

**Rolls-Royce Holdings plc AGM Q&A Summary  
11 May 2023**

**1. Question from Stephen Sage**

**Firstly, do you see any chance of Rolls-Royce being taken over by US companies such as General Electric or Pratt and Whitney? Secondly, why is the UK Government giving tenders to international companies given the work that Rolls-Royce is doing on the nuclear modular reactor programme? I have written to my MP about this. Are we going to get a useful result out of the UK Government on this?**

Although Rolls-Royce has a golden share held by the UK Government, we do not like to rely on this. Instead, our best defence against a takeover is for the management team to do the best they can with the business. We need to get the business performing and focused on returns.

Thank you for your support on the nuclear modular reactor point we are very grateful for this. For background, Rolls-Royce is currently going through the generic design assessment (GDA) process. There has also been a lot of political change and the UK Government are running a competitive tender process which given our progress to date, we are well positioned in.

**2. Question from Lyndon Malley**

**Boeing 737's took off regularly back in the day and continue to do so although at a slower rate so are we making any efforts to get into that market? Also, the number of flights for the A320 provides a lot of cycles for engines which means lots of opportunities for spares.**

Rolls-Royce is currently in the wide body market and every year we are gaining a bigger share. There are certain market segments that we historically chose to exit. However, that does not mean that at some point we may choose to enter new segments of the market. We cannot comment on the decision to exit the narrow body market as none of the Board were here during that decision and to think about re-entering that market without a partnership would be costly; and we need to look at how we allocate our capital for the best returns. In addition, the narrow body market is a moot point as there is currently no new platform and it is unlikely to come about during this decade. To enter the market, we need financial muscle and engineering capability. We have good capability which is recognised by industry players, and this creates partnership opportunities. However, when we position Rolls-Royce where we want to go, we will also have the financial power along with those capabilities which is a combination which will make us very well positioned when the time comes.

**3. Question from Roy Turner**

**I believe that the pension fund trustee board is not compliant with the pension regulations. The Rolls-Royce pension fund was subject to a merger in 2016 and the pension fund trustee board was selected from eight works constituents and did not include any representatives from the retired members who were the largest group and were not allowed to vote, is this proportional representation? There is a complaint with pension ombudsman ongoing regarding the trustee's actions and**

**Rolls-Royce have backed the trustees, if the pension ombudsman rules against the trustees who will be responsible at Rolls-Royce?**

The Chair wrote a comprehensive letter in May 2022 and the General Counsel wrote to you in August 2022. These letters explain that although you raise concerns, we are completely satisfied that the operations of the pension funds are legally compliant and are governed to the highest standards. We have reviewed your case from early 2001 to 2011 and there is nothing further we can do. We understand you had a previous case with the pension ombudsman which was rejected, and we will await correspondence from the pension ombudsman on your current claim.

**4. Question from Mansur Kassamali Tarmohamed**

**Firstly, you mention that you would reduce the debt of Rolls-Royce, how are you going to deleverage the balance sheet? Secondly, a few years before the pandemic Rolls-Royce shares were around £17, today they are significantly less. Rolls-Royce is doing well but the shares are not doing as well, is this the city's view of Rolls-Royce or is it something else?**

Firstly, deleveraging will come from our own efforts. Secondly, in terms of the share price, our previous Chief Executive took the company through several challenges which included the pandemic, profit warnings and a SFO investigation all of which caused a big financial hit and meant the share price suffered. We cannot comment on the share price or give any advice. However, we do note that Rolls-Royce are the best performing FTSE 100 stock this year. Although, we still have a lot to do to improve the business, we have had a huge short position in Rolls-Royce shares where some of the big hedge funds took a bet against the share price. Although, this has now gone as they think that we could be on an upward trend. Therefore, we need to consistently show the progress of our transformation as we provide our half and full year results. In the second half of the year when we set out the major targets, this should give confidence to the market and aim to get us back to investment grade.

**5. Question from John Horner**

**I have a question on people policies. I can see that Rolls-Royce has lost thousands of people over the last few years and I am interested to hear whether we have the right skill mix across the various Rolls-Royce functions.**

People really make a difference. The Chief Executive's presentation talked about workstreams and looking at the engineering, financial and operational talent mix. There will be areas where we invest more as we allocate capital, but engineering and technology are key skills along with operational and financial performance. Therefore, if we can get them together then the business can deliver.

Our people get a lot of focus at the Board meetings and the Chief People Office regularly attends the Board meetings and we see talent on the ground as we go out on site visits. For example, we have a Meet the Board event later today with around 60 employees. In addition, Tufan has created an Executive level people committee. The purpose of this committee is to focus solely on people and the Chief People Officer facilitates this.

## 6. Question from Richard Turner

**From my time working as a non-executive director alongside an ex-BP executive, I understand that BP has a very different model to Rolls-Royce, particularly in terms of customer experience. The new Chief Executive has been critical on the Rolls-Royce Civil Aerospace sector which makes up a large proportion of the Company's profit and when I read the Chief Executive's statement in the Annual Report the word "customer" only appeared twice and we are now following a granular strategy with less intensive product development which could mean a reduction in research and development.**

**The Chief Executive used emotive terms such as "burning platform" which led to questions in the media around whether Airbus are fully wise to rely on Rolls-Royce. There was also the foolish decision to withdraw from the IAE joint venture which excludes the Company from the short medium haul sector.**

**Why did the Chief Executive provide such emotive remarks to the market such as "burning platforms" and was this authorised by the Board? Either way, is the Board fit for purpose as currently only 3 of 13 Directors have market experience and there is no director of engineering on the Board. The Board experience does not reflect what the Company does in my opinion.**

Our Chief Executive reports to the Board not only on financials and strategy but also on relationships with employees and customers and on investment in technology. Partnerships and customers are key to us so do not think that Rolls-Royce is embarking on a financial turnaround without keeping customer interests at the top of the agenda. We are also careful with our investment as we need to get all businesses performing well. In addition, during the first four months of Tufan's tenure he has already met with all our key customers and partners which emphasises how important our customers are.

Several comments were leaked to the media from the employee town hall which was not an external event and there was context around those comments which was not published. The purpose of the town hall was to explain to employees where we are as a Company and then talk about where we are going to take the Company and how and what we are going to do. It was Tufan's first town hall at Rolls-Royce and his experience of three transformations meant that he understood that generally employees do not recognise where the Company is – particularly if the Company is paying bonuses – so the town hall provides an opportunity to provide the facts as this is an underperforming Company. Overall, it was a very rounded and supportive message at the town hall and following the event the Chief People Officer conducted a lot of research on how employees felt. The uplifting messages were well received and provided employees with a wake-up call and a sense of winning together.

In terms of Board composition, we have 4 engineers on the Board with different component parts and talent at the moment. We have just appointed a Director who is currently the Chief Executive Officer of a major supplier to the US Defense industry which is therefore in line with some of our Rolls-Royce key businesses as we should not be thinking solely about Civil Aerospace. Having a third of the Board with engineering skills, some in energy transition and some on strategy and financial performance is a good balance and we will continue to build the Board as we move forward.

Tufan ran the downstream business at BP which is different to the upstream business which you reference. All the airlines were Tufan's customers at BP and he managed one of the largest customer facing businesses in the world. Therefore, Tufan has spent his career on products, differentiation and customers. Tufan also ran two global complex businesses, had 5 different business models, 9 different business units and operated in more than 100 countries and is therefore very familiar with complex businesses.

**7. Question from Donald Whittaker**

**The Isle of Man is semi-autonomous and has recently discovered a natural gas field. The Island runs its gas turbine generators for electricity on natural gas which is expensive as it is imported via the pipeline. Is this an opportunity for Rolls-Royce to jump in as hydrogen can be made by passing electricity through water and the Island already has the gas turbines installed? Also, the Island are looking to replace diesel powered buses with hydrogen so are hybrids the alternative?**

We will not be building a gas pipeline, but you could be a customer of Rolls-Royce Power Systems who do a lot in that area and in terms of use of multi-use engines, our Rolls-Royce Power Systems business does just that.