

Sir John Rose AGM 2010 Script

SLIDE 1: Delivering today, investing for the future – Annual General Meeting 2010

Good morning. It is good to see so many of you here, and to have this opportunity to review the progress of your company.

When I addressed our Annual General Meeting twelve months ago the global economy was facing a crisis. This began in the financial markets of the United States and was spreading swiftly around the globe and across industrial sectors. It was clear one year ago, that the down turn in economic activity would impact Rolls-Royce, its customers and suppliers. But it was not yet apparent how severe and sustained the downturn would be, nor how successful policy makers would be in their response to the emergency.

Twelve months on, the economic environment remains challenging, and it seems likely that overall world growth in the years ahead will be slower than it has been for most of the past decade. In these circumstances, Rolls-Royce will benefit from its ability to access the world's faster growing markets where there

will continue to be demand for investment in transport and infrastructure.

In February, we reported another set of solid results for 2009. The company is benefitting from a consistent strategy, which as been applied in a disciplined manner over more than twenty years. This has created a resilient and broadly based business. Our power systems are mission critical. They are characterised by deep customer knowledge, outstanding technology, access to global customers and world class people. All of which have proved their importance over the recent disruption to the European airspace. An event which serves to remind us how easily we take the benefits of air travel and freight for granted.

Ours is a long term business. The life cycles of our product and services are typically measured in decades, which means it is important to set any one year's performance in a long term context. So this morning I shall cover three themes:

First, I will review the progress we have made over the last ten years and explain how this establishes a secure foundation for future growth.

Second, I will illustrate how we are investing in our future. I will describe the scale of the opportunity we see, and explain why we are confident of our ability to double revenues over the coming ten years through organic growth alone.

Finally, I will review the Group's financial performance in 2009, and share our current assessment for 2010.

SLIDE 2: Mission Critical Power Systems Strategy

This slide describes our company's strategy. You will have seen this many times before, and I make no apology for that. It is a consistent strategy. It has stood the test of time. It has enabled us to transform the Rolls-Royce of 1999 into a very different company today.

SLIDE 3: A business transformed

Investing in line with this strategic framework has resulted in an order book which has more than quadrupled in the past decade. It is worth noting that within this record £58.3bn book, Asia and the Middle East now represent almost half the total, larger than the entire Group's order book was ten years ago.

Today, the UK represents less than 15 per cent of our revenue. We run businesses from Germany, Scandinavia, the USA, and Singapore as well as from Britain. Our partners and supply chain are becoming more international as we are able to attract world class partners and suppliers to our major new programmes. And as a consequence our workforce is also becoming more global and more diverse.

SLIDE 4: A business transformed

In the last 10 years, underlying revenue, profit and earnings per share have all more than doubled. I am pleased to say that our shareholders have shared in our success, with payments to shareholders also more than doubling from 7.25p in 1999 to 15p a share in 2009.

Rolls-Royce has become much more than a civil aerospace company and much less dependent on its traditional markets of Europe and North America – these trends will continue.

And it's not just about geography – the strategy has delivered an expansion of our other divisions so that our Marine, Defence and Energy businesses now make up more than half of Group revenues and profits.

SLIDE 5: Technology expanding the portfolio – Creating opportunity

Underlying this transformation in scale and geography is an expansion of our product and service portfolio as you can see from the number of new programmes included on this chart.

The step change that has been achieved can be powerfully demonstrated by comparing the Group's performance over the past decade.

SLIDE 6: New product introduction – Two major new programmes in 1999

In 1999 just two Rolls-Royce programmes achieved significant milestones. These were the certification of the Trent 500 engine, which powered the later versions of the Airbus A340. And the endurance testing of the WR21 marine engine which today powers the royal Navy's Type 45 Destroyers.

SLIDE 7: 2009 – New product introduction

This contrasts with a quite remarkable set of first launches and flights which took place last year and the first few weeks of 2010, some of which you saw in the earlier video presentation. All these aircraft and vessels are powered by Rolls-Royce and are expected to enter active service in the next two or three years. The lives of each of these programmes will span 50 years or more giving us an unusual visibility over future original equipment and service revenues.

And of course we are working on many technologies and products that are still in development, such as the Trent XWB engine which is due to run for the first time on a test bed in a few weeks time. This engine is not due to enter service until 2013, and yet has already secured more than 1,000 orders – this programme alone will dwarf any of the other Trent programmes we so far have in service. It is a powerful demonstration of the trust and confidence our customers have in our ability to deliver.

SLIDE 8: Delivering today, investing for the future

So it should come as no surprise that this year's Annual Report carries the title "Delivering today, investing for tomorrow".

At the same time as we have been delivering the product launches I have just described, we have continued to invest in our supply chain, manufacturing and service capability – some of which you can see from this chart. These investments will enable our future growth and meet our customers' future needs.

In 2009 we championed the development of a network of Advanced Manufacturing Research Centres – four in the UK and a further two in the USA and Singapore – bringing business and academia together to undertake industrially relevant research.

In addition, we announced a £300m investment in four new facilities in the UK. The latest phase in a ten-year programme of capital replacement during which we have invested £1.8bn in UK infrastructure. This has created world class manufacturing facilities and provided skilled jobs in state-of-the-art environments across the country.

In the United States in 2009 we began work on an advanced manufacturing and assembly facility at Crosspointe in Virginia. We also confirmed a large engine assembly plant and announced a new wide chord fan blade factory in Singapore - both located for the first time outside the UK. This will bring our total investment in our Seletar campus in Singapore to around £300m by the time it is completed in 2012.

In 2009, we continued to strengthen our global services network, opening 6 new marine services facilities including new centres in Brazil, the US and in Canada. We opened an On-Wing Care facility for corporate and regional aircraft in Indianapolis, and continue to invest in our civil aerospace overhaul bases in Hong Kong and Singapore.

We also continue to invest in our people, in spite the economic downturn. In 2009 we recruited more than 250 new apprentices and 334 graduates – more than ever before - young men and women of more than 30 nationalities who have the potential to become leaders of the future.

Taking a longer view, over the past decade we have invested more than 7 billion pounds across our businesses. With approximately two thirds of this investment devoted to technologies which will improve the environmental performance of our products.

As well as supporting growth, these investments represent a key enabler for productivity improvements.

As you can see from the final graph on this chart – our revenue per employee has continued to grow, at 8% compound during the last decade.

SLIDE 9: Services – a trusted partner. Adding value for our customers and Rolls-Royce

The nature of our products, their exceptionally long life cycles and the harsh environments in which they operate all mean that they require world class service and support, which we are in a prime position to provide.

This increasingly means that we operate as a trusted partner to the operators of our products, improving operational performance and delivering value to their business models, on oil platforms and gas pipelines, on civil and defence aircraft, on commercial and naval vessels and submarines.

Service revenues have grown at 10% compound over the last decade. Interestingly our service revenues in 2009, at almost £5bn are by themselves larger than the entire business was in 1999. I expect that these trends continue as our installed fleet of engines continue to expand across all of our markets.

SLIDE 10: 2009 – A solid performance

Turning briefly to 2009 performance.

In a challenging year we have seen the benefits of maintaining our strategic discipline over the long term, and produced solid results.

The better balance between our four sectors, between new equipment and services, and across our global customer base has enabled us to grow. This, along with the rapid actions we took to manage costs and disruption, delivered a record order book, underlying revenues and underlying profits, despite the most difficult economic environments many of us have ever seen.

This resilient performance and the long term prospects for the Group give us the confidence to recommend a 5% increase in the final payment to our shareholders, making a 15p payment for the full year.

SLIDE 11: Positioned for growth

I have described how Rolls-Royce has been transformed as our power systems strategy has progressed, and how our investment in new product and capability has established a platform for the doubling of revenues in the decade ahead.

The scale of the business we have created, the investments we have made and the balance of the business we have achieved allows us to access a global market for products and services we assess to be worth more than \$2 trillion over the next twenty years.

Taken together, the resilience and strength of our business model, and the scale of the opportunity we can see, give us every confidence that we can continue to manage the short-term challenges that we face and deliver long term organic growth.

SLIDE 12: Outlook

Finally, turning to the current year. This morning Rolls-Royce issued its Interim Management Statement to the market and I would like to read you the comments we made regarding our views on 2010 trading.

“Whilst we are seeing signs of stabilisation and modest improvement in some parts of the global economy, to which our businesses are exposed, the overall environment remains challenging. Additional pressure has been placed on some of our customers by the recent disruption to the European aviation industry as a result of volcanic eruptions in Iceland.

“Trading performance in the year to date has been consistent with our expectations and our current view of the full year performance remains in line with that at the time of our preliminary results in February 2010. The Group's balance sheet is robust and its financial position and credit rating remain strong. Average net cash balances in the first quarter of 2010 were similar to those in 2009.

“As a result, we continue to expect underlying revenue, underlying profits and average net cash balances to be broadly similar to those achieved in 2009 despite a modest cash outflow in 2010”.