2013 Full Year Results

Data pack

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The Group

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Strategy

Customer	Place the customer at the heart of the organisation Understand and shape their requirements Focus on responsiveness
Innovation	Connect innovation to our customers Help our customers do more with less Develop technology, capability and infrastructure
Grow Profitability	Grow our market share Expand competitive portfolio Focus on cost and cash

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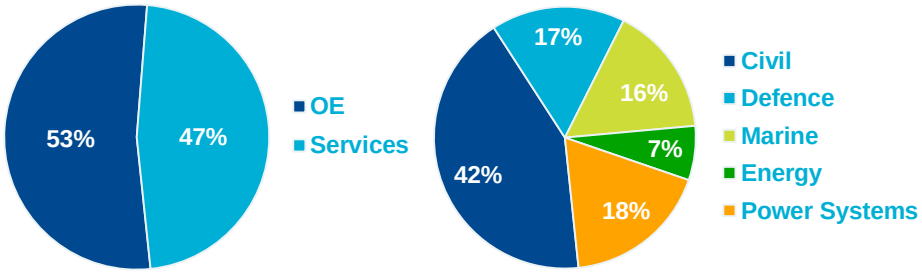
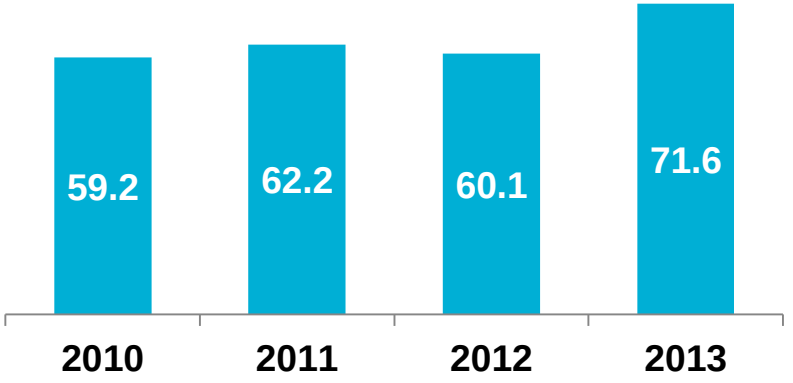
Summary 2013 Full Year

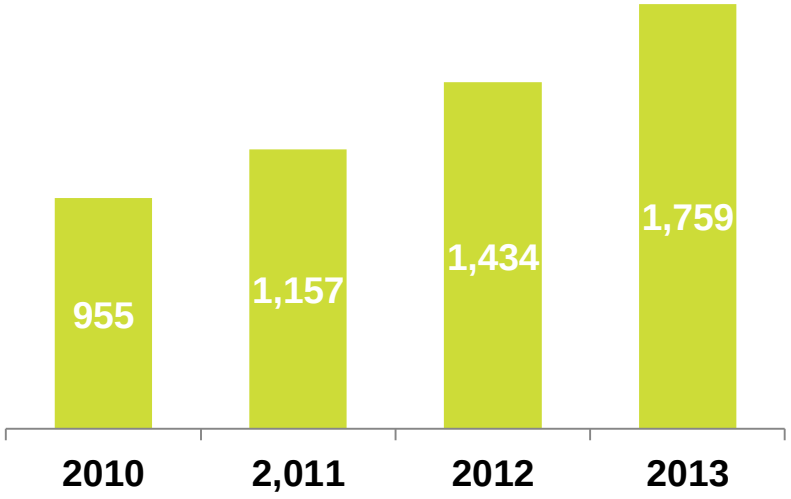
Group revenue £15.5bn



Order book £71.6bn



Profit before tax £1,759m



Key drivers:

- **Substantial order book provides excellent visibility of future growth**
- **Good opportunities to improve margins and cash flow conversion**
- **Long Term Service Agreements drive operational efficiency in aftermarket services**

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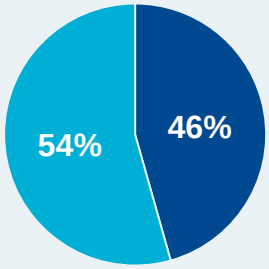
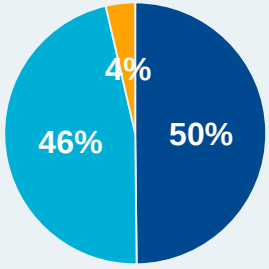
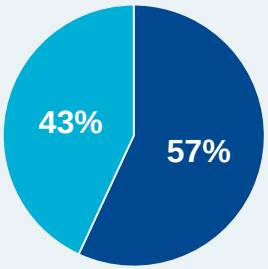
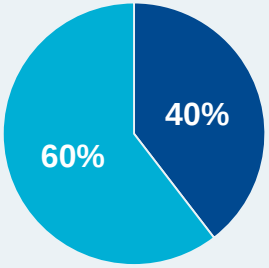
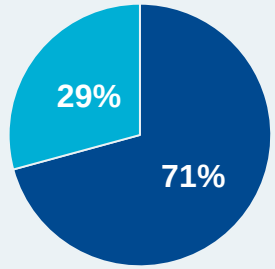
Global markets

A diverse portfolio

Civil Aerospace	Defence Aerospace	Marine	Energy	Power Systems
▪ 13,000 gas turbine engines ▪ Powers >30 types of aircraft ▪ 380 airline and leasing customers ▪ >30m flying hours in 2013	▪ 16,000 engines ▪ 24 engine programmes ▪ 103 countries ▪ 160 armed forces	▪ 25,000 power & propulsion units ▪ 4,000 customers ▪ 70 navies ▪ Products on 30,000 vessels	▪ 4,000 power systems ▪ 1,600 customers ▪ 120 countries	▪ 800,000 power systems ▪ Customers across the marine, industrial, oil & gas, defence and power generation markets
▪ 72% services revenue = LTSAs with “TotalCare”	▪ 33% services revenue = LTSAs with “MissionCare”	▪ 16% services revenue = LTSAs mainly Naval	▪ 29% services revenue = LTSAs	▪ 5% services revenue = LTSAs
FY13 revenue £6,655m	FY13 revenue £2,591m	FY13 revenue £2,527m	FY13 revenue £1,048	FY13 revenue £2,831m
				

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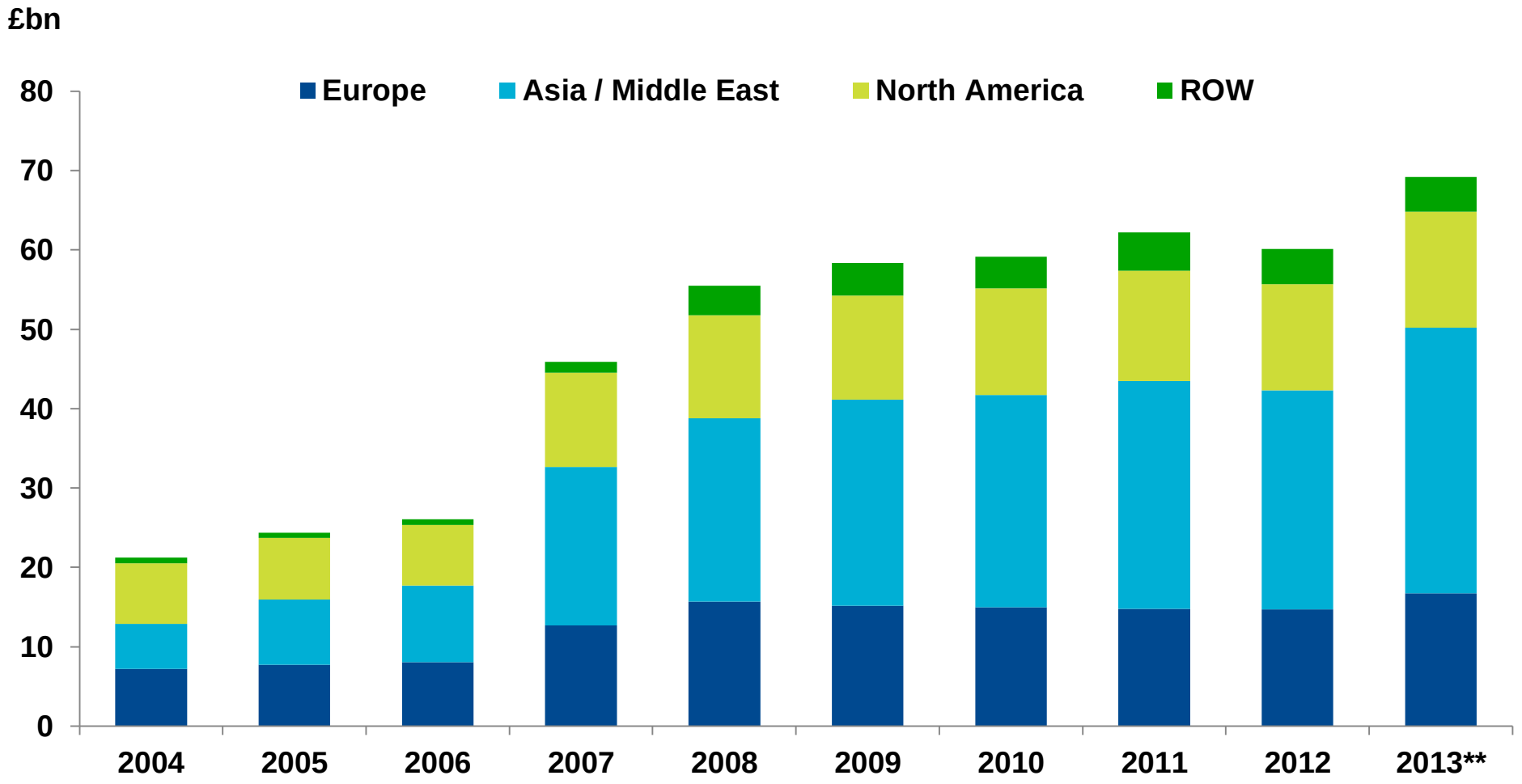
Order book*

Long-term visibility



*Firm and announced order book stated on a constant currency basis

**Includes Tognum order book of £1.6bn following full consolidation in 2013

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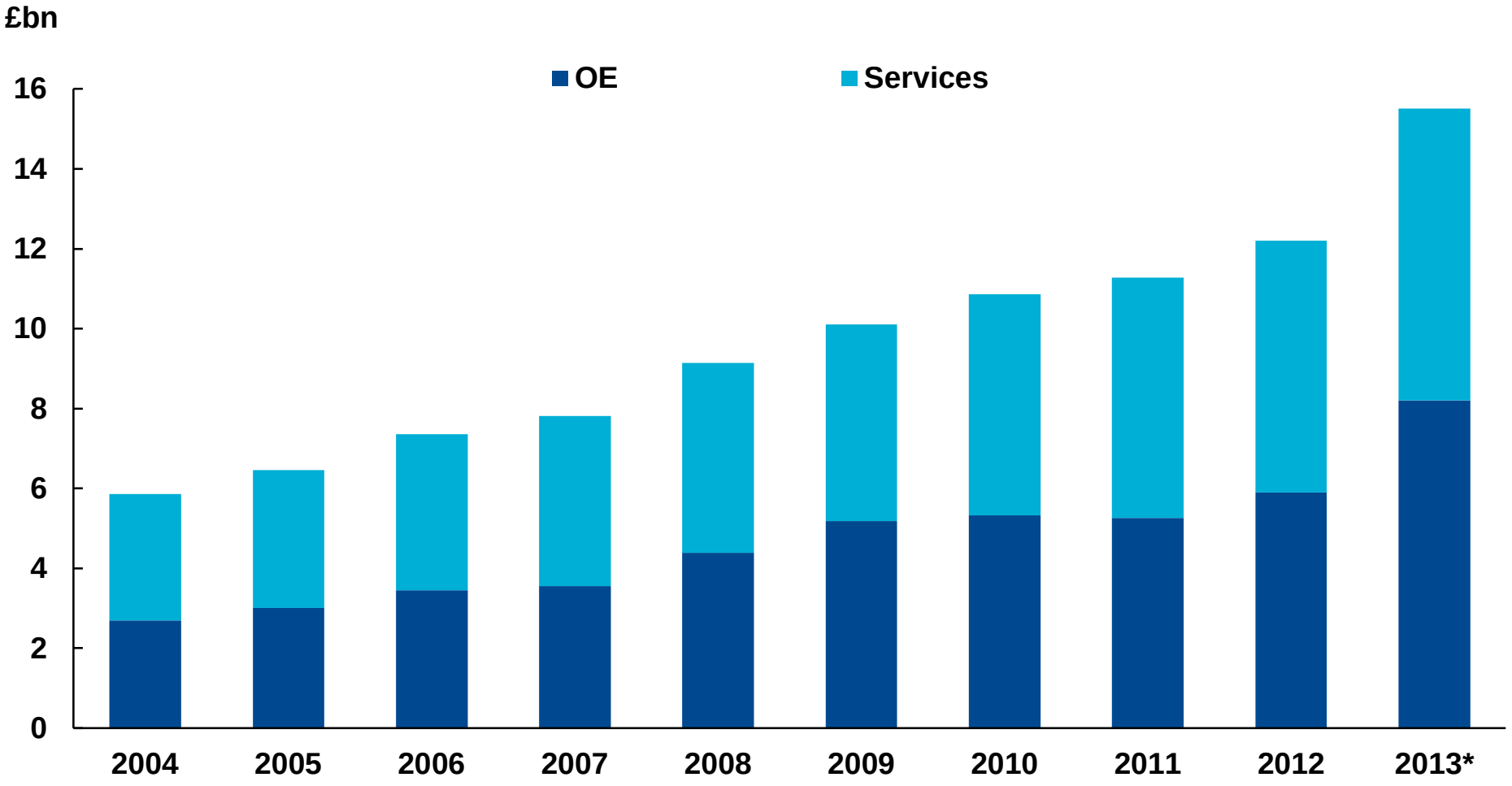
Group revenue

Long-term growth
CAGR: 11.41%



*Includes Tognum revenue of £2.6bn

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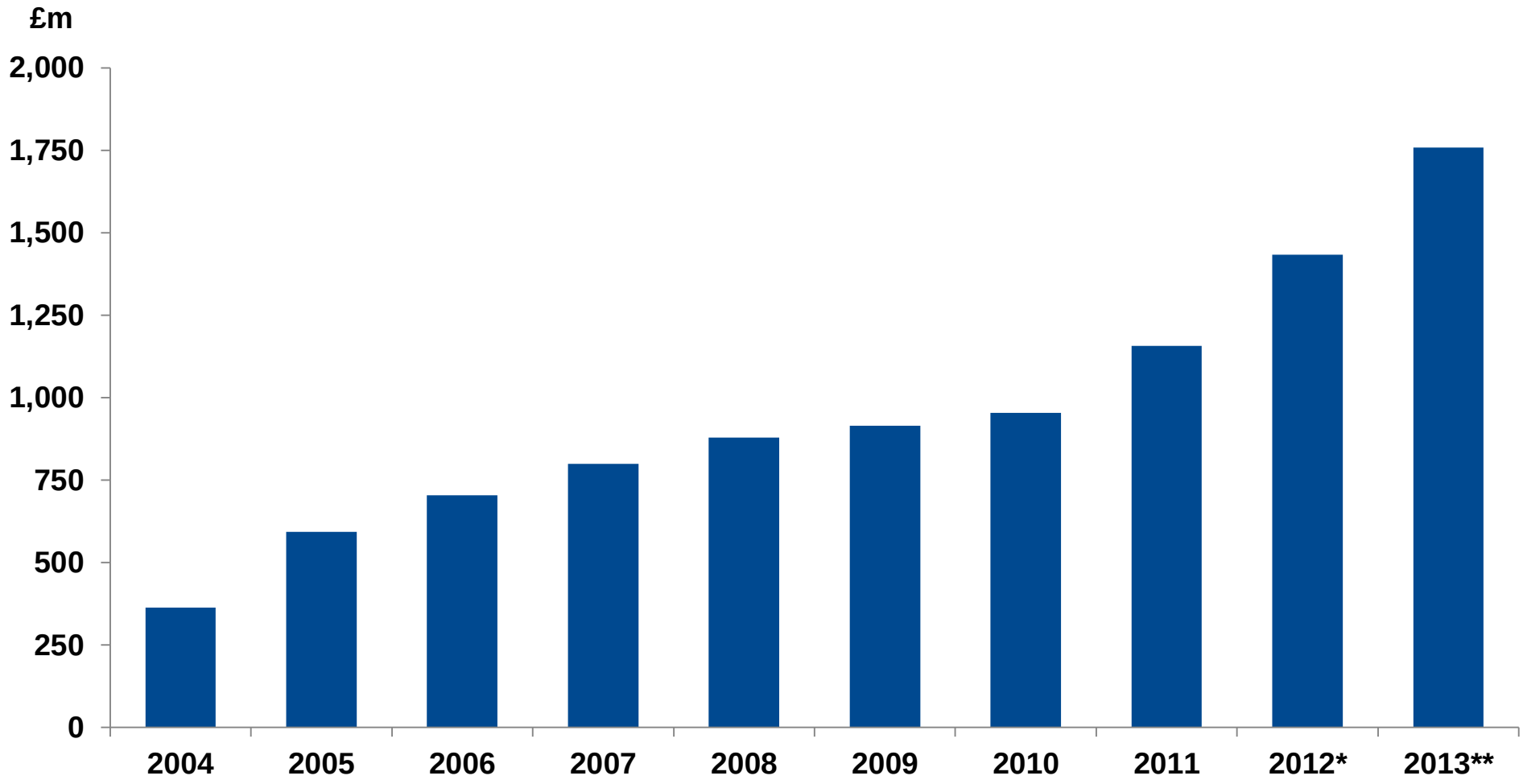
Profit

Long-term earnings growth
CAGR: 19.13%



Graphic shows Underlying Profit Before Taxation (UPBT)
*2012 profit restatement see p.24
**Includes Tognum UPBT of £257m

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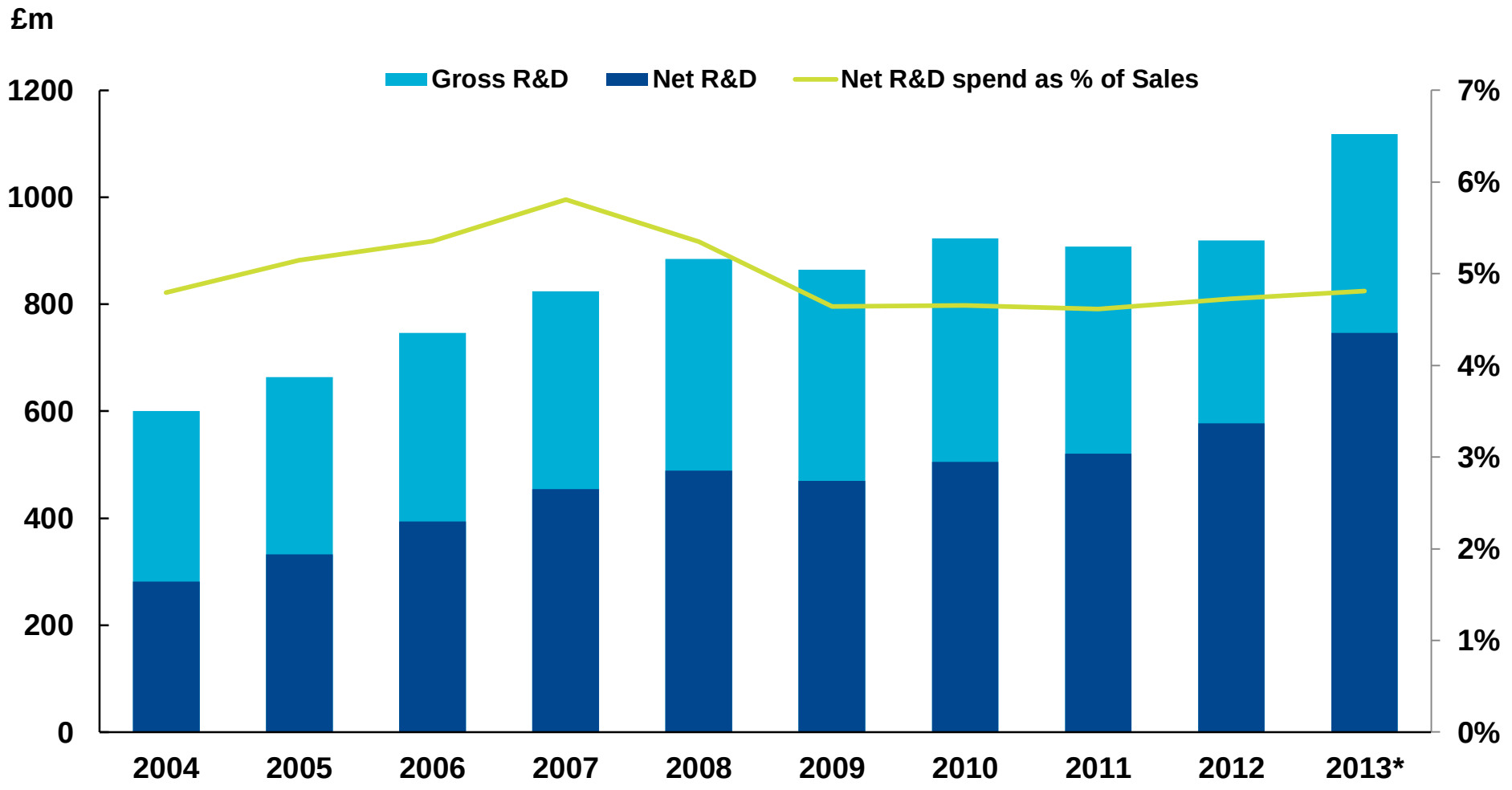
Research & development spend

Continued investment in future technology



*Includes Tognum R&D of £165m

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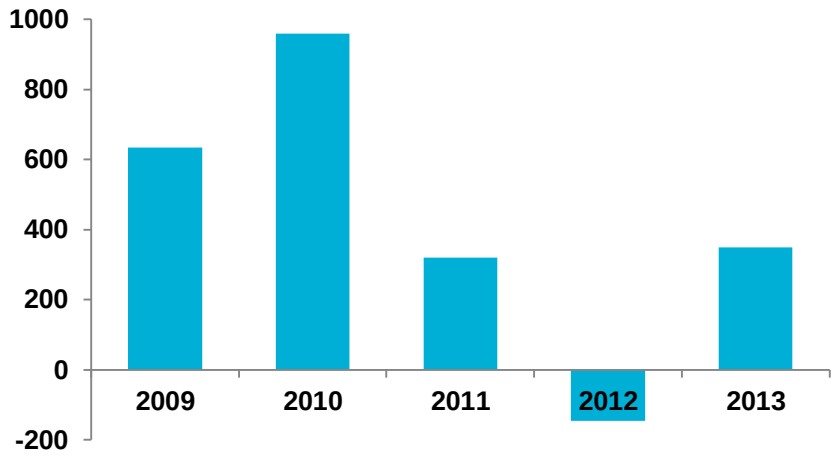
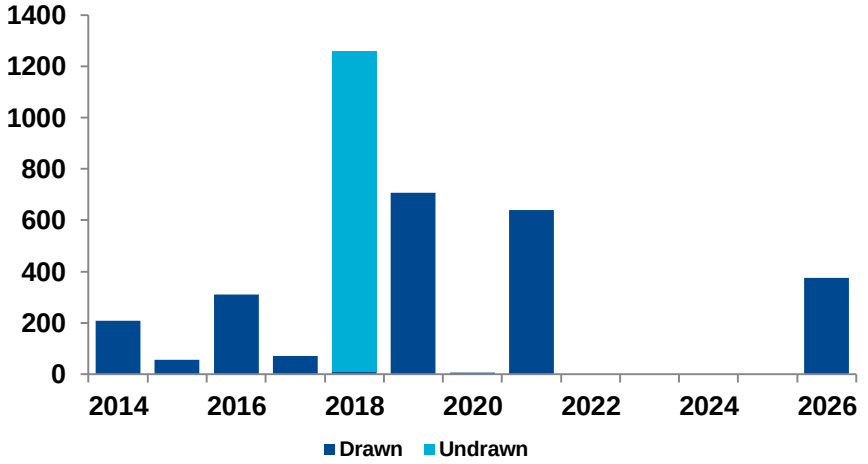
Balance sheet

Strong liquidity position – total liquidity £5.6bn

Average net cash (£m)



Debt maturities (£m)



Strong credit rating and liquidity provide confidence for:

- Customers signing Long-Term Service Agreements spanning decades
- Customer and supplier financing
- Investing in opportunities at the right time
- Ratings: S&P (A), Moody's (A3)
- Suppliers and JV partners making long-term investments
- Weathering financial market uncertainties
- Any potential exercise of Tognum put option by Daimler (expires Jan-19)

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Financials

Historic Financials

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Underlying revenue (£m)	10,108	10,866	11,277	12,209	15,505
Underlying profits before tax (£m)	915	955	1,157	1,434	1,759
Underlying EPS	39.67p	38.73p	48.54p	59.59p	65.59p
Free Cash flow (£m)	257	658	525	455	781
Average net cash (£m)	635	960	320	(145)	350
Order intake (£bn)	14.1	12.3	16.3	16.1	26.9
Order book (£bn)	58.3	59.2	62.2	60.1	71.6
Payment to shareholders (p/share)	15.0p	16.0p	17.5p	19.5p	22.0p

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Underlying income statement

(£m)	FY2012	FY 2013
Underlying revenue	12,209	15,505
Underlying gross profit	2,778	3,653
Commercial and administrative costs	(975)	(1,298)
Net R&D charge	(531)	(624)
Other income & costs	223	100
UPBFCT	1,495	1,831
Net financing charge	(61)	(72)
UPBT	1,434	1,759
Tax	(317)	(434)
Minority interests	(14)	(101)
UPAT	1,103	1,224
Underlying EPS (p/share)	59.59p	65.59p
Payment to shareholders (p/share)	19.5p	22.0p

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Underlying financing costs

(£m)	FY2012	FY 2013
UPBFCT	1,495	1,831
Interest	(41)	(43)
Financial RRSPs	(10)	(9)
Others	(10)	(20)
Underlying net finance charge	(61)	(72)
UPBT	1,434	1,759

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Summary balance sheet

(£m)	FY2012	FY2013
Intangible assets	2,901	4,987
Property, plant and equipment	2,564	3,392
Net post retirement scheme deficits	(445)	(793)
Net working capital	(1,321)	(970)
Net funds	1,317	1,939
Provisions	(461)	(733)
Net financial assets and liabilities	(127)	(1,587)
Investment in joint ventures and associates	1,800	601
Other net assets and liabilities	(232)	(533)
Net assets	5,996	6,303
Other items		
USD hedge book ($m)	22,500	24,700
Net TotalCare assets (£m)	1,312	1,587

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Cash flow

(£m)	FY2012	FY2013		
		Group excl. Tognum	Tognum	Group
Group UPBT	1,434	1,502	257	1,759
Depreciation and amortisation	487	533	267	800
Net working capital	(200)	19	56	75
Capital Expenditure and Intangibles	(684)	(1,043)	(129)	(1,172)
Other	(143)	(73)	(258)	(330)
Trading cash flow	894	939	193	1,131
Pension / Tax / Other	(439)	(269)	(82)	(351)
Free Cash Flow	**455**	**669**	**112**	**781**
Shareholder payments	(318)	(357)	(60)	(417)
Base cash flow (exc. Acquisitions & FX)	**137**	**312**	**51**	**364**
Acquisitions / FX	957	226	(4)	222
Gross cash flow	1,094	539	47	586
Opening cash in Tognum	-	0	36	36
Change in net funds	1,094	539	83	622
Period end cash balance	1,317	-	-	1,939
Average net cash	(145)	-	-	350

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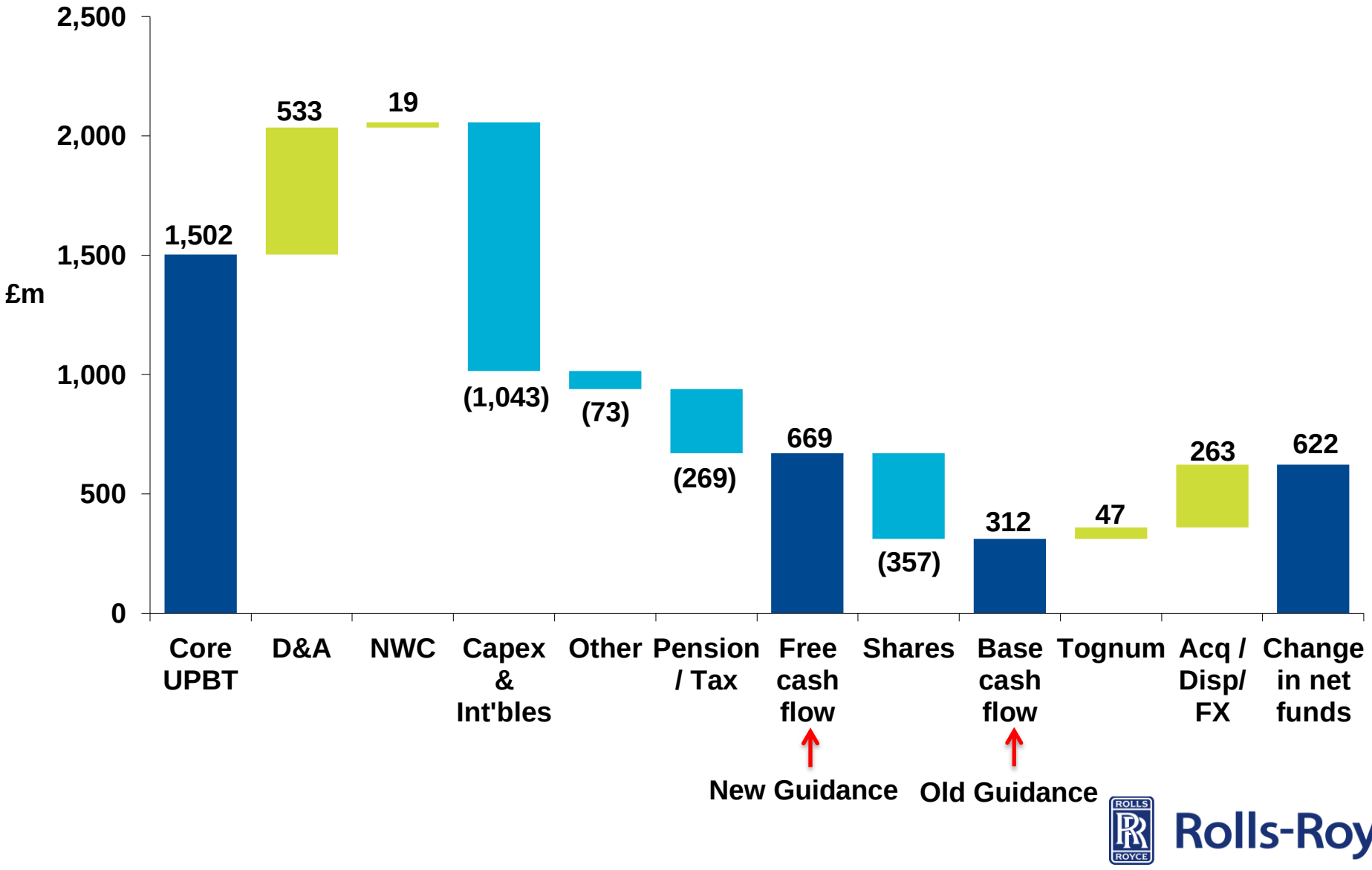
Change in cash guidance

2013 illustration



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Headline to underlying adjustments

	Revenue		PBFCT	
(£m)	**FY 2012**	**FY 2013**	**FY 2012**	**FY 2013**
Headline	12,161	15,513	2,077	1870
FX gain/(loss)	48	(8)	48	28
Pensions			0	64
Acquisition accounting			69	265
Acquisitions/Disposals			0	(335)
IAE Restructuring			(699)*	(63)
Other			0	2
Underlying	12,209	15,505	1495	1831

*Headline profit on restructuring of IAE

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Research & development summary

(£m)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Gross R&D investment	(885)	(864)	(923)	(908)	(919)	(1,118)
Net R&D spend	(490)	(471)	(506)	(520)	(577)	(746)
Net R&D spend as % of underlying revenues	5.4%	4.7%	4.7%	4.6%	4.7%	4.8%
Capitalised	113	121	111	93	38	108
Amortised	(26)	(29)	(27)	(36)	(50)	(69)
R&D charged to Income Statement	(403)	(379)	(422)	(463)	(531)	(624)

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Foreign exchange

Hedging to reduce volatility – $0.01 FX movement in GBP/USD ≈ £15m P&L impact

	FY 2012	FY 2013		FY2012	FY 2013
Period average rates			Period end-spot rates		
USD	1.59	1.56	USD	1.63	1.65
Euro	1.23	1.18	Euro	1.23	1.20
NOK	9.21	9.19	NOK	9.05	10.03

Translation effects (Revenue and Profit)

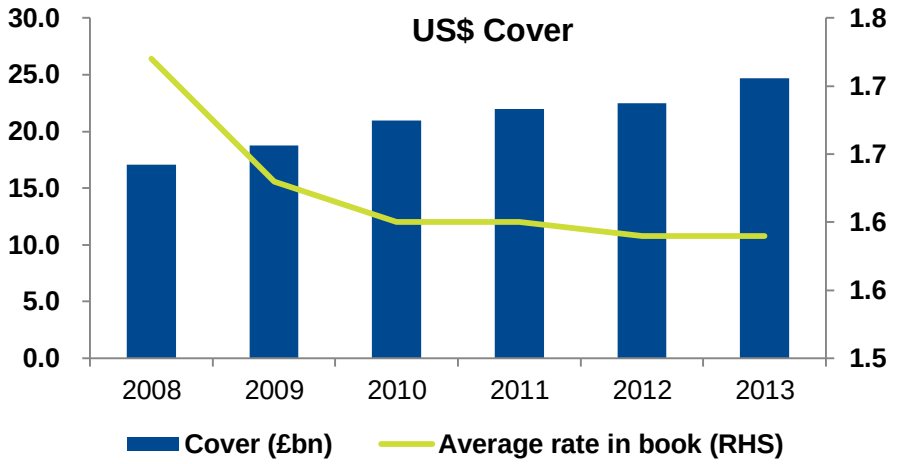
- Changes in average FX rates caused a 2% benefit on Group Revenue
- Segmental revenue benefits:
  - Civil 1%; Defence 1%; Marine 1%, Energy 1%
- Translation impact on Group UPBT (excluding Tognum) of £15m; mainly caused by USD and EUR
- Segmental effect concentrated in Civil

Good visibility of improving achieved rates

- Continuing to take US$ cover
- US$ hedge book at $24.7bn with average rate of $1.59 at 31 December 2013
- Current net exposure is around $5.5bn per annum – approx. 4.3 years cover in place

Balance Sheet effects

- Changes in period end FX rates cause overseas cash balances to be valued differently at the B/S date
- FX rates at FY13 vs. FY12 caused a £43m decrease in the value of net funds held



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Pensions

Reduced risk through prudent pension management

UK pension schemes make up around 86% of gross liabilities; 95% of gross assets

- UK defined benefit schemes closed to new members in 2007
- Around 80% of assets in lower risk, Liability Driven Investments (LDI)
- Longevity swap provides greater certainty over future funding requirements

UK schemes

- Surplus of £196m (IAS19 basis*)
- 2013 FY contributions of £249m
- Triennial reviews of the three largest UK schemes agreed during 2013
- £64m discretionary investment to largest UK scheme for Cost of Living Allowance (COLA)
- Funding of defined benefit schemes is expected to increase modestly in 2014, largely as the result of the funding of discretionary benefits.

Overseas Schemes

- Deficit of £989m (IAS19 basis*) principally made up of unfunded US healthcare schemes (£358m) and unfunded Tognum schemes (£408m)
- 2013 FY contributions of £66m (2012 FY £47m), increase principally from the consolidation of Tognum
- No material change in overall contributions in 2014

*** 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 the pension schemes which discounts liabilities using a swap curve to match the LDI portfolio.**

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Customer finance

Financial strength allows the group to provide finance support to customers

Selective and designed to minimize risk:

- Board guidelines limit gross and net exposures by counterparty, product type and year
- Commitments continually monitored with suitable exposure management policies in place
- Exposures audited twice yearly with independent asset value appraisals

Reduced contingent liabilities – as of December 31st 2013:

- Total Gross Exposure: US$589m;
- Total Net Exposure (less security): US$97m;
- Total Stressed Exposure (assumes 20% asset discount): US$129m
- Liabilities are spread across multiple geographies, customers and aircrafts

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2014 guidance*

	Revenue Growth	Profit Growth
Group	Flat	Flat
Civil	Modest	Good
Defence	15-20% reduction	15-20% reduction
Marine	Modest reduction	Modest
Energy & Nuclear	Good	Good
Power Systems	Modest	Good
Free Cash Flow	Similar to 2013	
Phasing	Profit & cash H2 biased	
Capital expenditure	Flat (around £800m)	
R&D	Modest spend increase; Higher P&L charge	
Tax rate	Underlying rate around 24%	

*** Guidance follows movement of Submarine from Marine to Energy & Nuclear. Refer to pg. 49 for details**

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Change in accounting treatment of RRSA entry fees

- Entry fees used to be recognised as other operating income at time they became due
- Reassessed policy for recognition of entry fees received under Risk and Revenue Sharing Arrangements to better reflect capitalisation of some costs
- For capitalised costs, equivalent portion of entry fee received has been deferred and recognised as the related costs are amortised after entry into service
- Amount of entry fees recognised in the year presented as contribution to R&D expenses, not other operating income

2012 Profit restatement

Reflecting changes in accounting policy for RRSAs and the amendments to IAS 19

£m	FY 2012			
		Changes		
	Published	Pensions	RRSAs	Restated
Group reported				
PBFCT	2,072	(20)	25	2,077
Net financing	633	56	-	689
PBT	2,705	36	25	2,766
Net assets	6,105	61	(170)	5,996
Group underlying				
UPBFCT	1,490	(20)	25	1,495
Underlying net financing	(61)	-	-	(61)
UPBT	1,429	(20)	25	1,434
UEPS	59.27p	(0.71)p	1.03p	59.59p
Segments UPBFCT				
Civil	727	(9)	25	743
Defence	404	(9)	-	395
Marine	294	-	-	294
Energy	21	(2)	-	19
Engine Holding	109	-	-	109
Inter-segment	(11)	-	-	(11)
Central costs	(54)	-	-	(54)
Group	1,490	(20)	25	1,495

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Civil Aerospace

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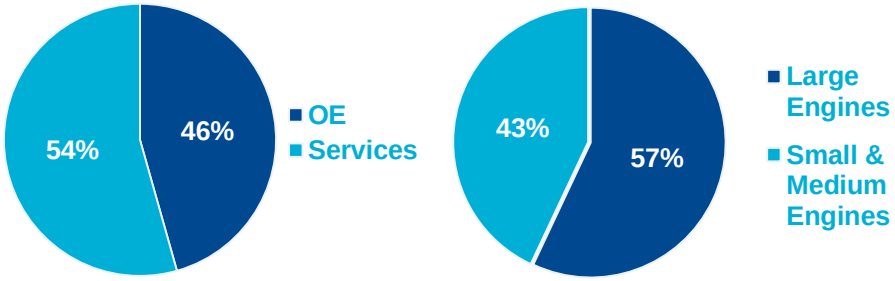
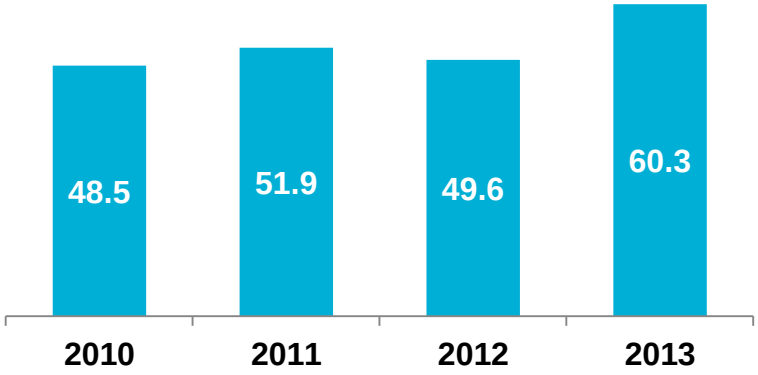
Civil Aerospace

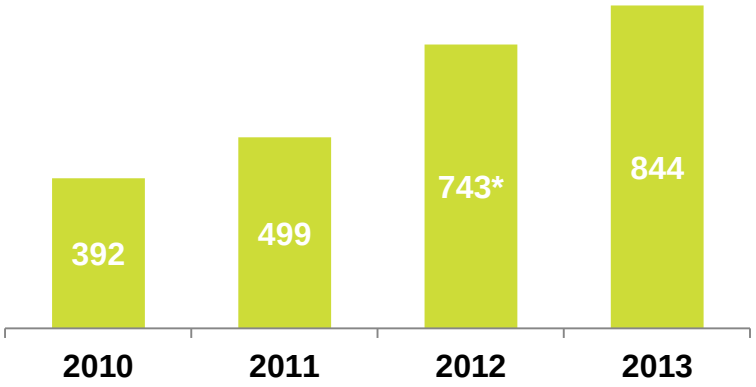
Revenue £6,655m



Order book £60.3bn



Profit before financing £844m



Growth drivers

- OE volume drives revenue growth
- Operational leverage in OE and services
- Competitive advantage of high LTSA %

*Restated from £727m following 2013 accounting changes

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Products

Leading widebody market share

Engine	Airframe	Market share	Engines in service	Engines on order
Trent XWB	Airbus A350	100%	0	1,694
Trent 1000	Boeing 787	41%	94	572
Trent 900	Airbus A380	43%	252	122
Trent 800	Boeing 777	40%	444	0
Trent 700	Airbus A330	58%	1144	375
Trent 500	Airbus A340	100%	520	0
			2,454	2,763

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Installed thrust

Millions of pounds (m/lbs) of installed thrust* in service

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Large engines	175	183	193	202	209	215	226	235	246	260	**261**
Medium engines*	27	30	33	37	41	45	49	54	58	0	**0**
Small engine	72	75	78	81	84	88	91	93	96	100	**104**
Total	274	288	305	320	334	348	367	382	400	360	**365**

*Installed thrust is shown net of retirements and includes 50% of the V2500 programme until completion of the IAE restructuring in 2012 approximately 60 m/lbs of V2500 installed thrust was excluded from the installed fleet total

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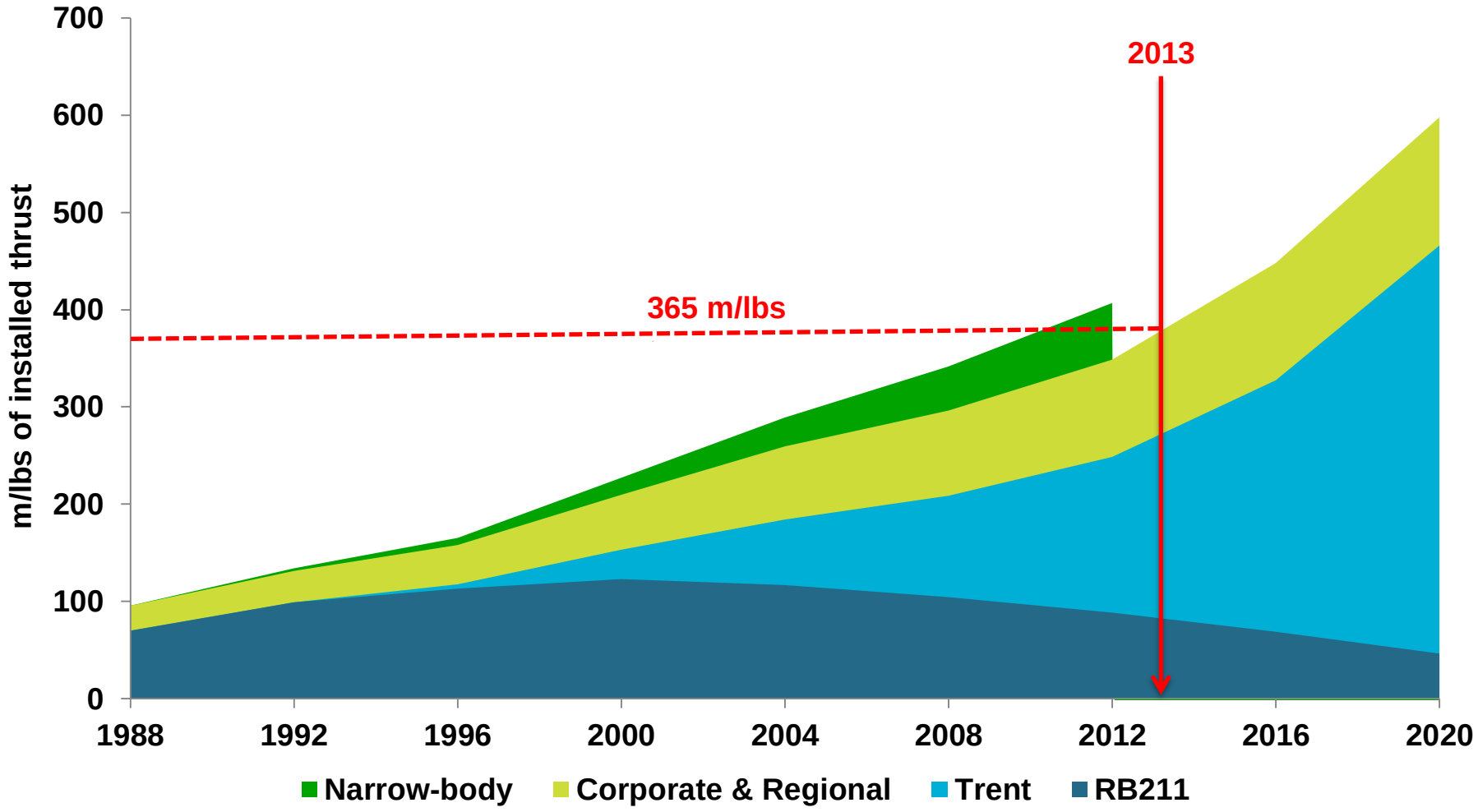
Installed thrust

Growing aftermarket opportunities



Narrow-body installed thrust restated to 0 following sale of IAE shareholding

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Civil engine deliveries

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Large engines	169	171	170	203	145	193	225	185	224	275	**282**
Medium engines	216	237	327	319	308	351	347	371	418	220	**0**
Small engines	361	416	384	334	398	443	272	290	320	393	**471**
Total	746	824	881	856	851	987	844	846	962	888	**753**

***H2 2012 Medium engines deliveries reflects sale of IAE shareholding**

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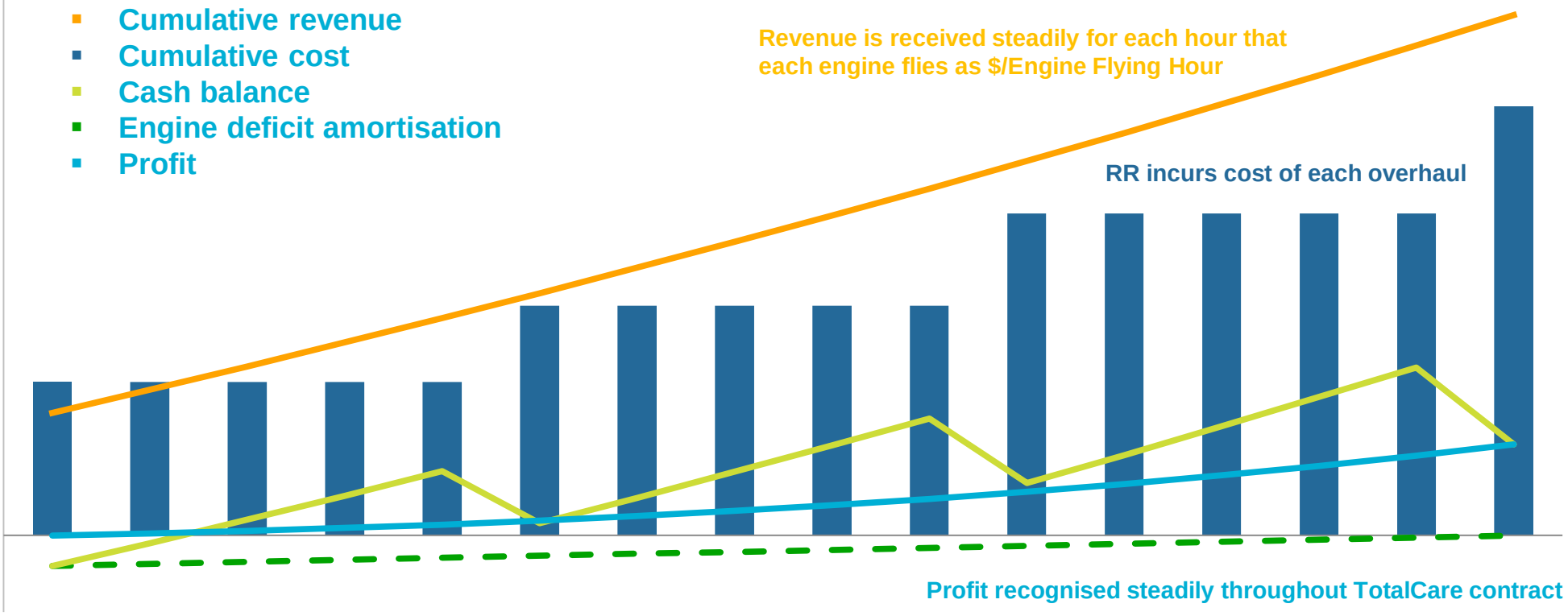
TotalCare

Unlinked engine sale and TCA contract



Total contract = Years 0 to 15

Example only

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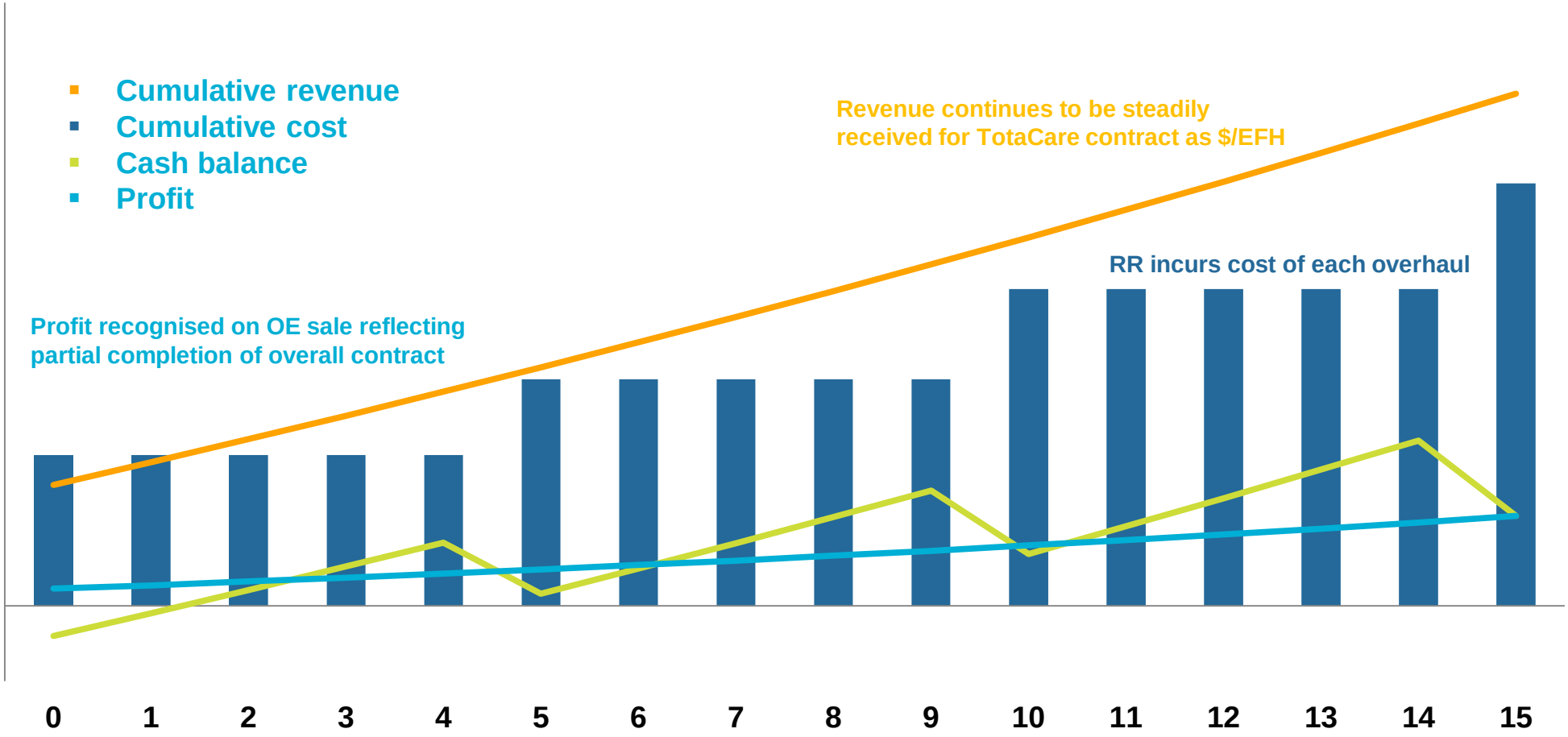
TotalCare

Linked engine sale and TCA contract



Example only

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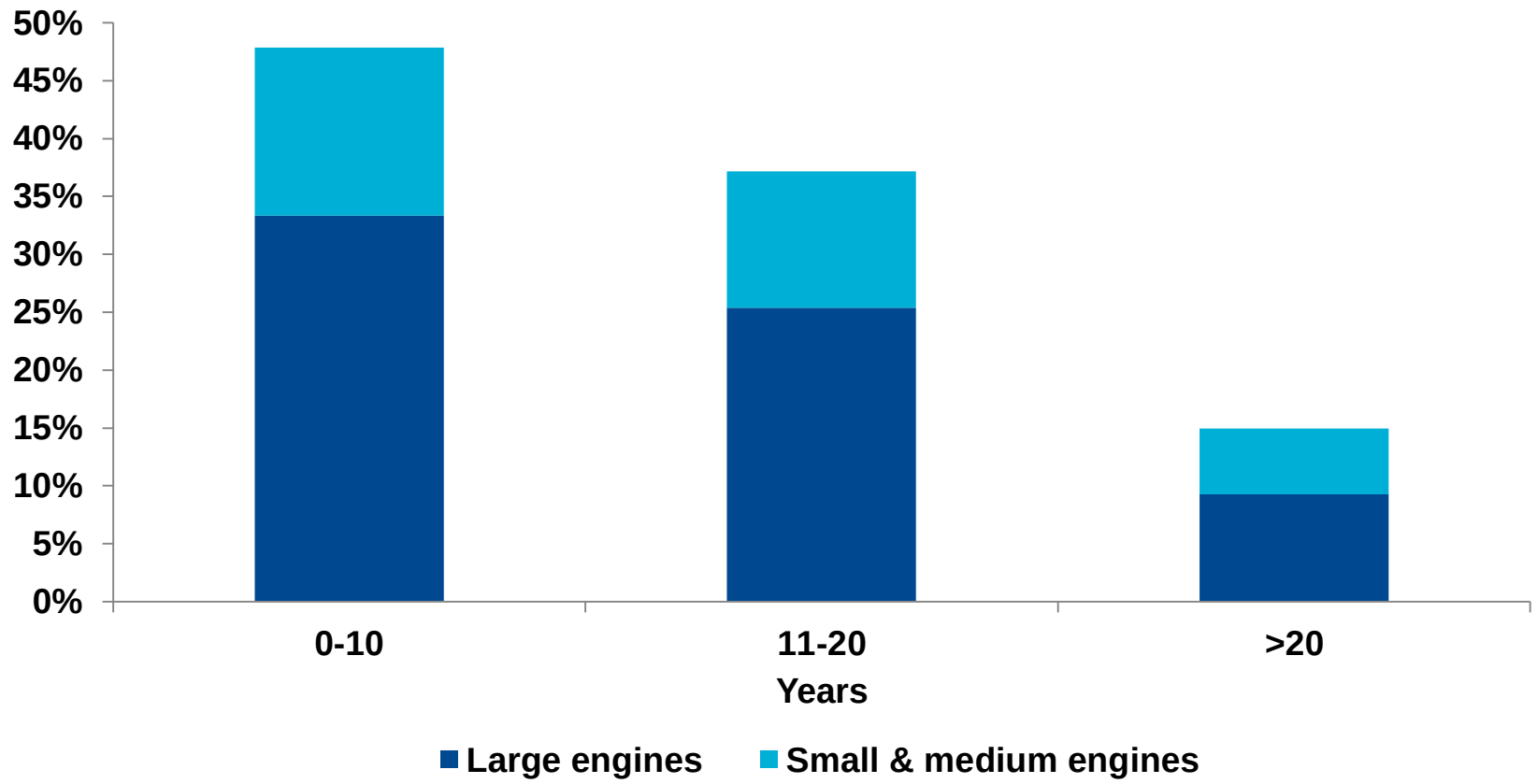
Installed base by age

A young fleet



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Defence Aerospace

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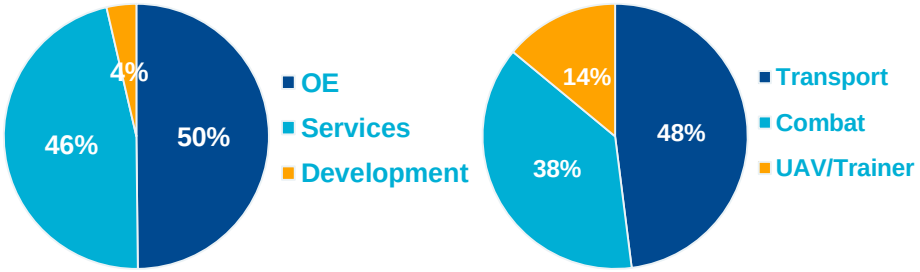
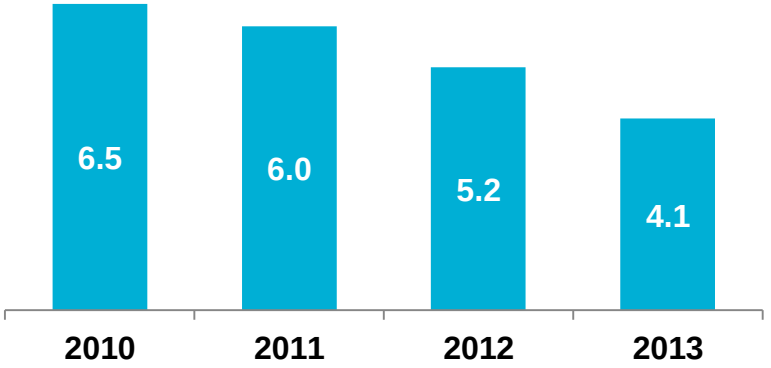
Defence Aerospace

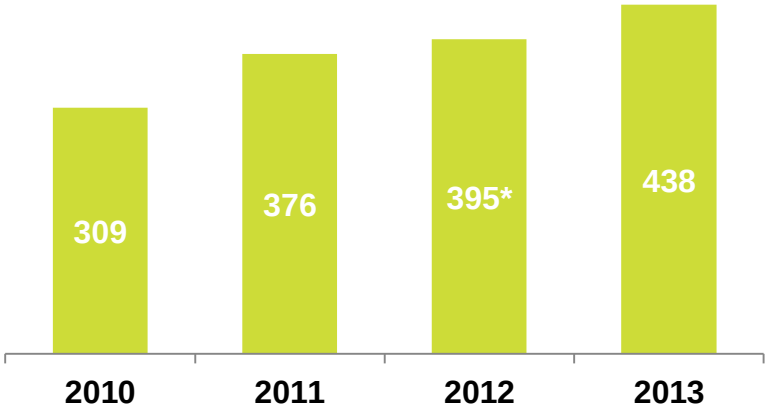
Revenue £2,591m



Order book £4.1bn



Profit before financing £438m



Key drivers

- **Portfolio breadth: 24 engine programmes/103 countries/160 armed forces**
- **Resilient transport market – 48% revenue**
- **Re-bases in 2014, resumes growth in 2015**
- **Focus on cost reduction**

***Restated from £404m following 2013 accounting changes**

Rolls-Royce

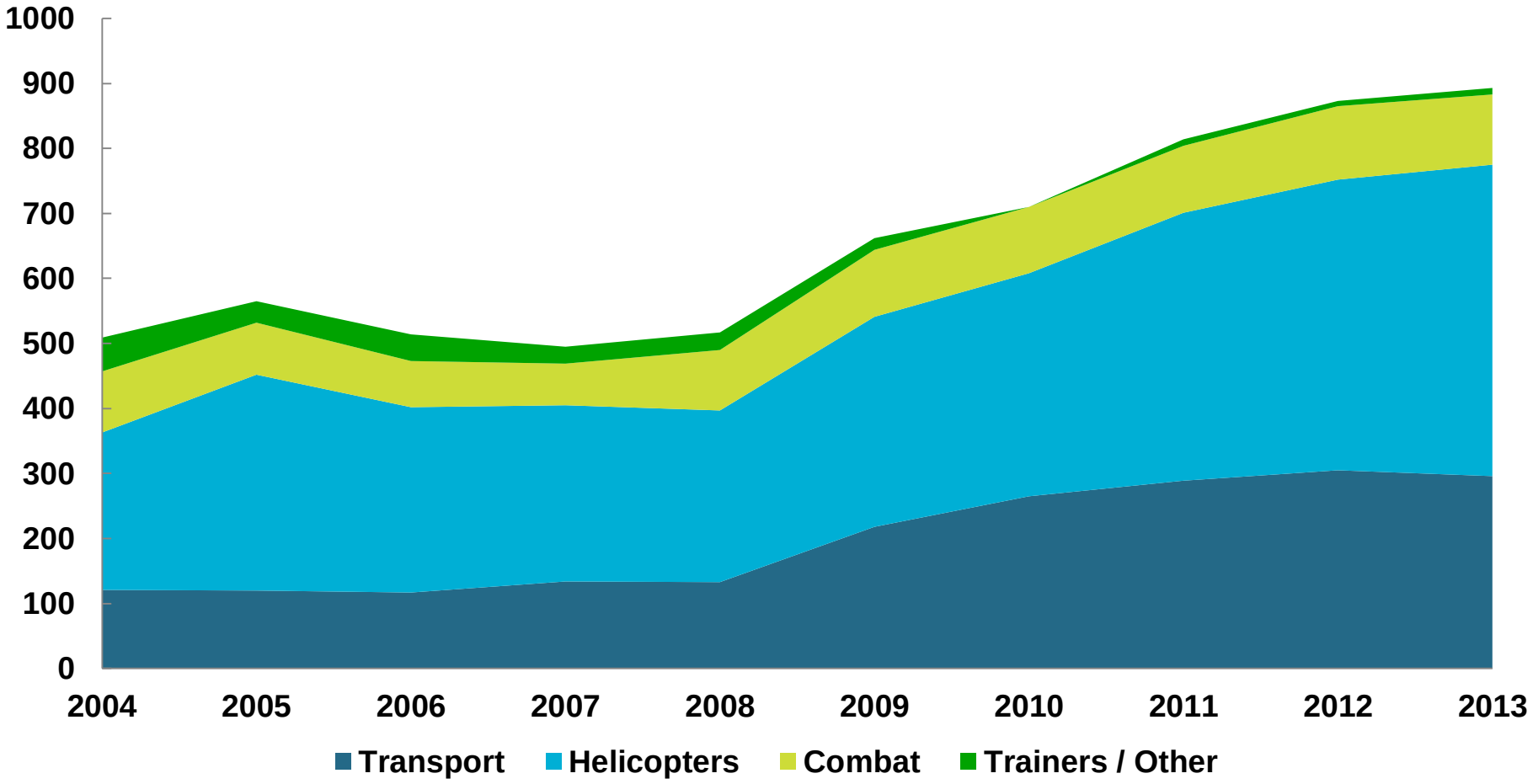
Products

Market	Engine	Platform(s)			
Combat jets > 1,500 engines in service	EJ200	Eurofighter Typhoon			
	Adour	SEPECAT Jaguar	Hawk	Taranis demonstrator	NeuroN demonstrator
	Pegasus*	Harrier			
	RB199*	Tornado			
	Rolls-Royce LiftSystem	F-35B			
	Spey*	AMX			
	Viper*	MB-339			
Trainers > 1,200 engines in service	Adour	BAE Hawk	T-45 Goshawk		
Transport > 9,000 engines in service	AE 1107C	V-22 Osprey			
	AE 2100	C-130 J Hercules	C-27J	US-2	
	T56	C-130 A-H Hercules	P-3C Orion	E-2C Hawkeye	
	TP400	A400M			
	AE 3007	RQ-4 9(A-C) Global Hawk	EMB 145	EMB 135	
	Trent 700	A330 MRTT			
	BR710	Global Express	Gulfstream G550		
	Dart*	F-27	BAE 748	YS11	
	Tay*	Gulfstream GIV			
	Tyne*	C-160 Transall	A-7	Atlantique	
	RB211*	757			
Helicopters > 5,000 engines in military service	MTR390	Eurocopter Tiger			
	CTS800	Super Lynx 300	AW159 Wildcat	T-129	US-2
	Gem*	Lynx			
	Gnome*	Sea King			
	M250	OH-58 Kiowa Warrior	MQ-8B Fire Scout	Powering more than 170 helicopters and aircraft	

*In service with operators, but out of production

Rolls-Royce

Deliveries



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Defence engine deliveries

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Transport	124	121	120	117	134	133	218	265	289	305	**296**
Helicopters	257	242	332	285	271	264	323	343	412	438	**479**
Combat	73	94	80	71	64	93	103	102	103	113	**108**
Trainers / Other	56	52	33	41	26	27	18	0	10	8	**10**
Total	510	509	565	514	495	517	662	710	814	864	**893**

Rolls-Royce

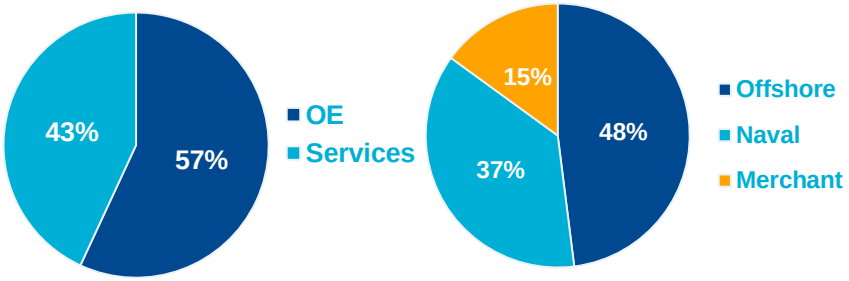
Marine*

* Segment information precedes Submarine movement. Refer to pg.49 for impact of movement

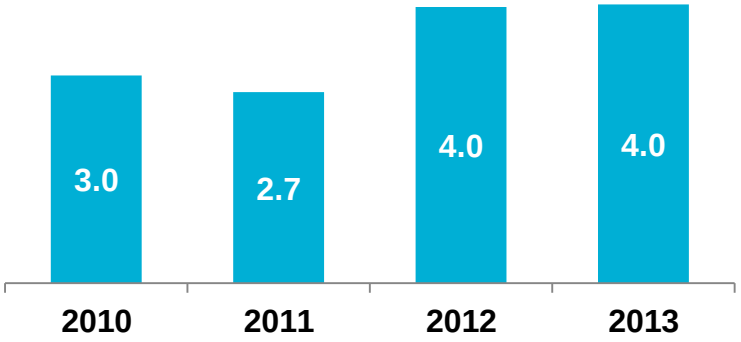
Rolls-Royce

Marine

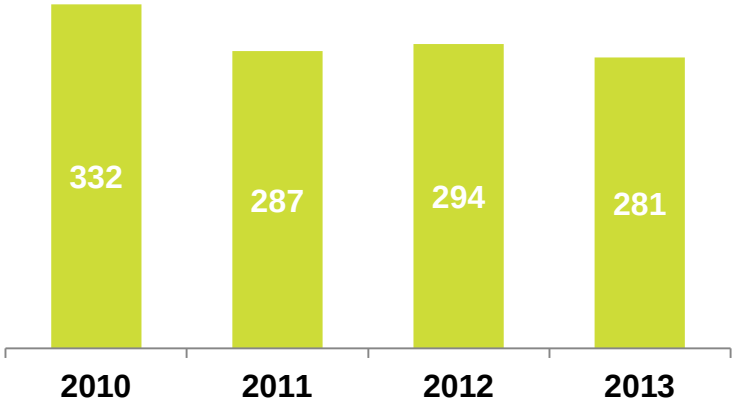
Revenue £2,527m



Order book £4.0bn



Profit before financing £281m



Key drivers

- Breadth of product portfolio
- Ship design capability provides platform for OE sales
- High oil price drives demand for offshore vessels
- Stricter emissions legislation
- Focus on integrated through-life services, innovation and cost reduction

Rolls-Royce

Products

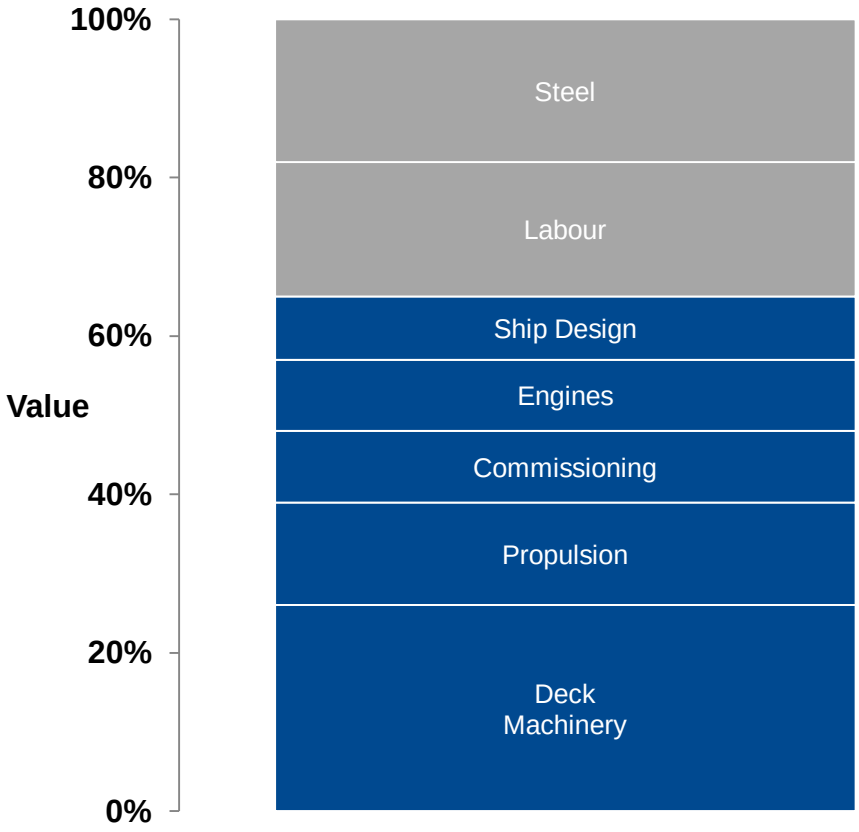
World-leading range of capabilities

Market Sector	Products
Offshore Equipment on > 3,700 vessels	Full ship design, allowing integration of propulsion, electrical & automation, motion control, winches & complex deck handling and power plant systems
Merchant Equipment on > 18,000 vessels	Specialised ship design, world leading range of power & propulsion, electrical & automation and manoeuvring systems for small cargo, ferries, tugs and workboats with innovation driven by emission regulation
Naval Equipment on > 2,500 vessels	Specialised ship design, supply of power & propulsion systems, electrical & automation and auxiliary equipment to a range of naval applications as well as the supply and support of nuclear power systems covering the entire UK submarine fleet

Integrated ship solutions

Ship design is key enabler

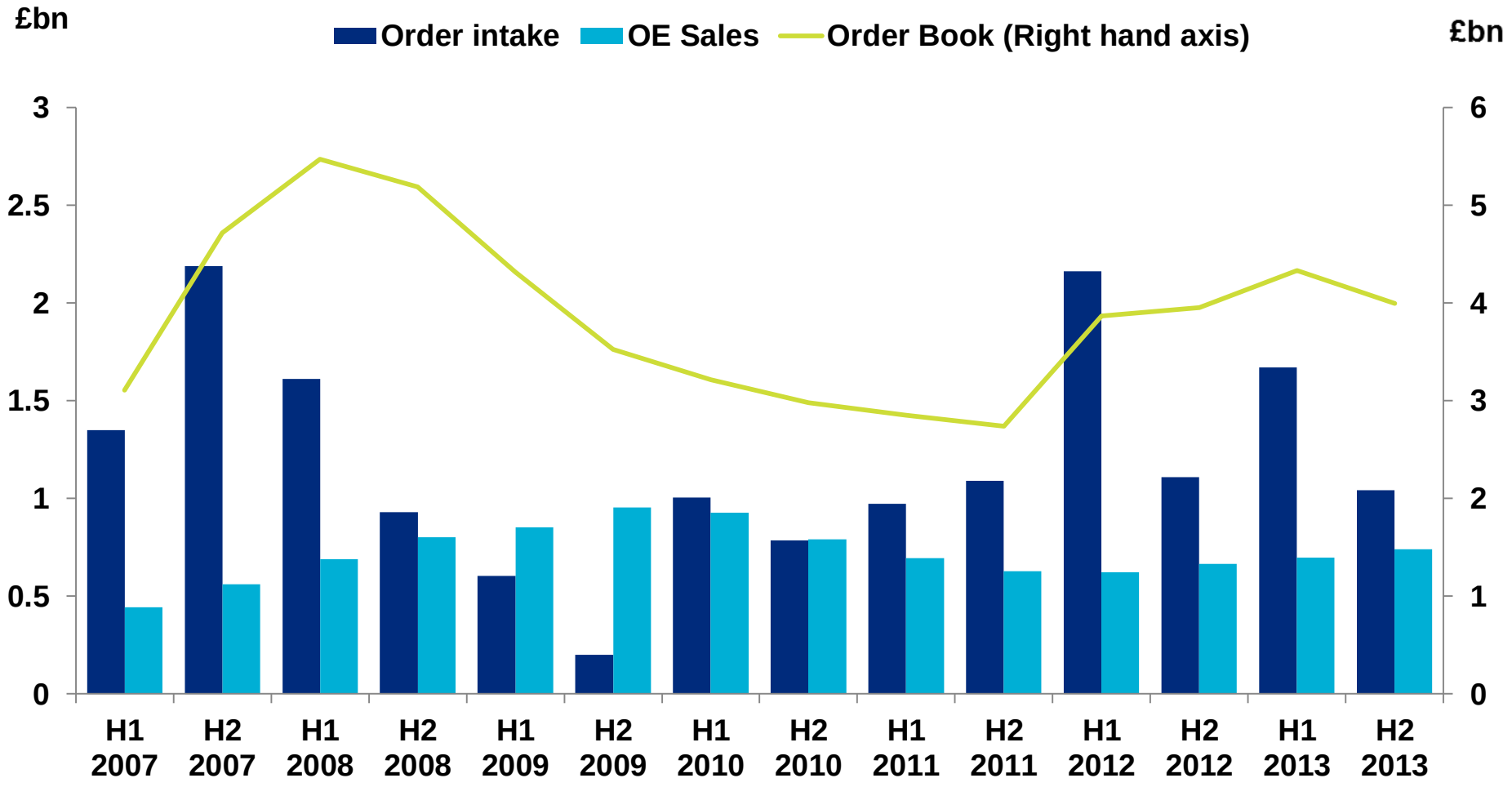
Example: high-end Anchor Handling Tug Supply vessel (AHTS) for the offshore market



Rolls-Royce provides high-value, fully-integrated, mission-critical systems to the merchant, naval and offshore markets.

Rolls-Royce

Order trends



Rolls-Royce

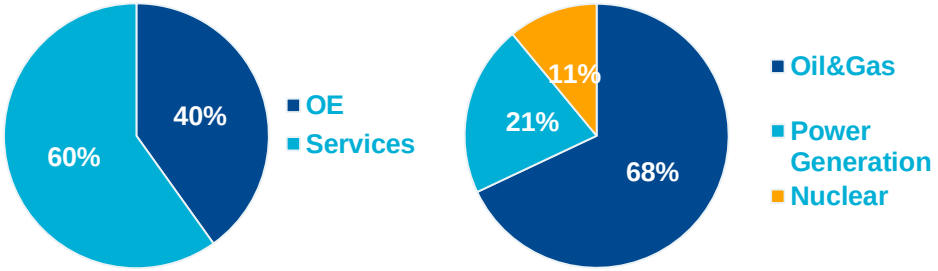
Energy*

* Segment information precedes Submarine movement. Refer to pg.49 for impact of movement

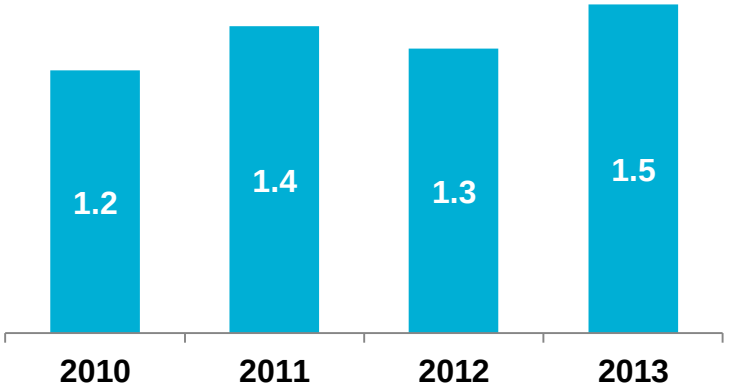
Rolls-Royce

Energy

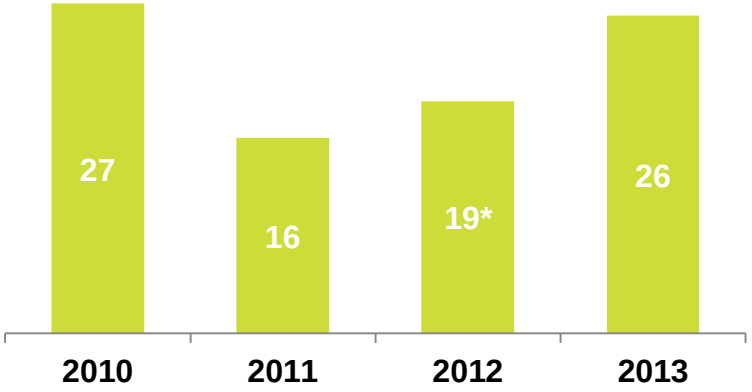
Revenue £1,048m



Order book £1.5bn



Profit before financing £26m



Key drivers:

- Global energy demand outstrips supply
- High price of oil drives demand for gas turbines, compressors & pumping equipment
- Power generation in developing markets
- Improving financial performance

*Restated from £21m following 2013 accounting changes

Rolls-Royce

Products

Growing demand for systems and services

Market Sector	Description	Products
Oil & Gas	Coupling gas turbine technology and centrifugal compressors to provide a full product range for gas compression and oil pumping duties for both on and offshore applications	RB211 Aero-derivative Avon Aero-derivative Barrel compressors Pipeline compressors
Power Generation	Turbine based solutions for the power generation market, backed by a comprehensive range of service solutions	501-K Aero-derivative Trent 60
Civil Nuclear	Systems, engineering services and support services to deliver safe and reliable plant operations for customers. Rolls-Royce provides systems and services to more than half of the civil nuclear reactors operating in the world today	Instrumentation and Control Systems Mechanical Systems and Component Engineering Safety, Licensing and Environmental Engineering Reactor Support Services

Rolls-Royce

Impact of Submarines transfer to Energy & Nuclear

£m	2012 ACT	2013 ACT	13 v 12 Growth
OE Revenue			
Marine (Old Segment)	1,288	1,438	11.6%
Exclude Submarines	(154)	(202)	31.4%
Marine (New Segment)	1,134	1,236	9.0%
Energy (Old Segment)	344	415	20.6%
Include Submarines	154	202	31.4%
Energy / Energy & Nuclear (New Segment)	498	617	24.0%
Services Revenue			
Marine (Old Segment)	961	1,089	13.3%
Exclude Submarines	(266)	(288)	8.2%
Marine (New Segment)	695	801	15.3%
Energy (Old Segment)	618	633	2.4%
Include Submarines	266	288	8.2%
Energy / Energy & Nuclear (New Segment)	884	921	4.2%
Total Revenue			
Marine (Old Segment)	2,249	2,527	12.4%
Exclude Submarines	(420)	(490)	16.7%
Marine (New Segment)	1,829	2,037	11.4%
Energy (Old Segment)	962	1,048	8.9%
Include Submarines	420	490	16.7%
Energy / Energy & Nuclear (New Segment)	1,382	1,538	11.3%

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Impact of Submarines see above

£m	2012 ACT	2013 ACT	13 v 12 Growth
Profit			
Marine (Old Segment)	294	281	(4.4)%
Exclude Submarines	(59)	(48)	(17.5)%
Marine (New Segment)	235	233	(1.1)%
Energy (Old Segment)	19	26	36.8%
Include Submarines	59	48	(17.5)%
Energy / Energy & Nuclear (New Segment)	78	74	(5.1)%
RoS %			
Marine (Old Segment)	13.1%	11.1%	(14.9)%
Marine (New Segment)	12.9%	11.4%	(11.2)%
Energy (Old Segment)	2.0%	2.5%	25.6%
Energy / Energy & Nuclear (New Segment)	5.6%	4.8%	(14.0)%

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Power Systems

(Tognum & Bergen)

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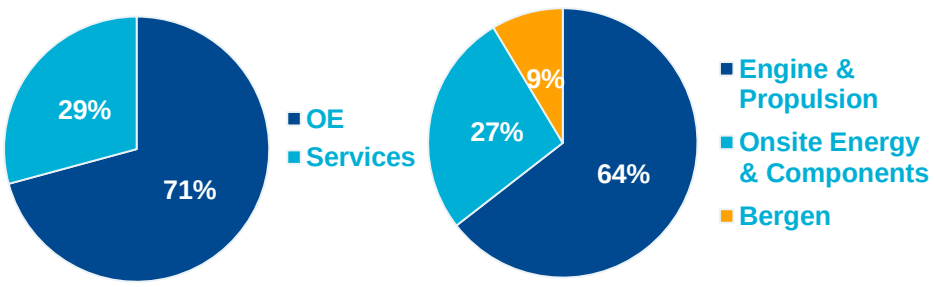
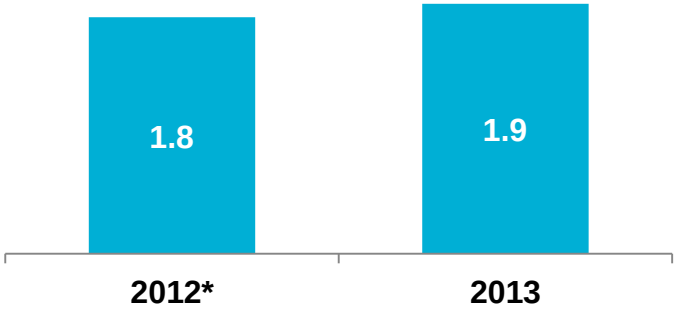
Power Systems

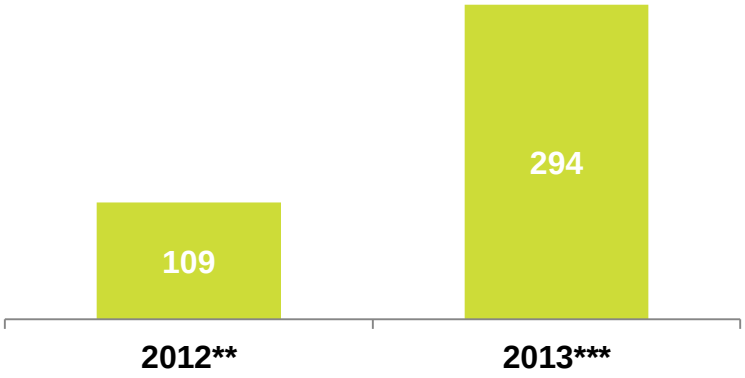
Revenue £2,831m



Order book £1.9bn



Profit before financing £294m



Key drivers:

- **Complementary portfolios add scale and capability**
- **Significant revenue synergies**
- **Global energy demand outstripping available supply**

*2012 figure restated to include Tognum as consolidated for comparison purposes
**Tognum equity accounted share after tax
***Togum fully consolidated

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Products

Broad portfolio

	Description	Markets
Engines & Propulsion	High speed reciprocating diesel engines and propulsion & drive systems. Products are sold under the established brands of MTU, Detroit Diesel and Mercedes	Marine Industrial Oil & Gas Defence
Onsite Energy & Components	Reciprocating diesel and gas power generation systems as well as co-generation plants under the MTU Onsite Energy brand and injection systems for diesel engines under the L'Orange brand	Diesel systems Gas systems Injection systems
Bergen	Diesel and gas engines in the 2-10MW power range for energy and marine applications	Energy Marine

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Additional Information

Rolls-Royce

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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.

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