

17 October 2014

ROLLS-ROYCE HOLDINGS PLC UPDATES 2014 AND 2015 GUIDANCE AND PROVIDES MEDIUM TERM OUTLOOK

In advance of our Marine Capital Markets Day at Ålesund in Norway on 21 October, we are giving updated guidance for 2014 and 2015 and, for the first time, a medium term outlook.

2014

In the last few months economic conditions have deteriorated and Russian trade sanctions have tightened, leading a number of customers to delay or cancel orders particularly in our Nuclear & Energy and Power Systems businesses. At the same time we have made good progress on cost which has limited the impact of these adverse trading conditions on the Group.

As a consequence we now expect Group underlying revenue in 2014 compared with 2013, to be around 3.5% to 4% lower (previously guided as flat), excluding adverse foreign exchange translation estimated at £500m (same as previously announced).

At a business level for underlying revenue:

- Guidance for Civil Aerospace revenue is maintained at +2% to +5%.
- Guidance for Defence Aerospace revenue is maintained at -15% to -20%.
- Guidance for Marine revenue is maintained at around -10%.
- Guidance for Power Systems revenue is maintained at +/-2%.
- Guidance for Nuclear & Energy revenue is reduced to 0% to +5% (previously +5% to +10%) reflecting market conditions and the impact of the impending sale of our Energy gas turbine and compressor business.

Reflecting improved cost performance, we are maintaining guidance for Group underlying profit as flat in 2014, excluding adverse foreign exchange translation now estimated at £60m (previously £70m) and the one-off £30m charge in Marine. We are determining what more can be achieved through further restructuring and rationalisation and will provide an update when this review is complete.

At a business level for underlying profit:

- Guidance for Civil Aerospace profit is improved to +15% to +20% (previously +8% to +12%) mainly as a result of improvements to lifecycle costs.
- Guidance for Defence Aerospace profit is improved to -12% to -15% (previously -15% to -20%).
- Guidance for Marine profit is maintained at -15% to -25%.
- Guidance for Power Systems profit is reduced to -5% to -10% (previously +5% to +10%) reflecting the impact of trade sanctions against Russia and weaker market conditions.
- Guidance for Nuclear & Energy profit is reduced to 0% to +10% (previously +30% to +40%) reflecting market conditions and the impact of the impending sale of our Energy gas turbine and compressor business.

We expect free cash flow for the full year to be around £350m (previously guided as similar to 2013 c. £780m), reflecting the decline in revenue, lower deposits in Energy and Marine and slower progress on inventory than planned.

2014 Impact of the Energy Gas Turbine and Compressor Disposal

The sale of our Energy gas turbine and compressor business to Siemens is likely to conclude by the year end. For reference, we have provided a reconciliation for 2013 that identifies the contribution made by the business being sold:

2013 (£m)	Group as published	Energy contribution	Group exc Energy
Revenue	15,505	871	14,634
Profit	1,759	72	1,687
Free cashflow	781	3	778

Equivalent Group guidance for 2014 excluding the Energy gas turbine and compressor business, is for underlying revenue to be 3% to 3.5% lower and profit around 1% higher than 2013 at constant exchange rates. This provides the basis for 2015 guidance.

We will commence the £1bn share buyback announced in June shortly after the sale has completed.

2015

Since our interim results, the economic outlook for 2015 has become more challenging. In response to these external factors we will increase our focus on areas we can control and we will accelerate progress on the 4Cs, particularly on cost, including headcount, footprint and sourcing.

The worsening market conditions are clearly being felt by a number of our customers and may affect the timing of their investment decisions, particularly in Power Systems and Marine. In Civil Aerospace, Trent 700 sales will be affected by the successful launch of the new Trent 7000.

We previously said that we expected a resumption of growth in 2015. In the light of these uncertainties, our current best estimate for 2015 is that Group underlying revenue will be in the range of +/-3% and profit in the range of 0% to -3% compared with our expected outcome for 2014 at constant exchange rates.

Medium Term Outlook

In the medium term, our business remains well positioned in growth markets. In Civil Aerospace, the market will strengthen, driven by increasing demand for travel in the emerging economies, and the need to replace older aircraft with new fuel efficient models. The value embedded in our installed base and order book carries with it an annuity of aftermarket services that will generate revenues for decades to come.

As described at our investor day in June, we currently expect OE volumes in Civil Aerospace to start to level out around 2018. Cash conversion and margin will improve as growth in OE output slows, products mature and the mix between OE and aftermarket services changes. However, even within Civil Aerospace, it is difficult to make medium term forecasts with precision. Variables include actual new orders (order cover in the medium term is around 55%), and execution of new programmes, operational performance and cost.

Based on this scenario and our assumptions we expect:

- Civil Aerospace Return on Sales of 14.5% to 15.5%.
- Civil Aerospace TCA peak debtor to be between £2.7bn and £3.0bn.

- Civil Aerospace peak Contractual Aftermarket Rights (CARs, formerly known as RECs) to be between £500m and £700m.
- Group Return on Sales of 13.5% to 14.5%.
- Group cash conversion of around 80%.

The medium term prospects for our Land & Sea division (previously called Marine & Industrial Power Systems or MIPS) remain attractive and are supported by the investment that will be required in power, transport and infrastructure to support population growth and increasing affluence. Key growth drivers include global trade, regulation and capital investment in the oil and gas, mining and construction industries. We are confident in the future growth of revenue and profit in this division but the timing, given its shorter cycle, is difficult to predict. Given the variables described above we will not be providing medium term guidance for Group revenue.

John Rishton, Chief Executive, said:

“While the short term is clearly challenging, reflecting the economic environment, the prospects for the Group remain strong, driven by the growing global requirement for cleaner, better power. The operational efficiencies already achieved and the cost programmes we will now accelerate will put us in a better position to benefit from these growth drivers”.

Conference Call: 08:00 (UK) Friday 17 October 2014

John Rishton (CEO) and Mark Morris (CFO) will host a WebEx conference call at 08:00 (UK) today. During the call, they will discuss the guidance update and medium term outlook. The conference call will be followed by a Q&A session that is expected to finish by 09:00 (UK).

Please find details of our conference call below:

Participant dial in details

UK Standard:	+44 (0)20 3364 5937
UK Toll free:	0808 2389714
Participant PIN:	445950#

For international dial in codes [CLICK HERE](#)

Participant WebEx link

Please access the WebEx via the following link using the event password **352090**:

<https://arkadin-event.webex.com/arkadin-event/onstage/g.php?t=a&d=701910644>

Prior to the call, you may test the link for WebEx as follows:

[Test My System Now](#)

Please note that you will need to join the WebEx and dial in to the call in order to simultaneously see the slides being used and hear the speakers. Anyone wishing to ask a question will be given instructions on how to do this once dialled in.

For those who cannot join the call live, a replay facility and any materials used during the call will be made available shortly afterwards on our website www.rolls-royce.com.

Rolls-Royce Marine Capital Markets Day 2014, 20-21 October

We will be holding a briefing 20/21 October in Ålesund, Norway, for institutional shareholders and research analysts.

The briefing will include presentations and tours about our Marine business. John Rishton, Mark Morris and members our Marine management team will be present. All presentations and Q&A sessions in Ålesund on Monday 20 and Tuesday 21 October will be webcast live.

In addition, we are planning two further investor days in the coming year, one of which will focus on our Aerospace division and the other on Power Systems.

Interim Management Statement

We will issue an Interim Management Statement as normal on 13 November.

For further information, please contact:

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About Rolls-Royce Holdings plc:

1. Rolls-Royce's vision is to create better power for a changing world via two main business segments, Aerospace and Land & Sea. These business segments address markets with two strong technology platforms, gas turbines and reciprocating engines.
2. Aerospace comprises Civil Aerospace and Defence Aerospace. Land & Sea comprises Marine, Nuclear & Energy and Power Systems. On 6 May 2014 Rolls-Royce announced it had signed an agreement to sell its Energy gas turbine and compressor business to Siemens for a £785m cash consideration. On completion, expected before the end of December 2014, Rolls-Royce will receive a further £200 million for a 25 year licensing agreement.
3. Rolls-Royce has customers in more than 120 countries, comprising more than 380 airlines and leasing customers, 160 armed forces, 4,000 marine customers, including 70 navies, and 1,600 energy and nuclear customers.
4. Our business is focused on the 4Cs:
 - Customer – placing the customer at the heart of our business.
 - Concentration – deciding where to grow and where not to.
 - Cost – continually looking to increase efficiency.
 - Cash – improving financial performance.
5. Annual underlying revenue was £15.5 billion in 2013, around half of which came from the provision of aftermarket services. The firm and announced order book stood at £70.4 billion at 30 June 2014.
6. In 2013, Rolls-Royce invested £1.1 billion on research and development. We also support a global network of 31 University Technology Centres, which position Rolls-Royce engineers at the forefront of scientific research.
7. Rolls-Royce employs over 55,000 people in 45 countries. Over 17,000 of these are engineers.
8. The Group has a strong commitment to apprentice and graduate recruitment and to further developing employee skills. In 2013 we employed 379 graduates and 288 apprentices through our worldwide training programmes. Globally we have over 1,000 Rolls-Royce STEM ambassadors who are actively involved in education programmes

and activities; we have set ourselves a target to reach 6 million people through our STEM outreach activities by 2020.