

## **Rolls-Royce Holdings plc**

### **REMUNERATION COMMITTEE TERMS OF REFERENCE**

Approved by the Board 8 December 2011

#### **1. COMPOSITION AND AUTHORITIES**

- 1.1. The Chairman and members of the Remuneration Committee (“the Committee”) shall be appointed by the Board. The Chairman of the Company shall not be the Chairman of the Committee.
- 1.2. The Committee shall comprise at least three Non-Executive Directors of the Company who shall be determined by the Board to be independent.
- 1.3. The Company Secretary or his nominee shall act as the Secretary of the Committee.
- 1.4. The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be authorised to exercise all or any of the powers and discretions vested in or exercisable by the Committee.
- 1.5. The Committee shall meet at least three times a year and at such other times as the Chairman of the Committee shall require.
- 1.6. The Chairman of the Company, the Chief Executive and other executives of the Company may be invited by the Committee to attend meetings of the Committee but shall not be present during any discussion of their own emoluments.
- 1.7. The Committee may, at its discretion, appoint and instruct suitably experienced and qualified persons to act as advisers to the Committee and attend such meetings as the Committee may decide. The Company shall meet the expense of such advice.
- 1.8. The Committee shall have unrestricted access to documents and information and is authorised by the Board to:
  - (a) seek any information which it requires from any employee of the Company in order to perform its duties and may request that the Company Secretary or the Director of Human Resources obtain this information on their behalf; and
  - (b) obtain reliable and up to date information about remuneration in other companies and to commission any reports or surveys which it deems necessary to help to fulfil its obligations.

#### **2. RESPONSIBILITIES**

- 2.1. The responsibilities of the Committee shall be:

- (a) To act in a way which the Committee considers, in good faith, to be most likely to promote the long-term success of the Company for the benefit of its members as a whole;
- (b) To consider, in consultation with the Chairman of the Company and the Chief Executive (save in respect of their own remuneration), proposals for, and make recommendations to the Board of Directors on, the strategy and policy for the remuneration, including pension rights, of the Executive Directors, other members of the Group Leadership Team and other direct reportees of the Chief Executive (the “Senior Executives”) and the Chairman of the Company. The remuneration strategy and policy shall be designed to attract, retain and motivate Senior Executives of the quality required to run the Company successfully, but should avoid paying more than is necessary for this purpose.
- (c) To determine the whole remuneration package for the Senior Executives and to recommend to the Board the whole remuneration package for the Chairman. The Committee shall not determine the remuneration of the Non-Executive Directors which shall be determined by the Chairman and the Executive Directors.
- (d) To determine the terms and conditions of the Service Contracts of the Senior Executives (or the letter of appointment in the case of the Chairman), and liaise with the Nominations Committee to ensure that the remuneration of newly appointed executives is within the Company’s overall policy.
- (e) To determine:
  - (i) the design, conditions and coverage of any annual incentive schemes for the Senior Executives and to approve total and individual payments under those schemes in accordance with their rules;
  - (ii) the design, conditions and coverage of any long term incentive schemes (including restricted share option schemes) for the Senior Executives and to approve total and individual awards under those schemes in accordance with their rules;
  - (iii) the targets for any performance related pay schemes; and
  - (iv) the issue and terms of all share-based plans available to all employees, subject to agreement by the Board and, as required, by shareholders in general meeting;

such incentives to be subject to challenging performance criteria reflecting the company’s objectives including non-financial performance metrics where appropriate and be compatible with the Company’s risk policies and systems.

- (f) To determine the extent of compensation (if any) in the event of the termination of the Service Contracts of any of the Senior Executives taking a robust line, where appropriate, on reducing compensation to reflect departing directors’ obligations to mitigate loss and with the aim to avoid rewarding poor performance.

- (g) To review the Company's expenses policy for Directors and to review expenses incurred by the Chairman of the Company, the Chief Executive and the Executive Directors.
  - (h) To approve any employment of former Executive Directors by the Company as consultants.
- 2.2 The Committee shall be informed by the Chief Executive of any Company wide changes to the salary structure, terms and conditions and benefits of senior managers.
  - 2.3 The Committee shall be informed of all relevant annual and long-term incentive arrangements in joint venture companies and shall review any new proposals in advance of implementation.
  - 2.4 In carrying out its responsibilities, the Committee shall give consideration to such guidance on remuneration principles and practice that are set out in the UK Corporate Governance Code (in particular, Schedule A "The Design of Performance-Related Remuneration for Executive Directors) and the UK Listing Authority's Listing Rules and associated guidance.

### 3. REPORTING

- 3.1. The Committee shall report to the Board as appropriate.
- 3.2. The Committee shall produce an annual report on all aspects of the remuneration of the Senior Executives for approval by the Board for inclusion in the Company's Annual Report and Accounts which report shall include a description of the work of the committee.
- 3.3. The Chairman of the Committee shall be available to respond to any shareholders' questions at the Annual General Meeting of the Company.
- 3.4. The Committee shall review its terms of reference and its own effectiveness annually and recommend any changes to the Board. Its effectiveness will be externally and independently evaluated at least every three years.

### 4. DUTIES OF THE SECRETARY

- 4.1. The Secretary shall be required to keep a proper and timely record of meetings of the Committee and circulate such minutes to all members of the Committee. Such records should also be made available for inspection by the Board and the Company's external auditor on request.
- 4.2. The Secretary shall ensure that the Committee is properly constituted in accordance with these Terms of Reference. Any actual or anticipated variance of these terms shall be brought to the attention of the Chairmen of both the Committee and the Nominations Committee and the Chairman of the Company, as appropriate.
- 4.3. The Secretary shall ensure that these Terms of Reference are made available on the Company's website.