

I am very pleased to report that in difficult market conditions, Rolls-Royce has again performed well in 2008. We delivered a strong underlying profit and cash performance and our order book increased from £45.9 billion in 2007 to £55.5 billion in 2008.

We are proposing a final payment to shareholders of 8.58p per share making 14.30p for the full year, an increase of ten per cent, reflecting the Board's continuing confidence in the Group's business.

The adverse economic outlook inevitably creates huge challenges for all businesses and it is clear that Rolls-Royce will also be impacted. It is difficult to determine the precise scale of the impact on the Group until the severity of the current downturn is clearer. However, Rolls-Royce does enter this testing period with a number of significant advantages. We have pursued a consistent strategy, which has created a business that is well diversified in terms of its products, customers and geography. We also have a strong balance sheet with no net debt. Early action was taken to reduce operating costs and to put our pension schemes on a sustainable footing. We are therefore better prepared to deal with the uncertainties which undoubtedly lie ahead.

The Board is committed to improving the environmental performance of our products through continuous innovation and the development of new technologies. For example, since the first commercial jet engines were produced our engineering expertise has helped reduce aircraft fuel burn by 70 per cent and noise by 75 per cent. We are also committed to reducing the carbon footprint of our operations. We have invested in new facilities and implemented energy efficiency measures that have delivered a reduction in greenhouse gas emissions of some 30 per cent over the last decade. We are actively developing opportunities in civil nuclear power and other low carbon technologies.

The Board is determined to achieve and maintain best practice in all areas of corporate responsibility, including all aspects of health and safety.

Unfortunately over the past two years we have had to announce some redundancies. The Board does not make such decisions lightly, as we take our responsibilities to our people very seriously. However, in order to reduce our operating costs in response to the global economic upheavals, the Board felt these were decisions it had to take.

We attach particular importance to our businesses being run in a way which reflects the highest ethical standards. That is why we decided last year to establish a new Board committee, the Ethics Committee, under the chairmanship of Ian Strachan, to bring a better focus to this issue across the Group.

There have been a number of changes to the Board during the year. We have welcomed John McAdam and John Neill as new non-executive directors, both of whom will bring valuable experience to the Board. Helen Alexander has been appointed as Chairman of the Remuneration Committee. Carl Symon has retired from the Board during the year after nine years' service and I would like to thank him for his valuable contribution to the Group. Sadly, Boris Federov, a valued member of our International Advisory Board, died suddenly during the year.

I would like to congratulate John Rose who was recently made a Commandeur de la Légion d'honneur.

I would also like to thank the management and all our employees for their dedication, hard work and commitment to the success of the Group over what has been a very demanding year. I am also indebted to my fellow directors for the support they have given to me personally and to the Group over this period.

2009 will clearly be a very difficult year for the world economy but I strongly believe that our business is particularly well placed to respond to these challenges and to take advantage of the opportunities that will undoubtedly arise.

Simon Robertson

Chairman

February 11, 2009



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Chairman

The Group performed well in difficult market conditions

The Group delivered a strong underlying profit and cash performance, and our order book increased by 21 per cent. The business is well diversified and we have a strong balance sheet with no net debt.