KEY PERFORMANCE INDICATORS

The Board uses a range of financial and non-financial indicators to monitor Group and segmental performance in line with the strategy.

Financial indicators are shown below. The key objectives of the Board and its committees are described on pages 39 to 54 and non-financial key performance indicators are shown in the sustainability section on pages 26 to 29.

Rolls-Royce Power Systems AG (RRPS), formerly Tognum AG, was fully consolidated from 1 January 2013. To aid understanding, the impact on 2013 of consolidation has been displayed separately below.

● Rolls-Royce ● RRPS

CUSTOMER

ORDER BOOK

+19%

+16% before RRPS

The order book provides an indicator of future business. It is measured at constant exchange rates and list prices and includes both firm and announced orders. In Civil aerospace, it is common for a customer to take options for future orders in addition to firm orders placed. Such options are excluded from the order book. In Defence aerospace, long-term programmes are often ordered for only one year at a time. In such circumstances, even though there may be no alternative engine choice available to the customer, only the contracted business is included in the order book. Only the first seven years' revenue of long-term aftermarket contracts is included.

ORDER INTAKE

+67%

+52% before RRPS

Order intake is a measure of new business secured during the year and represents new firm orders, net of the movement in the announced order book between the start and end of the period. Any orders which were recorded in previous periods and which are subsequently cancelled, reducing the order book, are included as a reduction to intake. Order intake is measured at constant exchange rates and list prices and consistent with the order book policy of recording the first seven years' revenue of long-term aftermarket contracts. Order intake for any given year includes the seventh year of revenue.

UNDERLYING REVENUE

+27%

+6% before RRPS

Monitoring of revenues provides a measure of business growth. Underlying revenue is used in order to eliminate the effect of the decision not to adopt hedge accounting and to provide a clearer year-on-year measure.

The Group measures foreign currency revenue at the actual exchange rate achieved as a result of settling foreign exchange contracts from forward cover.

INNOVATION

NET R&D EXPENDITURE AS A PROPORTION OF UNDERLYING REVENUE

+4.5% before RRPS

R&D is measured as the self-funded expenditure both before amounts capitalised in the year and amortisation of previously-capitalised balances. The Group expects to spend approximately five per cent of revenues on R&D although this proportion will fluctuate depending on the stage of development of current programmes. This measure reflects the need to generate current returns as well as to invest for the future.

CAPITAL EXPENDITURE

+40%

+20% before RRPS

To deliver on its commitments to customers, the Group invests significant amounts in its infrastructure. All proposed investments are subject to rigorous review to ensure that they are consistent with forecast activity and will provide value for money. Annual capital expenditure is measured as the cost of property, plant and equipment acquired during the period.

PROFITABLE GROWTH

UNDERLYING PROFIT BEFORE FINANCING

+22%

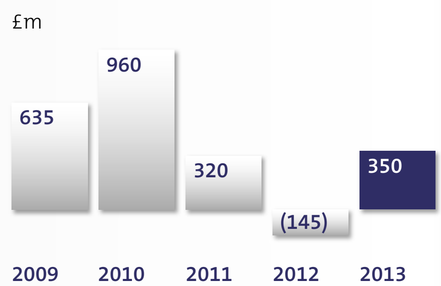
+10% before RRPS

Underlying profit before financing is presented on a basis that shows the economic substance of the Group's hedging strategies in respect of the transactional exchange rate and commodity price movements. In particular: (a) revenues and costs denominated in US dollars and euros are presented on the basis of the exchange rates achieved during the year; (b) similar adjustments are made in respect of commodity derivatives; and (c) consequential adjustments are made to reflect the impact of exchange rates on trading assets and liabilities and long-term contracts on a consistent basis.

AVERAGE CASH/DEBT

+£380m before RRPS

The Group reports the balance of net funds/debt on a weekly basis and average cash is therefore the average of these weekly net balances. These balances are reported at prevailing exchange rates and in recent periods, year-on-year movements in average cash balances reflect the significant acquisitions and disposals which have taken place, most notably RRPS in 2011 and IAE restructuring in 2012. The impact on average cash balances will depend on when these transactions took place during the year.



CASH FLOW

+£539m before RRPS

In a business requiring significant investment, the Board monitors cash flow to ensure that profitability is converted into cash generation, both for future investment and as a reward for shareholders. The Group measures cash flow as the movement in net funds/debt during the year, after taking into account the value of derivatives held to hedge the value of balances denominated in foreign currencies.

The figure for 2011 includes investment of £1,496 million in RRPS.