

Strategy

John Rishton

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Rolls-Royce

Overview of morning

Strategy

Capital allocation & guidance

TotalCare[®]

Q&A



Strategy – evolution, not revolution

Customer

Place the customer at the heart of the organisation

Understand and shape their requirements

Relentless focus on delivering our promises

Innovation

Value innovation in everything we do

Ensure competitive technology ahead of product requirements

Establish an environment and culture in which innovation thrives

Profitable growth

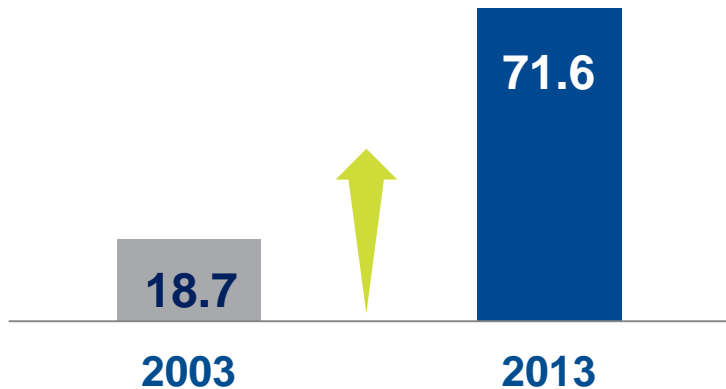
Grow our market share and installed base

Competitive portfolio of products and services

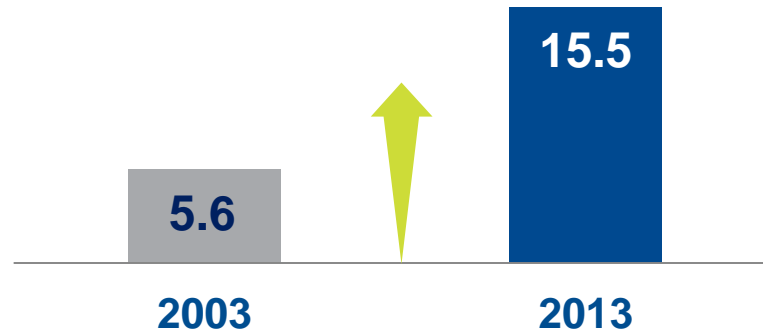
Focus on cost and cash

Consistent long-term delivery

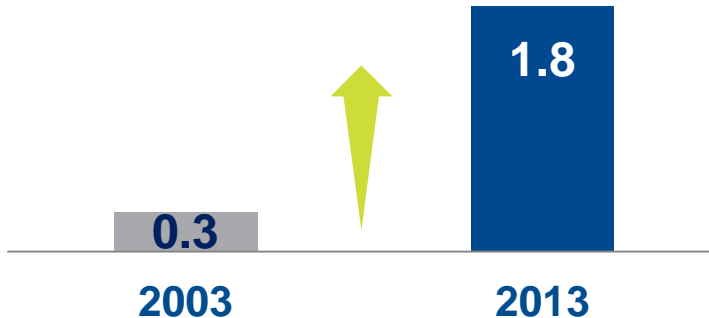
Order book (£bn)



Revenue (£bn)



Profit (£bn)



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Rolls-Royce

Who we are

“ ...for use on land or water or in the air.”*

Group

Rolls-Royce
Complex power systems & services group

Power

Gas turbines

Reciprocating engines

Nuclear

Systems

LiftFan, engine controls, propulsion, deck machinery, I&C

Services

Aftermarket services

Divisions

Aerospace

Marine & Industrial Power Systems

Businesses

Civil
Aerospace

Defence
Aerospace

Power
Systems

Marine

Nuclear

* from Rolls-Royce Ltd. Memorandum & Articles of Association 1904

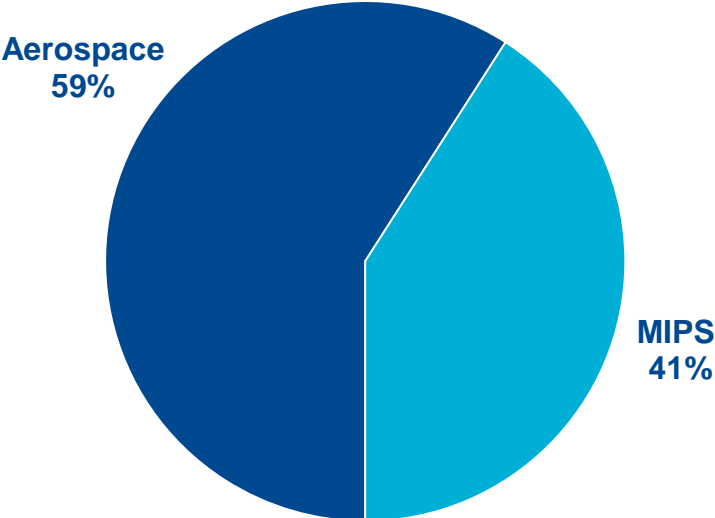
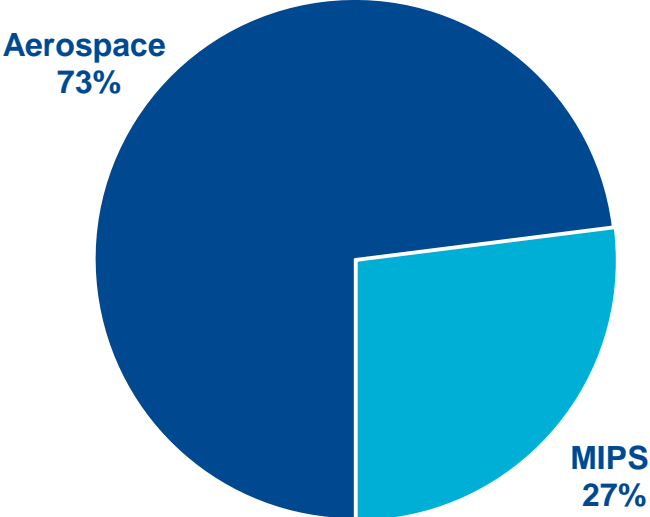
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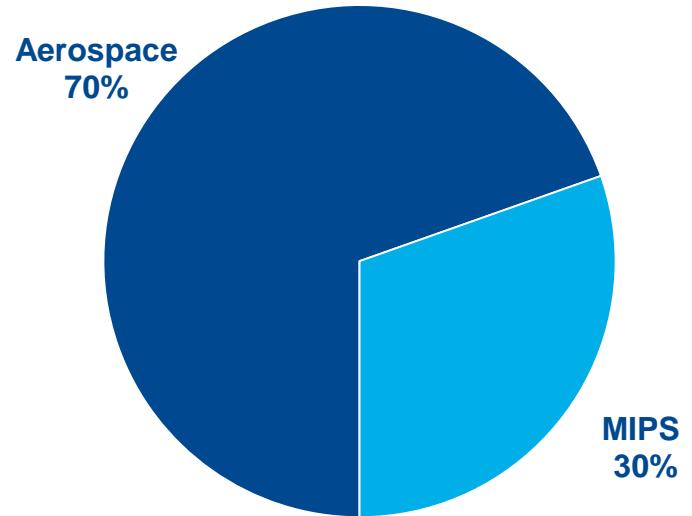
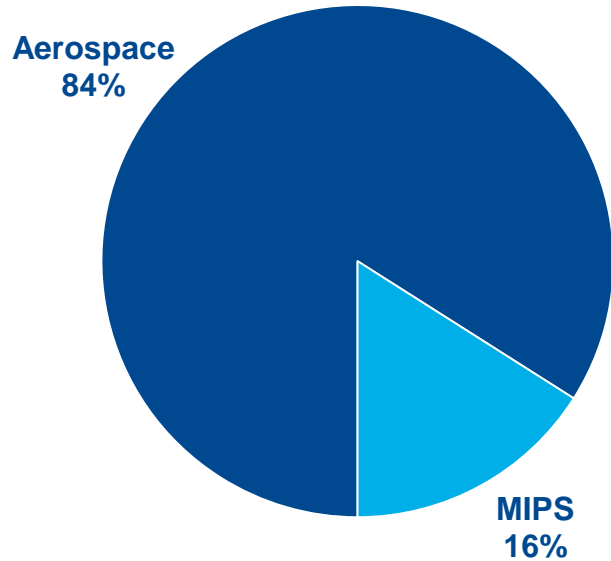
Strong growth and better revenue balance

2003: £5.6bn — 11% CAGR → 2013: £15.5bn



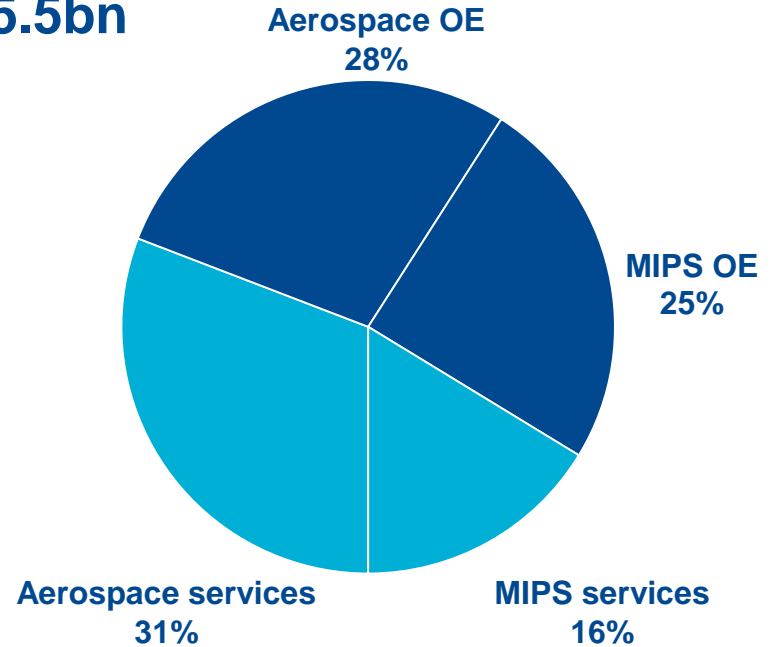
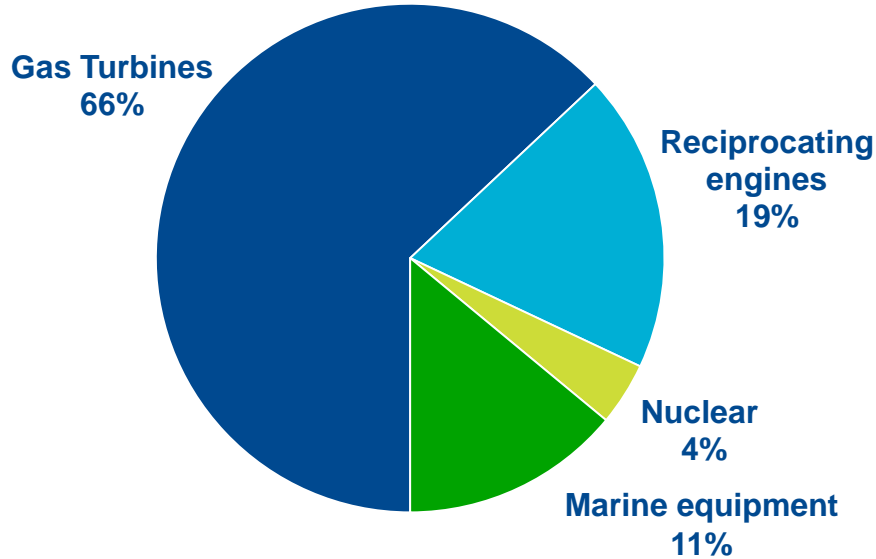
Strong growth and better profit balance

2003: £0.4bn — 17% CAGR → 2013: £1.8bn



Balanced revenue by product & type

2013: £15.5bn



Growth and balance driven by portfolio approach

Similar ROCE, complementary profiles

Civil gas turbines

Reciprocating engines

ROCE*	18% - 23%	25% - 30%
Investment risk	High	Low
Entry barriers	High	Medium
Net R&D spend	~£1bn	~£150m
Capex	~£0.5bn	~£100m
Programme launch to EIS	5 – 7 years	3 - 5 years
EIS to cash neutral	10 - 15 years	3 -10 years

** Based on Rolls-Royce and Goldman Sachs analysis*

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Our 5 priorities

Fix the Basics – “4C’s”

Culture

Wide body civil GTs

Narrow body civil GTs

Medium-speed recipis

Bedrock

Investment choices

Fix the basics: the "4C's"

Customer

Concentration

Cost

Cash



Customer

On time delivery – trend improving but much more to do

	On time to customer		On time to internal plan	
	2013	2012	2013	2012
Civil Aerospace	100%	80%	25%	4%
Defence Aerospace	93%	88%	39%	7%
Marine	95%	55%	77%	30%

Concentration

Focus on where we add most value

	When	What	Why
Sold	2014	Energy gas turbine business to Siemens	Scale
	2013	RTM322 helicopter engine business	Non-core
	2012	Tidal Generation, Fuel Cells	Non-core
Bought	2011 - 2014	Tognum	Product
	2011 - 2013	Various Civil Nuclear businesses	Technology
	2010 - 2012	Aero Engine Controls	Technology

Cost

Area	Action
Product redesign	<ul style="list-style-type: none">• 600 engineers
Structural change	<ul style="list-style-type: none">• LCC sourcing to 40% by 2020• 20% lower footprint by 2020
New manufacturing Plants & technology	<ul style="list-style-type: none">• New plants hitting targets• 160 new projects via AMRCs
Logistics & inventory	<ul style="list-style-type: none">• Reduce logistics costs - 20%• Continue to improve inventory turns
Lean enterprise	<ul style="list-style-type: none">• Substantial reduction in time to market• Adopting automotive industry practices
Overheads	<ul style="list-style-type: none">• Indirect headcount down 11%• Business Process Optimisation – 20% opportunity

Cash

Type	2013	Action
Capex spend	£0.7bn	Drive down from current 4.9% revenue to c. 4% in next 3-5 years.
R&D spend	£0.8bn	Ease as % of revenue
Inventory year-end total	£3.3bn	Continue to drive turn times by reducing buffers, improving productivity and increasing manufacturing stability.

Cash

Inventory turns improving but more to do

	2013	2012
Civil	3.4	3.0
Defence	4.6	3.4
Marine	3.6	3.4
Group	3.4	3.0

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Investment choices

Culture

Importance of culture:

“Culture eats strategy for breakfast”

Innovation

Cost

Ethics

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Narrow body civil GTs

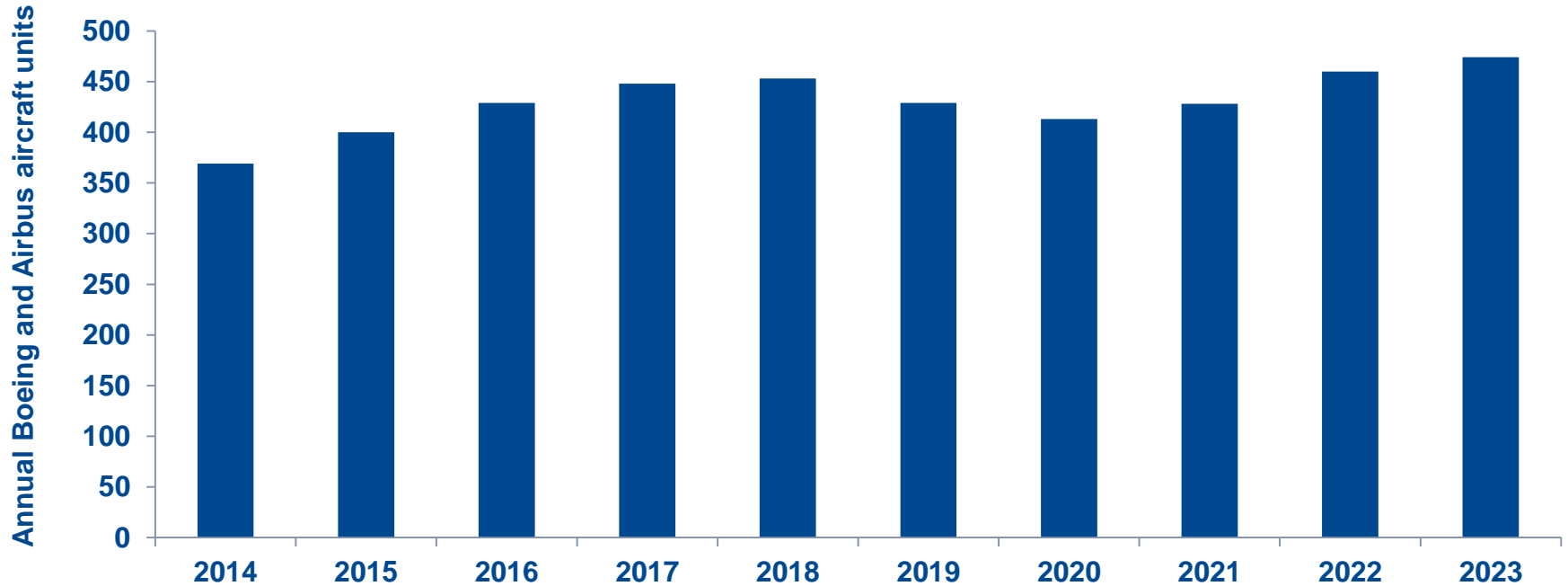
Medium-speed recipis

Bedrock

Investment choices

Wide body aircraft deliveries to 2023

Over 4,000 deliveries vs. over 2,000 in last decade



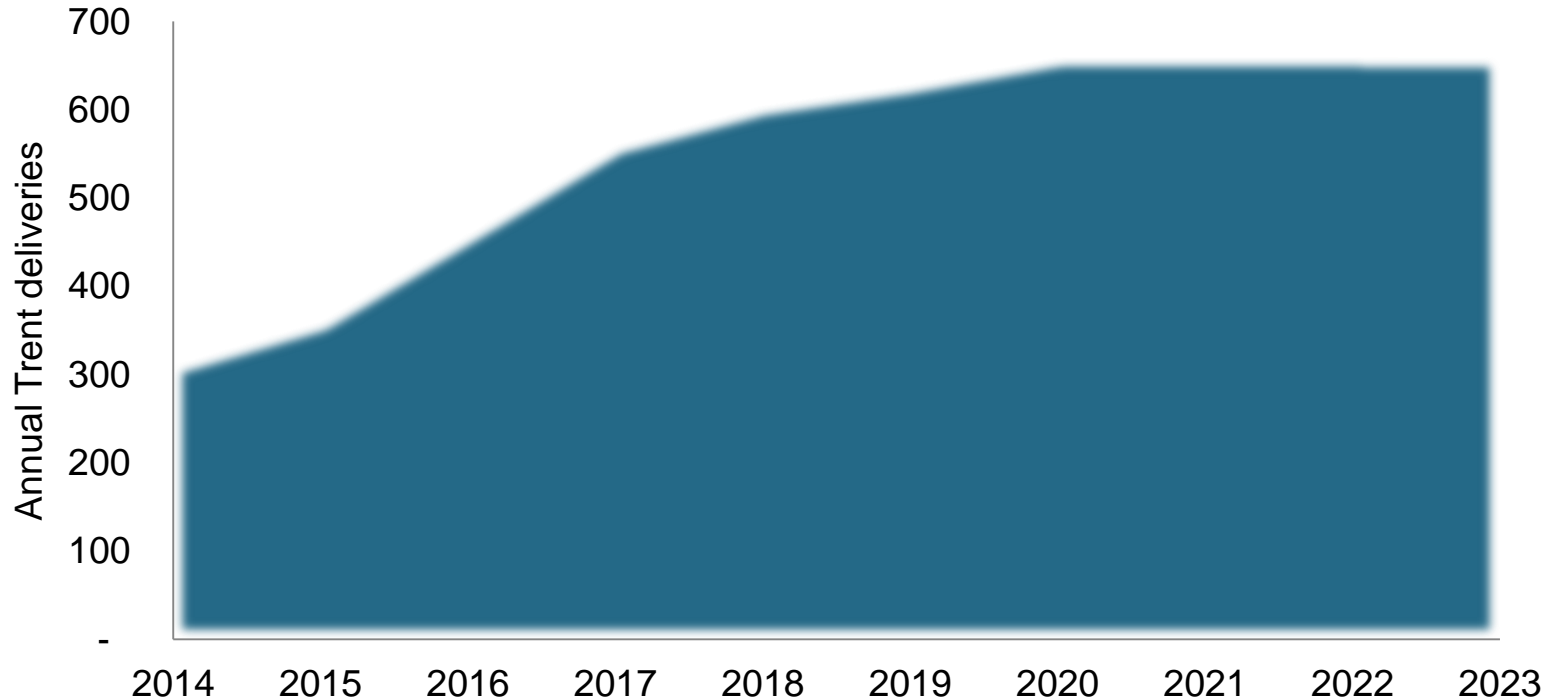
Source: Jefferies.

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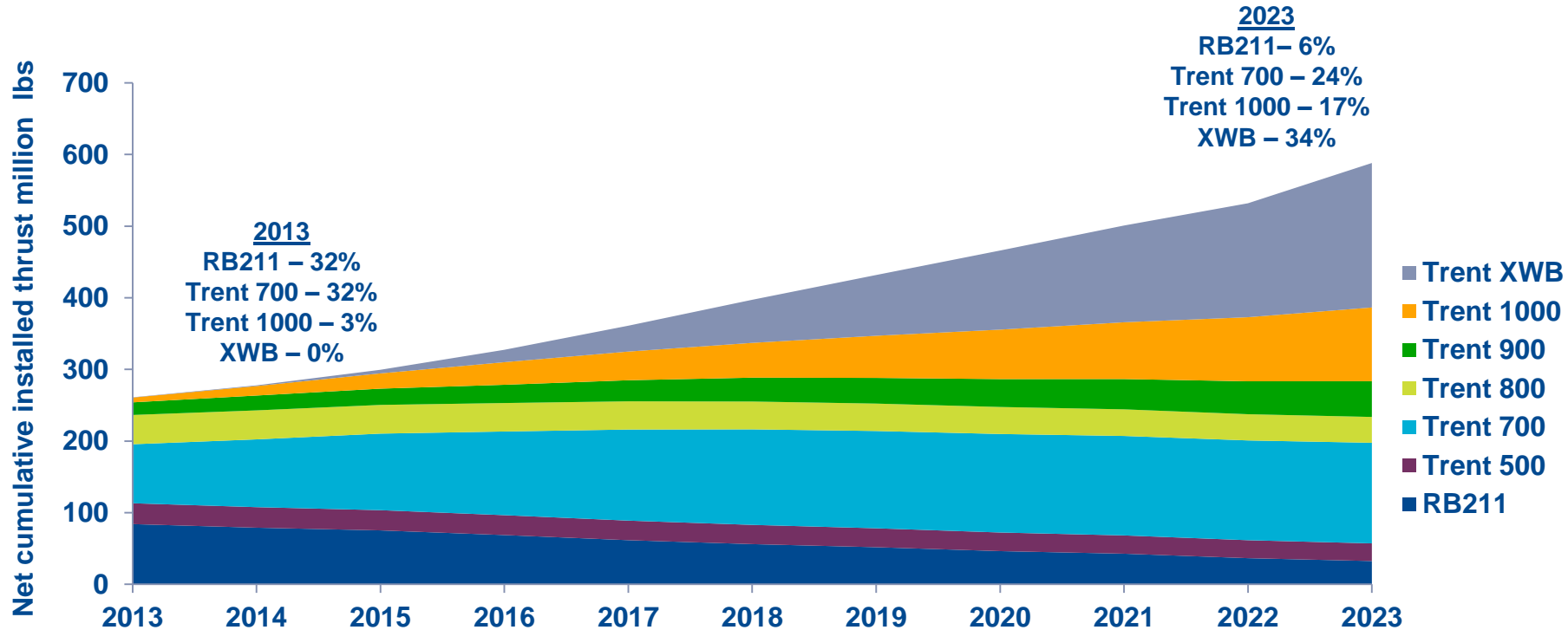
Projected Trent deliveries to 2023

Over 4,000 deliveries vs. over 1,600 in last decade



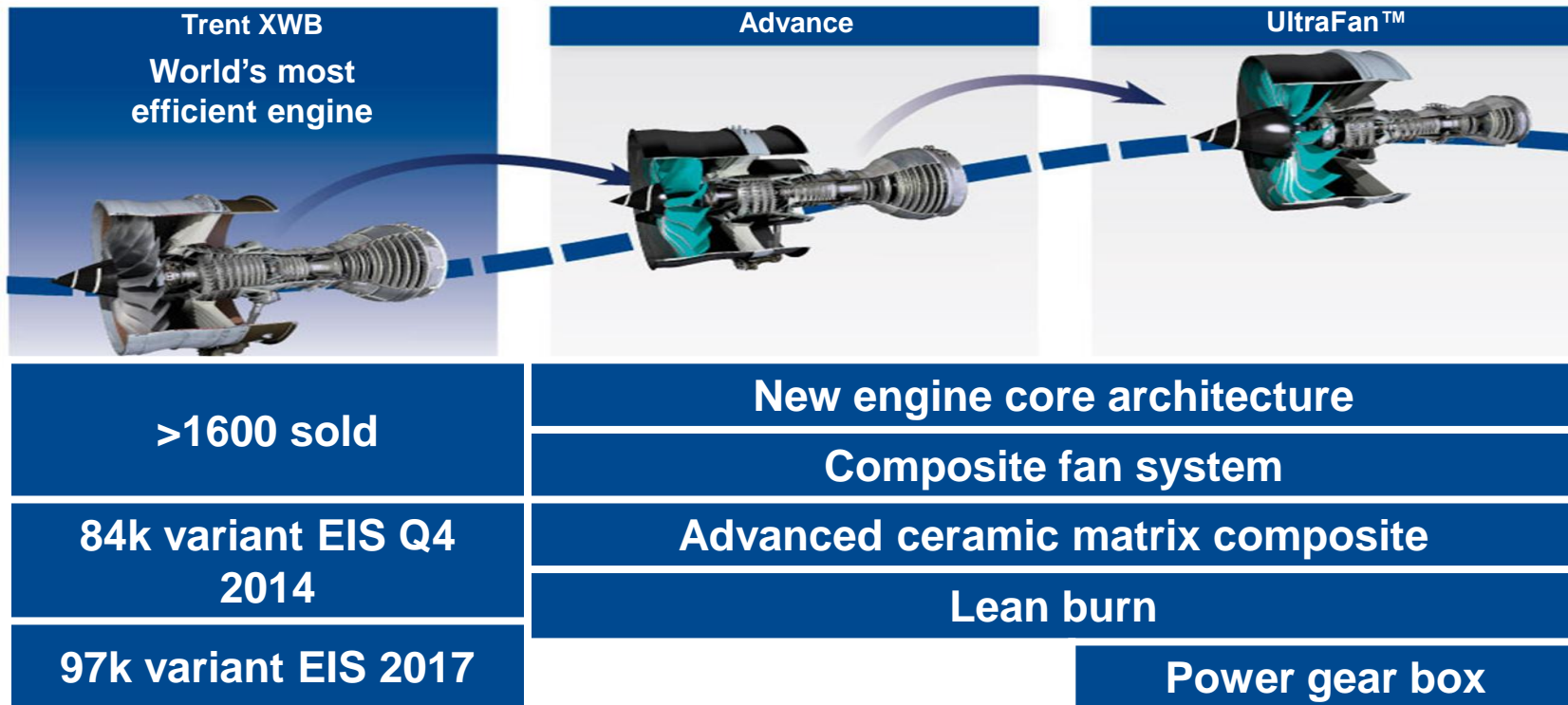
Rolls-Royce wide body installed thrust

More than doubles in next decade



Future products

Continuous improvement essential to remain competitive



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Narrow body civil GTs

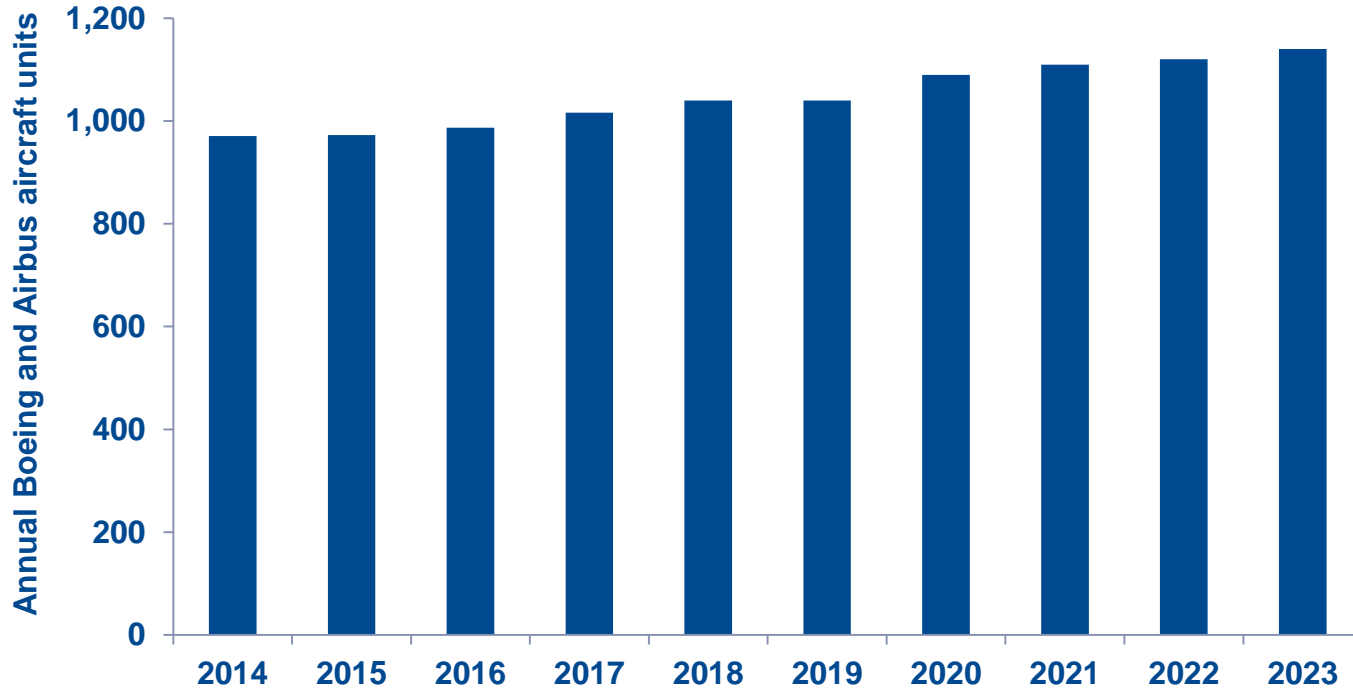
Medium-speed recipis

Bedrock

Investment choices

Narrow body deliveries to 2023

71% market units, 48% market value



Benefits

- Customer intimacy
- Technology
- Volume
- Large market

Source: Jefferies

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Medium-speed recipis

Bedrock

Investment choices

Low speed recip characteristics

rpm	50 - 300
Power (MW)	3 - 85
Weight (tonnes)	50 – 2400
Length (m)	4 – 24
Fuel type	Diesel (HFO), gas
Competitors	MAN Diesel, MHI
Typical uses	Large merchant vessels



High speed recip characterisitics

rpm	1000 – 2500+		
Power (MW)	<1 – 10		
Weight (tonnes)	<1 - 40		
Length (m)	<1 - 8		
Fuel type	Diesel (distillate), gas		
Competitors	Caterpillar, Cummins, Yanmar, GE Jenbacher, Volvo Penta, Weichai		
Typical uses	Marine leisure craft, naval, construction, rail, mining, standby PG etc.		
Features	<ul style="list-style-type: none">• Common technologies and shared R&D with medium speed• Volume production enables lower unit cost		

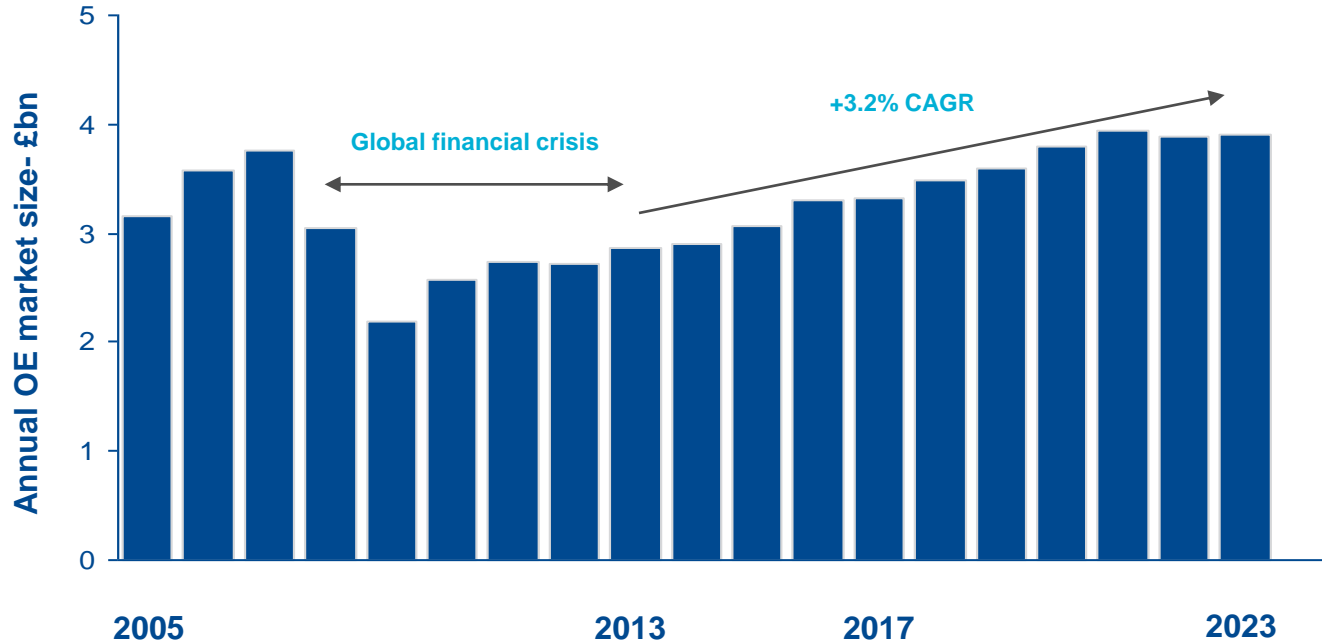
Medium speed recip characteristics

rpm	300 – 1000
Power (MW)	1 – 25
Weight (tonnes)	18 – 350
Length (m)	3 – 14
Fuel type	Diesel (distillate, residual/HFO), gas
Competitors	Wärtsilä, MAN Diesel, Caterpillar, Hyundai, Niigata
Typical uses	Offshore, small-medium merchant, distributed PG <ul style="list-style-type: none">• Extensive use in Offshore industry (complex, mission-critical etc.)
Features	<ul style="list-style-type: none">• Opportunities in land PG• Access to larger merchant marine market enables pull through



Medium speed market

Growing marine and land power forecast



Market growth drivers:

- GDP
- Population growth
- Emerging markets power generation demand
- Environmental legislation
- Oil price
- Gas price / availability
- £35bn market to 2023

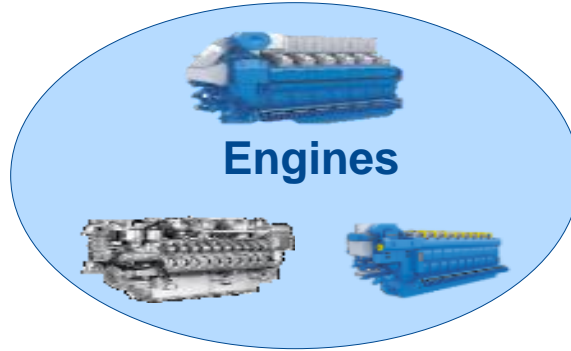
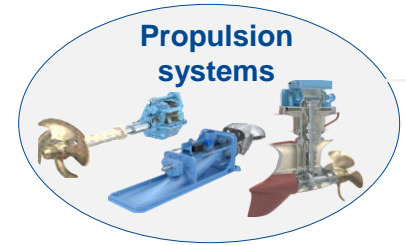
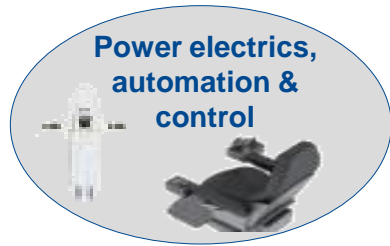
Source: Rolls Royce - data excludes Marine auxiliary engines

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Portfolio pull through

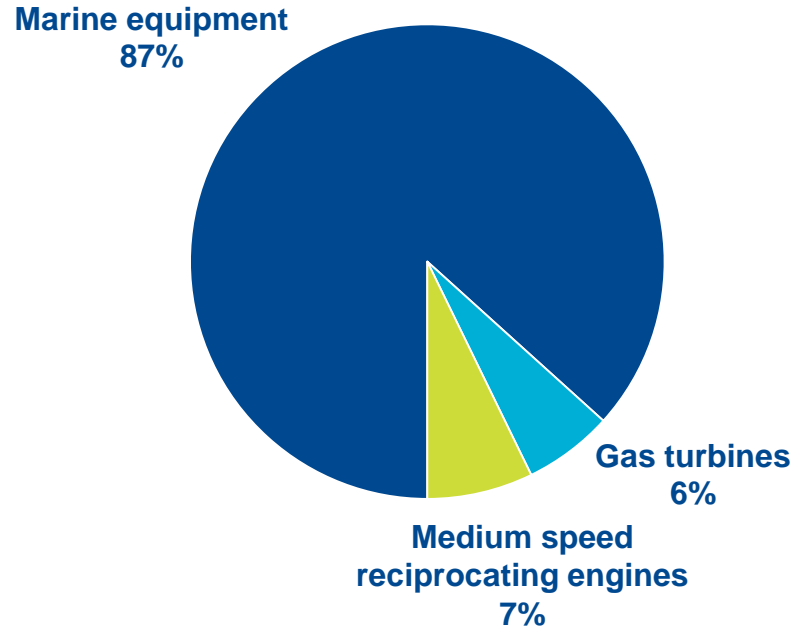
Each product gives access to others



- Early customer engagement
- Access systems integration opportunities
- Portfolio helps pull-through of other equipment

Marine revenue strong in by product type

2013: £2.0bn* - strong in marine equipment



* pro-forma excluding Submarines revenue to be reported in Energy & Nuclear from FY14

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Summary

Strong position in growth markets

Concentrating on what we know

Significant opportunities