

Rolls-Royce Holdings plc AGM Q&A Summary
13 May 2021

1. Question from Mr Lawrence Thomas:

Please would you talk a little about your nuclear power, your small modular reactor plan, and especially approximate timescales to commercial use as I have heard that they are not expected until the end of the decade? Nuclear power looks a promising and expanding future market.

Nuclear is a very interesting development possibility for the Group. There will be a huge demand for non-carbon energy in the next several decades. While renewables will play a huge part in that, due to the intermittent nature of renewables, we think that it is inevitable that other forms of non-carbon power generation will remain essential. Looking at the segments in which we operate, such as aviation, where vast quantities of energy is required to create synthetic fuel to enable net zero long distance air travel, the inclusion of something like nuclear is inevitable.

Our Small Modular Reactors or SMRs are built on 60 years of experience in nuclear engineering providing propulsion for the UK Navy. With this experience, we think we can deliver a platform which revolutionises the nuclear industry with very small footprints and excellent cost of electricity. This will be comparable and, taking a system view, better than many available renewable solutions.

We have UK Government support for our SMRs and view our SMRs as a vast export opportunity. We expect to have first power from these in around ten years.

2. Series of questions from Hermes EOS at Federated Hermes:

In March, the first Climate Action 100 net zero company benchmark was published. Rolls-Royce is appraised to at least partially meet expectations on all indicators, except capital allowance alignment and climate policy engagement.

How does the Board and management intend to align the prioritisation of capital with its net zero and Paris commitments as the Company recovers post-COVID, and how will the implementation of this be reported to shareholders?

An important action of climate responsibility for a company of the size and climate relevance of Rolls-Royce is to undertake a review of the alignment of policy advocacy of the trade associations of which it is a member. With the Paris Goals and its own climate commitments, will the Company undertake and publish such a review?

Will the Company commit to advanced climate disclosure over the next reporting cycle with the aim that, in annual reporting in 2022, it achieves material alignment with the intention of the TCFD - Task Force for Climate-Related Financial Disclosure - as per the five-year implementation aim of the Task Force's recommendations?

We see climate change both as a challenge and an opportunity for us. The Chief Executive's presentation demonstrated that our investment profile is moving towards developing products which will help tackle climate issues. In addition to our bold commitment to make our own operations net zero by 2030, between now and 2050 we believe we can play a crucial role in enabling our customers to operate our products in a net zero fashion. We are putting this at the heart of our strategy -

capital allocation will naturally follow that path and therefore be aligned to our climate commitments.

We will be publishing a net zero report next month. We engage with the trade associations that we are connected to and seek, where possible, to influence these policies. However, over the next 12 months we will be completing a review of the climate policy positions of our key trade associations and industry groups to understand alignment with Rolls-Royce climate advocacy position.

3. Question from Mr Charles Cuddington:

Firstly, congratulations on appointing Paul Adams to the Board. As a respected air engine engineer, he brings the engineering experience and expertise that has been lacking in recent times. I hope that, in addition to his former roles in board committees, that his advice on engineering will be listened to.

My question is - can the Board confirm that the civil business will, and are engaging positively with Boeing in pursuing the opportunity of suppling a new engine for their proposed new aircraft, and will not, as previous, make an announcement of withdraw from the competition?

Can I also be assured that, as the requirement for greener solutions in other sectors of the civil business, will keep an open mind on which engine solutions may provide the necessary benefits as it seems likely that UltraFan will not be the optimum solution for smaller, narrow-bodied aircraft?

We are very pleased to have Paul join the Board. He is already making a great contribution and having his background is helpful. The key is having fantastic engineers in the Company as well as on the Board.

We need to be careful about what we say about our negotiations with our key customers and cannot comment on specific opportunities. However, it is fairly well-documented that Boeing is exploring the opportunity for a new aircraft and we are in dialogue with them about this, along with other engine manufacturers.

We withdrew from the previous Boeing competition because the timescales that they were operating to were out of line with our UltraFan programme. This was done with a heavy heart, but it was the right commercial decision to make at the time. In light of the experience we were having with Trent 1000 at the time, we felt it would be foolhardy to introduce a new engine without sufficient maturity testing and we could not achieve this in the time available. A couple of years on and it is a different situation as we have continued to invest in our UltraFan programme.

With regards to what happens below widebody long distance travel, then we understand that UltraFan is not necessarily the right power and propulsion answer in all those applications. We think there will be a range of different technology proposals to explore over the next decade or so and we are keeping a very open mind. At the lower end, the Group is active in electrical aviation and pure electrical aviation and there are hybrid and other fuel solutions available for smaller aircraft. It is a very interesting area and a fantastic opportunity to combine new technologies with the Group's decades of experience in the air.

The Board is very interested in all new programme opportunities but will be applying a tough disciplined approach in the evaluation of all major new investments, taking

into account the commercial and practical aspects as well as the engineering aspects.

4. Question from Mrs Caroline Hemmings:

Could the Board please tell us how much money the Company has spent as a result of Brexit?

There has been significant planning with changes to our supply chain. We will provide more detail after the meeting.

Post-meeting note:

We have seen no significant interruption in our service to customers as a result of the end of the transition period. Unlike tariffs for other industries, we operate under WTO guidelines for our Civil Aerospace business and we are confident in our levels of preparations across all areas. We ensured that there was approximately £100 million worth of buffer stocks just in case there was a disruption at the border. We will reduce these stocks through the normal course of trading.

5. Questions from Hermes EOS at Federated Hermes:

We welcome the Board's additional focus on diversity and inclusion in 2020, and the enhanced disclosure in the annual reporting. We appreciate the challenges the COVID pandemic has presented to delivering on an inclusion strategy, but we are concerned that diversity at board and executive levels continues to fall short of expectations for large UK listed companies. Given the Company's own gender diversity targets for 2020 were missed, meeting those set for 2025 becomes all the more important. What gives the Board comfort that the 2025 targets will be achieved versus those set for 2020?

2020 was also a wakeup call on racial inequity and the role that companies may play in perpetuating it. We welcome the steps the Company has taken to improve recruitment of ethnic minorities. Will the Company disclose the ethnic composition of the workforce by seniority related targets, ethnicity pay gap and a brief timebound action plan to address shortfalls?

The Board considers diversity a very important topic, believes it is important for performance and is the right thing to do. The Board is very aware that it has not achieved its recommended voluntary target of 33% of Board positions being held by women but expects this to change in the next few months as new directors are appointed. The Board is confident that it will meet its target at the AGM next year.

At the level below the Executive Team, we have our Enterprise Leadership Group. This comprises the top 80 to 90 leaders of the business, of which women made up 20% in 2020* and we are on a journey for this to comprise 35% women by 2025*. The Board is encouraged by this trajectory and feels hopeful that it can achieve this target. Further down the Group, 27% of graduates and high potentials are female compared to 17% in the whole organisation.

We achieve our targets by paying attention to diversity and inclusion, by ensuring that our Company is a comfortable place for women to work and by taking specific actions around hiring and promotions. For example, we are currently hiring higher levels of women than currently make up the Group with 19% of new hires being female.

We have started to report on our ethnic population. However, our reporting is limited in certain jurisdictions where we are unable to collect data due to local regulations and laws. This is the case in Germany, where we have significant operations. However, we are starting to track this in the US and the UK.

As with gender diversity, our aim is to create the most competitive business and that means having wide-spread diversity of thought. Both gender and ethnicity are good proxies for that. Like the measures taken for gender diversity, we pay attention to inclusiveness and specific measures when we can influence hiring and promotions. In the UK, we met our 2020 target to have a 10% ethnic minority population*.

* post-meeting clarification

6. Mr Simon Hemmings:

The Company has a commitment to equality of opportunity. Can the Board please advise how many compromise deals have been signed in the UK related to equality?

Apologies but we do not have the data to hand but will follow up with Mr Hemmings after the event.

7. Question from RPMI Railpen, the investment arm of the UK Railways Pension Scheme:

We welcome your commitment both to targeting net zero greenhouse gas emissions in your operations and facilities by 2030 and to becoming fully net zero carbon by 2050.

We believe that net zero can only happen when capital is allocated in a way consistent with that ambition. To do this, companies like Rolls-Royce need to fully incorporate material information about climate related issues into their financial statements.

Railpen has been using the work of Carbon Tracker, and the Climate Accounting Project in assessing your accounts amongst those of other Climate Action 100+ target companies in this regard. We were pleased to note that explicit reference to climate change in the auditor's report in the deferred tax key audit matter. However, we would also like to see a more substantive discussion of climate change in the financial so that it matches the extensive and very welcome discussion in your narrative reporting.

We welcome the commitment of the Audit Committee to consider the impact of climate change on assumptions as key focus area in 2021. Can you give us any further details regarding what the Audit Committee expects of the auditor in its work considering this aspect of the accounting and in the auditor's report on its work? And would the Audit Committee Chair be willing to meet with Railpen over the coming months to discuss this further?

We are very committed to the investment in climate change and climate transition. Climate change is a key driver of our overall strategy and we will take it into account as we make adjustments in our Financial Statements. This is something we already do in some detail. For example, in Note 1 of the Financial Statements, on page 114 of the Annual Report, we have a section dedicated to climate change. This sets out how climate change influences our judgements around programme intangibles, goodwill, deferred tax, and long-term contract accounting.

As set out in the Audit Committee Report in the Annual Report, climate change will be a focus in 2021. The TCFD will apply to us in 2021 and we will be looking to comply with that. We already go quite a long way in meeting its requirements. With that, we expect the auditors to take into account climate change as they challenge the judgments both the Audit Committee and management make and how these are reflected in the overall Financial Statements. The auditors may choose to mention climate change in more depth in their Audit Report next year.

8. Question from nine employee shareholders, all based in the Company's Inchinnan site:

As a Rolls-Royce shareholder, I must raise my concerns around the strategic direction the Company is choosing to pursue. It is appreciated that the immediate economic circumstances we face as a company are extremely challenging. However, my concern is that whilst trying to address these challenges, we are overseeing the detrimental impact that these choices and actions will have on our performance in the medium to long term.

My greatest concern is the Company proposal to consolidate the Inchinnan shafts to Derby D site. I believe this strategic proposal will lead to the inevitable offshoring of critical rotating components into the supply chain when load returns to this area of the business.

With investment only being delivered to core product, where does this leave Inchinnan colleagues in the medium to long term? There are viable alternatives. I urge this forum to look beyond the short-term proposal it has presented alongside our trade union to protect UK manufacturing across the United Kingdom and protect the long-term viability of UK manufacturing across our nations.

The Board spent a lot of time overseeing the restructuring programme, including the operational footprint and the longer-term implications in terms of costs, assets and the skills that we will need in the future.

While the Board could have taken immediate short-term measures in response to the decline in load, we have acted with a long-term perspective. As set out in the Chief Executive's statement, in the coming decades the Group is going to be engaged in different technologies from what exists today. It is necessary to have a competitive business today to enable us to invest in the future.

It is necessary to look at the short-term and medium-term loads and we have made some assumptions about productivity and productivity improvements. We believe that when load returns in the medium term, it is going to be a smaller load than we anticipated pre-COVID. Therefore, we need to look at the consolidation of sites as one approach to reducing our fixed costs and removing duplication of work.

We have taken some very difficult decisions that have impacted our people. We have had a lot of communication around the issues at Inchinnan. We have found a solution which involves consolidation of some of our operational footprint from Inchinnan to Derby. This has been done in consultation with the unions. We have signed an MoU with the unions which has committed us to no further consolidation of work in these locations in the next five years.

9. Question from Mr Simon Hemmings:

In the statement today it states that you have engaged with the trade union over the restructuring. Can you please explain why appropriate information to allow the trade union to conduct a study into the proposed changes has not been supplied in a timely manner to allow the European Working Council employee representatives to present an opinion on these changes?

We are sorry but we are unable to answer this question. We are involved in ongoing discussions with the unions to create the right solution for the business and for all our employees and we would not like to compromise these discussions.