

First Half Results - 2009



First Half Results 2009



John Rose
Andrew Shilston
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First Half Results 2009



John Rose

Continuing resilience

- Economic fundamentals remain weak
- Strong portfolio and financial position
 - Well balanced, broadly based
 - Early action taken on costs
 - Managing demand and supply volatility
 - Financial strength
- First half performance confirms FY expectation
 - Revenue growth, broadly similar profits to 2008, modest cash outflow

Investing for long-term growth

- Disciplined strategy and consistent investment
 - Improving market position
 - Delivering long-term growth
- Evolving portfolio → improving mix → reduced cyclicality
- Strong financial position enabling
 - Investment in capability
 - Investment in the portfolio
 - Flexibility to consider options

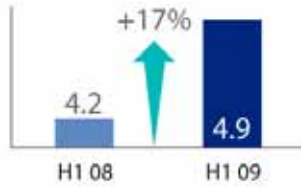
First half performance

A well balanced and resilient portfolio

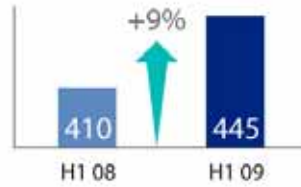
A growing order book (£bn)



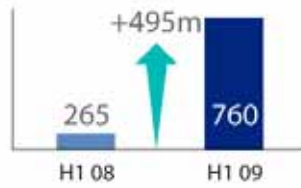
Strong revenue growth (£bn)



Growing underlying profits (£m)



Improving average Net Cash (£m)



Growing payments to shareholders (p/share)



Rolls-Royce

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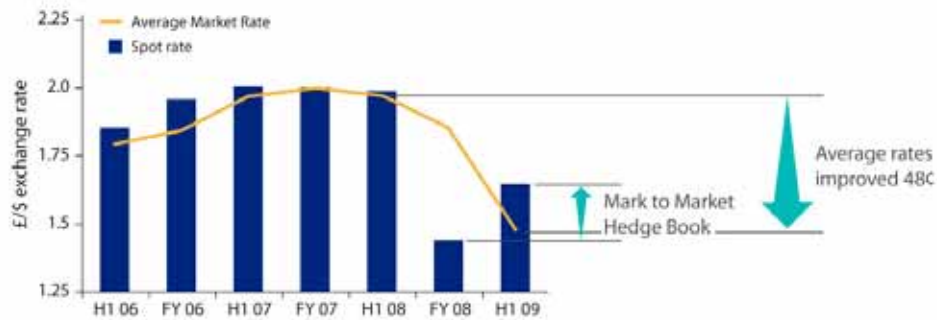


Andrew Shilston

FX ~ volatile markets

- **Increased FX volatility**
 - Translation
 - Mark to market
 - Impact
 - Income statement
 - Balance sheet
 - Cash flow
- **Risk management** – continuing policy
 - Capturing better rates
 - Hedge book at \$21bn

FX ~ impacting reported results



Income statement:

- £1.9bn mark to market benefit
- H1 translation benefits
 - UPBFCT up £35m
- *Equally Civil, Defence and Marine*

Balance sheet:

- Financial assets and liabilities
- FX working capital

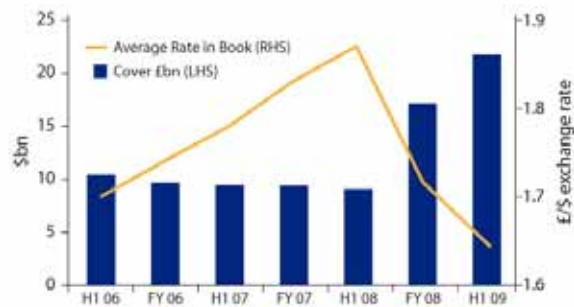
Cash flow:

- £194m negative revaluation



Rolls-Royce

FX ~ an improved outlook



- Continuing FX policy
- Locked in better rates over the last year
- Hedge book more than doubled in last year
 - \$21.1bn with average rate of \$1.63
- 2009 Achieved Rate 2¢~3¢ better than 2008

Components of UPBFCT growth

~ H1 2009



Civil Aerospace – H1

Revenues *		Profit *		Order Book**	
2009 £m	2008 £m	2009 £m	2008 £m	2009 £bn	2008 £bn
2,280	2,102	257	272	46.7	43.5

- Growing order book
- Deliveries – WB remain strong, reduced C&R
 - Minimal customer financing in H1
- Modest services growth ~ up 1%
- Profitability being held back by mix, unit costs
- Full year guidance unchanged



*Underlying revenues and profit before financing costs

**Order book stated on a constant currency basis. 2008 reflects FY Order Book.



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Defence Aerospace – H1

Revenues *		Profit *		Order Book**	
2009 £m	2008 £m	2009 £m	2008 £m	2009 £bn	2008 £bn
969	769	136	104	5.4	5.5

- Broad portfolio providing medium term visibility
 - Services represent 51% of revenues
- Military transport underpinning revenue growth
 - First half OE up 44%
- Growth in Transport sector supporting full year profit growth



*Underlying revenues and profit before financing costs

**Order book stated on a constant currency basis. 2008 reflects FY Order Book.



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Marine – H1

Revenues *		Profit *		Order Book**	
2009	2008	2009	2008	2009	2008
£m	£m	£m	£m	£bn	£bn
1,227	1,016	110	87	4.3	5.2

- Strong backlog enabling load and revenue growth
- Broad portfolio provides resilience
- Investing in capability
 - 4 new service centres
 - ODIM
- Improving margins and strong profit growth for full year



*Underlying revenues and profit before financing costs

**Order book stated on a constant currency basis. 2008 reflects FY Order Book.



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Energy – H1

Revenues *		Profit *		Order Book**	
2009 £m	2008 £m	2009 £m	2008 £m	2009 £bn	2008 £bn
447	324	1	(8)	1.1	1.3

- Order book supporting strong revenue growth
 - OE and services both 38% higher
- Broadening the portfolio
- Reduced investment in fuel cell programme
- Continuing productivity improvements
- Strong revenue growth delivering good profit growth for full year



*Underlying revenues and profit before financing costs

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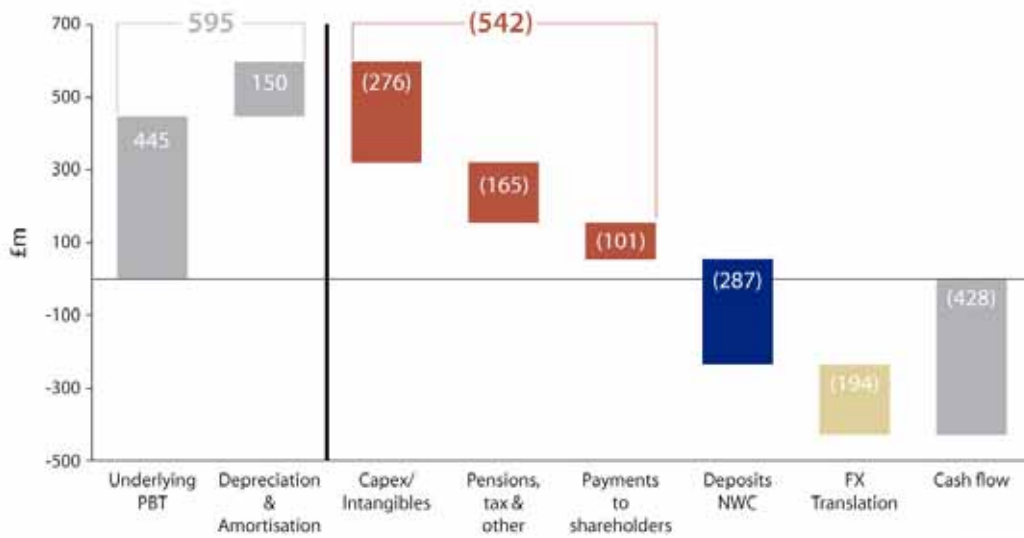
Underlying financing costs

	2009 H1 £m	2008 H1 £m
Interest	(18)	(5)
Financial RRSPs	(14)	(12)
Other	(1)	-
Underlying financing costs	(33)	(17)

Financial Strength

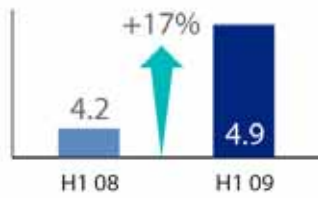
- **Continue to preserve flexibility**
 - Strong credit rating – committed to maintaining A rating
 - Extending maturities – £500m 10yr Sterling bond
- **Pensions**
 - Addressed future volatility
 - Valuation ongoing
- **Foreign exchange**
 - Rates moving in our favour
- **Customer and supplier financing**
 - Greater demand but manageable and will be discretionary

H1 Components of Cashflow

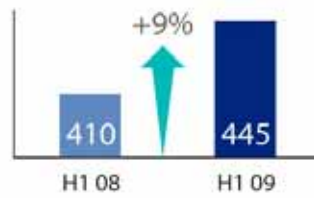


H1 Summary

Strong revenue growth (£bn)



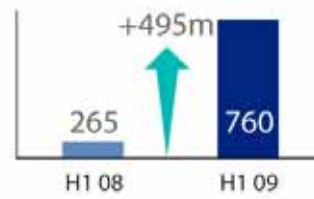
Growing underlying profits (£m)



E.P.S. benefiting from tax (p/share)



Improving average Net Cash (£m)



Reiterating guidance for full year

First Half Results 2009



Mike Terrett

Investing for growth



- Market position underpinning long-term growth
- Focused on make ~ buy
- Significant future load growth across the supply chain
- Investing in world class capability – improving productivity

Strong progress despite challenges

- **Significant progress on major programmes**
 - BR725 certification
 - Trent XWB
 - LCS Sea Trials
 - JSF – Liftfan
 - Extending service facilities – Civil and Marine
- **Productivity and efficiency programmes**
 - Process and functional improvements
 - Focus on matching load and capacity

Managing change and risk

- **Change – managing load across the network**
 - New programme delays and slower services growth
 - Changes in OE mix
 - Impacting working capital
- **Managing investment and spend**
 - Phasing of new investments in UK, Singapore and the US
 - Focus on discretionary spend
- **Taking action to manage supply chain risk**
 - Supplier difficulty managed well in H1
 - Supplier discounting scheme will provide liquidity

Operations summary

- **New programmes underpin long-term growth**
 - Delivering strong load growth over the next decade
- **Developing a more flexible supply chain**
 - Investing for productivity and growth
 - Expanding footprint – UK, US and Singapore
- **Managing short-term volatility**
 - Matching near-term investment to demand
 - Early action on cost and discretionary spend
 - Focusing on inventory and working capital

Summary



John Rose



2009 Guidance – no change

- **Revenue**
 - Continued revenue growth
- **Profitability**
 - Civil ~ profits down year on year
 - Marine and Defence ~ continuing revenue and profit growth
 - Energy ~ modest profit
 - Continuing focus on cost and efficiency
 - FX ~ achieved rate improving by 2¢ to 3¢
 - Group underlying profits broadly similar to 2008
- **Cash flow**
 - Average net cash will increase despite cash outflow in 2009

Summary

- Continuing to grow in a very challenging environment
- We have put ourselves in a stronger position
 - Balance sheet strong
 - Taking action on cost/capacity – more improvement to come
- Continued investment in products, services and facilities to support growth
- Increased payments to shareholders
- No change in full year guidance

Safe Harbour Statement

This Half Yearly Results Announcement contains certain forward-looking statements. These forward-looking statements can be identified by the fact that they do not relate only to historical or current facts. In particular, all statements that express forecasts, expectations and projections with respect to future matters, including trends in results of operations, margins, growth rates, overall market trends, the impact of interest or exchange rates, the availability of financing to the Company, anticipated cost savings or synergies and the completion of the Company's strategic transactions, are forward-looking statements. By their nature, these statements and forecasts involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements and forecasts. The forward-looking statements reflect the knowledge and information available at the date of preparation of this Half Yearly Results Announcement, and will not be updated during the year. Nothing in this Half Yearly Results Announcement should be construed as a profit forecast.