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Interview with Andreas Schell, CEO of Rolls-Royce Power Systems, about Strategy Power Systems 2030 and future positioning

„With Power Systems 2030 we are clearly on course for the future“

What is Rolls-Royce Power Systems aiming at with its Power Systems 2030 strategy?

Rolls-Royce Power Systems is transforming itself from a classic engine maker to a provider of pioneering, integrated solutions for the marine and infrastructure sectors. Rolls-Royce Power Systems and its core brand MTU have a long history and excellent reputation as providers of high-end-quality solutions. This makes us proud – but we cannot rest on our laurels. On the contrary: Our customers are more and more demanding, environmental regulation is more stringent and internationally complex. Our markets are highly dynamic – as are we. It is our aspiration to actively shape future development on the basis of Power Systems 2030 – as a driving force in the market.

What are the cornerstones of Power Systems 2030?

First, we will adapt our service offering to the customers' needs more consistently than before and advance digitalisation. Secondly, we want to focus increasingly on our core business, but at the same time, expand our core competencies through strategic partnerships and cooperations. And thirdly, we will use our growth opportunities in the area of future technologies, i.e. clean engines and energy solutions, as well as electrification.

Stronger focus on customers and digitalisation – how are the two connected?

In the future, a powerful engine won't be the only important thing for our customers. Rather, they will expect to have a long-term and reliable access to driving power or energy – around the clock and regardless of location. Service is no longer an additional offering to a solution, but an

integral part of it. This is why long-term service contracts, so called Value Care Agreements, as used most recently with our customer Hitachi, will become the standard for the future.

Digitalisation is a central driving force of this development. In the future, our high technological know-how must be closely connected to our digital know-how. With the help of digitalisation, we want to develop new service offerings and sources of value creation, and enter new markets and customer groups.

Where does Rolls-Royce stand today in terms of digitalisation?

We have developed enormously since last year – and we will even speed up the pace of digitalisation. Experts are working around the clock at our three global Customer Care Centres in several time zones and on 365 days a year to meet our customers' requests. These experts are closely connected to colleagues from our digital unit Digital Solutions. We will double the number of employees at our Digital Solutions Team from 40 to 80 by the year end. The role of Digital Solutions is to advance digital transformation in a consistent manner: connect all MTU engines and systems, as well as digital products and services for the highest customer benefit possible, as we did most recently with the digital tools MTU Go! Act and MTU Go! Manage, which are being successfully tested at the moment. Big Data and analytics are becoming increasingly important for us: we will use them to further develop our digital value creation and innovative business ideas and models for completely new customer groups and markets.

What is the role of strategic partnerships and cooperation within the scope of Power Systems 2030?

Competition in our markets is becoming tougher – not least because of new suppliers coming outside the industry with a high digital know-how. Against this background, we will focus on our core business and our core areas of know-how and join forces with partners or form cooperations with them – whenever this makes sense for our strategic development and market position. This means that in the future, we will increasingly make use of external know-how, for instance in our R&D activities. Joint Ventures will continue to be an important instrument for seizing opportunities on global markets. We have already had very positive experiences in this regard with MTU Yuchai Power in China and Goa Shipyard Limited in India.

What impact will the new strategy have on RRPS's portfolio?

We will continue to build diesel engines in the future. But we will build them in a more intelligent and clean manner. And we will increasingly focus on meeting the growing demand for electrified propulsion systems and alternative fuel and energy sources such as gas, hybrid and electric. With our Green and High-Tech programme, we are providing forward-looking answers to the growing challenges presented by the policy shifts in energy and mobility.

In what way?

Emission regulation is becoming more demanding for all transport modes – from ships to lorries and trains. We're supplying the fitting solutions – and while doing so, we have already set new standards in the market, including the first mobile gas engines of the MTU Series 4000, which are so clean that they can run in the Wadden Sea. From 2020, we will offer fully integrated MTU hybrid ship drives for yachts, workboats, ferries and patrol boats in the power range from approximately 1,000 kilowatts to 4,000 kilowatts per drive train. Our MTU Hybrid Power Pack concept combines the advantages of battery and diesel trains. This means: lower noise levels, lower fuel consumption, better acceleration and lower emissions. So, there are good concepts and solutions on the market. But: the paradigm shift in mobility must be addressed with more determination in politics. We need success more quickly. Innovative, alternative power systems need more support.

How can Rolls-Royce Power Systems contribute to a successful energy transition?

With the expansion of renewable energies, there's more weather-related fluctuation in power supply. To guarantee reliability of supply at all times, grid expansion must be advanced rapidly. However, it is far behind schedule. This is why there's a growing demand for reliable, decentralized, and, at the same time, cost-effective and sustainable power supply. With Microgrids we're already offering a fitting solution to this problem. Microgrids are complex, intelligently controlled energy systems, which use and combine many energy sources: photovoltaic, wind, hybrid, biomass, diesel, gas and storage power. They can be either grid-connected or run off grid and are optimally tailored to the needs of industrial companies and municipalities. Our customers can get an exact picture of how they work as of 2019 at our pilot plant in Friedrichshafen.

You have taken office at the start of 2017 to advance the business unit Power Systems with your board colleague Marcus A. Wassenberg. How far did you get?

Our first goal was to make the company fit for the future with regard to markets, portfolio, structures and processes. We has been achieved this with the transformation program RRPS 2018. We have increased revenue and improved profit. The business unit Power Systems is the second-biggest revenue driver in the company and contributes significantly to the overall profit of the Roll-Royce Group. With Power Systems 2030, we are entering a new phase in company development and we're taking a clear course towards the future: Rolls-Royce Power Systems will become more digital, more agile and more international. We will enter new markets and customers groups, tap new sources of value creation and lay the foundation for further growth and value creation to expand our position on the market in a targeted manner.