

**CHAIR AND CHIEF EXECUTIVE'S STATEMENT**  
**FOLLOWING THE ANNUAL GENERAL MEETING – 12 MAY 2022**

*Anita Frew, Chair of the Board*

Good morning all, and a very warm welcome to the Rolls-Royce Annual General Meeting. I am Anita Frew, and I am delighted to have the opportunity to be here in person with so many of you.

As you will be only too aware, this is the first time in three years that Rolls-Royce has been able to hold its annual meeting in front of a live audience. It's been a tough two years for everyone, I thoroughly enjoyed the chance to talk with some of you before the meeting and I look forward to your questions later.

Today's event is a hybrid meeting so I would also like to welcome our many shareholders who are taking part online. Later we will explain how you can ask questions and vote on the resolutions.

In a moment I will introduce your Board, but first it is only right that I introduce myself, as this is my first AGM.

So I've been on industrial, engineering, chemical, financial Boards for the last 25 years as a Plc Director, and 14 years as a Chair, primarily of two chemical companies. Some of you may know me from my time at Croda and Victrex.

What you may not be too aware of, although I talk a little bit about it in the annual report is my personal connect with Rolls-Royce. Having spoken to many of you today I know that many of you have a personal connection with Rolls-Royce, and I think there are probably some second and third generation employees here.

My father was a young pilot in the fleet air arm during the Second World War, and when he returned home, he joined Rolls-Royce in Scotland as an engineer. He had this great passion for engineering, and I was the eldest of three girls probably trying to be a boy. So I spent a lot of time with him in his garage with my hands covered in Swarfega, some of you will remember Swarfega. And his garage was a bit like a machine shop. He would marvel at what Rolls-Royce has in its machine shops today.

He worked his way up through the business and I vividly remember the day when, I think I was about 14 at the time, when he came home ashen-faced, and told us that Rolls-Royce was being nationalised. That had a huge impact on our family, the community and indeed the country. And when I visit the Science Museum where the RB211 is still visible, it has a visceral impact on me because I remember those days.

So to be asked to join Rolls-Royce last year, exactly 50 years after that dramatic event, struck me as fate calling but also a great honour.

This is a challenging but also incredibly exciting time to join Rolls-Royce. Those of you who have had the chance to look around the exhibits here today will be only too aware of our fantastic legacy, through aircraft such as the Spitfire. But you will also have seen a glimpse of the future with the Spirit of Innovation aircraft, the fastest all electric vehicle in the world.

So I approach this role with a strong sense of purpose and a lot of determination to realise the tremendous potential of our business. I want to see us return to sustainable in both senses of the word, profit and cash growth. That is what gives us the licence to continue the great engineering work and great technology development that we do at Rolls-Royce.

So I am excited and honoured to be part of your leadership team, there are tremendous opportunities ahead.

Now before I introduce the rest of the Board, I would also like to extend on behalf of the whole Board, a heartfelt thanks to Sir Ian Davis for the leadership, dedication and perseverance he showed throughout his tenure as Chairman.

So let me introduce your Board as there have been some changes over the past year. We have strengthened the Board's skills and experience in aerospace, engineering, operations, technology and digital transformation. With the appointments of Paul Adams, Mike Manley and Wendy Mars who are with us here today. I invite Mike and Wendy to stand up, they're in the front row, and Paul is seated on the stage.

So Paul who is seated on my right has extensive industry experience, specifically in engine manufacturing. His industry focus is undoubtedly a great asset to both our Safety, Ethics & Sustainability Committee and our Science & Technology Committee. And Paul will assume the Chair of the Science & Technology Committee from the end of this meeting.

Mike Manley has extensive international experience having led businesses in Europe, Asia and the US. Moreover, his expertise from the automobile industry, and insights into electrification and power management will serve as an asset to the Board and the Science & Technology Committee.

Wendy Mars brings insight across hardware, software, services and technological transformation. She understands the need to foster innovation in a technology company, as well as the challenges that implementation can bring in the operations side, and how they can be overcome.

We have also strengthened our international, geopolitical and remuneration expertise with the appointment of Jitesh Gadhia. Jitesh joined us just last month, he brings a wealth of complex advisory and transactional experience to the Board having spent nearly 25 years in the banking and private equity sector. He has extensive remuneration experience, earned from both listed companies and UK Government Institutions, and will become Chair of the Remuneration Committee.

Also with us today are Beverly Goulet and Lee Hsien Yang, Bev and Hsien Yang would you like to stand up. Both are Independent Non-Executive Directors and employee champions for North America and the Asia Pacific region respectively. Bev is also a Board member of Rolls-Royce North America and has today taken on the role as our principal Employee Champion for the Group. Hsien Yang is now in his ninth year on the Board and therefore will be stepping down at the end of this year.

Now let me introduce you to my colleagues here on the stage. On my immediate right is Panos Kakoullis who many of you will have met, virtually at least last year after he joined as Chief Financial Officer. Next to him is Nick Luff, Independent Non-Executive Director and Chair of the Audit Committee. Next to him is Jitesh Gadhia who I introduced earlier. And then Warren East, our Chief Executive who you will know well, I'll return to Warren in a moment.

And on my far right at the end is George Culmer, who has been an Independent Non-Executive Director for a while now. And with effect from the end of this year's meeting will be appointed Senior Independent Director. Next to him is Dame Angela Strank, Independent Non-Executive Director and Chair of our Safety, Ethics & Sustainability

Committee. Next to her is Paul Adams who I introduced earlier, and next to Paul is Mark Gregory, our General Council.

Unfortunately, neither Irene Dorner nor Sir Kevin Smith are able to be with us today. Irene will be stepping down today and will not be standing for re-election at this year's meeting. She has been a much-valued member of the Board, a very thoughtful Chair of the Remuneration Committee through some very challenging times, and a highly engaged Employee Champion, ensuring the voice of the employee is heard in the boardroom. On behalf of my colleagues, I would like to thank her for her tremendous work during her time with Rolls-Royce.

Kevin is also unable to be with us, he's now in his seventh year on the Board. And while he is very much still an active member of the Board, he has indicated his wish to relinquish his roles as a Senior Independent Director and Chair of the Science Technology Committee.

I said I would return to Warren; he might blush at my comments now. In February we announced that he's decided to step down and retire at the end of this year after nine years on the Board, and almost eight years as Chief Executive. As a result, the Board has launched a thorough, extensive and global search. I wanted this to be an open and transparent process so we can find a worthy successor.

Warren is an exceptional leader and in the few months that I've been working with him, I've really enjoyed his insights, his passion for the business, it engenders huge pride in our people and confidence amongst our stakeholders. He's created a fundamental change in the culture of Rolls-Royce and set a pioneering vision and strategic direction for the business to lead the transition to net zero. At the same time he has successfully steered us through some of the most difficult times we and our industries have experienced. He will be a tough act to follow. I'd like to thank him on behalf of the whole Board for his tremendous work.

It's not over yet though. While we carry out the search for his successor Warren continues to lead Rolls-Royce with all the dedication he's shown throughout his time. It's a real pleasure working with him, and I look forward to continuing to do so for the rest of the year.

Now in a moment Warren will talk to you in detail about our performance in 2021 and give an update on current trading. But I wanted to set the scene for you.

During 2021 we made significant progress on the path to recovery by focusing upon the elements within our control in the face of the continued impact of the COVID-19 pandemic.

We are emerging as a better-quality business with significant long-term potential presented by the switch to net zero. We have delivered on our fundamental restructuring, we're completing the disposal programme, and our results are testament to the progress achieved in the year.

There remains however much hard work still to be done to return to strong cash generation and to create sustainable long-term value. We have engineering excellence at our heart and an incredible focus on innovation, research and development, activity that creates significant opportunities for value creation.

So despite the financial impact of travel restrictions as a result of COVID-19 on Civil Aerospace, and the recent heightened business uncertainty created by the tragedy unfolding in Ukraine, we are continuing to invest in our business. We have successfully captured new business in Defence, which has remained strong throughout the pandemic. And we are widening the scope of our activities through new business ventures that give us significant long-term opportunity.

Our Rolls-Royce SMR venture is now up and running having secured both UK Government and third-party funding support. We are progressing through the required regulatory processes before the construction of the first power stations and zero carbon energy production around the turn of the next decade.

The new emerging areas of all electric and hybrid electric aviation, which some of you have seen examples of today, also give us the opportunity to take our very strong track record in aerospace engineering and safety into new markets.

As I said earlier there remains much hard work still to be done and we have to continue to focus on the risks and management of these risks by delivering on our commitments. There also remains a high level of operational complexity within our business. We are world leaders in the provision of complex, safety critical and propulsion systems for our customers. We must achieve similar excellence in our business processes and our operations.

Our markets are fundamentally attractive, and our customers are increasingly requiring more sustainable solutions. The need to combat climate change represents a challenge for us, but it is also a significant commercial opportunity which we are firmly grasping.

Leading the transition to net zero is firmly embedded within our purpose and strategy. It's also a mission which resonates very strongly with our people and has provided a rallying cry during the recent tough times.

And speaking of people, I would just like to conclude by thanking all of our people for their hard work and continued dedication during the year. Rolls-Royce talks a lot about technology and we're rightly proud of what we do but at the end of the day it's our people who really make us succeed.

With that I will now hand over to Warren, thank you.

Warren East, Chief Executive

Right good morning everybody and thank you for those kind words, Anita. And thanks to people who I know have travelled some distance to be with us here at East Midlands Airport. Hopefully you're getting a sort of sense of the feeling that resonates with our business.

Now I'm going to just go through a few slides which will be a reminder of our performance as a business in 2021. And then we'll conclude the presentation piece with a look forward, which will include a financial forward outlook for our Civil Aerospace business.

*Slide 4*

So 2021, with our full year results presentation that we did in February I was pleased to be able to talk about improved financial performance, and that comes from successful cost reduction. But market growth as well during 2021 helped us to return to profitability. And you'll see from the picture on the far-left hand side of the slide there, the trajectories in improvement in profitability, and also in cash. We still had a cash outflow, but it was substantially improved versus 2020, and ahead of expectations.

We were also able to report that we were delivering on our commitments, commitments that we made at the end of 2020 when the rights issue happened. And the commitments we made there around a restructuring programme, we were able to report removing £1.3bn

worth of costs, achieving £1.3bn worth of run rate savings, a year ahead of when we originally set out to do that. And we were able to confirm that disposals were on track to achieve total proceeds of about £2bn.

Now with an eye on the future, the third thing we were able to talk about was that we were doing that at the same time as sustaining our investment in research and development. Enabling us to create some really market leading technologies focused on net zero. And I'll talk a bit more about those later in this presentation, but they will help unlock opportunities and deliver some really good, sustainable in both sense of the word, value in the future.

And that applies not just to the new markets that we're talking about, but also to our established businesses. And that strong, financial, well strong, financial performance that we were able to report also enabled us to maintain strong liquidity with no debt maturities before 2024 when we came to the end of last year.

#### *Slide 5*

So now I'll have a run around the business highlights, go to each part of the business. I'll start with Civil Aerospace which accounts for approximately 40% of Group revenues. I've just referred to the fundamental restructuring programme. That has certainly delivered and will continue to deliver much lower costs and improved operational gearing. And that means that as demand returns it will continue to drive up profitability, and that's really enabled by the large installed base that we have in our Civil Aerospace business.

Now looking forward, a bit further forward, the picture here is the latest design win for our Business Aviation business. Business Aviation accounts for about 20% of our Civil Business. And now with the securing of the Dassault High End Platform, that puts us on all three main airframe providers for Business Aviation. And the good news in 2021 was that we also secured a second platform with Gulfstream for the successful Pearl 700 engine.

Now talking about demand returning, looking across the commercial part of our business and where we are right now. Then large engine flying hours, we have a 42% increase year on year across the first four months of 2022. And I think if you've been to an airport lately you can actually feel that demand returning which is very encouraging.

However, it depends where you went to that airport. If you go in Europe or if you go in America, you can feel that demand returning. It's a little bit slower coming back in Asia and right now in China due to the COVID-19 measures they're having there, then that is reflecting a depressed level of aviation activity. Which is showing through in our numbers and that's why it's only 42% up year on year.

If I think about deliveries in Civil Aerospace, then today we have more than half the market share for new large engines being delivered. We have over 1,500 large engines on our order book, and that includes also some great growth opportunities in the freighter market as well as full passengers.

And the most recent design win that we can talk about was announced just last week with Qantas ordering 12 A350-1000s, tinkered for long range operation for Project Sunrise, which will enable us to go from Sydney to London in a single hop in about 19 hours. Which is just an amazing thing, and we're delighted that that's powered by the XWB97K engine and that includes a total service contract as well of course with that design win.

#### *Slide 6*

So switching to Defence, Defence accounts for just over 30% of Group revenues, and generates healthy profit and cash. And in Defence at the moment the story is about delivery and securing growth opportunities.

In 2021 we secured the award for very highly competitive B52 engine replacement programme, this is an amazing feat, it's an iconic American aircraft, and the engines are going to be provided by what is a British company with an American face in America. And the engine is actually derived from a civil engine that was originally designed in Germany. So it shows the real global power of Rolls-Royce and we're delighted with that design win.

Now the restructuring that we've been talking about in our Civil business, of course there's commonality of supply chain with Defence Aerospace. And so we intend to bring that operational gearing I talked about, and the benefit there, to growth in our Defence business. And we do anticipate future growth, we're pursuing additional design wins like the future long range assault aircraft programme and that's in partnership with Bell Textron.

And here in the UK we continue to work with partners on the Tempest Programme and we are supporting the UK MOD there. Our relationship with the UK MOD is more than just



Aerospace of course and we're collaborating there with the UK and the US and Australia on the recently announced Orca programme around nuclear submarines.

We have a high backlog in our Defence business. And that is converting as expected delivering resilient, high-quality profits and strong cash conversion, and that will happen in 2022.

Now given the recent geopolitical trends that we all see on a daily basis on the news, then we do expect governments to increase their long-term budget allocations which will improve long term growth prospects for our Defence business.

#### *Slide 7*

Switching to Power Systems, Power Systems accounts for just under 30% of Group revenue. Power Systems was affected during COVID but by halfway through 2021 we were able to report the order intake had accelerated and that continued through the second half of last year, such that we finished 2021 with a record Q4 for orders. And we went out of the year with a record order book for Power Systems. Now that's probably driven from a strong established position with MTU branded engines and a very loyal, sticky customer base of over 40,000 customers.

But look at the picture there, it's not a diesel engine, it's a microgrid with renewable power generation and storage. And we are focused in terms of future growth in power systems on the transition to net zero. And it's not just the conceptual picture either, we were reporting with our full year results in February and awarded a very significant contract, the first of its kind, net zero microgrid combining fuel cells, hydrogen combustion engines and storage of the port of Duisburg in Germany. To make that port in Germany, which is the largest inland port in the world, net zero. And that's an example of a sticky customer coming to us looking for a net zero solution.

Now it hasn't all been plain sailing in Power Systems either. We have been impacted by operational challenges and supply chain disruptions, and that happened all through the second half of 2021. And they continue, and in part that's why you will see in our numbers increased levels of inventory there where we have very, very nearly completed engines waiting for a controller and those controllers are waiting for semiconductors. But we believe that's the right thing to do so that we can service our customers. And those customers are seeing, they're expressing interest in sustainable solutions in the future,

they're recognising our commitment to them and coming to us for solutions and we're responding.

We're developing the first engines for things like power generation, construction, industrial applications but that are approved for operation with sustainable fuels. We're developing hydrogen engines, such as we'll use with that Duisburg project. And we're introducing new products for energy storage.

#### *Slide 8*

Now I'm going to switch to the new markets that we reported for the first time as a separate reporting segment. And really, it's two businesses, Electrical and Nuclear.

And so I'll start with Electrical, Rolls-Royce Electrical, you saw the Spirit of Innovation playing there on that side of the hangar when we were having coffee, and I'm sure we'll go back there, and you can see it for real later. Obviously delighted with what we've been able to achieve with Spirit of Innovation.

But it isn't just about demonstrations and speed records, this is a market opportunity with high growth potential. And high growth potential for Rolls-Royce because it either doesn't exist or it's replacing mechanical products in markets where we have zero or minimal market share.

And we're taking relatively new technology into a sector that we know very well. We know that sector very well, the world of aerospace because we've decades of experience there. And concern and knowledge and innate understanding of things like weight, safety and reliability run deep in the DNA of the business.

Lots of people can develop electric motors, lots of companies can develop electric motors but developing electric motors with the power density that's required to make these things fly and make them fly reliably day after day and with extreme levels of safety is something which stems from that DNA. And not everybody can do that, that's the sort of market access that's going enable us to win in that sector.

And there are two subsectors that we're targeting there, urban air mobility, and there's a concept picture there of an urban air mobility vehicle. We've actually real design wins, for

instance with Vertical Aerospace they have over \$4bn of pre orders for their air frame and this are pre orders from established players in the sector and mainstream airlines.

Moving onto another subsector there, commuter aircraft, we have an agreement with Tecnam, an existing air framer, and Wideroe an airline, already an airline providing that end customer pull to provide an all-electric power train for a commuter aircraft.

And further up the power spectrum we've demonstrated a larger system for a larger aircraft, a hybrid system as well. And in order to do that of course we're leverage our expertise from our power systems business, and that expertise from our power systems business means that we can also play in this space not just in the air, but on the ground as well. Because of course all these things have to be recharged and that's an exciting opportunity to provide that infrastructure to future airports.

So all in all it's an extremely exciting time for our Electrical business and there are many tangible opportunities in the pipeline that we're pursuing.

#### *Slide 9*

And the other part of our new markets is the well-publicised small modular reactor, small modular nuclear reactors. And here we're taking technology that we know very well because we've been designing these nuclear reactors for the last 60 years, and we're applying it to new markets. And the market opportunity for these SMRs is both for on grid applications, providing electricity, zero carbon electricity when you plug an appliance in.

But also off grid applications because we talk about hydrogen, we talk about synthetic fuel in other parts of our business. The energy has to come from somewhere in a net zero way in order to make that a net zero solution. And it just so happens that small modular reactors are a good source of zero carbon power to enable the creation of truly green hydrogen and synthetic fuel.

The project has seen an enormous amount of support. We've got external investment from the commercial world, and we also have secured a UK Government grant. There is a bit of a UK emphasis here, however there is a massive export opportunity as well.

So we've commenced our UK generic design assessment process so that's good because the UK designer assessment process is gold standard in nuclear around the world. And

that sets us up very well for export opportunities. And we've also been very encouraged by the recent commitment to nuclear energy full stop by the UK Government. We expect first orders for the UK market within the next couple of years.

#### *Slide 10*

So that's a run around the businesses established and new. What does that mean for us as a Group, and in particular for our balance sheet, which as we all know was hit very hard in 2020 by the extreme disruption from COVID especially to air travel.

Well firstly we ended 2021 with strong liquidity, as it says on the slide with over £7bn and no debt maturities before 2024. But secondly, we are committed to rebuilding that balance sheet and returning to an investment grade credit profile in the medium term.

And our pathway to achieve that benefits from generally reducing market uncertainty, our own improving financial performance and a strong strategic focus on the energy transition.

Now previously we've announced four disposals already and the final one of those, the largest one ITP Aero, is still expected to complete by around the half year. And that's pending just one final regulatory approval.

Disposal proceeds and underlying free cash flow from those four disposals, the disposal proceeds from the four disposals and our underlying cash flow from the business will both be used to reduce debt.

We think a strong balance sheet is important but at the same time we're balancing the pace of that rebuild against the investment opportunities in new and in established parts of the business, to maximise the long-term return for us all as shareholders.

#### *Slide 11*

Now that's the end of the kind of review. I'm now going to do a couple of look forwards. And in a moment, I'll talk about a look forward for the remainder of 2022. But first I want to talk about Civil Aerospace.

Tomorrow we're hosting at our Civil Aerospace facilities just down the road, we're hosting about 60 investors and analysts at an event that will include the management presentation and question and answer session. But we will also as we put in our press release this morning trading update for this AGM, we will be setting out our key Civil Aerospace value

drivers. We'll be putting a spotlight on the operational side of our business, all the improvements that we've been driving over recent years, we've crystalised in the restructuring over the last 12 to 18 months. And we'll be providing a deeper understanding for those investors on how we are creating a better-quality business in Civil, a more resilient business and a more agile business.

And importantly we will also be sharing an outlook on the medium-term financial outcomes, showing there on the right-hand side of the slide. Obviously subject to risk and uncertainties based on the prevailing macro-economic environment. But in the medium term we are expecting Civil revenue to grow low double digit compound annual growth rate, and that will be driven by OE volumes and shop visit volumes.

We're expecting the operational gearing that we have now created to continue to drive the margin up and by the time we get to medium term we'll be achieving a high single digit percentage operating margin. That's reflecting the volume growth and the operating leverage coming together. And we will be expecting Civil Aerospace trading cash flow to be comfortably ahead of operating profit, driven by continued growth in flying hours.

So further details we'll talk about with investors who are coming to the event tomorrow. It will be a webcast and available on our corporate website.

#### *Slide 12*

Now switching back a little bit shorter term to 2022, and our Group guidance for 2022 I unchanged. Despite of all the well-publicised challenges that are talked about in the newspapers, we've looked at all those risks and opportunities, we've looked at the mitigations that we have in place and the day-to-day grind that our people are so diligently going through to manage all those risks. And we're maintaining our guidance, we're well positioned for the anticipated growth in end markets.

The challenges are well known around pace of market recovery, around global supply chain and rising inflation. But as I say our people are working hard on addressing those and so we're confident of continued positive momentum in our financial performance.

And therefore, we can stick to low to mid-single digit revenue growth for 2022 supported by a strong order book in all of our businesses. And the operating profit margin to be broadly unchanged.

We expect modestly positive free cash flow in 2022. And if you think where that has come from coming out of the depths of the COVID period, then getting back to positive cash flow in 2022 is a great relief. And that is despite the well-publicised concession slips around Boeing aircraft from 2021 into 2022.

When you look at our half year results, we will expect that annual performance to be seasonally weighted towards the second half of the year but that is perfectly normal.

And then if we look at long term revenue growth, first of all it's driven by technology and innovation and opportunities there driven by rising demand for sustainable power, and how we apply our unique skills and expertise to pull those together.

We aim to spend about 75% of our investments on lower carbon growth opportunities, by the time we get to the medium term there's a lot of opportunities ahead, a lot of variables for us to manage internally. But we now have a much more agile and balanced business that's geared towards capturing the growth in a profitable and sustainable in both sense of the word way.

### *Slide 13*

So to summarise 2021 we're delivering improved financial performance, we're delivering on our commitments and the business is clearly more balanced and more resilient. We're looking towards a sustainable future.

And I, like Anita, would like to thank all of our colleagues who have worked incredibly hard over the recent period, the recent couples of years, especially with huge challenges. And so I'd like to thank them for what they've done to enable me to stand here and talk like this.

I'd also like to thank all our stakeholders for their support and their engagement.

Now Anita mentioned that I'm leaving at the end of the year. It has been an amazing privilege to lead Rolls-Royce, but I want to assure you that this is just a little point on the way, I am completely committed to be continuing to lead and drive this business as we work towards a smooth transition through the remainder of this year.

And I'm confident that the business is well positioned to achieve those financial outcomes that I just described. So thank you all, and back to Anita.

Anita Frew, Chair

Thank you, Warren. Now before we start the formal proceedings at the Annual General Meeting, I'd like to remind our shareholders that we have two meetings today. This meeting will be followed immediately by a C share class meeting for the shareholders who hold C class shares.

Mark Gregory will take us through the formalities for the rest of the meeting. Thank you, Mark.

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*The questions asked at the AGM, including those submitted in advance of the meeting, and their answers are available on our website.*

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Anita Frew, Chair

Thank you, Mark. We'll now move to the formal business of the meeting. The resolutions to be proposed are shown on pages 2 and 3 of the Notice of Meeting which also contains further explanations of each resolution.

So, I now propose Resolutions 1 to 22 as set out in the Notice of the Meeting and would ask that you complete your poll cards for all of the resolutions.

There are many more holders, as you know, of Rolls-Royce shares than are able to be with us today, and details of the proxy votes already received for each resolution are now shown on the screen behind us. Thank you, ladies and gentlemen.

That concludes the business of the meeting. Thank you all for your continued support of the company and for your attendance today. I now declare the Annual General Meeting closed.

Ladies and gentlemen, I would like to thank you for your attendance today. I know it's been a very difficult couple of years. It's wonderful to see some of you in person and I wish you a very safe journey home. Thank you all.