

CHAIR AND CHIEF EXECUTIVE'S STATEMENT

ANNUAL GENERAL MEETING – 11 MAY 2023

Dame Anita Frew, Chair of the Board

Good morning and a very warm welcome to the Rolls-Royce Annual General Meeting. I am Anita Frew, the Chair of your Board and I am delighted we have the opportunity to be here with you today. We thoroughly enjoyed the chance to talk with many of you before this meeting and we look forward to your questions later.

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

So now, let me introduce your Board. You will find the Board biographies in the Notice of meeting and on pages 62 and 63 of the Annual Report and accounts.

Firstly, on my left is Tufan Erginbilgic, who became Chief Executive at the start of the year. I'll say more about Tufan in a moment and he will be speaking to you later.

Next to him is Panos Kakoullis, our Chief Financial Officer. Panos will be leaving us after the half year results in the summer. I would like to extend the thanks of the whole Board to Panos for his hard work. It has been my great pleasure to work alongside him over the last 18 months as he has helped us deliver on the short-term commitments made to you during the difficult times of the pandemic and return the business to positive cash flow.

Then Nick Luff, independent non-executive director and Chair of the Audit Committee.

And next to him is Jitesh Gadhia, independent non-executive director and Chair of the Remuneration Committee.

And Dame Angela Strank, independent non-executive director and Chair of the Safety, Ethics & Sustainability Committee.

On my far right is Beverly Goulet, independent non-executive director and our lead Employee Champion.

And next to her is Wendy Mars, independent non-executive director who is also an Employee Champion.

Then George Culmer, who is our Senior Independent Director.

On my immediate right is Pamela Coles, our Chief Governance Officer.

Joining us online from the US is Paul Adams, Chair of the Science & Technology Committee.

I am also pleased to welcome Birgit Behrendt, who is here with us today and will join the Board from the conclusion of today's meeting. Birgit brings extensive global operational experience in large, complex international industrial groups, having spent much of her executive career at Ford Motor Company, latterly as Vice President of Global Purchasing. So she has deep understanding of global supply chain management. She has now retired from Ford and her non-executive appointments have focused on industrial groups beyond the automotive industry, with a focus on sustainability.

Also joining the Board from the conclusion of today's meeting is Stuart Bradie. Stuart is currently CEO of KBR, the US listed engineering and technical government services company. An engineer at heart, he has over 25 years' experience leading global, technically oriented businesses and brings an outstanding track record in driving transformation and cultural change in international engineering businesses. Stuart will be a terrific addition to the Board and, as a bonus, he has a great affinity with the company, having started his career as a young engineer in Rolls-Royce Nuclear Fuels in the north of Scotland.

And now I must pay my thanks to those members of the Board who left us in the last year or are stepping down today. Let me start with Warren East who stood down as Chief Executive at the end of 2022. During his seven years at the helm of Rolls-Royce and a total of eight on the Board, he navigated more major crises than many chief executives experience in a whole career. Warren showed incredible tenacity and integrity throughout. He was hugely admired by our employees, many of whom speak of the hugely enjoyable personal interactions they had with him whenever he visited one of our sites. Personally, it was a great pleasure to work with him, albeit briefly, as Chair and I know many people learned a lot from his humility, empathy and, above all, his unquenchable curiosity. I and the rest of the Board would like to thank him for his passion, commitment and dedication to Rolls-Royce. We also thank Lee Hsien Yang, who stepped down in December having reached his nine-year term and Mike Manley, who will not be standing for re-election at this year's meeting in order to focus on his US business interests.

We announced yesterday that Sir Kevin Smith will be stepping down as a Non-Executive Director from the conclusion of this meeting. He therefore will not be standing for re-election today and we have withdrawn that resolution. Kevin has served almost eight years as a Non-Executive Director and I would like to thank him for his commitment and the outstanding contribution to the Board during his tenure. He has provided significant guidance and insight as a Non-Executive Director and in his role as Chair of the Science & Technology Committee while also acting as Senior Independent Director until last year. He

led the Chair succession process and has been instrumental in the CEO transition. We wish him well for the future.

On other Board matters, we have taken the opportunity this year to revise our committee structure with the introduction of a new committee, the Safety, Energy & Tech Committee. This will focus on safety and the energy transition agenda and provide oversight and assurance of the Company's scientific and technological strategy, processes and investments. I have asked our Non-Executive Director Wendy Mars to chair this committee and we will report on its activities in the 2023 Annual Report. Furthermore, we have widened the remit of our Nominations & Governance Committee to focus also on ethics and culture and we have renamed this the Nominations, Culture & Governance Committee. With these changes, the last meetings of our Safety, Ethics & Sustainability Committee and the Science & Technology Committee were held in February this year and I want to thank both Dame Angela Strank and Paul Adams for expertly chairing these committees.

Finally, I would like to thank our people across the Group for their hard work and continued dedication during the year. I have met many of them at all levels of the organisation over the last year and am always impressed by their passion, enthusiasm and commitment. Rolls-Royce talks a lot about technology – and we are rightly proud of what we do – but at the end of the day, it is our people who really make us succeed.

I said I would return to Tufan.

In July last year, I was delighted to announce his appointment as Chief Executive following a thorough, extensive and global search. Your Board chose Tufan because he has a great track record in leading complex industrial global companies and he loves engineering and technical businesses. He has extensive strategic and operational experience and a firm understanding of safety critical industries. As an engineer, he recognises the importance of technology and investment for growth and he combines this with a strong track record for execution, delivery and the creation of significant value. He is passionate about Rolls-Royce and building this business for the future.

I'll now hand over to Tufan who will make some comments on our 2022 performance and give you his perspective on the business and our plans.

Tufan, over to you.

Tufan Erginbilgic, Chief Executive

Slide 3

Thank you, Anita, and hello everyone. It is an honour to be here at my first Rolls-Royce AGM.

Let me introduce myself before I talk, briefly, about last year's results and then, in more detail, on where we are going to take this business.

When I was approached last year about the opportunity at Rolls-Royce, I was drawn by the strong brand and reputation and its importance as a global company.

However, I also found a company that was not achieving its full potential, operationally or financially. I saw an opportunity to make a real difference and take Rolls-Royce to a much stronger position.

Before joining Rolls-Royce, I spent over 20 years at BP. I led the Downstream business, and before that, the Lubricants business through their turnarounds. I also spent several years on the Board at GKN and most recently worked in private equity. In all my previous roles I have driven step changes in performance. I have set clear strategies and delivered sustained improvements in profit, cash flows and returns. Everything I have seen since arriving has made me even more confident in the potential to do the same at Rolls-Royce.

I was not here last year, but it is my role to report back to you as shareholders on how the business performed.

Before I start, let me be plain: these results are not good enough for a company like Rolls-Royce.

We have higher expectations for this business.

And we are clear on how we will deliver on them. I'll say more about that in a moment. But first, the results for 2022.

Slide 4

Group revenue increased 14% to £12.7bn. There was good revenue growth in Civil Aerospace and Power Systems as volumes recovered. There was more modest growth in Defence.

Operating profit increased by £197m to £652m, driven by three things:

- Improvements in long-term contract margins in Civil Aerospace;

- Increased profit from spare engine sales, also in Civil Aerospace; and
- Significant revenue growth in Power Systems.

Free cash flow of £505m was £2bn better year on year.

This was driven by three things:

- Improved cash flow in Civil Aerospace, reflecting strong growth in engine flying hour receipts ahead of shop visit growth.
- Higher Defence cash flows.
- A reduced working capital outflow.

Our net debt position improved from £5.2bn in 2021, to £3.3bn in 2022. This was due to:

- the completion of our £2bn disposals programme
- and free cash flow generated in the year.

That was last year. Now I would like to look forward to this year and beyond.

Having now spent a lot of time with our teams, I am convinced that we have great people who are dedicated and committed to the work we do. We have some of the best products and solutions in the world, supporting the needs of our customers in complex and heavily regulated industries with high barriers to entry. We have good market positions in some key segments.

However, Rolls-Royce has been underperforming for an extended period.

Cash generation has been unsatisfactory, and our debt is still too high. Too much of our gross profit is simply covering our overheads and interest payments. A weak balance sheet and sub-investment grade credit rating limit our ability to invest in growth for the future.

Earlier this year, we completed an extensive benchmarking study that confirmed our margins are below the competition on a like-for-like adjusted basis. Our low operating margins, and relatively high fixed cost base leaves us financially exposed when uncertainty impacts our markets.

As a result, in the last five years, even excluding 2020 due to COVID, we have averaged a return on capital employed of just 3.5%. We have also not had sufficient strategic clarity to make good investment choices. Instead, we have been trying to keep too many options open.

Slide 5

Let's turn now to the overall proposition we are looking to create for investors and shareholders.

I believe we have the potential to be a much higher quality and more competitive company. A company focusing on sustainable earnings growth and cash generation with a winning mindset and culture that drives and rewards outperformance.

Underlying performance improvements will drive higher operating cash flows. This, coupled with disciplined capital allocation will grow our sustainable free cash flow. A strong and flexible balance sheet will allow us to grow shareholder distributions and fund future growth.

We will build a strong Rolls-Royce to deliver this proposition. We are already in action, and we are proceeding with a sense of urgency. Our recent Executive Team announcements are a good example of this ensuring we have the right team and the right mindset to lead this transformation.

Slide 6

This slide sets out our priorities and, in a way, our philosophy, which is different from what has been done in the past.

First, we will improve earnings and the cash potential of the business. The focus will be on quality growth in profits and cash rather than just revenue and market share expansion.

Second, we will create an efficient business with a competitive cost base and improved operating leverage. This will make us more robust to the external environment.

Third, we will target sustainable cash generation and will de-leverage our balance sheet at pace. We remain committed to recovering our investment grade credit rating, and resuming shareholder returns.

Fourth: we are developing a clear and granular strategy to prioritise investment opportunities. We will allocate capital centrally, to attractive market opportunities and programmes.

And fifth: We have an important role to play in the energy transition and remain committed to achieving net zero. We will develop a robust framework to make the right choices.

All this will be underpinned by our most important priority – to ensure that our people and products are safe. This is the right thing to do. We care about our people and we care about the people that rely on our products.

Slide 7

We have launched a transformation programme to deliver a step change in performance – systematically and at pace. This is well embedded throughout our business.

Efficiency and Simplification is about identifying and delivering sustainable improvements across the whole Group.

This will improve our operating leverage so that we are competitive and robust to the external environment.

Across the Group we have work underway to identify synergies across all our divisions and functions, and to simplify our whole organisation.

We have, for example, assessed all of our non-manufacturing footprint and our direct and indirect procurement spend identifying opportunities for rationalisation and savings. We can already see the benefits of our ‘one Rolls-Royce’ approach through highlighting where we have common suppliers across the business units. And where we have found opportunities that can be enacted immediately, we have done so. For example our announcement recently to close our R2 factory.

Commercial optimisation is about getting the right reward for the risks we take and the value we create for our customers. A stronger Rolls-Royce will be a better partner for our customers, more able to deliver operationally and invest in product development. I have already met with many of our customers and partners who appreciate this dynamic. In many cases we have agreed joint taskforces to find solutions reporting back to joint CEO level.

We have also changed our commercial processes for new contracts and renewals which for long-term agreements now come to an Investment Committee chaired at CEO level. Not only is this bringing increased oversight, but we are ensuring that the returns are aligned to the risks that we take.

In conjunction with this, we continue to drive our cost performance. In Civil Aerospace for example, our time on wing, shop visit cost and OE costs initiatives are a standing agenda items at our Operating Committee which ensures that we perform and deliver to our own and our customer expectations.

All of this is enabling us to become a more commercially minded and capable organisation.

At the end of 2022 we had £25bn of gross working capital tied up in the business. Our net working capital is around £2bn higher than our position before the pandemic, despite revenue being lower. Our Working Capital workstream has identified improvements that are sustainable and also have an in-year benefit.

Our Strategic Review allows us to identify which areas we will invest in and which areas we will not. To support this new strategic rigour, we will centrally allocate capital to the most attractive market spaces or programmes. This more disciplined approach will mean more effective resource allocation.

We have already had multiple strategy workshops in all of the business units that are allowing us to identify where investment opportunities should be. This will translate into a granular strategic implementation plan delivering multi-year benefits. We will be sharing this later this year as part of our mid-term targets.

The remaining two workstreams, changing the culture and performance management – at the bottom of this slide – are critical to lasting change. We will drive them by building the right mindset with our teams to be proactive and timely in our actions, so that we can manage performance effectively.

Slide 8

Before I wrap up, I would like to share our view of 2023 and update you on current trading. We have seen a solid start to 2023 that provides confidence with the guidance we provided earlier this year. For example:

In Civil Aerospace, engine flying hours are within the range of 80-90% that we set out in our guidance in February. We enjoyed the largest ever order of Trent XWB-97 engines with Air India that also included 12 Trent XWB-84 engines.

We were delighted with the US Army's decision to select Bell's V280 Valor powered by our engines for the Future Long Range Assault Aircraft programme, whilst testing is underway on our F130 engines on the US Air Force B-52 fleet as part of the engine replacement programme that will be delivered over the next 15 years.

In Submarines we saw the announcement of AUKUS which builds on our 60 years' worth of experience providing power to the UK's Royal Navy nuclear submarines. We have seen strong demand in the Power Systems business which supports our pricing expectations and pre-delivery payments.

This provides strong momentum both in-year and in future years that underpins the progress we are making. We remain vigilant on managing supply chain challenges, particularly in the Civil and Defence business. While the Power Systems supply chain is stabilising, there is still a lot of focus from the team to manage high risk suppliers and bottlenecks. However, the team's management of these issues means that we do not currently see this impacting our 2023 guidance.

We therefore expect to achieve higher operating profit and cash flows in 2023 versus 2022, reflecting the actions we are taking, market growth as widebody flying recovers, and as we convert our order book into profits.

For 2023, we expect to deliver operating profit of £800m to £1bn and free cashflow of £600m to £800m.

So, to summarise..... We are transforming Rolls-Royce into a high quality and competitive business with a strong balance sheet and growing profit, cash flows and returns. We are already benefitting from the actions we are taking as well as recovery and growth in our end markets. We announced several changes to the executive team in March to support the transformation, adding leaders with proven track records of delivery and high-performance.

We are making good progress and our financial performance year-to-date is in line with our expectations. I am encouraged with the progress we are making on the Transformation programme and look forward to sharing the outcomes later this year when we provide mid-term targets.

I'd like to thank everyone at Rolls-Royce for their hard work and commitment so far. I am confident that together we can achieve great results.

Thank you for listening. I'll now hand back to Anita.

Dame Anita Frew, Chair of the Board

Thank you, Tufan

I am now going to hand over to Pamela Coles to guide us through the formalities.

The questions asked at the AGM and their answers are available on our website. There were no questions submitted in advance of the meeting.

Dame Anita Frew, Chair of the Board

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

Please make your way back to the refreshments area where there will be further refreshments and our marshals will help you with transport arrangements.