

ENERGY

We are capitalising on oil and gas demand. We will also grow our Civil Nuclear services globally and support the UK new build programme.

Andrew Heath
President – Energy



OVERVIEW

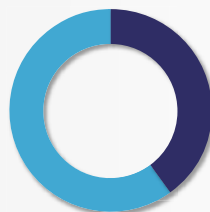
Underlying revenue (£m)



£1,048m

Underlying revenue 2013

Revenue mix 2013



- 40% OE revenue
- 60% Services revenue

Revenue by market sector 2013



- 68% Oil and gas
- 21% Power generation
- 11% Civil Nuclear/other



Highlights

- 33 RB211s ordered for oil and gas applications
- Major service contract secured with Petrobras
- New Santa Cruz, Brazil, assembly plant operational
- Signed tripartite agreement with Rosatom and Fortum to assess nuclear reactor design for UK new build
- Renewed agreement with Westinghouse to provide nuclear inspection services in the US

Energy has sold 4,600 gas turbines with 180 million operating hours recorded.

Rolls-Royce has over 50 years of experience in the nuclear industry.

What we do

Our Energy segment supplies customers with aero-derivative gas turbines, compressors and related services.

In Civil Nuclear, we provide products and services spanning the nuclear reactor life-cycle from concept design and installation to obsolescence management and plant life extension. We have a strong position in nuclear instrumentation and control systems.

2013 financial review

The order book increased by 14 per cent with new orders of £1.1 billion (£0.8 billion in 2012). The business saw a strong recovery in order intake in oil and gas. Power generation markets remain suppressed. In Civil Nuclear, we continue to extend the suite of products and services that we offer to nuclear utilities to enable them to achieve safe, efficient and reliable lifetime reactor operations. Revenue increased nine per cent, driven by higher OE volumes in our oil and gas business. Profit increased by £7 million, reflecting higher volumes, partially offset by strong pricing pressure and continued investment in our Civil Nuclear business. We continue to work to improve the financial performance of the business. In 2014, Energy will include nuclear submarines to form our Energy and Nuclear business. We expect good growth in revenue and profit, with further improvement in the return on sales.

Key financial data

	2009	2010	2011*	2012	2013
Order book £m	1,262	1,180	1,420	1,290	1,469
	+1%	-6%	+20%	-9%	+14%
Engine deliveries	87	95	48	49	56
Underlying revenue £m	1,028	1,233	1,083	962	1,048
	+36%	+20%	-12%	-11%	+9%
Underlying OE revenue £m	558	691	527	344	415
Underlying service revenue £m	470	542	556	618	633
Underlying profit before financing £m	24	27	16	19	26
	+1300%	+13%	-41%	+19%	+37%

* 2011 figures restated due to transfer of Bergen to Power Systems segment.

How we are performing

Oil and gas: In total, 33 RB211 gas turbines were ordered for oil and gas applications, 22 of which were for pipeline compression projects. This includes a US\$175 million contract from Asia Gas Pipeline for 12 units.

Our new purpose-built packaging, assembly and test facility in Santa Cruz, Brazil, became operational and the first units were delivered to Petrobras for use in its deepwater offshore production activities.

Power generation: Demand continued to be subdued for new power generation capacity in mature economies. Seven Trent 60 units were ordered, including five for the SARB offshore oilfield project in the UAE.

We released enhanced power ratings for the Trent 60 gas turbine, consolidating its position as the most powerful aero derivative available.

Services: We continue to strengthen both our aftermarket products and services capability as well as our penetration of the installed fleet, resulting in a six per cent year-on-year increase in aftermarket revenue.

Currently 24 per cent of the core engine fleet is under long-term service agreements. During the year we received several new major service contracts including a US\$138 million five-year contract from Petrobras to support 15 of its RB211 industrial gas turbine power generation units installed on four oil platforms operating in the Campos Basin.

Civil Nuclear: We strengthened our strategic relationships during the year with AREVA, Westinghouse, Hitachi, EDF and Rosatom.

Our acquisition of PKMJ Technical Services in the US means we now provide services to every nuclear utility in the US and Canada.

We continued to deliver the instrumentation and control (I&C) upgrade for EDF's fleet of 1,300MW nuclear reactors in France and provided I&C systems and components for seven new nuclear reactors currently under construction in China.

Future priorities and opportunities

Our focus is on growing our market position in oil and gas, including opportunities in pipelines and LNG. In power generation, we will benefit from any recovery in industrial demand for electricity.

In Civil Nuclear our priorities will continue to be satisfying our customers, winning new orders and high-quality delivery. Improving operational efficiency will be a key feature for the Nuclear business during 2014.

We will assess potential investments in high-value manufacturing in order to contribute positively to a successful new build programme for the UK.

In international markets, we will extend the suite of products and services that we offer to nuclear utilities to enable them to achieve safe, efficient and reliable lifetime nuclear reactor operations.

Market outlook: In the oil and gas, and power generation sectors, the Group's 20-year forecast values demand for total aero-derivative gas turbine and compressor systems at more than US\$60 billion and associated services at around US\$60 billion. *Sources: McCoy Power reports, LEK Consulting, Booz & Co., IEA, Infield Systems and our own forecasting tools.* We estimate a demand for nuclear mission-critical equipment, systems, engineering and support services of US\$610 billion over the next 20 years. *Based on nuclear capacity forecasts from the International Energy Agency, the World Nuclear Association, the International Atomic Energy Agency and the US Department of Energy.*