

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 CO₂ 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	<p>Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to:</p> <ul style="list-style-type: none"> – 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. <p>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.</p>
Maximum opportunity	No recovery or withholding applies.
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.
Maximum opportunity	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.
Performance measures	No recovery or withholding applies.
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.
Maximum opportunity	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.
Performance measures	The maximum employer contribution for the Executive Directors is aligned with that made available to the wider workforce, being 12% of base salary.
	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.
Operation	Mandatory deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.
Maximum opportunity	
Performance measures	<p>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.</p> <p>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.</p> <p>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.</p>
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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>
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	<p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>Non-Executive Directors are not eligible to participate in the annual bonus or LTIP.</p>
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 Erginbilic
Chief Executive £000

Minimum	100%			£1,493
On-target	26%	23%	51%	£5,738
Maximum	17%	29%	54%	£9,004
Maximum assuming 50% increase in share price	13%	23%	43%	21%
				£11,453

■ Fixed pay ■ Annual bonus ■ LTIP ■ Share price increase

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.

	Year 1	Year 2	Year 3	Year 4	Year 5
Fixed pay (salary and benefits)					
Annual bonus	One year performance period. 50% in cash		50% in shares deferred for three years. No further performance conditions attached to the award		
LTIP		Three-year performance period		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	<p>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.</p> <p>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.</p> <p>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.</p>
LTIP	<p>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.</p>

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	<p>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.</p> <p>The Committee considers that our variable pay structures do not encourage inappropriate risk-taking.</p> <p>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.</p> <p>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.</p> <p>Malus and clawback provisions also apply to the Incentive Plans.</p>

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

Base salary	<p>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.</p>			
Benefits	<p>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.</p>			
Retirement	<p>There will be no change to our approach to benefits in 2024, which includes car allowance, financial planning assistance, insurances and other benefits.</p>			
Annual incentive	<p>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.</p>			
	<p>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.</p>			
<p>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.</p>				
<p>The metrics and associated weightings will be:</p>				
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%	<p>Incentivises the delivery of key annual objectives linked to the transformation.</p> <p>Cost and margin controls are critical to increasing the quality of financial returns.</p>		
People (split equally between engagement and safety index)	10%	<p>Safety is the Group's licence to operate and sits at the heart of everything we do.</p> <p>Employee engagement is an objective way of assessing how engaged our employees are with the business and its leaders.</p>		

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.			
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.