

2015 Half Year Results

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- **Financial Review**
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 - guidance
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- **Conclusions**

Warren East

David Smith

Warren East



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Highlights

Warren East, Chief Executive

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Highlights

- **Order book up £2.8bn to £76.5bn, 4% higher**
- **Underlying revenue down 3% to £6.3bn**
- **Underlying profit before tax down 32% to £439m**
- **Free cash outflow of £576m (H1 2014: outflow of £347m)**
- **Payment to shareholders up 3% to 9.27p per share**



Financial Review

David Smith, Chief Financial Officer

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Group highlights of H1 2015 performance

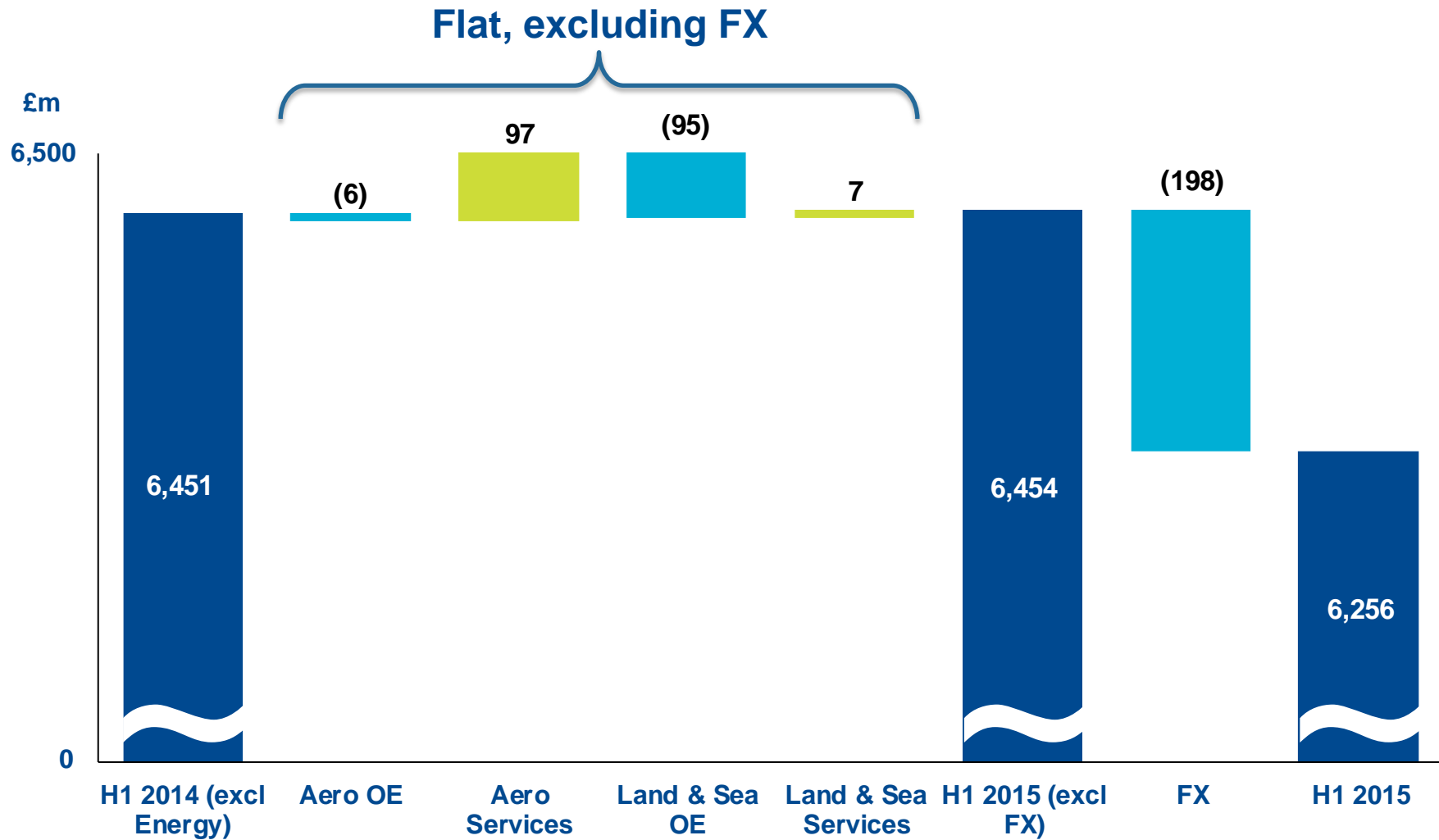
	H1 2014	H1 2015
Order book	£73.7bn*	£76.5bn
Revenue	£6.5bn	£6.3bn
<i>Including divested Energy business</i>	£6.8bn	
Profit before tax	£646m	£439m
<i>Including divested Energy business</i>	£644m	
Return on sales	10.5%	7.3%
<i>Including divested Energy business</i>	9.9%	
Free cash flow	£(347)m	£(576)m
<i>Including divested Energy business</i>	£(432)m	
Earnings per share	25.7p	18.3p
<i>Including divested Energy business</i>	25.6p	
Payment to Shareholders	9.0p	9.27p

* 2014 order book is 2014 year-end

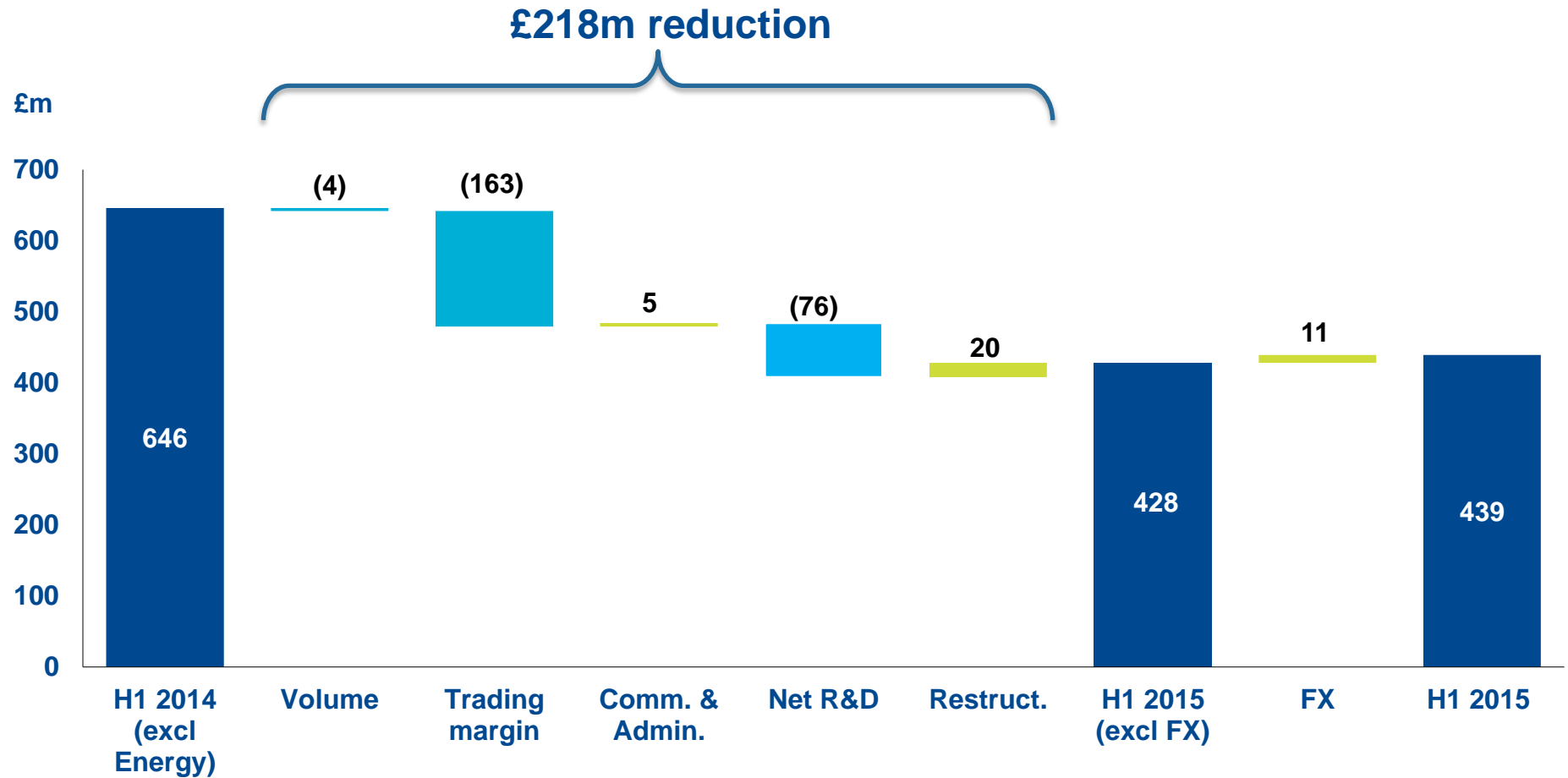


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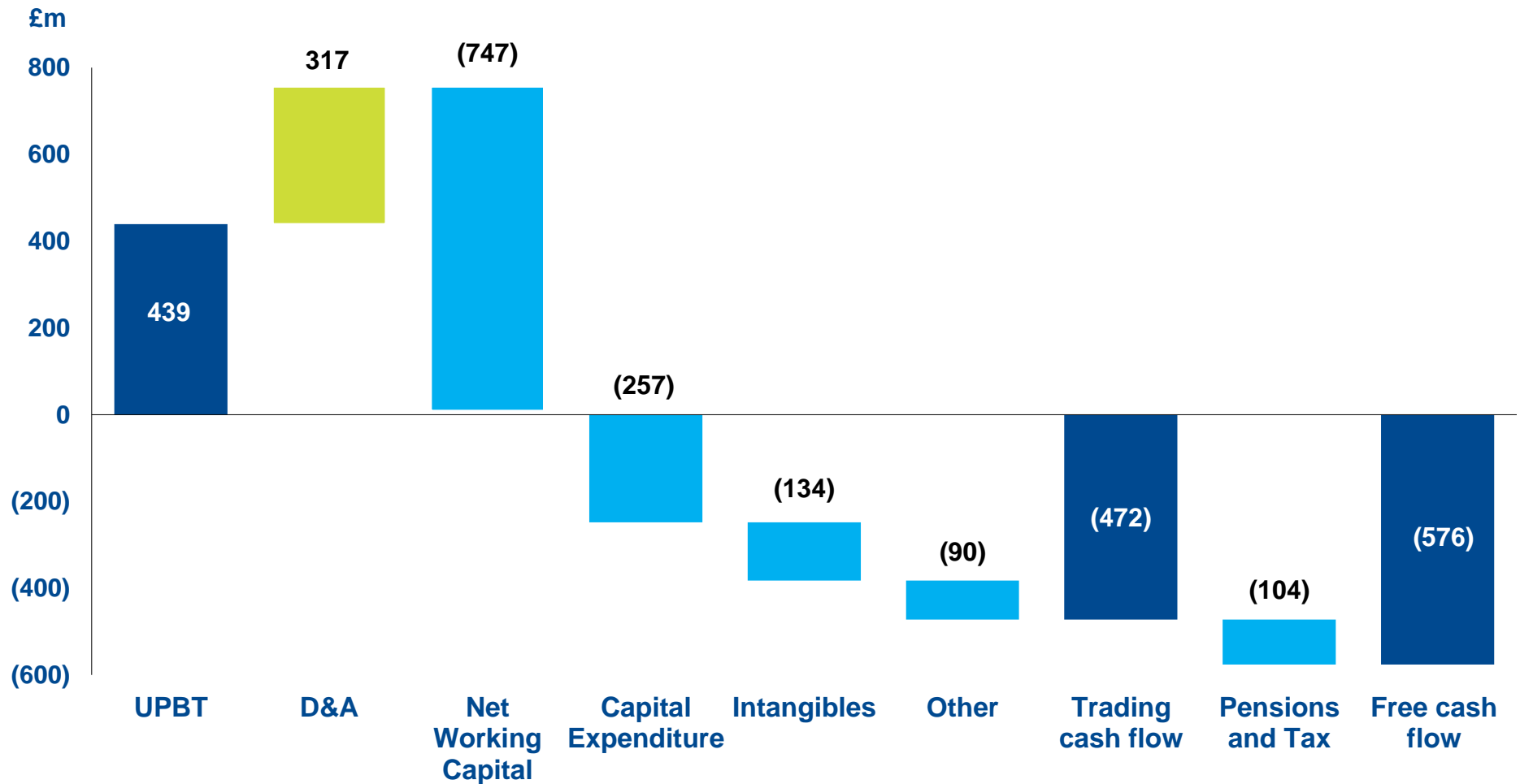
Group revenue H1 2015 vs. H1 2014



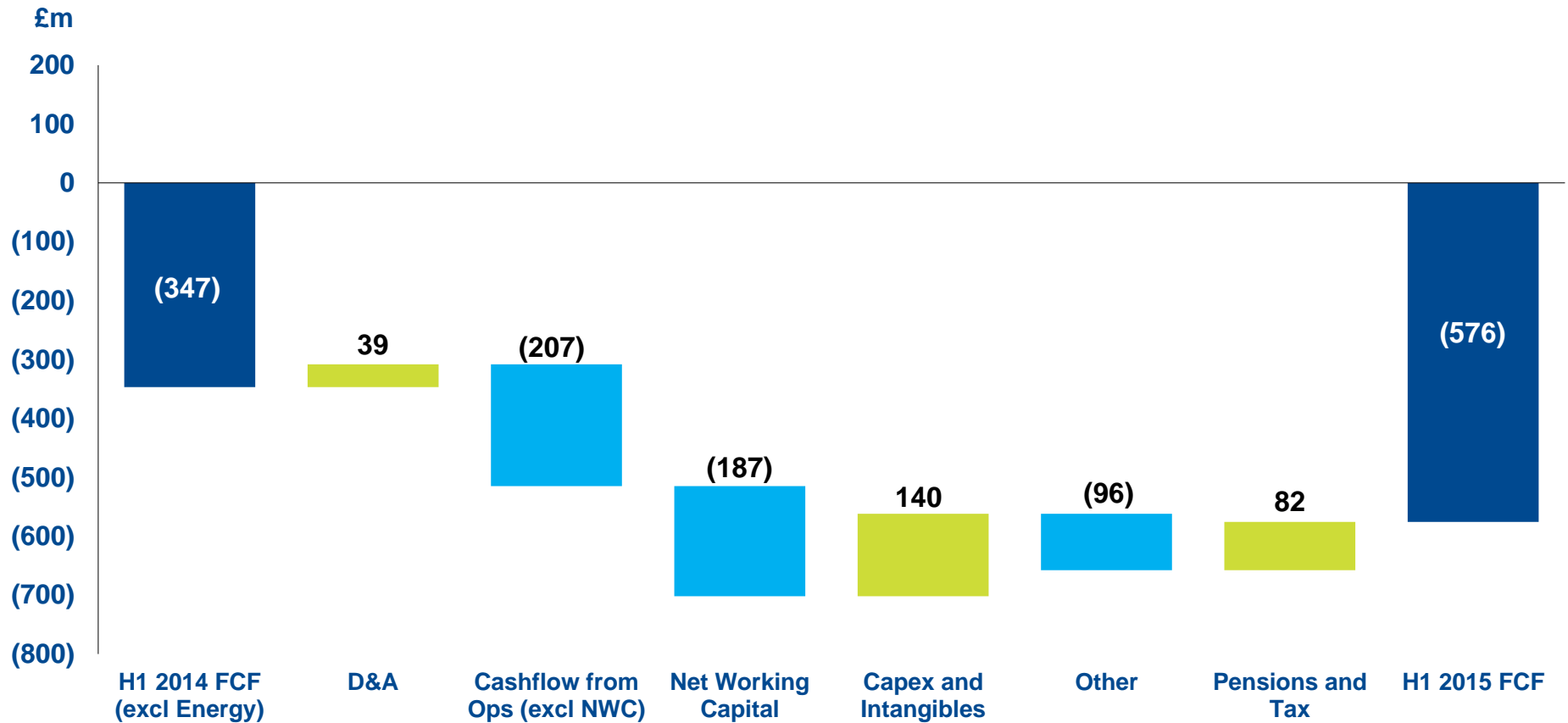
Group profit H1 2015 vs. H1 2014



Group H1 2015 profit vs. free cash flow



Group free cash flow H1 2015 vs. H1 2014

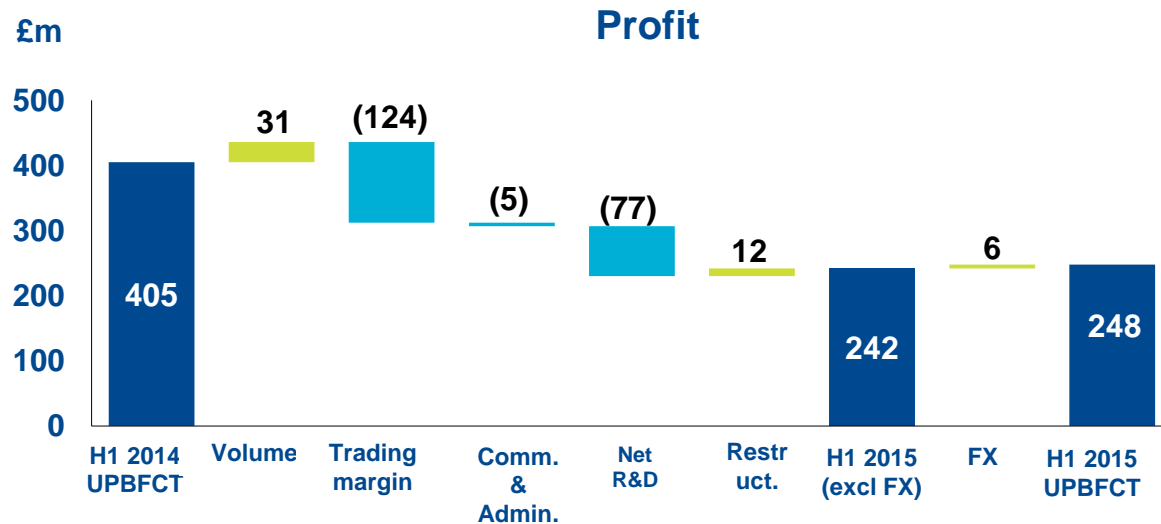
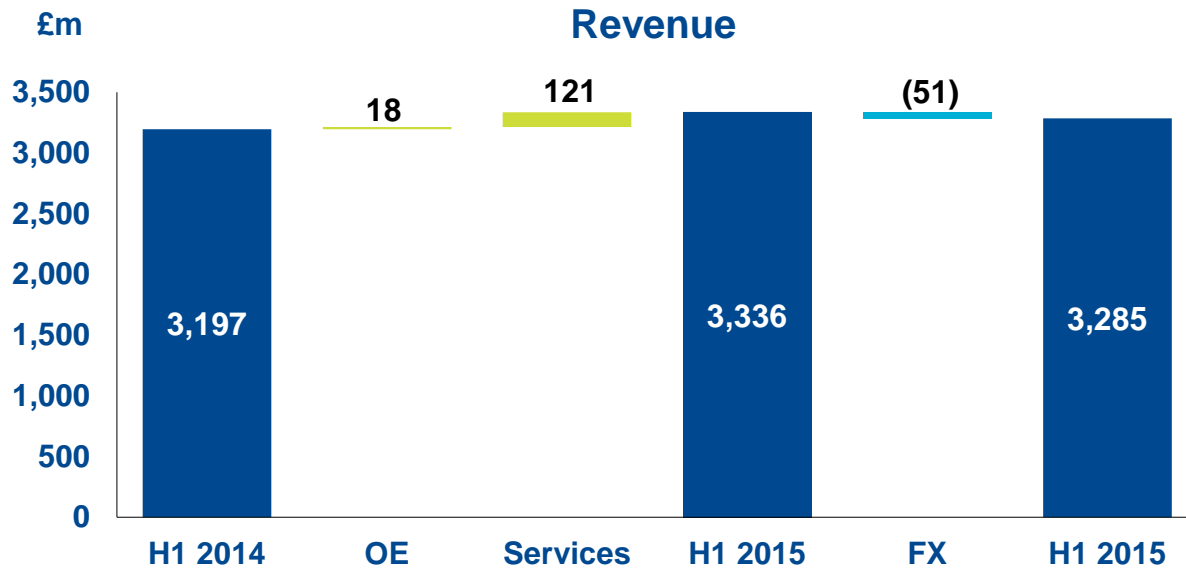


Group financial strength

Credit rating	S&P: A/Stable Moody's: A3/Stable <i>Maintain investment-grade rating</i>
Strong liquidity	Total liquidity £3.4 billion
Debt maturities	Spread to 2026 Maturities: 2015 - \$83m Private Placement 2016 - £200m bond & €125m EIB loan
Risk management	Foreign exchange and commodity hedging



Civil Aerospace



H1 Drivers

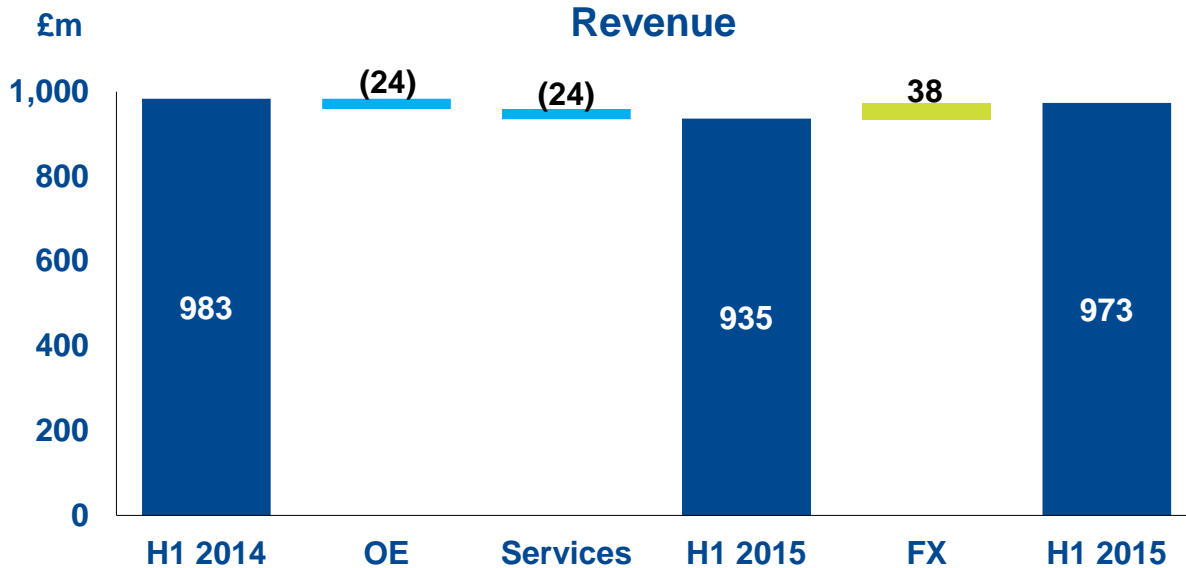
- Order book up 5%
- Services growth in Trent engines
- Profit reduction from mix deterioration and higher R&D

H2 Drivers

- OE order coverage 97%
- Volume and aftermarket improvements
- Trent 1000 contract provision release
- Restructuring benefits

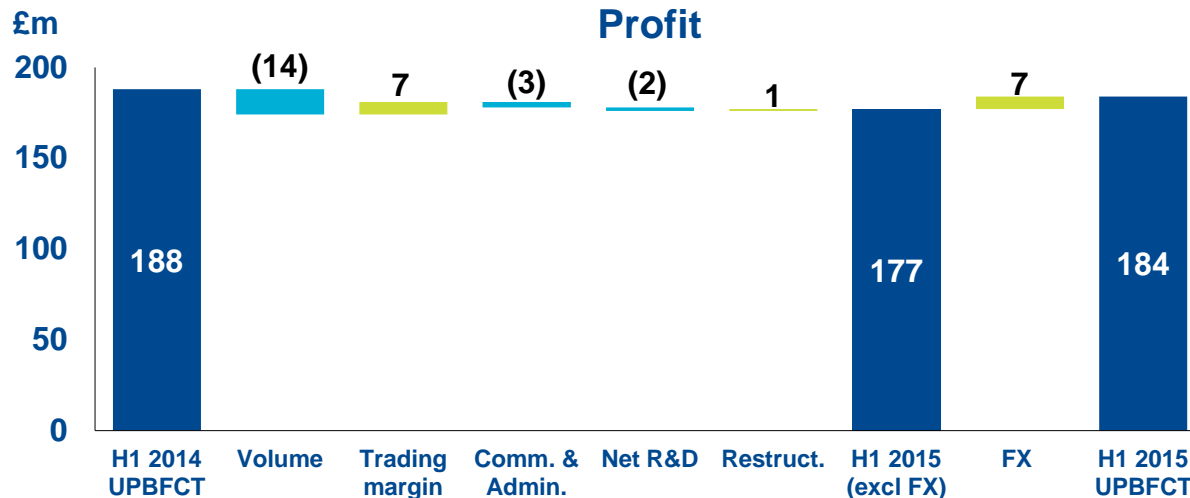


Defence Aerospace



H1 Drivers

- Order book down 3%
- Modest sales reduction in helicopter and trainer OE
- Profit reduction volume driven

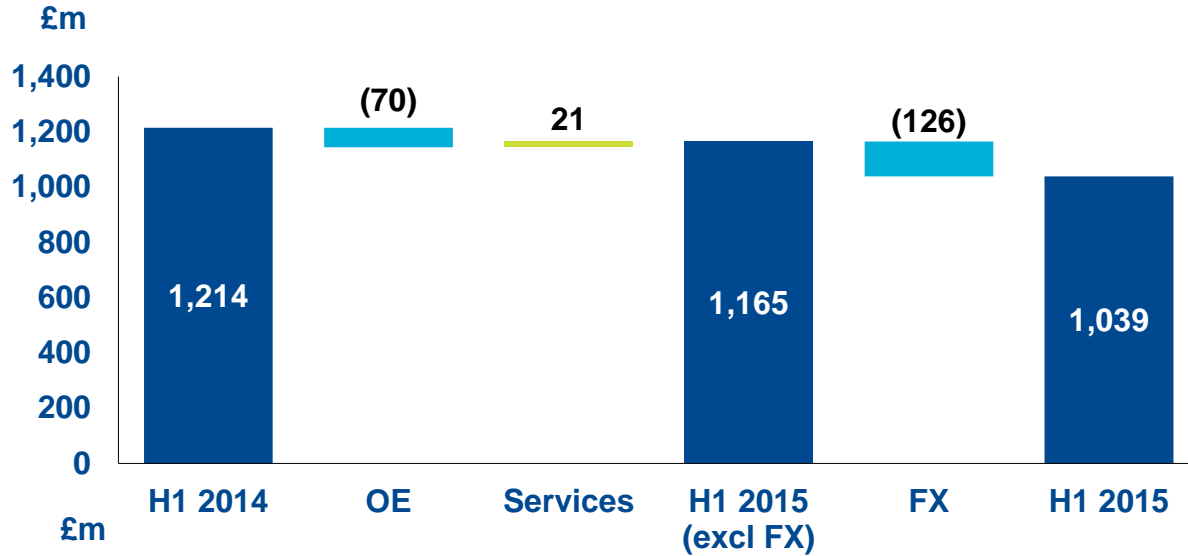


H2 Drivers

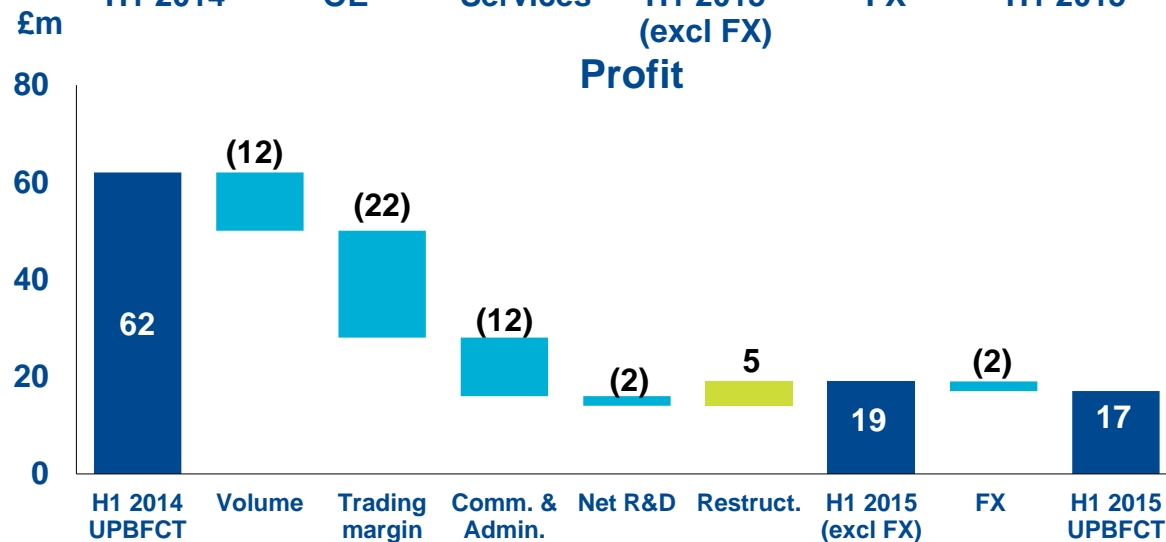
- OE order coverage 97%
- Stable underlying business



Revenue



Profit



H1 Drivers

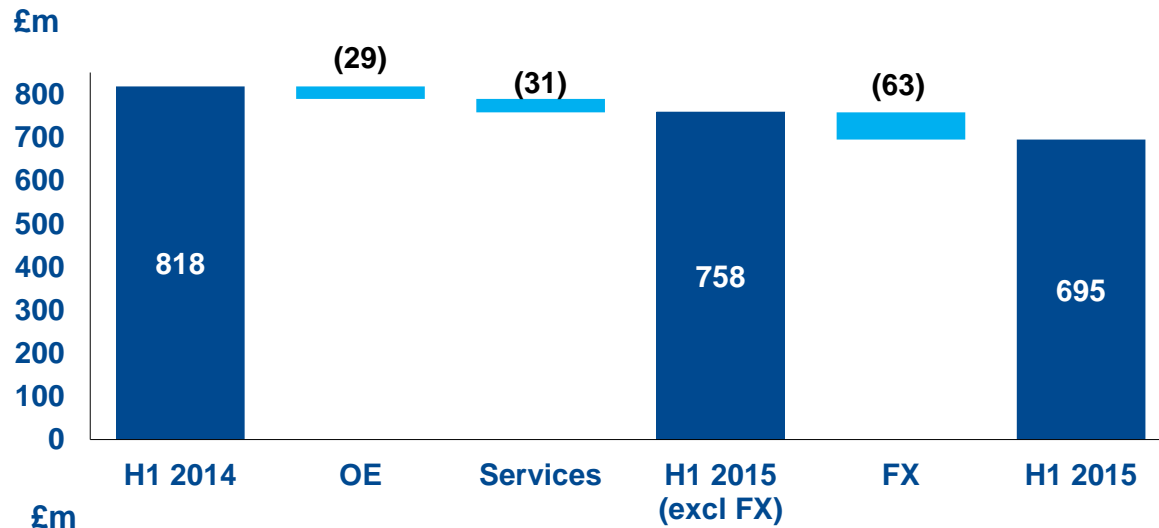
- Order book up 12%
- Reduced demand for naval marine products
- Reduced profit from volume reduction and adverse business mix

H2 Drivers

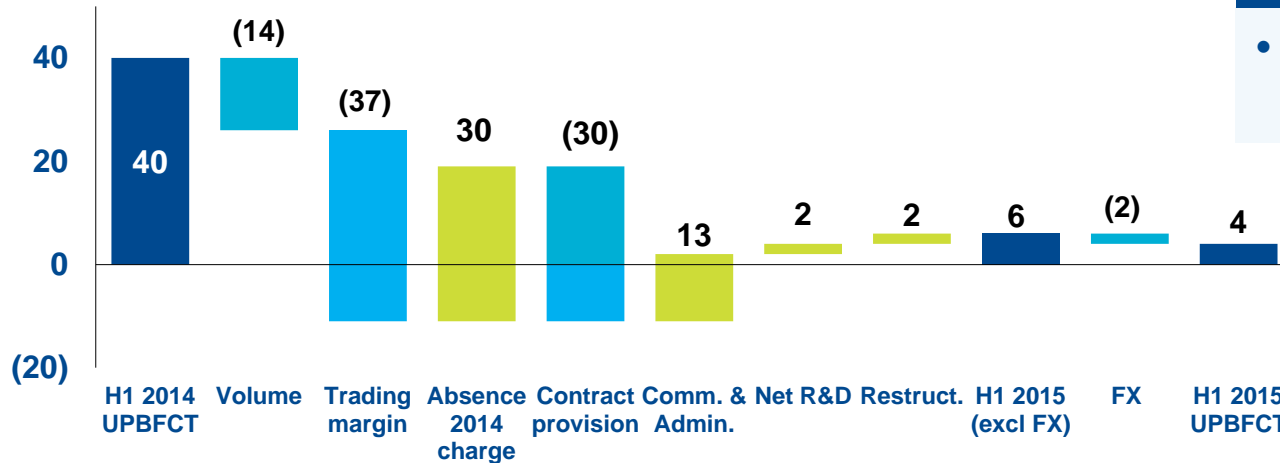
- OE order coverage 79%
- Traditional stronger H2
- Confident in outlook based on order book development



Revenue



Profit



H1 Drivers

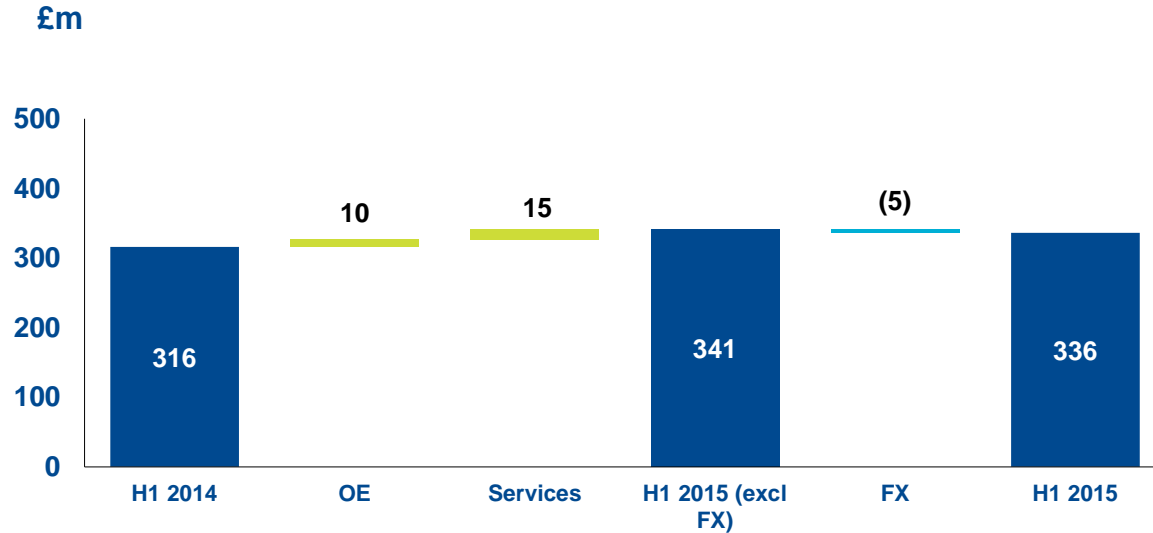
- Order book down 16%
- Oil price weakness impacting offshore business
- Lower Naval spares
- Profit reduction from volume and mix

H2 Drivers

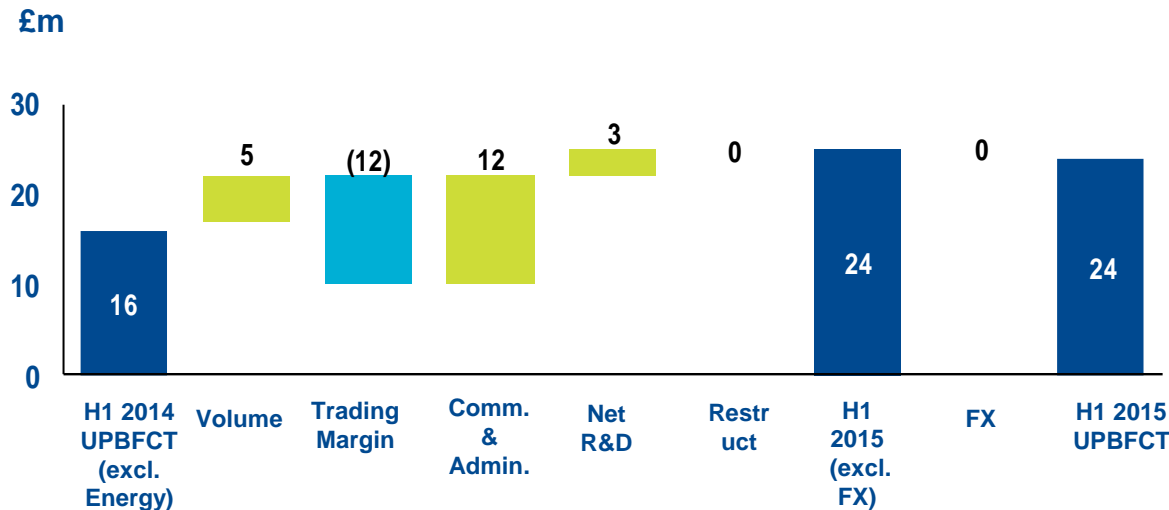
- OE order cover 99% but risk of cancellations



Revenue



Profit



H1 Drivers

- Order book down 9%
- OE revenue growth in instrumental and control units; aftermarket growth in submarines
- Profit increase from higher volumes

H2 Drivers

- Order book coverage 90%
- Solid underlying performance

*Excluding the business sold to Siemens in 2014



2015 Group guidance

Guidance at constant 2014 foreign exchange		
<i>(excluding Energy)</i>	2014	2015 Guidance
Revenue	£13.9bn	£13.4bn – £14.4bn
Profit before tax	£1,620m	£1,325m – £1,475m
Free cash flow	£447m	£(150)m – £150m
Earnings per share	65.4p	55p – 62p
Capital expenditure (Property, plant, and equipment)	£649m 4.7% of revenue	~£600m
Net R&D spend	£819m 5.9% of revenue	>£750m
Tax rate	24%	23%



2015 Segment guidance

Guidance constant 2014 foreign exchange		Revenue		Profit	
		2014	2015	2014	2015
Aerospace					
Civil Aerospace	£6,837m	<i>£7,000m – £7,300m</i>	£942m	<i>£800m – £900m</i>	
Defence Aerospace	£2,069m	<i>£1,900m – £2,100m</i>	£366m	<i>£360m – £410m</i>	
Land & Sea					
Power Systems	£2,720m	<i>£2,500m – £2,750m</i>	£253m	<i>£200m – £250m</i>	
Marine	£1,709m	<i>£1,450m – £1,650m</i>	£138m	<i>£0m – £40m</i>	
Nuclear	£684m	<i>£670m – £730m</i>	£48m	<i>£40m – £50m</i>	



Confidence in second half of 2015

- Aerospace
 - Continued service growth
 - Higher engine deliveries
 - Lower R&D charge vs H1
 - Further TotalCare improvements / Trent 1000 provision reversal
- Land and Sea
 - Power Systems H2 weighted as in previous years
 - Rebased Marine forecast
- Lower Commercial & Administrative costs



What's impacting our outlook

Market developments

- Trent 700: volumes and pricing on new orders
 - Transition from Trent 700 to exclusive Trent 7000 position
 - Shift from “linked” to “unlinked” OE and aftermarket contracts
- Weaker underlying markets
 - Business jet engines
 - Softer regional aftermarket
 - Weak oil price impact on offshore markets



Implications for 2016

Key factors vs 2015 profit before tax include:

Trent 700 impact of new orders	~ £(250)m
Business Jets and Regional Aftermarket	~ £(50)m
Improving large engine aftermarket and restructuring offset by likely lower TotalCare and other adjustments	Nil

Cash conversion expected to improve



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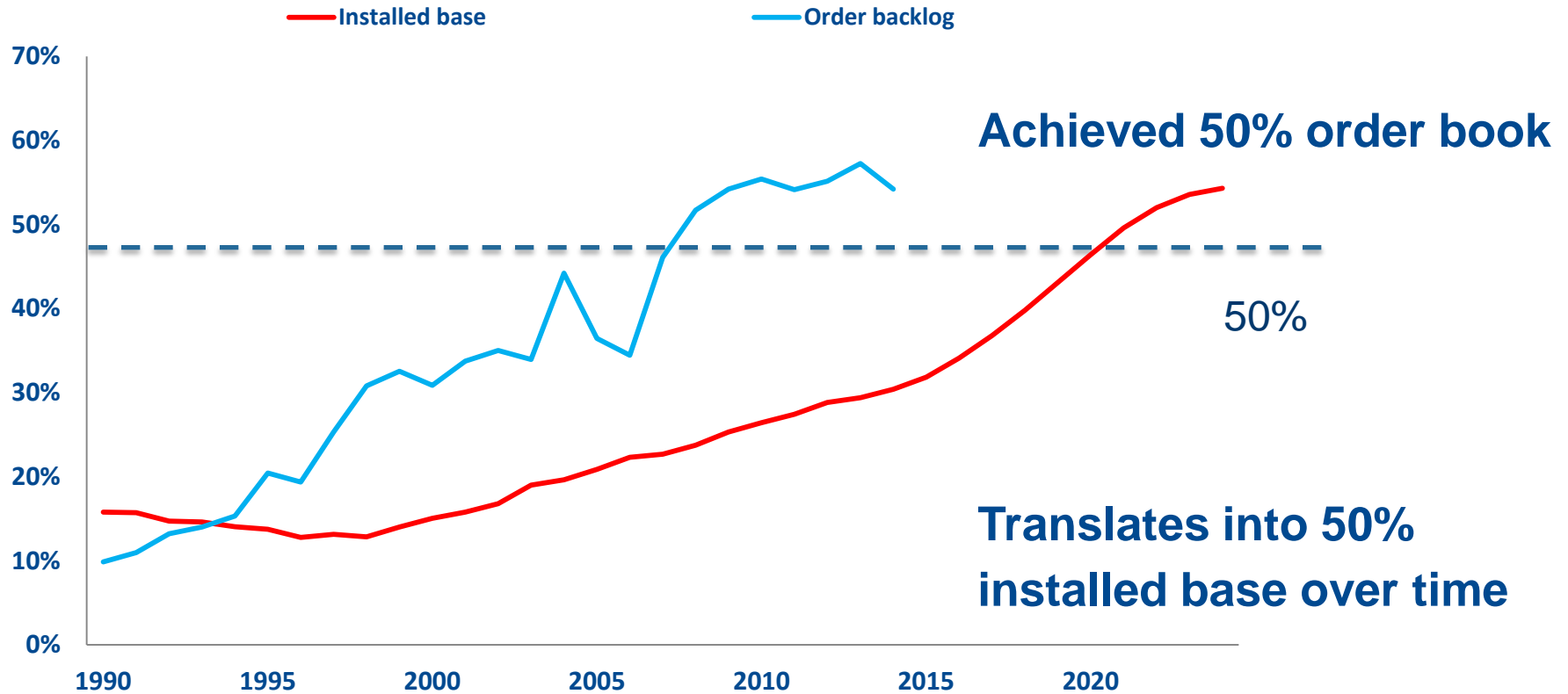
Looking further ahead

- ~ £76 billion order book
- Mega trends underpin profitable growth
- Significant embedded value as Civil large engines double and widebody installed base reaches >50% market share
- Continuing to strengthen our technology plans
- Multi-year industrial transformation programme through end of decade
- Long-term model attractive



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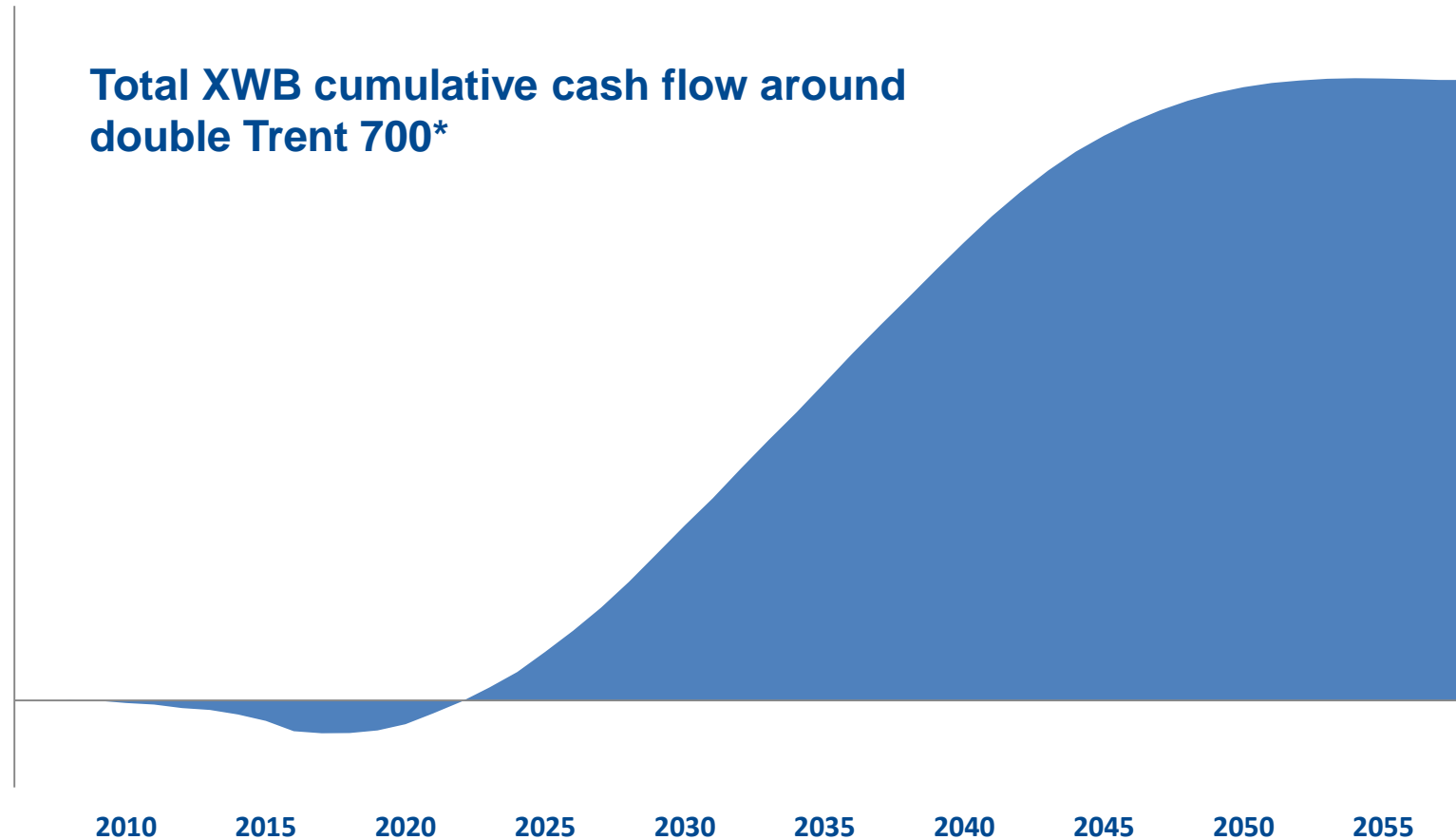
Market share in installed base lags order backlog and underpins confidence in long-term cash flow*



*Market share of widebody passenger aircraft



Trent XWB creates significant embedded value

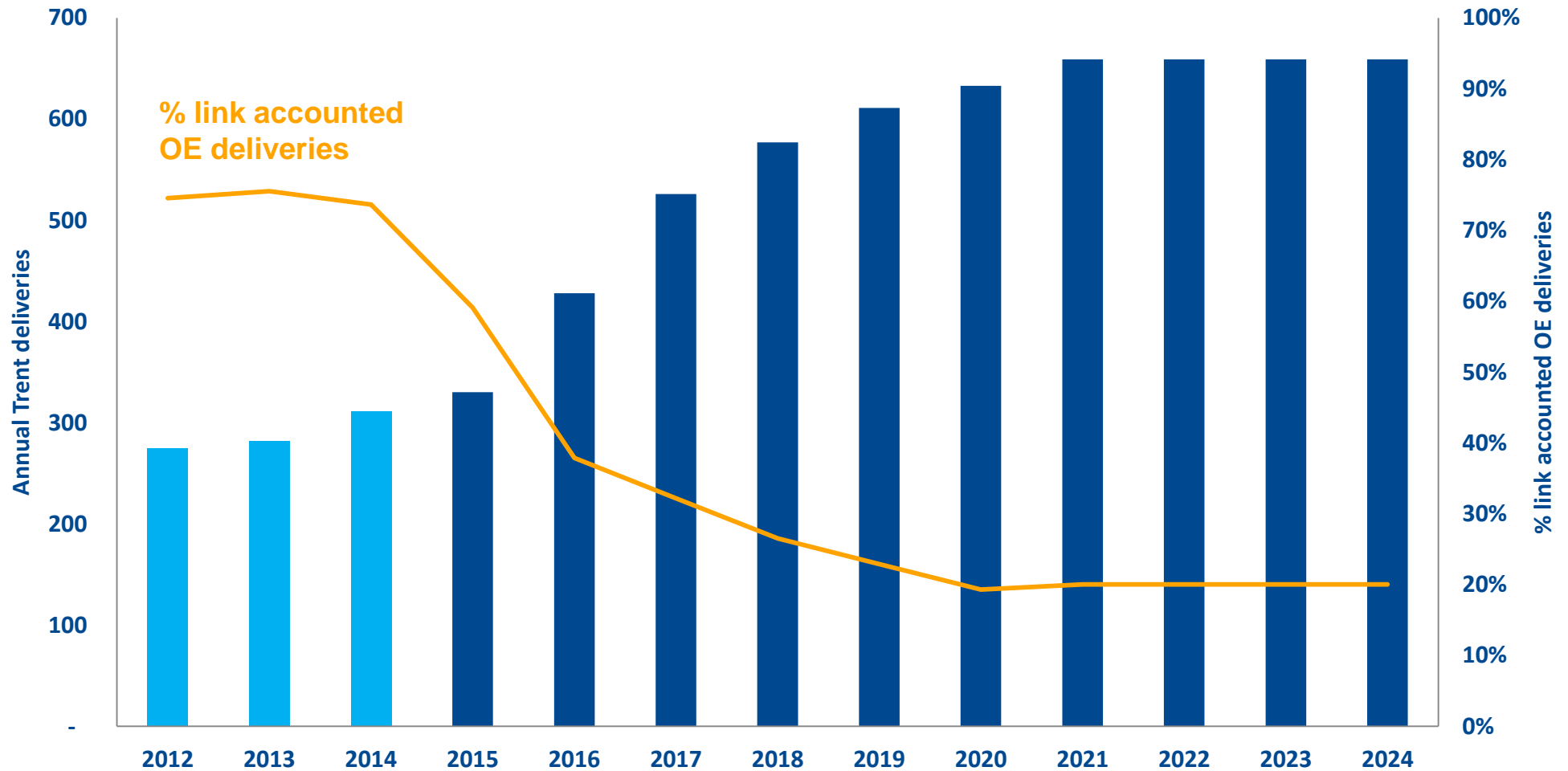


*In 2015 £



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Projected large engine deliveries to 2024



Marine



Power Systems



Nuclear



- Challenging start to the year
- Accelerating restructuring programme
- Mega trends drive growth
- World-class people and products
- Deep understanding of our customers



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Conclusions

Warren East, Chief Executive

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Conclusions

- Delivery
- Continue reviewing operations
- Restructuring programmes
- Market communications
- Near-term issues
- Confidence in the longer term



Q&A

Warren East, Chief Executive
David Smith, Chief Financial Officer

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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. All figures are on an underlying basis unless otherwise stated. See note 2 of the Financial Review for definition.

