

John Rishton 2011 AGM

Slide 1: John Rishton Chief Executive:

Thank you Chairman

Good Morning, thank you for joining us today.

It is a great privilege to have been appointed Chief Executive of Rolls-Royce. And I am very aware of what a tough act I have to follow!

We are all indebted to the vision, tenacity and leadership of Sir John Rose that has left Rolls-Royce in an enviable position. Today the Group has a global presence, a diversified portfolio, a record order book, a strong balance sheet and, perhaps most importantly of all, choices about how and where we grow. Rolls-Royce is trusted to deliver excellence. This is not only our brand promise, it is a continuing responsibility and sets the standard for everything we do.

I have got to know Rolls-Royce quite well during the last four years as a non-executive director. And since joining the company full time I have focused on meeting employees and customers. I have been struck forcefully, wherever I have gone, by the pride our people have in Rolls-Royce, by their professionalism, their knowledge and enthusiasm, their determination to meet our challenges as well as by their excitement about the opportunities that lie ahead.

That professionalism and commitment was demonstrated, in the most difficult of circumstances, following the Trent 900 incident on a Qantas A380 last November which you are no doubt aware of. To give this highly regrettable event some context, uncontained disc failures happen about once a year across the world's fleet of large civil aircraft, although this has not happened on a Rolls-Royce engine since 1994. Working closely with the regulators, Airbus and our customers, the Rolls-Royce team identified the problem swiftly and achieved the safe return of the fleet to normal operation. I would like to thank the many people who worked extremely hard to achieve this outcome.

Slide 2: Power systems strategy

Rolls-Royce has benefited from the disciplined application of a consistent long-term strategy.

That strategy is represented in a slide that Sir John Rose risked boring his audiences with because he showed it so often. And that is a risk I will continue to run.

We address four global markets; Civil Aerospace, Defence Aerospace, Marine and Energy.

We continuously invest in technology, capability and infrastructure

We are developing a competitive portfolio of products and services across all of our businesses.

We are growing our market share and installed product base.

And we continue to add value for customers through product related services that now make up more than 50 per cent of our revenues.

This strategy has delivered strong organic growth that we have augmented with strategic acquisitions. Last year we completed the acquisition of Odim, that provides sophisticated equipment to support the offshore oil and gas industry. This has added materially to the capabilities of our Marine business.

As many of you will know, we are also currently engaged in a joint bid, with Daimler, for the German industrial engines company Tognum. The industrial logic of this deal is compelling. Tognum is a world class company producing a range of high speed diesel engines; a natural fit with our own medium speed portfolio. We believe the offer we have made is fair to all Tognum's stakeholders. It is encouraging that Tognum's management agree that the strategic rationale for the transaction is strong. However, as many of you know, takeovers in Germany can be a lengthy process, so we are prepared to be patient.

Slide 3: 2010 A strong performance:

So the strategy does not change. It has stood the test of time, and it has made the business more resilient and better able to respond to challenging market conditions. It enabled Rolls-Royce to deliver a strong performance in 2010. The order book grew in the year to a record £59.2bn. Underlying revenues were up 7 per cent to £10.9bn, underlying profit increased by 4 per cent to £955m and average net cash rose by £325m to £960m.

We have proposed a final payment to shareholders of 9.6 pence per share, making the full year payment 16 pence per share, an increase of 6.7 %. This growth reflects the Board's continuing confidence in the future of the business.

Slide 4: A resilient portfolio

As evidence of the Group's resilience it is helpful to look at the company's performance from the start of the global economic downturn. Since the end of 2007 our order book has grown by 29%, revenues have increase by 39% and profits are 19% higher. Average net cash has increased by £610 million and payments to shareholders have increased by 23%, contributing to a Total Shareholder Return of 27%. This compares with a 4% return on the FTSE All Share index.

The Group's performance over this period is a testament to the strength of our business model, the breadth of our portfolio, the quality of our people and products and our ability to access customers in the faster growing regions of the world.

This has created opportunities for profitable long term growth in each of our four businesses which I thought it would be useful for me to review.

Slide 5: Civil – delivering a record order book

In Civil Aerospace – our business will grow substantially in the coming years as we deliver our record £48.5bn civil order book. Of particular importance will be our new Trent engines for the Airbus A380, the Boeing 787, that will enter service for the first time later this year, and the Airbus A350 for which Rolls-Royce is currently the only engine supplier. Although this plane is not due to enter service until 2013 we have already taken orders for well over a thousand engines.

To put this growth into some perspective, we will double the number of Trent engines being delivered by the middle of this decade to meet customer demand.

We also have a strong position in the narrow body market as a major partner in International Aero Engines that delivered a record number of V2500 engines last year, and is expected to increase output again in 2011.

And we remain the world's leading producer of engines for large corporate jets.

Slide 6: A broad range of marine capabilities

Turning to our Marine business, we have more than doubled revenues and tripled profits in the past 4 years. We operate in three areas of the marine industry, and see opportunities for long term growth in each.

The first area is the offshore oil and gas sector where we design and supply equipment for highly sophisticated vessels like the two ships on the left hand side of this picture which are used to maintain oil wells and to conduct seismic surveys. As the percentage of the world's oil supplies recovered from beneath the sea increases, so will the requirement for the kind of support vessels we design and equip.

Second, Rolls-Royce supplies 70 Navies around the world, and provides reactors and propulsion systems for Britain's fleet of nuclear powered submarines. You can see in the top right picture, the Littoral Combat Ship. Earlier this year we announced our largest ever contract with the US Navy, to power 10 of these very fast and manoeuvrable vessels.

Third is the merchant sector, where Rolls-Royce has technology that can help operators meet increasingly strict environmental standards. A good example is provided by the world's largest gas powered passenger ferry that is operating in the coastal waters off Norway.

Slide 7: A diversified defence portfolio

Our Defence Aerospace business has a diversified portfolio providing power systems and services for 160 customers in 103 countries. Our global reach positions us well to secure growth in established as well as emerging economies such as Asia and South America.

Although defence budgets are under pressure in some of our traditional markets in Europe and North America, we still see the potential for growth in core market segments such as transport and services.

In Europe, engine certification was achieved this week for the TP400 which powers the Airbus A400M that you can see in the top right of this slide. This builds on our position as the world leader in military air transport.

In the United States, we were disappointed by the cancellation of the Joint Strike Fighter alternate engine. We continue to explore options for the future of this project with our partners GE. We are, of course, still involved with the programme through the provision of our unique vertical take-off and landing lift fan technology for the JSF.

Slide 8: Energy –growth options across the portfolio

Our Energy business, like Marine, has doubled in size in the past four years and now has revenues of more than one billion pounds.

We are a leading provider of power generation units and compressors for the oil and gas industry where the expansion in offshore production and the requirement for pipelines provides a solid foundation for growth.

We are well placed to respond to growing demand for distributed power. This phrase is used to describe local power generation for factories or communities. It reduces dependence on national grids, improves environmental performance and helps security of supply. The photograph at the top of this slide shows a Rolls-Royce power plant which is meeting the energy needs of Battan Island, a remote community in Indonesia.

We see opportunities to apply technology to help meet the growing requirement for low carbon power generation. Although lessons clearly need to be learned from the terrible earthquake and Tsunami which damaged nuclear facilities in Japan, I believe that civil nuclear power generation will remain an important energy source and that Rolls-Royce will have an increasing role to play. We also continue to explore the potential of tidal power generation and fuel cells.

Slide 9: Global investment in capability

To meet the growth in our business that I have just described we are investing around the world in additional capacity. This slide shows some examples of new facilities that have opened in the last year or will come on-stream soon. The latest of these is our new manufacturing plant at Crosspointe in Virginia in America that was officially opened on Monday this week. This world class facility will produce discs for our large civil engines. All of these facilities will help us meet our customers' future requirements while at the same time enhancing our own productivity.

Slide 10: Interim Management Statement

Let me conclude by describing the performance of Rolls-Royce so far in 2011. This assessment is also contained in an Interim Management Statement which was issued this morning.

The global markets that we address are starting to recover as expected and our view of the full year trading performance remains consistent with the guidance issued at our preliminary results in February 2011. However the economic recovery is fragile and markets remain volatile.

The Group's balance sheet is robust. We continue to expect a modest cash inflow for the full-year, although we expect a cash outflow in the first half of the year.

The €3.2 billion joint public tender offer that Rolls-Royce is making, in partnership with Daimler, for the German industrial engines group Tognum would significantly accelerate the growth of our Marine and Energy businesses. This joint venture would create a market leading portfolio of clean, fuel efficient technologies and systems for the marine, transportation and distributed power generation sectors.

Rolls-Royce has benefited from the disciplined application of a consistent strategy. I supported this strategy as a Non Executive Director and will continue

to do so as Chief Executive. We remain confident in our ability to double revenues in the coming decade through organic growth alone. We continue to invest across the Group in technology, capability and facilities to deliver on our current commitments and to create new opportunities for the business in the future.

On a personal note, I am absolutely delighted to be here. This is an exceptional company, with an exceptional history and exceptional people. It is an honour to be speaking to you today as Chief Executive of Rolls-Royce. There's plenty to do and I am really looking forward to getting on with the job.