



Rolls-Royce Holdings plc AGM

Q&A Summary – 23 May 2024

1. Question from Charles Cuddington

Firstly, I would like to say congratulations on the results. They are indeed a good set of results. I worry about the use of transformation all the time. It is an overused word now. From what I can see, and I only speak on behalf of Civil Aerospace and not to the rest of the Group, but as far as I can see the Civil Aerospace results are totally driven by the increase in flying hours that were achieved in 2023. It is very hard to see a significant contribution from the transformation. And indeed, it's the growth of engine flying hours going forward which will, from a Civil Aerospace point of view, I believe, get you a long way towards the targets that you set out at the Capital Markets Day event. And they are good. Don't get me wrong. We would like you to succeed. We want you to succeed. But as I say, I do worry about the word transformation.

I refer back to the Telegraph article that was issued a little while ago where the letter from Sir John Rose was referenced. The essence of what Sir John was saying was correct and the business has got to build on engine flying hours in order to build the results. The transformation so far appears minimal.

The one bit of transformation I will give credit for, although I would not have called it transformation but rather reincarnation of the organisation, is the appointment of Simon Burr as Group Engineering Director. This is a very good and welcome move and I hope, that in the fullness of time, that position will be made a Board position because a group of such engineering excellence needs to have the Engineering Director on the Board.

I am particularly interested in the Group getting back into the narrow-body market because, without that, the volumes that Rolls-Royce - Civil Aerospace of course - will achieve in the future will get nowhere near being able to address some of the shortfalls that we have in terms of efficiency relative to a GE, for example. The difficulty with the narrow-body market is that there are no clear opportunities at the moment. And while the strategy is right - let's get there and let's use the partners etc - the challenge is how to keep the capability together to do a brand new civil aerospace engine because the capability that exists today, largely off the back of the XWB, has some retiring and some may have left and, in time, there needs to be a programme, a major programme, in order to be able to make sure that we keep that capability and develop it for the future. I see that as a major challenge, which you can put into transformation or not, but I would like to hear what the plan would be, because waiting for the airframer to come up with a new platform to do this is probably a long way away and we need to do something earlier to make sure that we retain the world-class capability that Rolls-Royce has in developing Civil Aerospace engines. Thank you.

Dame Anita Frew: Thank you, you cover a lot of ground. I think if we start with what we are trying to do and the label 'transformation'. Tufan talked about the activities in his presentation. It is a catch-all word but for Rolls-Royce it is a specific list of initiatives which he went through and a lot of it is about investing for the future. Our engineering and investment spend has gone up £200m overall and it is now £1.4bn, so we have increased that as we go through this programme and we will continue to increase it. Safety, engineering and technology is at the heart of this company.

But at the same time, I appreciate Sir John's comments. He left in 2011. Following that time, we did have four profit warnings, Trent 1000 issues, the Serious Fraud Office investigation, which caused large fines, and the pandemic. So the Group was in a very difficult financial position. And you all know, because you have lived through it – and some of you have lived through the 1971 crash as I did – that there was a rescue rights issue and some government funding. So we started from a position where the Group was not in a good state – in debt, not paying dividends and making losses. So you have to do something to get it back to steady state. I think when we look at our results and we look at the achievements over the last year, to give you an insight from the Board, we started with a budget before Tufan came, probably around December of the previous year, which was significantly less than the results we reported. That was based on the same engine flying hours that we ended up with in the year. There was no significant improvement that came from engine flying hours versus our budget but we ended up the year significantly higher.

A lot of that was down to some of the pillars that Tufan talked about. Not all have delivered yet. Some of them are still to come. As you know, we have the highest order book we have had since 2007. We have had some terrific wins this year and that will build for the future. But we have also had a series of negotiations with customers because we have had a lot of onerous contracts and unprofitable contracts and we make great engines. We contribute to the fuel efficiency of the aircraft, a significant factor, by almost 80%. So it is really important that we get value for the great engineering and technology.

As Tufan talked about commercial optimisation, we have had a whole series of engagements with customers who are our partners. We want them to be with us for the long term, to make sure that we have a profitable business with them. That also has contributed to this year's results.

We have today given an indication of engine flying hours, year to date, and obviously the analysts build on that going forward. Some of it will come from engine flying hours and some of it will come from new business wins but some of it will also come from the pillars of the transformation that he laid out.

I am glad you talked about Simon. One of the things I think that has happened is that often people think that Tufan is just about financial performance and that he has brought a new team in to do this transformation. Of the ten members on the Executive Team, we have three new additions who were external appointments but the rest are all longstanding Rolls-Royce employees who have been here anywhere between 12 and 40 years.

The promotion of Simon into that role and bringing safety, energy transition and technology across the Group together was a really important step for the Group because we do some great work in Power Systems and Defence that is also relevant to Civil Aerospace. I think it gives you a signal it is at the heart of the organisation.

2. Question from unidentified shareholder

I am a long-term investor in our company and I have two points I would like to raise: firstly concerning SMRs and secondly a little bit of window dressing.

In respect of SMRs, our company were pioneers of this technology and have, it appears to a layman like myself, an almost off-the-shelf product ready to roll. I know from my many personal years of experience selling British products internationally that buyers are hesitant to sign up to a product that appears to be ignored or sidelined by the manufacturer's home country. This seems to a potential buyer a lack of product confidence.

In the Annual Report, you write of a large export opportunity and name four potential countries, yet our own government appears to be waiting until possible manufacturers from a lower-cost country somehow obtain the technology developed at great expense by our own company and then enter the market.

When will we see, and I realise this is a difficult question for you, a positive decision to support this world-beating technology and have some orders in hand rather than hear about Sizewell and so on?

My second question concerns the well-known, world-renowned Rolls-Royce logo. Some airlines powered by our products carry this logo on the engine nacelle or cowling and some do not. It would be nice to see more widespread visibility of our logo worldwide on both inside and outside of the nacelle. Is this something that is integral to the company's sales and support policy? And if not, may I say that I think it should be?

Dame Anita Frew: Regarding the SMR question, there is a UK Government process for this and it is run by Great British Nuclear. We have progressed through the first stage of the process and we have been shortlisted through to the second stage. We can prove that our design is about two years ahead of any other in the competition and some within the competition are start-ups so they may not have the financial strength or the history of technology. We are in a good position and we are eager to move to the next stage and agree a contract. We expect a decision in the second half of this year. In the meantime, we are pursuing export opportunities because there is global demand for this.

Tufan Erginbilgic: You have both summarised the situation well. But in the interests of Rolls-Royce, we are also pursuing other opportunities so that we have options to deploy this technology.

Dame Anita Frew: Regarding your second question relating to the Rolls-Royce logo, I am not sure what specific airlines do display our logo but the Rolls-Royce brand is known globally and stands for reliability and excellence in engineering. I agree with you, therefore, the more we can use it the better but it will be down to individual contracts.

3. Question from Andrew Thomas

Having seen the debacle of Boeing - their pursuit of share price and what has happened to their quality - how is the Board, in their relentless chase of the share price and investment, going to stop Rolls-Royce becoming the next Netflix documentary?

Dame Anita Frew: The point I would dispute with you is our relentless pursuit of the share price because we do not pursue the share price - what we want is shareholder value creation out of the greatness of what we do, so the share price is an outcome of what we do rather than an intention.

As I said in my speech earlier, safety is the most important thing, followed by engineering and technology. We have a Board-level Safety, Energy Transition & Tech Committee which is chaired by Wendy Mars and we take safety seriously across the organisation. At every town hall that Tufan and I do across the Group starts with safety and we put it absolutely at the heart of the business as, without it, we are nothing. Financial performance comes from other things but safety is absolutely critical and we will never compromise safety for financial performance, that is our assurance. Earlier this week, we had a great session at the Safety, Energy Transition & Tech Committee on both people and product safety and we have teams from every area of the business who come to talk about what they are doing, the metrics they look at and how we bring it to life on site because it is everyone's responsibility to think about both people and product safety on site. Within Tufan's Executive Committee structure, we have made Simon Burr the Safety, Engineering and Technology Director so safety is right at the heart of it.

Tufan Erginbilgic: Safety is personal for me. Safety is the right thing to do regardless of whether it is the right business decision or not. Every time there is a safety incident, I believe it is a failure of a leader. I spent the whole first quarter of this year going through every division, talking to operators, inspectors, going through the shop floor, reviewing safety and quality control processes and procedures for every division. We are very clear that safety is the first priority. And with the new organisation, as engineering, technology and safety are in one place, that is going to create a good second line of defence actually focusing on safety with lots of expertise, engineering and technology expertise. So, I think we are very clear, frankly, what is first priority.

Regarding your comment relating to the share price, I refer you back to the last slide of my presentation where I talked about four elements to build a sustainable business: safety, quality control, advantaged technologies and engineering. We will continue to invest in those and operational effectiveness. We are not interested in the short-term share price. We will do the right things for the business and the share price will be what it will be.

4. Question from Roy Turner

I have recently reconfirmed specific failings of the Rolls-Royce Pension Fund Trustee Board to yourself and other Directors. It is too early to expect a response. But I would ask yourself and Mr. Gregory to confirm you have received this complaint.

The other point I would like to make is that Rolls-Royce plc appoints the majority of directors to the pension fund. Rolls-Royce administers the pension fund and Rolls-Royce directors can remove their appointed trustees in the event of them misbehaving. Rolls-Royce has also benefited immensely from the decisions of an illegal trustee board. And I think that even amounts to money laundering which is, as you will know, a major serious crime. The only thing I would ask is that you acknowledge receipt of my complaint and will give me a reply?

Dame Anita Frew: We have received your letter and I undertake, with Mark Gregory, to respond to it. Thank you. I do take issue with your comments about illegal practices and money laundering. They are completely inappropriate and they are not relevant to the Rolls-Royce Pension Fund. It is important that shareholders understand that a company like Rolls-Royce does not have any illegal practices or money laundering within its business or its pension fund. I would like that on the record.

5. Question from Robert Lees

I am a member of the Rolls-Royce Heritage Trust. I would like to ask what are the Board's intentions for the future financing of the Rolls-Royce Heritage Trust?

Dame Anita Frew: The Heritage Centre is incredibly important to Rolls-Royce – it is the foundation of the business and it is iconic. For the benefit of the shareholders, the Heritage Trust, which runs the Heritage Centre, is a separate company. It has about 1,800 members and generates income from membership fees and book sales. The Group supplies some key services, such as display areas, and we have six employees on the Board – we do not charge for their time. We are fully committed to ensuring that this great organisation continues. We have made some changes that hopefully will benefit the relationship as we go forward. We have an executive who is responsible for corporate heritage who reports directly to Simon Burr and we have a new CEO of the Heritage Trust, Andy Roberts, who is a highly experienced test pilot with strong heritage links so there is a more senior Rolls-Royce representative as CEO of the Trust now. We also made a substantial donation this year to the Hucknall Flight Test Museum which shows our ongoing commitment and we have also asked Andy to look at how we can work closer together as we move forward. Those changes should help demonstrate that we are really committed to the Rolls-Royce Heritage Trust, and that we want to strengthen it. I would like to thank you and all your colleagues because as you take many thousands of visitors to the Heritage Centre and that is wonderful to see. So thank you on behalf of the Board.

6. Questions from Philip Holliday

- i. Can you update us on progress with small modular nuclear reactors, please? And are you confident of winning orders?*

This was discussed earlier in the meeting (question 2 regarding our SMR business).

- ii. Can you brief us on progress with developing engines that are able to run on alternative aviation fuel? Do you see hydrogen as a viable fuel for the future? Work at Cranfield seems to be successful with small turboprop aircraft. Is this work scalable to bigger planes and engines?*

Dame Anita Frew: We have confirmed that 100% of our engines are SAF compatible. On hydrogen, we use it as a feedstock at the moment because we can mix and blend it. We are some way off from hydrogen being used as fuel, partly because of the volumetric density and the way it behaves as a chemical if we are in flight and the size and the volume that we would need to make that happen. There is a whole programme of work on hydrogen accelerators being undertaken by the business. It is an area to keep an eye on and we will continue to develop and work with our customers.

- iii. What progress is being made developing engines for smaller aircraft, a market that is large and which Rolls-Royce has missed out on recently? Can you share with us what plans Rolls-Royce has to develop this area, please?*

Dame Anita Frew: I suspect we are talking about narrow body rather than smaller jet engines for the personal market. We have a big business aviation business, which is in the smaller engine market, but I think you are probably referring to narrow body. Rolls-Royce exited the narrow body market many years ago. When we look at new markets and new opportunities, we have a very strong framework now which looks at whether there is growth potential of this market. We absolutely tick the box in narrow body. Can we differentiate in that market? Do we have something to bring? Absolutely.

As Tufan mentioned, we have UltraFan. We are working on scaling it for different sizes of engines, so there is some development work there. And then the third part of that plan is to create a business model and an operating model that delivers returns from the engines, because we never want to get back to the position where Rolls-Royce bets on a new engine and we then get into financial difficulties. The three component parts of those are being worked on. Partnership discussions are a potential at some point but we will continue to keep shareholders updated on our progress.

7. Question from Rita Newlands

Why did the opening video have an American voiceover rather than using a British video commentary?

Dame Anita Frew: We will bear that in mind, thank you for the suggestion. However, we do have 6,000 employees in North America and we are an international company, so we will ask all our employees to support our communications.

8. Question from Lyndon Malley

I would like to thank the Chief Executive for looking into the supply of engines for narrow-body jets, which is a subject I brought up last year and in 2019, and thanks for pulling Rolls-Royce up by its bootstraps.

Dame Anita Frew: The Executive Team work incredibly hard on your behalf and, as I said, so have all our employees this year. It has been a great year for them.

9. Question from Nigel Boreham

You mentioned that you and your colleagues were meeting the apprentices after this meeting. May I ask how many apprenticeships you award each year? What academic qualifications do they need? Do they need to have a degree? Or do you look for people straight out of school who have done their A-levels? Do you have any connection with the skills at Derby University that help your apprentices? And what is the dropout rate if there is one?

Dame Anita Frew: Yes, we are meeting the apprentices after the meeting - the Apprentice Academy is actually in this building. We meet employees every year when the Board comes to either Derby or Bristol, and this year we are focusing on our apprentices. I do not know the annual take-up but we have 817 apprentices at the moment which is a sizeable cohort. Historically, it has been very important to Rolls-Royce. They are not all graduates, they range from 16 years upwards, so they often come to us and do day release at college or they come to us and then they become full-time employees. I have met many of them personally and they come from all backgrounds. Some come in through engineering and some through other disciplines. The retention rate is about 80%. We have a great training programme where they go around all the functions and the different businesses. They get involved in real-life projects and, as we are a global business, they have the opportunity to go anywhere with Rolls-Royce, which I think is why their retention rate is so high. It is very attractive and it is very important to us.

10. Question from John Warren (submitted in advance of the meeting)

I am contacting you about an incident where a former pension lump sum for a person employed by NEI Projects was paid out to the incorrect person due to a mix-up in their National Insurance number. Do you accept that an incident like this should be treated as a data breach as the original person was never contacted by the pension provider and the funds went to the wrong person? This was a one-time offer that had been missed because of this error. What steps would you take to rectify this mistake and what would you do to prevent something similar occurring again in the future?

Dame Anita Frew: We believe the incident you referred to happened in 2016 and we understand it was due to a mismatch between a traced address, name and NI number. We can assure you such errors are rare but nevertheless it should not have happened and since then we have put in new processes to make sure that all data items are matched or where they are not, we will do further work to get to a fuller match. Tracing methods have improved since 2016 and we now complete an online identity check prior to paying any benefits. Things have moved on since then but we absolutely accept it should not have happened and we apologise for that.

11. Question from John Bull (submitted in advance of the meeting)

Why is there no homegrown Rolls-Royce talent on the Board of Directors?

Dame Anita Frew: A board is made up of non-executive directors and executive directors and we have ten non-executive directors who cannot be homegrown talent, sadly. They all have to be independent, so they come from outside the organisation. Growing talent through the business is really important. In Tufan's Executive Team, we have three who came in from outside but the rest have been internal promotions. We are now really concentrating on how we build the pipeline of talent and successors to Tufan and Helen from within.

12. Question from Steve Gormley

You have previously announced that you do plan to exit from the Rolls-Royce Electrical Advanced Air Mobility Market. Can you perhaps comment on where you are in that process?

Dame Anita Frew: We set out at the Capital Markets Day in November 2023 what we our plans are for this business. There are elements of the business that are absolutely critical to Rolls-Royce, therefore we are not exiting electrical propulsion. There is a great market for a combination of gas turbine and electrical propulsion and we use it across the business in Defence so we do not want to lose those skills. So we have transferred those skills to other areas of the business. The business itself is going through a process of identifying who would be attractive owners. We have not announced a deal yet and therefore we probably cannot give you any confidential details of our progress but, as and when we have something to announce, we will make sure that we give you the full details.