

6 July, 2015

ROLLS-ROYCE UPDATES 2015 GUIDANCE AND IMPLICATIONS FOR 2016

We are today updating our 2015 guidance, including a preview of our expected half-year results, and at the same time identifying a number of market developments in 2015 that are now expected to have a more significant impact in 2016. These primarily relate to Civil Aerospace markets, particularly for our Trent 700 engines during their transition to the new Trent 7000, business and regional jets, and in the offshore markets for our Marine business.

Significant market pressures in 2015 and 2016

- 2015: Civil Aerospace guidance unchanged - Trent 700, business jet and regional aftermarket headwinds offset by higher-than-expected benefits from contract provision releases and widebody aftermarket growth
- 2016: Civil Aerospace net headwinds of around £300m due to Trent 700, business jet and regional jet aftermarket weakness
- 2015 and 2016: Offshore markets continue to weaken, reducing our Marine profit by around £85m in both years

Notwithstanding these expected headwinds we continue to believe that the Group can achieve significant improvements to returns and cash flow, albeit later than previously indicated.

2015 Full Year

Overall, performance for 2015 for the bulk of our business is expected to be broadly in line with previous guidance. However, further deterioration in the offshore market is now expected to impact full year profit for Marine.

Guidance for 2015 revenue is unchanged for the full year. Group underlying profit before tax is now expected to be between £1,325m to £1,475m, compared to previous guidance of £1,400m to £1,550m, reflecting the deterioration in offshore. Free cash flow for 2015 is now expected to be between £(150)m and £150m, compared to previous guidance of between £50m and £350m. Given the weaker near-term cash outlook, we will discontinue

the current share buyback programme, having completed £500m of the planned £1bn programme in the first half of the year.

In Civil Aerospace, we continue to expect 2015 underlying revenue and profit within the guided range provided in February of £7,000m to £7,300m and £800m to £900m respectively. However, we now expect the impact of reduced Trent 700 deliveries to be greater than initial estimates, reflecting further adverse developments in the demand for OE and spare engines and related pricing. In addition, lower-than-expected demand for engines to power business jets and a softening regional aftermarket will also adversely impact profit. These market headwinds should be balanced by good growth in our widebody aftermarket and a larger-than-expected benefit from the reversal of a balance sheet provision on the Trent 1000 launch, as a result of an expected significant improvement in operating performance, and by improved retrospective TotalCare contract profitability. The value of the provision release and contract profitability are expected together to contribute around £200m, somewhat more than previously expected.

We now expect our Marine underlying profit to be between break even and £40m, compared to previous guidance of between £90m and £120m. We are reviewing further cost reduction and restructuring activities in Marine to improve performance which, including asset impairments, is expected to result in an exceptional charge of £70m to £100m which will be recognised outside underlying profit.

2015 Half Year

As outlined in May, we continue to expect 2015 underlying profit before tax to be phased more to the second half than in 2014, led principally by Civil Aerospace and Power Systems. As a result, first half underlying profit before tax is expected to be between £390m and £430m, or around 30% of the full year, compared with roughly 40% in 2014. Free cash flow is expected to be between £(570)m to £(620)m compared with £(347)m in the first half of 2014.

We will provide full details of our Interim results on 30 July.

Implications for 2016

Taken together, the recent changes in demand and pricing for our Trent 700 programme, which is transitioning to Trent 7000, combined with the reduced demand for our business jet engines and a softer regional aftermarket, are expected to create a £300m net Civil Aerospace profit headwind into 2016. An improving large engine aftermarket, led by our

higher installed base, and the net £90m benefit of restructuring should largely offset the likely lower level of TotalCare and other adjustments in 2016. Many of the changes will not impact cash flows and as a result cash conversion is expected to improve.

Looking Further Ahead

The successful roll-out of new engines, led in particular by the Trent XWB, 1000 and 7000, together with a growing aftermarket, is expected to drive significant revenue growth over the next ten years as we build toward a 50% share of the installed wide-bodied passenger market. While the impact of the transition to the Trent 7000 has reduced Trent 700 deliveries, and held back Civil Aerospace profit in the near term, we are confident that the important investments we are making to transition our production will create a strong platform to drive customer service, improved margins and strong cash flows. In addition, initiatives to reduce cost and increase focus within the Marine and Power Systems businesses should help drive good performance improvements and support a growing profit contribution from our Land & Sea division as the company continues to reinforce its role as a leading provider of Better Power for a Changing World.

Warren East, Chief Executive, said:

“I have joined Rolls-Royce because I recognise the fundamental strength of the business and the scale of the opportunities available to it. This is a company with exceptional technology and outstanding long-term prospects. However, I am clearly disappointed by today’s announcement and the impact this will have on our investors and employees. Notwithstanding the market developments, it is our responsibility to build a business that is sustainable and resilient no matter what is thrown at us and this will be my fundamental priority for the next few years.”

“In the near term we have to manage the important transition from the Trent 700 to the new Trent 7000 and build our capacity to service the Trent 1000 and XWB programmes. In addition, our Marine business needs to overcome its offshore market headwinds and rebuild a consistent trend of improving revenues and margins. Our immediate priority is to find the performance improvements needed to deliver these goals and ensure that this world-class business continues to meet the needs of its customers and shareholders alike.”

Investor Briefing and Conference Call: 8:30 (UK) 6 July

Warren East, CEO, and David Smith, CFO, will host a conference call and Q&A from 8:30 to 9:30am 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: **694230#**

Please access the WebEx via the following link using the event password: **368540**

<https://arkadin-event.webex.com/arkadin-event/onstage/g.php?d=708568114&t=a>

Interim Results

We will issue our 2015 Interim results on 30 July, with an investor briefing and live webcast beginning at 8:30am UK.

For further information, please contact:

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Further information about today's call:

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 is available via:

Audio Playback Numbers: UK Toll Number: +44 (0)207 075 6589

UK Toll-Free Number: 0800 376 5689

Audio Playback Reference: 368540#

About Rolls-Royce Holdings plc:

1. Rolls-Royce's vision is to create better power for a changing world via two main business divisions, Aerospace and Land & Sea. These business divisions address markets with two strong technology platforms, gas turbines and reciprocating engines. Aerospace comprises Civil Aerospace and Defence Aerospace. Land & Sea comprises Marine, Nuclear and Power Systems.
2. 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 more than 5,000 power and nuclear customers.
3. 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.
4. Annual underlying revenue was £14.6 billion in 2014, around half of which came from the provision of aftermarket services. The firm and announced order book stood at £73.7 billion at the end of 2014.
5. In 2014, Rolls-Royce invested £1.2 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.
6. Rolls-Royce employs over 54,000 people in more than 50 countries. Over 15,500 of these are engineers.
7. The Group has a strong commitment to apprentice and graduate recruitment and to further developing employee skills. In 2014 we employed 354 graduates and 357 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.