

## Appendices



## Consistent power systems strategy



Address  
four global markets



Invest  
in technology, capability and infrastructure



Develop  
a competitive portfolio of products and services



Grow  
market share and installed product base



Add value  
for customers through product related services

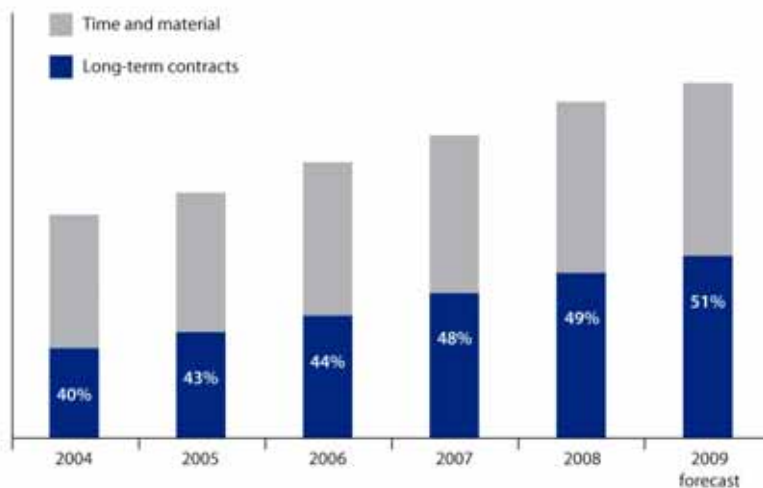
## Broadening our portfolio



Underpinning long-term growth

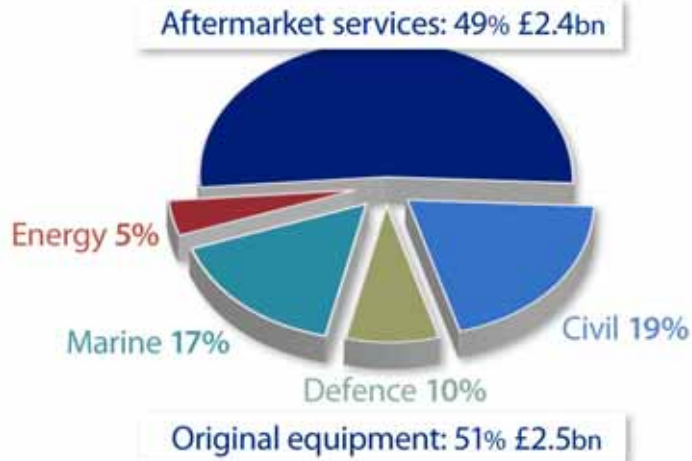
## Service contracts supporting growth

Group services revenues



## Balanced business portfolio

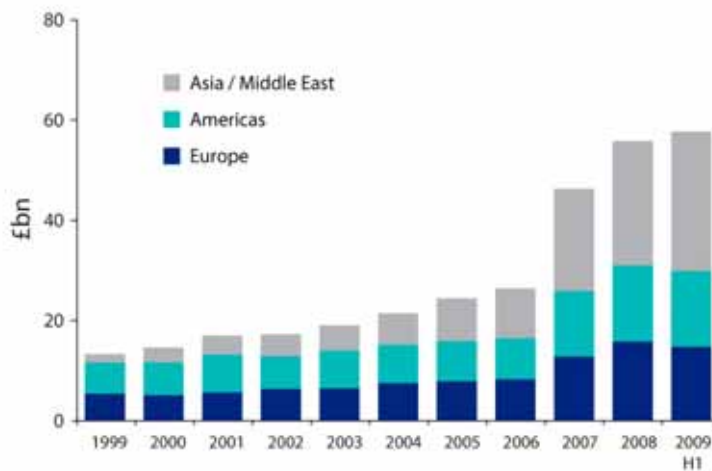
– 2009 H1 £4.9bn



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## A resilient order book

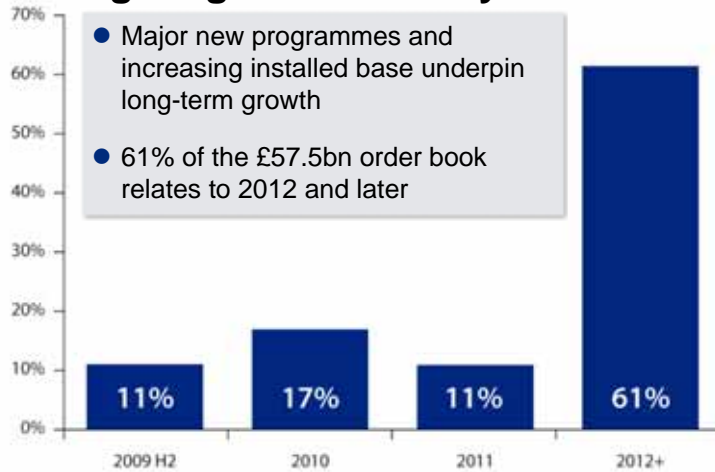
Order book\* ~ £57.5bn



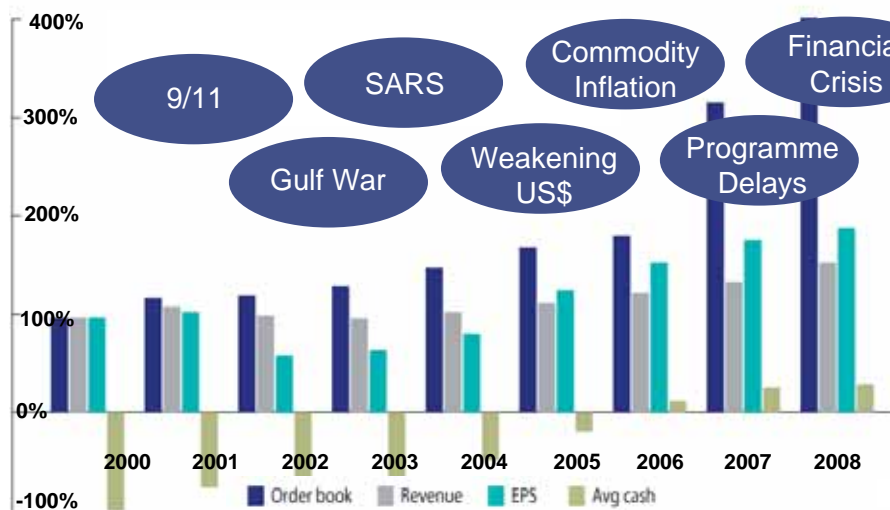
\*Order book stated on a constant currency basis.

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## Strong programme positions: providing long-term visibility



## Managing challenges



## Research & Development

	2009 H1 £m	2008 H1 £m
Gross spend	(440)	(399)
Funded externally	194	177
<b>Net R&amp;D spend*</b>	<b>(246)</b>	<b>(222)</b>
*Net R&D spend % underlying revenues	5.0%	5.3%
Capitalised	61	57
Amortised	(15)	(12)
<b>R&amp;D Charged to Income Statement</b>	<b>(200)</b>	<b>(177)</b>

## Financial Strength

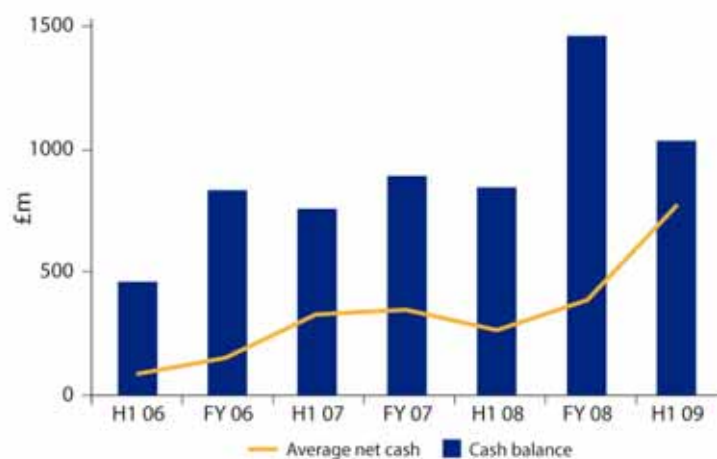


## Group cash flow

	2009 H1 £m	2008 H1 £m
Gross cash generation	480	559
Capital/Intangible expenditure	(276)	(227)
Inventory	(123)	(250)
Other working capital	(164)	(84)
Shareholder Payments	(101)	(58)
Taxation	(50)	(32)
<b>Cash outflow</b>	<b>(234)</b>	<b>(92)</b>
Period end FX revaluation	(194)	48
<b>Cash outflow – period</b>	<b>(428)</b>	<b>(44)</b>
Net Cash at 1 Jan	1,458	888
<b>Net Cash at 30 June</b>	<b>1,030</b>	<b>844</b>
<b>Average Net Cash</b>	<b>760</b>	<b>265</b>

## A strong balance sheet

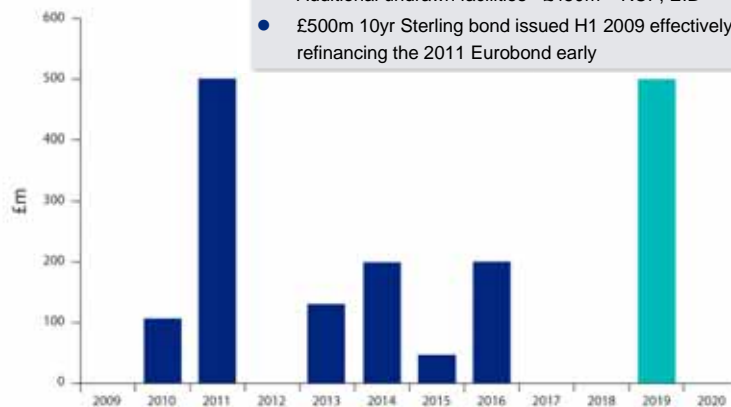
Improving average net cash



## Debt maturities being extended

- Gross facilities of £1.7bn outstanding

- Gross cash at 30 June in excess of £2.7bn
- Gross debt at 30 June £1.7bn
- Additional undrawn facilities - £450m – RCF, EIB
- £500m 10yr Sterling bond issued H1 2009 effectively refinancing the 2011 Eurobond early



## Pension risks substantially reduced

- Early action taken to address deficit and future volatility
  - UK defined benefit schemes closed to new members in 2007
  - £500m special injection in 2007, more than 80% LDI asset base
- Triennial actuarial evaluation underway for largest scheme
- No material change to funding contributions expected

## Customer finance – delivered

(Contingent liabilities)

- Not a core activity
  - Gross and net relatively stable since 2002
- At 30 June 2009: – Gross \$1,153m, Net \$237m, Stressed \$366m
  - Credit Backstops – Gross \$511m, Net \$144m, Stressed \$167m
    - 15 Customers and 151 Aircraft
  - AVG's – Gross \$642m, Net \$93m, Stressed \$199m
    - 17 Customers and 225 aircraft over 12 years

## Customer finance – new business

(Contingent liabilities)

- Credit markets
  - Export Credit Agencies more supportive and increasing capacity
  - Bank market continues to dominate as primary source of financing
  - Smaller leasing players increasing activity
- Close contact and understanding of customer demands
  - Knowledge/relationships with customers, banks, leasing Co's
- Manageable short-term commitments
- Additional customer requests are discretionary

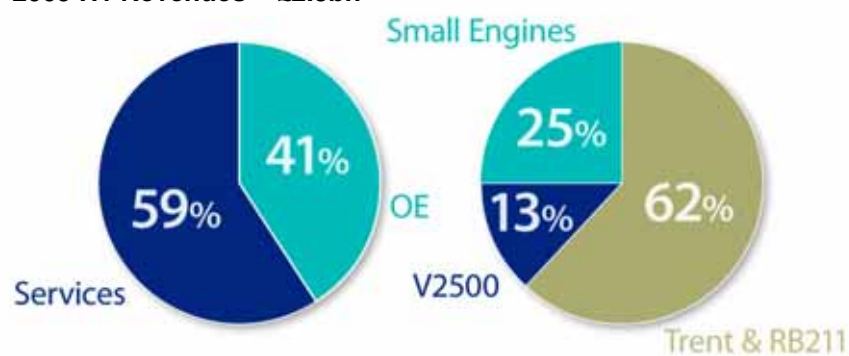
## Civil Aerospace portfolio



The broadest civil product range of any manufacturer

## Civil – Well-balanced portfolio

2009 H1 Revenues ~ £2.3bn



- Market leader – Large Corporate and Widebody
- Large and increasing installed thrust
- Young, fuel efficient fleet

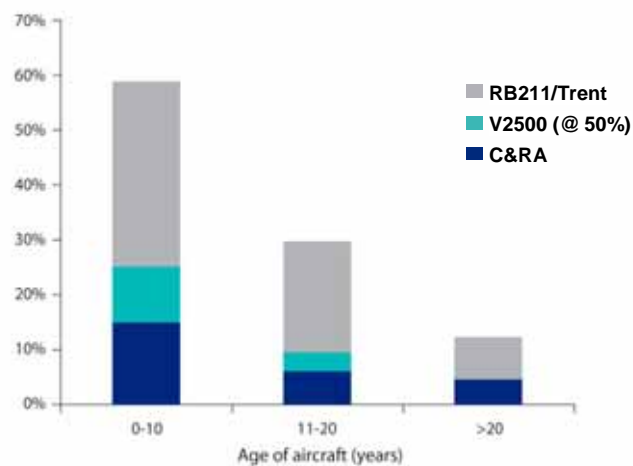
- Growing despite delayed major new programmes
- Increasing penetration of TotalCare and CorporateCare

## Civil engine deliveries

Engine deliveries	2000	2001	2002	2003	2004	2005	2006	2007	2008 H1	2008 FY	2009 H1
Trent and RB211	181	230	151	169	171	170	203	145	80	193	104
V2500	216	285	224	216	237	327	319	308	172	351	175
Small engines	694	847	481	361	416	384	334	398	210	443	145
<b>Civil total</b>	<b>1,091</b>	<b>1,362</b>	<b>856</b>	<b>746</b>	<b>824</b>	<b>881</b>	<b>856</b>	<b>851</b>	<b>462</b>	<b>987</b>	<b>424</b>

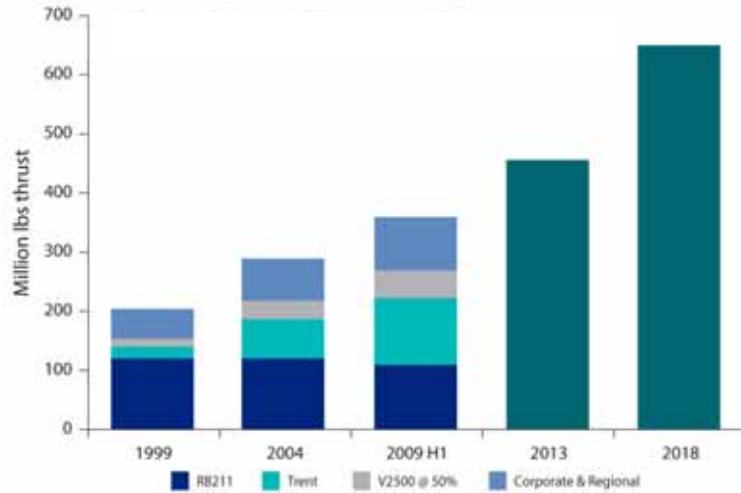
## An increasing fleet:

Installed Thrust – 357 million lbs (Jun 09)



## Market position underpins growth

Installed Engine Fleet by Thrust\*



\*Installed thrust scenarios for 2013 and 2018 reflect currently expected programme deliveries, market share and net aircraft retirements



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## A strategy delivering success



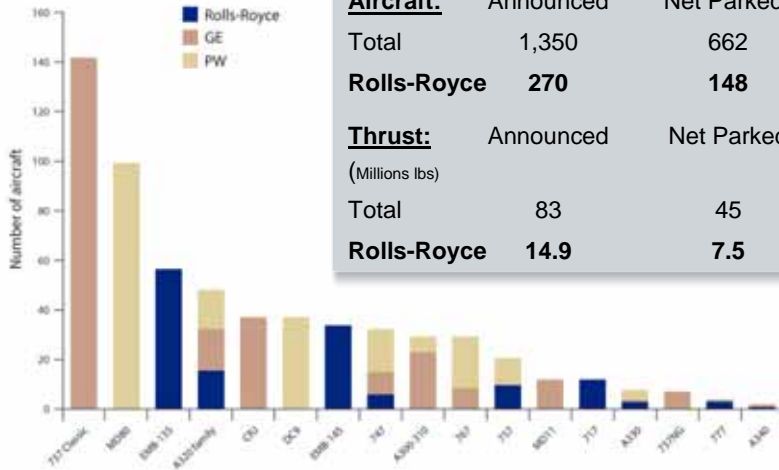
50% market share on modern widebody aircraft



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# Increase in parked aircraft

Dec 2007 to June 2009



\*"Net parked" represents aircraft parked in the last 18 months less aircraft previously parked now returned to service.



# Why do we offer TotalCare?

## Customers:

- Predictable costs
- Supports outsourcing
- Flexible contract design
- Risk transfer

## Rolls-Royce:

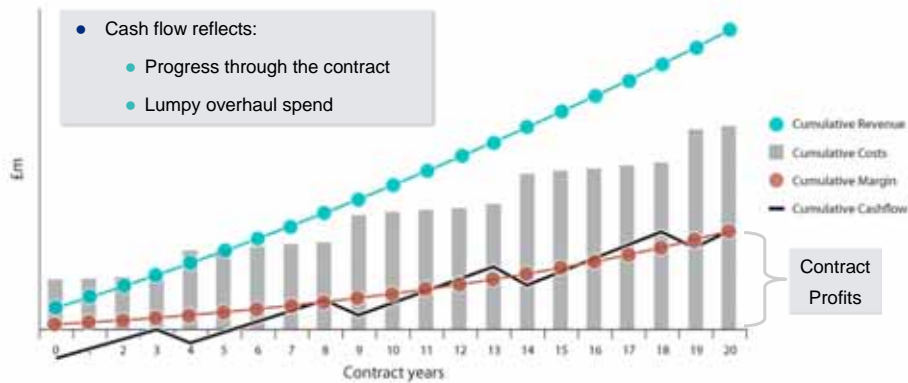
- Expand revenue opportunity
- Manage overhaul load
- Incentivise cost reduction
- Best positioned to manage risk



## Income Statement Vs Cash flow

- Margins booked progressively over time reflecting latest view of contract outturn

- Cash flow reflects:
  - Progress through the contract
  - Lumpy overhaul spend

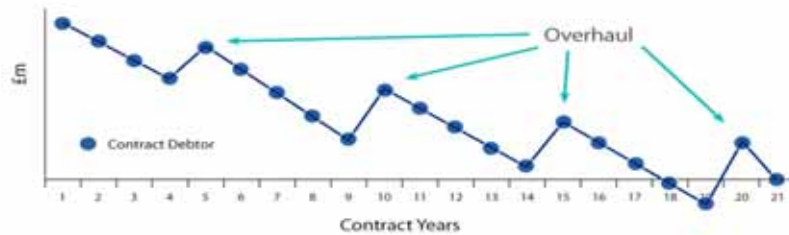


## TotalCare – Risk management

- **Major assumptions**
  - Utilisation
  - Material and labour cost assumptions, inflation, FX
  - Frequency and scope of overhaul
- **Contract management**
  - Ongoing fleet management
  - Contract reviews on every contract each 6 months
- **Experience over a decade**
  - TotalCare for the widebody since 1997
  - Contracts delivering against expectations
  - Margin recognition increasing as contract matures

## TotalCare – Net debtor

- Balance sheet at any point reflects mismatch between cash revenues, cash costs and margins booked
- Lumpy overhaul spend increases debtor as incremental costs not recovered from customer but charged through hourly rate



## Defence Aerospace Portfolio

Innovative military propulsion solutions



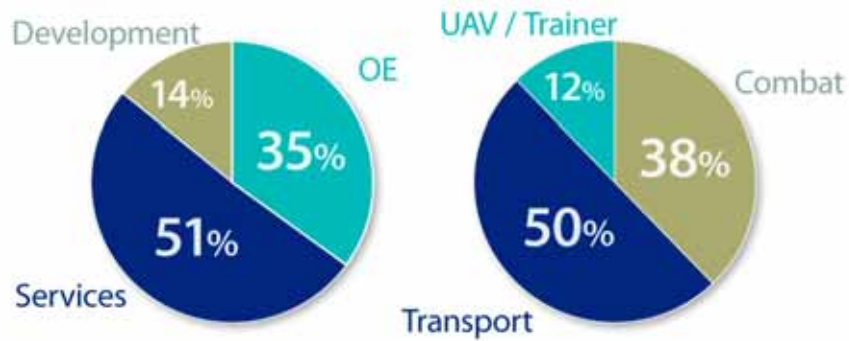
## Defence Aerospace Portfolio



The broadest military engine customer base

## Defence – A broad portfolio

2009 H1 Revenues ~ £1.0bn





- Broadly based portfolio
- >18,000 engines in service

- Well positioned on global programmes
- Combat, Transport, Helicopters, UAV's, Trainers

## Defence engine deliveries

Engine deliveries	2000	2001	2002	2003	2004	2005	2006	2007	2008 H1	2008 FY	2009 H1
AE common core & BR700	91	114	107	124	121	120	122	134	53	133	102
EJ200	1	19	55	58	84	71	71	62	35	93	39
Other (Admiral, Pegasus, Merlin & RR200)	463	339	335	328	343	374	321	299	110	291	143
<b>Defence total</b>	<b>555</b>	<b>472</b>	<b>497</b>	<b>510</b>	<b>548</b>	<b>565</b>	<b>514</b>	<b>495</b>	<b>198</b>	<b>517</b>	<b>284</b>

## Marine portfolio

Ship design and ship systems	Prime movers	Propulsors	Motion control	Support
				
Power systems, controls and instrumentation	Gas turbines 3 to 50MW Diesels 0.5 to 10MW	Waterjets, thrusters, Comorable pitch and fixed pitch propellers	Steering gear, stabilisers	Comprehensive customer support

Integrated system solutions

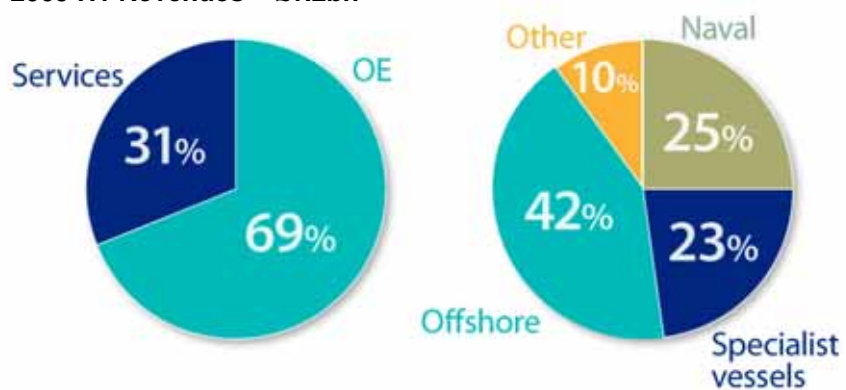
## Expanding Marine capabilities



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## Marine – Continuing strong growth

2009 H1 Revenues ~ £1.2bn



- Integrated propulsion solutions
- Product on 30,000 vessels
- Improving position in Naval

- Leading position in Offshore
- Services growing quickly – major opportunity

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## Energy portfolio



Reciprocating engine  
2-8.5MW

501 / Avon  
5-14MW

RB211  
32MW

Trent 60  
64MW

5-64MW aero-derived gas turbine energy solution



Nuclear

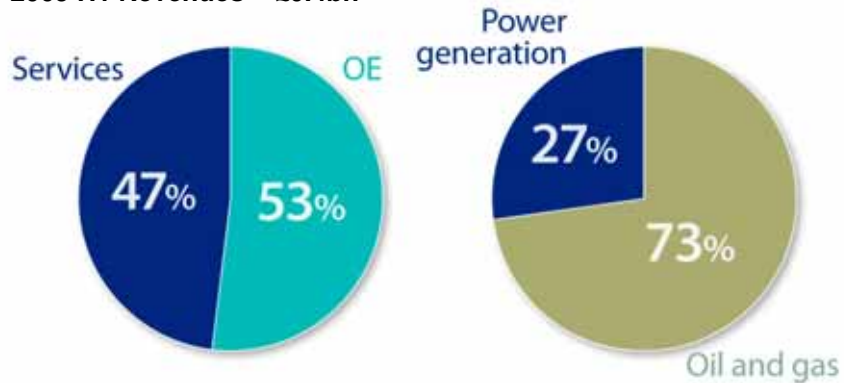
Tidal

Fuel Cells

Developing low carbon technologies

## Energy – Investing for future

2009 H1 Revenues ~ £0.4bn



- Strong, well-positioned Oil & Gas
- Evolving Power generation

- Growing importance of long-term services support
- Low carbon ~ fuel cells, tidal, nuclear