GOVERNANCE REPORT

Compliance with the Code

COMPLIANCE WITH THE 2018 UK CORPORATE GOVERNANCE CODE

The Company is subject to the principles and provisions of the 2018 UK Corporate Governance Code (the Code), a copy of which is available at www.frc.org.uk. For the year ended 31 December 2023, the Board considers that it has applied the principles and complied in full with the provisions of the Code.

Board leadership and company purpose	— Our Governance Report provides examples of our leadership and our Strategic Report sets out how we have engaged with our key stakeholders — Throughout the year, the Board has provided oversight of the Group-wide transformation programme — Following a review of its Board and Committee structure, the Safety, Energy Transition & Tech Committee was introduced and the remit of the Nominations, Culture & Governance Committee was refocused to include ethics and culture — The Safety, Ethics & Sustainability Committee and Science & Technology Committee held their last meetings in February 2023	See page 60 Stakeholder engagement See page 111 Safety, Energy Transition & Tech Committee report
Division of responsibilities	— We clearly define the roles of the Chair and the Chief Executive and fully support the separation of the two roles — The Board believes it operates effectively with the appropriate balance of independent Non-Executive Directors and Executive Directors — The Board regularly considers the time commitments of our Non-Executive Directors. Prior Board approval is required for any external appointments to ensure there is no conflict or compromise on their time — The quality of information and resources available to the Board has enabled us to operate effectively and efficiently throughout the year	See page 70 Board of Directors See page 78 Nominations, Culture & Governance Committee report
Composition, succession and evaluation	— The appointment process for our new Chief Financial Officer and new Non-Executive Directors was led by the Nominations, Culture & Governance Committee. Further information on the appointments can be found on page 78 — Our Board comprises a combination of broad skills, experience and knowledge — We have a clear process when considering appointments to the Board and operate effective succession planning — In 2023, Manchester Square Partners carried out an external evaluation of the Board. The methodology and outcomes can be found on page 77	See page 70 Board of Directors See page 73 Board Composition
Audit, risk and internal control	— We recognise the importance and benefits of ensuring the internal audit function and the external auditors remain independent — The Board presents a fair, balanced and understandable assessment of the Group's position and its prospects — Our risk and control environment is reviewed by the Audit Committee. The Board considered both emerging and principal risks during the year and held deep dive sessions where relevant — The Audit Committee also considers the information and data principal risk, including cyber risk, which forms part of the Committee's review of business interruption	See page 80 Audit Committee report
Remuneration	— The Remuneration Committee, comprising only Non-Executive Directors, is responsible for developing the policy and determining executive and senior management remuneration — During 2023, the Committee also considered the remuneration package for the new Chief Financial Officer, Helen McCabe, and leaver treatment for Panos Kakoullis — No Director is involved when deciding their own remuneration outcome — The Remuneration Committee engaged with investors on the remuneration policy which is being proposed to shareholders for approval at the 2024 Annual General Meeting	See page 84 Remuneration Committee report

Chair's introduction

As you will see from the Strategic Report, the focus of the Board in 2023 was on a range of aspects of the transformation programme.

Leadership and succession planning

There were a number of changes on the Board this year. Panos Kakoullis stepped down and Helen McCabe was appointed as Chief Financial Officer on 4 August 2023. Helen has a track record of promoting rigorous financial discipline and delivering effective performance management within complex multinational engineering organisations. Further information on Helen's experience can be found in her biography on page 70. Information on her appointment process is set out in the Nominations, Culture & Governance Committee Report on page 78.

There were also a number of Non-Executive Director changes during the year. As a result of the changes, the gender diversity of our Board is now at parity and, with the appointment of Helen as Chief Financial Officer, two senior Board members are now women. This is clear recognition of the importance we place as a Board on diversity. There have also been changes to the Executive Team over the year with gender diversity also improving across this team, increasing to 30% female.

I would like to thank Sir Kevin Smith, Mike Manley and Paul Adams, all of whom stepped down from the Board in 2023.

Details of the Board changes and our Board diversity policy can be found in the Nominations, Culture & Governance Committee Report on page 78.

Effectiveness

In 2023, Manchester Square Partners were appointed to facilitate an external evaluation of the Board and Committees. A full report on this review is set out on page 77.

For 2021 and 2022 we worked with Lintstock who supported us with internal board effectiveness reviews.

Culture

Leadership behaviours, purpose and culture is an important part of our transformation programme and will be a continuing workstream in 2024. This was an important pillar of the work of our organisational design that was announced in October.

The Board has continued to engage with our people. Following the 2023 Annual General Meeting, we held an in-person Meet the Board event where approximately 60 employees from across Rolls-Royce were able to interact with Board members and share experiences, discuss concerns and swap insights. Topics discussed included transformation, workplace inclusivity and the Board's personal experiences. The event was a great success and provided the Board with a valuable insight into the culture within Rolls-Royce and areas where improvements can be made.

Bev Goulet and Wendy Mars continued to act as Employee Champions and reported back to the Board regularly on discussions they had held with employee groups. Their focus this year was on how people were feeling during the transformation.

Governance

The Board reviewed and approved changes to the Board committee structure – as shown on page 67 and explained in the Nominations, Culture & Governance Report on page 78. The Board committees are closely aligned to the revised Executive Team's governance structures which were introduced at the beginning of the year (see page 69). Our new Safety, Energy Transition & Tech Committee, which is chaired by Wendy Mars, focuses on people and product safety, our sustainability agenda and our technology roadmap.

During 2023, the Board and Audit Committee were kept appraised of the developments relating to the proposed UK corporate governance reform. We will continue to keep this under review in 2024.

In May 2023, our Board apprentice programme concluded. The purpose of the programme was to provide coaching and board experience to a diverse group of emerging leaders selected from the Group's talent pool, whilst also demonstrating our commitment to participants' career progression and development as leaders.

Annual General Meeting

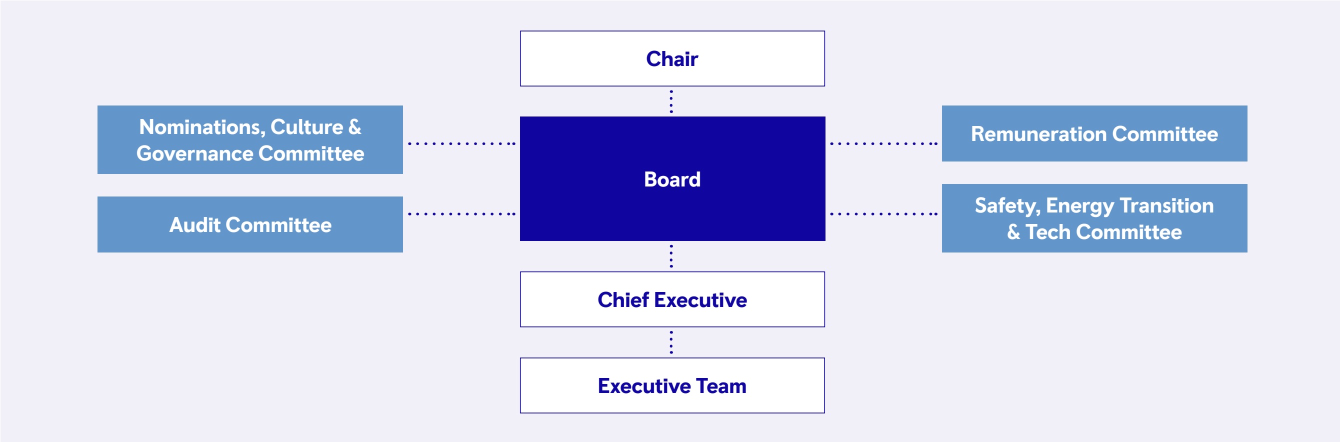
I look forward to engaging with shareholders at the Annual General Meeting on 23 May 2024, which will again be held as a hybrid meeting. Shareholders are encouraged to join, participate and vote virtually and we will answer any questions that you may have. We will propose our revised remuneration policy for approval by shareholders at that meeting.

Looking forward

Our priority for 2024 is the execution of our agreed strategy, particularly in relation to the culture of the Group and progress with our sustainability agenda.

Dame Anita Frew
Chair

Corporate governance



THE ROLE OF THE BOARD

The Board is ultimately responsible to shareholders for the direction, management, performance and long-term sustainable success of the Group. It sets the Group's strategy and objectives and oversees and monitors internal controls, risk management, principal risks, governance and viability of the Group. In doing so, the Directors comply with their duties under s172 of the Companies Act 2006 (see pages 62 to 63).

The Board has established certain principal committees to assist it in fulfilling its oversight responsibilities, providing dedicated focus on particular areas, as set out below. The chair of each committee reports to the Board on the Committee's activities after each meeting.

In addition to the Board's principal committees, it has established a sub-committee of Directors who each hold an appropriate level of UK national security clearance for the purpose of receiving and considering, on behalf of the Board, any UK classified information relating to the Group's programmes and activities.

Bev Goulet, a US national and independent Non-Executive Director, also sits on the board of Rolls-Royce North America Holdings, Inc. to create a link between the Board and the Group's North American governance structure.

Roles and responsibilities

The roles of the Chair and Chief Executive are clearly defined and the Board supports the separation of the two roles. The Chair is responsible for the leadership and effectiveness of the Board. The Chief Executive is responsible for the running of the Group's business and leads the Executive Team which comes together to review, agree and communicate issues and actions of Group-wide significance.

Non-Executive Directors support the Chair and provide objective and constructive challenge to management. The Senior Independent Director (SID) provides a sounding board for the Chair and serves as an intermediary for the Chief Executive, other Directors and shareholders when required.

The Chief Governance Officer ensures that appropriate and timely information is provided to the Board and its committees and is responsible for advising and supporting the Chair and the Board on all governance matters. All Directors have access to the Chief Governance Officer and may take independent professional advice at the Group's expense in conducting their duties.

Directors' independence

We continue to monitor and note potential conflicts of interest that each Director may have and recommend to the Board whether these should be authorised and if any conditions should be attached to such authorisations. The Directors are regularly reminded of their continuing obligations in relation to conflicts and are required to review and confirm their external interests at least annually. This helps us to consider whether each of them continues to be independent.

Following due consideration, the Board determined that all Non-Executive Directors continued to be independent in both character and judgement. Furthermore, it was determined that the Chair was independent on her appointment.

KEY MATTERS RESERVED FOR THE BOARD

- The Group's long-term objectives, strategy and risk appetite
- Changes to the corporate or capital structure of the Company
- The Group's organisation and capability
- Annual Report and financial and regulatory announcements
- Stakeholder engagement
- Significant changes in accounting policies or practices
- Overall corporate governance arrangements, including Board and Committee composition, committee terms of reference, Directors' independence and conflicts of interest
- Annual plan and financial expenditure and commitments above levels set by the Board
- Internal controls, governance and risk management frameworks
- Overview of the speak up programme and cases reported through the speak up line

THE ROLE OF EACH COMMITTEE

Nominations, Culture & Governance

Lead the process for appointments to the Rolls-Royce Board

Ensure plans are in place for orderly succession for the Board and senior executive positions

Oversee the development of a diverse pipeline for succession

Ensure the composition of the Board is appropriate and relevant so that the Board is in the best position to oversee operational performance and drive the Group's strategy

Assess and monitor culture to ensure alignment with the Group's policies, practices and behaviours

Oversee the Group's global diversity and inclusion strategy and its implementation

Keep the Board's corporate governance arrangements under review. Ensure these are consistent with best corporate governance standards

Principal risks: compliance; talent and capability

See page 78

Audit

Assist the Board in monitoring the integrity of the Company's financial statements and any formal announcements relating to financial performance

Oversight of climate change reporting

Review the internal financial controls and the risk management and internal control systems and review any concerns of financial fraud

Recommend to the Board the financial reporting, focusing on accounting policies, judgements and estimates; disclosures; compliance with regulations; and that the Annual Report is fair, balanced and understandable

Monitor and review the effectiveness of the internal audit function and oversee the Company's relations with the external auditor and approve their terms of engagement and fees

Principal risks: business interruption; compliance; information and data; market and financial shock

See page 80

Remuneration

Determine a policy for executive director remuneration capable of attracting and retaining individuals necessary for business success

Set remuneration for the Chair of the Board, Executive Directors and senior executives

Determine the design, conditions and coverage of incentives for senior executives and approve total and individual payments under the plans

Determine targets for any performance-related pay plans and the issue and terms of all-employee share plans

Oversee any major changes in remuneration

Review workforce remuneration and related policy and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration

See page 84

Safety, Energy Transition & Tech

Provide oversight in respect of:
- product safety
- HS&E (occupational health and safety, process safety, maintenance of facilities, asset integrity and personnel security)
- environment and energy transition, including progress and delivery against agreed metrics, targets and objectives

Monitor the operation of the Group's product safety governance frameworks, scrutinising the development and implementation of changes in process and practice

Review, challenge and support the Group's energy transition strategy, track progress and review the environmental impacts of products and operations. Provide oversight and assurance of the Company's scientific and technological strategy, processes and investments

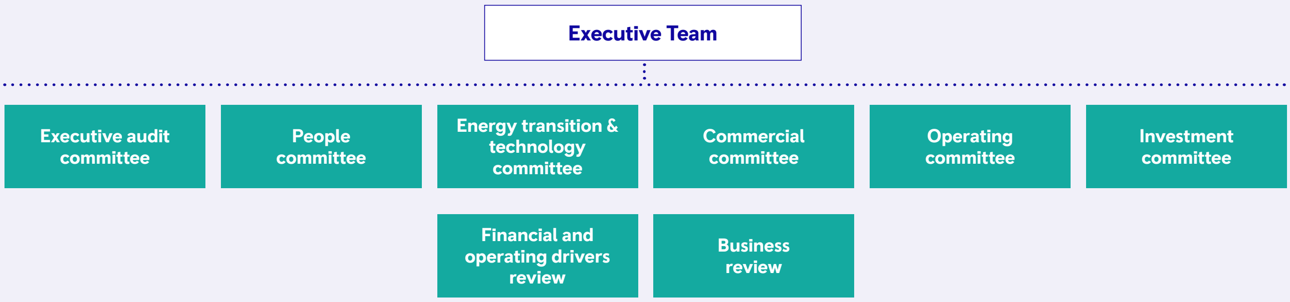
Principal risks: climate change; safety (people); safety (product); technology

See page 111

Committee membership

	Nominations, Culture & Governance	Audit	Remuneration	Safety, Energy Transition & Tech
Dame Anita Frew	Chair			
Birgit Behrendt	Member			Member
Stuart Bradie	Member			Member
Paulo Cesar Silva	Member			Member
George Culmer	Member	Member	Member	
Lord Jitesh Gadhia	Member	Member	Chair	
Beverly Goulet	Member	Member	Member	
Nick Luff	Member	Chair		
Wendy Mars	Member			Chair
Dame Angela Strank	Member			Member
Female representation	50%	25%	33%	60%

Chair of the Committee ▢ Member of the Committee ▢ Not a member of the Committee



The Chief Executive is responsible for the running of the Group. He leads the Executive Team which comes together to review, agree and communicate issues and actions of Group-wide significance and is supported by the governance framework introduced in 2023 shown above in the delivery of its remit. A summary of responsibilities is set out below:

Executive audit committee

— to consider principal risks

— to review delivery of in-year internal audit plan and to finalise internal audit plan for forthcoming year ahead of Group Audit Committee approval

People committee

— to ensure that Rolls-Royce has a winning team to deliver our strategic priorities

— to keep under review talent and succession, performance and leadership, reward, purpose and experience

Energy transition & technology committee

— to ensure the Group is playing a winning role in energy transition and future technologies

— to consider rationale for and progress of investments in energy transition; make capital allocation decisions on technologies that support energy transition

— assess strategic opportunity for future technology investments

Commercial committee

— to develop Group-wide pricing strategy and commercial capability

— to identify and deliver pricing actions and capability improvements to enable a step change in performance

Operating committee

— to improve Group-wide operational performance

— to review supply chain performance

— to oversee critical enablers of operational performance

Investment committee

— to make capital allocation decisions for all investments, acquisitions and divestments in line with our strategy

— to review performance of in-flight investments

Financial and operating drivers review

— to review in-year financial performance and operational drivers against plan

— to agree interventions where required

Business review

— to review performance by division, focusing on in-year and five-year horizon

— includes financial and operational performance, people and talent, strategic initiatives, principal risks and engagement with our people

Board of Directors

Position | Board skills and competencies | Key external appointments

DAME ANITA FREW
Chair of the Board
Chair, Nominations, Culture & Governance Committee

Appointed to the Board on 1 July 2021 and as Chair on 1 October 2021

Dame Anita brings a wealth of extensive leadership and global experience from more than two decades of board appointments, both in the UK and internationally. Together, with her skills and reputation with investors and government institutions, her broad knowledge of strategic management across a range of sectors is invaluable to the Board and the Group as a whole.

Current
– Croda International plc, chair

TUFAN ERGINBILGIC
Chief Executive

Appointed to the Board on 1 January 2023

Tufan is a proven leader of winning teams within complex multinational organisations, with over six years as CEO of BP's downstream business. He drives a high-performance culture and delivers results for investors. He has extensive strategic and operational experience and a firm understanding of safety critical industries as well as the challenges and commercial opportunities presented by the drive for low carbon technologies. He has a strong track record for execution, delivery and the creation of significant value and an ambition to deliver the full potential of Rolls-Royce's market positions.

Current
– Iveco Group NC, NED
– Global Infrastructure Partners (GIP), senior adviser
– UK PM's 2024 Business Council

Past
– GIP, partner
– BP p.l.c., various executive roles
– DCC plc, NED
– Turkiye Petrol Rafinerileri A.S, NED
– GKN plc, NED

HELEN MCCABE
Chief Financial Officer

Appointed to the Board on 4 August 2023

Helen has a track record of promoting rigorous financial discipline and her experience of delivering effective performance management within complex multi-national engineering organisations will be invaluable as the Group moves, at pace, to transform Rolls-Royce. Her skillset complements the existing capabilities of the Executive Team, contributing to Rolls-Royce delivering on its significant potential.

Past
– BP p.l.c., various leadership roles

BIRGIT BEHRENDT
Independent Non-Executive Director

Appointed to the Board on 11 May 2023

Birgit brings deep experience across global procurement and supply chain management to the Board. Alongside this, she has significant insights into the development and management of international joint ventures (JV), having led Ford's key European JV's. She also has a strong track record and an ongoing interest in developing, mentoring and coaching key talent and encouraging women in particular to consider a career in STEM. She has worked in the US and Germany and brings profound experience of working with unions and works councils.

Current
– Umicore SA, NED
– Thyssenkrupp AG, NED
– KION Group AG, NED

Past
– Ford, various executive roles
– Ford-Werke GmbH, NED

STUART BRADIE
Independent Non-Executive Director

Appointed to the Board on 11 May 2023

Stuart brings to the Board a reputation for building strong relationships and successfully driving comprehensive organisational transformation. Over the past nine years, Stuart has guided KBR's evolution, prioritising a focus on people alongside strong commercial discipline. KBR delivers disruptive technologies and digital solutions that address areas of global importance. Stuart has used a safety and ESG focus to deliver cultural change and helped make KBR the number one in its peer group in delivering against its ESG agenda.

Current
– KBR, President & Chief Executive

PAULO CESAR SILVA
Independent Non-Executive Director

Appointed to the Board on 1 September 2023

Paulo brings deep expertise in the aerospace industry, a broad international mindset and an appetite for growth, change and innovation. Alongside this, he brings a wealth of strategic, commercial and operational experience to the Board's discussions. He also brings considerable finance experience having spent his early career in senior finance roles.

Current
– Cemig, NED
– Electra.Aero, advisor

Past
– Embraer S.A., president & CEO

GEORGE CULMER
Senior Independent Director

Appointed to the Board on 2 January 2020

George has a strong track record as a senior finance professional with significant experience gained in large, international, highly regulated groups with high cyber threat profiles and has proven business leadership credentials. With this experience, together with his strengths in change leadership and transformation gained from within complex groups, George makes a significant contribution to the Board.

Current
– Aviva plc, chairman

Past
– Lloyds Banking Group plc, CFO
– RSA Insurance Group plc, group financial officer

Position | **Board skills and competencies** | **Key external appointments**

LORD JITESH GADHIA
Independent Non-Executive Director
Chair, Remuneration Committee

Appointed to the Board on 1 April 2022

Jitesh brings a wealth of complex advisory and transactional experience to the Board, having spent nearly 25 years in the banking and private equity sector. He has extensive remuneration experience, earned from both listed companies and UK Government Investments and UK Financial Investments, where he played a key role in compensation discussions about the Government's investments in some of the UK's biggest companies. This, together with his broad industry experience, is an asset to the Board and the Remuneration Committee.

Current
- Taylor Wimpey plc, NED
- Compare the Market Limited, NED
- Accord Healthcare Limited, NED
- Court of Directors of the Bank of England, NED

Past
- UK Government Investments, NED
- Blackstone Group, senior MD

BEVERLY GOULET
Independent Non-Executive Director
Rolls-Royce North America Holdings, Inc., board member. Lead Employee Champion

Appointed to the Board on 3 July 2017

Having spent a considerable amount of her career in the airline industry, Bev brings valuable knowledge and operational experience to the Board. She has significant expertise in finance, treasury, strategy, legal and governance matters. She has the expertise and experience to be able to confidently contribute to decision-making and actively take part in developing and strengthening our businesses.

Current
- Xenia Hotels & Resorts, Inc., NED
- Answer ALS Foundation, foundation board chair

Past
- American Airlines, Inc., various executive roles
- American Airlines Federal Credit Union, chair
- Atlas Air Worldwide Holdings, Inc., NED

NICK LUFF
Independent Non-Executive Director
Chair, Audit Committee

Appointed to the Board on 3 May 2018

Nick is an experienced finance executive having been chief financial officer of a number of listed companies across a variety of industries. He has broad financial skills and a track record of driving business performance. His extensive non-executive and audit committee experience, together with both financial and accounting expertise and a passion for engineering, is crucial in his role as Chair of the Audit Committee and is invaluable to the Board.

Current
- RELX plc, CFO

Past
- Centrica plc, CFO
- Lloyds Banking Group plc, NED
- QuinetiQ Group plc, NED

WENDY MARS
Independent Non-Executive Director
Chair, Safety, Energy Transition & Tech Committee
Employee Champion

Appointed to the Board on 8 December 2021

As a leader, Wendy has overseen diverse teams across sales, engineering and innovation in 123 countries. She brings experience and insight across hardware, software and services with technological transformation of complex global organisations at her core. Wendy's knowledge of both the technical steps needed to foster innovation in a technology company as well as the challenging realities of its implementation in organisations at different stages of their transformation journey is invaluable to the Board and the Group as a whole. Technology can play a significant role in helping businesses to achieve their sustainability objectives; Wendy brings this experience to the Board.

Past
- Cisco Systems, Inc., president Europe, Middle East and Africa region (EMEA)
- ThruPoint, Inc., various executive roles

DAME ANGELA STRANK
Independent Non-Executive Director

Appointed to the Board on 1 May 2020

Dame Angela brings a wealth of corporate experience to the Board and a proven track record in managing engineering operations and driving technology, science and engineering programmes. Having actively worked in climate research and pioneering women in STEM careers, sustainability and corporate ethics are key areas of interest. As a member of the Safety, Energy Transition & Tech Committee, Dame Angela draws on her experience as a member of two other listed companies' sustainability committees which is invaluable to the Group as it develops its sustainability strategy.

Current
- Mondi plc, NED
- SSE plc, NED
- Rio Tinto Innovation Advisory Committee, member

Past
- Severn Trent plc, NED
- BP p.l.c., various executive roles

PAMELA COLES
Chief Governance Officer

Appointed on 1 October 2014

Pamela is widely considered an expert in corporate governance and company law. She has a passion for engineering and a pragmatic approach to how the governance team supports the business. Pamela is instrumental in supporting the Chair and the Non-Executive Directors to build strong relationships with the Executive Team and has been able to offer advice and guidance on a wide range of topics.

Current
- E-Act, NED
- GC100, executive committee member
- University of Greenwich, governor and chair of the audit committee

Executive Team

1. DR JÖRG STRATMANN
CEO – Rolls-Royce Power Systems AG

2. NICOLA GRADY-SMITH
Chief Transformation Officer

3. DR ROB WATSON
President – Civil Aerospace

4. HELEN MCCABE
Chief Financial Officer

5. CHRIS CHOLERTON
Group President

6. TUFAN ERGINBILGIC
Chief Executive

7. SARAH ARMSTRONG
Chief People Officer

8. MARK GREGORY
General Counsel

9. ADAM RIDDLE
President – Defence;
Chairman & CEO – Rolls-Royce North America

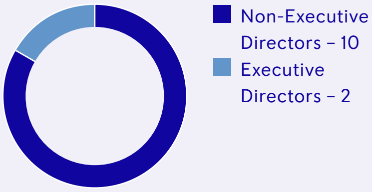
10. SIMON BURR MBE
Group Director of Engineering, Technology & Safety

Appointment details and career highlights of the members of the Executive Team are available at www.rolls-royce.com

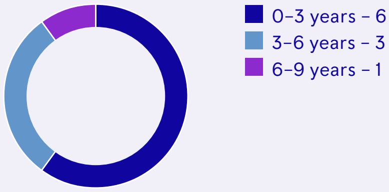
COMPOSITION OF THE BOARD AT 22 FEBRUARY 2024

The Board brings a wide range of experience, skills and backgrounds which complement the Group's strategy.

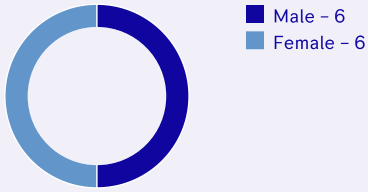
Balance of the Board



Non-Executive Directors' tenure

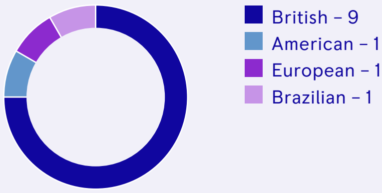


Board members by gender



Board members by ethnicity

Board members by nationality *



* According to the Company's Articles, at least 50% of our Directors must be British citizens

GOVERNANCE REPORT

Non-Executive Directors' skills and experience at 22 February 2024

	Business experience												Global experience		
Non-Executive Director	People and product safety	Cyber & digital	Climate change & sustainability	Engineering, science & technology	Company leadership	Finance	Audit & risk management	Remuneration	Transformation	Legal & regulation	Sector specific	Geopolitics	Europe	Americas	Asia & Middle East
Dame Anita Frew	■		■	■	■	■	■	■	■	■		■			
Birgit Behrendt	■		■	■					■			■	■	■	■
Stuart Bradie	■	■			■				■				■	■	
Paulo Cesar Silva				■	■	■	■		■		■		■	■	■
George Culmer		■			■	■	■	■	■	■			■		
Lord Jitesh Gadhia						■	■	■	■	■		■			■
Beverly Goulet						■	■	■	■	■	■			■	
Nick Luff			■		■	■	■		■	■			■	■	
Wendy Mars		■	■	■					■				■		■
Dame Angela Strank	■		■	■				■	■				■	■	■

Board and Committee attendance in 2023

	Board	Nominations, Culture & Governance	Audit	Remuneration	Safety, Energy Transition & Tech
	8 meetings	6 meetings	9 meetings	8 meetings	2 meetings
Dame Anita Frew	8/8	6/6			
Tufan Erginbilgic	8/8				
Helen McCabe	3/3				
Birgit Behrendt	4/4	2/3			2/2
Stuart Bradie	3/4	2/3			2/2
Paulo Cesar Silva	3/3	2/2			1/1
George Culmer	8/8	6/6	9/9	8/8	
Lord Jitesh Gadhia	8/8	6/6	8/9	8/8	
Beverly Goulet	8/8	6/6	9/9	8/8	
Nick Luff	8/8	6/6	9/9		
Wendy Mars	8/8	6/6			2/2
Dame Angela Strank	8/8	5/6			1/2
Panos Kakoullis	5/5				
Paul Adams	5/5	4/4			
Mike Manley	4/4	3/3			
Sir Kevin Smith	4/4	3/3		4/4	

The table above sets out the Directors' attendance at Board and Committee meetings throughout 2023. During the year, we made changes to the committees' memberships with the introduction of the Safety, Energy Transition & Tech Committee in May 2023. Furthermore, the Nominations, Culture & Governance Committee was renamed in May 2023 to include the Board's focus on culture. Further information on the Board committee realignment can be found on page 67.

Most scheduled meetings end with a private discussion of the Non-Executive Directors led by the Chair of the Board or Committee, without the Executive Directors or members of the Executive Team or management present.

Additional meetings and sub-committee meetings

The Board held one sub-committee meeting in March 2023 to approve the appointment of Helen McCabe as Chief Financial Officer.

In support of the Board and committees' work, where there is a requirement for greater, in-depth discussion, we hold deep dives into specific areas of focus outside the meeting schedule.

— In July 2023, the Board held a strategy workshop with the Executive Team to consider in depth the strategic plans for each of the divisions (see page 75).

— The Safety, Energy Transition & Tech Committee combined a visit to the Civil Aerospace facilities in Derby, UK in October 2023 with a deep dive on both product and people safety. More information can be found on page 111).

Safety, Ethics & Sustainability Committee and Science & Technology Committee

The Safety, Ethics & Sustainability Committee (SES) and the Science & Technology Committee (S&T) held their last meetings in February 2023. These were the only meetings held by these committees in 2023 and Anita Frew (SES), Wendy Mars (S&T) and Angela Strank (SES and S&T) were in attendance.

Non-attendance

Board members' attendance was once again high in 2023. However, Directors are sometimes unable to participate in certain Board and Committee meetings due to other business commitments. In this situation, they communicate their responses to the matters for consideration to the Chair of the Board and the Committees' chairs, where relevant.

BOARD FOCUS THROUGH 2023

IN-YEAR PRIORITIES

Transformation

In February 2023, a multi-year transformation programme was launched to deliver sustainable earnings growth and cash generation. Progress was reviewed regularly by the Board with particular focus on the strategic review, commercial optimisation, working capital and organisational design.

Strategy

The Board held a strategy workshop with the Executive Team in July 2023. The Board considered the strategic plans for each of our divisions in light of the transformation programme. The Board also considered the messaging ahead of the CMD at which the future strategy for the Group was communicated to investors.

Capital markets day

In September 2023, the Board received a comprehensive review of the proposed organisational design and, in November 2023, the Board reviewed the content and disclosure to be made at the CMD and agreed mid-term targets and the capital framework.

FINANCIAL

Group budget and five-year plan

The Board approved the 2023 budget and five-year plan in February 2023 and regularly reviewed progress against both. See page 19 for further information.

Viability statement

The Board agreed the viability statement period to be reported in the Annual Report. The Audit Committee assessed the Group's viability, with scenarios created based on the principal risks and modelled by the businesses as part of the five-year forecasts. Read more on page 58.

Reports and regulatory reporting

On the recommendation of the Audit Committee, the Board reviewed and approved the half year and full year results announcements, the trading updates issued during the year and Annual Report and Accounts.

RISK MANAGEMENT

Review of effectiveness of risk management and internal controls

The Audit Committee and Board assessed the effectiveness of the risk management and internal controls in place across the Group. The Board confirms that, where weaknesses in the Group's internal control environment were identified, plans for remediation were implemented and aligned to an appropriate timeframe. Read more on page 81.

Product and people safety risk

In October 2023, members of the Safety, Energy Transition & Tech Committee visited a number of our Civil Aerospace operational sites in Derby, UK. As part of the visit, safety in relation to our products and people were considered. Further details can be found on page 11.

Principal risk review

To discharge their responsibilities under the 2018 UK Corporate Governance Code, throughout the year the Board reviewed the principal risks. The Audit Committee reported to the Board that a robust assessment of the principal risks and emerging risks facing the Group had been undertaken.

Key stakeholders

People · Customers · Suppliers and partners · Communities · Governing bodies and regulators · Investors

BOARD FOCUS THROUGH 2023 – CONTINUED

SUSTAINABILITY AND ENVIRONMENTAL

TCFD and climate change

The Audit Committee and Safety, Energy Transition & Tech Committee both considered the TCFD recommendations and the Scope 3 emissions calculations. During the year, the Audit Committee also reviewed the controls in relation to the data to gain greater oversight of the metrics used in relation to Scope 3 emissions.

Climate commitments

The Safety, Energy Transition & Tech Committee considered the Group's climate programme including updates of the activities of the Executive-level energy transition & technology committee.

CULTURE

People and culture

The Nominations, Culture & Governance Committee received an update from the Chief People Officer on people and culture, including on the progress against our People strategy.

Diversity & inclusion

The Nominations, Culture & Governance Committee continued to review progress against the strategic pillars of our inclusion strategy: leadership and governance; attract and recruit; engage; and develop. The Committee continued to review performance against the 2025 diversity targets (see page 44).

GOVERNANCE, LEGAL AND REGULATORY

Committee structure

The Board conducted a review of its Committees and introduced the Safety, Energy Transition & Tech Committee with effect from May 2023 to focus on safety, the energy transition agenda and to provide oversight and assurance of the Group's scientific and technological strategy, processes and investments. In addition, the remit of the Nominations & Governance Committee was refocused to include ethics and culture and the Committee was renamed the Nominations, Culture & Governance Committee.

Board succession planning

In line with the Board succession plans, and on the recommendation of the Nominations, Culture & Governance Committee, the Board approved the appointments of Helen McCabe as Chief Financial Officer and Birgit Behrendt, Stuart Bradie and Paulo Cesar Silva as Non-Executive Directors. Their biographies can be found on pages 70 and 71.

Board effectiveness evaluation

An external evaluation of the effectiveness of the Board and its Committees was conducted by Manchester Square Partners. Further information on the process and findings from the evaluation can be found on page 77.

Key stakeholders

People · Customers · Suppliers and partners · Communities · Governing bodies and regulators · Investors

BOARD EFFECTIVENESS

Review of the Board and Committees

Manchester Square Partners (MSP) were appointed in September to carry out an independent review of the Board's effectiveness for 2023. MSP were appointed following a desk top review and benchmarking exercise, conducted by the Chief Governance Officer, on the basis of cultural fit, overall approach and fee level. A review of the Board's Committees was undertaken at the same time. MSP have not provided any other service to the Company during the year and have agreed this disclosure.

The review took the form of confidential one-to-one discussions with each of the Directors and the Chief Governance Officer; attendance at a Board meeting and at meetings of the Committees; and a review of Board papers and agendas over the year. The scope of the review was agreed with the Chair in advance and included: strategy, including challenges, risks, values and culture; the role of the Board, Board dynamics and engagement; structure, including composition and succession; and governance, including execution and leadership.

MSP reported back their findings to the Nominations, Culture & Governance Committee, which all Board members attended, at the Committee's meeting in February 2024.

In addition to this review, during a private meeting of the Non-Executive Directors, the Senior Independent Director led a review of the Chair's performance without the Chair present. The Nominations, Culture & Governance Committee has an item at the end of each agenda without any management present and, during these sessions, regularly discussed the performance of the Chief Executive throughout his first year; the Chair also conducted the Chief Executive's annual performance review having sought feedback on his performance from the Board. These meetings concluded that both the Chair and the Chief Executive were effective and feedback was shared with each of them.

Each Committee chair considers feedback for the Committees for which they are responsible.

AREAS OF FOCUS

2023 FOCUS IDENTIFIED IN 2022	PROGRESS IN 2023	FOCUS IN 2024
Board structure, composition and dynamics Board to review executive governance and its own committee structure. Continue to work towards our diversity and inclusion ambitions.	Changes were made to both the Executive Team's governance structures early in the year (and as reported in 2022) and the structure of the Committees (see pages 69 and 78). The Board reached gender parity and two senior Board members are women (Chair and Chief Financial Officer) (see page 79).	Review Board inductions and ongoing training.
The Board's role Focus on strategic choices.	The Group's strategy was reviewed and communicated to shareholders at the CMD in November.	Continued focus on strategic progress, ambitions and options. Oversight of the continuing transformation particularly around culture, people and succession. Focus on risk management as the enterprise continues to change and respond to the external environment.
The Board at work Continued focus on stakeholder engagement, ensuring Board sponsorship of the transformation programme.	Stakeholders were a key part of the discussions throughout the year on the transformation programme (see pages 60 to 63).	Board site visits and deep-dives to continue to build on Directors' induction, training and development.

STAGES OF THE BOARD EFFECTIVENESS REVIEW

SEPTEMBER 2023	SEPTEMBER	NOVEMBER/DECEMBER	JANUARY	FEBRUARY 2024
Decision reached to undertake an externally facilitated Board effectiveness review and tender exercise carried out	MSP appointed to carry out the effectiveness review	Interviews undertaken with individual Directors, Board papers reviewed and attendance at Board and Committee meetings	Report reviewed by Chair and Chief Governance Officer	Report presented to the Board by MSP and action plan for 2024 agreed

Nominations, Culture & Governance Committee report

KEY AREAS OF FOCUS IN 2023

- Revised Board committee structure
- Board composition and diversity
- Organisational design

Board and committees' composition

The Committee is responsible for keeping the structure, size and composition of the Board and its Committees under review. During 2023, the Committee oversaw the search and appointment of a new Chief Financial Officer, Helen McCabe. Helen succeeded Panos Kakoullis as Chief Financial Officer on 4 August 2023.

The Committee oversaw a number of changes to the Non-Executive Directors. As reported in our 2022 Annual Report, Birgit Behrendt joined and Mike Manley stepped down from the Board at the 2023 AGM in May. In addition, Sir Kevin Smith stepped down from the Board in May and Paul Adams stepped down in September. Stuart Bradie was appointed in May and Paulo Cesar Silva joined the Board in September.

Furthermore, during the year, the Committee considered the re-appointment terms of Dame Angela Strank, for a second three-year term, and Bev Goulet. Bev was appointed for an annual term as all Non-Executive Directors are appointed annually once they have served six years on the Board.

Prior to making any new appointments to the Board, the Committee considers the skills and attributes required and agrees a profile. The Committee also provides input into a shortlist of candidates and is involved in the interview process for all appointments. The Committee recommends the appointments to the Board for approval. All Non-Executive Directors are appointed to the Nominations, Culture & Governance Committee and to other Board committees, depending on the skills they bring. The Company used MWM Consulting for all appointments to the Board in 2023. MWM Consulting has no connection with individual directors.

The Chief Governance Officer ensures that new Directors have a thorough and appropriate induction programme. Each programme is tailored for the individual depending on the role they will be taking up or the Board Committees they will join.

Summary biographies for the Directors can be found on pages 70 to 71. Full biographies can be found at www.rolls-royce.com

Board Committee re-alignment

In March 2023, the Committee considered a revised Board Committee structure, which was subsequently put in place from May 2023. This action followed from the 2022 Board evaluation and also brought the Board and Executive Team's governance structures, which were also reviewed in the year, into closer alignment.

The work of the Safety, Ethics & Sustainability Committee and the Science & Technology Committee was reviewed and those committees were stepped down. A new committee, the Safety, Energy Transition & Tech Committee was formed to focus on safety and the energy transition agenda as well as to provide oversight of the Company's scientific and technology strategy, processes and investments. Wendy Mars became chair of the Safety, Energy Transition & Tech Committee from its inception.

The Nominations & Governance Committee was renamed the Nominations, Culture & Governance Committee and leads the Board's focus on culture, which was identified as a priority in 2022. Specific areas now additionally come under the remit of this Committee including human rights, speak up line reporting and feedback from the employee champions. These, in addition to its existing focus on diversity and inclusion; talent and succession; Group policies and the Code will enable the Committee to develop metrics and build a dashboard to provide better oversight of the Group's culture and behaviours. The Executive Directors join the Committee meetings for discussion on these topics so that there is dedicated Board time for these important areas. This will be an area of focus in 2024 as work continues on the purpose and culture workstream as part of the transformation programme.

The role of each committee is on page 68. The full terms of reference and terms of reference applicable to all Committees can be found at www.rolls-royce.com

See page 68 for our current Board committee membership.

Board appointment, induction and development

The Committee, led by the Chair, oversaw the search and appointment of the new Chief Financial Officer. An internal and external search and benchmarking exercise was followed by an interview process. Helen brings more than 25 years of experience in senior finance and performance management roles within complex multinational organisations.

The Chair and Chief Governance Officer arrange a comprehensive, tailored induction programme for newly-appointed Non-Executive Directors, which includes dedicated time with the Executive Team and senior management and scheduled trips to business operations. The programme is tailored based on experience and background of the individual and the requirements of the role. All Directors visit the Group's main operating sites as part of their induction and are encouraged to make at least one visit to other sites every year. Site visits are an important part of the induction process, as well as for continuing education. They help Directors understand the Group's activities through the direct experience of seeing our facilities and operations and by having discussions with a diverse group of our people.

It is important that the Directors continue to develop and refresh their understanding of the Group's activities. The Board's engagement with its stakeholders is set out on pages 60 to 63. It is also important that the Directors regularly refresh and update their skills and knowledge and receive relevant training when necessary. Members of the Board also attend relevant seminars, conferences and training events to keep up-to-date on developments in key areas.

Culture

During 2023, the Committee started to pull together its agenda to look at the culture of the organisation. Reports were received from the speak up line and Employee Champion directors and a presentation on the enterprise-wide human rights programme was received in December.

In August 2023, there was a discussion on the behavioural expectations of senior leadership, following events in the wider UK corporate environment. As well as updates on diversity and inclusion, talent and succession, the Committee received a detailed briefing in September 2023 on the organisation design work that was undertaken as part of the wider transformation programme. This included presentations and discussion on enterprise skills and capabilities and purpose and culture enablement.

Diversity and inclusion

In 2023, the Committee continued its work to maintain a balance on the Board of individuals representing a wide cross-section of experience, cultural backgrounds and specialisms. The Board diversity policy aims for gender parity and we are delighted to report that during 2023 we met the Board's ambition. We have also exceeded the Board's intention that at least one senior Board member will be a woman. With the appointment of Helen McCabe, both the Chair of the Board and the Chief Financial Officer are women. One of our Board members is from a non-white ethnic minority background. The Board diversity policy is available at www.rolls-royce.com

The Committee continued to receive regular updates on progress with our diversity and inclusion strategy across the Group and received updates on progress against key metrics and targets in February and September 2023.

Diversity in our Executive Team has improved and now stands at 30%, increased from 18% at the end of 2022. The Committee continues to support and monitor Group activities to increase the percentage of women and other under-represented groups in the senior management population (see page 69). We recognise that there is still more to do. Improvements in ethnicity balance are beginning to be seen, particularly in the US leadership group as well as in the wider Group across the graduate and high potential populations.

Improving diversity and inclusion remains a priority and we continue to track progress. More on our progress against our targets can be found on page 47. Disclosures under Listing Rule 9.8.6 can be found on page 220.

Succession planning

The Committee considers the current skills, experience and tenure of the Directors and assesses future needs against the longer-term strategy of the Group. The skills and experience criteria for incoming directors is discussed and agreed before the recruitment process is commenced.

The Committee plays a vital role in promoting effective Board and leadership succession, making sure it is fully aligned to the Group's strategy. In 2023, the Committee appointed Helen McCabe as Chief Financial Officer and had full discussions with Tufan Erginbilgic on the changes to the Executive Team throughout the year. The Committee also considered succession planning for the Chief Executive. The Committee were fully briefed on the changes to the organisational design before they were announced in October.

Principal risk review

The Committee considers the principal risk of talent and capability as part of the regular discussion on succession planning and, in 2023, in light of the discussions on transformation and the organisational design for the Group. The development of our leaders is critical to ensuring the right culture and behaviours are embedded enterprise wide and to ensure we maintain the right skills and capability to meet our strategic plan. In addition, the Board met as a whole to receive an update from the chief people officer on overall enterprise capabilities, including a deep dive on engineering.

Members	All Non-Executive Directors
	Biographies are on pages 70 and 71
Remit	See page 68

Directors' conflicts of interest

As required under the Code, any additional external appointments taken up by Directors during the year are considered by the Committee and approved by the Board prior to the Directors accepting such appointments. The Committee considers any conflicts that may arise as a result of any external appointments taken up by the Directors and the Board monitors the extent of those interests and the time commitment required to fulfil them to ensure that effectiveness is not compromised. As part of the Committee's discussions, external appointments are considered against the parameters set by ISS. The Committee has found this to be a useful gauge when discussing whether there is potentially any impact on Directors' time commitments when taking on additional external appointments.

In 2023, the Directors demonstrated a strong commitment to the Company, as shown by their high levels of attendance at all our meetings (see page 74). During the year, the Board considered two external appointments for directors who subsequently stepped down from the Board. One of the appointments was with a company which Rolls-Royce has a joint venture relationship with, although not material in nature. The Board agreed appropriate mechanisms to recuse the director from any discussions that may arise concerning that relationship. The Board concluded that neither of these external appointments were considered time restrictive.

Engagement with shareholders

For information on how the Board has engaged with stakeholders during the year, see pages 60 to 63.

Corporate governance

Throughout 2023, we have continued to watch the evolving agenda in the UK on audit and corporate governance reform. We will continue to keep good governance at the core of all we do and are pleased to report another full year of compliance with the 2018 UK Corporate Governance Code, as reported on page 65. During 2024, we will be working on our internal governance arrangements to ensure they are aligned with our organisational design.

The extracts from the Group's governance framework, which is also applied to our subsidiary companies and is our response to the Wates principles, are available at www.rolls-royce.com

Dame Anita Frew
Chair of the Nominations, Culture & Governance Committee

Audit Committee report

KEY AREAS OF FOCUS IN 2023

- Ensured our business performance is fairly presented with equal prominence of statutory and alternative performance measures
- Reporting of climate change and environmental data and the interaction with accounting assumptions and financial reporting, including in relation to TCFD recommendations
- Implications for our financial reporting of the recovery in air travel globally and of our Group-wide transformation programme
- Continued oversight of internal controls improvement programmes and of effectiveness of risk management with a focus on cyber security and on business continuity, including supply chain dependencies

I am pleased to present the 2023 report of the Audit Committee which provides an overview of the areas of focus for the Committee during the year, as well as its key activities and the framework within which it operates.

The composition of the Committee has not changed during 2023 and the membership is set out on page 83. George Culmer, Bev Goulet and I have recent and relevant financial experience. The Board remains confident that the Committee members have the appropriate knowledge, skills and experience to fulfil the duties delegated to the Committee and that the Committee as a whole has the competence relevant to the Company's sector.

In 2023, we were pleased to have the opportunity to meet with several shareholders in person as well as hear from shareholders virtually at our 2023 AGM, where we were able to answer questions both in person and via the live stream of the meeting. Members of the Committee attended the capital markets day in November 2023, either in person or virtually.

This report sets out the work of the Committee in 2023 with a focus on the issues relevant to the Group's financial reporting, considering how business performance is reflected in financial reporting, assessing key accounting judgements and ensuring ongoing quality of the related disclosures. In our meetings, we have robust conversations to ensure management are challenged, to satisfy ourselves that the judgements taken and the disclosures made are appropriate for the Group.

We continue to support the Board in its considerations of climate change risks and opportunities. The Committee has reviewed and approved the TCFD recommendations (see page 35) and noted the progress during the year as the disclosures were being prepared for the 2023 Annual Report. We have continued to ensure that the impact of climate change, where material, is reflected in the financial statements and disclosed accordingly, including the assumptions used in the forecasts for the assessment of going concern and viability, long-term contract accounting, impairment testing and deferred tax asset recognition.

We undertook deep dives of the principal risks we oversee. We met with each of the divisions' presidents during the year to discuss their business governance, including the risks and internal control frameworks, and to consider their business continuity risks. While previously data and cyber security had been the remit of the Data Security sub-committee of the Audit Committee, throughout 2023 the Audit Committee has addressed data security as part of its review of business continuity with each division. The Committee also receives regular reports from the director of cyber security as part of the Committee's consideration of the cyber threat.

We also meet regularly with the head of tax to review the management of tax and customs risks. The Committee approves annually our tax policy to ensure it remains appropriate for the Group and we receive updates on its application as well as changes to relevant laws and regulations. We have discussed the changing external reporting requirements.

The Committee continues to oversee the assurance activity conducted by internal audit. The Committee monitored delivery of their 2023 internal audit plan, considered the findings from internal audit reports and ensured that actions identified were implemented. We also approved their 2024 plan, confirming the focus on key risks and adequate cover of all material operations and appropriate geographical coverage. We have scheduled an independent effectiveness assessment of internal audit for 2024.

During 2023, we have engaged with the Financial Reporting Council (FRC) following their evaluation of the 2022 Annual Report and Accounts. This review was part of a regular assessment of the quality of corporate reporting in the UK undertaken by the FRC. We welcome the FRC's engagement and, as a result of our communications, we have enhanced several existing disclosures, including a change in accounting policy following a reassessment of a judgement previously taken which resulted in a change in the classification within the cash flow statement. Additional disclosures are included in our 2023 reporting in relation to this (see note 1 of the Consolidated Financial Statements on page 188).

Financial reporting

The Group has complex long-term contract accounting and every year the Committee spends much of its time reviewing the accounting policies and judgements implicit in the Group's financial results. In 2023, we have considered the implications on our assumptions and key accounting judgements of the recovery in air travel globally, the improved financial performance of the Group and the Group-wide transformation programme, as well as changes in the global macro-economic and political environment. We have ensured that the disclosures in respect of all key areas of judgement are appropriate and balanced. We assess and consider the sensitivity of the estimates to changes in key assumptions which are summarised in note 1 of the Consolidated Financial Statements on page 188.

Fair, balanced and understandable

As part of its review of the 2023 Annual Report, the Committee considered whether the report, taken as a whole, was fair, balanced and understandable and that it provided the information necessary for shareholders to assess the Group's position, performance, business model and strategy. In so doing, the Committee considers the financial reporting procedures and internal controls in place in preparing the report. There is a robust governance framework with well documented planning and procedures for the preparation of the report and a collaborative approach across all those who contribute to the report. The Committee concluded that the basis of preparation was consistent with financial reporting throughout the year and that all significant issues had been considered. The Committee was satisfied that the process was effective and that the messaging was consistent, particularly the narrative reflecting the financials, and confirmed to the Board that, when taken as a whole, the Annual Report is fair, balanced and understandable.

Significant issues relating to the 2023 financial statements:
A summary of the principal matters we considered in respect of the 2023 Consolidated Financial Statements is set out below.

AREA OF FOCUS	CONSIDERATIONS
Alternative Performance Measures (APMs)	As in previous years, the Committee reviewed the clarity of the definitions and the reconciliation of each APM to its statutory equivalent. The Committee concluded that there was no undue prominence of the APMs in the Annual Report. See page 213 for a reconciliation of APMs to their statutory equivalents. New KPIs were introduced during 2023, following the strategic review. The Committee challenged the calculation underpinning these KPIs to ensure the conclusions reached resulted in appropriate additional KPIs being disclosed.
Long-term contract accounting	The Committee considered the assessment of estimates of future revenue and costs on the Group's long-term contractual arrangements. This has continued to be a particular focus for the Committee due to the complex nature of long-term contract accounting, the recovery in air travel globally, the changing macro-economic conditions and the Group-wide transformation programme. As part of our considerations, we reviewed onerous contracts given their sensitivity to changes in revenue and cost assumptions. We also reviewed catch-ups to understand the changes to revenue and cost assumptions driving them and looked at accounting for risk and revenue sharing arrangements. We reviewed the disclosures and concluded these, together with the assessments, were appropriate. See note 1 in the Consolidated Financial Statements.
Deferred tax assets	The Committee discussed the recoverability of deferred tax assets and the forecasts, assumptions and sensitivities applied in order to ascertain the recognition and recoverability of the deferred tax assets. The Committee discussed the basis for the recognition of the UK deferred tax assets and considered the judgements and estimates necessary to assess the recoverability of the UK deferred tax assets. This was particularly important during 2023 due to the strategic review, the improved financial performance and the higher mid-term targets that have been communicated. We considered this in light of the requirements set out in IAS 12 *Income Taxes* to assess probable profits when considering the recognition of the UK deferred tax assets. We confirmed the approach, which remained consistent with that taken in 2022, together with the disclosures set out in note 1 to the Consolidated Financial Statements.
Impact of climate change	The approach taken by management to assess the impact of climate change, the conclusions reached and the disclosures presented have been reviewed by the Committee, including considering the related TCFD recommendations. We have received updates on the improving internal controls in relation to process and data and considered progress made with the Group's reporting. The Committee has ensured it understands and has continued to challenge the assumptions in the climate scenarios used by management to sensitise forecasts in respect of viability, long-term contract accounting, impairment assessments and deferred tax asset recognition. See note 1 in the Consolidated Financial Statements.
Accounting for complex treasury instruments	The Committee continued to consider numerous topics in relation to the Group's complex treasury instruments including the GBP:USD hedge book and associated hedge book rates and the long term planning rate used by management beyond the hedge book period. This included understanding and challenging management on the assumptions, the approach, the accounting and reporting.
Transformation programme: organisational design	The Committee considered the impact of the transformation programme, including the organisational design, on the assumptions and accounting judgements, and monitored whether the criteria required for a restructuring and transformation provision had been met.

Risk management and the internal control environment

Our risk management and internal control framework is described in the Principal Risks section on page 50. During the year, we focused on the effectiveness of risk controls and their assurance, ensuring actions to mitigate where needed and to manage risks in relation to our appetite for taking risk as described on page 50. We will continue to focus on embedding risk mitigation controls and risk appetite in 2024, embedding these more firmly as part of our routine processes and decision making, including in relation to strategic planning.

We also satisfied ourselves that the processes for identifying and managing risks are appropriate and that all principal risks and mitigating actions had been subject, during the year, to a detailed review by the Board or an appropriate Board Committee. Based on this and on our other activities, including consideration of the work of internal and external audit and attendance at the Committee meetings by divisional and functional risk owners, the Board confirmed that a robust assessment of the principal risks and emerging risks facing the Group had been undertaken. Details of our principal risks are set out on pages 50 to 57. The Board allocated certain principal risks to the Committee and we considered these in detail throughout the year, as described below. From our discussions, we are satisfied that the principal risks that we oversee have received appropriate management attention during 2023:

- **Business continuity:** the Committee received updates on the status of the continuity risk management of each business, including the risks to internal facilities and in the external supply chain, as well as an assessment of risk management effectiveness.
- **Cyber:** the Committee received updates on the status of cyber security risk, including lessons learnt from incidents and an assessment of risk management effectiveness. The cyber security strategy was kept under review during the year.
- **Financial shock:** the Committee has reviewed the Group's policies, procedures and controls for identifying, managing and mitigating financial shock. The Group is exposed to a number of financial risks, some of which are of a macro-economic nature (for example, foreign currency, oil price and interest rates) and some of which are more specific to the Group (for example, liquidity and credit risks).

Internal financial control

The Committee specifically reviews the Group's internal financial controls (see page 50). During 2023, we reviewed the results of self-attestation and testing performed by the internal control and internal audit teams to confirm the effective operation of key financial controls across the Group. We monitored progress against the 2023 financial controls programme to strengthen the financial reporting and compliance controls. We confirmed completion of identified key activities. We also considered the external auditor's observations on the financial control environment.

Effectiveness of risk management and internal control systems

The Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems, including those relating to the financial reporting process. We consider that our review of the risk management and internal control systems, in place throughout 2023 and up to the date of this report, satisfies the requirements of the Code, the DTR and the FRC's guidance on risk management. To support this:

- we monitor changes to regulatory requirements with respect to risk management on an ongoing basis;
- we review relevant policies and procedures and update where necessary, in line with regulatory changes and our perspective on effective approaches to risk management;
- our risk management team and relevant assurance functions, such as internal audit, review key business processes, including long-term contract pack reviews and the budgeting process with periodic reforecasting, identifying key risks and opportunities;
- we assess and monitor management responses to key audit findings, including the design of mitigations and developments to existing controls;
- a defined anti-bribery and corruption policy has been implemented; and
- where necessary, we report to the Board and its Committees on key risk and regulatory matters.

During the course of the financial year, any control weaknesses identified through the operation of our risk management and internal control processes were subject to monitoring and resolution in line with our normal business operations. In 2023, no significant weaknesses were identified.

To further support the enhancement of the existing internal control environment:

- risk management specialists have been assigned to review and monitor the implementation of actions, to ensure these remain appropriate and aligned to the risks to which they relate;
- policies and procedures are subject to review and are updated to align to changes in the underlying control environment; and
- risk owners remain informed of the risks they are accountable for, and their key responsibilities with regards to managing these risks.

In addition, and on an ongoing basis, the Board reviews the effectiveness of the Group's risk management and internal control system and continues to:

- monitor reports from the Executive Team, relating to their assessment of risks and internal control systems;
- monitor assurance received from the Executive Team regarding compliance to relevant policies;
- monitor assurance received on the effectiveness of the Company's internal control environment;
- review reports from this Committee, the Internal Audit function and the external auditor;
- review the Company's response to incidents and threats, including those related to cyber security and safety; and
- review information gathered from the Company's formal whistleblowing process where issues relate to financial misconduct.

Where opportunities for improvement were identified, action plans have been put in place and progress is monitored by the Audit Committee.

Going concern and viability statements

Having regard to the net liabilities of £3,629m on the Group's 2023 balance sheet, we paid particular attention to these assessments. With consideration to the available information, the Audit Committee confirms it maintains a reasonable expectation that the Group is able to continue to meet its liabilities as these fall due, over the five-year period to 31 December 2028.

We reviewed the processes and assumptions underlying the going concern and viability statements set out on pages 58 and 59, considering in particular:

- the Group's forecast funding position over the next five years;
- the forecasts for material subsidiaries making up this position;
- an analysis of impacts of severe but plausible risk scenarios, ensuring that these included relevant principal risks;
- the impact of multiple risks occurring simultaneously;
- additional mitigating actions that could be taken in extreme circumstances; and
- the current borrowing facilities in place and the availability of future facilities.

As a result, we are satisfied that the going concern and viability statements have been prepared on an appropriate basis.

Internal audit

The director of risk and internal audit regularly attends and reports to the Committee on risk and internal audit matters including:

- identifying key trends and headline findings from internal audit reports issued in the period;
- details of any specific significant findings raised by internal audit that warrant the Committee's attention;
- status of agreed actions arising from internal audit work;
- the plan of internal audit work for the following year; and
- progress against the current year's internal audit plan and any changes to the plan.

I meet the director of risk and internal audit regularly throughout the year to discuss risk matters and the nature of internal audit findings in more depth. We continue to focus on the nature of issues raised by internal audit and the timescales to complete the related actions. The future work plan is risk-based, including risks to both short and longer-term objectives and balancing focus on principal risk areas and on business-as-usual transactional activity where controls are understood to be mature and established. Internal audit also considers the activities of our second line assurance functions in their approach. We reviewed the effectiveness of the Group's internal audit function, including resources, plans and performance as well as the function's interaction with management. Based on the reports and discussion, we are satisfied that the scope, extent and effectiveness of internal audit work are appropriate for the Group and that there is an appropriate plan in place to sustain this. We are also planning an independent review of the effectiveness of internal audit in 2024.

External audit

PwC were appointed as the Group's external auditor for the financial year, commencing on 1 January 2018, following a formal tender process in 2016. As required by auditor rotation rules, Ian Morrison took over as lead audit partner for the 2023 audit, replacing Ian Chambers who was required to rotate after five years. Other key audit partners are also required to rotate every five years.

The external audit contract will be put out to tender at least every ten years. Any future audit tenders will be carried out in line with the FRC's practice aid for audit committees. The Committee currently expects to undertake an audit tender during 2026, with a view to a new audit firm, if there is a change from PwC, being appointed as external auditor for the financial year commencing 1 January 2028. We believe that this timing for the audit tender strikes an appropriate balance between continuity for the current audit firm and consideration of alternative firms.

Other than the services detailed below, PwC have no other connection with the Company or its Directors.

During 2023, the Company complied with the relevant provisions of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014.

2023 audit

The Committee reviewed the quality of the external audit throughout the year and considered the performance of PwC. This year, to support this, the Committee members and senior finance personnel have undertaken an internal evaluation, focusing on a range of factors we consider relevant to audit quality. The findings from this evaluation and agreed actions were reviewed and approved by the Committee in February 2024. Feedback was also received from the auditors on their performance against their own objectives.

Based on these reviews, the Committee concluded that there had been appropriate focus and challenge by PwC on the primary areas of the audit and that they had applied robust challenge and scepticism throughout the audit. Consequently, the Committee has recommended to the Board that they be reappointed at the 2024 AGM.

In November 2023, PwC presented its formal audit plan, which identified its assessment of the key audit risks and the proposed scope of audit work. Reflecting on findings from the half-year review and the developments in the Group, we agreed the approach and scope to be undertaken. Key risks and the audit approach to these risks are discussed in the Independent Auditor's Report (pages 196 to 208), which also highlights the other risks that PwC drew to our attention.

As part of the reporting of the half-year and full-year results, in August 2023 and February 2024 PwC reported to the Committee on its assessment of the Group's judgements and estimates in respect of these risks and the adequacy of the reporting. Where effective to do so, PwC also reported on its assessment of the Group's controls.

I meet with the lead partner regularly throughout the year and the whole Committee has a private meeting with PwC at least once a year.

Non-audit services

To safeguard the auditor's independence and objectivity, and in accordance with the FRC's ethical standard, we do not engage PwC for any non-audit services, except where it is work that they must, or are clearly best-suited to, perform. Accordingly, our policy for the engagement of the auditor to undertake non-audit services broadly limit these to audit-related services such as reporting to lenders and grant providers, where there is a requirement by law or regulation to perform the work. All other non-audit services are considered on a case-by-case basis in light of the requirements of the ethical standards and in compliance with our own policy.

Members	Nick Luff (Chair) George Culmer Lord Jitesh Gadhia Beverly Goulet
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Fees paid to PwC are set out in note 7 to the Consolidated Financial Statements on page 149. All proposed services must be pre-approved in accordance with the policy which is reviewed and approved annually. Above defined levels, my approval is also required before PwC is engaged. We also review the non-audit fees charged by PwC on a quarterly basis. Our non-audit services policy can be found at www.rolls-royce.com

Non-audit related fees paid to the auditor during the year were £0.9m (2022: £1.5m), representing 7% (2022: 11%) of the audit fee. This included £0.7m (2022: £0.7m) relating to the review of the half-year results. Our annual review of the external auditor takes into account the nature and level of all services provided.

Based on our review of the services provided by PwC and discussion with the lead audit partner, we concluded that neither the nature nor the scale of the non-audit services gave any concerns regarding the objectivity or independence of PwC.

Nick Luff
Chair of the Audit Committee

Remuneration Committee report

KEY AREAS OF FOCUS IN 2023

- Development of a revised remuneration policy proposal and the cascade to the wider workforce in support of the Group's transformation
- Support for changes to the Executive Team as part of the Group-wide transformation programme
- Determining remuneration for 2023, taking into account the experience of key stakeholders

I am pleased to present my second report as Chair of the Committee and would like to thank my fellow Committee members for their support during a busy year. I would like to acknowledge the support provided by Sir Kevin Smith who served on the Committee for seven years prior to his retirement in May 2023.

This letter outlines the key decisions taken by the Committee during 2023, both in relation to the implementation and review of policy and to the changes in leadership, with the appointment of Helen McCabe as Chief Financial Offer and changes across the Executive Team.

Business context for 2023

2023 has witnessed a material improvement in performance levels with very strong progress made on the Group's transformation. At the CMD, Tufan Erginbilgic and the Executive Team presented a clear vision for Rolls-Royce to become a high performing, competitive, resilient and growing business. Our ambitious mid-term targets will take Rolls-Royce significantly beyond any previously achieved level of financial performance. Achieving our ambition will require intense focus and rigour from the management team to drive the transformation and deliver a cultural shift in performance management.

Review of the remuneration policy

To drive focus on urgent restructuring requirements and to navigate the challenges of setting long-term incentive targets during the pandemic, in 2021 we implemented a market atypical single incentive plan that was primarily focused around in-year annual targets with some trailing long-term targets included for 2022 and 2023. This bespoke solution, which was supported by our shareholders, was developed to respond to the specific challenges the Group faced at that time with the aim of placing more of an emphasis on short-term performance whilst also motivating and retaining key talent through a phase of stabilisation and recovery. The structure was specific to the circumstances at the time and we signalled an intent to review the arrangements as our circumstances changed.

Return to a market-typical incentive structure

Given the Group has now returned to a more normal operating environment and we have articulated medium-term commitments, the Committee believes it is appropriate to return to a more conventional remuneration structure that will include a separate annual bonus with mandatory deferral, combined with a market-standard performance share plan with a three-year performance period plus two year holding period. We strongly believe that clear, forward-looking, stretching targets aligned with our medium-term ambition will motivate and align participants to the Group's strategy for the benefit of our stakeholders.

We have consulted with our largest shareholders, proxy advisors and employee groups and are grateful for the feedback and support provided during this process. The feedback received has consistently confirmed support for a return to a more conventional incentive structure, with a focus on stretching long term performance targets aligned to our transformation, with quantum aligned to typical FTSE 50 levels.

Alignment with mid-term targets

Performance measures in both the annual bonus and the LTIP place emphasis on cash flow and profit, reinforcing the Group's stated ambition to return to investment grade, which in turn will enable the Group to make appropriate portfolio choices and reintroduce shareholder payments.

ESG

The Committee is extremely mindful of the Group's responsibilities in reducing global carbon emissions. In 2024, there will be a full strategic review of sustainability, delivering a granular net zero emissions plan with defined metrics and targets. The Committee envisages introducing a climate-related performance measure aligned to the strategic review within the life of the new policy, focusing on a reduction in Scope 1 + 2 emissions. The 2024 annual bonus scorecard will continue to be partly assessed against safety, our number one priority, in addition to employee engagement.

Cascade of remuneration policy

To create alignment between the Executive Directors and senior management, the revised incentive structure will be cascaded across the top three management levels of the Group. In doing so, remuneration will be rebalanced towards the long-term and the clear three-year financial targets will help foster a high-performance culture aligned to the objectives of the transformation.

New appointments

During 2023, we were delighted to welcome Helen McCabe as our new Chief Financial Officer and new appointments across the Executive Team. The Committee oversaw and approved the remuneration arrangements for all appointments as well as the exit terms for Panos Kakoullis and other members of the Executive Team. In the case of Helen McCabe, the Committee also carefully reviewed the buyout of share awards forfeited as a result of her resignation from her previous employment. The incentive plans forfeited included a mix of performance shares, restricted stock and stock options. The details of Helen's buyout are disclosed on page 103. We have also included additional context for the buyout disclosed last year for Tufan Erginbilgic on pages 102 and 103.

The selection processes for the appointments provided clear insight to the level of compensation required to recruit experienced talent in international markets. There has been a lot of external coverage of the need to ensure that the UK remains a competitive market for executive recruitment and we would echo the sentiments and issues highlighted by the capital markets industry taskforce. It is important that UK packages are globally competitive to allow us to attract and retain talent within the markets in which we operate.

Remuneration decisions related to 2023

The current remuneration policy was agreed by shareholders at the AGM in 2021 and was in place for 2023. Key features of the policy can be found on page 86 and how it operated during 2023 on pages 86 and 87.

Incentive outturn in respect of 2023

The Incentive Plan measures for 2023 were weighted 80% towards Group performance and 20% towards personal performance. The Group performance metrics for 2023 originally were intended to represent an evolution of the policy, transitioning from a 100% focus on short-term performance in 2021 to a 50:50 split of annual metrics and cumulative three-year metrics in 2023. The arrangements for Tufan Erginbilgic and Helen McCabe were structured to ensure that their outturns only relate to performance in 2023, thus ensuring that they were rewarded for business performance during their tenure only. The outturn applicable for Panos Kakoullis' pro-rated incentive reflects the blend of annual and three-year cumulative performance metrics.

At Group level, both free cash flow of £1,285m and underlying operating profit of £1,590m were significantly ahead of the original target and maximum threshold for performance. This is exceptional performance relative to target and to prior years and rightly reflects maximum outturns for these elements of the scorecard. New for 2023 was the inclusion of two new strategic measures to incentivise quality of financial performance. Underlying operating margin performance of 10.3% was ahead of the level required to trigger maximum payout, reflecting very significant year-on-year improvement. Operating cost performance was ahead of target, with this portion vesting at 91% of maximum.

Non-financial performance metrics for 2023 were also ahead of target. Our people engagement, measured by our annual engagement survey delivered by Gallup, showed another year of improvement to achieve upper quartile status relative to manufacturing peers. We achieved a 5% improvement in participation to reach 80% and an overall score of 3.99, which was marginally above target with 63% of maximum vesting. Colleague safety performance relative to target was also strong with this portion vesting at 91% of maximum.

In reviewing incentive outturns, the Committee did consider the experience of internal and external stakeholder groups, in particular our employees and shareholders. Our global incentive arrangements will ensure that our wider workforce benefit from the excellent progress in 2023 and there has been an extremely positive experience for our shareholders given the market reactions to our 2023 performance, strategic review and medium-term guidance. In this context, the Committee is very pleased to be able to recognise this excellent performance in an overall outturn of 97% of maximum for Tufan and 90% of maximum for Helen. As referenced above, the measures applicable for Panos' pro-rated incentive include cumulative performance metrics covering the period 2021-2023. For this reason, Panos' outturn is 89% of maximum.

All of these awards will be delivered in shares which will be granted in March 2024, using the share price at that time. As per the approved remuneration policy, 40% of the shares will be required to be held until 2027 and 60% held until 2028.

Wider workforce context

Global inflationary pressures have continued for our colleagues across many of our locations worldwide. We also continue to see extremely competitive talent markets. These factors have required specific reward interventions to continue in 2023. Since 1 January 2022, we have delivered base pay increases of 13.4% plus one-off lump sums of £2,000 to the majority of our UK employees (including all of our lowest paid employees). In 2023, the median base pay increase in the UK was 6.5%, with an average increase across the UK workforce of 5.8%. In Germany, a tariff deal covering the period from October 2022 to September 2024 provided an increase of 5.2% from June 2023 and 3.3% from May 2024, plus two one-off payments of €1,500 each, paid over two years.

In parallel with the remuneration policy review, we have reviewed our all-employee share plan offering to the wider workforce. We currently offer tax approved sharesave and sharepurchase plans in the UK and a cash settled phantom sharesave plan for colleagues outside the UK. As our multi-year transformation programme delivers improvements in our business performance, we will invest in a new plan which will allow more colleagues to share in our success, enabled by affordable share ownership. Subject to shareholder approval being granted for the new share plan, we intend to launch this for our people in the second half of 2024.

Looking ahead – summary implementation of the remuneration policy in 2024

Salary

The Committee has reviewed the salaries for the Chief Executive and Chief Financial Officer and has concluded to make an award of 4.5% for both Tufan Erginbilgic and Helen McCabe effective 1 March 2024. This is in line with the average increase for the broader UK management population and reflects prevailing wage inflation for executive roles.

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Base pay increases for the wider UK workforce are subject to negotiation and increases for 2024 have not yet been agreed.

Incentives

As outlined earlier in my letter, subject to shareholder approval, the Group will be returning to a market-typical annual bonus and a separate long-term incentive plan (LTIP).

Annual bonus

Subject to approval of the remuneration policy, the maximum annual bonus for Executive Directors in 2024 will be 200% of salary with 50% of any payment delivered in shares which will be deferred for three years.

The 2024 annual bonus measures and weightings will be the same as operated in the 2023 combined incentive plan. These measures include: free cash flow (40%); operating profit (20%); and strategic objectives which are split equally between operating cost (15%); operating profit margin (15%); and people (10%), which includes health and safety and employee engagement.

Long-term incentive

Subject to approval of the remuneration policy, the LTIP award will be 375% of salary for the Chief Executive and 275% for the Chief Financial Officer. Following the three-year performance period, any vest will be subject to a mandatory two-year holding period. The proposed LTIP measures include free cash flow (30%), operating profit margin (30%), return on capital (10%) and relative TSR (30%) assessed in equal parts against the FTSE 100 and the S&P Global Industrials index constituents.

Remuneration Committee advisers

During 2023, the Committee had access to advice from WTW. Total fees for the advice provided to the Committee during the year by WTW were £174,500 (2022: £108,200). Fees are based on a time and materials basis. WTW also provided human capital and benefits services to the Group. No Directors have a connection to WTW.

The Committee requests that WTW attend meetings periodically during the year. The Committee is exclusively responsible for reviewing, selecting and appointing its advisers and is satisfied that the advice it has received has been objective and independent and that there is no conflict of interest associated with any advice provided. WTW is a member of the remuneration consulting group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

Summary

I have been delighted with the progress that is being made on the transformation programme and am excited about the role that the Committee has to reinforce the performance culture that we are striving for.

I would like to reiterate my appreciation to those shareholders who provided feedback to our policy proposals and I look forward to your support at the forthcoming AGM.

Lord Jitesh Gadhia
Chair of the Remuneration Committee

Remuneration at a glance

This section provides a summary of the current remuneration policy and its implementation that was approved by a binding shareholder vote at the 2021 AGM (see page 110). The full policy can be found at www.rolls-royce.com

Details of a revised policy, which will be taken to the AGM in May 2024 for a binding shareholder vote, can be found on pages 88 to 98.

Summary of our current remuneration policy

Fixed pay

- Base salary
- Benefits
- Pension

Variable pay

Incentive Plan

80% Group performance			20% personal performance
Annual financial metrics 2023 – profit, cash, operating cost, operating profit margin	Long-term metrics set in 2021 – cumulative cash (three-year), TSR, CO_2 sustainability	Annual non-financial metric: people – engagement and safety	Goals and leadership behaviours

All awards to be made at the end of the performance period in shares, 40% settled after three years and 60% after four years

Malus and clawback – incentive awards are subject to malus and clawback provisions where there has been a material misstatement of audited results; serious financial irregularity; material financial downturn or an event causing a material negative impact on the value of the Group; material failure of risk management; a serious breach of Our Code; individual misconduct or actions that materially damage the Group; a breach of or inadequate response to a significant HSE or other environmental issue; failure to adequately manage/supervise others which in turn led to one of the above triggers; and/or materially incorrect calculation of an award. For awards issued under the Incentive Plan these provisions apply from the start of the performance period to three years after date of grant or the settlement date, if later.

Shareholding requirement – in line with the Rolls-Royce shareholding requirements policy, Executive Directors are required to establish and maintain a level of share ownership in proportion to a percentage of base salary. The shareholding requirement is 400% for the Chief Executive and 300% for the Chief Financial Officer. Executive Directors are also required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for 12 months after leaving and then half of that amount for the following 12 months.

Executive Directors summary policy and implementation table 2023

Base salary	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to companies of a similar size, complexity and international reach. 30% of salary for the Chief Executive and 20% for the Chief Financial Officer is delivered in deferred shares.
Implementation in 2023	The Chief Executive joined the Group on 1 January 2023, with a base salary of £1.25m, and the Chief Financial Officer joined the Group on 1 August 2023, with a base salary of £725,000. Salaries for both remained unchanged throughout 2023. A salary increase of 4% was awarded to Panos Kakoullis effective 1 March 2023. This increase was in line with the average increase for the UK management population and lower than the average increase for wider workforce. Throughout 2023, 30% of salary for the Chief Executive and 20% for the Chief Financial Officers who served during the year was deferred into shares for two years.

Benefits	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Benefits may include car allowance and related costs, financial planning assistance, private medical insurance, life assurance and other appropriate benefits at the discretion of the Committee.
Implementation in 2023	No changes to benefits.

Executive Directors summary policy and implementation table 2023 continued

Retirement allowance	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features of current policy	Executive Directors are offered membership of a defined contribution plan. A cash allowance may be payable in lieu of pension contributions. The maximum contribution is 12% of base salary only, in line with the rate offered to the wider UK workforce.
Implementation in 2023	Contribution/allowance of 12%, in line with the rate for the wider UK workforce.

Incentive plan	
Purpose and link to strategy	To incentivise the execution of the business strategy, delivery of financial targets and the achievement of personal objectives.
Key features of current policy	Maximum opportunity is 385% (220% target) for the Chief Executive and 333% (190% target) for the Chief Financial Officer. Targets are set based on Group financial performance and individual performance and may include both annual and long-term metrics. Non-financial metrics may also be included. All of the incentive is deferred into shares, 40% for three years and 60% for four years. The Committee may apply discretion to any formulaic outturn. The Incentive Plan is subject to malus and clawback.
Implementation in 2023	For 2023, the Incentive Plan metrics were based on in-year performance only for Tufan Erginbilgic and Helen McCabe, ensuring that they were measured on business performance during their tenure. The Incentive Plan metrics for Panos Kakoullis and the wider leadership team were based on a combination of annual and longer-term targets. An outturn of 170% of target, 97% of maximum for Tufan Erginbilgic; 157% of target, 90% of maximum for Helen McCabe, and 156% of target, 89% of maximum for Panos Kakoullis. All deferred into shares, 40% held for three years and 60% for four years. The award for Panos Kakoullis was pro-rated to reflect his employment during the performance period. Further details of the exit arrangements for Panos can be found on page 103.

Shareholding requirement	
Purpose and link to strategy	To align the interests of Executive Directors to those of shareholders by requiring Executive Directors to build a high level of personal shareholding in the Company during their employment and for a specified post-employment holding period.
Key features of current policy	Under the 2021 policy, the shareholding requirement for the Chief Executive was 250% and for the Chief Financial Officer was 200%. Upon appointment, the shareholding requirement was increased to 400% for Tufan Erginbilgic and 300% for Helen McCabe. Executive Directors are required to retain the lower of their actual shareholding at the date of leaving for 12 months after leaving and then half of that amount for the following 12 months.
Planned implementation in 2023	Shareholdings as a % of salary as at 31 December 2023: Chief Executive – 877% Chief Financial Officer – 285%

Alignment with shareholders

The current policy was designed to ensure alignment with shareholders through a significant part of the overall reward package being delivered in shares with long holding periods.

Under the current policy, 30% of salary for the Chief Executive and 20% for the Chief Financial Officer is deferred into shares for two years. All incentive awards are delivered in shares in the March following the performance year, 40% held for three years and 60% for four years.

Remuneration policy

Introduction

The policy will take effect from immediately after the AGM to be held on 23 May 2024, subject to shareholder approval.

Key policy themes

At the 2021 Annual General Meeting, shareholders approved a new remuneration policy which was put in place as a direct response to the impact that the pandemic had on the aerospace sector, which in turn had a profound impact on the Group. The 2021 policy reflected the urgency of the challenges faced at the time and was designed to incentivise restoration of the balance sheet and the reduction of net debt. The main features of the policy were a combined incentive plan which focused initially on short-term financial metrics, with longer-term metrics added in year two and three of the policy. Given the rights issue in 2020, the policy was also designed to heavily align the interests of the Executive Directors with the interests of shareholders, with all of the incentive plan awards delivered in deferred shares and 30% of salary for the Chief Executive and 20% for the Chief Financial Officer also delivered in deferred shares. The existing policy was considered by the Committee to be a temporary intervention and always considered that a return to a more market-standard arrangement would happen when the Group returned to a more normal operating environment.

Since 2021, both the external and internal environment have changed significantly, with engine flying hours recovering and Rolls-Royce delivering a strong financial performance in 2023. The 2023 strategic review has culminated in a granular strategy which Tufan Erginbilgic set out at the CMD with a clear proposition to shareholders (see page 10).

The proposed remuneration policy has been developed by the Committee with the shareholder proposition central to decision making.

The Committee have also focused on the following key themes:

- **Talent attraction and retention** – Ensure we have the right talent in our organisation to deliver the strategic priorities. We are proposing to transition from the bespoke single incentive which is heavily weighted to annual targets to a more market-standard annual bonus and LTIP structure, with a market-aligned maximum opportunity and market standard delivery of cash versus shares. This plan will cascade to the Executive Team and senior management. The simplicity of the plan, combined with competitive quantum and metrics which are directly aligned to our mid-term targets, will help with talent attraction and retention.
- **Behaviours and cultural change** – The Committee has considered the need for the remuneration policy to align with the Group's values and behaviours, as well as to support the creation of a performance culture. In relation to performance culture, the Committee focused on: enterprise thinking; driving both cost and growth; commercial optimisation; and a culture where year-on-year improvement is normalised. The Committee has ensured that the structure of the incentive scheme, in addition to the metrics used, reinforces the strategic priorities and the cultural change required to deliver this and, in particular, enables a cascade through to individual objectives throughout the organisation.
- **Alignment with the mid-term targets** – Metrics in both the annual bonus and the LTIP place emphasis on cash flow and profit, reinforcing the Group's stated ambition to return to investment grade, which in turn will enable the Group to make appropriate portfolio choices and to reintroduce shareholder payments.
- **ESG** – A full strategic review of sustainability will be carried out in 2024, delivering a granular net zero emissions plans with defined metrics and targets. The Committee envisage introducing a climate related performance measure aligned to the strategic review within the life of the new policy, focusing on a reduction in Scope 1 + 2 emissions. The annual bonus will continue to have metrics aligned to safety, which is our number one priority, as well as employee engagement.
- **Ensuring alignment between Executive Directors and the wider organisation** – Our policy will cascade throughout the organisation and all employees are rewarded for delivery and execution of our strategy.

Changes to policy design

When considering how we transition away from the previous bespoke policy the Committee explored various incentive structure designs, including value creation/absolute return structures, as well as the more market standard structures. There was a strong consensus among the Committee that moving to a market conventional structure with a separate annual bonus and market typical LTIP for the next policy period would be the preferred option.

The Committee unanimously agreed that given the proposal to move to a market-standard annual bonus and LTIP structure, we should also align to a market standard quantum. The selection and appointment process undertaken in 2023 in respect of the various changes to the Executive Team gave the Committee a good insight into the competitive level of reward for our key talent markets. A benchmarking review was commissioned against several peer groups, including the FTSE 100 and the FTSE 50, both excluding financial services; a European Industrials Index; and a US Industrials bespoke group. Although Rolls-Royce competes in an international industrial talent market, the Committee believes that having a primary benchmarking perspective around the UK market is important given the UK headquarters and listing. Given this perspective and also that Rolls-Royce is firmly positioned in the FTSE 50, the Committee propose to align incentives for Executive Directors to the FTSE 50 market median.

The Committee believes that the proposed policy supports alignment with shareholder interests and enables metrics to be set that are strategically aligned and linked directly to the financial commitments set out at the CMD. A description and explanation of all significant changes from the policy approved in 2021 are set out below.

No Executive Director or Executive Team member was present during discussion of his or her own remuneration package and they were not involved in the final approval of the new remuneration policy design.

Annual bonus

The bonus may be based on a combination of financial, operational and individual metrics which the Committee will review on an annual basis, with the weightings and allocation between financial and non-financial depending on the strategic focus of the Group from year-to-year. At least 50% of the annual bonus targets will be financial.

In 2024, the metrics will remain the same as the annual metrics used in the 2023 single incentive plan, free cash flow (40%); operating profit (20%); strategic objectives, split equally between operating cost and operating profit margin (30%); and people (10%).

The target annual bonus for Executive Directors is proposed to be 100% of salary, with a maximum of 200% of salary. 50% of any payment will be delivered in shares which will be deferred for three years. This is in contrast to the previous policy where the entire combined incentive was delivered in shares, with 40% held for three years and 60% for four years.

LTIP

The Committee determines performance targets each year to ensure that the targets are stretching and support value creation for shareholders while remaining motivational for management. The precise metrics and weightings will be determined by the Committee on an annual basis and will depend on the strategic focus of the Group year-to-year. The LTIP performance period will be three-years, followed by a two-year holding period.

Measures for the 2024 award include free cash flow (30%); profit margin (30%); relative total shareholder return (30%); and return on capital (10%).

The maximum potential award under the LTIP will be 375% of salary for the Chief Executive and 275% of salary for the Chief Financial Officer.

Increase in incentive opportunity

The maximum incentive opportunity when the annual bonus and LTIP plans are combined will be 575% of salary for the Chief Executive and 475% of salary for the Chief Financial Officer. This compares to a maximum opportunity under the previous policy of 385% of base salary for the Chief Executive and 333% of base salary for the Chief Financial Officer. This is a significant increase in quantum when compared to the previous policy but the Committee is comfortable that, given the peer group review and the significant change in the internal and external landscape since 2021, that the maximum opportunity is proportionate and fair.

Minimum shareholding requirement

The minimum shareholding requirement under the previous policy was 250% for the Chief Executive and 200% for the Chief Financial Officer. On appointment, the minimum shareholding requirement changed to 400% of salary for the Chief Executive and 300% of salary for the Chief Financial Officer and it is proposed that this continues into the new policy period.

Removal of deferral of salary into shares

Under the previous policy 30% of the Chief Executive's salary and 20% of other Executive Directors' salary was delivered in shares which were then deferred for two years. Under the proposed policy, salary will be delivered entirely in cash.

Consideration of shareholder feedback

During the policy review, we have consulted with our largest shareholders and the proxy agencies to provide context for the proposed new policy and gain feedback on how it could be improved. We have been pleased that the feedback that we have received has been positive, with shareholders understanding the rationale to return to more market-standard incentives and quantum broadly aligned to FTSE 50 levels. The overall feedback from this consultation was:

- support for transitioning to a market standard incentive structure;
- the increase in quantum was noted but was not called out as a concern so long as incentive metrics were stretching, aligned to strategy and reward true business performance;
- mixed views on the inclusion of relative TSR in the LTIP metrics, with some investors preferring the use of absolute rather than relative TSR;
- the use of profit and cashflow in both the annual bonus and the LTIP was noted but not highlighted as a concern due to these being central to the shareholder proposition outlined on page 10; and
- support for the measured approach proposed in relation to the introduction of a CO_2 metric, with investors expressing views that strategic alignment of metrics is of upmost importance.

These views have been considered in the final policy design for 2024.

Remuneration policy table

The table below sets out each element of Executive Directors' remuneration.

Base salary	
Purpose and link to strategy	We provide competitive salaries to attract and retain individuals of the highest calibre to develop and execute the business strategy.
Operation	Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to: — companies of a similar size, complexity and international reach; — size and scope of the role; — skills and experience of the individual; — market competitiveness of the broader remuneration package; — performance of the Group and individual; — wider market and economic conditions; and — increases made across the Group. The Committee has the flexibility to set the salary of a new hire at a discount to the market and to realign it in subsequent years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience that is critical to the delivery of the Group's strategy. No recovery or withholding applies.
Maximum opportunity	There is no formal maximum. Any salary increases will be assessed annually and will not normally exceed average increases for employees in other appropriate parts of the Group. Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances, including but not limited to: where there is a significant change in the scale, scope or responsibility of a role; where the organisation has undergone significant change; development within a role; and/or significant market movement.
Performance measures	Not applicable, although overall individual and business performance is considered when setting and reviewing base salary.

Benefits	
Purpose and link to strategy	We provide competitive benefits suitable to attract and retain individuals of the right calibre to develop and execute the business strategy and support wellbeing.
Operation	A range of benefits may be provided including, but not limited to, provision of a company car or car allowance, financial planning and tax assistance, private medical insurance, life assurance and other appropriate benefits at the discretion of the Committee. Relocation support or support for accommodation and travel may be offered to executives where necessary. Executive Directors may participate in all-employee share plans including ShareSave and the Share Incentive Plan. No recovery or withholding applies.
Maximum opportunity	There is no formal maximum. The cost of benefits is not pre-determined reflecting the need to allow for increases associated with the provision of benefits. Benefit costs are reviewed regularly to ensure they remain cost-effective. Participation in any tax advantaged share schemes is capped at the same level as other participants which is determined by the Group within the bounds of any applicable legislation which may change from time to time.
Performance measures	Not applicable.

Retirement	
Purpose and link to strategy	We provide a competitive retirement savings plan suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.
Operation	Executive Directors are offered membership of a retirement savings plan. A cash allowance may be payable in lieu of contributions to the plan. In certain jurisdictions it may be more appropriate to offer more bespoke pension arrangements. The Committee will give due consideration to local employment legislation, market practices and the cost of the plan.
Maximum opportunity	The maximum employer contribution for the Executive Directors is aligned with that made available to the wider workforce, being 12% of base salary.
Performance measures	Not applicable.

Remuneration policy table continued

Annual bonus	
Purpose and link to strategy	We reward annual performance against stretching financial, strategic and individual targets aligned to delivery of the Group's strategy. Mandatory deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.
Operation	The Group operates an annual bonus scheme which may be based on a combination of financial, operational or individual performance measures aligned to the Group's strategy. At least half the bonus awarded in any year will be deferred into shares, normally for a period of three years. The Committee has discretion to permit a dividend equivalent amount to accrue on shares delivered under the deferred bonus arrangement. Vesting of deferred shares is dependent on continued employment or good leaver status, as described in the notes to the policy table on page 93. The Committee retains the discretion, acting fairly and reasonably, to alter the bonus outcome in light of the underlying performance of the Group, taking account of any factors it considers relevant. Clawback will apply to cash bonuses paid and to any deferred shares within the three-year deferral period.
Maximum opportunity	The maximum annual bonus opportunity for the Executive Directors is 200% of base salary.
Performance measures	The bonus may be based on a combination of financial, operational and individual measures which the Committee will review on an annual basis. The precise allocation between financial and non-financial measures, as well as weightings within these metrics, will depend on the strategic focus of the Group from year-to-year. At least 50% of the performance measures will be financial. Up to 25% of the maximum bonus opportunity is paid for achieving a threshold level of performance and the maximum bonus is paid for delivering stretching levels of business performance and outstanding personal performance. No bonus is payable if threshold levels of performance are not achieved.

Long-term incentive plan	
Purpose and link to strategy	We incentivise the execution of strategy, drives long-term value creation and alignment with long term returns to shareholders.
Operation	Awards under the LTIP are conditional rights to receive shares subject to continued employment or good leaver status and the achievement of any relevant performance conditions. Awards are subject to performance targets normally assessed over three year financial years. The number of shares will be adjusted to reflect performance on the third anniversary of the grant, and the shares will vest on the five year anniversary of the grant, after a two year holding period. The Committee has discretion to set different performance periods if it considers it appropriate. The Committee shall determine the extent to which the performance measures have been met. The Committee may make adjustments to performance targets if an event occurs or circumstances arise which causes the Committee to determine that performance conditions are no longer appropriate. The performance targets will be at least as challenging as the ones originally set. The Committee has discretion to permit a dividend equivalent amount to accrue on shares during the holding period under the LTIP. Awards under the LTIP are subject to the malus and clawback policy which takes account of exceptional and adverse circumstances as described in the notes to the policy table. The Committee has the ability to exercise discretion in adjusting the formulaic outcome of incentives to ensure the outcome is reflective of the performance of the Group and the individual over the performance period.
Maximum opportunity	The maximum long-term incentive award for Executive Directors is 375% of base salary.
Performance measures	The Committee determines performance measures each year and will ensure that the targets are stretching and support value creation for shareholders whilst remaining motivational for management. The precise measures and weightings will be determined by the Committee on an annual basis and will depend on the strategic focus of the Group year-to-year. A minimum of 90% of measures will be financial. Measures for the 2024 award include free cash flow (30%); operating margin % (30%); relative total shareholder return (30%); and return on capital % (10%). For each performance element, achievement of the threshold performance level will result in no more than 20% of the maximum award paying out. For achievement of the maximum performance level, 100% of the maximum pays out. Normally, there is straight-line vesting between these points. No amount is payable if threshold levels of performance are not achieved

Remuneration policy table continued

Share ownership	
Purpose and link to strategy	Ensures alignment with shareholders' interests.
Operation	Executive Directors are required to build a holding of beneficially-owned shares equivalent in value to a percentage of their base salary. For the Chief Executive this requirement is 400% of salary and for the Chief Financial Officer and any other Executive Directors this requirement is 300% of base salary. Where requirements are not met, Executive Directors must retain at least one half of after-tax shares released from the legacy single Incentive Plan, the deferred bonus arrangements and the LTIP until this requirement is met. Post-cessation, Executive Directors are normally required to retain the lower of: the shareholding requirement or their actual shareholding at leaving date for 12 months and then 50% of that amount for the following 12 months.
Maximum opportunity	Not applicable.
Performance measures	Not applicable.

The table below sets out the main elements of Non-Executive Directors' remuneration.

Fees	
Purpose and link to strategy	To reward individuals for fulfilling their role and attract individuals of the skills and calibre required.
Operation	The Committee makes recommendations to the Board on the Chair's remuneration. The Chair and the Executive Directors determine the remuneration of the Non-Executive Directors. The fees for Non-Executive Directors are set at a level which is considered appropriate to attract individuals with the necessary skills and experience. Fees are periodically reviewed to ensure they remain appropriate in the context of: the role scope; company size, complexity and global breadth; and wider market conditions. The Chair is normally paid a single fee which reflects the commitment, demands and responsibility of the role and may be paid in either or cash, shares, or a combination of both. Other Non-Executive Directors are normally paid a base fee and additional fees for Board Committee chairmanship and membership responsibilities. The Senior Independent Director and Employee Champion receive an additional fee for these additional duties. Non-Executive Director fees may be paid in either or cash, shares or a combination of both. Non-Executive Directors are not eligible to participate in the annual bonus or LTIP.
Maximum opportunity	The current limit on the aggregate fees is set out in the Articles of Association which may be amended by a shareholder vote.
Performance measures	Not applicable.

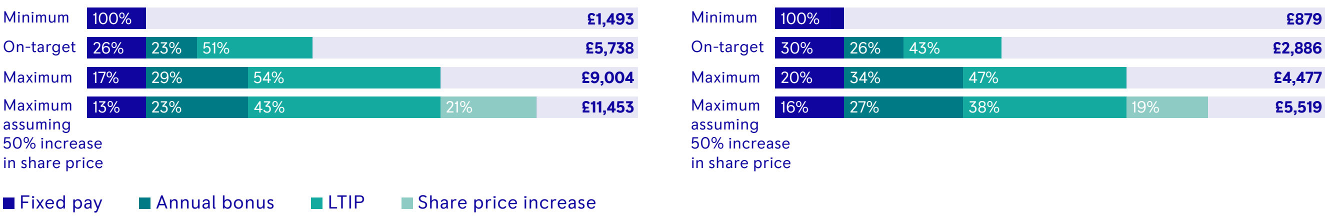
Benefits	
Purpose and link to strategy	To reimburse Non-Executive Directors for reasonable expenses incurred fulfilling the duties of their role.
Operation	Reimbursement for expenses that may include but not limited to: travel, hotel and subsistence incurred when attending meetings. The Group may provide support with tax matters for Non-Executive Directors based outside the UK. The Chair may have occasional use of chauffeur services. The Group may pay tax on benefits provided to Non-Executive Directors.
Maximum opportunity	Not applicable.
Performance measures	Not applicable.

Remuneration policy – worked examples for 2024

The tables below provide an illustration of what could be received by each Executive Director for the 2024 performance year, assuming minimum, on-target, and maximum levels of performance. The maximum with share price increase scenario shows the impact of a 50% share price growth on the LTIP shares.

Tufan Erginbilgic
Chief Executive £000

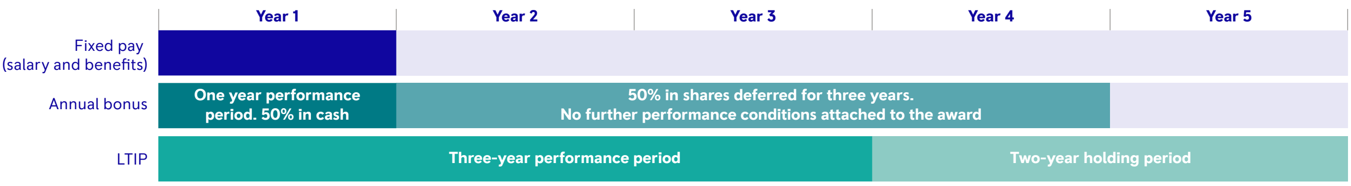
Helen McCabe
Chief Financial Officer £000



Minimum	Fixed remuneration (salary, retirement, benefits)
On-target	Fixed remuneration, on-target annual bonus (equivalent to 100% of salary for both the Chief Executive and Chief Financial Officer) and 60% vesting of the LTIP (equivalent to 225% for the Chief Executive and 165% for the Chief Financial Officer)
Maximum	Fixed remuneration, maximum annual bonus (equivalent to 200% of salary for both the Chief Executive and Chief Financial Officer) and 100% vesting of the LTIP (equivalent to 375% for the Chief Executive and 275% for the Chief Financial Officer)
Maximum assuming 50% increase in share price	All elements the same as the maximum but assumes a 50% increase in the share price from the date that the shares are granted

Alignment with shareholders

The table below illustrates how the policy aligns the interests of Executive Directors with the long-term interests of shareholders. A significant portion of the total compensation package will be delivered in shares. 50% of the annual bonus will be deferred into shares for a period of three-years and the long-term incentive plan will have a three-year performance period followed by a two-year holding period.



Notes to the policy table

Performance measure selection and setting

The annual bonus measures are determined annually to reflect matters which the Committee considers to be areas of specific focus for the Executive Directors over the short term. The Committee believes that using a number of measures provides a balanced incentive. The measures themselves are aligned to, and are designed to support the delivery of, the Group's strategic objectives.

The Committee sets performance conditions relating to the LTIP awards which are designed to align the interests of management and shareholders, incentivise management to deliver the Group's strategic objectives and reward performance over the longer term.

Targets for the annual bonus and performance measures for the LTIP awards are reviewed before the awards are made, based on a number of internal and external reference points, including strategic plans and analyst consensus, to reflect market expectations, where available. The Committee intends that the targets will be stretching and will align management's interests with those of shareholders. The measurement of performance is at the Committee's discretion, which may include appropriate adjustments to financial or non-financial elements and/or consideration of overall performance in the round. Adjustments may be either upwards or downwards.

In exceptional circumstances, performance conditions may also be replaced or varied if an event occurs or circumstances arise which cause the Committee to determine that the performance conditions have ceased to be appropriate.

Malus and clawback provisions

A malus provision applies to awards granted under the LTIP and to unvested awards under the Incentive Plan which were granted under the previous policy, to new awards granted under the proposed policy, and the mandatory bonus deferral arrangements. This would allow the Committee, in its absolute discretion, to determine, at any time prior to the vesting of an award, to reduce or cancel the award in certain circumstances, including:

— a material misstatement of audited results;

— serious financial irregularity;

— material financial downturn or an event causing a material negative impact on the value of the Group;

— material failure of risk management;

— a serious breach of Our Code;

— individual misconduct or actions that materially damage the Group;

— acting in a way which has materially damaged the reputation of the Group or any member of the Group;

— a breach of or inadequate response to a significant HSE or other environmental issue;

— materially incorrect calculation of an award; and/or

— failure to adequately manage/supervise others which in turn led to one of the above triggers and/or materially incorrect calculation of an award.

A clawback provision applies to vested awards granted under the LTIP, the mandatory bonus deferral arrangements and deferred shares granted under the Incentive Plan, as well as annual bonuses paid previously. This would allow the Committee, in its absolute discretion, to claw back from individuals some or all of the vested awards or paid bonus in the circumstances described above.

These provisions apply from the start of the performance period to three years after date of grant or the settlement date, if later.

Policy on new appointments

The Committee will appoint new Executive Directors with a package that is in line with the remuneration policy. Base salary may be set at a higher or lower level than the previous incumbent. The maximum incentive opportunity on appointment will be no higher than the maximum of the shareholder approved remuneration policy, which is 200% of the annual bonus and 375% for the LTIP.

Remuneration forfeited on resignation from a previous employer may be compensated. This will be considered on a case-by-case basis and may comprise cash or shares. In general:

— if such remuneration was in the form of shares, compensation will be in the Company's shares;

— if remuneration was subject to achievement of performance conditions, compensation will, where possible, be subject to performance (either Rolls-Royce performance conditions or actual/forecast performance outturns from the previous company); and

— the timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited.

Legacy terms for internal appointments may be honoured, including any outstanding incentive awards. If an Executive Director is appointed following a merger or an acquisition of a company by Rolls-Royce, legacy terms and conditions may be honoured.

Where an Executive Director is required to relocate from their home location to take up their role, the Committee may provide reasonable relocation assistance and other allowances including expatriate assistance. Global relocation support and any associated costs or benefits (including but not limited to housing, school fees, tax preparation and filing assistance and flights back to the home country) may also be provided if business needs require it. Should the Executive's employment be terminated without cause by the Group, repatriation costs may be met by the Group.

The Company may agree to pay the reasonable legal fees incurred by a new appointee for advice received in relation to his/her contract of employment or service agreement.

Wider workforce considerations

The Committee has responsibility for overseeing pay arrangements of all our people and reviews broader workforce policies and practices in order to support decisions on executive pay. When setting remuneration for Executive Directors and senior management, the Committee carefully considers wider remuneration across the Group, including salary increases, bonus awards, share plan participation and pay ratios between Executive Directors and employees.

Paying our people fairly relative to their role, skills, experience and contribution is central to our approach to remuneration. The Group's reward framework and policies fundamentally support this. The remuneration policy for senior executives and other employees is determined based on similar principles to Executive Directors. For roles below the Board, the exact structure and balance are tailored based on various factors including the scale, scope or responsibility of the role, development within the role and local market practice.

We drive alignment through the organisation with our incentives and our all-employee share plans. The annual bonus plan metrics cascade from Executive Directors to the vast majority of our wider workforce and our LTIP plan cascades to a large proportion of our global management population as well as our key talent groups (c. 12% of the global workforce). This drives alignment of organisational and individual objectives, ensuring that the wider workforce is driving the key metrics which will help us to continue to deliver a step change in our performance and enable future strategy.

The Committee is supportive of providing all employees with the opportunity to become shareholders, again aligning the interests of the wider workforce, the Executive Directors and our shareholders. In 2024, we are implementing a new all-employee share plan, moving from a ShareSave plan which is cash settled outside of the UK, to a global purchase plan where the Company has the opportunity to match personal investment up to a certain value each month. Our new plan will enable share ownership from the outset, driving engagement with business and share price performance and reinforcing the message that we all benefit if the business succeeds.

Input on the new remuneration policy was sought from employee groups at all levels within the organisation, including the European works council and representatives of our global management population. Input was received by both face-to-face and virtual meetings. We shared how reward packages for Executive Directors are typically structured and received input on appropriate performance measures to determine pay outcomes and how incentive structures should cascade to the wider organisation.

Share plans

The Committee retains a number of discretions consistent with the relevant share plan rules. For example, in the event of any variation in the share capital of the Company, a demerger, special dividend, distribution or any other transaction which will materially affect the value of shares, the Committee may make an adjustment to the number or class of shares subject to awards.

The treatment of leavers in our ShareSave and Share Incentive Plan is covered by the respective plan rules. Change of control provisions in respect of employee share plans are set out below.

Service contracts

A summary of the key elements of the Executive Directors' service agreements as they relate to remuneration are as follows:

Contract duration	No fixed term.
Notice period	12 months' notice (both to and from the Executive Director).
Payment in lieu of notice (PILON)	Employment can be terminated with immediate effect by undertaking to make a PILON comprising base salary, pension contributions or allowance, car allowance and a sum representing the cost of private medical insurance. The Company may elect to provide private medical insurance and/or to allow an Executive Director to retain his or her company car through the notice period (or the balance of it) as an alternative to making cash payments. The Company is entitled to make the PILON on a phased basis, subject to mitigation, so that any outstanding payment(s) would be reduced or stopped if alternative employment is obtained.
Change of control	If there is a change of control of the Company (or other specified Company events), the relevant plan rules contain details on the impact for awards. In most cases, this is likely to result in the awards vesting early but subject to still meeting any applicable performance conditions (as decided by the Committee, who may have regard to projected performance over the whole period) and applying time pro-rating. Alternatively, awards may be exchanged for new awards over shares in the acquiring company in some circumstances.
Other entitlements on termination	There is no contractual entitlement to notice or any other payments in respect of the period after cessation of employment if the individual is summarily dismissed. Please see payments for loss of office below for a summary of other entitlements which may be due upon termination (and which relate to remuneration).

Payments for loss of office

The Company's policy on payments for loss of office is as follows:

The relevant share plan rules govern the treatment of in-flight share awards when an Executive Director leaves. The table below summarises leaver provisions for good leavers.

Good leavers are those who have left the Group due to death; ill-health, injury or disability; redundancy; retirement with the agreement of the Group; the sale or transfer of the business in which the Executive Director is employed to a Company which is not a member of the Group; the participant's employing company ceasing to be a member of the Group; and other such circumstances approved by the Committee.

All awards will normally lapse if an individual leaves the Company for any reason other than a good leaver reason.

The Committee will not exercise discretion where a participant is dismissed for gross misconduct.

Component	Approach
Annual bonus	Individuals who are determined by the Committee to be good leavers may be considered for an annual bonus in relation to the year in which their active employment ceases. When deciding whether to exercise its discretion to allow a payment in respect of an annual bonus (and, if so, its amount and the terms on which it may be paid), the Committee will consider such factors as it considers to be appropriate, including performance against bonus targets, the performance of the individual and the Group in general and the circumstances in which the individual is leaving office. Any payment to a good leaver in respect of an annual bonus will typically be made at the same time as annual bonuses are paid to other employees. Clawback will continue to apply to the cash element of any payment made in respect of an annual bonus. The Committee will determine if it is appropriate in the particular circumstances to apply bonus deferral. Deferred shares allocated in part satisfaction of annual bonuses shall vest in full on the vesting date if an individual is determined by the Committee to be a good leaver unless the Committee, in its absolute discretion, determines that an award will vest on such earlier date on or following the date of such cessation as it may specify. Otherwise, they will lapse on exit.
LTIP	If an individual is determined by the Committee to be a good leaver, LTIP awards will normally continue to vest on the original vesting date and any holding period will normally still apply (subject to the satisfaction of performance conditions and unless the Committee exercised its discretion to waive time pro-rating, time-pro-rating which will apply to reflect the period worked). If an individual leaves during the holding period for any reason (except summary dismissal) the award will not lapse or be pro-rated for time but the holding period will normally remain in force.

Component	Approach
SIP and SAYE schemes	The Executive Directors are subject to the same leaver provisions as all other participants, as prescribed by the rules of the relevant scheme or plan.

Legacy commitments
Any remuneration payments and/or payments for loss of office made under legacy arrangements prior to the approval of the remuneration policy may be paid out subject to the terms of the remuneration policy in place at the time they were agreed. For these purposes, payments include satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment will be agreed at the time the award is granted. Unvested incentive plan awards issued under the previous policy, along with any salary that was deferred into shares, will vest on the usual vesting dates, consistent with the terms of that policy. LTIPs granted under previous policies remain in place, consistent with the terms of that policy.

Minor amendments
The Committee may make minor amendments to the policy (for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation) without obtaining shareholder approval.

Provision 40, section 41 disclosures
When developing the proposed remuneration policy and considering its implementation, the Committee was mindful of the Code and considers that the executive remuneration framework appropriately addresses the following factors:

Clarity	We provide open and transparent disclosures regarding our Executive remuneration arrangements. We have explained the changes to our proposed remuneration policy in a way that highlights alignment to both our vision and strategy as well as the provisions of the Code.
Simplicity	Remuneration arrangements for our Executive Directors and our wider workforce are simple in nature and well understood by both participants and shareholders.
Predictability	Our remuneration policy contains details of maximum opportunity levels for each component of pay, with actual incentive outcomes varying depending on the level of performance achieved against specific measures.
Proportionality, risk and alignment to culture	The metrics used to measure performance for incentive awards drive behaviours that are closely aligned to our vision and strategy. In particular, our variable pay arrangements continue to focus on delivering an unprecedented level of transformation. The Committee considers that our variable pay structures do not encourage inappropriate risk-taking. The incentives are subject to the achievement of stretching performance targets and the Committee's holistic assessment of performance that can result in the application of discretion. The use of holding periods, the payment of fixed salary in shares with holding periods and our shareholding requirements (including after leaving employment with the Group) provide a clear link to the ongoing performance of the business and, therefore, alignment with shareholders. Malus and clawback provisions also apply to the Incentive Plans.

Implementation of proposed remuneration policy for 2024 (subject to shareholder approval)

Base salary

A salary increase of 4.5% for the Chief Executive and 4.5% for the Chief Financial Officer is proposed. This is in line with the average increase for the broader UK management population and reflects prevailing wage inflation for executive roles. Base pay increases for the wider UK workforce are subject to negotiation and increases for 2024 have not yet been agreed.

Until a new policy is approved, 30% of Tufan Erginbilgic's salary and 20% of Helen McCabe's salary will continue to be deferred into shares for two years. We expect that, from 1 June 2024, all base salaries will be paid as cash.

Benefits

There will be no change to our approach to benefits in 2024, which includes car allowance, financial planning assistance, insurances and other benefits.

Retirement

The cash allowance for Tufan Erginbilgic and Helen McCabe is 12% of salary, in line with the rate made available to the wider UK workforce.

Annual incentive

In line with the proposed policy, the annual incentive for 2024 will be based on 80% Group performance and 20% individual performance, with a maximum opportunity for both Tufan Erginbilgic and Helen McCabe of 200% of salary. Fifty percent of any incentive payable will be delivered in shares which will vest after three years. If shareholding requirements are not met at the point of vesting, Executive Directors may only dispose of up to 50% of shares vesting.

As we transition from the combined Incentive Plan to a more conventional STIP and LTIP structure, the Committee considered whether the three-year targets set at the start of 2022 should form part of the annual incentive for 2024, so that long-term business performance continues to be measured and rewarded. Business performance for 2023 has exceeded expectations and ambitious targets have been set for future performance. Because of this, the 2024 metrics which are set out in the 2023 remuneration report will not be reflected in the 2024 incentives for any of the workforce. Instead, the metrics associated with both the long and short-term incentive plans reflect the ambitious targets that were laid out at the CMD.

The metrics and associated weightings will be:

Metric	Weighting	Link to strategy
Free cash flow	40%	A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.
Operating profit	20%	Indicates how the effect of growing revenue and control of our costs delivers value for shareholders.
Strategic objectives (split equally between operating cost and operating profit margin)	30%	Incentivises the delivery of key annual objectives linked to the transformation. Cost and margin controls are critical to increasing the quality of financial returns.
People (split equally between engagement and safety index)	10%	Safety is the Group's licence to operate and sits at the heart of everything we do. Employee engagement is an objective way of assessing how engaged our employees are with the business and its leaders.

Where targets are set with a one-year performance period, these are considered to be commercially sensitive and will be disclosed following the end of the performance period, along with performance against targets and the details and context for the assessment of performance.

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to apply discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

Implementation of proposed remuneration policy for 2024 (subject to shareholder approval) continued

Long-term incentive

The proposed long-term incentive will have a three-year performance period and a two-year holding period, with a maximum opportunity of 375% of salary for Tufan Erginbilgic and 275% for Helen McCabe.

The metrics for the 2024 long-term incentive covering the performance period from 1 January 2024 to 31 December 2026 are set out on page 91.

Metrics	Weighting	Threshold [1] (20% vesting)	Maximum [1] (100% vesting)	Link to strategy
Free cash flow (three-year cumulative)	30%	£5,600m	£7,300m	A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.
Operating margin % (average over three-year performance period)	30%	10.9%	12.7%	Reflects the quality of performance and will encourage continued cost focus across the Group.
Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P global industrials index constituents)	30%	Median	Upper quartile	Closely aligns executive pay outcomes with the shareholder experience, a measure favoured by a large proportion of our shareholder base.
Return on capital % (average over three-year performance period)	10%	11.3%	13.8%	Reflects the Group's ability to generate returns on our investments for the benefit of our shareholders.

1 Outturn between threshold and maximum will be calculated on a sliding scale

The Committee may make appropriate adjustments and use judgement in assessing performance outcomes. It retains its overriding ability to apply discretion to adjust any formulaic outcome to ensure that the final outcome is fair and justified in the context of the overall performance of the business.

The long-term incentive opportunities and time horizons will operate as per the remuneration policy.

2023 remuneration report

Executive Directors' remuneration

The following pages show how we have applied our remuneration policy during 2023 and disclose all elements of remuneration received by our Executive Directors.

Executive Directors' single figure of remuneration (audited)

	Tufan Erginbilgic		Helen McCabe		Panos Kakoullis	
	2023 £000	2022 £000	**2023 £000**	2022 £000	**2023 £000**	2022 £000
Salary (a)	875		242		395	555
Salary as deferred shares	375		60		84	139
Benefits (b)	29		13		16	26
Incentive Plan (c)	4,680		908		1,430	1,705
Long-Term Incentive Plan	–		–		–	–
Pension (d)	150		36		57	83
Previous employer buy-outs (e)	7,500		2,537			
Total remuneration	13,609		3,796		1,982	2,508
Total fixed remuneration	1,429		465		552	803
Total variable remuneration	12,180		3,331		1,430	1,705

* Helen McCabe was appointed on 1 August 2023. Panos Kakoullis stepped down from the Board on 4 August 2023

a) Salary (audited)

The Company provides suitable competitive salaries to attract and retain individuals of the right calibre to develop and execute the business strategy.

Discrepancies between single figure of remuneration salary and base salary:

— from the date of their appointments, 30% of Tufan Erginbilgic's salary and 20% of Helen McCabe's salary is deferred into shares for two years. From June 2021 and 20% of Panos Kakoullis' salary was deferred into shares for two years. The shares are not subject to performance conditions nor conditional on continued employment. However, if the Executive Director is summarily dismissed as a result of their actions or the result of actions of others acting under their instruction, the shares will immediately lapse.

In February 2024, the Committee reviewed the base salaries of Tufan Erginbilgic and Helen McCabe and agreed an increase of 4.5%. This is in line with the average increase for the broader UK management population and reflects prevailing wage inflation for executive roles.

	Base salary as at 1 March 2024	**Base salary as at 1 March 2023**
Tufan Erginbilgic	£1,306,250	£1,250,000
Helen McCabe	£757,625	£725,000 *
Panos Kakoullis	n/a	£724,880

* Helen McCabe was appointed on 1 August 2023

b) Benefits (audited)

Benefits are provided to ensure that remuneration packages remain sufficiently competitive to attract and retain individuals of the right calibre to develop and execute the business strategy and to enable them to devote themselves fully to their roles. The taxable value of all benefits paid to Executive Directors is shown below.

	Car or car allowance £000		**Medical insurance £000**		**Travel and subsistence £000**		**Tax benefit £000**		**Total £000**	
	2023	2022	**2023**	2022	**2023**	2022	**2023**	2022	**2023**	2022
Tufan Erginbilgic	15		–		14		–	–	29	–
Helen McCabe	6		1		6		–	–	13	–
Panos Kakoullis	10	15	1	1	4	8	1	2	16	26

c) Incentive Plan (audited)

The Incentive Plan is designed to incentivise the execution of the business strategy, delivery of financial targets and the achievement of personal objectives. Incentive Plan awards are made in March each year, following the performance period. All of the incentive is deferred into shares, 40% for three years and 60% for four years, and include the right to receive an amount equal in value to any shareholder distributions issued during the deferral period. The shares are conditional on continued employment but do not have further performance conditions. The annual maximum for the Chief Executive is 385% of salary and 333% for the Chief Financial Officer.

— 80% of the award is based on Group performance; and

— 20% of the award is based on individual performance.

For 2023, the Incentive Plan metrics were based on in-year performance only for Tufan Erginbilgic and Helen McCabe, ensuring that they are only rewarded for business performance during their tenure. The Incentive Plan metrics for Panos Kakoullis and the senior leadership team were based on a combination of annual and longer-term targets.

The Committee reviewed the 2023 outturn against the performance measures.

2023 Incentive Plan performance outturn

	Weighting for prior Chief Financial Officer and wider leadership	Weighting for Chief Executive and Chief Financial Officer	Threshold (50% outturn) [1]	Target (100%)	Maximum (175%) [1]	Performance pre-adjustments	Performance post-adjustments	% of target	% of maximum
Annual targets:									
Free cash flow [2]	20%	40%	£525m	£750m	£975m	£1,285m	£1,275m	175%	100%
			Actual £1,275m						
Operating profit [3]	10%	20%	£850m	£1,050m	£1,250m	£1,590m	£1,568m	175%	100%
			Actual £1,568m						
People [4]	5%	10%							
– Gallup Q12	2.5%	5%	3.73	3.97	4.11	3.99	3.99	111%	63%
			Actual 3.99						
– Safety Index score	2.5%	5%	85%	90%	95%	94%	94%	160%	91%
			Actual 94%						
Key strategic objectives [5]	15%	30%							
– Operating cost [6]	7.5%	15%	£(6,088)m	£(5,988)m	£(5,888)m	£(6,062)m	£(5,909)m	159%	91%
			Actual £(5,909)m						
– Operating profit margin [3]	7.5%	15%	6%	7.6%	9.2%	10.3%	10.2%	175%	100%
			Actual 10.2%						
Weighting for 12 month targets	**50%**	**100%**							
Outcome for 12 month targets								169%	97%
Longer-term targets:									
Cumulative cash (three year) [7]	20%	n/a	(£1,606m)	(£706m)	£194m	£266m	£266m	175%	100%
			Actual £266m						
Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P Global Industrials index constituents)	25%	n/a	Median		Upper Quartile			175%	100%
			Actual (99th percentile against FTSE 100; 96th percentile against S&P)						
CO_2 sustainability [8]	5%		50%	100%	175%	148%	148%	148%	85%
			Actual 148%						
Weighting for three-year targets	**50%**	**n/a**							
Outcome for longer-term targets								172%	98%
Total scorecard outcome (combined annual and longer-term)								170%	97%

1 Payout between threshold and target and target and maximum is calculated on a straight line sliding scale
2 Free cash flow has been adjusted to account for FX changes in order to ensure that targets and assessments are measured on a like-for-like basis
3 Operating profit has been adjusted to account for FX changes (see footnote 2) and to reflect consistent target and outturn treatment for transformation costs
4 The people objective was weighted 50% to the Gallup engagement score and 50% to an internal safety measure
5 Key strategic objectives aligned to the broader transformation objectives and were weighted 50% to operating cost and 50% to operating profit margin
6 Operating cost has been adjusted to reflect transformation costs (see footnote 3); FX changes (see footnote 2) and discretion has been applied to neutralise the impact of costs directly linked to fully funded customer business and above target incentive accruals
7 Cumulative cash targets have been re-stated to reflect adjustments made in prior years, including removing the cash and profit contributions associated with business disposals (ITP and Airtanker), and for FX purposes (see footnote 2)
8 CO_2 sustainability was calculated using an average of the divisions' targets, which were a mix of product related milestones including proving compatibility with sustainable fuels across all our core platforms

The Committee considered adjustments to targets resulting from events which were not anticipated at the time the targets were set, to ensure that targets and assessments are measured on a like-for-like basis. The details of the adjustments are included in the footnotes above.

As a result of these adjustments, the incentive plan outturns are:

— combined annual and three-year targets, as applies to Panos Kakoullis and senior management: 170% of target and 97% of maximum.

— in-year targets only, as applies to Tufan Erginbilgic and Helen McCabe: 169% of target; 97% of maximum.

	Panos Kakoullis	Tufan Erginbilgic	Helen McCabe
Group performance (% of maximum) – weighting 80%	97%	97%	97%
Individual performance (% of maximum) – weighting 20%	100%	175%	110%
Actual award – % of maximum	89%	97%	90%
Actual award – % of salary	197%	374%	125%
Actual award – £000	£1,430	£4,680	£908

All of the incentive outturn will be delivered in deferred shares, 40% for three years and 60% for four years, and for Tufan Erginbilgic and Helen McCabe will vest subject to continued employment. No further performance conditions are attached.

Definitions used for performance measures:

Operating profit – adjusted Group underlying operating profit before tax for 2023.

Free cash flow – adjusted Group free cash flow.

Operating cost – adjusted Group operating costs (which exclude direct procurement of parts and components).

Operating profit margin – adjusted Group underlying operating profit margin.

People – weighted 50% to the Gallup engagement survey and 50% to an internal safety measure, the safety index. The Gallup score increased from 3.92 in 2022 to 3.99 in 2023 and participation increased from 75% to 80%. This exceeded our target score of 3.97 which was set in 2019 when the target was set to achieve upper quartile status versus Gallup's manufacturing peer group. This is another meaningful improvement and an extremely positive result. The safety index is an established internal KPI used by all divisions and was included for the first time as an incentive metric for 2023.

CO_2 sustainability – Calculated using an average of the three divisional targets which were mainly based on product compatibility with sustainable fuel.

Individual performance

Subject to achievement of a minimum financial threshold, the Executive Directors have 20% of their incentive based on the achievement of their personal objectives. The financial threshold for 2023 was to deliver a Group free cash flow of a minimum of £300m. Personal performance objectives are set at the beginning of the year and are aligned with the Group's priorities.

Objective	Measure	Assessment against objective
Chief Executive: Tufan Erginbilgic		
Deliver the 2023 plan	Deliver free cash flow of £800m; deliver operating profit of £1,050m; deliver operating cost of no more than £5,988m	Financial targets all exceeded, with maximum incentive targets achieved for free cash flow and operating profit margin. Operating cost was ahead of target but slightly below maximum.
Deliver the transformation programme	Deliver improvement in earning and cash potential through creating credible business improvement plans	The key strategic objectives of operating cost and operating profit margin are key indicators of the success of the transformation programme, and maximum incentive targets were achieved for operating profit, and slightly below maximum for operating cost.
Safety	Ensure focus on safety of our people, measured through progressing the safety index score of 90%, maintaining TRIR below 0.38%, and maintaining world-class performance of product safety	Tufan has been clear that safety is our number one priority and is at the heart of everything we do. The metrics are the safety index, which achieved a score in 2023 of 94% (target 90%), and the total reported injury rate (TRIR) which was 0.31 against a target of 0.38.
People	Deliver effective people strategy which ensures capability and engagement. Impact measured by Gallup score of 3.97, as well as progress against our 2025 D&I commitments	The Group Gallup engagement score was 3.99 against a target of 3.97. The Committee considers this to be a very strong outcome given the amount of change being implemented at pace.
Strategic Review	Complete the strategic review, obtain Board approval and engage with our investors in the second half of the year	The strategic review was completed to plan, and a successful capital markets day was held in November. Investors have been actively engaged in the process, and our share price has responded favourably.
Overall personal performance assessment: 175%		
Chief Financial Officer * Helen McCabe		
Deliver the 2023 plan	Deliver free cash flow of £800m; deliver operating profit of £1,050m; deliver operating cost of no more than £5,988m	Financial targets all exceeded, with maximum incentive targets achieved for free cash flow and operating profit margin. Operating cost was ahead of target but slightly below maximum.
Deliver the transformation programme	Execute a smooth transition of leadership within the finance function and deliver CMD following strategic review	Helen has transitioned seamlessly into the Chief Financial Officer role, and has played a fundamental part in the preparation for and execution of the successful capital markets day.
Risk management	Ensure effective risk management and internal control over business operations	Helen quickly identified the key priority areas and put in place robust transition plans including cyber; delegations; segregation of duties; intercompany activity; and balance sheet assurance
People	Lead delivery of the transformation for Finance, GBS and IT/Digital. Gallup target of 3.97	Organisation design complete and new ways of work being embedded to drive performance culture. Gallup participation increased compared to 2022, and the Finance score increased to 4.1, which was above the Group average of 3.99.
Strategic Review	Ensure robust financial plans in place to deliver five-year plan. Embed cash framework and deploy new investment criteria and investment approach	Robust plan in place for delivery of five year plan. Strategically aligned framework for M&A in place and being executed and risk managed.
Overall personal performance assessment: 110%		

* The objectives for Helen McCabe applied equally to Panos Kakoullis who left the business on 31 August 2023. Panos fulfilled his objectives during this period, delivering the half-year results and also ensuring a smooth and effective handover of responsibilities to Helen. The Committee has determined that Panos' performance was in line with expectations and he was, therefore, awarded 100% for the personal element of his 2023 incentive

d) Pension (audited)

Executive Directors are offered membership of a defined contribution plan with a maximum employer contribution of 12% of salary (or cash allowance of equivalent value). This aligns to the average rate for the UK workforce.

In 2023, Tufan Erginbilgic, Helen McCabe and Panos Kakoullis received a cash allowance in lieu of employer contributions.

e) Compensation for remuneration forfeited from previous employment (audited)

Chief Executive

As disclosed in the 2022 annual report, in line with the remuneration policy Tufan Erginbilgic was compensated for remuneration forfeited from previous employment. Tufan joined Rolls-Royce from private equity where remuneration arrangements are fundamentally different to listed companies. The arrangements are commercially sensitive, confidential and cannot be disclosed in the same way that disclosures are made for a UK listed company. A robust process was undertaken by the Committee to ensure that compensation awarded was fair and prudent considering the compensation forfeited, with the value awarded positioned at the lower end of a fair value range. The vesting period applied to the awards (with 50% vesting after four years and 50% vesting after five years) ensures long-term alignment with the interests of shareholders.

The compensation was in the form of two grants of shares valued at £7.5m. The awards were made in March 2023 and the number of shares subject to the awards was calculated using the average closing share price during the month prior to joining (December 2023). The number of shares awarded and the respective vesting dates are shown below:

— 4,128,138 shares which will vest in March 2027 subject to continued employment

— 4,128,138 shares which will vest in March 2028 subject to continued employment

Chief Financial Officer
Helen McCabe became Chief Financial Officer on 1 August 2023 and, in line with the remuneration policy, has been compensated for remuneration forfeited from previous employment with a total value of £2.54m. Compensation for the loss of equity, both in-flight LTIPs and share options, was issued in the form of a grant of Rolls-Royce Holdings plc shares. Compensation for the loss of cash bonus for the period January to July 2023 will be paid in cash in March 2024.

Long-Term Incentives: In-flight LTIPs valued at £1.58m were converted into Rolls-Royce Holdings plc shares using the average closing BP share price and the average closing share price in the three months prior to Helen joining Rolls-Royce, being May to July 2023. Restricted stock awards were replaced on a like-for-like basis; performance share awards were replaced with Rolls-Royce performance shares, with the vesting schedule aligned to the original BP vesting schedule. The number of shares awarded and the respective vesting dates are shown below:

— 813,292 shares which will vest between February 2024 and March 2026 subject to continued employment

— 118,156 shares which will vest in March 2025 subject to the long-term incentive plan performance conditions set for the wider Group in 2022 being met. The performance conditions include a free cash flow target (45% weighting, threshold target of £874m and maximum target of £2,674m); a cumulative operating profit target (45% weighting, threshold target of £1,705m and maximum target of £2,905m); and a CO_2 sustainability target (10% weighting, calculated as an the average achievement of CO_2 sustainability milestones across the divisions, subject mainly to product compatibility with sustainable fuels)

— 99,212 shares which will vest in March 2026 subject to the long-term incentive plan performance conditions set for the wider Group in November 2023 being met. The performance conditions are equally weighted to operating profit (threshold target of £4.4bn, maximum of £5.4bn) and free cash flow (threshold target of £4bn and maximum of £5.3bn)

Share options: Compensation for the loss of 500,000 share options valued at £844,000. The options had no performance conditions other than requiring continued BP employment and were valued using a Black-Scholes model on the day before Helen joined the Group, 31 July 2023. The value of the options was then converted to Rolls-Royce Holdings plc shares using the average closing Rolls-Royce share price during the month prior to joining, July 2023. As a result, 536,966 shares were granted which will vest in March 2025 subject to continued employment.

Cash bonus: A cash payment of £113,750 will be made to Helen in March 2024. This assumes an on-target award of 65% of base salary.

Malus and clawback
Awards to compensate for remuneration forfeited from previous employment for both Tufan and Helen are subject to the Rolls-Royce malus and clawback policy.

Payments to past directors (audited)
Warren East stepped down from the Board on 31 December 2022. In January 2023, he received a payment of £14,821 for leave not taken during 2022.

Jasmin Staiblin stepped down as a Non-Executive Director from the Board on 13 May 2021. Jasmin was appointed as a member of the supervisory board of Rolls-Royce Power Systems AG on 10 June 2021 and as chair of their supervisory board, executive committee, audit committee and mediation committee on 11 June 2021. Payments of £270,948 have been made to Jasmin in 2023 in relation to her appointment (2022: £300,200). No other payments have been made to past directors during the year.

Payments for loss of office (audited)
It was announced on 31 March 2023 that Panos Kakoullis would be leaving the business. He stepped down from the Board on 4 August 2023 and left the Group on 31 August 2023. The Committee agreed that Panos would receive a payment in lieu of notice for the seven unworked months of his twelve month notice period, reflecting base pay, a cash allowance in lieu of pension plan provision and the cost of providing benefits. A pay in lieu of notice payment of £483,221 was therefore paid to Panos on exit. Panos was deemed a good leaver in respect of his unvested Incentive Plan awards from 2021 and 2022, all of which were delivered in shares in March 2022 and March 2023, and which will vest in accordance with the original vesting schedule between March 2025 and March 2027.

Executive Directors' shareholdings and share interests

Executive Directors' share interests (audited)

The Directors and their connected persons hold the following interests in the ordinary shares of the Company:

	Ordinary shares owned outright		Conditional shares not subject to performance conditions (salary as deferred shares)		Conditional shares not subject to performance conditions (Incentive Plan)		Conditional shares subject to performance conditions (LTIP)	
	22 February 2024	31 December 2023	22 February 2024	31 December 2023	22 February 2024	31 December 2023	22 February 2024	31 December 2023
Tufan Erginbilgic	–	–	227,742	217,547	–	n/a	8,256,276	n/a
Helen McCabe	–	n/a	30,490	n/a	–	n/a	1,567,626	n/a
Panos Kakoullis *	n/a	n/a	258,585	214,858	2,439,039	2,439,039	–	–

* Panos Kakoullis stepped down from the Board on 4 August 2023

Executive Directors' share awards (audited)

The following sets out details of share awards that were granted, outstanding and vested during the year. See pages 102 and 103 for compensation for remuneration forfeited from previous employment in respect of the 2023 LTIP grants made during 2023 for Tufan Erginbilgic and Helen McCabe.

Tufan Erginbilgic	Balance at 31 December 2022	Granted during the year	Vested during the year	Lapsed during the year	Balance at 31 December 2023	Date of grant	Market price at date of grant (p)	Date of vest/ lapse	Market price at date of vest/lapse (p)	Face value of award * (£000)
Salary as deferred shares	–	217,547	–	–	217,547	21/12/2023	Various	21/12/2025	n/a	375
2023 LTIP (buyout)	–	4,128,138	–	–	4,128,138	08/03/2023	90.84	08/03/2027	n/a	3,750
2023 LTIP (buyout)	–	4,128,138	–	–	4,128,138	08/03/2023	90.84	08/03/2028	n/a	3,750

Helen McCabe	Balance at 31 December 2022	Granted during the year	Vested during the year	Lapsed during the year	Balance at 31 December 2023	Date of grant	Market price at date of grant (p)	Date of vest/ lapse	Market price at date of vest/lapse (p)	Face value of award * (£000)
Salary as deferred shares	–	26,548	–	–	26,548	21/12/2023	Various	21/12/2025	n/a	60
2023 LTIP (buyout)	–	1,030,660	–	–	1,030,660	29/11/2023	153.00	29/11/2028	n/a	1,577
2023 LTIP (buyout)	–	536,966	–	–	536,966	29/11/2023	157.00	29/11/2028	n/a	843

Panos Kakoullis	Balance at 31 December 2022	Granted during the year	Vested during the year	Lapsed during the year	Balance at 4 August 2023	Date of grant	Market price at date of grant (p)	Date of vest/ lapse	Market price at date of vest/lapse (p)	Face value of award * (£000)
Salary as deferred shares	223,931	56.827	22,173	–	258,585	28/07/2023	Various	28/07/2025	Various	84
2022 Incentive Plan	1,316,606	1,122,433	–	–	2,439,039	08/03/2023	151.87	08/03/2026	–	1,705

Salary as deferred shares *

30% of Tufan Erginbilgic's salary and 20% of Helen McCabe's and Panos Kakoullis' salary was deferred into shares for two years. During 2023, shares were awarded on a monthly basis from January to December at market price under the rules of the Incentive Plan (the date of grant in the table above is the last grant made in 2023). These shares will vest on a monthly basis from January 2025 (the date of vest/lapse in the table above is the vest date of the last grant made in 2023). The face value has been determined using the market price of each monthly award in 2023 set out below. The shares are not subject to performance conditions nor conditional on continued employment. However, if the Executive Director is summarily dismissed as a result of their actions or the result of actions of others acting under their instruction, the shares will immediately lapse.

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
£1.13	£1.45	£1.44	£1.52	£1.49	£1.55	£1.90	£2.02	£2.19	£2.01	£2.43	£2.99

2021 and 2022 Incentive Plan

Both Warren East and Panos Kakoullis were granted an award of shares under the Incentive Plan in March 2022 in respect of the 2021 financial year, and in March 2023 in respect of the 2022 financial year. The average closing share price in the three days prior to the award was used to calculate the number of shares. 40% of each award was deferred for three years, vesting in March 2025 and March 2026 respectively, and 60% for four years, vesting in March 2026 and March 2027 respectively. The awards are subject to malus and clawback. The performance outturn was assessed before the award was granted.

LTIP 2019 and 2020

Warren East was awarded an LTIP in 2019 and 2020. The performance conditions of both awards were assessed at the end of the 2021 and 2022 respectively and were not met. The performance adjustments were made on the three-year anniversary of the grants and the awards will formally lapse on the five-year anniversary of the grant (March 2024 and March 2025 respectively).

Executive Directors' shareholding requirements (audited)

In line with our shareholding requirements policy, Executive Directors are required to establish and maintain a level of share ownership in proportion to a percentage of base salary. The shareholding requirement is 400% for the Chief Executive and 300% for the Chief Financial Officer. Share interests that are included in the shareholding requirements are as follows: shares vested from Company share plans; shares held in the individual's own name or by a nominee; shares held by a person closely associated (PCA) (as defined by UK Market Abuse Regulation) where the PCA has given express permission; shares held as part of the SharePurchase Plan; and, the estimated net-of-tax shares held in trust as part of unvested awards under the Incentive Plan where the awards are not subject to any performance conditions.

Individuals are expected to meet the shareholding requirement within five years of becoming subject to the policy. Where the shareholding requirements are not met, individuals may only dispose of shares in the following circumstances: to cover taxation; to cover any costs associated with the vesting or exercise of a share award; up to 50% of any shares acquired following the vesting of an award under the Incentive Plan; in connection with the operation of the malus and clawback policy; or where the Committee determines there are exceptional circumstances.

At 31 December 2023, Tufan Erginbilgic's shareholding represented 877% of his base salary and Helen McCabe's shareholding represented 285% of her base salary. They had been subject to the policy since January and August 2023 respectively. These percentages have been calculated by reference to the three-month average share price to 29 December 2023, being the last working day of the year.

Executive Directors are also required to retain the lower of their shareholding requirement or their actual shareholding at the date of leaving for 12 months after leaving and then half of that amount for the following 12 months. Warren East and Panos Kakoullis have agreed to hold shares in accordance with the shareholding requirements policy until January 2025 and August 2025 respectively. Warren East's shareholding represented 1004% of his base salary and Panos Kakoullis' shareholding represented 486% of his base salary at 31 December 2023. Panos had been subject to the policy since May 2021.

These percentages had been calculated by reference to the three-month average share price to 29 December 2023, being the last working day of the year.

Executive Directors' contractual arrangements

Each Executive Director has a service agreement that sets out their contract with the Company.

	Effective date of contract	Notice period from Company	Notice period from individual
Tufan Erginbilgic	1 January 2023	12 months	12 months
Helen McCabe	4 August 2023	12 months	12 months

Pay across the organisation

This section of the report enables our remuneration arrangements to be seen in context by providing:

— a comparison of the percentage change in our Directors' remuneration with the change in our UK employees average remuneration over two years;

— a ten-year history of our Chief Executive's remuneration;

— our TSR performance over the same period;

— an indication of the ratio between our Chief Executive's remuneration and the remuneration of employees;

— gender pay reporting; and

— a year-on-year comparison of the total amount spent on employment costs across the Group and shareholder payments.

Percentage change in Directors' remuneration

The following table compares the percentage change in each of the Director's salary/fees, benefits and incentive to the average percentage change in salary, benefits and incentive for all UK employees for the past three years.

	2022–2023			2021–2022			2020–2021			2019–2020		
	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %	Salary/ fees %	Benefits %	Incentive award %
Dame Anita Frew	**n/a**	**(61.54)**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Panos Kakoullis [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tufan Erginbilgic [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Helen McCabe [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Paul Adams [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Birgit Behrendt [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stuart Bradie [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Paulo Cesar Silva [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
George Culmer [2]	**n/a**	**6.25**	**n/a**	14.29	150	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lord Jitesh Gadhia [1]	**38.46**	**(50)**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Beverly Goulet [3]	**6.25**	**28.85**	**n/a**	14.29	1,633.33	n/a	7.69	–	n/a	(7.5)	(72.27)	n/a
Nick Luff [4]	**n/a**	**–**	**n/a**	5.56	–	n/a	38.46	–	n/a	(7.5)	–	n/a
Mike Manley [1]	**n/a**	**n/a**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Wendy Mars [1]	**18.57**	**60**	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sir Kevin Smith [1,5]	**n/a**	**n/a**	**n/a**	(20.95)	50	n/a	8.25	∞ [6]	n/a	(7.5)	(79.32)	n/a
Dame Angela Strank [7]	**(14.44)**	**(50)**	**n/a**	8.43	300	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK employees average [8,9]	**5.77**	**(1.87)**	**25.42**	5.71	3.8	3	1.03	(9.13)	1,435	1.96	2.23	(89.94)

1 Appointed or stepped down during 2023, 2022 or 2021 and therefore unable to provide percentage change for a full year's remuneration
2 George Culmer was appointed Senior Independent Director (SID) on 12 May 2022 and received an increase in fees
3 Beverly Goulet was appointed Lead Employee Champion on 12 May 2022 and received an increase in fees
4 Nick Luff was appointed Chair of the Audit Committee on 13 May 2021 and received an increase in fees
5 Sir Kevin Smith stepped down as SID and as Chair of the Science & Technology Committee on 12 May 2022 and received a decrease in fees
6 Unable to show percentage change as the increase was from zero
7 Dame Angela Strank was appointed Chair of the Safety, Ethics & Sustainability (SES) Committee on 13 May 2021 and received an increase in fees. She stepped down as Chair of the SES Committee on 11 May 2023
8 UK employees were chosen as a comparator group in order to avoid the impact of exchange rate movements over the year. UK employees including apprentices, graduates and interns make up 50% of the total employee population and are employed by Rolls-Royce plc or its relevant subsidiaries. Rolls-Royce Holdings plc has no employees
9 There was an incentive award for only a very small population in 2020, hence the significant increase in 2021

Chief Executive pay

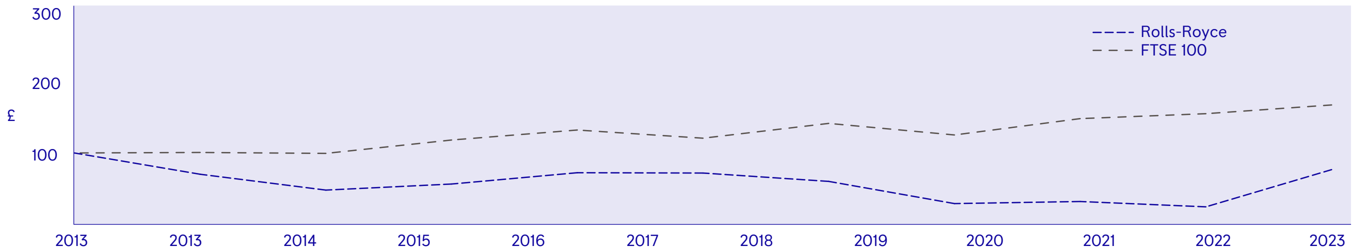
Year	Chief Executive	Single figure of total remuneration £000	Incentive award as a % of maximum	LTIP as a % of maximum
2023	Tufan Erginbilgic	13,610	97%	–
2022	Warren East	3,835	74	–
2021	Warren East	3,950	79.7	–
2020	Warren East	1,110	–	–
2019	Warren East	2,528	52	53
2018	Warren East	4,075	60	100
2017	Warren East	2,331	68	–
2016	Warren East	2,089	55	–
2015	Warren East	543	–	–
	John Rishton	754	–	–
2014	John Rishton	2,596	–	45

John Rishton retired on 2 July 2015 and Warren East was appointed as Chief Executive on 3 July 2015.

Warren East retired on 31 December 2022 and Tufan Erginbilgic was appointed as Chief Executive on 1 January 2023. Tufan received compensation for remuneration forfeited from previous employment in 2023 (see pages 102 and 103).

TSR performance

The Company's TSR performance over the previous ten years compared to a broad equity market index is shown in the graph below. The FTSE 100 has been chosen as the comparator because it contains a broad range of other UK-listed companies. The graph shows the change in value of a hypothetical £100 holding in the Company's ordinary shares over ten years (prior years adjusted for the rights issue), relative to the FTSE 100 index.



Chief Executive pay ratio

The Committee is mindful of the relationship between the remuneration of the Chief Executive and the wider employee population. This is the sixth year that we have published our Chief Executive pay ratio and we have continued to use option A. We believe that this is the most accurate and robust methodology because it relies on calculating actual full time equivalent remuneration for all relevant employees rather than rely on data collected for other purposes. We have used the full time equivalent total remuneration of all UK employees at 31 December 2023.

Year	Method	25th percentile	Median	75th percentile
2023	Option A	254:1	219:1	185:1
2022	Option A	75:1	64:1	55:1
2021	Option A	88.1	76.1	63.1
2020	Option A	26:1	22:1	19:1
2019	Option A	66:1	56:1	48:1
2018	Option A	92:1	77:1	66:1

For 2023, the salary and total remuneration for the three employees identified at the 25th, median and 75th percentiles are as follows:

Year	25th percentile	Median	75th percentile
Salary *	£42,453	£52,104	£60,852
Total remuneration	£53,545	£62,168	£73,618

* Calculated using base pay as at 31 December 2023

The 2023 pay ratio is significantly higher than it has been in previous years driven primarily by the award of shares valued at £7.5m at the time of grant to the Chief Executive as compensation for remuneration forfeited from previous employment. If this value was removed from the calculation the pay ratio would be 98:1. The Chief Executive has a larger proportion of his total reward based on variable elements linked to performance than other UK employees, as well as a significant proportion of his total package delivered in shares ensuring a direct link between his reward and share price performance. The Committee recognises that the pay ratio for 2023 is significantly higher than in recent years, relating primarily to the £7.5m award of shares. The Committee considers this to be appropriate considering the exceptional performance delivered in 2023.

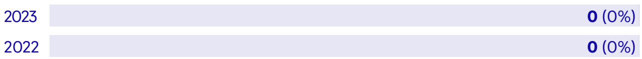
There is good alignment between the reward structure for the Chief Executive and that of the wider workforce, with the majority of employees participating in an incentive plan with aligned financial metrics. We also encourage all eligible employees to join our all-employee share plans, with approximately 50% of our global population enrolling in our most recent ShareSave plan and approximately 35% of the UK population participating in our SharePurchase Plan. In 2024, we will be broadening our all-employee share plan offering, launching a global purchase plan which will be structured to offer matching free shares for every share purchased up to maximum monthly limit. This aligns to our broader strategy to increase employee share ownership and links directly to the transformation programme.

Relative importance of spend on pay

The following chart sets out the percentage change in payments to shareholders and overall expenditure on pay across the Group.

Payment to shareholders (£m)

(Consolidated cash flow statement)



Group employment costs (£m)

(Note 8, employee information – see page 150)

* Excludes ITP employment costs. ITP Aero sale was completed September 2022

Gender pay reporting

The Company is committed to creating a diverse and inclusive place to work where our people can be themselves and be at their best.

More information about this can be found in the People and Culture section, pages 44 and 48. We published our UK gender pay gap in February 2024, which showed:

Median gender pay gap across all employees in the UK

Mean gender pay gap across all employees in the UK

The reducing pay gap in the UK is explained by the changing distribution of our workforce, with proportionately more women than men in higher paid positions. We continue to pursue diverse and under represented talent, including women, at all levels.

Non-Executive Directors' remuneration

Non-Executive Directors' single figure of remuneration (audited)

	Fees (£000)		Benefits (£000)		Total remuneration (£000)	
	2023	2022	**2023**	2022	**2023**	2022
Dame Anita Frew	**490**	490	**5**	13	**495**	503
Birgit Behrendt [1]	**45**	n/a	**10**	n/a	**55**	n/a
Stuart Bradie [1]	**45**	n/a	**1**	n/a	**46**	n/a
Paulo Cesar Silva [2]	**23**	n/a	**8**	n/a	**31**	n/a
George Culmer [3]	**85**	80	**5**	5	**90**	85
Lord Jitesh Gadhia [4]	**90**	65	**1**	2	**91**	67
Beverly Goulet [5]	**85**	80	**67**	52	**152**	132
Nick Luff	**95**	95	**–**	–	**95**	95
Wendy Mars [6]	**83**	70	**8**	5	**91**	75
Dame Angela Strank [7]	**77**	90	**2**	4	**79**	94
Paul Adams [8]	**54**	83	**6**	10	**60**	93
Irene Dorner [9]	**n/a**	39	**n/a**	–	**n/a**	39
Lee Hsien Yang [10]	**n/a**	70	**n/a**	19	**n/a**	89
Mike Manley [11]	**26**	70	**3**	7	**29**	77
Sir Kevin Smith [12]	**26**	83	**1**	3	**27**	86
Total	**1,224**	1,315	**117**	120	**1,341**	1,435

1 Birgit Behrendt and Stuart Bradie were appointed as Non-Executive Directors on 11 May 2023
2 Paulo Cesar Silva was appointed as a Non-Executive Director on 1 September 2023
3 George Culmer was appointed Senior Independent Director (SID) on 12 May 2022, when Sir Kevin Smith stepped down as SID
4 Lord Jitesh Gadhia was appointed as a NED on 1 April 2022 and as Chair of the Remuneration Committee on 12 May 2022
5 Beverly Goulet was appointed Lead Employee Champion on 12 May 2022
6 Wendy Mars was appointed Chair of the Safety, Energy Transition & Tech Committee on 11 May 2023
7 Dame Angela Strank stepped down as Chair of the Safety, Ethics & Sustainability Committee on 11 May 2023
8 Paul Adams stepped down from the Board on 1 September 2023 and as Chair of the Science & Technology Committee on 11 May 2023
9 Irene Dorner stepped down from the Board on 12 May 2022
10 Lee Hsien Yang stepped down from the Board on 31 December 2022
11 Mike Manley stepped down from the Board on 11 May 2023
12 Sir Kevin Smith stepped down from the Board on 11 May 2023

Non-Executive Directors' fees

The Chair's fee is reviewed by the Board as a whole on the recommendation of the Committee. The review of the other Non-Executive Directors' base fees is reserved to the Chair and Executive Directors. No individual may be involved in setting his or her own fee. In December 2023, the Chair's fee and those of the other Non-Executive Directors were reviewed and it was agreed to change these with effect from 1 June 2024. No changes had been made to the Non-Executive Directors' fees since 2014. Fees from 1 June 2024 are set out in the table below. The Non-Executive Directors are not eligible to participate in any of the Group's share schemes, incentive arrangements or pension schemes.

A facility is in place which enables Non-Executive Directors (who reside in a permitted dealing territory) to use some or all of their fees, after the appropriate statutory deductions, to make market purchases of shares in the Company on a monthly basis. Wendy Mars and Birgit Behrendt use this facility.

	1 June 2024 £000	**2023 £000**	2022 £000
Chair	630	**490**	490
Other Non-Executive Directors base	90	**70**	70
Chair of the Audit Committee	35	**25**	25
Chair of the Remuneration Committee	35	**20**	20
Chair of the Safety, Energy Transition & Tech Committee	35	**–**	–
Chair of the Safety, Ethics & Sustainability Committee	–	**20**	20
Chair of the Science & Technology Committee	–	**20**	20
Committee member	15	**–**	–
Senior Independent Director	35	**15**	15
Lead Employee Champion	20	**15**	15
UK Employee Champion	15	**–**	–
North American board member	15	**–**	–

Non-Executive Directors' benefits (audited)

The benefits for Non-Executive Directors relate predominantly to travel, hotel, and subsistence incurred in attending meetings.

For Non-Executive Directors based outside the UK, the Company may also pay towards tax advice and the cost of making tax filings.

Non-Executive Directors' share interests (audited)

The Non-Executive Directors and their connected persons hold the following interests in the ordinary shares of the Company:

	22 February 2024	**31 December 2023**	23 February 2023	31 December 2022
Dame Anita Frew	350,000	**350,000**	350,000	350,000
Birgit Behrendt [1,2]	1,092	**379**	n/a	n/a
Stuart Bradie [1]	95,437	**95,437**	n/a	n/a
Paulo Cesar Silva [3]	94,546	**94,546**	n/a	n/a
George Culmer	37,960	**37,960**	37,960	37,960
Lord Jitesh Gadhia	50,000	**50,000**	50,000	50,000
Beverly Goulet	40,972	**40,972**	40,972	40,972
Nick Luff	120,000	**120,000**	120,000	120,000
Wendy Mars [2]	34,339	**33,155**	23,026	19,546
Dame Angela Strank	60,583	**60,583**	13,780	13,780
Paul Adams [4]	n/a	**n/a**	10,000	10,000
Irene Dorner [5]	n/a	**n/a**	n/a	n/a
Lee Hsien Yang [6]	n/a	**n/a**	n/a	76,089
Mike Manley [7]	n/a	**n/a**	–	–
Sir Kevin Smith [8]	n/a	**n/a**	116,540	116,540

1 Birgit Behrendt and Stuart Bradie were appointed as Non-Executive Directors on 11 May 2023
2 Both Birgit Behrendt and Wendy Mars have entered into a share purchase agreement allocating a percentage of their net fees for the monthly purchase of shares at market price
3 Paulo Cesar Silva was appointed as a Non-Executive Director on 1 September 2023. He holds a percentage of his share interests as American Depository Receipts
4 Paul Adams stepped down from the Board on 1 September 2023
5 Irene Dorner stepped down from the Board on 12 May 2022
6 Lee Hsien Yang stepped down from the Board on 31 December 2022
7 Mike Manley stepped down from the Board on 11 May 2023
8 Sir Kevin Smith stepped down from the Board on 11 May 2023

Non-Executive Directors' letters of appointment

Our Non-Executive Directors serve two, three-year terms followed by three, one-year terms (nine years in total).

	Original appointment date	Current letter of appointment end date
Dame Anita Frew	1 July 2021	30 June 2024
Birgit Behrendt	11 May 2023	10 May 2026
Stuart Bradie	11 May 2023	10 May 2026
Paulo Cesar Silva	1 September 2023	31 August 2026
George Culmer	2 January 2020	1 January 2026
Lord Jitesh Gadhia	1 April 2022	31 March 2025
Beverly Goulet	3 July 2017	2 July 2024
Nick Luff	3 May 2018	2 May 2024
Wendy Mars	8 December 2021	7 December 2024
Dame Angela Strank	1 May 2020	30 April 2026

Shareholder voting

The remuneration policy was last approved by shareholders at our 2021 AGM held on 13 May 2021 and the remuneration report was last approved by shareholders at our 2023 AGM held on 11 May 2023. Details of voting are shown in the table below.

	For	% For	Against	% Against	Withheld
Approval of the remuneration policy (2021)	5,662,106,630	97.04	172,496,155	2.96	14,886,550
Approval of the remuneration report (2023)	4,894,967,977	88.17	656,792,687	11.83	1,563,614

Withheld votes are not counted towards the total percentage of votes cast.

Statutory requirements

The Committee's composition, responsibilities and operation comply with the principles of good governance, as set out in the Code, the Listing Rules (of the Financial Conduct Authority) and the Companies Act 2006. The Directors' remuneration report has been prepared on the basis prescribed in the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013.

The Remuneration Report, comprising the Remuneration Committee report, the remuneration policy and the 2023 remuneration report, has been approved by the Board and signed on its behalf by:

Lord Jitesh Gadhia
Chair of the Remuneration Committee
22 February 2024

Safety, Energy Transition & Tech Committee report

KEY AREAS OF FOCUS IN 2023

Principal risk reviews and deep dives into product and people safety. Site visit with safety focus to Civil Aerospace facilities in Derby, UK

Review of progress of with the energy transition and climate agendas; review of Sustainability report for recommendation to the Board

Initial discussions on tech strategy and roadmap

Members	Wendy Mars (Chair) Birgit Behrendt Stuart Bradie Paulo Cesar Silva Dame Angela Strank
	Biographies are on pages 70 and 71
Remit	See page 68

I am pleased to present the first report of the Safety, Energy Transition & Tech (SETT) Committee. This Committee was introduced in May 2023 and I became chair from its inception. The SETT Committee focuses on safety and the energy transition agenda and provides oversight and assurance of the Company's scientific and technological strategy, processes and investments. A summary of the SETT Committee's remit can be found on page 68. The Committee members, all Non-Executive Directors, bring deep experience between them in the Committee's areas of focus which they have gained in their various external executive roles. This is invaluable to the Committee in its oversight role and enables appropriate and robust challenge.

The Committee has met twice in 2023 and also visited our Civil Aerospace facilities in Derby, UK with a particular focus on safety, both product and people.

The Committee is supported at executive-level by the newly created appointment of the director of engineering, technology & safety and the chief transformation officer, who has responsibility for the energy transition strategy, and the Executive-level energy transition & technology committee. The Group's chief engineer also attends every meeting of the Committee.

Safety

Both product and people safety are the main priority for the Group.

During 2023, we reviewed the updated product safety policy and considered in detail the product safety principal risk. We have paid close attention to the effectiveness of the product safety management system and the relevant controls as the Group's transformation is progressed, in particular the organisational design. The Committee reviewed reports from the Group's chief engineer detailing the status of product safety issues across the Group and are working with him to develop more granular reporting to support the Committee with greater understanding of the divisional safety management control effectiveness. The Committee also reviewed relevant internal audit reports in relation to product safety.

People safety updates were received at both meetings of the Committee, including a summary of performance in 2023 and the associated action plans for 2024 to ensure continuous improvement in embedding Group-wide standards and policies.

In October 2023, members of the Committee visited Derby, UK to meet different teams across various Civil Aerospace division's facilities and to learn at first hand the management and importance of both product and people safety. We visited the service control centre and the major events centre as well as the Group's newest testbed facility and two separate manufacturing facilities: new engine and turbine blade. We gained insight into the management of in-service fleets and how technologies were being developed to grow the capability. We also learnt how the right response teams would be assembled in the event of a major incident and how this would then be managed. The tour of the new product facility provided an understanding of how product and people safety was managed and we were taken through an assessment of both within the facility. The visit ended with a tour of the turbine blade manufacturing facility and the Committee members were able to see the degree of technology and automation deployed.

As part of the visit, the Committee was taken through an overview of the people safety framework and gained a detailed understanding of the approach and standards across the Group. The people safety risks were defined and the importance of the speak up line for both product and people risks was highlighted. Safety briefings were given to the Committee at each facility and the importance of personal protective equipment stressed.

Energy Transition

The focus of the Committee is to provide oversight of the Group's energy transition strategy and to receive progress reports against policies, strategies, KPIs, plans, capability, process and systems. At our first meeting, the Committee was updated on the focus of the Executive-level energy transition & technology committee (see page 69). At the same meeting, the head of sustainability provided an introduction to the Group's climate programme and its role in ensuring the reporting obligations of the Group are met and aligned with the strategic plan and financial forecasts. At our subsequent meeting, we reviewed progress made in 2023 with Scope 1 + 2 GHG emissions reduction plans and the Scope 3, category 11 (use of sold products) emissions reporting (see page 41). We also discussed the progress with the energy transition and climate agendas. At our meeting in February 2024, as part of the year-end reporting, the Committee reviewed the Sustainability report set out on pages 32 to 43 and recommended it to the Board for approval.

Tech

Following the strategy presentation at the capital markets day in November 2023, the Committee had initial discussions on the technology strategy and roadmap, considering prioritisation of investment, funding and partnership approaches, the roadmapping process and organisation and potential disruptions and threats. The Committee's oversight of the technology strategy will ensure alignment with the climate change strategy.

Wendy Mars
Chair of the Safety, Energy Transition & Tech Committee

Responsibility statements

Statement of Directors' responsibilities in respect of the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law, the Directors have prepared the Group Financial Statements in accordance with UK-adopted international accounting standards and the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 Reduced Disclosure Framework and applicable law).

Under company law, Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period. In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The Directors are responsible for safeguarding the assets of the Group and the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors' Report confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with UK-adopted international accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group;
- the Company financial statements, which have been prepared in accordance with United Kingdom Accounting Standards, comprising FRS 101, give a true and fair view of the assets, liabilities and financial position of the Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and the Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information.

By order of the Board

Pamela Coles
Chief Governance Officer
22 February 2024