

Rolls-Royce Marine A/S**Annual report 2015**

The annual report was presented and approved at the
Company's annual general meeting

on 25 MAY 20 16



chairman

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Rolls-Royce Marine A/S for the financial year 1 January – 31 December 2015.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2015.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's activities and financial matters, of the results for the year and of the Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Aalborg, 25 May 2016

Executive Board:



Peter Studsbjerg

Board of Directors:



Knut Meyer Hoyland
Chairman



Kjetil Fuglesteg Nielsen



Anders Troets Skjoldborg



Independent auditor's report

To the shareholders of Rolls-Royce Marine A/S

Independent auditor's report on the financial statements

We have audited the financial statements of Rolls-Royce Marine A/S for the financial year 1 January – 31 December 2015. The financial statements comprise accounting policies, income statement, balance sheet, and notes as well as cash flow statement. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.



Independent auditor's report

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

In accordance with the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Aarhus, 25 May 2016

KPMG

Statsautoriseret Revisionspartnerselskab CVR no. 25 57 81 98

Steffen S. Hansen
State Authorised
Public Accountant

Management's review

Company details

Rolls-Royce Marine A/S
Værftsvej 23,
9000 Aalborg

Telephone: +45 99 30 36 00

Telefax: +45 99 30 36 01

CVR no.: 38 68 41 16

Established: 26 July 1960

Registered office: Aalborg

Financial year: 1 January – 31 December

Board of Directors

Knut Meyer Hovland (Chairman)

Anders Skjoldborg

Kjetil Fuglesteg Nielsen

Executive Board

Peter Studsbjerg

Auditor

KPMG

Statsautoriseret Revisionspartnerselskab

Bredskifte Allé 13

8210 Aarhus V.

Annual general meeting

The annual general meeting will be held 25 May 2016

Management's review

Financial highlights

| DKKm | 2015 | 2014 | 2013 | 2012 | 2011 |
|------------------------------------------------------------|-------------|--------------|--------------|--------------|--------------|
| Gross profit | 51.8 | 67.7 | 52.7 | 65.8 | 66.7 |
| Ordinary operating profit | 7.6 | 21.0 | 4.8 | 19.1 | 13.4 |
| Profit from financial income and expenses | -0.3 | -0.4 | 0.2 | -0.5 | 0.3 |
| Profit for the year | 5.1 | 15.5 | 3.3 | 13.9 | 10.3 |
| Total assets | 74.1 | 76.6 | 92.3 | 155.2 | 162.5 |
| Equity | 64.2 | 59.1 | 73.6 | 135.3 | 121.4 |
| Cash flows from operating activities | 14.4 | 7.9 | 12.8 | 8.0 | 18.7 |
| Cash flows from investing activities | 0.0 | 0.0 | -0.6 | 4.4 | -4.5 |
| Cash flows from investing in property, plant and equipment | 0.0 | 0.0 | -0.6 | -0.1 | -4.2 |
| Cash flows from financing activities | 0.0 | -30.0 | -65.0 | -0.1 | -0.1 |
| Total cash flows | 14.4 | -21.1 | -52.8 | 23.3 | 14.1 |
| Return on invested capital | 10.1% | 25.0% | 3.9% | 15.0% | 17.7% |
| Return on equity | 8.4% | 23.3% | 3.2% | 10.8% | 8.9% |
| Solvency ratio | 85.8% | 77.2% | 79.8% | 87.2% | 74.7% |
| Average number of full-time employees | 55 | 58 | 58 | 59 | 74 |

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Management's review

Operating review

Principal activities of the Company

The Company acts as agent in Denmark for the sale of products of the Rolls-Royce Group. In addition, the Company is engaged in trading, service and repair.

Development in activities and financial position

Profit for the year after tax came in at DKK 5,150 thousand as against a profit of DKK 15,492 thousand for 2014. Results for 2014 were positively affected by approx. DKK 3 million arising from the reversal of write-down on inventory.

Profit for the year was satisfactory under the given market conditions.

Events after the balance sheet date

No events have occurred after the balance sheet date which could materially affect the financial position of the Company.

Outlook for 2016

The Company expects to report positive results for 2016 in line with 2015.

Risks

Currency risks

Operations are primarily settled in DKK and EUR. Foreign exchange fluctuations are deemed not to have any significant impact on results.

Environment

The Company has maintained its certifications according to DS/EN ISO 14001 and DS/EN OHSAS 18001.

Intellectual capital

The primary intellectual resources of Rolls-Royce Marine A/S are the employees and their knowledge.

Financial statements 1 January – 31 December

Accounting policies

The annual report of Rolls-Royce Marine A/S for 2015 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Foreign currency translation

Transactions denominated in foreign currencies are translated into Danish kroner at the exchange rates at the transaction date.

Receivables and payables in foreign currencies are translated into Danish kroner at the exchange rates at the balance sheet date. Realised and unrealised exchange gains and losses are recognised in the income statement as financial income and expenses.

Income statement

Gross profit

In accordance with section 32 of the Danish Financial Statements Act, revenue, operating costs, and other external costs are aggregated into the financial statement caption, gross profit.

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have taken place and provided that the income can be reliably measured and is expected to be received.

Sale of services are recognised in the income statement after completion due to uncertainties related to estimation of sales value.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Construction contract, for which highly customised products are delivered, are recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage-of-completion method). When the income from a construction contract cannot be estimated reliably, revenue is recognised.

Financial statements 1 January – 31 December

Accounting policies

Operating costs

Operating costs are comprised by costs related to distribution, sales, advertising, administration, lease expenses, loss on debtors etc.

Staff costs

Staff costs comprise salaries and wages, including holiday allowance, pension and other social security costs, etc. to the Company's employees.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, currency adjustments, and amortisation of financial assets.

Tax on profit for the year

Tax for the year comprises current tax on the taxable income and changes in deferred tax for the year.

Additions, deductions and refunds, etc. regarding tax payments are recognised as financial income and expenses.

Balance sheet

Property, plant and equipment

Leasehold improvements, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives are as follows:

| | |
|--------------------------------------------|------------|
| Buildings | 5-10 years |
| Plant and machinery | 3-5 years |
| Fixtures and fittings, tools and equipment | 3-5 years |

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

Financial statements 1 January – 31 December

Accounting policies

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Inventories are measured at cost, comprising purchase price plus delivery costs.

The net realisable value of inventories is calculated as the sales amount and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in forecast sales price.

Contract work in progress

Construction contracts are measured at the selling price of the work performed. The selling price is measured by reference to the stage of completion at the balance sheet date and total expected income from the contract.

When the selling price of a construction contract cannot be measured reliably, the selling price is measured at the lower costs incurred and net realisable value.

Individual construction contracts are recognised in the balance sheet under either receivables or payables. Net assets are determined as the sum of construction contracts where the selling price of the work performed exceeds progress billings. Net liabilities are determined as the sum of construction contracts where progress billings exceeds the selling price.

Prepayments from customers are recognised under liabilities.

Selling costs and costs incurred in securing contracts recognised in the income statement when incurred.

Receivables

Receivables are measured at amortised cost. Write-down to net realisable value is made for bad debt losses.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item in equity.

Financial statements 1 January – 31 December

Accounting policies

Corporation tax and deferred tax

Current tax payable and receivable is recognised on the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured at 22% on all temporary differences between the carrying amount and the tax value of current and non-current assets. If the tax value exceeds the book value, a computed amount for future tax savings is capitalised provided that it is likely that the allowance can be utilised by a set-off against future tax profits.

Financial liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities comprising trade payables, payables to group entities and other payables are measured at amortised cost.

Cash flow statement

The cash flow statement shows the Company's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated as profit/loss for the year adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities comprise payments in connection with the acquisition and disposal of entities and activities and acquisitions and disposals of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash at bank and in hand.

Financial statements 1 January – 31 December

Accounting policies

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Return on invested capital

$$\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$$

Return on equity

$$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$$

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$$

Financial statements 1 January – 31 December

Income statement

| DKK'000 | Note | 2015 | 2014 |
|------------------------------------------|------|---------|---------|
| Gross profit | | 51,823 | 67,702 |
| Staff costs | 1 | -43,534 | -46,003 |
| Depreciation of non-current assets | 2 | -633 | -637 |
| Ordinary operating profit | | 7,656 | 21,062 |
| Financial income | | 94 | 1 |
| Financial expenses | | -430 | -407 |
| Profit before tax | | 7,320 | 20,656 |
| Tax on profit for the year | 3 | -2,170 | -5,164 |
| Profit for the year | | 5,150 | 15,492 |
| Proposed profit appropriation | | | |
| Retained earnings | | 5,150 | 15,492 |
| | | 5,150 | 15,492 |

Financial statements 1 January – 31 December

Balance sheet

| DKK'000 | Note | 2015 | 2014 |
|--------------------------------------------|------|---------------|---------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | | | |
| | 4 | | |
| Leasehold improvements | | 2,177 | 2,540 |
| Plant and machinery | | 441 | 678 |
| Fixtures and fittings, tools and equipment | | 0 | 34 |
| Total non-current assets | | 2,618 | 3,252 |
| Current assets | | | |
| Inventories | | | |
| Raw materials and consumables | | 9,981 | 11,591 |
| | | 9,981 | 11,591 |
| Receivables | | | |
| Trade receivables | | 9,126 | 9,949 |
| Service work in progress | | 2,303 | 5,241 |
| Amounts owed by group entities | | 7,368 | 17,709 |
| Other receivables | | 681 | 1,222 |
| Corporation tax receivables | | 788 | 0 |
| Deferred tax asset | 6 | 159 | 107 |
| | | 20,425 | 34,228 |
| Cash at bank and in hand | | 41,879 | 27,479 |
| Total current assets | | 72,285 | 73,298 |
| TOTAL ASSETS | | 74,903 | 76,550 |

Financial statements 1 January – 31 December

Balance sheet

| DKK'000 | Note | 2015 | 2014 |
|-----------------------------------------------------|------|---------------|---------------|
| EQUITY AND LIABILITIES | | | |
| Equity | | | |
| Share capital | 5 | 550 | 550 |
| Retained earnings | | 63,696 | 58,546 |
| Total equity | | <u>64,246</u> | <u>59,096</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | | 1,128 | 2,219 |
| Prepayments received from customers | | 0 | 502 |
| Payables to group entities | | 2,889 | 4,086 |
| Corporation tax | | 0 | 2,828 |
| Other payables | | 6,640 | 7,819 |
| Total liabilities other than provisions | | <u>10,657</u> | <u>17,454</u> |
| TOTAL EQUITY AND LIABILITIES | | <u>74,903</u> | <u>76,550</u> |
| Contractual obligations, contingencies, etc. | 7 | | |

Financial statements 1 January – 31 December

Cash flow statement

| DKK'000 | Note | 2015 | 2014 |
|------------------------------------------------------------------------------------------|------|---------------|----------------|
| Profit for the year | | 5,150 | 15,492 |
| Depreciation for the year | | 633 | 637 |
| Financial income and expenses | | 336 | 406 |
| Tax on profit for the year | | 2,170 | 5,164 |
| Cash generated from operations before changes in working capital | | 8,289 | 21,699 |
| Changes in work in progress | | 2,938 | -120 |
| Changes in inventories | | 1,610 | -3,918 |
| Changes receivables | | 1,364 | 2,859 |
| Change in trade payables, receivables from/payables to group entities and other payables | | 6,372 | -8,119 |
| Financial income | | 94 | 1 |
| Financial expenses | | -430 | -407 |
| Corporation tax paid | | -5,837 | -4,068 |
| Cash flows from operating activities | | 14,400 | 7,927 |
| Cash flows from investing activities | | 0 | 0 |
| Distributed dividends | | 0 | -30,000 |
| Cash flows from financing activities | | 0 | -30,000 |
| Cash flows for the year | | 14,400 | -22,073 |
| Cash and cash equivalents at the beginning of the year | | 27,479 | 49,552 |
| Cash and cash equivalents at year end | | 41,879 | 27,479 |

Financial statements 1 January – 31 December

Notes

| | 2015 | 2014 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| DKK'000 | | |
| 1 Staff costs | | |
| Wages and salaries | 39,032 | 41,352 |
| Pensions | 4,039 | 4,219 |
| Other social security costs | 463 | 432 |
| | <u>43,534</u> | <u>46,003</u> |
| Average number of full-time employees | <u>55</u> | <u>58</u> |
| <p>Remuneration of the Company's Management and Board of Directors is not disclosed pursuant to section 98b(3)(ii) of the Danish Financial Statements Act.</p> | | |
| 2 Depreciation of non-current assets | | |
| Leasehold improvement | 362 | 366 |
| Plant and machinery | 237 | 237 |
| Fixtures and fittings, tools and equipment | 34 | 34 |
| | <u>633</u> | <u>637</u> |
| 3 Tax on profit for the year | | |
| Tax on profit | 2,170 | 5,164 |
| | <u>2,170</u> | <u>5,164</u> |
| <p>which is specified as follows:</p> | | |
| Tax on profit for the year | 2,222 | 5,002 |
| Adjustment for the year of deferred tax | -52 | 162 |
| | <u>2,170</u> | <u>5,164</u> |

Financial statements 1 January – 31 December

Notes

4 Property, plant and equipment

| DKK'000 | Leasehold improve- ments | Plant and machinery | Fixtures and fittings, tools and equipment | Total |
|-----------------------------------------------------------|--------------------------------|------------------------|--------------------------------------------------------|--------------|
| Cost at 1 January 2015 | 4,190 | 2,932 | 843 | 7,965 |
| Disposals | -422 | -57 | 0 | -479 |
| Cost at 31 December 2015 | 3,768 | 2,875 | 843 | 7,486 |
| Depreciation and impairment losses at 1 January 2015 | 1,651 | 2,254 | 809 | 4,714 |
| Depreciation for the year | 362 | 237 | 34 | 633 |
| Depreciation on disposals | -422 | -57 | 0 | -479 |
| Depreciation and impairment losses at 31 December 2015 | 1,591 | 2,434 | 843 | 4,868 |
| Carrying amount at 31 December 2015 | 2,177 | 441 | 0 | 2,618 |
| Depreciated over | 5-10 years | 3-5 years | 3-5 years | |

5 Equity

| | Share capital | Retained earnings | Total |
|------------------------------------|------------------|----------------------|---------------|
| Balance at 1 January 2015 | 550 | 58,546 | 59,096 |
| Transferred of profit for the year | 0 | 5,150 | 5,150 |
| Balance at 31 December 2015 | 550 | 63,696 | 64,246 |

Financial statements 1 January – 31 December

Notes

| DKK'000 | 2015 | 2014 |
|--------------------------------------|------------|------------|
| 6 Provisions for deferred tax | | |
| Deferred tax at 1 January | 107 | 269 |
| Deferred tax adjustment | 52 | -162 |
| Deferred tax at 31 December | 159 | 107 |

Deferred tax assets arise from deferred tax on property, plant and equipment.

7 Contractual obligations, contingencies, etc.

Contractual obligations

General warranties for products and service work delivered.

The Company has entered into leases for buildings, vehicles and office equipment at a total of DKK 8,794 thousand, of which DKK 2,402 thousand is to be paid the first year and DKK 871 thousand after 5 years.

Contingent liabilities

On 6 December 2012, Rolls-Royce Holdings plc (the ultimate parent company of the company) announced that it had passed information to the Serious Fraud Office (SFO), an independent United Kingdom government department, following a request from the SFO for information about allegations of malpractice in overseas markets. On 23 December 2013, Rolls-Royce Holdings plc (RRHPLC) announced that it had been informed by the SFO that it had commenced a formal investigation. Since the initial announcement, RRHPLC 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 RRHPLC Group. 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.