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Strengthening our position in the mid-size aircraft sector

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13 October 2011

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Transaction overview

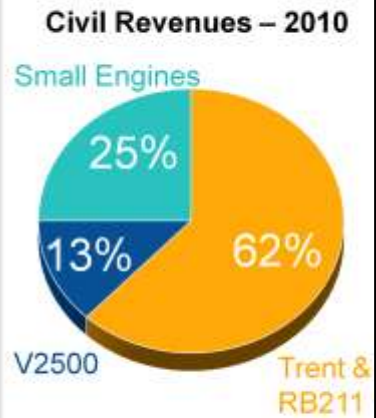
- Two elements:
 - Joint venture with Pratt & Whitney (P&W) to develop new engines for future generation mid-size aircraft
 - Restructuring of participation in International Aero Engines (IAE)

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Current status in the narrowbody sector

- Partner in IAE on V2500 for almost 30 years
 - 32.5% equity share, similar work share including compressor, fans and discs and assembly in Dahlewitz
- Highest volume engine programme 400+ deliveries p.a.
 - Approx. 4,500 engines in service
 - Further 2,000 engines in order book
 - Circa 56m lbs of installed thrust (14% of RR total)
- 13% of Civil Aerospace business revenues



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Long-term collaboration with P&W in the mid-size sector

- Re-engining not seen as compelling proposition for RR
- Next generation aircraft programmes provide significant opportunity for improved market position and scale
- JV builds on successful 30 year partnership with P&W
 - Venture to be equally owned by P&W and Rolls-Royce
 - Focus on high bypass geared technologies
- Rolls-Royce to make modest investment in GTF for A320 NEO

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Restructuring IAE participation

- Restructuring IAE participation to align stakeholders' interests with the A320 and A320 NEO
- RR to dispose of 32.5% shareholding and programme share to P&W
 - Consideration of \$1.5bn at close, subject to NWC adjustments
 - \$/EFH* for each engine in service for 15 years from close
 - Continued engineering, component manufacture and assembly
- Implications for Civil Aerospace of the transaction
 - Modestly lower annual revenues
 - Significant improvement in operating profits over next few years
 - Modest impact on Civil Aerospace order book
- Timing of close will be subject to regulatory approvals

*EFH = Engine Flying Hours

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Financial implications of the transaction

- Restructuring IAE participation, timing subject to regulatory clearance
 - Cash proceeds circa net \$1.5bn at close (expected 2012)
 - Profit on disposal circa \$1bn (excluded from underlying metrics)
 - On-going revenues based on \$/EFH for 15 years from close
 - Net increase in Civil Aerospace operating profits
 - Circa £140m in year one, slightly reduced benefits thereafter
- Transaction significantly value and earnings accretive
- Rolls-Royce to make a modest investment in GTF

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Summary

- Joint venture with P&W to develop new engines for future generation mid-size aircraft
 - Focus on high bypass geared technologies
- Restructuring our participation in IAE
 - Aligns interests of partners and capitalises on our position in IAE
 - Approx \$1.5bn cash consideration received at close
 - On-going revenues based on \$/EFH for 15 years
 - Majority of the present value derived from future \$/EFH revenues
 - Civil Aerospace operating profits circa £140m higher in first full year, slightly lower trading improvements thereafter
- Transactions earnings and value accretive in first year

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Appendices

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Civil Aerospace

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A growing global installed base

Installed thrust 392 m/lbs



Strong growth in emerging markets

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Civil – Well-balanced portfolio

2010 FY underlying revenues ~ £4.9bn



- 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

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Civil engine deliveries

Number of engines

Engine deliveries	2001	2002	2003	2004	2005	2006	2007	2008	2009	HY 2010	2010	HY 2011
Trent and RB211	230	151	169	171	170	203	145	193	225	99	185	110
V2500	285	224	216	237	327	319	308	351	347	194	371	198
Small engines	847	481	361	416	384	334	398	443	272	123	290	154
Civil total	1,362	856	746	824	881	856	851	987	844	416	846	462
Delivered thrust m/lbs*	27	19	19	20	21	24	20	25	25	12	23	13

*Delivered thrust includes 50% of the V2500 programme.

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Civil installed thrust

Millions of pounds (m/lbs) of installed thrust* in service

Engine deliveries	2001	2002	2003	2004	2005	2006	2007	2008	2009	HY 2010	2010	HY 2011
Trent and RB211	157	164	175	183	193	202	209	215	226	227	235	240
V2500	21	24	27	30	33	37	41	45	49	52	54	56
Small engines	63	68	72	75	78	81	84	88	91	92	93	96
Civil total	241	257	274	288	305	320	334	348	367	371	382	392

*Installed thrust is shown net of retirements and includes 50% of the V2500 programme.

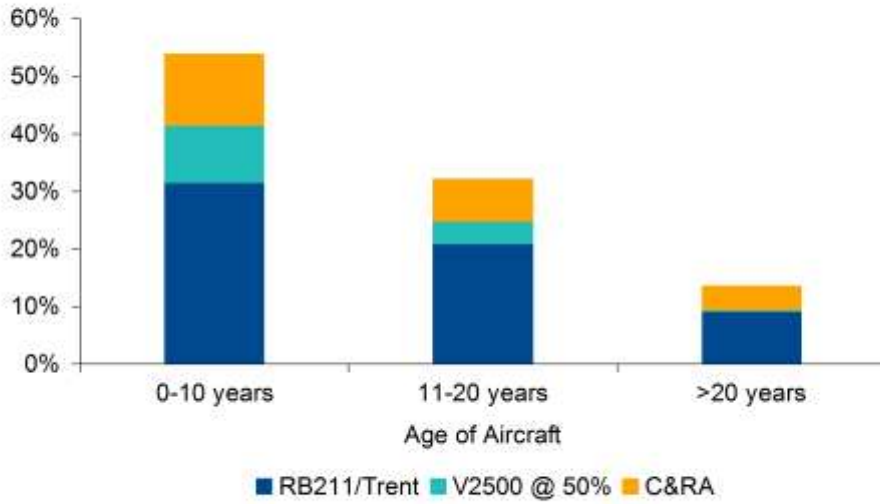
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Installed base by age

Installed thrust* – 392 m/lbs – June 2011



*Installed thrust is shown net of retirements and includes 50% of the V2500 programme.

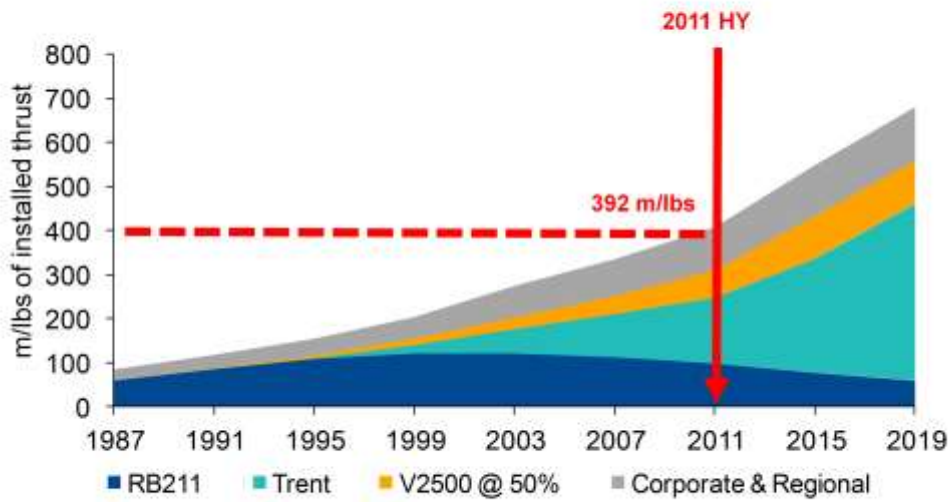
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Growing market and improving share

Delivering significant growth in installed thrust



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Market leader in large aircraft

50% market share on modern widebody platforms

	Market leader			Launch engine		
						
Airframe	-200/-300	-200/-300	-500/-600	-800	-8/-9	-800/-900/-1000
Engine	Trent 700	Trent 800	Trent 500	Trent 900	Trent 1000	Trent XWB
Market share (Aircraft)	57%	40%	100%	44%	40%	100%
Market share (Operators)	50%	33%	100%	65%	46%	100%
Engines in service	786	450	524	124		= 1,884

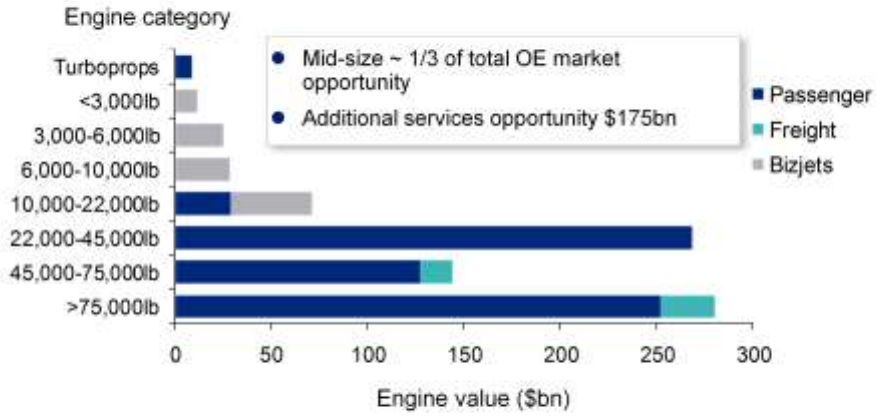
Firm Trent order book > 2,400 engines

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20 year OE market – 137,000 engines

Twice as large as the current global fleet



\$836bn of OE ~ 33% in mid-size aircraft market

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Group

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Consistent power systems strategy



Address
four global markets



Invest
in technology, capability and infrastructure



Develop
a competitive portfolio of power systems and services



Grow
market share and installed base



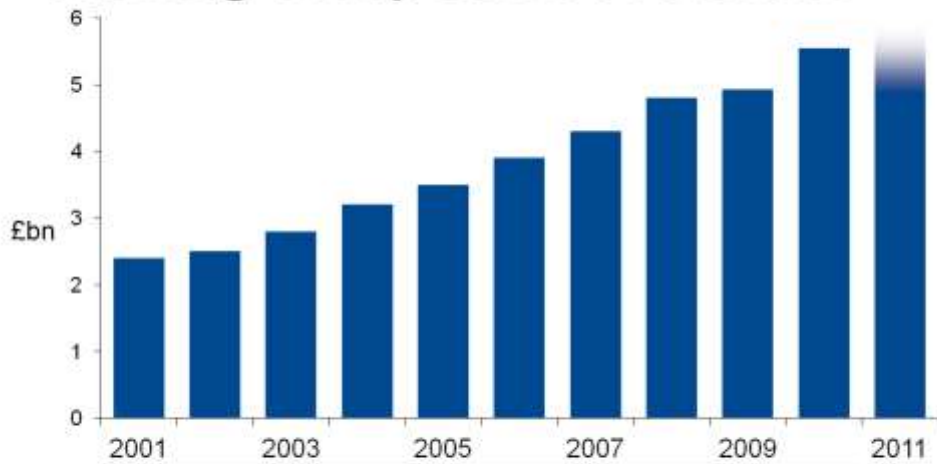
Add value
for customers through product-related services

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Growing Group service revenues



**Growing installed base
and evolving services model**

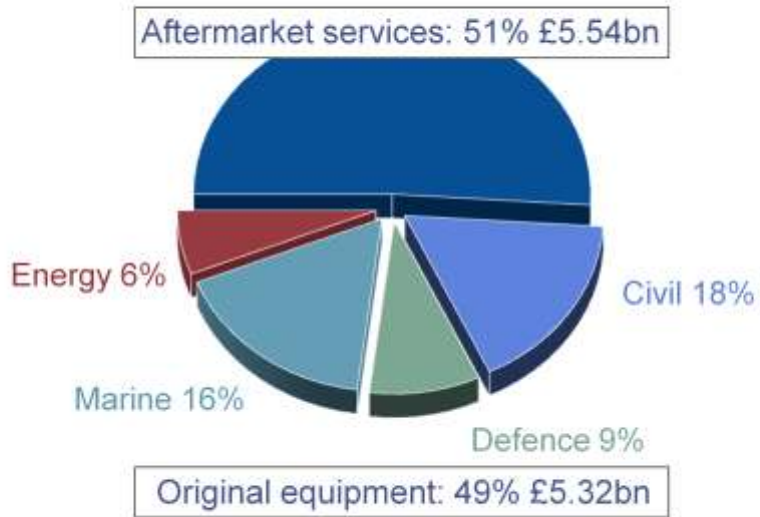
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Balanced business portfolio

2010 FY £10.86bn underlying revenues

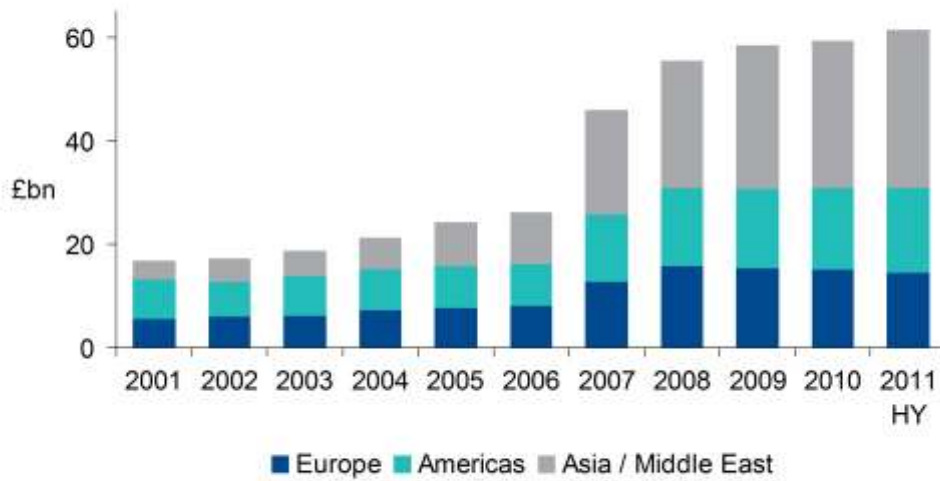


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A record order book* – £61.4bn

Global access, portfolio breadth underpinning long-term growth



*Firm and announced order book stated on a constant currency basis.

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Safe Harbour Statement

This 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 Announcement, and will not be updated during the year. Nothing in this Announcement should be construed as a profit forecast.

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