

John Rishton AGM Speech 2013

Good morning and thank you for joining us today.

I am pleased to report that Rolls-Royce performed well in 2012. This is a growing business with a strong balance sheet and outstanding prospects.

At the end of 2012 our order book stood at £60.1 billion, up 4% ... underlying revenue was £12.2 billion, up 8% ... underlying profit was £1.42bn, up 24% and we announced a full year payment to shareholders of 19 ½ pence, an increase of 11%.

The progress we have made is reflected in the share price, which since the beginning of 2012, has risen to £11.33 at yesterday's close, an increase of 52% compared with a 16% increase in the FTSE 100 index.

This performance is the result of the hard work and application of a great many people. So I would like to say thank you to everyone at Rolls-Royce, to our partners and suppliers who play a critical part in our success, and to our customers who continue to place their trust in our technology.

Sir Simon Robertson has already mentioned that he will retire as Chairman at the end of this meeting. Simon has made an exceptional contribution to Rolls-Royce over the past eight years, during which the share price has risen by 362%. He has worked tirelessly on behalf of the company and his energy and enthusiasm are an example to us all. I am sure you will join me in thanking him for his leadership and in wishing him every success in the future.

[Applause]

I am delighted to welcome our future Chairman, Ian Davis, to the Board. I am looking forward to working closely with him.

This is a long term business, and the best way to understand its development is to measure its performance over a period of years.

During the last ten years, our order book, revenue and profits have all grown steadily.

In that time revenue has doubled, the order book has trebled, and profit has more than quintupled. In addition to a £10.42 increase in the share price we have more than doubled our payment to shareholders.

The progress made is all the more striking when you consider that our company has continued to grow in strength and stature throughout the deepest and most prolonged global recession since the 1930s.

The strategy that has produced that decade of growth has been consistent and has proved itself in battle.

However, during the last year we have reflected on how we express our strategy and have made some changes. In future we will describe our strategy under the three headings of: Customer, Innovation and Growing Profitably.

The customer is at the heart of our business. We have sophisticated customers with a deep understanding of our technology. Our success depends on shaping and meeting their requirements on time, and at the right price and quality.

Innovation is critical in creating future opportunities and building a sustainable future. For example in civil aerospace, the Trent XWB, which employs our latest technology, has proved itself the most efficient large jet engine in the world. While in Marine, the first Rolls-Royce designed Environship will enter service this summer, reducing CO2 emissions by up to 40 per cent compared to similar diesel powered vessels.

Growing Profitably: In striving for world-class standards of customer relations and innovation we will drive profitable growth as we expand our portfolio and maintain our focus on cost and cash.

You may recall last year I said that our business has three priorities:

- Deliver on the promises we have made
- Decide where to grow and where not to, and

- Improve financial performance.

So let me say a few words about each of these priorities:

First delivering promises:

During the year we have worked hard to improve quality and delivery – we made particularly good progress within Civil Large Engines and Marine, but there's still a lot to do.

In terms of delivering products, let me provide just two illustrations; the new Trent XWB engine was certified in February this year, and engines have now been fitted to the first flight-test Airbus A350 XWB that is due to take to the skies this summer. The Trent XWB is our fastest selling aero engine to date.

In defence aerospace, the short take-off and vertical landing variant of the F 35 Joint Strike Fighter has entered service with the US Marine Corps. In the UK, this aircraft will be jointly operated by the RAF and the Royal Navy and will also operate from the new Queen Elizabeth Class aircraft carriers that will be powered by our MT30 engines.

Second, where we have chosen to grow, this is clear from the investments we have made. For example: our joint acquisition of Tognum that creates additional scale and opportunity particularly for our Marine business. our acquisition of AEC - the aero engines control group, the resource we have devoted to the XWB and the BR725 corporate jet engine programmes, and the nineteen new facilities we have opened around the world in the past three years to support the growth of our business.

Turning to where we have chosen not to grow: you may have seen that we sold our tidal business and a majority stake in our fuel cells business. These both may prove successful businesses but do not play to our strengths.

Third, improving financial performance:

We increased profits, improved margins and generated cash during 2012 but there is plenty of scope for further progress. To make sure that we are not just growing, but growing profitably we will continue to focus on improving the cost performance of all

elements of the business. This includes product costs, the cost of executing our long term service contracts, overhead costs and the cost base of our supply chain. We have set ourselves the target of reducing our indirect labour force by ten per cent, and have increased from 200 to 300 the number of engineers employed on cost reduction programmes.

In terms of cash, clearly reducing our costs will help, but there is also significant opportunity to improve inventory turns.

All this will take time and will need to be carefully managed.

Our brand promise is “trusted to deliver excellence”. This is the standard we set ourselves each day, in every part of the business. It applies to what we do, and just as importantly how we do it.

So it was particularly disappointing to discover matters of concern relating to bribery and corruption involving intermediaries in overseas markets. We have passed a file, detailing those concerns, to the Serious Fraud Office. Our own enquiries are continuing and we are fully co-operating with the relevant authorities. We have already taken steps to reduce our reliance on intermediaries and this process will continue.

In January this year, we appointed Lord Gold, one of the UK’s most senior litigators, to conduct a review of our current procedures and report to the Ethics Committee of the Board.

I am sure you will understand that there is nothing more we can say about these matters at this stage, other than to make clear once again that neither I nor the Board will tolerate improper business conduct of any sort and will take all necessary action to ensure compliance. This is a company with exceptional prospects and I will not accept any behaviour that undermines its future success.

Our company was founded in 1906 by the financier Charles Rolls and the engineer Henry Royce. Royce was obsessed with detail, and worked himself to the point of exhaustion to set new standards of engineering excellence. His determination to

exceed his customers' expectations led the six cylinder Silver Ghost, that was launched in the same year, to be acclaimed "the best car in the world".

More than a century later, our success continues to depend upon deploying world leading technology to meet our customers' current and future needs. We invest more than 900 million pounds each year in Research and Development and work with a network of universities around the world to develop industrially relevant innovation.

We have a proud history and a future that is rich with possibilities. There is no shortage of demand for the technologies we deliver and we see opportunities for growth across our portfolio. We are building on strong foundations. Being trusted to deliver excellence sets the standard very high, and we strive to achieve that everywhere, every day - thank you.