

Rolls-Royce designs, develops, manufactures and services integrated power systems for use in the air, on land and at sea.



We are one of the world's leading producers of aero engines for large civil aircraft and corporate jets. We are the second largest provider of defence aero engines and services in the world. For land and sea markets, reciprocating engines and systems from Rolls-Royce are in marine, distributed energy, oil & gas, rail and off-highway vehicle applications. In nuclear, we have a strong instrumentation, product and service capability in both civil power and submarine propulsion.

What's inside...

STRATEGIC REPORT



Our business model and how we performed

Group at a glance	2
Better power	4
Chairman's review	10
Chief Executive's review	14
Innovation and technology	20
Market outlook	22
Strategy	23
Business model	24
Chief Financial Officer's review	26
Financial review	28
Business reviews:	
Aerospace	32
Land & Sea	36
Our people	42
Sustainability	44
Key performance indicators	48
Principal risks	50

DIRECTORS' REPORT



How we manage our business

Board of directors	54
Chairman's introduction	56
Corporate governance	59
Committee reports:	
Nominations and governance	64
Safety and ethics	66
Audit	69
Remuneration	74
Directors' remuneration	76
Directors' remuneration policy	86
Responsibility statements	93
Other statutory information	162

FINANCIAL STATEMENTS



The financial statements of the Group

Financial statements contents	94
Group financial statements	95
Company financial statements	149

OTHER INFORMATION



Auditor's report and shareholder information

Subsidiaries, jointly controlled entities and associates	152
Independent auditor's report	154
Additional financial information	160
Shareholder information	166
Glossary	168

FINANCIAL HIGHLIGHTS

How did we perform in 2014?

	2014	2013	Change
Order book £m	73,674	71,612	+3%
Underlying* revenue £m	14,588	15,505	-6%
Underlying* profit before tax £m	1,617	1,759	-8%
Underlying* earnings per share	65.3p	65.6p	-0.3p
Full year payment to shareholders (excluding buyback)	23.1p	22.0p	+5%
Reported revenue £m [†]	13,736	14,642	-6%
Reported profit before tax £m [†]	67	1,700	-96%
Reported earnings per share [†]	3.7p	73.3p	-69.6p
Net cash £m	666	1,939	-66%
Free cash flow £m	254	781	-67%

* Underlying explanation is in note 2 on page 110.

[†] 2013 re-presented to reflect Energy as a discontinued operation.

All figures in the narrative of the Strategic Report are underlying unless otherwise stated.

FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and guidance may be updated from time to time. Latest information will be made available on the Group's website. By their nature, these statements involve risk and uncertainty, and a number of factors could cause material differences to the actual results or developments. This report is intended to provide information to shareholders, is not designed to be relied upon by any other party or for any other purpose, and the Company and its directors accept no liability to any other person other than that required under English law.

GROUP AT A GLANCE

A HIGH-VALUE GLOBAL BUSINESS

The Group is organised into two Divisions: Aerospace and Land & Sea.

Our vision is to create better power for a changing world.

We do this by developing world-leading technology, producing highly efficient products and providing through-life services in each of our chosen markets.

GROUP



EMPLOYEES (YEAR AVERAGE)

54,100



ENGINEERS (YEAR END)

15,500



ORDER BOOK

£73.7bn



COUNTRIES

50+



INVESTED IN R&D

£1.2bn



PATENTS APPLIED FOR

600

UNDERLYING GROUP REVENUE



■ Aerospace 61%
■ Land & Sea 39%

UNDERLYING GROUP REVENUE

£14,588m

UNDERLYING GROUP PROFIT BEFORE TAX

£1,617m

AEROSPACE

The Aerospace Division is a leading producer of aero engines for large civil aircraft and corporate jets. We are the second largest provider of defence aero engines and services in the world.

We power more than 50 types of aircraft across civil and defence markets and have over 29,000 engines in service.

→ PAGES 32 TO 35 FOR MORE INFORMATION

CIVIL AEROSPACE

UNDERLYING REVENUE MIX



■ OE revenue 48%
■ Services revenue 52%

UNDERLYING REVENUE

£6,837m

UNDERLYING PROFIT

£942m

DEFENCE AEROSPACE

UNDERLYING REVENUE MIX



■ OE revenue 39%
■ Services revenue 61%

UNDERLYING REVENUE

£2,069m

UNDERLYING PROFIT

£366m

LAND & SEA

The Land & Sea Division comprises Power Systems, Marine and Nuclear.

Our Power Systems business includes the world-renowned MTU range of reciprocating engines. Marine has equipment installed on over 25,000 vessels.

We have a growing civil nuclear business and have 55 years of experience in nuclear submarine propulsion.

→ PAGES 36 TO 41 FOR MORE INFORMATION

POWER SYSTEMS

UNDERLYING REVENUE MIX



■ OE revenue 70%
■ Services revenue 30%

UNDERLYING REVENUE

£2,720m

UNDERLYING PROFIT

£253m

MARINE

UNDERLYING REVENUE MIX



■ OE revenue 63%
■ Services revenue 37%

UNDERLYING REVENUE

£1,709m

UNDERLYING PROFIT

£138m

NUCLEAR

UNDERLYING REVENUE MIX



■ OE revenue 37%
■ Services revenue 63%

UNDERLYING REVENUE

£684m

UNDERLYING PROFIT

£48m

ENERGY

We sold the Energy gas turbines and compressor business to Siemens on 1 December 2014.

UNDERLYING REVENUE

£724m

UNDERLYING PROFIT

£(3)m