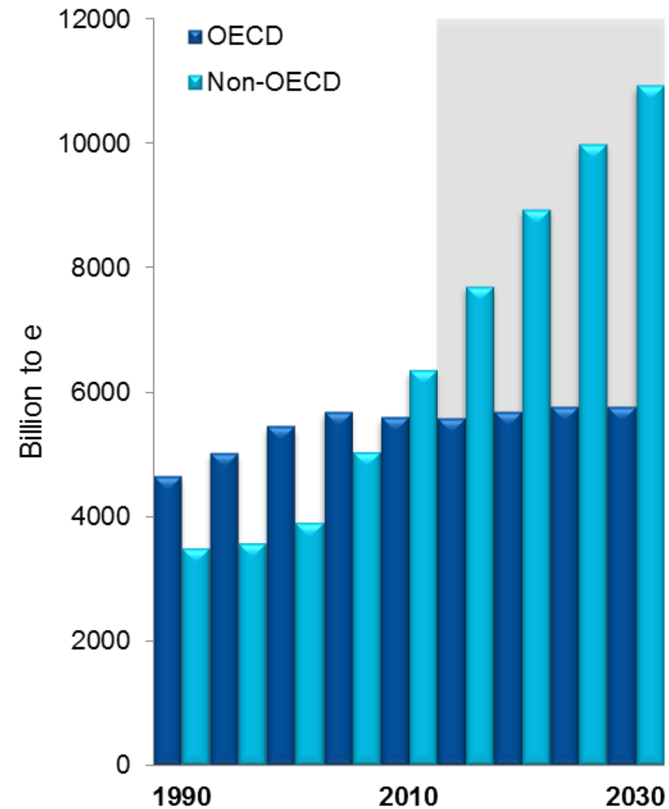
Population



GDP

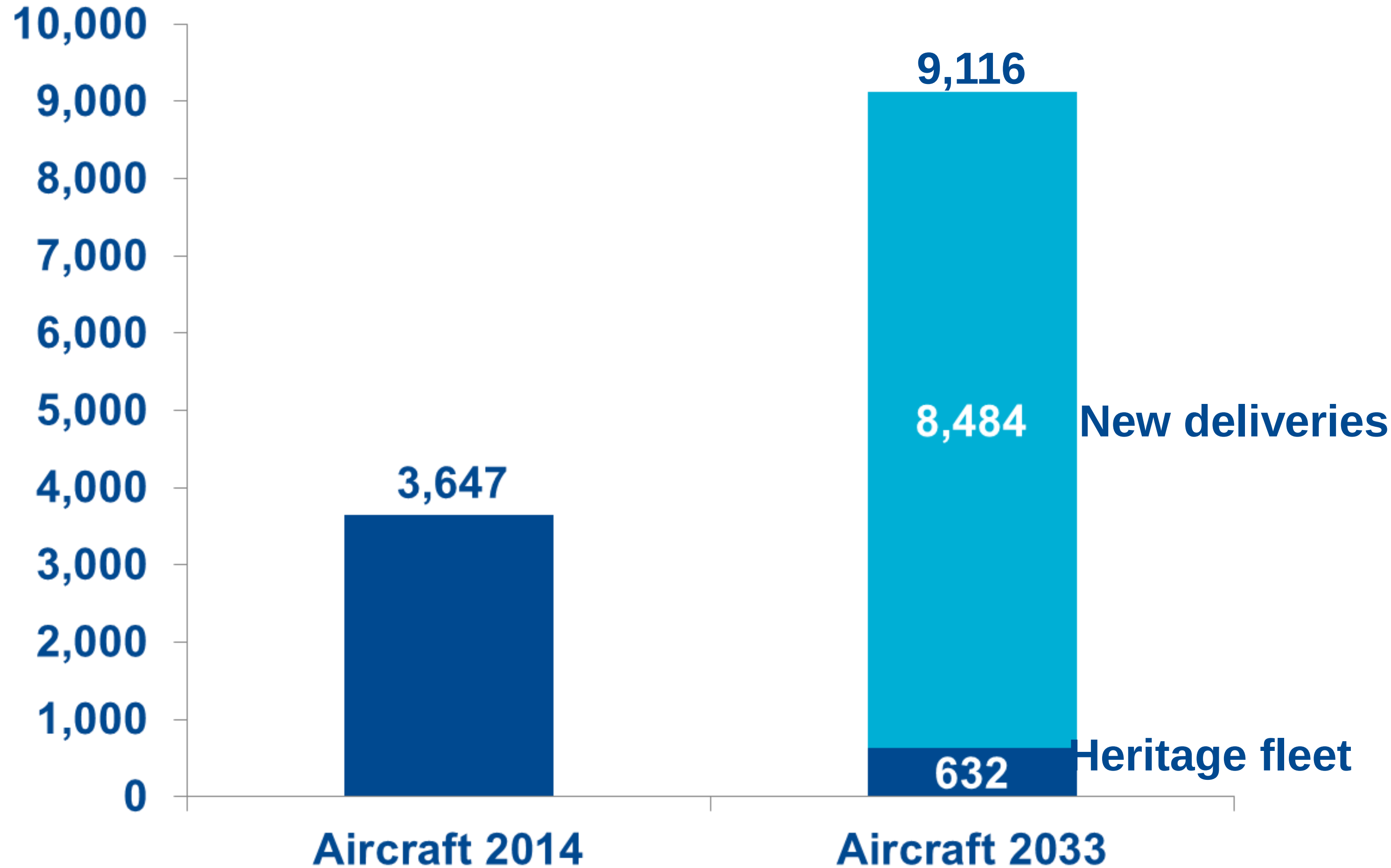


Primary Energy



Source: BP Energy Outlook

Growth in widebody fleet



Source: Airbus GMF app & Global Market Forecast 'Flying on demand 2014 2033'

Key messages

Fundamentals strong – continuing investment in future growth

Addressing growing pains

Taking decisive action to build a stronger company

Q&A

John Rishton	**Chief Executive**
David Smith	**Chief Financial Officer**
James Guyette	**President, Rolls-Royce North America Inc.**
Colin Smith	**Director, Engineering & Technology**
Tony Wood	**President, Aerospace**
Lawrie Haynes	**President, Land & Sea**

Safe harbour statement

This Results 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 Results Announcement, and will not be updated during the year. Nothing in this Results 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 for definition.