

## **CHAIR AND CHIEF EXECUTIVE'S STATEMENT**

### **ANNUAL GENERAL MEETING – 23 MAY 2024**

*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 to be with you today at our Learning and Development centre here in Derby at the heart of our operations. In this building, we house our purpose-built Apprentice Academy and Customer Training Workshop; as well as our Heritage Trust Exhibition. I hope those of you here will be able to take the time to look around the Exhibition.

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

Firstly, I would like to introduce you to our Board. There have been a number of new appointments since our last AGM and I will ask each of them to say a few words to introduce themselves in a few moments. More details about each of the Board members was included in the Annual Report and Notice for this Meeting and are also on our website. However, what is hard to express in the written word is the passion and commitment to Rolls-Royce every member of the Board brings.

Firstly, on my left is Tufan Erginbilgic, our Chief Executive, he will be speaking to you later.

Next to him is Helen McCabe, our Chief Financial Officer. Helen joined the Board in August last year and will introduce herself shortly.

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

And next to him is Bev Goulet, independent non-executive director and our lead Employee Champion.

Next to her is Wendy Mars, independent non-executive director and Chair of the Safety, Energy Transition & Tech Committee – Wendy is also one of our Employee Champions.

On my far left is Paulo Cesar Silva who joined the Board in September 2023.

On my far right is Stuart Bradie who joined the Board from the conclusion of last year's AGM.

Next to him is Dame Angela Strank, independent non-executive director.

Then Jitesh Gadhia, independent non-executive director and Chair of the Remuneration Committee.

Birgit Behrendt was at our meeting last year but didn't formally join the Board until immediately after that meeting.

Then George Culmer, our Senior Independent Director.

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

I would ask Helen, Birgit, Stuart and Paulo to say a few words of introduction and to share with you some of their early reflections.

Helen McCabe, Chief Financial Officer:

Good morning everyone.

I have been in role under a year and my first impressions remain:

I am delighted to be here.

Rolls-Royce is an iconic company with so much potential. We are world renowned for our engineering excellence. Our products power, protect and connect people everywhere.

I continue to be impressed by the passion, commitment and motivation of the people I meet. People are all hugely proud to work at Rolls-Royce. And rightly so.

We are all focused on working together to deliver Rolls Royce's full potential. And although we have made good progress, which is evident from our 2023 full year results and how the share price has responded, there remains much more for us to do. And that is what all of us are focused on - how we ensure we deliver Rolls-Royce's full potential.

A little about me:

Before Rolls-Royce, I spent 30 years in large, complex global businesses with engineering and technology at their heart.

I was CFO of a global business, with multiple divisions, which had a profit of more than 10 billion dollars. A business where Tufan and I previously worked together, including on material transformation programmes. In the last one, costs were reduced by £3 billion dollars and the earnings potential of the business expanded by more than \$5 billion dollars. As I have previously shared, transformation is not easy..... but it can be done. And that's the opportunity that attracted me to this role.

Interestingly, I have a family connection to Rolls-Royce. My dad, who sadly is no longer with us, was a welder and he spent many years of his working life working at Faslane near

Glasgow in Scotland on the Submarine base. In March this year, I was at our main Submarine office at Raynesway, not far from here, and was speaking to some of the welders on the shop floor and I walked the factory floor. The technology has most definitely moved on from when my dad did the job, but I think he would feel quite proud that his daughter met and spoke to some of the next generation of his peers, doing work that he did, and was the CFO for a company that he indirectly worked for.

*Birgit Behrendt, Non-Executive Director:*

Good morning to everyone, both here and online.

It is a pleasure to have the opportunity to introduce myself to you today. Last May I had the privilege of joining the Board of Rolls-Royce, in my view a true British icon.

My background is largely Automotive, having spent most of my career at Ford Motor Company – which you could say is an American icon with a similar rich history as Rolls-Royce and similarly with lots of ups and downs.

My expertise is in Supply Chain Management and Procurement, and more recently in general management, working in Europe as well as in the US. I became a company officer of Ford Motor Company in 2013. As a vice president in Global Purchasing, my focus was to deliver optimal material cost, quality and technology in partnership with our suppliers – in other words leveraging scale, driving operational excellence and creating synergies throughout the value chain. Working in a highly competitive and regulated global industry also included identifying and addressing disruption and risks. In 2017, I returned to Europe to assume general management responsibility for several Ford Joint Ventures, working with our partners in Russia, Turkey, and Germany. Throughout my career I had the opportunity to work and lead in different cultures, building respectful and effective relationships with suppliers, joint venture partners and other stakeholders.

Currently I am a Venture Partner at a London based Venture Capital firm focused on the hydrogen value chain. I have years of experience as a member of Supervisory Boards of listed and non-listed companies in different industries which all have one thing in common – the need for sustainable transformation. I am impressed with the progress that Tufan and the team have already made and I welcome the opportunity and the privilege to serve Rolls-Royce shareholders and the entire Rolls Royce team in creating value sustainably, for all stakeholders.

Stuart Bradie, Non-Executive Director:

Good morning.

Joining the Rolls Royce Board in May last year was not only an honour but a full circle moment for me. What do I mean by full circle - in my last year of Uni, where I studied Mechanical Engineering, my thesis subject was to design a vibrational test bed that was funded by Rolls Royce, on graduating my first real job was in a place called Vulcan - just outside Thurso - which is of course Rolls Royce's nuclear submarine test facility.

So returning to Rolls Royce completes the circle.

In between then and now I have worked in the world of technology, engineering and technical excellence - across energy including nuclear, defence & aerospace, space and sustainability including SAF.

For the last 10 years I have had the privilege of leading a public listed company called Kellogg Brown & Root, or KBR. This is a company with a great brand and proud 100 year history, operating in over 30 countries but in real need of transformation and commercial focus - while ensuring there was an unwavering commitment to safety and focus on the people - the true value of any company.

The similarities to what Tufan and the executive are successfully delivering at Rolls Royce are uncanny.

From an engineer to a sitting CEO in a public company that has undergone a similar transformation to Rolls Royce - importantly a few years ahead - I hope I can support and add value in my capacity on the Board.

Paulo Cesar Silva, Non-Executive Director:

Good morning to everyone, it's a pleasure to be here today.

My name is Paulo Cesar Silva, I was born and raised in Brazil. At 25 years old I started my international career in Finance, working at Global Investment Firms for 15 years, and later on in Aviation, where I held various management roles for 25 years - culminating as CEO of Embraer, the third largest aircraft manufacturer in the world. I am passionate about this industry and its ever-changing dynamics - to this day, I serve as independent advisor and in board member roles.

I feel very privileged to have been invited to be part of the Rolls-Royce Board of Directors in September last year.

My first experience with Rolls-Royce dates back to the 90's when I started to work in the aviation industry and joined Embraer. Rolls-Royce was key for the success of Embraer in the regional jet market and even for the success of Embraer as a Company since it provided a great deal of support in both technical and financial aspects during a quite challenging period for Embraer. I personally worked very closely with Rolls-Royce's leadership, engineers and financiers and together we were able to develop a win-win program. Today there are more than 3,000 AE3007 engines in operation. I have great respect for the technical, engineering and current leadership teams, with proven capabilities and state of the art technology, which places the Company on track to implement the new strategy designed to transform, and help Rolls-Royce perform to its full potential. The last 10 years have been quite challenging for the Company, however, the future looks promising and exciting. It is a pleasure to support and participate in the plan to transform Rolls-Royce.

Thank you for your time, and I look forward to seeing the company achieve new altitudes.

*Dame Anita Frew, Chair of the Board*

Thank you. As I think you can see, our new Board members, as with other members of the Board, have past connections with Rolls-Royce which brings out their passion and commitment for the business.

As I am sure you will have seen, and Tufan will give us more detail on in a moment, we took significant steps forward last year. This resulted in a considerably improved share price and outlook for the Group. The change brought about within our business in 2023 has been driven by the clear transformation programme which Tufan and his team defined and are leading.

The safety of our people and products is the greatest priority for the Board and we continue to invest in our engineering excellence and technology. We recognise that the financial targets we have set for the mid-term are ambitious but achievable. This represents a step-change in performance.

Finally, I would like to thank our people across the Group for their hard work and continued dedication. As always, I am impressed by their passion, enthusiasm and commitment. Our record performance this past year is testament to the contributions of all our people at every level.

I'll now hand over to Tufan who will make some comments on our 2023 performance and give you his perspective on the business and our plans.

Tufan Erginbilgic, Chief Executive:

Thank you, Anita. Hello everyone and thank you for taking the time to be with us today virtually and in the room.

Rolls-Royce is a great company, with a rich heritage and so much potential. It starts with safety and quality control as our first priority. From that foundation we set out our mid-term targets at our Capital Markets Day in November 2023. These represent a step change in financial performance:

- A quadrupling in operating profit compared with 2022;
- Operating margins equal to or better than our peers;
- Growth in sustainable free cashflow of close to 6 times our 2022 performance; and
- An increase in return on capital that will create a truly compelling investment proposition.

These targets help to show what Rolls-Royce can achieve in the mid-term. They are a milestone rather than a destination. They take us to a top-tier competitive performance that enable us to deliver on our proposition to become a high performing, competitive, resilient and growing business. This in turn enables future profitable growth.

The strategy we presented is based on 4 pillars.

First, portfolio choices and partnerships. We have segmented our portfolio into three categories; key investment areas for performance improvement and growth; areas where partnerships can create truly winning positions; and businesses and activities we will exit, but only at the right time and at the right price.

In Civil Aerospace, our focus will be on the widebody commercial airline market and business aviation, leveraging the value from our Trent and Pearl engine families. We are investing significantly in product improvements on our existing programmes such as the Trent 1000 and XWB-97 as well as investing for the future with the UltraFan engine. In the medium-term Defence will continue to focus on performance improvement and growth with new programmes in transport, combat and submarines. We can also use our expertise in adjacent fields such as nuclear micro-reactors.

In Power Systems, we will focus on governmental, marine and power generation end markets where we see the strongest demand and an opportunity for better returns from our power-dense and reliable solutions.

In some cases we will grow in partnership to strengthen our market position.

The second pillar is strategic initiatives. This is how we will create a competitive business, expand our earnings potential and sustainably improve our performance. We have a series of strategic initiatives across all divisions that underpin our profitable growth.

The 3rd pillar, Efficiency and Simplification, highlights the importance of a company-wide focus to drive synergies that will enable us to be more competitive and simplify the way we operate. We had a Total Cash Cost to Gross Margin ratio of 0.9 in 2019. That is around twice the best-in-class level for a business like ours. This will approximately halve by the mid-term, taking it to a market leading level, having improved to 0.6 in 2023.

The fourth pillar, lower carbon and digitally enabled businesses shows our commitment to the energy transition and capturing the benefits of becoming digitally enabled. Our strategic framework acknowledges the fundamental role of lower carbon solutions and digital technologies in the success of Rolls-Royce. We are committed to becoming a net zero company by 2050 and we support our customers to do the same.

These 4 pillars represent a clear and granular strategy that is now being driven at pace by an engaged team excited about unlocking Rolls-Royce's potential. It not only provides clear direction for what we do and do not do, it also serves as an alignment, engagement and performance management tool. Many of our leaders took part in the strategic review process and already feel strong ownership. It is now being cascaded to all employees in Rolls-Royce so that everyone knows the role they play in delivering it and feels a similar level of ownership. We are already seeing the benefits of managing the group differently with this focus on strategic progress. This provides real confidence in our journey to transform Rolls-Royce into a simpler, more efficient, effective, and capable organisation with a winning mindset and performance culture.

Let's now turn to our performance in 2023.

2023 was a big year for Rolls-Royce. We put in place a transformation programme and strategic framework to unlock our potential. We worked at pace, achieved record results and the step-change was achieved across all our divisions. This was despite a volatile environment with geopolitical uncertainty, supply chain challenges and inflationary pressures.

On the revenue side all of the divisions delivered against our commercial optimisation programme. This included all key Civil Aerospace OEM and major airline contract renegotiations that were either concluded or progressed with successful win-win solutions found. The efficiency and simplification workstream delivered around £150m sustainable net annualised savings in 2023 against our total target of £400-£500m per annum by the

mid-term. At the same time, we achieved £130m of cost savings through our third-party cost initiatives against the £1bn of cumulative savings we expect to deliver in the mid-term.

Complementing the transformation programme, our sales performance and programme development built great momentum for the future. In Civil Aerospace, we had the highest order intake in 15 years driven by continued commercial success of our Trent XWB engines that power Airbus' A350. We sold around 700 widebody engines in 2023 with the XWB engine sold to 63 different customers worldwide.

We announced our £1bn multi-year investment in time-on-wing improvements ensuring our engines achieve the most competitive levels of performance in the next couple of years. As part of this, the new Trent 1000 HPT blade will be certified in 2024, doubling time-on-wing. We aim to also double the time-on-wing of the Trent XWB-97 engine in non-benign environments and see potential for a 50% increase in time-on-wing in benign environments where durability is already good as part of this programme.

In 2023, we met our targets to test our in production civil engines with 100% SAF and powered the first 100% SAF transatlantic commercial flight, a 787, with our Trent 1000 engines. We successfully tested the UltraFan demonstrator engine at full power with a scalable design that could be applied to Narrowbody as well as Widebody markets in the future. Lastly, our Pearl 700 engine was certified by the FAA for Gulfstream's G700 and G800 aircraft.

In Defence, we saw the award of the AUKUS submarine programme and received formal confirmation of the FLRAA programme in the US. Work has commenced on both programmes as we invest for our future on these key platforms.

In Power Systems work has begun on a new engine that will join our portfolio alongside our current Series 4000. This will be the first major new engine programme for Power Systems in more than two decades. We proved that our Series 2000 and 4000 reciprocating engines can also operate sustainably, with testing and certification in 2023 using sustainable fuels.

As you can see, we did a lot in 2023. The pace, rigour, and focus we applied to these activities drove our record results of operating profit of £1.6bn which we converted into free cash flow of £1.3bn.

These results provide both momentum and confidence as we build towards our mid-term targets. However, these targets are a milestone not a destination as I mentioned before. Indeed, when we look ahead beyond the mid-term we think there is a lot to be excited about, enabled by our investments and programmes today.

For example, the £1bn investment we are making now into time-on-wing improvements will payback over decades. The XWB-97 benefits will only start at the back-end of the mid-term. The Pearl engines being certified today will power our customers' airframes well into the 2040s with increased profitability. And there are also new business opportunities such as narrow-body aviation, where we are well positioned to partner on the next generation of aircraft with the UltraFan.

In Defence our recent wins with FLRAA, B-52 and Aukus and our ongoing work on GCAP start to deliver late into the mid-term period, if not afterwards. The same for our new Power Systems engine that we expect to not just improve our competitiveness but to also increase our market access.

All three of these divisions are already seeing the positive benefits of increased profitability from new and re-negotiated contracts and this impact will only increase with these long-term growth opportunities.

Our new businesses, SMRs and Nuclear Micro-Reactors have a compelling long-term growth story. For SMRs, we could have the first units producing power by early next decade if orders are placed soon.

In addition, our transformation programme ensures that all of this growth comes into a much more efficient and competitive business with an embedded performance culture.

This transformation is based on building a sustainably distinctive business built on four key elements:

First, operational excellence. The safety of our people and our products is the very first priority at Rolls-Royce. Our strategic initiatives aim to improve product quality and control and we have a robust system to drive operational effectiveness to deliver best-in-class customer service despite the supply chain challenges.

Second, our advantaged products and technologies are highly competitive. We already have some of the best products and technology in the industry. We are investing further to improve our products significantly and this drives stronger long term financial performance.

We are becoming more focused – enabling increased investment in the most important programmes while curtailing those that are not aligned to our strategy or fail to meet our investment criteria. This focuses and aligns our organisation on the most value accretive activities.

Lastly, our new mindset and the distinctive performance culture we are building are fundamental to delivering our plans. We have an aligned, energised workforce and together, we are building One Rolls-Royce, that can fully realise its potential to be a high performing, competitive, resilient and growing business.

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 as well as questions submitted in advance of the meeting, and their answers are available on our website.*

\*\*\*\*\*

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 Heritage Centre area where there will be further refreshments and our marshals will help you with transport arrangements.