News Release

Rolls-Royce

Trusted to deliver excellence

12 February 2016

ROLLS-ROYCE HOLDINGS PLC
2015 FULL YEAR RESULTS

Warren East, Chief Executive, said: "In the context of challenging trading conditions our overall performance for the year was in line with the expectations we set out in July 2015. It was a year of considerable change for Rolls-Royce: in our management, in some market conditions and in our near-term outlook. At the same time, there were some important constants: the underlying growth of our long-term markets, the quality of our mission critical technology and services, and strength of customer demand for these, which are reflected in our growing order book."

Key financials

- Underlying revenue £13.4bn (FY 2014: £13.9bn), down 1% at constant exchange rates
- Underlying profit before tax £1,432m (FY 2014: £1,620m), down 12% at constant exchange rates
  - £1,355m before one-off items (see page 4) in line with lower half of 2015 guidance range
- Restructuring programmes started prior to November 2015 continue to make good progress:
  - £145m of annualised cost savings expected by end 2017
- Final payment to shareholders reduced by 50% to 7.1 pence per share (2014 final: 14.1 pence)
- Trading outlook for 2016 unchanged
- 4% growth in order book underpins confidence in strong market share growth for Civil Aerospace

	Reported			Underlying		
Year to 31 December	**2015**	2014*	Change**	**2015**	2014*	Change**
Revenue (£m)	**13,725**	13,736	0%	**13,354**	13,864	- 1%
Profit before tax (£m)	**160**	67	+140%	**1,432**	1,620	- 12%
Earnings per share (p)	**4.5p**	(3.9)p	+215%	**58.7p**	65.4p	-10%
Net funds (£m)				**(111)**	666	(777)
Free cash flow (£m)* **				**179**	447	(268)

Underlying: for definition, see note 2 on page 24; * From continuing operations (re-presented to exclude Energy as a discontinued operation); ** At constant exchange rates. *** Free cash flow defined as operating cash after capital expenditure, pensions and taxes, before payments to shareholders, foreign exchange and acquisitions & disposals

New transformation programme launched in November 2015

- Set up a transformation team to focus activities, add pace and simplicity to the business and drive cost reductions of between £150m and £200m per annum:
  - 20% reduction in top two layers of senior management; further reductions planned
  - Roughly 50% of targeted cost savings already identified
  - Initial exceptional restructuring charge of £75-100m in 2016
  - Further actions underway to generate additional savings in 2017
- Increased disclosure and transparency included in this full year results statement

Commenting on the outlook, Warren East, Chief Executive, added: "Our outlook for 2016 is unchanged; despite steady market conditions for most of our businesses it will be a challenging year as we start to transition products and sustain investment in Civil Aerospace and tackle weak offshore markets in Marine.

“The pace of investment required to transform the business creates near-term pressure on free cash flow. At the same time, we need to sustain a healthy balance sheet to ensure we have the financial flexibility to maintain a strong investment grade credit rating. As a result, the Board is recommending that the payment to shareholders is halved in cash terms at the full year and the next half year. We recognise the importance of a healthy ‘dividend’ to our shareholders. Subject to short-term cash needs, we intend to review the payment so that it will be rebuilt over time to an appropriate level. This reflects the Board’s long-standing confidence in the strong future cash generation of the business.

“Our strong order book continues to grow, built around market-leading products and services. This provides us with an outstanding opportunity to deliver long-term profitable growth and capture significant incremental market share. The transformation programme is now well underway. This will add pace and simplify our business, making us a more resilient company. Overall, we have made a good start to the journey that will return the company to profitable growth.”

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Photographs and broadcast-standard video are available at www.rolls-royce.com.
A PDF copy of this report can be downloaded from www.rolls-royce.com/investors.

This Full Year Results Announcement contains forward-looking statements. Any statements that express forecasts, expectations and projections are not guarantees of future performance and will not be updated. 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 under English law.

Results Presentation

A presentation will be held at 09:00 (GMT) today. Details of how to join the event online are provided below. Downloadable materials will be available on the Rolls-Royce website from the start of the event.

Online webcast registration details for 12 February presentation
To register for the live webcast (including Q&A participation) please visit this link:

http://edge.media-server.com/m/p/cddndf3y

Please use this same link to access the webcast replay after the event.

2015 Business Highlights

All percentage or absolute change figures in this document are on a constant translational currency basis unless otherwise stated

£m unless otherwise stated	% of Group*	Closing Order Book (£bn)	Underlying revenue 2015	Underlying revenue % change	Underlying profit before financing 2015	Underlying profit before financing % change
Civil Aerospace	*52%*	67.0	6,933	+3%	812	-14%
Defence	*15%*	4.3	2,035	-5%	393	+4%
Power Systems	*18%*	1.9	2,385	-3%	194	-15%
Marine	*10%*	1.1	1,324	-16%	15	-94%
Nuclear	*5%*	2.2	687	+9%	70	+40%
Other			96		*52*	
Eliminations/ central		*(0.1)*	*(106)*		*(44)*	
Total Group		**76.4**	**13,354**	**-1%**	**1,492**	**-11%**

* *Based on gross revenues prior to intra-group eliminations*

Civil Aerospace

- Underlying revenue up 3%; solid growth in aftermarket revenues offset lower new engine sales
- Underlying profit before financing 14% lower than 2014; largely reflecting lower gross margins, due to adverse mix effects and higher R&D charges, partially offset by the impact of life-cycle cost improvements, retrospective long-term contract accounting benefits, a reversal of impairment of Contractual Aftermarket Rights and lower restructuring costs
- £3.8bn order book growth; led by Trent 900 and XWB orders – XWB now nearly 50% of order book
- New Trent engines, 1000 TEN, XWB-97 and 7000, on track for entry into service in 2017 and 2018
- Good progress modernising supply chain to reduce costs and increase capacity for Trent XWB ramp up over next four years

Defence

- Underlying revenue 5% lower; revenues impacted by weaker helicopter and trainer volumes, partially offset by higher combat original equipment sales
- Underlying profit before financing up 4%; steady gross margin and lower restructuring costs offset higher R&D charges
- Strong positions in transport & patrol and combat underpin outlook for a steady performance in 2016
- Major five year $600m investment in Indianapolis to improve cost base and benefit long-term growth

Power Systems

- Underlying revenue 3% lower; weaker original equipment partially offset by good growth in services
- Underlying profit before financing 15% lower; led by lower gross margin
- Positive outlook for 2016; healthy closing order book with good positions in key market segments
- Long-term R&D investments to increase cost competitiveness in higher volume engine applications

Marine

- Underlying revenue down 16%; weak offshore markets impacting both OE and aftermarket revenues
- Underlying profit before financing down 94%; significant reduction in gross margin, led by lower volumes, and higher restructuring costs only partially offset by reduced commercial and administration cost
- Challenging outlook for 2016; led by reduced demand in offshore oil and gas markets
- Launched two restructuring programmes in 2015 focused on manufacturing footprint and back-office functions; expected benefits to start to accrue from 2016 onwards

Nuclear

- Underlying revenue 9% higher; strong service revenues led by increased submarine work
- Underlying profit before financing unchanged, excluding the benefit from a £19m R&D credit; volume benefit offset by lower margins
- 2016 outlook steady – focus on improving delivery performance and developing civil nuclear opportunities
- Investing in the business to extend systems offering and increase service scope

Other

- Includes the residual retained assets relating to the Energy business which were not included in the sale to Siemens in 2014 and a gain on a one-off intellectual property settlement

Chief Executive's Review

Introduction

In the context of challenging trading conditions our overall performance for the year was in line with the expectations we set out in July 2015. It was a year of considerable change for Rolls-Royce: in our management, in some market conditions and in our near-term outlook. At the same time, there were some important constants: the underlying growth of our long-term markets, the quality of our mission critical technology and services, and strength of customer demand for these, which are reflected in our growing order book. While we have some near-term challenges, these constants provide us with confidence in a strong, profitable, cash-generative future.

Performance in 2015

Our performance in 2015 was broadly in line with our early expectations, with Marine markets causing most of the weakness. At the same time we have continued to invest in products and services to support our customers and reinforce the long-term strength of our order book, valued at £76.4bn at the year end, up 4% on 2014.

Group revenue was broadly unchanged on a constant currency basis with good growth in Civil Aerospace offsetting weaknesses in Marine. The combination of some difficult market conditions, sustained engineering investment and high fixed costs led to underlying profit before finance charges and tax 11% lower at £1,492m.

Civil Aerospace delivered an underlying profit before finance charges and tax of £812m (2014: £942m). Defence delivered £393m (2014: £366m), Power Systems £194m (2014: £253m) and Marine £15m (2014: £138m). Nuclear delivered £70m (2014: £50m). More detail on each business is included in the Operational Review.

After underlying financing costs of £60m (2014: £61m), underlying profit before tax was £1,432m (2014: £1,620m). Excluding the benefit of a one-off intellectual property settlement of £58m, triggered by the third-party acquisition of a former business partner, and a favourable £19m R&D credit benefiting our Nuclear business, underlying profit before tax would have been £1,355m, in line with the lower half of the 2015 guidance range set out in July last year.

After an underlying tax charge of £351m (2014: £388m) and adjusting for minority interests, underlying profit for the year was £1,080m (2014: £1,226m). With an average 1,839m shares in issue, underlying earnings per share were 58.7p (2014: 65.4p).

Reported profit before tax was £160m (2014: £67m), compared to an underlying profit before tax of £1,432m (2014: £1,620m). A full reconciliation of headline to underlying profit can be found on page 21.

Free cash flow of £179m was materially higher than our Q3 expectations, reflecting strong cash collections at the end of the year from a number of key customers, a better than expected overall working capital performance and the non-recurring cash settlement arising from the intellectual property agreement mentioned above. Some of this positive variance is likely to reverse early in 2016.

A more detailed review of financial performance is included in the Group Trading Summary and the Financial Review.

Positive market developments continue to drive long-term growth

The long-term positive market trends for our leading power systems remain unchanged despite some near-term uncertainties that are expected to impact small aerospace engine production volumes and service activity on older widebody engines over the next couple of years. The trends driving demand for growth in large passenger aircraft, corporate jets and maritime activity remain strong; in particular a growing aspirational and mobile middle-class, particularly in Asia, and globalisation in business, trade and tourism. In addition, capacity constraints at the airframe manufacturers and a strong underlying demand for newer, more fuel efficient aircraft, should provide resilience to manufacturing schedules over the next few years as the industry transitions to new airframes during a strong replacement cycle.

The most significant short-term challenge that has emerged in 2015 relates to the changing demand for our Trent 700 engine as Airbus transitions production from old to new airframes. This has had a knock on effect on both demand for and pricing of the remaining engines to be delivered. Once completed, we will benefit from an exclusive position with the new Trent 7000 on the A330neo. In the near-term the profit impact of this transition is negative; the impact of lower pricing and gross margin is exacerbated by the accounting effects of changes within our large engine aerospace product mix as we transition to a portfolio increasingly comprising “unlinked” platform positions. However, the roll-out of new engines will significantly grow our market share and the installed base of new engines that will deliver strong aftermarket revenues for decades to come.

We recognise that these changes have been exacerbated by market uncertainty as to the impact of TotalCare® accounting on our financial statements. As a result, we are increasing our financial disclosure to present a simpler narrative that will more clearly describe how the key drivers of performance translate into our financial results and aid transparency and understanding. These are included in the Trading Summary.

Announced initial findings of a detailed operational review

Our strategic priorities for 2015 remained largely consistent throughout the year, with a clear focus on the customer, innovation, and on driving long-term profitable growth. However, with short-term market conditions around us changing, it has been appropriate to review these priorities as we look to the next three or four years.

Since July, we have been conducting a review of operations and presented the initial conclusions in November. As part of this we shared our views on the strengths and weaknesses of our business portfolio and updated management's future focus and priorities around delivery and transformation.

Clear areas for business improvement

The review of operations also highlighted a number of opportunities to drive further performance improvements over and above the extensive restructuring programmes already underway. As we grew as an organisation we embedded costs and complexity in the business which, in periods of significant investment and product transition like now, is impacting our performance. But the higher costs also present a significant opportunity; to simplify what we do and sustainably reduce the cost of management, creating a more streamlined, resilient and sustainable business.

Strategic focus going forward

The review has led us to recast our priorities for 2016 onwards. As before, the overarching theme continues to be developing our products, services and order book to drive long-term **profitable growth**. We will do this by focusing on three common themes across all our businesses:

- investing in and developing **engineering excellence**
- driving a manufacturing and supply chain transformation which will embed **operational excellence** in lean, lower-cost facilities and processes and, finally,
- leveraging our installed base, product knowledge and engineering capabilities to provide customers with outstanding service through which we can **capture aftermarket value** long into the future.

Our ability to deliver these priorities will be enhanced by a major transformation of our organisation; to simplify our processes and management structure, to add pace to our decision making and execution, and to provide space to **develop our people** and create a stronger, high performance **culture**.

These themes will become the cornerstones of our operational priorities going forward.

Major new transformation programme creating meaningful cost savings

The objective of our new transformation programme is to simplify the organisation, streamline senior management, reduce fixed costs and add greater pace and accountability to decision making. Our target is to deliver incremental gross cost savings of between £150m and £200m per annum, with the full benefits accruing from the end of 2017 onwards.

In the last two months we have already announced a 20% reduction in top two layers of senior management and further reductions planned for 2016 and onwards. This has included removal of the divisional structure. To date we have already identified around 50%, or £75-100m, of targeted cost savings with a related exceptional restructuring charge of £75-100m which will be taken in 2016. Around £30-50m of the initial savings should be achieved in 2016 with the full run rate benefiting 2017. Further actions are underway to quantify the additional savings needed to reach our goals, together with the related costs which we expect to take in 2017.

To ensure we remain focused, we have set up a transformation team who will drive change to simplify processes and activities across the company to deliver sustainable performance improvements. The new team will ensure other restructuring programmes maintain progress. They will also help develop the comprehensive range of key performance indicators needed to support the changes we are looking to make inside the business. Several measures around site level productivity and aerospace engine unit costs have already being adopted within the business. These and other measures will be important indicators of the changing culture around productivity, cost reduction, investment efficiency and process waste. Details on new measures will be set out in further announcements.

Restructuring initiatives started prior to November continue to make good progress

During 2014 and 2015 restructuring initiatives were started, largely focused on our operational footprint within Aerospace and Marine.

In 2015, we consolidated our Civil Aerospace repair and overhaul activities, enabling the closure of sites in Brazil and the UK, along with further rationalisation of our UK manufacturing footprint. To date, nearly 80% of the targeted 2,600 Civil and Defence Aerospace headcount reductions have been completed with an 11% reduction in our 2013 operational footprint.

In May 2015, we announced a Marine restructuring programme to make significant reductions in both manufacturing footprint and headcount (by 600) and generate £25m in annual savings from 2016 onwards. This included work to consolidate our footprint and increase lower-cost country sourcing. At the start of October, we announced an additional programme of restructuring, focused largely on back-office administrative functions. This will lead to a further 400 reduction in headcount.

Good progress has been made overall, with related headcount reductions across Aerospace and Marine totalling 2,500 by the end of the year.

Update on regulatory investigations

We previously reported that the Serious Fraud Office had begun a formal investigation. The Group is continuing to cooperate with the authorities in the UK, US and elsewhere. As the investigations are still ongoing we are unable to give any further details or a timescale for when they will conclude.

Shareholder payments

The pace of investment required to transform the business creates near-term pressure on free cash flow. At the same time, we need to sustain a healthy balance sheet to ensure we have the financial flexibility to maintain a strong investment grade credit rating. As a result, the Board is recommending that the payment to shareholders is halved in cash terms at the full year and the next half year. We recognise the importance of a healthy ‘dividend’ to our shareholders. Subject to short-term cash needs, we intend to review the payment so that it will be rebuilt over time to an appropriate level. This reflects the Board’s long-standing confidence in the strong future cash generation of the business.

As a result, the proposed final payment for 2015 is 7.1 pence per share, 50% of the final payment made for full year 2014. It is further proposed that the interim payment for 2016 will also be reduced to 50% of the prior year, in line with the long-term recommendation. As in past payments, the distribution will be in the form of C shares. Further details are included at the end of this statement.

Outlook for 2016

Our outlook for 2016 is unchanged from that set out in November 2015. On a constant currency basis Group revenue for 2016 is expected to be marginally lower than that achieved in 2015, partially reflecting the pricing and volume effects in Civil Aerospace and the continued weakness in offshore marine markets. Overall, the net profit trading headwinds discussed in previous announcements are unchanged at around £650m compared to our underlying profit before financing, excluding the £58m intellectual property settlement included in 'Other' and the £19m R&D credit which benefited Nuclear.

Individual outlooks are provided for each business in the operating review.

Looking further ahead

The successful roll-out of new engines, led in particular by the Trent XWB, 1000 and 7000, together with a growing aftermarket, is expected to drive significant revenue growth over the next ten years as we build toward a 50% plus share of the installed wide-body passenger market. While the impact of the transition to the Trent 7000 has reduced Trent 700 deliveries, and will hold back Civil Aerospace profit in the near term, we are confident that the important investments we are making to transition our production will create a strong platform to drive customer service, improved margins and strong cash flows.

Our 2014 and 2015 initiatives to reduce manufacturing and back office costs within Aerospace and Marine are on track to reduce costs by £145m by the end of 2017.

In addition, we have made a good start to the transformation programme that will add pace and simplify our business, and create incremental enduring cost savings of between £150m and £200m per annum from end 2017 onwards. These initiatives will make us a more efficient and resilient company. At the same time, we will continue to invest appropriately to strengthen our engineering and operational excellence and aftermarket products and services. We have started the journey that will return the company to its long-term trend of profitable growth.

Board update

During the year there have been a number of important changes to the Board. On 22 April we announced that John Rishton had decided to retire as Chief Executive on 2 July, to be succeeded by Warren East. At the AGM on 8 May James Guyette, President and Chief Executive Officer of Rolls-Royce North America, retired and stepped down from the Board. John Neill also stood down at the AGM after six years as a Non-Executive Director.

Irene Dorner, formerly CEO and President of HSBC USA, joined the Board in July. Alan Davies, Chief Executive of Rio Tinto's Diamonds and Minerals division, and Sir Kevin Smith, the former Chief Executive of GKN, the multinational automotive and aerospace business, both joined the Board from 1 November. In February 2016, Sir Kevin assumed Chairmanship of the Science and Technology Committee.

Irene brings a wealth of international expertise, particularly in risk management and operational performance. Alan, as well as having a strong financial background, brings relevant experience in transforming operational performance and driving cultural change through a complex global organisation, together with a deep knowledge of China and other key emerging markets. Sir Kevin also brings recent Asian experience together with significant aerospace industry knowledge, with engineering and manufacturing experience, after a long career at GKN and BAE Systems.

Lewis Booth, a US resident and an independent Non-Executive Director since 2011 has indicated his intention to relinquish his responsibility as Senior Independent Director once a successor has been appointed. He will continue as Chairman of the Audit Committee.

Dame Helen Alexander, an independent Non-Executive Director since 2007, will be stepping down from the Board after the AGM in May 2016 having completed her nine-year term. At that time she will be succeeded as Chairman of the Remuneration Committee by Ruth Cairnie, who joined the Board in September 2014.

Commenting on Dame Helen's contribution, Ian Davis, Chairman, said: "On behalf of the Board I would like to thank Dame Helen for her dedicated service to the Company. She has been a wise and insightful member of the Board and her well-judged advice and leadership of our Remuneration Committee have been highly valued by her colleagues."

Group Trading Summary

£m	2014	Underlying Change	Acquisitions & Disposals	Exchange	2015
Order book	**73,674**	2,725	**-**	**-**	**76,399**
Underlying revenue	**13,864**	(96)	-	(414)	**13,354**
Change		*-1%*	-	*-3%*	***-4%***
Underlying OE revenue	**7,418**	(363)	-	(331)	**6,724**
Change		*-5%*	-	*-5%*	***-9%***
Underlying services revenue	**6,446**	267	-	(83)	**6,630**
Change		*+4%*	-	*-1%*	***+3%***
Underlying gross margin	**3,523**	(251)	-	(90)	**3,182**
Gross Margin %	***25.4%***	*-160bps*			***23.8%***
Commercial and administrative costs	**(1,069)**	11	-	54	**(1,004)**
Restructuring costs	**(149)**	107	-	3	**(39)**
Research and development costs	**(730)**	(64)	-	29	**(765)**
Joint ventures and associates	**106**	10		2	**118**
Underlying profit before financing	**1,681**	(187)	-	(2)	**1,492**
Change		*-11%*			*-11%*
Underlying operating margin	**12.1%**	-130 bps			**11.2%**

Order book and order intake

During the year our order book increased by £2.7bn to £76.4bn. Key orders included our record single order from Emirates for 200 Trent 900 engines which contributed $6.1bn to the order book. Throughout the year new order intake in our Marine business was very weak, driven by significant market deterioration in offshore. Overall, orders were lower in Defence and Nuclear, although we view the prospects for these businesses as unchanged, reflecting long-term orders won in previous years.

Underlying trading

Underlying group revenue declined 1% in 2015 compared to 2014 on a constant currency basis. This reflects a 5% decline in revenue from original equipment, partially offset by a 4% increase in services revenue, led by Civil Aerospace. By business on a constant currency basis, Civil Aerospace revenue increased 3%, Defence Aerospace revenue decreased 5%, Power Systems revenue decreased 3%, Marine revenue decreased 16% and Nuclear revenue increased 9%.

Underlying profit before financing of £1,492m (2014: £1,681m) was 11% lower on a constant currency basis, led by a significant reduction in Marine profit, driven by weak off-shore markets in particular. Civil Aerospace was down year on year, although performance was helped by around £222m of retrospective benefits (2014: £150m) led by refining the basis of taking account of risk in our forecasts of future revenue on long-term contracts, and the reversal of previously recognised impairment on contractual aftermarket rights (CARs) and release of a related provision. Defence Aerospace delivered an improved year-on-year profit which included one-time contract benefits, led by contract extensions and reduced long-term costs. Power Systems was down year-on-year in line with our expectations on a constant currency basis as the business managed well with a number of weaker markets. Marine, as expected, was sharply lower, reflecting the weak oil and gas offshore sector and Nuclear was in line, after excluding the positive R&D credit.

R&D charge increased 11% over 2014 on a constant currency basis, largely reflecting ongoing investments in Civil Aerospace for the Trent 1000 TEN and Trent XWB-97, together with higher spending on the Trent 7000 and corporate jet programmes. In addition, we increased investment in future technology demonstrator programmes and improved emissions solutions for Power Systems applications. In addition, capitalisation of R&D declined significantly largely due to the entry into service of the Trent XWB-84 in January 2015 and increased recognition of entry fees.

Underlying financing charges were £60m (2014: £61m). Underlying profit before tax was £1,432m (2014: £1,620m). The underlying tax charge was £351m, with an effective tax rate of 24.5% (2014: 24.0%).

Free Cash Flow

Cash capital expenditure in 2015 reduced to £479m (2014: £616m), largely reflecting lower spend on new aerospace facilities. Cash taxes were £160m (2014: £265m exc. Energy). The cash cost of defined benefit pension schemes in excess of the earnings charge was £46m (2014: £154m exc. Energy).

Overall, the free cash inflow for the year was £179m (2014: inflow of £447m, adjusted for Energy). The significant decline from 2014 primarily reflects lower trading margins, and adverse working capital movements. The TotalCare net asset movement year-on-year was slightly higher than expectations.

Net debt, TotalCare net assets and Contractual Aftermarket Rights

The Group is committed to maintaining a robust balance sheet and a strong, investment-grade credit rating, which it believes are important when selling products which will be in service for decades. Standard & Poor's updated its rating in January 2016 to A/negative outlook and Moody's maintained a rating of A3/stable.

At the end of 2015, the Group's net cash balance reduced from £666m to a net debt position of £111m, reflecting the £179m positive free cash inflow, share repurchases totalling £414m and shareholder payments of £421m. Other items include residual payments related to the divestment of the Energy business and non-cash foreign exchange movements. On 6 July we announced that we had curtailed the share buyback associated with the Energy business sale at the to-date total of £500m, including the shares purchased in 2014. During the year we refinanced our revolving credit facility, increasing it to £1.5bn, and issued two new US bonds, totalling $1.5bn.

The Group hedges transactional foreign exchange exposures to reduce volatility. The most significant exposure is the net US dollar income of approximately $5bn per year which is converted into GBP. The hedge book was approximately $29bn at the year end, which represents around five years of cover. The average achieved rate in our hedge book at year end was $/£1.59.

TotalCare net assets increased in 2015 by £406m (2014: £463m) to £2.2bn (2014: £1.8bn), reflecting accounting for new 'linked' engines of £521m (2014: £588m) and the retrospective TotalCare accounting adjustments of £222m (2014: £150m) taken in the year, offset by the cash inflows and net other items of £337m (2014: £275m). The CARs balance increased by £156m to £405m (2014 £249m). The increase included £50m arising from the decision to reverse the impairment of prior year CARs.

Group technical factors for 2016

All figures are at constant currencies unless otherwise stated.

Overall **finance charges** in 2016 are expected to be in the region of £90-110m, reflecting current bank rates and the higher level of net debt, including additional committed facilities and cash balances maintained for liquidity purposes. The increase reflects the fact that the underlying gain of £34m taken in 2015, on realised foreign exchange contracts settled to convert significant overseas dividends from group companies, is not expected to recur.

The **effective tax rate** for 2016 is expected to be around 26% reflecting the greater proportion of taxable profit expected to be generated in higher tax rate regions in 2016 compared to 2015.

Capital expenditure for 2016 is expected to be around £500-550m (2015: £494m).

Net R&D spend is expected to be again over £800m in 2016 reflecting the steady investment in new development programmes and expenses related to the completion of important new product launches in Civil Aerospace. The net R&D P&L charge is expected to be broadly unchanged at around £750-800m.

After a strong finish to 2015, led by strong cash receipts and good management of year end inventories, **free cash flow** for the year was £179m, around £250m ahead of expectations. As a result, free cash flow in 2016 is likely to be at best in line with previous expectations for a modest overall out flow of between £100-300m.

Operational Review

Consistent with the plans we laid out in November 2015, we have enhanced the financial disclosures for all our reporting segments to include gross margin, R&D and other costs below gross margin, as well as restructuring charges. In addition, within Civil Aerospace we have provided additional revenue segmentation and a trading cash flow breakdown. These disclosures apply to both 2014 and 2015 and should help further analysis of trading performance.

We have also included an 'Other' category. This includes the residual retained assets relating to the Energy business which were not included in the sale to Siemens in 2014 and the one-off intellectual property settlement. The value of these is not material to the Group.

Operational Review: Civil Aerospace

£m	2014	Underlying Change	Acquisitions & Disposals	Exchange	2015
Order book	**63,229**	3,800	**-**	**-**	**67,029**
Engine deliveries	**739**	(27)	-	-	**712**
Underlying revenue	**6,837**	201	-	(105)	**6,933**
Change		*+3%*	-	*-2%*	***+1%***
Underlying OE revenue*	**3,463**	(117)	-	(88)	**3,258**
Change		*-3%*	-	*-3%*	***-6%***
Underlying services revenue*	**3,374**	318	-	(17)	**3,675**
Change		*+9%*	-	*+1%*	***+9%***
Underlying gross margin	**1,675**	(139)	-	(10)	**1,526**
Gross Margin %	***24.5%***	*-270 bps*			***22.0%***
Commercial and administrative costs	**(283)**	(14)	-	1	**(296)**
Restructuring costs	**(82)**	75	-	-	**(7)**
Research and development costs	**(461)**	(65)	-	11	**(515)**
Joint ventures and associates	**93**	8		3	**104**
Underlying profit before financing	**942**	(135)	-	*5*	**812**
Change		-14%			**-14%**
Underlying operating margin	**13.8%**	*-230 bps*			*11.7%*

* The methodology basis for the allocation of Civil Aerospace revenues on linked TotalCare contracts between original equipment and aftermarket has been reviewed and amendments made to reflect better the commercial substance of the combined contracts. Historically, the allocation has resulted in original equipment revenue and aftermarket revenue reflecting the contractual terms rather than the commercial substance of the contracts. The 2014 figures have been restated on the same basis; the impact was an increase in original equipment revenue of £198m and an equal decrease in aftermarket revenue.

Financial overview

Overall, underlying revenue for Civil Aerospace grew 3% on a constant currency basis (up 1% at actual rates) with steady growth in services (up 9% at constant rates, including a £189m one-off benefit discussed below) which more than offset the reduction in original equipment (down 3% at constant rates). Second half growth was particularly strong as the business improved original equipment delivery performance on a number of programmes, notably in corporate jets.

£m	%	2014	Underlying Change	Exchange	%	2015
Underlying revenue	***100%***	**6,837**	201	(105)	***100%***	**6,933**
Underlying OE revenue	***51%***	***3,463***	***(117)***	***(88)***	***48%***	***3,258***
Widebody engines: linked & other	*26%*	*1,766*	*(191)*	*(5)*	*23%*	*1,570*
Widebody engines: unlinked installed	*6%*	*392*	*114*	*(2)*	*7%*	*504*
Corporate (and other small engines)	*14%*	*974*	*(9)*	*(62)*	*14%*	*903*
V2500	*5%*	*331*	*(31)*	*(19)*	*4%*	*281*
Underlying services revenue	***49%***	***3,374***	***318***	***(17)***	***52%***	***3,675***
Widebody engines	*30%*	*2,029*	*336*	*6*	*34%*	*2,371*
Corporate	*6%*	*383*	*50*	*(8)*	*6%*	*425*
Regional	*6%*	*427*	*(61)*	*(6)*	*5%*	*360*
V2500	*7%*	*535*	*(7)*	*(9)*	*7%*	*519*

Original equipment **revenues** from widebody engines: linked and other reduced 11% reflecting a slow-down in linked Trent 700 deliveries for the Airbus A330 ahead of the introduction of the Trent 7000 for the A330neo together with reduced sales of linked Trent 900 engines for the A380, partly offset by increased linked Trent 1000 engine sales for the Boeing 787 Dreamliner. In addition, sales of spare engines to joint ventures generated revenue of £189m (2014: £138m).

Original equipment revenues from unlinked widebody engines increased by 29% largely a result of an increase in unlinked Trent XWB and other Trent engine deliveries.

The 17% increase in widebody service revenue was mainly driven by increased flying hours from our growing fleet of installed Trent 700, Trent 900 and Trent 1000 engines and a £189m one-off benefit resulting from refining the basis of taking account of risk in our forecasts of future revenue on long-term contracts. This was partially offset by lower utilisation of some of our more mature engine types, notably the Trent 500 and Trent 800.

Within our corporate engine business we had good revenue growth from our BR725 engine which powers the Gulfstream G650 and G650ER. This was offset by lower volumes for our other products due to weaker demand from Chinese, Russian and Brazilian customers. As a result, corporate original equipment revenues declined 1%. Despite a reduction in new corporate engine deliveries our installed base of corporate jet engines continued to grow, contributing to a 13% increase in service revenues from these products.

Services revenues from our regional jet engines declined 14%, reflecting retirements and reduced utilisation of relevant fleets by North American operators.

On the V2500 programme, original equipment revenues declined 9% due to reduced demand from IAE for V2500 modules to power the Airbus A320ceo, reflecting a mix change in engine types powering the aircraft ahead of the introduction of the A320neo. Despite continued growth in the installed base of engines, service revenues on the V2500 were down 1% overall reflecting a combination of fewer overhauls, lower spare parts sales and reduced engine flying hours.

Overall **gross margins** for Civil Aerospace were 22.0% (2014: 24.5%). The year-on-year reduction in margin of £140m reflected the lower proportion of linked Trent 700 engine sales, weaker corporate jet engine volumes and a declining regional aftermarket, partially offset by an £16m higher gross margin contribution from sales of spare engines to joint ventures (£67m in 2015 compared to £51m in 2014).

In addition, these factors were partially offset by a number of contract accounting adjustments and reversals of impairments and provisions.

The in-year benefit of retrospective long-term contract accounting adjustments as expected was a net positive £222m (2014: total benefit of £150m). Of this, £189m was a one-off benefit resulting from refining the basis of taking account of risk in our forecasts of future revenue. In 2012 it was agreed with the Group Audit Committee that a comprehensive review would be completed during 2015. The new enhanced methodology should better reflect risk, current experience and expected long-term performance. Other long-term contract accounting adjustments totalled a net benefit of £33m (2014: total benefit of £150m). This comprised a retrospective charge of £107m (2014: benefit of £90m), reflecting reduced customer fleet utilisation, mainly in respect of the Trent 500 and Trent 800, other commercial changes and technical risks, offset by the benefit of £140m (2014: benefit of £60m) from life-cycle cost improvements.

Full year performance also benefited from the reversal of previously recognised impairment on Contractual Aftermarket Rights (CARs) and release of a related provision with a profit of £65 million being recognised (2014: impairment charge of £19 million). This reflected a significantly more positive outlook for future maintenance costs for a Trent 1000 launch customer which enabled the reversal of a previous impairment. This also resulted in the capitalisation of £22m of 2015 CARs that would otherwise have been impaired.

Costs below gross margin were £5m lower than the previous year. Within this, R&D charges were £64m higher, reflecting increased spend on key programmes, particularly in respect of the Trent 1000 TEN, the Trent 7000 and the Trent XWB-97. These engines, now in their final stages of preparation before flight testing, are due to enter service in 2017 and 2018. They represent a significant advance on previous Trent designs, providing substantial fuel burn improvements. The Trent 7000 and Trent XWB-

97 programmes have yet to reach a point at which their costs can be capitalised. In addition, following its successful entry into service, continuing investment in the Trent XWB-84 engine can no longer be capitalised. Investment also increased to develop future corporate jet engine technology. The R&D charge was reduced by £94m (2014: £71m) by the recognition of entry fees receivable from risk and revenue sharing partners.

Underlying corporate, administration and other costs were £14m higher. Restructuring costs were £75m lower reflecting the significant charges taken in 2014.

As a result, **profit before financing and tax** was 14% down, reflecting a combination of lower overall gross margins, increased R&D and reduced restructuring costs. Taking account of foreign exchange effects, underlying profit before financing and tax was £812m (2014: £942m).

New disclosure on trading cash flow provides additional clarity on performance

£m	2015	2014	Var
Underlying profit before financing	**812**	**942**	**(130)**
Depreciation and amortisation	410	381	29
Sub-total	**1,222**	**1,323**	**(101)**
CARs additions	(161)	(86)	(75)
Property, plant, equipment and other intangibles	(502)	(748)	246
Other timing differences*	(75)	(53)	(22)
Trading cash flow pre-working capital movements	**484**	**436**	**48**
Net long-term contract debtor movements	(406)	(463)	57
Other working capital movements	(78)	208	(286)
Trading cash flow**	**0**	**181**	**(181)**

* Includes timing differences between underlying profit before financing and cash associated with: joint venture profits less dividends received; provision charges higher /(lower) than cash payments; non-underlying cash and profit timing differences (including restructuring); and, financial assets and liabilities movements.

** Trading cash flow is cash flow before: deficit contributions to the pension fund; taxes; payments to shareholders; foreign exchange on cash balances; and, acquisitions and disposals.

Trading cash flow before working capital movements improved year-on-year by £48m, despite the headline drop in underlying profit before financing of £130m and the higher level of CARs additions. This is largely due to a reduced level of property, plant and equipment additions and a lower spend on certification costs and participation fees. The £286m year-on-year difference in working capital movements was largely due to differences in the timing of payments to suppliers and increased draw down of deposits in 2015.

Investment and business development

Order intake of £12.8bn in 2015 for Civil Aerospace was £1.1bn up on the previous year. As a result, the order book closed at £67.0bn, up £3.8bn or 6% on the previous year.

Significant orders during the year included our largest ever order by value to provide Trent 900 engines and TotalCare service support for 50 Airbus A380s for Emirates worth $9.2bn of which $6.1bn is recognised within the order book. Other major orders included Trent 1000 engines to power 21 Boeing 787 Dreamliner aircraft and long-term TotalCare support for Air China and Ethiopian Airlines, and a $2.4bn order for engines and services with HNA Group.

Engineering excellence remains the cornerstone of our value to Civil Aerospace customers

Several important engineering milestones were achieved during 2015. For widebody engines, the focus has been on completing the development and testing of the new Trent 1000 TEN and the Trent XWB-97. The results of initial tests on both engines are broadly in line with expectations. In December, the Trent XWB-97 flew for the first time and has since undergone rigorous testing in a number of conditions. The Trent 1000 TEN has also completed several major milestones. In addition, a hybrid Trent 7000, produced to de-risk the development programme, ran for the first time and is now being put through its paces with a series of rigorous tests.

For corporate jets, developments in the year were more modest. Strong orders for the BR725 have sustained steady original equipment volumes as the new Gulfstream G650ER entered service, despite a weakening market. Failure in past years to secure new positions on some important new corporate jet platforms contributed to a weak order intake in the year which will impact future volumes and revenues adversely. As part of Rolls-Royce's technology strategy, investments are being made to secure future opportunities and regain its position as the leading provider to the important market of large cabin, long-range corporate jets.

Investing in new aerospace supply chain capabilities to help drive operational excellence

As part of the supply chain transformation underway in the business, several important new facilities were completed during the year. These included the opening of our Advanced Blade Casting Facility in Rotherham, UK, which will halve the time it takes to manufacture turbine blades and an expansion of our Trent XWB production centre in Derby. We also announced plans to invest in our facility in Inchinnan to create a new Centre of Competence for the manufacture of aerofoils and established a joint venture with Liebherr to develop manufacturing capability and capacity for the power gearbox for our Ultrafan demonstrator programme.

Strengthening our aerospace aftermarket service offering

During 2015 we broadened our service offering and strengthened our support network to provide customers with greater choice, flexibility and capability at all stages of the engine lifecycle, supporting a growing installed base.

This included making improvements to our Trent Service Network which will result in increased competition among our Approved Maintenance Centres (AMCs) and the announcement of our first independent AMC, Delta TechOps. We have also set up a global network of Customer Service Centres, bringing us closer to our customers, working in their time-zone.

We launched a new service, SelectCare™, which fits between Rolls-Royce's comprehensive TotalCare and general maintenance, repair and overhaul services, where customers contract for individual shop visit support. At the same time, we announced American Airlines as the launch customer. We also announced our first customers for TotalCare Flex®, a new service targeting owners and operators of more mature engines. Cathay Pacific, AerCap, South African Airways and BMI Regional chose the service for Trent 800, Trent 500 and AE3007 engines respectively.

Civil Aerospace outlook

As we set out in November 2015, we believe the long-term outlook for Civil Aerospace remains very good, led by a strong widebody order book for Rolls-Royce's fuel efficient engines. Key to the long-term success of the business is converting this exceptional order book into a large installed base of engines that meet customer demands for safe, reliable, efficient operation while driving profitable engine flying hour revenues. The next few years will be very important as we ramp up production of new engines - in new, efficient facilities – and invest in the development of future engine platforms that will benefit the order book from 2020 onwards. As a result, until we gain additional aftermarket scale, or complete our industrial transformation and improve unit costs and cash margins, the business will continue to be a net investor of cash.

Over the next few years the transition from 'linked' to 'unlinked' contracts creates a headwind to reported profit but no change to cash flows

In the future, an increasing proportion of our new engines will be sold to the airframer on a sole-source basis, in particular the new Trent XWB and Trent 7000 for use on the A350 and A330neo respectively. As a result, a significantly larger proportion of our sales in the future will be accounted for on an "unlinked" basis. While this does not change cash flows, it does change the timing of when profit is recognised across the OE and aftermarket contracts. Under "unlinked" accounting, the engine sale and aftermarket contracts are accounted for separately. This typically results in lower upfront profit recognition on engine delivery, with significantly higher proportion of profit in the aftermarket period. This is in comparison to “linked” accounting, where a blended margin is applied across the engine sale and aftermarket contracts.

Near-term conditions in some segments remain challenging

We continue to expect our Civil Aerospace business to underperform 2015 underlying profit before finance and tax by around £550m. The significant headwind related to Trent 700 volume reductions and the non-recurrence of a number of one-off benefits seen in 2015 remains broadly unchanged. In addition, we still expect to see weaker demand for new corporate jets and declines in demand within our regional jet aftermarket. The aftermarket benefit of higher levels of engine deliveries and increased installed thrust is expected to be largely offset by the underutilisation of older large engines. However, the business will benefit from reduced costs from the restructuring initiatives started in 2014.

We now expect the TotalCare net asset to grow from £2.2bn and peak at around £2.5bn, allowing for a more positive demand outlook for our ‘linked’ accounted engines and the benefit of further life-cycle cost improvements now being seen in engine performance.

Operational Review: Defence Aerospace

£m	2014	Underlying Change	Acquisitions & Disposals	Exchange	2015
Order book	**4,564**	(248)	-	-	**4,316**
Engine deliveries	**744**	(95)	-	-	**649**
Underlying revenue	**2,069**	(101)	-	67	**2,035**
Change		*-5%*	-	*+3%*	***-2%***
Underlying OE revenue	**816**	(45)	-	30	**801**
Change		*-6%*	-	*+4%*	***-2%***
Underlying services revenue	**1,253**	(56)	-	37	**1,234**
Change		*-5%*	-	*+3%*	***-2%***
Underlying gross margin	**567**	(9)	-	21	**579**
Gross Margin %	***27.4%***	*+90bps*	-		***28.5%***
Commercial and administrative costs	**(112)**	(7)	-	(5)	**(124)**
Restructuring costs	**(55)**	48	-	(1)	**(8)**
Research and development costs	**(50)**	(20)	-	(3)	**(73)**
Joint ventures and associates	**16**	3		-	**19**
Underlying profit before financing	**366**	15	-	12	**393**
Change		*+4%*			***+7%***
Underlying operating margin	**17.7%**	+170bps			**19.3%**

Financial overview

Underlying revenue at £2,035m was 5% lower on a constant currency basis (down 2% at actual exchange rates). Lower original equipment volumes for helicopters and trainers were partially offset by growth in LiftSystem volumes. Aftermarket revenues reflected lower volumes on helicopter spares partially offset by higher revenues related to long term service agreements for UK combat aircraft.

Despite the reduced revenues, gross margin improved to 28.5%. Lower helicopter volumes and lower margins on some transport contract extensions were offset by higher LiftSystem volumes and increased retrospective margin improvements of £101m (2014: £53m) on existing long term contracts. These relate to various combat platforms, where overall profitability has been improved by changed flying patterns and lower service costs, including approximately £40m (2014: nil) due to one-off contract and scope variations.

Overall R&D costs were £20m higher in 2015 reflecting increased investment in new programmes. Restructuring costs were lower due to reduced level of severance costs and lower costs related to changing our operational footprint.

Underlying profit before financing of £393m was 4% up on the prior year on a constant currency basis, reflecting the lower volumes, the one-off margin improvements, increased R&D charges and lower restructuring charges. As a result, operating margin improved by 160 basis points to 19.3%.

Investments and business development

Overall, the Defence order book declined 5%, in large part reflecting the 2014 benefit of the significant multi-year order for engines to power C130-J aircraft. With a major focus within defence budgets on cost control, 2015 saw significant interest in availability based service contracts and also on offering efficiency upgrades. New contracts included an extension of the UK's Hercules Integrated Operational Support contract and commitment to the UK's Future Combat Air System (FCAS) programme. After successful first flights on US 'Hurricane Hunter' P-3 aircraft in May, we received strong international interest including an initial USAAF order for the T56 3.5 technology insertion kit upgrade delivering both fuel saving and performance benefits for an engine programme which has been in existence for over 50 years.

Outside the UK and US markets, our particular focus has been on positioning ourselves to be competitive for forthcoming combat programmes. We had success in South Korea in conjunction with Airbus, with the contract being awarded to power the A330 tanker fleet with Trent 700 engines, as well as agreeing an order for our largest ever number of engines – a ten year order with Robinson to supply at least 1,000 RR300 engines.

Long-term, it remains essential that we have a cost efficient supply chain to support the profitable growth of our business in a competitive market. To support future business competitiveness we initiated a major $600m investment in the upgrading of our Indianapolis facility, which will bring a combination of cost reductions, operational efficiencies and greater development capabilities for defence technologies. This investment recognises the importance of the US market and our strong position there.

Defence Aerospace outlook

The long-term outlook for Defence Aerospace remains positive with good opportunities to capitalise on its strong positions in transport and patrol and combat. Investment in developing new advanced technologies will be a feature of R&D for the next few years as the business ensures it can compete for new opportunities.

The outlook for revenues in 2016 remains steady. Operating profit will be adversely impacted by the lower level of expected long-term contract benefits in 2016, together with higher R&D and operational restructuring costs.

Free cash flow from Defence Aerospace is expected to remain strong in the longer term, reflecting the high proportion of aftermarket revenues. However, in the coming year free cash flow is expected to be lower reflecting the increased cost of investment and the run out of costs on key UK programmes where deposits have been received in advance of delivery.

Operational Review: Power Systems

£m	2014	Underlying Change	Acquisitions & Disposals	Exchange	2015
Order book	**1,971**	(43)	-	-	**1,928**
Underlying revenue	**2,720**	(72)	-	(263)	**2,385**
Change		*-3%*	-	*-10%*	***-12%***
Underlying OE revenue	**1,893**	(97)	-	(178)	**1,618**
Change		*-5%*	-	*-9%*	***-15%***
Underlying services revenue	**827**	25	-	(85)	**767**
Change		*+3%*	-	*-10%*	***-7%***
Underlying gross margin	**742**	(37)	-	(70)	**635**
Gross Margin %	***27.3%***	*-70bps*			***26.6%***
Commercial and administrative costs	**(296)**	(9)	-	30	**(275)**
Restructuring costs	**(7)**	3	-	-	**(4)**
Research and development costs	**(183)**	3	-	18	**(162)**
Joint ventures and associates	**(3)**	3		-	**0**
Underlying profit before financing	**253**	(37)	-	(22)	**194**
Change		*-15%*			***-23%***
Underlying operating margin	**9.3%**	-110bps			**8.1%**

Financial overview

Underlying revenue of £2,385m was 3% lower on a constant currency basis (12% lower at actual rates). Original Equipment revenue was 5% lower, reflecting weaker oil & gas markets and weaker governmental demand which peaked in 2014. This was partially offset by an improved luxury yacht demand and some recovery in our sections of the construction and agriculture market where new emissions regulations increased demand. Underlying service revenues were up 3% despite some weakness in spare parts sales in North America and Europe.

Gross margins were slightly lower at 26.6% (2014: 27.3%) reflecting a change in product mix and lower overall volumes as expected.

Underlying profit declined 15% as a result of the lower gross margins. On a constant currency basis costs below gross margin were unchanged.

Investment and business development

Our Power Systems business serves a variety of markets ranging from marine, industrial, construction & agriculture to defence and power generation. This diversity enabled the business to mitigate some of the weak environment, particularly that linked to oil and commodities.

2015 order intake was £2.5bn (2014: £2.6bn) with the closing order book broadly unchanged at £1.9bn. Within this, the defence sector demonstrated greater resilience with a combination of a higher proportion of long term service contracts together with the winning of the first order worth approximately €80m from the British Army for 589 MTU Diesel engines for the new Scout Specialist Vehicle.

Within the broad range of Industrial applications, while a number of markets deteriorated through the year, there was positive news. This included contract wins from a Chinese company for 232 MTU Series 4000 engines for freight locomotives bound for South Africa, and further orders for luxury yacht engines. An extension to our longstanding co-operation with Daimler was also agreed for the development of new range of industrial engines, which comply with new EU off-highway regulations for reduced soot emissions.

The energy segment generated an increased order intake in 2015 reflecting good growth in ‘gas gensets’, particularly in Asia. In addition, the easing of the trading embargo with Iran is enabling the business to secure a good foothold in the country. As a result, we enjoy a strong market position within backup power, particularly for larger mission-critical applications, which is a growing market. Recent notable orders came from Kuwait, Turkey and Bangladesh for the provision of backup power (for hospital modernisations) and continuous power (for a steel mill).

Power Systems outlook

The outlook for Power Systems remains steady. The business finished the year with a healthy order book for many of its key markets. As a result, while some markets remain difficult, we continue to expect the business to deliver modest growth in revenue and profit in 2016.

Operational Review: Marine

£m	2014	Underlying Change	Acquisitions & Disposals	Exchange	2015
Order book	**1,567**	(403)	**-**	**-**	**1,164**
Underlying revenue	**1,709**	(269)	**-**	(116)	**1,324**
Change		*-16%*	*-*	*-7%*	***-23%***
Underlying OE revenue	**1,070**	(204)	-	(93)	**773**
Change		*-19%*	*-*	*-9%*	***-28%***
Underlying services revenue	**639**	(65)	-	(23)	**551**
Change		*-10%*	*-*	*-4%*	***-14%***
Underlying gross margin	**425**	(139)	-	(26)	**260**
Gross Margin %	***24.9%***	*-500bps*			***19.6%***
Commercial and administrative costs	**(254)**	27	-	26	**(201)**
Restructuring costs	**(4)**	(16)	-	4	**(16)**
Research and development costs	**(29)**	(2)	-	3	**(28)**
Underlying profit before financing	**138**	(130)	-	7	**15**
Change		*-94%*			***-89%***
Underlying operating margin	**8.1%**	-750bps			**1.1%**

Financial overview

Underlying revenue of £1,324m was 16% lower on a constant currency basis (down 23% at actual rates). Within this, original equipment revenues were 19% down at £773m. Service revenues were more robust, although still declined 10%. This reflected weaknesses in offshore and merchant, as ship owners deferred overhaul and maintenance on the back of reduced utilisation of their vessels.

As a result of the revenue weaknesses, price pressure and cost under-recovery, gross margins declined 500 basis points to 20% and overall gross margin was £260m, £139m lower than in 2014. As a result, with only modest reductions to date being achieved in corporate, administration and other costs, underlying profit was £15m, 94% down on a constant currency basis.

Around £15m of restructuring charges were incurred in 2015 and excluding these, underlying profit declined 83%. In the first half we took a non-underlying charge of £69m for the impairment of goodwill on two of our businesses owing to a less favourable business outlook, partly driven by the impact of market deteriorations on our offshore businesses.

Investment and business development

The focus in 2015 has been on repositioning the marine business to reflect the very challenging market environment and outlook. During the year we also announced a number of restructuring programmes that will in total lead to the loss of around 1,000 employees in operations and back-office functions as we shrink our Northern European footprint, reduce indirect headcount, and consolidate manufacturing activity. This will deliver projected cost savings of £65m per annum from 2017 onwards and create a business better able to compete in an increasingly cost-conscious market place which is geographically shifting towards Asia.

Overall, the Marine order book declined 32% during the year, mainly reflecting a very weak offshore market, particularly in Northern Europe. Orders for new vessels, projects and services were all sharply lower than 2014 and as a result order intake was only £997m, 45% down on the previous year.

The offshore market was extremely weak reflecting a low oil price and reduced capital expenditure within the upstream oil exploration and related services sectors. Targeted investment in R&D and improving our Asian position saw progress later in the year with two major orders from China. These comprised an equipment contract for nine tug supply vessels and a package of advanced ship equipment for a dive support vessel. We also saw demand from non-oil related sectors such as wind farm support and fishing trawlers.

Activity within our target merchant sectors was subdued, but we made progress in our strategy of developing markets for offshore derived technologies within specialist areas such as azimuth propulsion systems for double-ended ferries. We also delivered Asia's first LNG-powered tug and the first of two all-gas powered cargo vessels for a Norwegian transport company.

The naval business was focused on further development work and deliveries against contracts in both the UK and US. These included the first DDG 1000 multi-mission destroyer class for the US Navy and the world's largest gas turbine engines, the MT30 for the UKs two new aircraft carriers. We also signed a contract to supply MT30s for operation on the first three of the Royal Navy's new Type 26 Global Combat Ship.

Product development work within the business included expanding the range of permanent magnet-based propulsion systems, as well as spearheading research into our pioneering Ship Intelligence technology focused on data-driven value-added services.

Marine outlook

Overall the outlook for marine remains cautious. We expect that the market will continue to be hit by low oil prices and the impact on demand for our products and services. As a result we will sustain our cost reduction programmes, focusing on manufacturing facilities, supply chain and overhead costs, in order to drive a more competitive business while also adapting to volume risks.

As set out in November 2015, we expect the net impact of weak trading conditions and cost saving initiatives to result in 2016 profits being between £75m and £100m lower than those achieved in 2015. As a result, the business is expected to be significantly loss making in 2016.

Operational Review: Nuclear (excludes Energy business)

£m	2014	Underlying Change	Acquisitions & Disposals	Exchange	2015
Order book	**2,499**	(331)	-	-	**2,168**
Underlying revenue	**638**	56	-	(7)	**687**
Change		*+9%*	*-*	*-1%*	***+8%***
Underlying OE revenue	**230**	27	-	(6)	**251**
Change		*+12%*	*-*	*-3%*	***+9%***
Underlying services revenue	**408**	29	-	(1)	**436**
Change		*+7%*	*-*	*-0%*	***+7%***
Underlying gross margin	**119**	(6)	-	(2)	**111**
Gross Margin %	***18.7%***	*-240bps*			***16.2%***
Commercial and administrative costs	**(61)**	6	-	2	**(53)**
Restructuring costs	**(1)**	(1)	-	-	**(2)**
Research and development costs	**(7)**	21	-	-	**14**
Underlying profit before financing	**50**	20	-	-	**70**
Change		*+40%*			***+40%***
Underlying operating margin	**7.8%**	+230bps			**10.2%**

Financial overview

Underlying revenue increased 9% on a constant currency basis, led by growth in both original equipment and services. In particular, growth in submarine activities was strong. Revenue growth for our instrumentation and controls businesses was also good, particularly in Europe.

Despite the growth in revenue, gross margin declined by around 240 basis points to 16.2% or £111m. This was largely due to increased costs on a number of projects with lower margin. Gross margin was also impacted by a reclassification of site costs from commercial, administration and other of around £7m. This favourably benefited costs below gross margin which also benefited from lower R&D charges as a result of an R&D credit of £19m which covered the current and the two previous years. Excluding this, underlying profit before tax was £50m, in line with the prior year. After the release, underlying profit of £70m is 40% up on the prior year.

Investment and business developments

The order book rose 13% with positive momentum within long-term contracts across both submarines and civil nuclear businesses, as well as new contracts particularly in the second half of the year which reflect the expansion of our business reach and capabilities.

Our civil nuclear business focuses on multi-year projects and specialist services for what is a growing global industry. We were selected as preferred bidder by EDF to work on heat exchangers and waste treatment for the Hinkley Point C project in the UK and we were selected by Hitachi to be part of the Wylfa power station delivery team, the second nuclear power station scheduled in the UK's new-build programme. We also won a contract to supply safety measurement systems for the entire French fleet of 900MW reactors. These mandates help to further consolidate our significant position in the European marketplace and position us well to seek further opportunities for partnerships in growing nuclear markets. In the US our acquisition of ROV Technologies Inc. in March expanded our nuclear services portfolio, bringing complementary Boiling Water Reactor expertise and broadening our existing Pressurised Water Reactor remote inspection capability.

Our submarine activities have concentrated on delivering against long-term contracts for the UK Royal Navy's nuclear submarine fleet, including delivery of the nuclear propulsion system to power HMS Artful, the third Astute-class submarine, which was launched in August. Our work on the Vanguard-class included work on a refueling programme and also the first successful upgrade to the reactor control and instrumentation update for HMS Vengeance. At the Naval Reactor Test Establishment, HMS Vulcan, the PWR2 test facility reactor was safely shut down having completed its prototyping role. Development work on the new PWR3 power plant for Successor continues with contract extensions agreed in preparation ahead of the government final investment decision.

Nuclear outlook

The outlook for Nuclear remains steady. Both submarines and civil nuclear enjoy long-term secure aftermarket revenues. While business development opportunities remain modest in the near-term, new power plants for the Successor submarine fleet together with long-term opportunities to develop relevant products for civil nuclear applications should provide incremental growth.

Financial review

Underlying income statement

£m	**2015**	2014	Change
Revenue	**13,354**	13,864	-510
Gross profit	**3,182**	3,523	-341
Commercial and administrative costs	**(1,004)**	(1,069)	+65
Restructuring	**(39)**	(149)	+110
Research and development costs	**(765)**	(730)	-35
Share of results of joint ventures and associates	**118**	106	+12
Profit before financing	**1,492**	1,681	-189
Net financing	**(60)**	(61)	+1
Profit before tax	**1,432**	1,620	-188
Tax	**(351)**	(388)	+37
Profit for the year	**1,081**	1,232	-151
Earnings per share (EPS)	**58.73p**	65.42p	-6.69p
Payment to shareholders	**16.37p**	23.10p	-6.73p
Gross R&D investment	**(1,240)**	(1,249)	+9
Net R&D charge	**(765)**	(730)	-35

Segmental analysis

	Revenue			Gross profit			Profit before financing		
£m	**2015**	2014	Change	**2015**	2014	Change	**2015**	2014	Change
Civil	**6,933**	6,837	+96	**1,526**	1,675	-149	**812**	942	-130
Defence	**2,035**	2,069	-34	**579**	567	+12	**393**	366	+27
Aerospace Division	**8,968**	8,906	+62	**2,105**	2,242	-137	**1,205**	1,308	-103
Power Systems	**2,385**	2,720	-335	**635**	742	-107	**194**	253	-59
Marine	**1,324**	1,709	-385	**260**	425	-165	**15**	138	-123
Nuclear	**687**	638	+49	**111**	119	-8	**70**	50	+20
Other	**96**	46	+50	**64**	8	+56	**52**	(2)	+54
Intra-segment	**(106)**	(155)	+49	**7**	(13)	+20	**7**	(13)	+20
Land & Sea Division	**4,386**	4,958	-572	**1,077**	1,281	-204	**338**	426	-88
Central costs							**(51)**	(53)	+2
Group	**13,354**	13,864	-510	**3,182**	3,523	-341	**1,492**	1,681	-189

The 'Other' category in the segmental analysis includes residual retained assets relating to the Energy business which were not included in the sale to Siemens in 2014 and a one-off intellectual property settlement of £58m. The value of these is not material to the Group.

Underlying profit before financing and taxation is discussed in the trading summary and the business review.

Underlying financing costs were stable versus 2014. An increase in net interest of £13m was offset by changes in other underlying financing costs. An underlying foreign exchange gain of £34m is included, arising from realised gains on foreign exchange contracts settled to translate overseas dividends into sterling.

Underlying taxation was £351 million, an underlying tax rate of 24.5% compared with 24.0% in 2014.

Underlying EPS was lower reflecting the reduction in underlying profit after tax, partially offset by a reduction in the average number of shares as a result of the share buyback.

At the Annual General Meeting on 5 May 2016, the directors will recommend an issue of 70.5 C Shares with a total nominal value of 7.10 pence for each ordinary share. Together with the interim issue on 4 January 2016 of 92.7 C Shares for each ordinary share with a total nominal value of 9.27 pence, this is the equivalent of a total annual **payment to ordinary shareholders** of 16.37 pence for each ordinary share. Further details are included at the back of this statement.

Reported results

£m	**2015**	2014
Underlying profit before tax	**1,432**	1,620
Mark-to-market of derivatives and related adjustments	**(1,065)**	(1,258)
Movements on other financial instruments	**8**	(87)
Effects of acquisition accounting	**(124)**	(142)
Exceptional restructuring	**(49)**	(39)
Acquisitions and disposals	**2**	8
Impairment of goodwill	**(75)**	–
Post-retirement scheme financing	**32**	(29)
Other	**(1)**	(6)
Reported profit before tax from continuing operations	**160**	67

Consistent with past practice and IFRS accounting standards, the Group provides both reported and underlying figures. We believe underlying figures are more representative of the trading performance, by excluding the impact of year-end mark-to-market adjustments, principally the GBP:USD hedge book. In addition, financing of post-retirement benefits, effects of acquisition accounting and impairment of goodwill are also excluded. Adjustments between underlying profit and reported profit in the income statement are set out in more detail in note 2 to the financial statements. This basis of presentation has been applied consistently.

Mark-to-market adjustments are principally driven by movements in the GBP:USD exchange rate which moved from 1.56 to 1.48 during 2015.

Movements in **other financial instruments** relate entirely to financial risk and revenue sharing arrangements. The put option on the non-controlling interest in Power Systems was exercised in 2014, so this had no impact in 2015.

The **effects of acquisition accounting** in accordance with IFRS 3 are excluded from underlying profit so that all businesses are measured on an equivalent basis. **Impairment of goodwill** principally relates to the Marine business.

Costs associated with the substantial closure or exit of a site, facility or activity are classified as **exceptional restructuring** and excluded.

Profits and losses arising on **acquisitions and disposals** during the year are excluded.

Net financing on **post-retirement schemes** is excluded from underlying profit.

Appropriate tax rates are applied to these adjustments, the net effect of which was an increase of £275m in the reported tax charge (2014 £237m increase, including a £64m reduction in the amount of recoverable advance corporation tax recognised).

The 2014 reported results also included £142m relating to discontinued operations.

Summary balance sheet

£m	**2015**	2014
Intangible assets	**4,645**	4,804
Property, plant and equipment	**3,490**	3,446
Joint ventures and associates	**576**	539
Net working capital	**(501)**	(1,134)
Net funds	**(111)**	666
Provisions	**(640)**	(807)
Net port-retirement-scheme (deficits)/surpluses	**(77)**	555
Net financial assets and liabilities	**(1,883)**	(855)
Other net assets and liabilities	**(483)**	(827)
Net assets	**5,016**	6,387
Other items		
US$ hedge book (US$ billion)	**28.8**	25.6
TotalCare assets	**2,994**	2,492
TotalCare liabilities	**(783)**	(687)
Net TotalCare assets	**2,211**	1,805
Customer financing contingent commitments:		
Gross	**269**	388
Net	**54**	59

Intangible assets (note 8) represent long‑term assets of the Group. These assets decreased by £159m in the year, with additions of £408m being more than offset by amortisation of £407m, impairments to goodwill of £75m (including £69m Marine impairment reported in the first half) and exchange losses of £134m (largely relating to euro denominated intangibles assets arising from the acquisition of Rolls‑Royce Power Systems AG).

The contractual aftermarket rights (CARs) balance increased by £156m to £405m. The increase included £50m arising from the reversal of previously recognised impairments. During the year, following analysis of the first major overhauls of Trent 1000 engines, the recoverable amount of certain contractual aftermarket rights has been reassessed. This demonstrated that aftermarket cash flows from these engines are better than originally assumed, arising from both operational and contractual performance improvements. Accordingly, cumulative impairments prior to 2015 of £50m have been reversed. This has resulted in the capitalisation of £22m of CARs in 2015 that would otherwise have been impaired, including £16m recognised in the interim results.

Carrying values of intangible assets are assessed for impairment against the present value of forecast cash flows generated by the intangible asset. The principal risks remain: reductions in assumed market share;

programme timings; increases in unit cost assumptions; and adverse movements in discount rates. Other than noted above, there have been no significant impairments in 2015.

Property, plant and equipment (note 9) increased by £44m. Capital expenditure of £494m was largely offset by depreciation of £373m, disposals of £34m and foreign exchange movements of £32m.

Investments in joint ventures and associates increased modestly, principally as the share of retained profit exceeded dividends received.

Net post-retirement scheme (deficits)/surpluses (note 12) decreased by £632m, comprising a reduction of £692m in the UK and an increase of £60m overseas.

The reduction in UK schemes is principally due to relative movements in assumptions used to value the underlying assets and liabilities in the UK schemes in accordance with IAS 19. While the corporate bond yields used to measure the liabilities remained broadly stable, gilt yields which are the principal driver of asset valuations increased, reducing the value of the assets. The schemes adopt a low risk investment strategy that reduces funding volatility (for which both assets and liabilities are measured on a gilt basis); interest rate and inflation risks are largely hedged and the exposure to equities is around 9% of scheme assets.

The increase in overseas schemes arose largely due to higher discount rates in Germany and the US.

Provisions largely relate to warranties and guarantees provided to secure the sale of OE and services. The decrease is largely a result of the utilisation of warranty and restructuring provisions.

Net financial assets and liabilities (note 10) include the fair value of derivatives, financial RRSAs and C Shares. The increase in liabilities primarily reflects the impact on the US$ hedge book of the GBP:USD exchange rate falling to 1.48 from 1.56 at the beginning of the year.

The Group hedges transactional foreign exchange exposures to reduce volatility. The most significant exposure is net US$ income. The **US$ hedge** book increased by 12.5% to US$28.8bn, which represents around five years of net exposure and has an average book rate of £1 to US$1.59.

Net TotalCare assets relate to long-term service agreement (LTSA) contracts in the Civil Aerospace business, including the flagship services product TotalCare. These assets represent the timing difference between the recognition of income and costs in the income statement and cash receipts and payments.

The net asset increased in 2015 by £406m (2014 £463m), reflecting accounting for new ‘linked’ engines of £521m (2014 £588m) and retrospective TotalCare accounting adjustments of £222m (2014 £150m) taken in the year, offset by cash flows and other items of £337m (2014 £275m).

Customer financing facilitates the sale of OE and services by providing financing support to certain customers. Where such support is provided by the Group, it is almost exclusively to customers of the Civil Aerospace business and takes the form of various types of credit and asset value guarantees. These exposures produce contingent liabilities that are outlined in note 13. Contingent liabilities represent the maximum aggregate discounted gross and net exposure in respect of delivered aircraft, regardless of the point in time at which such exposures may arise. During 2015, the Group’s gross exposure on delivered aircraft reduced by £119m, mainly due to guarantees expiring.

Summary funds flow

£m	2015	2014 Previously reported	Energy	Excluding Energy	Change
Opening net funds	**666**	1,939			
Closing net funds	**(111)**	666			
Change in net funds	**(777)**	(1,273)			
Underlying profit before tax	**1,432**	1,617	(3)	1,620	-188
Depreciation and amortisation	**613**	600	18	582	+31
Movement in net working capital	**(544)**	(509)	(152)	(357)	-187
Expenditure on property, plant and equipment and intangible assets	**(887)**	(1,114)	(30)	(1,084)	+197
Other	**(229)**	88	(17)	105	-334
Trading cash flow	**385**	682	(184)	866	-481
Contributions to defined benefit post-retirement schemes in excess of PBT charge	**(46)**	(152)	2	(154)	+108
Tax	**(160)**	(276)	(11)	(265)	+105
Free cash flow	**179**	254	(193)	447	-268
Shareholder payments	**(421)**	(482)	–	(482)	+61
Share buyback	**(414)**	(69)	–	(69)	-345
Acquisitions and disposals	**(3)**	(965)	–	(965)	+962
Net funds of businesses acquired	**–**	(30)	–	(30)	+30
Discontinued operations	**(121)**	–	193	(193)	+72
Foreign exchange	**3**	19	–	19	-16
Change in net funds	**(777)**	(1,273)	–	(1,273)	

Movement in working capital includes an increase in the net TotalCare asset of £406m and a reduction in the amount of net customer deposits of £143m. The reduction in customer deposits is largely in the Marine business as a result of lower order intake in the offshore market and lower government spend.

Expenditure on property, plant and equipment and intangibles – the decrease reflects reductions in additions to property, plant and equipment (£174m), participation fees and certification costs (£86m) and capitalised development costs (£45m), offset by increased expenditure on contractual aftermarket rights (£68m) and foreign exchange movements of £51m.

Pensions – contributions to defined benefit pension schemes in 2015 reduced by £63m, which included a reduction in the UK deficit funding payments of £36m and the non-recurrence of discretionary increase contributions of £33m. The total operating charge increased by £43m largely due to past-service credits of £8m in 2015 compared to £31m in 2014. Funding of defined benefit schemes is expected to be similar in 2016.

Shareholder payments – the reduction reflects the fact that no dividend was paid by Power Systems to Daimler AG (2014 £76m), offset by an increase in the redemption of C Shares of £15m.

Discontinued operations in 2015 reflect a sales price adjustment of £42m paid in 2015 on the 2014 disposal of the Energy business and wind-down costs.

Condensed consolidated income statement

For the year ended 31 December 2015

	Notes	2015 £m	2014 £m
Continuing operations			
Revenue	2	**13,725**	13,736
Cost of sales		**(10,459)**	(10,533)
Gross profit		**3,266**	3,203
Other operating income		**10**	10
Commercial and administrative costs		**(1,059)**	(1,124)
Research and development costs	3	**(818)**	(793)
Share of results of joint ventures and associates		**100**	94
Operating profit		**1,499**	1,390
Profit on transfer of joint ventures to subsidiaries		**–**	2
Profit on disposal of businesses		**2**	6
Profit before financing and taxation	2	**1,501**	1,398
Financing income		**115**	121
Financing costs		**(1,456)**	(1,452)
Net financing		**(1,341)**	(1,331)
Profit before taxation [1]		**160**	67
Taxation	5	**(76)**	(151)
Profit for the year from continuing operations		**84**	(84)
Discontinued operations			
Profit for the year		**–**	4
Profit on disposal		**–**	138
Profit for the year from discontinued operations		**–**	142
Profit for the year		**84**	58
Attributable to:			
Ordinary shareholders		**83**	69
Non-controlling interests		**1**	(11)
Profit for the year		**84**	58
Earnings per ordinary share attributable to shareholders [2]	6		
From continuing operations			
Basic		**4.51p**	(3.90p)
Diluted		**4.48p**	(3.90p)
From continuing and discontinued operations			
Basic		**4.51p**	3.68p
Diluted		**4.48p**	3.68p
Payments to ordinary shareholders in respect of the year			
Per share		**16.37p**	23.10p
Total (£m)		**301**	435
[1] Underlying profit before taxation		**1,432**	1,620
[2] Underlying earnings per share are shown in the note			

Condensed consolidated statement of comprehensive income

For the year ended 31 December 2014

	2015 £m	2014 £m
Profit for the year	**84**	58
Other comprehensive income (OCI)		
Items that will not be reclassified to profit or loss		
Movements in post-retirement schemes	**(722)**	1,192
Related tax movements	**257**	(431)
	(465)	761
Items that may be reclassified to profit or loss		
Foreign exchange translation differences on foreign operations	**(129)**	(158)
Reclassified to income statement on disposal of business	**1**	(29)
Share of OCI of joint ventures and associates	**(19)**	(13)
Related tax movements	**(2)**	(2)
	(149)	(202)
Total comprehensive income for the year	**(530)**	617
Attributable to:		
Ordinary shareholders	**(530)**	650
Non-controlling interests	**–**	(33)
Total comprehensive income for the year	**(530)**	617

Condensed consolidated balance sheet

At 31 December 2015

	Notes	2015 £m	2014 £m
ASSETS			
Intangible assets	8	**4,645**	4,804
Property, plant and equipment		**3,490**	3,446
Investments – joint ventures and associates		**576**	539
Investments – other		**33**	31
Other financial assets	10	**83**	107
Deferred tax assets		**318**	369
Post-retirement scheme surpluses	12	**1,063**	1,740
Non-current assets		**10,208**	11,036
Inventories		**2,637**	2,768
Trade and other receivables		**6,244**	5,509
Taxation recoverable		**23**	19
Other financial assets	10	**29**	22
Short-term investments		**2**	7
Cash and cash equivalents		**3,176**	2,862
Assets held for sale		**5**	1
Current assets		**12,116**	11,188
Total assets		**22,324**	22,224
LIABILITIES			
Borrowings	11	**(419)**	(68)
Other financial liabilities	10	**(331)**	(209)
Trade and other payables		**(6,923)**	(6,791)
Current tax liabilities		**(164)**	(184)
Provisions for liabilities and charges		**(336)**	(433)
Current liabilities		**(8,173)**	(7,685)
Borrowings	11	**(2,883)**	(2,193)
Other financial liabilities	10	**(1,651)**	(717)
Trade and other payables		**(2,317)**	(2,445)
Non-current tax liabilities		**(1)**	(10)
Deferred tax liabilities		**(839)**	(1,228)
Provisions for liabilities and charges		**(304)**	(374)
Post-retirement scheme deficits	12	**(1,140)**	(1,185)
Non-current liabilities		**(9,135)**	(8,152)
Total liabilities		**(17,308)**	(15,837)
NET ASSETS		**5,016**	6,387
EQUITY			
Called-up share capital		**367**	376
Share premium account		**180**	179
Capital redemption reserve		**161**	159
Cash flow hedging reserve		**(100)**	(81)
Other reserves		**(51)**	78
Retained earnings		**4,457**	5,671
Equity attributable to ordinary shareholders		**5,014**	6,382
Non-controlling interests		**2**	5
Total equity		**5,016**	6,387

Condensed consolidated cash flow statement

For the year ended 31 December 2015

	2015 £m	2014 £m
Reconciliation of cash flows from operating activities		
Operating profit from continuing operations	**1,499**	1,390
Operating profit from discontinued operations	**–**	(1)
Operating profit	**1,499**	1,389
(Profit)/loss on disposal of property, plant and equipment	**8**	(3)
Share of results of joint ventures and associates	**(100)**	(94)
Dividends received from joint ventures and associates	**63**	73
Return of capital from joint venture	**–**	3
Gain on consolidation of previously non-consolidated subsidiary	**–**	(3)
Amortisation and impairment of intangible assets	**432**	367
Depreciation and impairment of property, plant and equipment	**378**	375
Impairment of investments	**2**	–
(Decrease)/increase in provisions	**(151)**	129
Decrease in inventories	**63**	166
Increase in trade and other receivables	**(836)**	(878)
Increase in trade and other payables	**242**	214
Movement in other financial assets and liabilities	**(305)**	(30)
Net defined benefit post-retirement cost recognised in operating profit	**213**	170
Cash funding of defined benefit post-retirement schemes	**(259)**	(322)
Share-based payments	**5**	21
Net cash inflow from operating activities before taxation	**1,254**	1,577
Taxation paid	**(160)**	(276)
Net cash inflow from operating activities	**1,094**	1,301
Cash flows from investing activities		
Additions of unlisted investments	**(6)**	(11)
Additions of intangible assets	**(408)**	(477)
Disposals of intangible assets	**4**	–
Purchases of property, plant and equipment	**(487)**	(648)
Government grants received	**8**	11
Disposals of property, plant and equipment	**33**	65
Acquisitions of businesses (net of cash acquired)	**(5)**	(3)
Acquisition of non-controlling interest	**–**	(1,937)
Disposals of discontinued businesses	**(121)**	1,027
Disposal of other businesses	**2**	24
Investments in joint ventures and associates	**(15)**	(17)
Net cash outflow from investing activities	**(995)**	(1,966)
Cash flows from financing activities		
Repayment of loans	**(54)**	(233)
Proceeds from increase in loans and finance leases	**1,150**	49
Capital element of finance leases	**(1)**	–
Net cash flow from increase/(decrease) in borrowings and finance leases	**1,095**	(184)
Interest received	**5**	18
Interest paid	**(58)**	(63)
Interest element of finance lease payments	**(2)**	–
Decrease in short-term investments	**5**	313
Issue of ordinary shares	**32**	1
Purchase of ordinary shares – share buyback	**(433)**	(69)
Purchase of ordinary shares – other	**(2)**	(2)
Dividends paid to NCI	**–**	(76)
Redemption of C Shares	**(421)**	(406)
Net cash outflow from financing activities	**221**	(468)
Net increase in cash and cash equivalents	**320**	(1,133)
Cash and cash equivalents at 1 January	**2,862**	3,987
Exchange losses on cash and cash equivalents	**(6)**	8
Cash and cash equivalents at 31 December	**3,176**	2,862

	2015 £m	2014 £m
Reconciliation of movements in cash and cash equivalents to movements in net funds		
(Decrease)/increase in cash and cash equivalents	**320**	(1,133)
Net cash flow from decrease/(increase) in borrowings	**(1,095)**	184
Cash outflow from (decrease)/increase in short-term investments	**(5)**	(313)
Change in net funds resulting from cash flows	**(780)**	(1,262)
Net funds (excluding cash and cash equivalents) of businesses acquired	**–**	(30)
Exchange gains/(losses) on net funds	**3**	19
Fair value adjustments	**45**	(59)
Movement in net funds	**(732)**	(1,332)
Net funds at 1 January excluding the fair value of swaps	**608**	1,940
Net funds at 31 December excluding the fair value of swaps	**(124)**	608
Fair value of swaps hedging fixed rate borrowings	**13**	58
Net funds at 31 December	**(111)**	666

The movement in net funds (defined by the Group as including the items shown below) is as follows:

	At 1 January 2015	Funds flow	Exchange differences	Fair value adjustments	Reclass-ifications	At 31 December 2015
	£m	£m	£m	£m	£m	**£m**
Cash at bank and in hand	**739**	**(69)**	**(8)**	**–**	**–**	**662**
Money market funds	**692**	**92**	**(1)**	**–**	**–**	**783**
Short-term deposits	**1,431**	**297**	**3**	**–**	**–**	**1,731**
Cash and cash equivalents	**2,862**	**320**	**(6)**	**–**	**–**	**3,176**
Short-term investments	**7**	**(5)**	**–**	**–**	**–**	**2**
Current borrowings excluding overdrafts	**(67)**	**(64)**	**–**	**8**	**(294)**	**(417)**
Non-current borrowings	**(2,149)**	**(1,027)**	**12**	**37**	**294**	**(2,833)**
Finance leases	**(45)**	**(4)**	**(3)**	**–**	**–**	**(52)**
Net funds excluding fair value of swaps	**608**	**(780)**	**3**	**45**	**–**	**(124)**
Fair value of swaps hedging fixed rate borrowings	**58**			**(45)**		**13**
Net funds	**666**	**(780)**	**3**	**–**	**–**	**(111)**

Condensed consolidated statement of changes in equity

For the year ended 31 December 2015

	Attributable to ordinary shareholders								
	Share capital £m	Share premium £m	Capital redemption reserve £m	Cash flow hedging reserve £m	Other reserves[1] £m	Retained earnings[2] £m	Total £m	Non-controlling interests £m	Total equity £m
At 1 January 2014	376	80	163	(68)	250	4,804	5,605	698	6,303
Profit for the year	–	–	–	–	-	69	69	(11)	58
Foreign exchange translation differences on foreign operations	–	–	–	–	(141)	–	(141)	(17)	(158)
Reclassification to income statement on disposal of businesses	–	–	–	–	(29)	–	(29)	–	(29)
Movement on post-retirement schemes	–	–	–	–	–	1,199	1,199	(7)	1,192
Share of OCI of joint ventures and associates	–	–	–	(13)	–	–	(13)	–	(13)
Related tax movements	–	–	–	-	(2)	(433)	(435)	2	(433)
Total comprehensive income for the year	–	–	–	(13)	(172)	835	650	(33)	617
Arising on issues of ordinary shares	2	99	–	–	–	(100)	1	–	1
Issue of C Shares	–	–	(414)	–	–	2	(412)	–	(412)
Redemption of C Shares	–	–	408	–	–	(408)	-	–	–
Purchase of ordinary shares – share buyback	–	–	–	–	–	(69)	(69)	–	(69)
Ordinary shares cancelled	(2)	–	2	–	–	–	–	–	–
Purchase of ordinary shares – other	–	–	–	–	–	(2)	(2)	–	(2)
Share-based payments – direct to equity [3]	–	–	–	–	–	29	29	–	29
Transactions with NCI – purchase of NCI shareholding	–	–	–	–	–	584	584	(584)	–
Dividends paid to NCI	–	–	–	–	–	–	–	(76)	(76)
Related tax movements – deferred tax	–	–	–	–	–	(4)	(4)	–	(4)
Other changes in equity in the year	–	99	(4)	–	–	32	127	(660)	(533)
At 1 January 2015	**376**	**179**	**159**	**(81)**	**78**	**5,671**	**6,382**	**5**	**6,387**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**83**	**83**	**1**	**84**
Foreign exchange translation differences on foreign operations	**–**	**–**	**–**	**–**	**(128)**	**–**	**(128)**	**(1)**	**(129)**
Reclassification to income statement on disposal of businesses	**–**	**–**	**–**	**–**	**1**	**–**	**1**	**–**	**1**
Movement on post-retirement schemes	**–**	**–**	**–**	**–**	**–**	**(722)**	**(722)**	**–**	**(722)**
Share of OCI of joint ventures and associates	**–**	**–**	**–**	**(19)**	**–**	**–**	**(19)**	**–**	**(19)**
Related tax movements	**–**	**–**	**–**	**–**	**(2)**	**257**	**255**	**–**	**255**
Total comprehensive income for the year	**–**	**–**	**–**	**(19)**	**(129)**	**(382)**	**(530)**	**–**	**(530)**
Arising on issues of ordinary shares	**–**	**1**	**–**	**–**	**–**	**–**	**1**	**–**	**1**
Issue of C Shares	**–**	**–**	**(430)**	**–**	**–**	**2**	**(428)**	**–**	**(428)**
Redemption of C Shares	**–**	**–**	**423**	**–**	**–**	**(423)**	**–**	**–**	**–**
Purchase of ordinary shares – share buyback [4]	**–**	**–**	**–**	**–**	**–**	**(433)**	**(433)**	**–**	**(433)**
Ordinary shares cancelled	**(9)**	**–**	**9**	**–**	**–**	**–**	**–**	**–**	**–**
Purchase of ordinary shares – other	**–**	**–**	**–**	**–**	**–**	**(2)**	**(2)**	**–**	**(2)**
Share-based payments – direct to equity [3]	**–**	**–**	**–**	**–**	**–**	**30**	**30**	**–**	**30**
Disposal of businesses	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(3)**	**(3)**
Related tax movements	**–**	**–**	**–**	**–**	**–**	**(6)**	**(6)**	**–**	**(6)**
Other changes in equity in the year	**(9)**	**1**	**2**	**–**	**–**	**(832)**	**(838)**	**(3)**	**(841)**
At 31 December 2015	**367**	**180**	**161**	**(100)**	**(51)**	**4,457**	**5,014**	**2**	**5,016**

1 Other reserves include a merger reserve of **£3m** (2014: £3m; 2013: £3m) and a translation reserve of **£(54)m** (2014: £75m; 2013: £247m).

2 At 31 December 2015, **5,894,064** ordinary shares with a net book value of **£52m** (2014 14,561,097, 2013 11,960,535 ordinary shares with net book values of £129m and £91m respectively) were held for the purpose of share-based payment plans and included in retained earnings. During the year, **10,892,026** ordinary shares with a net book value of **£98m** (2014 7,770,113 shares with a net book value of £64m) vested in share-based payment plans. During the year the Company acquired **224,993** (2014 169,404) of its ordinary shares via reinvestment of dividends received on its own shares and purchased **2,000,000** (2014 nil) of its ordinary shares through purchases on the London Stock Exchange. During the year, the Company issued **no** new ordinary shares (2013 10,200,000) to the Group's share trust for its employees share-based payment plans with a net book value of **nil** (2014 £100m).

3 Share-based payments – direct to equity is the net of the credit to equity in respect of the share-based payment charge to the income statement and the actual cost of shares vesting, excluding those vesting from own shares.

4 Following the completion of the sale of the Energy business to Siemens on 1 December 2014 and further to the announcement on 19 June 2014 of a £1bn share buyback, the Company put in place a programme to enable the purchase of its ordinary shares. The aim of the buyback was to reduce the issued share capital of the Company, helping enhance returns for shareholders. In the period to 31 December 2014, 8,215,000 shares were purchased at an average price of 840p. These shares were cancelled. In the year to 31 December 2015, **46,016,303** shares were purchased at an average price of **937p**. **44,016,303** of these shares were cancelled and **2,000,000** were retained for use in share-based payment programmes. On 6 July, the Company announced that the share buyback programme had been curtailed at the to-date total of £500m.

1 Basis of preparation

These condensed financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) adopted for use in the EU (Adopted IFRS) in accordance with EU law (IAS Regulation EC 1606/2002).

The financial information set out above does not constitute the Company's statutory accounts for the year ended 31 December 2015, but is derived from those accounts. Statutory accounts for Rolls-Royce Holdings plc for the year ended 31 December 2014 have been delivered to the Registrar of Companies. Statutory accounts for the year ended 31 December 2015 will be delivered to the Registrar of Companies following the Company's Annual General Meeting. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

2 Analysis by business segment

The analysis by business segment is presented in accordance with IFRS 8 *Operating segments*, on the basis of those segments whose operating results are regularly reviewed by the Board (the Chief Operating Decision Maker as defined by IFRS 8).

Aerospace Division	
Civil	development, manufacture, marketing and sales of commercial aero engines and aftermarket services.
Defence	development, manufacture, marketing and sales of military aero engines and aftermarket services.
Land & Sea Division	
Power Systems	development, manufacturing, marketing and sales of reciprocating engines and power systems.
Marine	development, manufacture, marketing and sales of marine-power propulsion systems and aftermarket services.
Nuclear	development, manufacture, marketing and sales of nuclear systems for civil power generation and naval propulsion systems.

The Energy business was sold on 1 December 2014 and is excluded from the 2014 comparative figures. The residual businesses previously included in the Energy sector and costs associated with the wind-down are shown as 'Other'.

The operating results are prepared on an underlying basis, which the Board considers reflects better the economic substance of the Group's trading during the year. The principles adopted to determine the underlying results are:

Underlying revenues – Where revenues are denominated in a currency other than the functional currency of the Group undertaking, these reflect the achieved exchange rates arising on settled derivative contracts.

Underlying profit before financing – Where transactions are denominated in a currency other than the functional currency of the Group undertaking, this reflects the transactions at the achieved exchange rates on settled derivative contracts. In addition, adjustments have been made to exclude one-off past-service credits on post-retirement schemes, the effect of acquisition accounting and the impairment of goodwill.

Underlying profit before taxation – In addition to those adjustments in underlying profit before financing:

- Include amounts realised from settled derivative contracts and revaluation of relevant assets and liabilities to exchange rates forecast to be achieved from future settlement of derivative contracts.
- Exclude unrealised amounts arising from revaluations required by IAS 39 *Financial Instruments: Recognition and Measurement*, changes in value of financial RRSA contracts arising from changes in forecast payments, changes in the value of put options on NCI and the net impact of financing costs related to post-retirement scheme benefits.

Taxation – the tax effect of the adjustments above are excluded from the underlying tax charge. In addition changes in the amount of recoverable advance corporation tax recognised and the impact of changes in tax rates are also excluded.

This analysis also includes a reconciliation of the underlying results to those reported in the consolidated income statement.

Underlying revenues	**2015**			2014		
	Original equipment £m	**Aftermarket £m**	**Total £m**	Original equipment £m	Aftermarket £m	Total £m
Civil [1]	**3,258**	**3,675**	**6,933**	3,463	3,374	6,837
Defence	**801**	**1,234**	**2,035**	816	1,253	2,069
Aerospace Division	**4,059**	**4,909**	**8,968**	4,279	4,627	8,906
Power Systems	**1,618**	**767**	**2,385**	1,893	827	2,720
Marine	**773**	**551**	**1,324**	1,070	639	1,709
Nuclear	**251**	**436**	**687**	230	408	638
Other	**76**	**20**	**96**	24	22	46
Intra-segment	**(53)**	**(53)**	**(106)**	(78)	(77)	(155)
Land & Sea Division	**2,665**	**1,721**	**4,386**	3,139	1,819	4,958
	6,724	**6,630**	**13,354**	7,418	6,446	13,864

[1] The basis for the allocation of Civil Aerospace revenues on linked TotalCare contracts between OE and aftermarket has been reviewed and amendments made to reflect better the commercial substance of the combined contracts. Historically, the allocation has resulted in original equipment revenue and aftermarket revenue reflecting the contractual terms rather than the commercial substance of the contracts. The 2014 figures have been restated on the same basis; the impact was an increase in original equipment revenue of £198m and an equal decrease in aftermarket revenue.

Underlying profit	**Gross profit**		**Profit before financing**	
	2015 £m	2014 £m	**2015 £m**	2014 £m
Civil	**1,526**	1,675	**812**	942
Defence	**579**	567	**393**	366
Aerospace Division	**2,105**	2,242	**1,205**	1,308
Power Systems	**635**	742	**194**	253
Marine	**260**	425	**15**	138
Nuclear	**111**	119	**70**	50
Other	**64**	8	**52**	(2)
Intra-segment	**7**	(13)	**7**	(13)
Land & Sea Division	**1,077**	1,281	**338**	426
Reportable segments	**3,182**	3,523	**1,543**	1,734
Central items			**(51)**	(53)
	3,182	3,523	**1,492**	1,681

Reconciliation to reported results	Total reportable segments	Underlying central items	Total underlying	Underlying adjustments	Discontinued operations	Group
Year ended 31 December 2015	**£m**	**£m**	**£m**	**£m**	**£m**	**£m**
Revenue from sale of original equipment	**6,724**		**6,724**	**215**		**6,939**
Revenue from aftermarket services	**6,630**		**6,630**	**156**		**6,786**
Total revenue	**13,354**		**13,354**	**371**		**13,725**
Gross profit	**3,182**	**–**	**3,182**	**84**		**3,266**
Other operating income	**–**	**–**	**–**	**10**		**10**
Commercial and administrative costs	**(953)**	**(51)** [1]	**(1,004)**	**(55)**		**(1,059)**
Restructuring	**(39)**	**–**	**(39)**	**39**		**–**
Research and development	**(765)**	**–**	**(765)**	**(53)**		**(818)**
Share of results of joint ventures and associates	**118**	**–**	**118**	**(18)**		**100**
Profit on disposal of businesses	**–**	**–**	**–**	**2**		**2**
Profit before financing and taxation	**1,543**	**(51)**	**1,492**	**9**		**1,501**
Net financing		**(60)**	**(60)**	**(1,281)**		**(1,341)**
Profit before taxation		**(111)**	**1,432**	**(1,272)**		**160**
Taxation		**(351)**	**(351)**	**275**		**(76)**
Profit for the year			**1,081**	**(997)**		**84**
Attributable to ordinary shareholders			**1,080**	**(997)**		**83**
Attributable to non-controlling interests			**1**	**–**		**1**
Year ended 31 December 2014						
Revenue from sale of original equipment	7,418		7,418	(1)		7,417
Revenue from aftermarket services	6,446		6,446	(127)		6,319
Total revenue	13,864		13,864	(128)		13,736
Gross profit	3,523	–	3,523	(320)		3,203
Other operating income	–	–	–	10		10
Commercial and administrative costs	(1,016)	(53) [1]	(1,069)	(55)		(1,124)
Restructuring	(149)	–	(149)	149		–
Research and development	(730)	–	(730)	(63)		(793)
Share of results of joint ventures and associates	106	–	106	(12)		94
Profit on transfer of joint ventures to subsidiaries	–	–	–	2		2
Profit on disposal of businesses	–	–	–	6		6
Profit before financing and taxation	1,734	(53)	1,681	(283)		1,398
Net financing		(61)	(61)	(1,270)		(1,331)
Profit before taxation		(114)	1,620	(1,553)		67
Taxation		(388)	(388)	237		(151)
Profit for the year from continuing operations			1,232	(1,316)		(84)
Profit for the year from discontinued operations			–	–	142	142
Profit for the year			1,232	(1,316)	142	58
Attributable to ordinary shareholders			1,226	(1,299)	142	69
Attributable to non-controlling interests			6	(17)	–	(11)

[1] Central corporate costs

Net assets/(liabilities)	Total assets		Total liabilities		Net assets	
	2015	2014	**2015**	2014	**2015**	2014
	£m	£m	**£m**	£m	**£m**	£m
Civil	**11,774**	10,775	**(8,709)**	(7,418)	**3,065**	3,357
Defence	**1,449**	1,473	**(1,698)**	(1,743)	**(249)**	(270)
Aerospace	**13,223**	12,248	**(10,407)**	(9,161)	**2,816**	3,087
Power Systems	**3,384**	3,588	**(1,017)**	(1,100)	**2,367**	2,488
Marine	**1,488**	1,641	**(783)**	(1,075)	**705**	566
Nuclear	**303**	336	**(324)**	(389)	**(21)**	(53)
Other	**120**	625	**(120)**	(491)	**–**	134
Intra-segment	**–**	(22)	**–**	–	**–**	(22)
Land & Sea	**5,295**	6,168	**(2,244)**	(3,055)	**3,051**	3,113
Inter-segment	**(850)**	(1,269)	**850**	1,269	**–**	–
Reportable segments	**17,668**	17,147	**(11,801)**	(10,947)	**5,867**	6,200
Net funds/(debt)	**3,252**	2,949	**(3,363)**	(2,283)	**(111)**	666
Tax assets/(liabilities)	**341**	388	**(1,004)**	(1,422)	**(663)**	(1,034)
Net post-retirement scheme surpluses/(deficits)	**1,063**	1,740	**(1,140)**	(1,185)	**(77)**	555
Net assets	**22,324**	22,224	**(17,308)**	(15,837)	**5,016**	6,387

Group employees (average during the year)	2015	2014
Civil	**23,200**	23,900
Defence	**6,400**	7,000
Aerospace Division	**29,600**	30,900
Power Systems	**10,600**	10,700
Marine	**6,000**	6,400
Nuclear	**4,100**	4,000
Other (2014 includes discontinued operations)	**200**	2,100
Land & Sea Division	**20,900**	23,200
	50,500	54,100

Underlying adjustments	2015				2014			
	Revenue £m	**Profit before financing £m**	**Net financing £m**	**Taxation £m**	Revenue £m	Profit before financing £m	Net financing £m	Taxation £m
Underlying performance previously reported					14,588	1,678	(61)	(387)
Energy disposed in 2014					(724)	3	–	(1)
Underlying performance	**13,354**	**1,492**	**(60)**	**(351)**	13,864	1,681	(61)	(388)
Revenue recognised at exchange rate on date of transaction	**371**	**–**	**–**	**–**	(128)	–	–	–
Realised losses/(gains) on settled derivative contracts[1]	**–**	**287**	**(35)**	**–**	–	(91)	(5)	–
Net unrealised fair value changes to derivative contracts [2]	**–**	**(9)**	**(1,306)**	**–**	–	(15)	(1,141)	–
Effect of currency on contract accounting	**–**	**(9)**	**–**	**–**	–	13	–	–
Revaluation of trading assets and liabilities	**–**	**(13)**	**20**	**–**	–	(11)	(8)	–
Put option on NCI and financial RRSAs - foreign exchange differences and other unrealised changes in value	**–**	**–**	**8**	**–**	–	–	(87)	–
Effect of acquisition accounting [3]	**–**	**(124)**	**–**	**–**	–	(142)	–	–
Impairment of goodwill	**–**	**(75)**	**–**	**–**				
Gain on reclassification of joint ventures to subsidiaries	**–**	**–**		**–**	–	2	–	–
Net post-retirement scheme financing	**–**	**–**	**32**	**–**	–	–	(29)	–
Disposal of businesses	**–**	**2**	**–**	**–**	–	6	–	–
Restructuring [4]	**–**	**(49)**	**–**	**–**	–	(39)	–	–
Other	**–**	**(1)**	**–**	**–**	–	(6)	–	–
Related tax effects [5]	**–**	**–**	**–**	**275**	–	–	–	237
Total underlying adjustments	**371**	**9**	**(1,281)**	**275**	(128)	(283)	(1,270)	237
Reported per consolidated income statement	**13,725**	**1,501**	**(1,341)**	**(76)**	13,736	1,398	(1,331)	(151)

1 Realised losses/(gains) on settled derivative contracts include adjustments to reflect the (gains)/losses in the same period as the related trading cash flows.
2 Unrealised fair value changes to derivative contracts included in profit before financing: (i) include those included in equity accounted joint ventures; and (ii) exclude those for which the related trading contracts have been cancelled when the fair value changes are recognised immediately in underlying profit.
3 The adjustment eliminates charges recognised as a result of recognising assets in acquired businesses at fair value.
4 Restructuring is excluded from underlying performance when it concerns the closure of a significant business or site.
5 2015 includes an £18m credit relating to changes in UK tax rates. 2014 includes a charge of £64m for the derecognition of advance corporation tax.

The reconciliation of underlying earnings per ordinary share is shown in note 6.

3 Research and development

	2015 £m	2014 £m
Expenditure in the year	**(831)**	(818)
Capitalised as intangible assets	**51**	83
Amortisation of capitalised costs	**(136)**	(125)
Net research and development cost	**(916)**	(860)
Entry fees received	**83**	51
Entry fees deferred in respect of charges in future years	**(28)**	(38)
Recognition of previously deferred entry fees	**43**	54
Net cost recognised in the income statement	**(818)**	(793)
Underlying adjustments relating to effects of acquisition accounting and foreign exchange	**53**	63
Net underlying cost recognised in the income statement	**(765)**	(730)
Discontinued operations		(25)
Net underlying cost previously reported		(755)

4 Net financing

	2015		2014	
	Per consolidated income statement £m	***Underlying financing [1] £m***	Per consolidated income statement £m	*Underlying financing [1] £m*
Financing income				
Interest receivable	**12**	***12***	17	*17*
Fair value gains on foreign currency contracts	**–**	**–**	2	–
Put option on NCI and financial RRSAs - foreign exchange differences and other changes in unrealised values	**21**	**–**	89	–
Expected return on post-retirement scheme surpluses	**65**	**–**	13	–
Net foreign exchange gains [2]	**17**	***32***	–	–
	115	***44***	121	*17*
Financing costs				
Interest payable	**(71)**	***(71)***	(63)	*(63)*
Fair value losses on foreign currency contracts	**(1,217)**	**–**	(1,127)	–
Fair value losses on commodity derivatives	**(89)**	**–**	(15)	–
Financial charge relating to financial RRSAs	**(8)**	***(8)***	(7)	*(5)*
Put option on NCI and financial RRSAs - foreign exchange differences and other changes in unrealised values	**(13)**	**–**	(174)	–
Interest on post-retirement scheme liabilities	**(33)**	**–**	(42)	–
Net foreign exchange losses	**–**	**–**	(13)	–
Other financing charges	**(25)**	***(25)***	(11)	*(10)*
	(1,456)	***(104)***	(1,452)	*(78)*
Net financing	**(1,341)**	***(60)***	(1,331)	*(61)*
Analysed as:				
Net interest payable	**(59)**	***(59)***	(46)	*(46)*
Net post-retirement scheme financing	**32**	**–**	(29)	–
Net other financing	**(1,314)**	***(1)***	(1,256)	*(15)*
Net financing	**(1,341)**	***(60)***	(1,331)	*(61)*

[1] See note 2

[2] The underlying foreign exchange includes £34m from gains on the settlement of foreign exchange contracts following the receipt in the UK of dividends from overseas subsidiaries.

5 Taxation

The effective tax rate on continuing operations for 2015 is 47.5% (2014 225.4%, 129.8% excluding the impact of derecognition the deferred tax asset of £64m relating to advance corporation tax).

The Summer Budget 2015 announced that the UK corporation tax rate will reduce to 19% from 1 April 2017 and 18% from 1 April 2020; these reductions were substantively enacted on 26 October 2015. As the reductions were substantively enacted prior to the year end, the closing deferred tax assets and liabilities have been calculated at this rate. The resulting charges or credits have been recognised in the income statement except to the extent that they relate to items previously charged or credited to OCI or equity. Accordingly, in 2015, £18m has been credited to the income statement and £3m has been charged directly to equity.

6 Earnings per ordinary share (EPS)

Basic earnings per ordinary share (EPS) are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares held under trust, which have been treated as if they had been cancelled.

Diluted EPS are calculated by adjusting the weighted average number of ordinary shares in issue during the year for the bonus element of share options.

	2015			2014		
	Basic	**Potentially dilutive share options**	**Diluted**	Basic	Potentially dilutive share options	Diluted [1]
Profit attributable to ordinary shareholders (£m)						
Continuing operations	**83**		**83**	(73)		(73)
Discontinued operations	**–**		**–**	142		142
	83	**–**	**83**	69	–	69
Weighted average number of ordinary shares (m)	**1,839**	**12**	**1,851**	1,874	18	1,892
EPS (pence)						
Continuing operations	**4.51**	**(0.03)**	**4.48**	(3.90)	–	(3.90)
Discontinued operations	**–**	**–**	**–**	7.58	–	7.58
	4.51	**(0.03)**	**4.48**	3.68	–	3.68

[1] As there is a loss on continuing operations, the effect of potential dilutive ordinary shares is anti-dilutive.

The reconciliation between underlying EPS and basic EPS is as follows:

	2015		2014	
	Pence	**£m**	Pence	£m
Underlying EPS/Underlying profit attributable to ordinary shareholders	**58.73**	**1,080**	65.42	1,226
Total underlying adjustments to profit before tax (note 2)	**(69.17)**	**(1,272)**	(82.88)	(1,553)
Related tax effects	**14.95**	**275**	12.65	237
Profit on disposal of discontinued operations	**–**	**–**	7.58	142
Related NCI effects	**–**	**–**	0.91	17
EPS/Profit attributable to ordinary shareholders	**4.51**	**83**	3.68	69

7 Payments to shareholders in respect of the year

Payments to shareholders in respect of the year represent the value of C Shares to be issued in respect of the results for the year. Issues of C Shares were declared as follows:

	2015		2014	
	Pence per share	**£m**	Pence per share	£m
Interim (issued in January)	**9.27p**	**170**	9.00	170
Final (issued in July)	**7.10p**	**131**	14.10	265
	16.37p	**301**	23.10	435

8 Intangible assets

	Goodwill £m	**Certification costs and participation fees £m**	**Development expenditure £m**	**Contractual aftermarket rights £m**	**Customer relationships**	**Software**	**Other £m**	**Total £m**
Cost:								
At 1 January 2015	1,675	1,079	1,707	638	469	543	518	6,629
Exchange differences	(87)	(7)	(32)	–	(14)	–	(16)	(156)
Additions	–	73	55	161	–	79	40	408
Acquisitions of businesses	1	–	–	–	1	–	1	3
Disposals	–	–	–	–	–	(6)	–	(6)
At 31 December 2015	**1,589**	**1,145**	**1,730**	**799**	**456**	**616**	**543**	**6,878**
Accumulated amortisation:								
At 1 January 2015	16	311	564	389	96	259	190	1,825
Exchange differences	(5)	(1)	(10)	–	(3)	–	(3)	(22)
Charge for the year	–	63	137	55	46	68	38	407
Impairment	75	–	–	–	–	–	–	75
Reversal of impairment	–	–	–	(50)	–	–	–	(50)
Disposals	–	–	–	–	–	(2)	–	(2)
At 31 December 2015	**86**	**373**	**691**	**394**	**139**	**325**	**225**	**2,233**
Net book value at 31 December 2015	**1,503**	**772**	**1,039**	**405**	**317**	**291**	**318**	**4,645**
Net book value at 31 December 2014	1,659	768	1,143	249	373	284	328	4,804

Goodwill

Goodwill has been tested for impairment during 2015 on the following basis:

- The carrying value of goodwill has been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on current and future market conditions. Given the long-term and established nature of many of the Group's Aerospace products (product lives are often measured in decades), these forecast the next ten years, with five years used elsewhere. Growth rates for the period not covered by the forecasts are assumed to be 2.0-2.75%, reflecting the products, industries and countries in which the relevant CGU or group of CGUs operate.
- The key assumptions for the impairment tests are the discount rate and, the programme forecasts, the growth rates and the impact of foreign exchange rates on the relationship between selling prices and costs. Impairment tests are performed using prevailing exchange rates.
- The pre-tax cash flow projections have been discounted at 13% (2014 13%), based on the Group's weighted average cost of capital, adjusted for specific risk where appropriate. The discount rate used, before taking account of specific risks, is 13% (2014 13%).

As a result of the continuing poor market conditions in the Marine offshore business caused by the low crude oil price and the consequential reduced order intake in the period, the Group has recognised an impairment loss of £69m (included in the total impairment of £75m) to the carrying value of goodwill of cash generating units in this market. This is included in cost of sales in the income statement, but excluded from the underlying results. The impairment loss primarily relates to the cash generating units Scandinavian Electric Holdings ASA (acquired in 2008) and ODIM ASA (acquired in 2010) which are both business operations included in Marine. The impairment loss is based on a value in use calculation using cash flows forecast over a ten-year period and a pre-tax discount rate of 13% which indicated a recoverable amount of £74m compared with a pre-impairment carrying value of £143m.

Other intangible assets

Certification costs and participation fees, customer relationships, technology, patents and licences, order backlog, development expenditure and customer aftermarket rights have been reviewed for impairment in accordance with the requirements of IAS 36 *Impairment of Assets*. Where an impairment test was considered necessary, it has been performed on the following basis:

- The carrying values have been assessed by reference to value in use. These have been estimated using cash flows from the most recent forecasts prepared by management, which are consistent with past experience and external sources of information on market conditions over the lives of the respective programmes.
- The key assumptions underlying cash flow projections are assumed market share, programme timings, unit costs, discount rates, and foreign exchange rates.
- The pre-tax cash flow projections have been discounted at 11% (2014 11%), based on the Group's weighted average cost of capital.
- No impairment is required on this basis. However, a combination of changes in assumptions and adverse movements in variables that are outside the Company's control (discount rate, exchange rate and airframe delays), could result in impairment in future periods.

During the year, following analysis of the first major overhauls of the Trent 1000 engines, the recoverable amount of certain contractual aftermarket rights have been reassessed. This analysis demonstrated that the aftermarket cash flows from the engines were better than originally assumed, arising from both operational and contractual performance improvements. As a result of this analysis, the value in use (based on a pre-tax discount rate of 9%) has increased to around £140m, exceeding the unimpaired carrying value of £72m. Accordingly, cumulative impairments prior to 2015 of £50m have been reversed. This reversal is included in the Civil Aerospace business cost of sales.

9 Property, plant and equipment

	Land and buildings £m	Plant and equipment £m	Aircraft and engines £m	In course of construction £m	Total £m
Cost:					
At 1 January 2015	1,334	3,600	321	795	6,050
Exchange differences	(20)	(39)	(2)	(3)	(64)
Additions	18	117	19	340	494
Acquisition of business	–	1	–	–	1
Reclassifications	81	335	7	(423)	–
Transferred to assets held for sale	(8)	(23)	(2)	–	(33)
Disposal of businesses	–	(1)	–	–	(1)
Disposals	(30)	(96)	(4)	(1)	(131)
At 31 December 2015	**1,375**	**3,894**	**339**	**708**	**6,316**
Accumulated amortisation:					
At 1 January 2015	391	2,109	103	1	2,604
Exchange differences	(7)	(24)	(1)	–	(32)
Charge for the period	48	299	26	–	373
Impairment	3	2	–	–	5
Transferred to assets held for sale	(5)	(20)	(1)	–	(26)
Disposal of businesses	–	(1)	–	–	(1)
Disposals	(14)	(81)	(2)	–	(97)
At 31 December 2015	**416**	**2,284**	**125**	**1**	**2,826**
Net book value at:					
31 December 2015	**959**	**1,610**	**214**	**707**	**3,490**
31 December 2014	943	1,491	218	794	3,446

10 Other financial assets and liabilities

	Derivatives						
	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts £m	Total £m	Financial RRSAs £m	C Shares £m	Total £m
At 31 December 2015							
Non-current assets	**3**	**–**	**80**	**83**	**–**	**–**	**83**
Current assets	**29**	**–**	**–**	**29**	**–**	**–**	**29**
Current liabilities	**(244)**	**(39)**	**–**	**(283)**	**(19)**	**(29)**	**(331)**
Non-current liabilities	**(1,428)**	**(65)**	**(67)**	**(1,560)**	**(91)**	**–**	**(1,651)**
	(1,640)	**(104)**	**13**	**(1,731)**	**(110)**	**(29)**	**(1,870)**
At 31 December 2014							
Non-current assets	28	–	79	107	–	–	107
Current assets	22	–	–	22	–	–	22
Current liabilities	(144)	(21)	–	(165)	(22)	(22)	(209)
Non-current liabilities	(545)	(22)	(27)	(594)	(123)	–	(717)
	(639)	(43)	52	(630)	(145)	(22)	(797)

Derivative financial instruments

Movements in the fair value of derivative financial instruments were as follows:

	2015				2014
	Foreign exchange contracts £m	Commodity contracts £m	Interest rate contracts £m	Total £m	Total £m
At January 1	(639)	(43)	52	(630)	453
Currency options at inception [1]	(20)	–	–	(20)	–
Movements in fair value hedges	1	–	(36)	(35)	61
Movements in other derivative contracts	(1,217)	(89)	–	(1,306)	(1,140)
Contracts settled	235	28	(3)	260	(4)
At December 31	**(1,640)**	**(104)**	**13**	**(1,731)**	(630)

[1] The Group has written currency options to sell USD and buy GBP as part of a commercial agreement. The fair value of this option on inception is treated as a discount to the customer.

Non derivative other financial instruments

The Group had agreed a put option with Daimler AG, such that Daimler could sell its interest in Rolls-Royce Power Systems GmbH to the Group. The fair value of the exercise value this option was included as a financial liability.

The Group has financial liabilities arising from financial RRSAs. These financial liabilities are valued at each reporting date using the amortised cost method. This involves calculating the present value of the forecast cash flows of the arrangements using the internal rate of return at the inception of the arrangements as the discount rate.

	Financial RRSAs		Put option on NCI
	2015 £m	2014 £m	2014 £m
At 1 January	(145)	(167)	(1,858)
Exchange adjustments included in OCI	–	3	
Financing charge [1]	(8)	(5)	
Excluded from underlying profit:			
Financing charge [1]			(2)
Change in put option exercise price [1]			(166)
Exchange adjustments [1]	8	(8)	89
Cash paid to partners	35	32	
Settlement of put option			1,937
At 31 December	**(110)**	(145)	–

[1] Included in financing

11 Borrowings

On 6 October the Group issued US$500m 2.375% Notes due 2020 and US$1,000m 3.625% Notes due 2025.

During the year the Group renegotiated its £1,000m committed bank borrowing facility, increasing the amount to £1,500m and extending the maturity to 2020. This facility was undrawn at the period end. A €300m committed borrowing facility was cancelled during the period.

12 Pensions and other post-retirement benefits

Movements in the net post-retirement position recognised in the balance sheet were as follows:

	UK schemes £m	Overseas schemes £m	Total £m
At 1 January 2015	1,735	(1,180)	555
Exchange differences	–	15	15
Current service cost	(169)	(52)	(221)
Past-service (cost)/credit	16	(8)	8
Financing recognised in income statement	65	(33)	32
Returns on plan assets excluding financing recognised in OCI	(593)	(16)	(609)
Actuarial losses recognised in OCI	(199)	86	(113)
Contributions by employer	188	71	259
Other	–	(3)	(3)
At 31 December 2015	**1,043**	**(1,120)**	**(77)**
Analysed as:			
Post-retirement scheme surpluses - included in non-current assets	**1,059**	**4**	**1,063**
Post-retirement scheme deficits - included in non-current liabilities	**(16)**	**(1,124)**	**(1,140)**
	1,043	**(1,120)**	**(77)**

13 Contingent liabilities

On 6 December 2012, the Company announced that it had passed information to the Serious Fraud Office (SFO), following a request from the SFO for information about allegations of malpractice in overseas markets. On 23 December 2013, the Company announced that it had been informed by the SFO that it had commenced a formal investigation. Since the initial announcement, the Company has continued its investigations and is engaging with the SFO and other authorities in the UK, the USA and elsewhere in relation to the matters of concern.

The consequence of these disclosures will be decided by the regulatory authorities. It is too early to predict the outcomes, but these could include the prosecution of individuals and of the Group. Accordingly, the potential for fines, penalties or other consequences cannot currently be assessed. As the investigation is ongoing, it is not yet possible to identify the timescale in which these issues might be resolved.

In connection with the sale of its products the Group will, on some occasions, provide financing support for its customers - generally in respect of civil aircraft. The Group's commitments relating to these financing arrangements, which are spread over many years, relate to a number of customers and a broad product portfolio and are generally secured on the asset subject to the financing. Customer financing provisions cover guarantees provided for asset value and/or financing. These include commitments of US$3.bn to provide borrowing facilities to enable customers to purchase aircraft (of which approximately US$322m could be called in 2016). These facilities may only be used if the customer is unable to obtain financing elsewhere and are priced at a premium to the market rate. Consequently the directors do not consider that there is a significant exposure arising from the provision of these facilities.

Commitments on delivered aircraft in excess of the amounts provided are shown in the table below. These are reported on a discounted basis at the Group's borrowing rate to reflect better the time span over which these exposures could arise. These amounts do not represent values that are expected to crystallise. The commitments are denominated in US dollars. As the Group does not generally adopt cash flow hedge accounting for future foreign exchange transactions, this amount is reported, together with the sterling equivalent at the reporting date spot rate. The values of aircraft providing security are based on advice from a specialist aircraft appraiser.

	2015		2014	
	£m	***$m***	£m	*$m*
Gross commitments	**269**	***399***	388	*605*
Value of security	**(136)**	***(201)***	(245)	*(382)*
Indemnities	**(79)**	***(118)***	(84)	*(132)*
Net commitments [1]	**54**	***80***	59	*91*
Net commitments with security reduced by 20% [2]	**78**	***115***	90	*140*
[1] Security includes unrestricted cash collateral of:	**35**	***52***	42	*66*

[2] Although sensitivity calculations are complex, the reduction of the relevant security by 20% illustrates the sensitivity of the contingent liability to changes in this assumption

Principal risks and uncertainties

The following table describes the principal risks facing the Group notwithstanding that there are other risks that may occur and may impact the achievement of the Group's objectives.

Risk or uncertainty and potential impact	How we manage it
Product failure Product not meeting safety expectations, or causing significant impact to customers or the environment through failure in quality control.	• Embedding and operating a safety-first culture. • Applying our engineering design and validation process from initial design through production and into service. • The Safety & Ethics Committee reviewing the scope and effectiveness of the Group's product safety policies to ensure that they operate to the highest industry standards • Operating a safety management system (SMS), governed by the product safety review board, and subject to continual improvement based on experience and industry best practice. Product safety training is an integral part of our SMS • Improving our supply chain quality. • Crisis management team jointly chaired by the Group President and General Counsel.
Business continuity Breakdown of external supply chain or internal facilities that could be caused by destruction of key facilities, natural disaster, regional conflict, insolvency of a critical supplier or scarcity of materials which would reduce the ability to meet customer commitments, win future business or achieve operational results.	• Continued investment in adequate capacity and modern equipment and facilities • Identifying and assessing points of weakness in our internal and external supply chain, our IT systems and our people skills. • Selecting and developing stronger supplier. • Developing dual sources or dual capability. • Developing and testing incident management and business continuity plans. • Crisis Management Team jointly chaired by the Group President and General Counsel. • Customer excellence centres providing improved response to supply chain disruption.
Competitive position The presence of large, financially strong competitors in the majority of our markets means that the Group is susceptible to significant price pressure for original equipment or services even where our markets are mature or the competitors few. Our main competitors have access to significant government funding programmes as well as the ability to invest heavily in technology and industrial capability.	• Accessing and developing key technologies and service offerings which differentiate us competitively • Focusing on being responsive to our customers and improving the quality, delivery and reliability of our products and services. • Partnering with others effectively. • Driving down cost and improving margins • Protecting credit lines. • Investing in innovation, manufacturing and production, and continuing governance of technology programmes. • Maintaining a strong balance sheet to enable access to cost effective sources of third party funding. • Understanding our competitors.
Political risk Geopolitical factors that lead to an unfavourable business climate and significant tensions between major trading parties or blocs which could impact the Group's operations. For example: explicit trade protectionism, differing tax or regulatory regimes, potential for conflict, or broader political issues.	• Where possible, locating our domestic facilities and supply chain in countries with a low level of political risk and/or ensuring that we maintain dual capability. • Diversifying global operations to avoid excessive concentration of risks in particular areas. • The international network of Rolls-Royce and its business units proactively monitoring local situations. • Maintaining a balanced business portfolio with high barriers to entry and a diverse customer base. • Proactively influencing regulation where it affects us.

Risk or uncertainty and potential impact	How we manage it
Major programme delivery Failure to deliver a major programme on time, within budget, to specification or technical performance falling significantly short of customer expectations or not delivering the planned business benefits would have potentially significant adverse financial and reputational consequences, including the risk of impairment of the carrying value of the Group's intangible assets and the impact of potential litigation.	• Major programmes are subject to Board approval. • Reviewing major programmes at levels and frequencies appropriate to their criticality and performance, against key financial and non-financial deliverables and potential risks throughout the programme's life cycle. • Conducting technical audits at pre-defined points which are performed by a team that is independent from the programme. • Requiring programmes to address the actions arising from reviews and audits and monitoring and controlling progress through to closure. • Applying knowledge management principles to provide benefit to current and future programmes.
Compliance Non-compliance by the Group with legislation or other regulatory requirements in the regulated environment in which it operates (eg. export controls; offset; use of controlled chemicals and substances; and anti-bribery and corruption legislation) compromising our ability to conduct business in certain jurisdictions and exposing the Group to potential reputational damage, financial penalties, debarment from government contracts for a period of time, and/or suspension of export privileges or export credit financing, any of which could have a material adverse effect.	• Taking an uncompromising approach to compliance. • Operating an extensive compliance programme. This programme and the Global Code of Conduct are disseminated throughout the Group and are updated from time-to-time to ensure their continued relevance, and to ensure that they are complied with both in spirit and to the letter. The Global Code of Conduct and the Group's compliance programme are supported by appropriate training. • Strengthening of the ethics, anti-bribery and corruption, compliance and export control teams. • A legal team is in place to manage any ongoing regulatory investigations. • Implementing a comprehensive REACH compliance programme. This includes establishing appropriate data systems and processes, working with our suppliers, customers and trade associations and conducting research on alternative materials.
Market and financial shock The Group is exposed to a number of market risks, some of which are of a macro-economic nature eg. foreign currency, oil price, exchange rates and some of which are more specific to the Group eg. liquidity and credit risks, reduction in air travel or disruption to other customer operations. Significant extraneous market events could also materially damage the Group's competitiveness and/or creditworthiness. This would affect operational results or the outcomes of financial transactions.	• Maintain a strong balance sheet, through managing cash balances and debt levels. • Providing financial flexibility by maintaining high levels of liquidity and an investment grade credit rating. • Sustaining a balanced portfolio through earning revenue both from the sale of original equipment and aftermarket services, providing a broad product range and addressing diverse markets that have differing business cycles. • Deciding where and what currencies to source in, where and how much credit risk is extended or taken. The Group has a number of treasury policies that are designed to hedge residual risks using financial derivatives (foreign exchange, interest rates and commodity price risk).
IT vulnerability Breach of IT security causing controlled or critical data to be lost, made inaccessible, corrupted or accessed by unauthorised users.	• Implementing 'defence in depth' through deployment of multiple layers of software and processes including web gateways, filtering, firewalls, intrusion, advanced persistent threat detectors and integrated reporting. • Running security and network operations centres. • Actively sharing IT security information through industry, government and security forums.
Talent and capability Inability to attract and retain the critical capabilities and skills needed in sufficient numbers and to effectively organise, deploy and incentivise its people to deliver our strategy, business plan and projects.	• Attracting, rewarding and retaining the right people with the right skills globally in a planned and targeted way, including regular benchmarking of remuneration. • Developing and enhancing organisational, leadership, technical and functional capability to deliver global programmes. • Continuing a strong focus on individual development and succession planning. • Proactively monitoring retirement in key areas and actively managing the development and career paths of our people with a special focus on employees with the highest potential. • Embedding a lean, agile high performance culture that tightly aligns Group strategy with individual and team objectives. • Retaining, incentivising and effectively deploying the critical capabilities, skills and people needed to deliver our strategic priorities, plans and projects whilst implementing the Company's major programme to transform its business, to be resilient and to act with pace and simplicity. • Tracking engagement through our annual employee opinion survey and a commitment to drive year-on-year improvement to the employee experience and communications.

Annual General Meeting

This year's AGM will be held at 11.00am on Thursday, 5 May 2016 at the East Midlands Conference Centre, University Park, Nottingham, NG7 2RJ.

In accordance with the UK Corporate Governance Code and the Company's Articles of Association, all directors are required to retire at each AGM. All of the current directors intend to put themselves forward for election or re-election at the AGM on 1 May 2014.

Payments to shareholders

At the AGM on 5 May 2016, the directors will recommend an issue of 71C Shares with a total nominal value of 7.10 pence for each ordinary share. The final issue of C shares will be made on 1 July 2016 to shareholders on the register on 29 April 2016 and the final day of trading with entitlement to C Shares is 27 April 2016. Together with the interim issue on 4 January 2016 of 92.7 C Shares for each ordinary share with a total nominal value of 9.27 pence, this is the equivalent of a total annual payment to ordinary shareholders of 16.37 pence for each ordinary share.

The payment to shareholders will, as before, be made in the form of redeemable C Shares which shareholders may either choose to retain or redeem for a cash equivalent. The Registrar, on behalf of the Company, operates a C Share Reinvestment Plan (CRIP) and can, on behalf of shareholders, use the cash proceeds of redemption to purchase ordinary shares from the market. Shareholders wishing to redeem their C Shares or else redeem and participate in the CRIP must ensure that their instructions are lodged with the Registrar, Computershare Investor Services Plc, no later than 5.00pm on 1 June 2016 (CREST holders must submit their elections in CREST before 3.00pm BST on 1 June 2016). Redemption will take place on 4 July 2016.

Annual report and financial statements

The statements below have been prepared in connection with the Company's full Annual Report for the year ended 31 December 2015. Certain parts thereof are not included with this announcement.

Going concern

The Group meets its funding requirements through a mixture of shareholders' funds, bank borrowings, bonds and notes. At 31 December 2015, the Group had borrowing facilities of £5.1 billion and total liquidity of £5.0 billion, including: cash and cash equivalents of £3.2 billion; and undrawn facilities of £1.8 billion. £419 million of the facilities mature in 2015.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. The directors have reasonable expectation that the Company and the Group are well placed to manage business risks and to continue in operational existence for the foreseeable future (which accounting standards require to be at least a year from the date of this report), and have not identified any material uncertainties to the Company's and the Group's ability to do so.

Accordingly, the directors consider it appropriate to adopt the going concern basis in preparing the consolidated financial statements (in accordance with the 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the Financial Reporting Council in September 2014).

Responsibility statements under the Disclosure Rules and Transparency Rules

Each of the persons who is a director at the date of approval of this report confirms that to the best of his or her knowledge:

i) each of the Group and parent company financial statements, prepared in accordance with IFRS and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

ii) the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

iii) the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy.

By order of the Board

Warren East
Chief Executive
11 February 2016

David Smith
Chief Financial Officer
11 February 2016