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EDITED TRANSCRIPT

RR.L - Half Year 2015 Rolls-Royce Holdings PLC Earnings Presentation

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CORPORATE PARTICIPANTS

John Dawson *Rolls-Royce Holdings plc - Head of IR*

Warren East *Rolls-Royce Holdings plc - CEO*

David Smith *Rolls-Royce Holdings plc - CFO*

CONFERENCE CALL PARTICIPANTS

Jaime Rowbotham *Morgan Stanley - Analyst*

Christian Laughlin *Bernstein Global Wealth Management - Analyst*

Nick Cunningham *Agency Partners - Analyst*

Rami Myerson *Investec - Analyst*

Gordon Hunting *Fiske - Analyst*

Olivier Brochet *Credit Suisse - Analyst*

Harry Breach *Raymond James Euro Equities - Analyst*

Jeremy Bragg *Redburn - Analyst*

Andrew Gollan *Berenberg Bank - Analyst*

PRESENTATION

John Dawson *- **Rolls-Royce Holdings plc - Head of IR***

Good morning, ladies and gentlemen, and welcome to Rolls-Royce's first half results for 2015. Thank you for joining us here at Prince Philip House, and for those of you also joining on our webcast.

My name is John Dawson; I'm the new Head of Investor Relations at Rolls-Royce. With me here today are Warren East, our Chief Executive, and David Smith, our Chief Financial Officer. (Conference Instructions).

We may also include forward-looking statements in our presentation today. There is a Safe Harbor statement at the back of your pack and you should read this in considering these comments.

The running order for today is as follows. Warren will open today's presentation with a few remarks about the highlights of the first half. David Smith will take you then through the first half results in more detail before commenting on our guidance and long-term prospects. Warren will then return to talk about some of his first impressions, and share the question and answer session at the end.

You will be able to field questions if you are on the webcast. Please submit them and a member of the IR team will ensure they are asked, if we have time, or if they have not already been asked in the room today.

Thank you. And without further ado, I'll hand you over to Warren.

Warren East *- **Rolls-Royce Holdings plc - CEO***

Thank you, John. Morning, everybody. I'm very pleased to be here; it's a little bit weird, interim results, my first results day with Rolls-Royce. Obviously, quite weird since I joined right at the start of the second half; however, I will make a few comments about the first half.

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But before we start our review, I want to say obviously I was quite disappointed with our announcement on July 6, and for me, that served as a sobering reminder of the task ahead for me.

As I continue to review the business operations, I'll be working with our team to make sure that we get on with the job, to make sure that we have sufficient pace and simplicity about what we're doing.

But I'll start with some initial thoughts from my point of view, and then I'll turn over to David to take you through the detail.

Now the highlights for me are quite straightforward: we're continuing to win new orders, particularly in aerospace, and that's good because that indicates the continued support that we have from our customer base.

We've also had a successful first half, winning new business in our power systems business, leaving them actually with a record order book at the half-year. And that's something that should be positive for that business as we go into the second half.

As was indicated in May with our statement at the AGM, we expect overall profit delivery this year is more second half weighted than usual. For the first half, it was modestly reduced revenues, but quite sharply reduced first half profit. And that's for several reasons.

Higher engineering and technology costs in this particular phase as we're transitioning from more mature engines to newer engines. And then obviously, a big external market effect out there, where the oil price is creating an environment in marine which is causing a total collapse in demand really in the offshore segment.

That's the same for our business, and for any business operating in that sector right now. And it's those same marine headwinds which drove an adverse mix shift, actually, in our power systems business during the first half. So although I said very good finish actually to the first half in terms of orders coming in, it was a very slow start for that business.

David will take you through those details in a moment. I just want to make a few comments about cash: cash was an outflow, a big outflow, as you can see.

Cash is going to be a very important measure of success over the next several years. I understand how important it is in terms of confidence in the business, and how confidence in our long-term cash flows is a big driver of value. And it'll be very important for us to make sure we're demonstrating the right disciplines required to reinforce that confidence.

Our use of cash, going forward, will be important. We have to manage through a period of transition, we have a robust balance sheet today, but we do need to be prudent, and we don't want to create any unnecessary uncertainty. And that's the main reason why we cancelled our share buyback program.

But the long-term value of the business, its ability to grow, its ability to generate increasing margins and, importantly, cash generation is very clear to me. So maintaining a progressive dividend policy is essential, and an important building block in underpinning that confidence in the value in the future.

Now I'll hand over to David to discuss our results in some detail, and I'll come back later to summarize and give you some initial thoughts. Thank you.

David Smith ***- Rolls-Royce Holdings plc - CFO***

Thank you, Warren, and good morning, everybody. I'm going to review the first half results in more detail, then recap our recent guidance update and, before I hand you back to Warren, share my thoughts on the longer term outlook for the Group.

So let me start with the 2015 first half results. Our performance in the first half was actually broadly in line with our own expectations for a slower start to the year. This reflected the phasing on engine deliveries, product mix, and R&D spending.

As Warren has said, our order book continued to strengthen, positioning the Group well for the long term, and reached record levels in both civil and power systems.

Overall revenue was broadly unchanged on a constant currency basis. Profit, however, was down, reflecting various mix effects within the portfolio, and the higher R&D. As a result, our return on sales at 7.3% was 3.2 percentage points down on the prior year.

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Free cash flow, at minus GBP576 million, was also lower than the previous year, reflecting the underlying movement in profit, although again ahead of our original expectation.

So despite the challenges we're facing, we are increasing the dividend, as Warren said, by 3%.

Turning to the movements in revenue: the net flat performance overall masked good growth in aerospace services revenue, and was offset by lower original equipment sales within the land and sea division.

Overall, foreign exchange translation reduced revenues by around GBP200 million. If FX rates stayed at current levels, we'd expect translation of our revenue to reduce that revenue by about GBP450 million for the full year.

Turning to the Group profit, the GBP218 million reduction on a constant currency basis was largely led by volume and mix effects within trading margin, and that higher R&D cost of GBP76 million.

I'll explore each of the trading margin effects in more detail when I discuss the individual business segment performance in a minute. But the largest factors overall for the Group were civil engine mix, marine volume and mix, and volume and adverse mix at power systems.

Lower restructuring spend contributed a GBP20 million improvement in the first half, and FX effects added a further GBP11 million. Total underlying restructuring in the first half was GBP46 million in absolute terms.

Turning to cash now: we, once again, have two different cash flow charts. The first one here shows the comparison, or the walk-through, from profit to cash. You can see that net working capital, at GBP747 million negative, was the biggest driver of the variance between profit and cash.

Within that working capital number, there are about a GBP400 million increase in primarily trade receivables and payables and reductions in payables. This follows a pattern we often see at the half-year, following a busy yearend in 2014 and the natural supplier payments that follow at the start of the year. It's also affected by the timing of deliveries at the half-year which create receivables for those deliveries.

Additionally, we saw a GBP260 million increase in inventories between yearend and the half-year as we prepare for higher volumes in the second half, and also work through some supplier shortages that we have.

There was also an increase in marine, and that's due to weaker market conditions. We expect this overall inventory growth we've seen in the first half to largely reverse by yearend.

The TotalCare receivable increased by only GBP62 million in the first half. It is likely that that will be a higher increase in the second half as we ramp up engine deliveries, so that was a relatively low level. And it does reflect the fact that we had lower deliveries on the linked Trent 700 and 900 engines in the first half of the year.

For the full year, we expect free cash flow to be around zero, so that GBP576 million will be improved by about the same amount in the second half of the year.

Turning to the next slide, we now compare 2014 first half cash flow against 2015 first half cash flow and here, you can see the relative drivers compared to last year.

Reflecting the challenging trading environment, you can see that cash flow from operations, largely profit, reduced by GBP194 million (sic- see slide 10, “GBP207 million”) and working capital consumed a further GBP186 million (sic - see slide 10, "GBP187 million"), partly inventory again.

Most of this year-on-year change in working capital was driven by, as I said, inventory, and we expect this to reverse and become positive by the end of the year.

Our balance sheet and credit rating remain strong. This is important because it gives us the ability to withstand turbulence and shocks which sometimes occur within our industry, and it also provides confidence over the long term to our customers who are buying products that will remain in service for decades.

It's important to us to maintain that investment grade rating and to have prudent levels of liquidity.

During the first half, we refinanced and increased our revolving credit facility up to GBP1.5 billion. Now I know that some of you were disappointed that we curtailed our share buyback, but I think it was the prudent decision in the light of some of the challenges we now face over the next few years.

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And I'm confident that cash flows will improve significantly over time, but as I said in February and again in July, we're in the middle of a really significant growth phase and transformation of our business.

Now, having covered the Group, I'll turn to 2015 first half performance for each of the individual business segments. We'll start with civil aerospace.

Our order book increased 5% over yearend and that includes part of the [GBP] 9.2 billion order that we announced from Emirates.

OE revenue was fairly flat, but there are some important mix shifts here. Trent 700 and 900 deliveries were down in the first half and because, as I said before, these are mainly linked engines where we record aftermarket profits in margins at the point of sale, this does have a more significant effect on profit.

Business jets were also down in the first half. On the other side, Trent 1000 and Trent XWB deliveries increased; however, these are mainly unlinked so we don't book the associated aftermarket profit for those deliveries.

This shift away from mature programs and towards newer programs, particularly where the accounting is different, will present some near-term challenges as we'll come back to.

I'm also going to come back later to the XWB program in a few minutes, because I really want to make sure that you understand the size and shape of this program.

Our aftermarket revenue increased by 7% in the first half and that reflects good growth in widebody aftermarket, which increased 9% even after we saw some lower revenue from the RB211 and Trent 500, but we also saw weaker regional aftermarket as well.

Overall, civil profit declined by 39% in the first half, and this reflects the revenue drivers that I've mentioned, where we've seen fewer of the engines that deliver upfront profits and more of the engines, like the XWB, which are great programs but the accounting is different and we record less of the profit upfront.

We've also seen lower utilization of some of our lease engines and, on legacy products, some weakness in our regional aftermarket, as I've said.

One time movements on long-term contracts saw a net gain of about GBP24 million, compared to last year, and that mainly reflects cost saving initiatives.

R&D was another headwind in the first half. R&D spend was higher for new programs, including the Trent 7000 but also the Trent XWB and the -10 on the Trent 1000. The XWB-84K has now entered into service and we're, therefore, no longer capitalizing the R&D, so the P&L charge is also higher because that capitalization has now been removed.

We expect a much stronger second half, and that will benefit from both higher volumes and continued aftermarket growth. We also expect to achieve the milestones that will allow us to release a provision that we made on the Trent 1000 during the launch phase, and also to continue to improve the profitability overall of our TotalCare contracts.

On restructuring, we're over halfway through the program we announced last November and we continue to expect further benefits in the second half, much of this in civil.

So turning now to defense aerospace: a fairly quiet first half. The order book declined by 3%; OE and aftermarket revenue were both down marginally, with some of this offset by the stronger dollar.

In the first half, we did experience some supplier shortages that will make our engine deliveries more biased towards the second half this year in defense. Profits declined on the lower volumes, but were helped by the stronger dollar, and we also saw improved net contract profitability within our trading margin.

In the second half, we have good OE order cover and good confidence in our ability to ramp up the volumes, and we continue to see this business as broadly stable, with some downward margin pressure over the next few years.

Turning now to power systems: power systems did have a slow start to the year, but we've seen that progressively improve throughout the first half. In fact, the order book was up 12% to a record GBP2.2 billion and order intake increased by 4%.

Revenue was down overall by 14%, with OE down and services up a bit, but then a significant deterioration from FX as we translate euro revenue into sterling for reporting.

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Profit also declined in power systems, and that largely reflected the lower OE volumes and also a weaker mix coming from lower government sales, compared to last year, and a lower margin mix in our medium speed Bergen engine business, which was also affected by softness in offshore. Bergen was also a cost drag in the first half.

The higher order intake, and the 79% order cover, give us confidence that we'll see a much stronger performance in the second half of the year. We've already had two strong months in May and June and have good sales momentum at the moment.

I'm sure it's no surprise to any of you that our marine business had a challenging first half. Our offshore markets are the toughest we've ever experienced. Last year, offshore was about 60% of our revenue, so our marine business is very exposed to the challenges in that whole industry that we're seeing with oil prices dramatically lower today than they were a year ago.

Order intake fell 46%, and the order book overall declined by 16% during the first half. On revenue, we saw lower OE sales; again, that was primarily in offshore. And aftermarket revenue also declined; in part that was due to the end of a multiyear naval parts order.

Profit fell sharply in the first half, driven by volume, pricing pressure and adverse mix. Some of you may remember that we had a product quality charge last year. While this hasn't repeated, this year we're taking a GBP30 million provision against a specific customer contract which now seems unlikely to complete, so unfortunately there's no net one-time benefit year over year.

During the first half, we announced 600 redundancies, and we may announce further restructuring actions during the second half, in line with what I said earlier this month. This isn't going to affect our underlying result, but it's worth mentioning here that we've also taken an exceptional charge of GBP69 million in the headline profits for impairments of marine assets where we now see a less favorable outlook. And this is driven, in part, by the same market deteriorations that we're seeing in offshore.

Our naval marine business actually had quite a balanced first half. Looking ahead, we expect continued challenges. The order cover is high, but we're seeing high levels of customer deferrals, so some of these orders may well get pushed out well into the future. And the sharp decline in new orders means that revenue may continue to decline and pricing pressure may continue.

We're working as quickly as we can to reduce our costs and consolidate our footprint and ensure that, when markets do recover, we're well positioned to offer a cost competitive product, but we're not seeing any signs yet of a recovery. Our outlook for marine therefore remains cautious.

Finally, let's take a quick look at our nuclear business. You can see from the chart that we're showing this business now without energy, which we sold to Siemens. Actually, for the remaining nuclear business, it was a fairly quiet but positive first half. OE revenue increased by 5% and services revenue increased by 7%. Profit was up GBP8 million, reflecting the higher volumes and some timing effects on commercial and admin costs.

So that concludes my review of the first half of 2015. It was a challenging start to the year but, as I said, it came out largely in line with our expectations for a slower start.

Turning now to our guidance: our outlook for the full year for revenue, profit and cash remains as per the update that we provided on July 6. We now expect the tax rate to come in closer to 23% than the 24% we previously guided. And R&D spend is likely to be a little higher than the GBP750 million, but that's factored into our profit guidance.

Our EPS range has also now, of course, been updated to reflect the end of the share buyback. Again, there are no changes to the guidance on a segment basis we provided on July 6, where we reduced our marine guidance down to zero to GBP40 million for the year.

So while this would seem to leave a lot to do in the second half, it's actually about the same as last year and we have confidence in our ability to deliver this. In aerospace, we expect, despite lower Trent 700 deliveries overall, to see higher deliveries of civil and defense engines in the second half.

In addition, we will continue to get the benefit of growth in service revenues, and a somewhat lower level of R&D charges, as we start to capitalized other programs.

Also in addition, as I said at the time of our guidance update earlier this month, we expect to be in a position to reverse a balance sheet provision that we made on the Trent 1000 launch as a result of improving operating performance. And we'll also recognize further improvements overall in total contract profitability.

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Together with the items already booked in the first half, one-time improvements on long-term contracts are now expected to contribute around GBP200 million of performance in the full year. In land and sea, power systems are expecting a much stronger second half, as we've seen in previous years, and in marine, we've based our expectations on a cautious set of assumptions.

Finally, we'll benefit from lower C&A costs and the early benefits of our restructuring programs. All in all, we therefore expect profitability in the second half of 2015 to be around the same as the second half of last year in absolute terms.

I'd now like to look beyond the end of the year and briefly remind you of some of the key points in the guidance update that we provided earlier this month.

The most important issue we discussed was a product transition from the Trent 700 to the Trent 7000, as Airbus winds down the production of the current A330, where Trent 700 is one engine option, in favor of the new A330 Neo where the Trent 7000 will enjoy an exclusive position.

This transition over the next few years will, of course, phase out demand for the Trent 700, impacting original equipment sales, engine pricing and demand for spare engines. From a business perspective, this move to an exclusive position is positive but clearly, the lower than expected volumes and challenging commercial situation on the Ceo variant during the transition, this having a marked effect on near-term reported profitability.

This is exacerbated, as we discussed earlier, by the fact that the Trent 700 engines are mainly linked and, therefore, we also use the aftermarket profit that would be booked up front on those linked contracts.

In addition to this product transition, we're seeing market pressures elsewhere in aerospace and land and sea in the shape of weaker demand for our business jet engines to softer regional aftermarket, which I've referred to, as well as the continued pressure of the weak oil prices on our marine offshore business.

On top of these product and market issues, I've personally undertaken a very rigorous review of our forecast and the planning assumptions that underpin them over the last few months. And as I said I would do when I took over the CFO, I've completed that process. I believe this now gives us a better basis to look ahead.

So let me remind you of that, of what that all means for the outlook for 2016. In our civil aerospace business, it means that we expect a significantly lower contribution from the Trent 700, for all the reasons already set out.

In total, we expect those changes to Trent 700 demands to reduce profits by around GBP250 million in 2016, compared to 2015. It's important to remember that there are still several open campaigns for the Trent 700 engines, but we think this reflects a balanced view.

In addition, we expect a roughly GBP50 million headwind from the lower demand for business jets and the softer regional aftermarket.

Other factors, including the benefit of our growing installed base, will improve our large engine aftermarket. And we'll also benefit from the restructuring actions that we're taking by around GBP90 million next year.

At the moment we expect, however, these factors will largely offset the likely lower level of provision releases and other longer-term contract adjustments that we're getting in 2015, compared to 2016.

All of that adds up to an expected net GBP300 million negative headwind on our reported 2016 civil profit, compared to 2015, with the impact continuing into 2017, and probably to a lesser extent in 2018, as a result of these product transitions.

In reviewing our new 10-year plan, I also put a great emphasis on cash discipline, looking at working capital management, capital allocation and returns. As a result, I'm more confident about our cash planning. In this respect, it's worth noting that the cash impact of some of these headwinds will be smaller than the profit impact because of the linked accounting issue and, therefore, cash conversion will improve, albeit off a lower level of profit.

Notwithstanding these near-term headwinds on reported profit, we remain very confident in the long-term prospects for Rolls-Royce. Let me remind you of the key elements behind that confidence.

Firstly, our order book now stands at over GBP76 billion, led by an outstanding position on widebodied passenger programs. We'll really see the benefit of this come through over the next few years or so. The mega trends of population growth in Asia, industrialization, trade, support significant long-term growth in air as well as in land and sea.

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Our new products are absolutely transforming our civil aerospace business. The successful rollout of these new engines over the next 10 years, led in particular by the Trent XWB, the 1000, 7000, will build Rolls-Royce towards a 50-plus-% share of installed widebody passenger market and deliver aftermarket revenues for decades to come.

For the even longer term, we are undertaking an ambitious technology plan to focus on the next generation aerospace designs with our Advance and UltraFan projects. We also now have similar technology programs that are being developed by land and sea.

In order to maximize the benefit of this growth, we're investing in a global industrial base and establishing a much more competitive and flexible and responsive supply chain. The new facilities are lean, cost efficient and more flexible with a much smaller footprint.

Our investment plans will also reduce our dependency on older, less capable plants. This is essential to our long-term success, so we're very confident about the future and I'd like to briefly remind you of some of the key metrics that underpin that confidence.

This chart shows how we are transforming our market share in the installed base of widebody passenger aircraft to evolve into an industry leading 50% as we deliver our order backlog.

It's taken us 30 years to get to this position, but within the next five years we expect to have that 50% of the installed base of engines. That's a tremendous accomplishment, and it will drive significant aftermarket revenue and cash flow, as I say, for decades.

This next slide reminds you of the scale of the value creation, as measured by cumulative cash flow in our largest engine program, the Trent XWB. This program is expected to generate cash flows that are around double that achieved by our previously most successful engine to date, the Trent 700.

It will be years yet before the XWB actually overtakes the Trent 700 in cash flow generation, and Trent 700 itself will continue to be a powerful cash generator right through the next decade. So we will have two very powerful cash generation machines working in parallel.

Now, most of this cash flow is beyond 2025 on the XWB. I understand, therefore, that it's more difficult for the market to value. We'd really like to try and help you to develop your models around this, because it's really a critical part of our future.

So just to remind you that most of this cash flow is aftermarket, Rolls-Royce are the experts in the area of aftermarket. We invented the whole concept of TotalCare service support, a concept that has been widely welcomed by our customers. And we have invested in the commercial and technical knowledge to lead the industry with our engine health monitoring systems, 24 hour operations centers, etc. This is a key area of Rolls-Royce expertise.

Finally, on aerospace, why are we confident, actually, that we can build that market share base, that base of installed thrust and that long-term growing cash flow? And really, you have to start with the schedule of large engine deliveries, shown here.

As you can see, we expect them to double over the next few years, with a decreasing proportion, shown on the yellow line here, on a linked basis, meaning that profit and cash flow will be increasingly aligned. We'll do this with a transformed industrial base, with much greater scale and efficiency.

Turning now to land and sea, and I'm sure that Warren will come back to this later in the year. Clearly, we do face short-term market pressures, but these are fundamentally sound businesses. We've completed an extensive review over the last few months, both to identify areas to improve operating performance in these businesses, but also areas to refocus and intensify our technology and product development and, clearly, areas to restructure and reduce our footprint.

These plans will put us in a much better shape to take advantage of the strong, long-term megatrends driving these sectors as well.

Thank you. And I'm now going to hand back to Warren for some concluding remarks.

Warren East - ***Rolls-Royce Holdings plc - CEO***

Thanks, David. That's a, hopefully, clearer view of what's happened, and it's an excellent summary of our long-term prospects and why we're confident in that. Let me start with some of my initial thoughts, coming fresh into the business.

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First is, there's actually a great deal to be done, both in the short term and in the longer term, and my challenge is to balance those two. Without wishing to become over-short term so that we damage the future, which David just described, there are some urgent issues, and I need to make sure we're operating with sufficient pace in the business.

The second half needs to produce 70% of our annual profit for this year. That's good news, because we have orders, but the focus absolutely has to be on delivery to turn those orders into profit and make sure that our customers get what they want when they want it.

I will be continuing to review operations. Like any new CEO coming into the business, I want to thoroughly understand the rigor and the assumptions that we're making about forecasting, our future business, and about how we're building our plans for execution. And I do intend to come back to you before the end of the year with some thoughts and comments on priorities on that.

There are a couple of medium- to long-term aspects to comment on as well: restructuring programs that we have already announced in both the aerospace and marine business, and appropriate integration of the various acquired businesses.

Now, successful and timely execution is absolutely key, as far as I'm concerned, to achieve the sort of flexibility and responsiveness that we need to get to, to be more competitive for our customers, and to get to a cost base that we need to drive a positive profit trajectory.

I come into this business and I find these activities are already underway, which is good, and actually, we're making good progress. But now, I need to make sure we're moving quickly enough and I want to explore the necessity of everything that we're doing, and the feasibility and the timescales that we have for moving these programs forward further in the future.

I want to make a few comments about market communications. Of course, that is an ongoing priority, but you won't be surprised that I've received a lot of feedback over the last three weeks. Actually, I realize perfectly well anyway that we do need to make some significant improvements in our communications, and you will see a change in philosophy.

That's not just about standing up here and doing more. It's about providing consistent, reliable, sustainable communication; it's about being open and transparent; and, above all, it's about building trust.

Now, I understand we have to provide much clearer, much simpler explanations of how the business actually works, and sufficient tools to enable both analysts and investors to understand the Rolls-Royce business. I actually want analysts and investors to be able to understand the opportunities in front of us as we see them, to understand the growth that this business can achieve, and how the various market factors and actions that we take accelerate or retard the achievement of that growth.

And I know that the current guidance, and the way we've been doing that, has proven to be less than helpful, partly because we've had to keep changing things and our expectations, but also, perhaps, because it hasn't been focused on the right things; the things that really drive our success and give you that understanding that sits behind our confidence.

That needs a lot of thought, and John and David and the IR team, I'll be working with them together to work out how we can improve what we do, the tools that we use and the tools and the information that we provide. We will be doing things differently. We understand that's essential to your confidence in our business.

Right now, there are some near-term issues as, I think, we've described on July 6. We have a product transition in our aerospace business, and that isn't a six month thing. That's a thing which is going to happen over the next several years. And this morning, we've described how that acts as a bit of a headwind on our profitability.

At the same time, shorter term, land and sea business faces a very near-term headwind caused by a collapse in demand, especially in offshore. And that leaves us, and the whole of that wider industry, with overcapacity.

However, I want to finish on a point about confidence in the longer term. We have industrial and operational transformation programs that were the right programs to introduce, and those programs are underway. And they're addressing near-term issues and they're also setting us up for higher profitability in the future in all parts of our business.

We have a great portfolio of new products, a result of a lot of the expenditure that's been going on in engineering and technology over many years. And those new products have a positive profitability trajectory ahead of them.

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We have industry leading technologies in development. So building on what we've been doing over many years, if you take a snapshot of what's going on today, we have leading-edge technologies going into place to enable future architectures and future generations of engines.

Above all, as David just mentioned, we have some very positive long-term environmental trends underpinning the demand for the power systems that this business produces. So taken together, that continues to give me great confidence in our long run prospects.

I could go on all morning, but I'm not going to. We'll finish there. We'll move on to questions. As John said at the start, for those of you who are listening on the webcast, please submit a question; one of the IR team will ask it on your behalf.

With that, we'll have the first question, please.

QUESTION AND ANSWER

Jaime Rowbotham - ***Morgan Stanley - Analyst***

Jaime Rowbotham, Morgan Stanley. Just one question from me to kick off; apologies because it's a bit focused on the short term. I appreciate your desire that we look to the long term, but clearly, I think there will be a greater willingness to do so if the direction of travel in the near term improves a bit.

In the context of that and the focus on cash, it's a question for David. I appreciate that, as usual, working capital should improve in the second half of this year, hopefully allowing the Group to break even from a free cash flow point of view in 2015.

Next year, though, underlying PBT is going to decline by some GBP300 million. Will the impact of a lower increase in the TotalCare debtor be enough to offset that profit decline? Or is there a risk that, due to underlying working capital outflows and increased capitalized losses on unlinked engine sales that Rolls' free cash deteriorates next year rather than flatlining or improving? And if it did, would that be a major issue for you? Thanks.

David Smith - ***Rolls-Royce Holdings plc - CFO***

Thanks, Jaime. You actually draw attention to quite an important structural change that the change in Trent 7000 volume has created, which is -- and I didn't mention it here but it's in the press release. We actually see now that the long-term TotalCare net debtor will peak much earlier at a lower level than we'd previously indicated, so probably between GBP2.1 billion and GBP2.3 billion over the next 18 months or so.

That's fundamentally because that disconnect that we've had that's been growing between profit and cash will now start reversing, and when it reaches a peak actually it will throw off, effectively, cash flow so you're right to point that out.

That plateau that's happening will really, I think, then help us a little bit, in terms of translating cash margin and profit margins as well, going forward. I don't think it will be a particularly negative effect next year. We haven't given any specific indication on cash flow for next year, but I think, if I look at where consensus is at the moment, that's indicating a slight improvement from this year.

What we absolutely need to continue to work on and we're really focused on is this inventory issue. We have made improvements over the last couple of years in turns. We went backwards in the first half; in fact, we went from I think it was, 3.3 to 3.1 turns in the first half. Part of that was planned in terms of the engine deliveries.

The bit that was unplanned was really the impact on the marine business again. For instance, we had built some service inventory in expectation that we might see some increase in the service business, but that just hasn't happened. So we've got more inventory than we really need.

I'm very confident, because I know all of the businesses are really focused on this, that we will increase that turn rate by yearend. And we will continue to increase that in 2016 and 2017 as well. So I see that as the most important physical driver here, which is to improve the operational performance on inventory in the business. We manage receivables and payables, I think, pretty well but it's the inventory that we've got to continue to improve operational performance [on].

Christian Laughlin - ***Bernstein Global Wealth Management - Analyst***

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Christian Laughlin, Bernstein. Just one question, Warren, about your review; you've repeatedly described it as an operational review as opposed to a strategic review. I'm just wondering if that's a deliberate nuance that implies some high level aspects, such as the shape of the business, or the industrial base size, or the size of risk-share partnerships for example, or a few examples there, are off limits. I'm wondering if that's the case.

Warren East *- Rolls-Royce Holdings plc - CEO*

Okay. Thanks for pointing that one out, too. It is deliberate, and it's deliberate because I believe that the strategy is broadly correct. It does, however, include -- I would count things like our industrial footprint as part of the operations that we deploy to execute our strategy. And I would describe our relationship with risk and revenue-sharing partners, again, as that's part of how we go about doing our business.

It's broadly a good thing, and I actually don't see any reason for significant changes in that, in principle. I'm more concerned about the detail of exactly what we do and how we do it. And in terms of priorities, then I think that we have a -- if you step back, we have a fantastic order book. We have great confidence from our customers, not just in the aerospace business, but across our other businesses as well. We have great strengths in the service network and so on.

The immediate challenge is turning that large order book, and that great following from our customers, into profit. And that's about operations and delivery. So that's the urgent thing that I think we need to attend to.

Now don't let me let you think that I don't care about strategy; of course I care about strategy. This is a very long-term business and decisions that we make today, for instance maintaining our investment in engineering and technology, and particularly at the R&D end of it, to produce technologies which we're going to be building upon in 10 and 15 years' time, of course that is important. But just in terms of immediate priority, what do I do when I walk in through the door of this business, it has to be operational.

Nick Cunningham *- Agency Partners - Analyst*

Nick Cunningham, Agency Partners. A couple of quite narrow specific ones and then a broader one, if I might? I apologize if we seem confused this morning, but there's a lot of results. You've, I think, suggested that some of that GBP200 million of provision, writeups, writebacks, TotalCare, etc., has already fallen in the first half. Could you just possibly quantify how much first half, how much second half?

David Smith *- Rolls-Royce Holdings plc - CFO*

Yes. About GBP48 million in the first.

Nick Cunningham *- Agency Partners - Analyst*

GBP48 million. Sorry, you probably already said it and I missed it. Then the second point, in terms of restructuring cost charge, get confused between deltas and absolutes. What are the absolutes above the line in each division this year, or roughly what you expect? And how much of it are included in your underlying earnings, and how much of it doesn't get included in underlying earnings that you expect to charge this year?

David Smith *- Rolls-Royce Holdings plc - CFO*

In the first half, we've booked GBP46 million on an underlying basis, and there's about another GBP10 million, I think, on an exceptional basis. We only book exceptional charges when we close a whole plant, effectively, and that's primarily been in the land and sea businesses in the first half. Those are the absolutes, which is about GBP20 million lower than we did in the first half of last year.

Nick Cunningham *- Agency Partners - Analyst*

Just for forecasting, how much further is there to come in the second half, roughly?

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David Smith *- Rolls-Royce Holdings plc - CFO*

I said on July 6, I do expect we're going to announce some additional actions in land and sea, and I gave a range of zero to GBP30 million, which is quite a large range, I guess. That's because when we actually go through the details of those programs, in some cases the voluntary redundancy side of things can change, depending on the nature of what you're doing, whether you're doing a capacity alignment or a full plant closure. That's why there's a little bit of uncertainty around that. So we will book those additional charges in the second half, and I've included that within the guidance, so that's already anticipated.

Nick Cunningham *- Agency Partners - Analyst*

Thank you. Then finally, much broader final question, your medium-term guidance was for 2018 to 2020; I think there was a flavor that it was maybe a little bit later in that time range. On July 6, you very specifically used the word later, which is terribly broad. If there's any color you could add to that or detail, that would be very helpful.

And today, you said that the issues in 2016 extend in 2017, possibly 2018. Does that go to that point, that those medium-term margins that you talked about in last year's guidance are further out in the future? Are they still tenable in terms of level? And how much later is later, I suppose is the question?

David Smith *- Rolls-Royce Holdings plc - CFO*

I did attempt, but obviously didn't make myself clear, on July 6 about the fact that the GBP300 million of headwinds would also be seen in 2017 and, to a lesser extent, 2018. It looks like I wasn't quite clear enough about that. So the reason I was saying it here is, just to be clear. My view is actually that achieving those sort of levels and margins, and certainly cash conversion at those levels, is absolutely what we are aiming for and targeting.

I'm not going to give a new timeframe, because actually I didn't really think it was a very clever idea in the first place to give a timeframe, because if you remember, I really described this in terms of operational things that drive, that have to happen. That's clearly been interrupted and pushed back, as you said, by the Trent 700 at 40% reduction in volumes, basically.

I think that's something we want to come back to later in the year. I don't think there's any point in trying to update that at the moment. I think it's not particularly useful, either, to do so at the moment. I think once Warren has had a little bit of time, we can think about exactly how we frame this, going forward.

Rami Myerson *- Investec - Analyst*

Rami Myerson, Investec. Two questions. Regarding the operational review and accounting, so one of your peers last week has talked about flight hour agreements, and I appreciate they are late in the game, but their comment was that they would accumulate the cash in the balance sheet and only book revenues and profit once engines started actually coming for their first overhauls, which is very different to what Rolls has done.

Would you consider adopting that type of more conservative accounting policy as part of your operational review?

Warren East *- Rolls-Royce Holdings plc - CEO*

Well, I think as far as this operational review is concerned, it's largely in the detail of what we do and how we do it. I'm not going to rule things in or out at the moment, but it's not primarily a review of the accounting.

Rami Myerson *- Investec - Analyst*

And second question, talking about the guidance and the headwinds; can you provide any type of thoughts on the Trent 9000 and A380 [re-engining], is there something that you've taken into account when you've done the medium-term guidance that the possibility of that happening over the next five years?

David Smith *- Rolls-Royce Holdings plc - CFO*

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In terms of A380neo specifically, clearly we are part, although a junior part, of that discussion that's going on. The same issue applies to us as does to Airbus in fact, which is to make a business case out of such a program at relatively lower volumes, the amount of investment that's affordable is relatively low. So we have to find solutions here that are not high investment solutions.

If you ask me have we provisioned for those investments in our future plans, yes we have, but not with a commitment to do them. So yes, sensibly we do in terms of just thinking about cash flow and funding and things going forward, but not with a commitment to do that. We will not make a commitment until we are clear there's a business case.

And I think the same would go for any further developments on the Trent 1000 -- sorry you asked about the A350 did you? A380, yes.

Gordon Hunting *- Fiske - Analyst*

Gordon Hunting, Fiske. Are you going to geographically concentrate your various engines. For instance, will XWB be based at Derby, Singapore for the 700 to 7000 and the A380 engines, Dahlewitz for two shafts and Indianapolis for military? Because at the moment, it's a polyglot of producing any engine that fits.

Warren East *- Rolls-Royce Holdings plc - CEO*

Yes. Well, as I said a moment or two ago, what I intend to make sure we're doing by way of reviewing the operations -- and by the way, let me say it's reviewing operations because any management is not just reviewing and then forgetting about it and doing other things. This is a thing which is under constant review. We're seeking to take the footprint that we have and optimize what we do there.

It is a complex jigsaw, because we have some facilities with older equipment, older manufacturing methods. We have other facilities with much newer tools and techniques. And you can't just say, oh well, the old is all bad, we need to move everything to the new, because actually you have to manage the capacity. Some things will only be, or can only be, manufactured where they're being manufactured at the moment and it's a big challenge to move them. Others you can move a new engine straight into a new facility.

So it's complicated. We will optimize it. The plans that we have in place at the moment, I believe, probably are optimal. But part of the purpose of me having a detailed look at this when I first come into the business is to step back from it a bit and say, are we really doing the right thing for 10, 15 years hence?

So there may be some changes; I doubt if there are going to be any significant changes. And by the way, we do make things like XWB both in Derby and in Singapore.

Webcast.

Unidentified Company Representative

So a question from the web from Phil Buller, Barclays. Phil asks two questions. The indicative profile for cumulative cash on XWB is very helpful, which looks to be in a positive cumulative cash position by around 2022? Given your statement that the XWB should generate double the cash of Trent 700 over time, are you able to give us a steer, please, as to how much cash the Trent 700 program is generating on an annual basis at this point?

And question two, are you able to give us a steer, please, over what period we should expect the GBP2.1 billion to GBP2.3 billion of TotalCare provision to unwind?

David Smith *- Rolls-Royce Holdings plc - CFO*

It's a good question; not one I feel able to answer. There's always a danger in providing additional information that you get the follow-up like that, I know. But seriously, the reason that I've given it is that XWB is a transformational program for this business and, effectively, because unfortunately the cash flows are so far out, I recognize that it's quite difficult for people to model.

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My point of putting that slide up is that that is an area I think, particularly between yourselves and the IR team, that we'd really like to see if there's ways of trying to do that. I'm not going to give any numbers today, but certainly, if there are ways that we can think of together, to try and help you appraise that, that's something we'd like to do, because at the moment, I think it's proving quite difficult for people to appraise.

Olivier Brochet *- Credit Suisse - Analyst*

Olivier Brochet, Credit Suisse. I would have two high level questions. The first one, Warren, would be on the challenges that you are facing at Rolls-Royce; how would you qualify them in practical terms, compared to what you were facing at ARM? How different are they and what things are you going to do differently at Rolls than you were doing at ARM? That's the first question.

The second one is on the various investigations that you had for corruption allegations on the SFO, possibly in Brazil or formerly at Tognum. Can you update us on the status of these various things? Thank you.

Warren East *- Rolls-Royce Holdings plc - CEO*

Okay, why don't I deal with the one that was specifically directed at me and, David, you can think about the second one.

One of the interesting things is, of course, this is a completely different industry from the semiconductor industry, but there are some remarkable similarities and parallels. So the basic financial dynamics of the business I find are remarkably similar in terms of ton of R&D upfront that may go nowhere; ton of product development cost built on R&D that has gone somewhere; followed by some revenue coming in when one sells products in the first place; followed by a long tail over many years, sometimes multiple decades, of revenue that flows afterwards.

So actually, the financial dynamics of a jet engine are remarkably similar to that of a microprocessor. Similarly, the partnership type relationship that exists between Rolls-Royce and its airframers, Rolls-Royce and the airlines in terms of service operations are very similar to the sort of relationships that you find in the semiconductor industry between microprocessor designers like ARM, silicone foundries like TSMC and semiconductor companies that supply chips into end products that we all use.

I was actually struck by remarkable similarities there. And in terms of the choices that one faces in the business as well, in terms of having to avoid, if possible, making bets, it would be very easy to do custom engines for every airplane. But as David was just describing in the discussion about 380, this is a dangerous thing to get sucked into from a business point of view. Similarly, it would be very easy to design bespoke microprocessors for every application, but it would be a stupid thing to do from a business point of view.

I see quite a lot of similarities there. The primary difference for me, personally, is that we have a very sophisticated manufacturing operation at Rolls-Royce, which happens to be in a period of change that we've just talked about, significant change. There's facilities that have been used for many years have become somewhat dated, and one of the tools that we have to improve our competitiveness is to deploy more sophisticated facilities; for instance, some of our new factories that are able to do literally twice as much in the same period of time.

That is a different world for me; that harkens back to my earlier days in the semiconductor industry, but semiconductor industry, again, is one where the challenges of delivering quality at very high volume and very good yield are right in the forefront.

But the good news is that Rolls-Royce has many people engaged in that manufacturing operation with many decades of experience at doing this, combined with some newer people that we've brought into the business in recent years with a bit more recent experience of manufacturing operations like that. Though that's an area which I couldn't possibly pretend to be a current expert, Rolls-Royce has lots of expertise at that.

Hopefully, that's answered both aspects of that question.

David Smith *- Rolls-Royce Holdings plc - CFO*

I think on corruption, just let me remind you that we will not tolerate any form of corruption or improper business practice anywhere in the business. We have put in very extensive programs over the last few years around this and that's something that has the highest level of focus of the management team and the Board.

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There is actually no new news, really. We obviously continue to provide information as requested by the SFO and the DoJ. We're cooperating where we're asked to do, although it's been fairly limited by the authorities in India as well, I think you asked me that. And we will do, in Brazil, if we get any requests. But there is actually no specific event or no new news that's happened certainly in the last few months to talk about.

Harry Breach - ***Raymond James Euro Equities - Analyst***

Harry Breach, Raymond James. Can I ask a couple of questions? One; looking at civil and the time and materials, could you give us a little bit of a flavor about, either in terms of revenue or shop visit terms, whether you have any sense that we're perhaps coming off an inflection point there or if we're still in the declining trend? I guess that's really about the 524s.

And then turning over to market share on current programs; how will the Emirate campaign win about a month ago start changing market share on delivered engines on the 900 -- on the A380 program, sorry, in the next five years?

And then separately, Tony Wood on the Trent 1000 has spoken at meetings lately about expecting campaign wins and share improvement there on the 787 program; can you give us any feel for how you expect share changes on delivered engines to run through on those programs?

Warren East - ***Rolls-Royce Holdings plc - CEO***

Okay. The first one was about small civil and time and materials, I think. The basic issue that we have in our small civil area is -- well, there are two things. There's some designs that were lost a few years ago and aircraft, or replacement aircraft, that are going out with competitors' engines on. So there is a structural loss of market share that we're facing over the next several years in that business. However, that's something that we have to live with.

In terms of installed base, we still have a great installed base of engines on those aircraft and they're obviously generating time and materials contracts in terms of service. Right now, short term, we do appear to have some economic headwinds. There are fewer people buying new small jets, and those that have them are not flying around in them as much as they have been in recent years.

Harry Breach - ***Raymond James Euro Equities - Analyst***

I was really trying to aim for the RB211 side, just to say about whether you think we're [reflecting] in terms of RB211 sitting there [half the time really]?

Warren East - ***Rolls-Royce Holdings plc - CEO***

Yes, it's on its way. You answer the number on that one.

David Smith - ***Rolls-Royce Holdings plc - CFO***

So on the 524s, obviously we talked about the big drop off we saw last year. There was some further drop off during this year, although not nearly as much as saw last year. And interestingly, it was actually more than offset by an improvement on revenues on the 535, so we actually haven't seen that bit of an effect in the first half on that overall family of engines. But clearly, there are a lot of parked up aircraft.

The big driver still remember of our aftermarket is installed thrust on Trent and that's the key. It was up in double-digit terms in the first half of the year, and that's what's going to drive overall installed thrust and both LTSA and T&M revenue, so that's really the big driver. The revenues around RB211 are relatively small within the total revenue base.

Warren East - ***Rolls-Royce Holdings plc - CEO***

Your other question was about the new 900 orders and 380 and so on, and how that flows through. I think we put a chart up which is basically talking about installed base growing towards 50% by 2020. Obviously, engine shipments leads the installed base, and so I think the number today is approximately 50% in terms of engine shipping. That is set to grow with things like the new 900 order, and obviously 200 engines is a very significant chunk.

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In terms of individual campaigns that Tony may have been discussing, we only make announcements when people are ready to make announcements. As far as we're concerned, there are a trickle of wins coming in from the campaigns that are out there at the moment.

Jeremy Bragg *- Redburn - Analyst*

Jeremy Bragg, Redburn. A question for Warren, please. The topic is narrow-body. I've got a couple of sub-questions, but really how important is it to reenter this market? Do you think it's possible to compete with GE without a narrow-body product, given the scale it offers, plus also you've lost share in regional and business jets?

I'm aware that this isn't an immediate problem, but it kind of strikes me that investing in a narrow-body engine could be coincident with this Company starting to generate a meaningful amount of profit and cash in the early 2020s. So it's something I don't think investors can ignore, particularly given there are press reports at the moment suggesting that Boeing is looking to develop a re-engine -- sorry, is looking to redevelop the 73757? Thanks.

Warren East *- Rolls-Royce Holdings plc - CEO*

I come to this business and see this as a question which is out there, both outside the business and within. Clearly, as we find ourselves in a position where we're installed today on a number of narrow-body aircraft and right now, there are no narrow-body aircraft shipping with Rolls-Royce engines, nor will there be, or new aircraft shipping with Rolls-Royce engines, nor will there be for some time to come.

It's not a decision we have to make today, as you point out. I would say that the new technologies that we're developing, the new architectures, the Advance and UltraFan architectures, the technologies that sit behind there are equally applicable to lower power variants suitable for narrow-body aircraft such as any new design that might come out of Boeing to replace the 757 in due course. And obviously, they're an important partner for us. That's an important opportunity.

Exactly how vital it is, that Rolls-Royce wins that sort of design, exactly how much money we should spend on investing in that sector, is a bit more up for debate. That is straying into the realms of strategic review and I'm not going to have a strategic review in this Q&A session, if that's all right.

So that's all I'd say right now. We are developing the technologies which are applicable. We do understand that it's an important sector of the market in volume terms. It's very important today. Big question is, in volume terms, how significant will it be in 2030 to 2040 when the peak of revenue would be flowing from engines that got designed today and designed in, in the time of that 757 and other aircraft that might get introduced to compete with that.

In value terms, however, then, of course, these are lower value engines and we enjoy a significant volume in the widebody sector that we are very successful in today at the moment, and very successfully -- coming on to the last part of your question -- very successfully able to compete with GE in that space.

We've got the webcast question here.

Unidentified Company Representative

A question from David Perry, JPMorgan. David writes, the improved disclosure is appreciated. In this spirit, please can you tell us what royalty you received from IAE in the first half of 2015 and how you expect the royalty to unfold in the coming years? Thank you.

David Smith *- Rolls-Royce Holdings plc - CFO*

Okay. So the answer is about the same as last year. And I think we've talked about that number in the past at around GBP200 million, I think, on an annualized basis. So that royalty isn't changing significantly at the moment. Over time, as I've described before, that royalty will remain a constant factor but will, obviously, be constant in terms of pricing [that] will be affected by engine flying hours.

We also, at the moment, receive revenue and profit from selling modules still for the next couple of years into the engine assembly. That, clearly, will go out of production over the next couple of years and we will produce an increasing volume of spare parts over the next 10 or 15 years, so that will be an increasing trend.

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I know the IAE number is fascinating, but it's not actually going to have a material impact over time on the in-the-air profitability of the business. There will be a bit of a drop in 2017 or 2018-ish as we lose the engine modules but, apart from that, it's a fairly constant number.

Andrew Gollan *- Berenberg Bank - Analyst*

Andrew Gollan, Berenberg. I've got two questions; one on cash flow for David and a broader question for Warren again. So on the cash flow, on the Trent delivery profile and the mix of linked to unlinked, there's a fairly dramatic mix change that we all now are aware of. And we're also aware of the accounting change and how that brings profits closer to cash. So on a two- or three-year view, what should we be thinking about in terms of that being a powerful driver of improving cash dynamics in terms of conversion? Or are we back to what you talked about earlier in terms of it's all about inventory management? How powerful a driver is it?

David Smith *- Rolls-Royce Holdings plc - CFO*

Yes, I think the reason I talked about inventory is that's something really physical that we can get hold of in the short term and continue to manage. Remember, there's absolutely no difference between the cash flow between a linked and unlinked contract. The reason it has an effect on cash flow is simply the profit to cash flow movement. So in absolute terms, the cash income is really driven primarily by the engine flying hours, or if people are not on TCA contracts on the shop visit.

So it will become an increasingly important part of the cash flow as the installed base ramps up, both on the Trent 1000 and, interestingly, that's a project that will see fairly intense, probably, activity in the first few years as those engines are operated in relatively short segments intensively by the launch airlines. But then, as we see the XWB begin to build up as well. So those are going to be the main drivers of that.

And therefore, as I said before, this isn't linear, unfortunately. It will build up over time, but once we're up to 50% installed base, it will be a really major driver.

Andrew Gollan *- Berenberg Bank - Analyst*

No, I understand the absolute cash story, but it was more on the conversion metrics, how soon do we get closer to metrics that might look more preferable?

David Smith *- Rolls-Royce Holdings plc - CFO*

Yes, well, we talked about this 80% and I think the smarter -- those who've cottoned on to this LTSA thing peaking out, will realize actually it's probably likely to be over 100% for some stages because you'll get a net release of cash. In fact, I remember I didn't fully answer that question earlier. But absolutely, there will be cash flow thrown off as the TotalCare net debtor begins to decrease again.

So I still believe getting to a cash conversion of those levels, albeit a little bit further out because of just the volume impacts of losing those Trent 700s, will be achieved in a relatively short timeframe.

Andrew Gollan *- Berenberg Bank - Analyst*

Okay. And then one last question for Warren; it follows on from Olivier's question earlier. Your predecessor made quite a lot of similar noises about operational improvement, cost reduction, all the things we want to hear, infamous three Cs which became four.

I guess my broader question is, it's about the culture internally that you've experienced since you've been in your very short tenure so far. How do you feel about things like cultural obstacles, because everything that was said before was very good. It's fair to say that progress has been way below what we all thought might happen maybe a couple of years ago. So any observations you could say on that in your very short time you've been at the business?

Warren East *- Rolls-Royce Holdings plc - CEO*

Yes, it is a very short time, so let me caveat what I say with that. Of course, when you're trying to make operational changes then the culture that exists within the business, the way in which people go about doing things, communicate, speed of information flow, all that sort of thing, can be a serious retardant.

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I think the now four Cs framework for operational improvement that has been followed at Rolls-Royce over recent years is an excellent framework and the job is not complete and we do have a way to go on following through. But I intend to continue to use that framework to follow through.

The two words that I've used to slightly change the emphasis on that are pace and simplicity. And I think those possibly speak to some observations that I've made, for myself at any rate, about the culture, which possibly needs a little bit of tweaking. So hopefully, that's broadly answered the question; I don't think we need to talk about it any further right now.

Unidentified Company Representative

Another question from the web, from Ben Fidler, Deutsche Bank Research. Ben asks, a question for Warren. You have a large backlog in civil aerospace; how content are you that this backlog has been correctly priced versus your cost base to enable you to deliver midterm margins in line with your large-engine peers?

Warren East - ***Rolls-Royce Holdings plc - CEO***

Okay. And the answer is that they've been priced at the price that they're at, and that's market price when the orders were struck. And that's not within our control to make any changes to that right now.

The reality is that a lot of that is a very, very profitable Trent 700 engine, and price is one component of that. Maybe there's a little bit of concern because on July 6, we talked about pricing pressure, and I must emphasize that the pricing pressure we talked about on July 6 was due to a very changed competitive environment on a very small, or relatively small, number of Trent 700 engines in the tail end of that very profitable program.

Going forward, then the lever that we have to work with to turn the orders which are already taken and priced into profit is one of cost. And that's why we're going through this program of operational transformation under the framework of four Cs, and that's why I'm coming in and taking another look at the way in which we go about doing things, the operational review that we're doing, to look for ways of stretching that a little bit further and a little bit faster on things like the cost. But I'm confident in the transformation programs that are already underway.

In aerospace, in particular, we announced a program at the end of last year. We're some 60% of the way through the headcount changes that are associated with that program. And the location where we're doing things, it's an ongoing program. It's going to last for some three to four years yet, and I'm confident that it's going to deliver some significant improvements for us.

Thanks. I think we might be almost there. So with that, thank you all very much for turning up this morning. I know it's a very busy morning with lots of results out today, so thank you very much for your support and we'll be back in Q4.

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