
GOVERNANCE REPORT

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COMPLIANCE WITH THE CODE

COMPLIANCE WITH THE UK CORPORATE GOVERNANCE CODE 2018	BOARD LEADERSHIP AND COMPANY PURPOSE	DIVISION OF RESPONSIBILITIES
<p>The Company is subject to the principles and provisions of the UK Corporate Governance Code 2018 (the Code), a copy of which is available at www.frc.org.uk.</p> <p>For the year ended 31 December 2022, the Board considers that it has applied the principles and complied in full with the provisions of the Code.</p>	<p>Our Governance Report provides examples of our leadership and our Strategic Report sets out how we have engaged with our key stakeholders during the year, including case studies (see pages 50 to 55).</p>	<p>We clearly define the roles of the Chair and the Chief Executive and fully support the separation of the two roles.</p> <p>The Board believes it operates effectively with the appropriate balance of independent Non-Executive Directors and Executive Directors (see pages 62 to 63).</p> <p>The Board regularly considers the time commitments of our Directors. Prior Board approval is required for Directors' external appointments to ensure there is no compromise on their time (see page 70).</p> <p>The quality of information and resources available to the Board has enabled us to operate effectively and efficiently throughout the year.</p>
COMPOSITION, SUCCESSION AND EVALUATION	AUDIT, RISK AND INTERNAL CONTROL	REMUNERATION
<p>The appointment process for our new Chief Executive was led by the Nominations & Governance Committee. Further information on the appointment timeline and process can be found on page 72.</p> <p>Our Board comprises a combination of broad skills, experience and knowledge (see pages 62 to 63 and 65).</p> <p>We have a clear process when considering appointments to the Board and operate effective succession planning (see pages 70 to 71).</p> <p>In 2022, we carried out an internal evaluation of the Board, supported by Lintstock (see page 69).</p>	<p>We recognise the importance and benefits of ensuring the internal audit function and the external auditors remain independent (see pages 75 and 76).</p> <p>The Board presents a fair, balanced and understandable (FBU) assessment of the Company's position and its prospects (see page 73).</p> <p>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 (see pages 74 and 75).</p>	<p>The Remuneration Committee, comprising only Non-Executive Directors, is responsible for developing the policy and determining executive and senior management remuneration.</p> <p>During 2022, the Committee also considered the Chief Executive remuneration package for Tufan Erginbilgic and leaver treatment for Warren East. (see page 77).</p> <p>No Director is involved when deciding their own remuneration outcome.</p>

CHAIR'S INTRODUCTION

As you will see from my statement on page 4, my first full year has largely been focused on the transition of our Chief Executive. We have progressed towards our target to reach gender parity on the Board with recently announced changes.

Leadership and succession planning

There were a number of changes on the Board this year. Warren East stepped down as Chief Executive on 31 December having served eight years on the Board and almost all as Chief Executive. Tufan Erginbilgic was appointed as Chief Executive on 1 January 2023 following an extensive global search conducted by external advisors. Tufan is a proven leader of winning teams within complex multinational organisations, with an ability to drive a high-performance culture and deliver results for investors. Further information on Tufan's extensive experience can be found in Tufan's biography on page 62. Information on his appointment process is set out in detail in the Nominations & Governance Report on page 72.

Irene Dorner stepped down from the Board in May and Lee Hsien Yang stepped down from the Board in December having reached his nine-year term. Mike Manley will not be standing for re-election at the 2023 Annual General Meeting and will step down from the Board on 11 May 2023.

Lord Jitesh Gadhia joined the Board and became Chair of the Remuneration Committee from the conclusion of the 2022 Annual General Meeting on 12 May 2022. Birgit Behrendt will join the Board following the 2023 Annual General Meeting (see page 5).

As a result of these changes, the gender diversity of our Board will be more than 40% women which meets the target confirmed in our Board diversity policy. This is clear recognition of the importance we place as a Board on diversity.

There is a full discussion of these leadership changes and our Board diversity in the Nominations & Governance Report on page 70.

Effectiveness

The Board and Committee evaluation for 2022 showed that good progress had been made following the implementation of the outcomes from the 2021 evaluation. Further details on the effectiveness review are on page 69.

Culture

Throughout my first full year as Chair I have endeavoured to promote continued Board engagement with our people. Following the 2022 Annual General Meeting we held an in-person Meet the Board event where around 100 employees from across Rolls-Royce were able to interact with Board members and share experiences, discuss concerns and swap insights. Topics discussed included work life balance, the personal experiences of our Board Directors and other cultural topics including imposter syndrome. The event was a great success and the level of engagement from both our employees and the Board was highly motivating.

In September, the Board visited Friedrichshafen, Germany. The visit included a site visit which allowed the Board to meet with employees and learn more about the operations of the site. Wendy Mars, one of our Non-Executive Directors and an Employee Champion, talks about the value of site visits in her interview on page 64. These site visits give us a valuable insight into the day-to-day business which helps shape discussions in the boardroom.

Governance

During the year we continued with our Board Apprentice programme. The purpose of the programme is 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.

The work of our Employee Champions continued this year. Wendy Mars assumed the role of Employee Champion alongside Bev Goulet and Lee Hsien Yang. Information on how they connected with our people during the year can be found in the Section 172(1) Statement on page 51. Wendy also discusses her role as Employee Champion in her induction interview on page 64.

During the year, the Board and Audit Committee were kept apprised of the developments in relation to the BEIS consultation 'restoring trust in audit and corporate governance'. The BEIS response, which was published in May 2022, emphasised the importance of balancing much-needed reform with maintaining the UK as a key financial centre where businesses can grow. We continued to keep close to both BEIS and the FRC throughout 2022 as communications and related consultations and guidance were and continue to be published.

Annual General Meeting

I look forward to engaging with shareholders at the Annual General Meeting on 11 May 2023. Following the success of the hybrid meeting during the 2022 Annual General Meeting, we are similarly encouraging shareholders to join, participate and vote virtually. I look forward to seeing many of you and to answering any questions that you may have.

Looking forward

Our priority is, of course, to build a strong rapport with Tufan and maintain open and transparent communications with him on Board expectations.

We will, as a Board, maintain focus on employee sentiment and culture during 2023, recognising the importance of the success of our transformation programme.

Dame Anita Frew

Chair

CORPORATE GOVERNANCE

THE BOARD

THE ROLE OF THE BOARD

The Board is ultimately responsible to shareholders for the direction, management, performance and long-term sustainable success of the Company. It sets the Group's strategy and objectives and oversees and monitors internal controls, risk management, principal risks, governance and viability of the Company. In doing so, the Directors comply with their duties under section 172 of the Companies Act 2006 (see pages 50 to 55).

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.

Beverly 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.

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 budgets 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

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 Company'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.

THE BOARD COMMITTEES

NOMINATIONS & GOVERNANCE COMMITTEE



See page 70

AUDIT COMMITTEE



See page 73

REMUNERATION COMMITTEE



See page 77

SAFETY, ETHICS & SUSTAINABILITY COMMITTEE



See page 96

SCIENCE & TECHNOLOGY COMMITTEE



See page 98

MEMBERSHIP OF EACH COMMITTEE

The membership of each Board Committee has been set out below. The Directors' biographies are on pages 62 to 63 and meeting attendance is on page 66.

A more detailed overview of the responsibilities of each Committee is outlined in its terms of reference, available at www.rolls-royce.com. We review these annually and refer them to the Board for approval.

**Board committee membership
(at 23 February 2023)**

	Nominations & Governance	Audit	Remuneration	Safety, Ethics & Sustainability	Science & Technology
Dame Anita Frew					
Paul Adams					
George Culmer					
Lord Jitesh Gadhia					
Beverly Goulet					
Nick Luff					
Mike Manley					
Wendy Mars					
Sir Kevin Smith					
Dame Angela Strank					

■ indicates that the Director is Chair of the Board or Committee
 □ indicates that the Director is a member of the Committee
 □ indicates that the Director is not a member of the Committee

ROLE OF EACH COMMITTEE

NOMINATIONS & 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

Keep the Board's corporate governance arrangements under review

Ensure arrangements are consistent with best corporate governance standards

Principal risks:
 — talent and capability

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

Oversee the Company's relations with the external auditor and approve their terms of engagement and fees

Principal risks:
 — business continuity
 — cyber threat
 — financial shock

ROLE OF EACH COMMITTEE CONTINUED

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

SCIENCE & TECHNOLOGY

Provide oversight and assurance of the Company's scientific and technological strategy, processes and investments

Provide dedicated focus to the research and technology part of the Group's research and development investment to enable the Group to conceive, design and deliver world-class technology to meet our customers' current and future needs

Principal risks:

- climate change (future technologies)
- competitive environment (disruptive technologies)

SAFETY, ETHICS & SUSTAINABILITY

Provide oversight and assurance in respect of:

- product safety
- HS&E (occupational health and safety, process safety, maintenance of facilities, asset integrity and personnel security)
- environment and sustainability, including progress and delivery against agreed climate change metrics, targets and objectives
- ethics and compliance

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 sustainability strategy, track progress towards sustainability targets and review the environmental impacts of products and operations


Monitor the Group's compliance with legislative, regulatory and ethical standards

Principal risks:

- safety (people)
- safety (product)
- climate change (delivery of strategy)
- compliance

BOARD OF DIRECTORS

Position	Board skills and competencies	Key external appointments
 <p>DAME ANITA FREW Chair of the Board Chair, Nominations & Governance Committee</p> <p>Appointed to the Board on 1 July 2021 and as Chair on 1 October 2021</p>	<p>Dame Anita brings a wealth of extensive leadership and global experience from more than two decades of board appointments in industrial manufacturing and financial services companies, 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.</p>	<p>Current</p> <ul style="list-style-type: none"> — Croda International plc, chair — Prime Minister's Business Council, member <p>Past</p> <ul style="list-style-type: none"> — BHP Group plc, NED
 <p>TUFAN ERGINBILGIC Chief Executive</p> <p>Appointed to the Board on 1 January 2023</p>	<p>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 and delivery and the creation of significant value.</p>	<p>Current</p> <ul style="list-style-type: none"> — Iveco Group NC, NED — Global Infrastructure Partners (GIP), senior adviser <p>Past</p> <ul style="list-style-type: none"> — GIP, partner — BP p.l.c., various executive roles — DCC plc, NED — Türkiye Petrol Rafinerileri A.S., NED — GKN plc, NED
 <p>PANOS KAKOULLIS Chief Financial Officer</p> <p>Appointed to the Board on 3 May 2021</p>	<p>Panos has over 30 years' experience working with a wide range of significant multinational corporations across multiple sectors, leading audits and advising on M&A transactions and turnarounds. Delivering significant transformation programmes throughout his career at Deloitte, he brings strong leadership and an appetite for innovation, collaboration and simplification.</p>	<p>Past</p> <ul style="list-style-type: none"> — Deloitte LLP, various partner & leadership roles
 <p>PAUL ADAMS Independent Non-Executive Director Chair, Science & Technology Committee</p> <p>Appointed to the Board on 11 March 2021</p>	<p>Paul has extensive industry experience, specifically in engine manufacturing. He has a passion for engineering and has broad, sector-specific operational and safety experience. His industry focus is undoubtedly a great asset to both our Science & Technology Committee and our Safety, Ethics & Sustainability Committee.</p>	<p>Current</p> <ul style="list-style-type: none"> — Aclara Resources, Inc., board member — OC Oerlikon Corporation AG, Pfäffikon, board member <p>Past</p> <ul style="list-style-type: none"> — Aerion Corporation, board member — Pratt & Whitney, various executive roles
 <p>BIRGIT BEHRENDT Independent Non-Executive Director</p> <p>To be appointed to the Board and as a member of the Nominations & Governance and Safety, Ethics & Sustainability Committees on 11 May 2023</p>	<p>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.</p>	<p>Current</p> <ul style="list-style-type: none"> — Umicore SA, NED — Thyssenkrupp AG, NED — KION Group AG, NED — Ford-Werke GmbH, NED — Infinium Holdings, Inc, NED <p>Past</p> <ul style="list-style-type: none"> — Ford, various executive roles
 <p>GEORGE CULMER Senior Independent Director</p> <p>Appointed to the Board on 2 January 2020</p>	<p>George has a strong track record as a senior finance professional with significant experience gained in large, international, highly regulated groups 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.</p>	<p>Current</p> <ul style="list-style-type: none"> — Aviva plc, chairman <p>Past</p> <ul style="list-style-type: none"> — Lloyds Banking Group plc, CFO — RSA Insurance Group plc, group financial officer
 <p>LORD JITESH GADHIA Independent Non-Executive Director Chair, Remuneration Committee</p> <p>Appointed to the Board on 1 April 2022</p>	<p>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.</p>	<p>Current</p> <ul style="list-style-type: none"> — Taylor Wimpey plc, NED — Compare the Market Limited, NED — Accord Healthcare Limited, NED — Court of Directors of the Bank of England, NED <p>Past</p> <ul style="list-style-type: none"> — UK Government Investments, NED — Blackstone Group, senior MD

	Position	Board skills and competencies	Key external appointments
	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 — Atlas Air Worldwide Holdings, Inc., NED — Xenia Hotels & Resorts, Inc., NED Past — American Airlines, Inc., various executive roles
	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
	MIKE MANLEY Independent Non-Executive Director Appointed to the Board on 1 July 2021 To step down from the Board on 11 May 2023	Mike has extensive international experience having led businesses in Europe, Asia and the US. Moreover, his expertise from the automobile industry and insights into electrification and power management serves as an asset to the Board and the Science & Technology Committee.	Current — AutoNation, Inc., CEO & director — Dover Corporation, NED Past — Stellantis N.V., head of Americas — DaimlerChrysler, various executive roles
	WENDY MARS Independent Non-Executive Director Employee champion Appointed to the Board on 8 December 2021	Wendy brings insight across hardware, software and services with technological transformation of complex global organisations at her core. Wendy remains connected to both the need to foster innovation in a technology company as well as the implementation challenges. Technology can play a significant role in helping businesses to achieve their sustainability objectives; Wendy brings this experience to the Board.	Current — Cisco Systems, Inc., president Europe, Middle East and Africa region (EMEA) Past — ThruPoint, Inc., various executive roles
	SIR KEVIN SMITH Independent Non-Executive Director Appointed to the Board on 1 November 2015	Sir Kevin has extensive industrial leadership experience and a deep knowledge of global engineering and manufacturing businesses, as well as the aerospace industry. Sir Kevin has been able to draw on his extensive experience and make a significant contribution to development and growth of key strategies.	Current — L.E.K. Consulting LLC, European advisory board member Past — Unitas Operating Partners, partner & chairman — GKN plc, group chief executive
	DAME ANGELA STRANK Independent Non-Executive Director Chair, Safety, Ethics & Sustainability Committee 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 and digital research programmes. Having actively worked in climate research and pioneering women in STEM careers, sustainability and corporate ethics are key areas of interest. As Chair of the Safety, Ethics & Sustainability 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 Past — Severn Trent plc, NED — BP p.l.c., various executive roles
	PAMELA COLES Chief Governance Officer Appointed on 1 October 2014	Pamela is an expert in corporate governance and company law with 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

Board induction and development

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 50 to 55. It is also important that the Directors regularly refresh and update their skills and knowledge and receive relevant training when necessary. During 2022, the Directors received tailored training on climate-related matters. In addition, several deep dives on specific topics are scheduled throughout the year, see page 66. Members of the Board also attend relevant seminars, conferences and training events to keep up-to-date on developments in key areas.

AN INTERVIEW WITH WENDY MARS

Non-Executive Director and Employee Champion, joined the Board in December 2021

Q During 2022, you were able to complete your induction programme. How was the programme for you as a Board member of Rolls-Royce and how did it support you to get up to speed with the business?

A My induction was really thorough and gave me a good understanding of the main areas of the business, providing me with a very solid foundation to build on, both as a Board member and as an Employee Champion. The programme itself introduced me to key areas of the business and I have been given the space and opportunity to go and explore these in greater detail.

Q What does it mean to you to be an Employee Champion?

A I really enjoy spending time with our people, to better understand the views of the workforce globally allowing me to better represent their voice in the boardroom. This is important, not just to me on a personal level, but to the Board, as it provides vital context and reality to discussions and allows me to shape conversations, influenced by the perspectives of the workforce.

Q In September you visited Friedrichshafen in Germany. What is the importance of site visits to you personally?

A This visit left me feeling extremely proud of Rolls-Royce, having met with a range of great talent, including several apprentices. I found it very impressive to see how the apprentices, at such a young age, managed to become so embedded into the Company.

Site visits allow me to see what is really going on in the business and on the shop floor. As Directors, we have the opportunity to see the operational detail, adding a sense of reality to the information we receive in the boardroom. These visits allow us to make connections with our people which is crucial for me as an Employee Champion and I can then take these real-life conversations and reflect on these during board discussions. Of course, equally important is for the employees to be able to meet with the Board members in person and see us for who we are.

Q You have also visited Indianapolis, US and Washington, UK in your role as an Employee Champion. What were your key take-aways from these trips?

A In Washington, UK, after the tour of the site facilities, we held a roundtable where employees were very friendly and engaging. I saw and heard first-hand how employees drive innovation and automation of key shop floor processes and the key role they play in driving change.

In Indianapolis, the focus was on safety, talent and the work with the unions. This was supported by a tour of the test facilities and, again, a roundtable with employees who each shared their perspective on the key topics and their experiences.

D&I is undoubtedly an important area which is very clearly acknowledged across all of Rolls-Royce

Q Having now completed your formal induction programme and been able to visit the businesses, how would you describe the culture in Rolls-Royce? And how important do you think diversity and inclusion is across the Group?

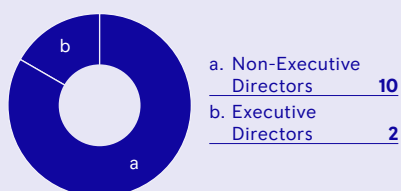
A The Rolls-Royce culture is one of immense importance in both the Company and in the Group's legacy and achievements. This can be felt across all key sites and there is an overwhelming common theme of pride in all the businesses. Wearing both my Employee Champion and Director hat, D&I is undoubtedly an important area which is very clearly acknowledged across all of Rolls-Royce. This is complimented by a constant focus on further action – taking D&I beyond being simply a scorecard exercise.

BOARD COMPOSITION

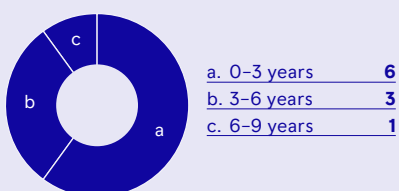
The Board brings a wide range of experience, skills and backgrounds which complement the Group's strategy.

COMPOSITION OF THE BOARD AT 23 FEBRUARY 2023

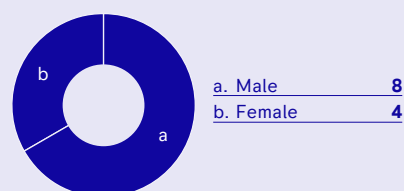
BALANCE OF THE BOARD



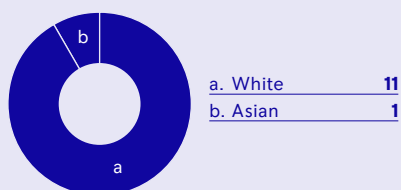
NON-EXECUTIVE DIRECTORS' TENURE



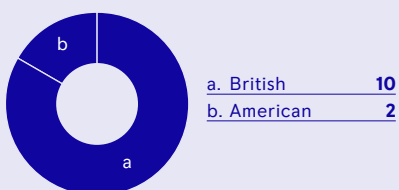
BOARD MEMBERS BY GENDER



BOARD MEMBERS BY ETHNICITY



BOARD MEMBERS BY NATIONALITY *



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

Non-Executive Directors' skills and experience at 23 February 2023

Non-Executive Director	Business experience											Global experience		
	Health & safety Product safety	Climate change & sustainability	Engineering, science & technology	Company leadership	Finance	Audit & risk management	Remuneration	Transformation	Legal & regulation	Sector specific	Geopolitics	Europe	USA	Asia & Middle East
Dame Anita Frew	■	■	■	■	■	■	■	■	■		■			
Paul Adams	■	■	■	■						■		■	■	■
George Culmer				■	■	■	■	■	■			■		
Beverly Goulet					■	■	■	■	■	■			■	
Lord Jitesh Gadhia					■	■	■	■	■		■			■
Nick Luff		■		■	■	■		■	■			■	■	
Mike Manley	■		■	■				■				■	■	■
Wendy Mars		■	■					■				■		■
Sir Kevin Smith	■	■	■	■				■		■	■	■	■	■
Dame Angela Strank	■	■	■				■	■				■	■	■

Board and Committee attendance in 2022

	Board 9 meetings	Nominations & Governance 5 meetings	Audit 9 meetings	Remuneration 7 meetings	Safety, Ethics & Sustainability 4 meetings	Science & Technology 3 meetings
Dame Anita Frew	9/9	5/5				
Warren East	9/9					
Panos Kakoullis	9/9					
Paul Adams	8/9	4/5			3/4	3/3
George Culmer	9/9	5/5	8/9	7/7		
Beverly Goulet	9/9	5/5	9/9	7/7		
Lord Jitesh Gadhia (joined on 1 April 2022)	6/6	4/4	5/5	3/3		
Lee Hsien Yang	9/9	5/5	9/9		4/4	
Nick Luff	9/9	5/5	9/9			
Mike Manley	9/9	5/5				3/3
Wendy Mars	7/9	4/5				0/1
Sir Kevin Smith	9/9	5/5		7/7		2/2
Dame Angela Strank	9/9	5/5			4/4	3/3

Past Directors

Irene Dorner (stepped down on 12 May 2022)	3/4	2/2		4/4	2/2	
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The table above sets out the Directors' attendance at Board and committee meetings throughout 2022. During the year, we made changes to the committees' memberships. Lord Jitesh Gadhia joined the Board in April and assumed the role of Chair of the Remuneration Committee in May following Irene Dorner stepping down. In addition, in May, Paul Adams became chair of the Science & Technology Committee following Sir Kevin Smith stepping down as chair and Wendy Mars was appointed to the Science & Technology Committee.

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 additional meeting in 2022, for the approval of the new Chief Executive.

In support of the 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 May, the Audit Committee held two deep dives to discuss our internal controls framework and the hedging policy;
- in July, the Safety, Ethics & Sustainability Committee held a deep dive on the HSE accountability framework; and
- in December, a training session on climate change was held where all members of the Board were invited to join.

Non-attendance

Board members' attendance was once again high in 2022. 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.

As part of her executive role, Wendy Mars had a global Cisco leadership event which had been arranged prior to her joining Rolls-Royce. This commitment meant Wendy was unable to attend the Board and committee meetings during November.

BOARD FOCUS THROUGH 2022

IN-YEAR PRIORITIES

Deliver on our commitments

In September, we completed our £2bn programme of disposals with the sale of ITP Aero for €1.6bn and immediately repaid our £2bn UK Export Finance backed loan due in 2025. Further information can be found in the Strategic Report on page 11.

**Financial momentum recovery**

Given that demand for our products and services is growing, the Board continued to focus on operational and commercial drivers to drive better performance with strategic partnerships and key suppliers. Further information can be found in the Strategic Report on page 14.

**Focus on operational and commercial discipline**

The Board continued to consider the external environment which remains challenging, with the Russia-Ukraine conflict, inflationary pressures and supply chain constraints all impacting our business. Regular discussion took place to manage our business to address and minimise the impact. The Board recognise that the issues will persist into 2023. Further information can be found in the Strategic Report on page 13.



FINANCIAL

Group budget and five-year plan

The Board considered performance against the 2022 Group budget.

In January 2023, the Board considered an early draft of the 2023 budget noting that it was subject to further review by the newly appointed Chief Executive and the Executive Team. The Board approved the 2023 budget and five-year plan in February 2023 and noted that further work would be carried out to update the five-year plan as part of the programme focused on the priorities (see page 12).

**Viability statement**

The Board agreed the viability statement period to be reported in the Annual Report and Accounts. 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 49.

**Reports and regulatory reporting**

On the recommendation of the Audit Committee, the Board reviewed and approved the half year and full year results announcements 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 time frame. Read more on page 75.

**Climate change risk**

The Board has oversight of climate-related risks and opportunities impacting the Group and all Board Committees have climate-related issues as part of their remit. In particular, the Safety, Ethics & Sustainability Committee has delegated responsibility to review the principal risk relating to climate change. For 2022, we have taken the decision to detail our climate-related disclosures in a supplementary Climate Review, in particular the approach to managing climate-related risks and scenario planning. For Climate Review and Transition Plan, see www.rolls-royce.com

**Principal risk review**

To discharge their responsibilities under the 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 2022 (CONTINUED)

SUSTAINABILITY AND ENVIRONMENTAL

TCFD and climate change

The Board received a climate change teach-in, led by the head of sustainability, during December.

**Board strategy session**

The Board held a two-day strategy session with the Executive Team in June. The Board discussed the relationship between business strategy, net zero strategy and the climate transition plan.

**Sustainability overview**

The Safety, Ethics & Sustainability Committee receive regular updates from the environment & sustainability committee which covers science-based targets, ESG assessments and sustainability communications and engagement.



WORKFORCE AND CULTURE

Talent and capability

The Nominations & Governance Committee held a principal risk deep dive on talent pool diversity by 2025.

**Employee engagement**

Work undertaken by our Employee Champions and Board is set out on page 51 in the s172(l) statement. A one-off payment was made to employees given the cost of living crisis. Information can be found on page 40. The Board continued to review the flexible working policy and an update to the policy was made for 2023. See page 40. During the year the Board received updates on the speak up campaign, see page 41. The Committee discussed the principal risk of people safety and retained TRI as the crucial metric.

**Diversity and Inclusion**

The Nominations & Governance Committee reviewed progress against the four strategic pillars of the diversity & inclusion strategy: leadership and governance; attract and recruit; retain and engage; and develop. The Committee continued to review performance against the 2025 targets. The focus on inclusion links to the 'Being' campaign which can be found on page 52.



GOVERNANCE, LEGAL AND REGULATORY

Board succession planning

On the recommendation of the Nominations & Governance Committee, the Board oversaw the arrangements for Board succession planning and approved the appointments of Tufan Erginbilgic as Chief Executive and Lord Jitesh Gadhia as Non-Executive Director and Chair of our Remuneration Committee and Birgit Behrendt as Non-Executive Director. In addition, the Board approved the re-appointments of Sir Kevin Smith for a further one-year term and George Culmer for his second three-year term.

**Chief Executive succession**

On the recommendation of the Nominations & Governance Committee, the Board unanimously approved the appointment of Tufan Erginbilgic as Chief Executive with effect from 1 January 2023.

**Board effectiveness evaluation**

The effectiveness evaluation was led by the Chair and the Chair's evaluation was led by the Senior Independent Director.

Further information can be found on page 69.



BOARD EFFECTIVENESS

Review of Board and Committees

This year we again decided to carry out an internal review of our Board's effectiveness, supported by Lintstock, having undertaken three externally facilitated board effectiveness reviews in 2018, 2019 and 2020. The internal review provided the platform and some input for the basis of our questionnaire-based approach. We continued to focus on the themes highlighted in our previous reviews: Board composition and dynamics; the Board's role; and the Board at work, with specific focus on those areas identified in the 2021 review.

We worked with Lintstock in 2021 and again in 2022. They have no other connection with the Company or its Directors.

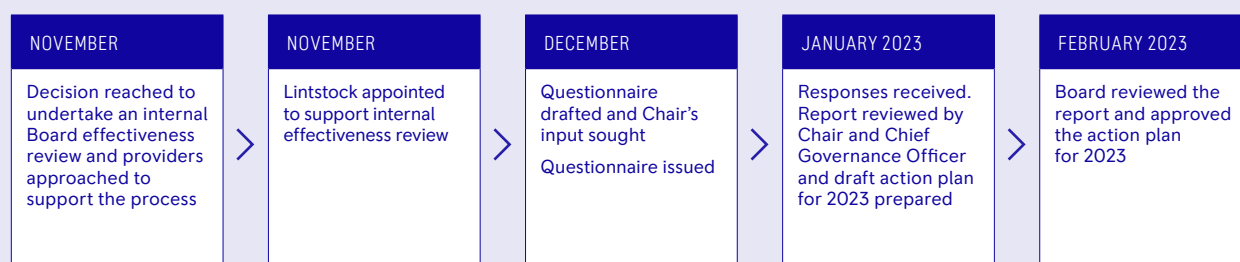
The review took the form of an online questionnaire, designed with assistance from Lintstock, with input from the Chair and the governance team. Lintstock provided an anonymised report and the Chair and Chief Governance Officer, in discussion with the Board, have agreed an action plan for 2023. In addition, the Chair held individual meetings with each Non-Executive Director.

In addition to this review, during a private meeting of the Non-Executive Directors, the Senior Independent Director led an initial review of the Chair's performance without the Chair present. They also discussed and agreed her objectives for 2023. The Nominations & Governance Committee also met without any management present to discuss the performance of the Chief Executive.

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

AREA OF FOCUS	2022 FOCUS IDENTIFIED IN 2021	PROGRESS IN 2022	FOCUS FOR 2023
Board composition and dynamics	<p>Review of the remit and membership of the Committees.</p> <p>Continued focus on succession planning, including the diversity of the Board and Executive Team.</p>	<p>Changes to the Board, one new Non-Executive Director and the Chief Executive, during the year. Three long-serving members of the Board stepped down including the Chief Executive (see pages 4 to 5).</p> <p>The Nominations & Governance Committee reviewed the succession plans for executive leadership.</p>	<p>Board to review executive governance and its own committee structure.</p> <p>Continue to work towards our diversity & inclusion ambitions.</p>
The Board's role	<p>Execution of strategy, prioritising investments and the oversight of cost management.</p>	<p>Focus on the impact of external challenges on operational performance (see pages 18 to 19).</p>	<p>Focus on strategic choices.</p>
The Board at work	<p>Strengthening relationships with our stakeholders, conscious of the external environment.</p>	<p>Strong focus on engagement with stakeholders (see page 50), including a large and successful Meet the Board event for employees.</p>	<p>Continued focus on stakeholder engagement, ensuring Board sponsorship of the transformation programme.</p>

STAGES OF THE BOARD EFFECTIVENESS REVIEW



NOMINATIONS & GOVERNANCE COMMITTEE REPORT

KEY AREAS OF FOCUS IN 2022

Chief Executive appointment

Executive succession planning

Diversity & inclusion

Board and committees' composition

The Committee is responsible for keeping the structure, size and composition of the Board and its committees under review. During 2022, the Committee, led by the Chair, oversaw the search and appointment of a new Chief Executive to replace Warren East following the announcement in February 2022 that Warren would step down at the end of 2022 having served eight years on the Board, almost all as Chief Executive. The Company used MWM Consulting which has no connection with individual directors. Information on the appointment search and process can be found on page 72.

The Committee oversaw a number of changes to the Non-Executive Directors. One new Non-Executive Director, Birgit Behrendt, will join the Board in May 2023. Lee Hsien Yang stepped down at the end of 2022, having completed his nine-year term on the Board. Mike Manley will also step down from the Board in May 2023 and will not stand for re-election at the AGM. In April, Lord Jitesh Gadhia joined the Board and became Chair of the Remuneration Committee from the conclusion of the 2022 AGM in May. Prior to this appointment, Jitesh had been a member of the remuneration committee at Taylor Wimpey since March 2021. Also following the AGM in May 2022, George Culmer replaced Sir Kevin Smith as Senior Independent Director and Paul Adams became Chair of the Science & Technology Committee.

Furthermore, during the year, the Committee considered the re-appointment terms of George Culmer and Sir Kevin Smith. It was agreed previously that all Non-Executive Directors would be appointed annually once they reached their third term.

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 & Governance Committee and to other Board committees, depending on the skills they bring. See page 60 for our current Board committee membership.

The Chief Governance Officer ensures that new Directors have a thorough and appropriate induction programme. More detail about inductions and continuing development can be found on page 64.

The Committee has also considered the following changes to the Board and its committees during 2022 and up to the date of this report. I joined the Safety, Ethics & Sustainability Committee during December and Birgit Behrendt will join the Nominations & Governance and Safety, Ethics & Sustainability Committees in May.

Summary biographies for the Directors can be found on pages 62 to 63. Full biographies can be found at www.rolls-royce.com

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 2022, the Directors demonstrated a strong commitment to the Company, as shown by their very high levels of attendance at all our meetings (see page 66). During the year, the Board considered the external appointment of Lord Jitesh Gadhia to the Court of Directors of the Bank of England. Other external appointments were also considered during the year and were not considered significant for reporting purposes. The Board concluded that none of the external appointments were considered time restrictive.

Succession planning

As part of our 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 Committee regularly reviews succession planning at Board, Executive Team and senior management levels. The Board considered the principal risk relating to talent and capability.

The Committee plays a vital role in promoting effective Board and leadership succession, making sure it is fully aligned to the Group's strategy. Following the announcement that Warren East would step down as Chief Executive, the Committee continued to regularly discuss succession. A more detailed overview of the Chief Executive's appointment process can be found on page 72.

Diversity & inclusion

In 2022, the Committee continued to oversee the development of a diverse pipeline for succession. Diversity and inclusion (D&I) continues to be an area of focus for the Board and for the Group as a whole. We support and monitor Group activities to increase the percentage of senior management roles held by women and other under-represented groups across the organisation.

The Board diversity policy maintains a balance so that, as a minimum, 40% of the Directors should be women. It is the Board's longer-term ambition to reach gender parity. We have met the Board's intention that at least one senior Board member will be a woman and that at least one Board member will be from a non-white ethnic minority background. The Board diversity policy is available at www.rolls-royce.com. We have always recognised that there may be changes to the Board where we may fall short of our stated aim for periods of time while the Board is refreshed.

As at the date of this report, 33% of the Directors are women and that includes myself as Chair. As noted above, Mike Manley will be stepping down from the Board and Birgit Behrendt will be joining the Board in May 2023, at which time over 41% of the Board will be women. The Committee will continue its work to maintain a balance on the Board of individuals representing a wide cross-section of experience, cultural backgrounds and specialisms.

Diversity in our Executive Team has improved but we recognise that there is still more to do. 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 40).

Improving D&I across the Group remains a priority and we continue to track progress. We are particularly pleased to note that the number of females in the enterprise leadership group has increased year-on-year (see People and Culture on page 40).

More on our progress against our D&I targets can be found on page 40. Voluntary disclosures under Listing Rule 9.8.6 can be found on page 209.

Principal risk review

The principal risk of talent and capability was considered throughout 2022. The Board met in full to review talent and capability as the development of our leaders is critical to ensuring the right culture and behaviours are embedded across the Group and to ensure we maintain the right skills and capability for future growth.

Corporate governance

We strive to take an innovative approach in all that we do and that includes our approach to governance. Throughout 2022, we have continued to keep up-to-date by ensuring agendas were reflective of the current issues and information provided to the Board was always current and timely.

We continue to follow the UK BEIS consultation on restoring trust in audit and corporate governance. 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.

Engagement with shareholders

For information on how the Board has engaged with stakeholders during the year, see pages 50 to 55.

Dame Anita Frew

Chair of the Nominations & Governance Committee

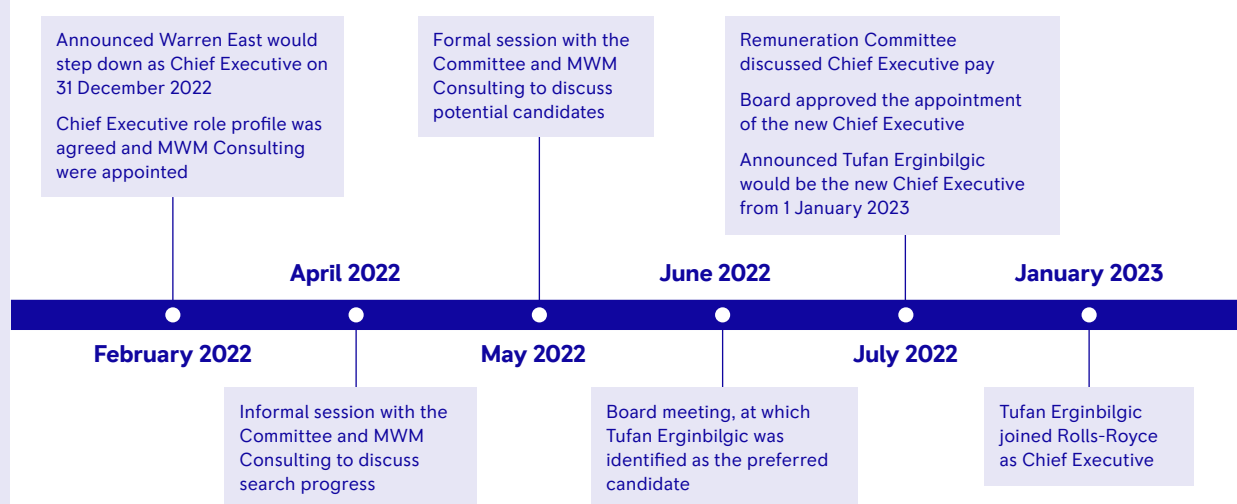
Members	All Non-Executive Directors
	Biographies are on pages 62 to 63
Remit	See page 60

CHIEF EXECUTIVE APPOINTMENT PROCESS

Succession planning for all Directors, including the Executive Directors, is an ongoing cycle of work. The Committee has oversight of the senior leadership development and succession plans, ensuring they are aligned to the long-term strategic ambitions and the diverse leadership needs of the Group. After eight years on the Board and almost all as Chief Executive, Warren East retired as Chief Executive and stepped down from the Board at the end of 2022.

The Committee, led by the Chair, oversaw the search and appointment of a new Chief Executive. The process was thorough and inclusive. An extensive internal and external search was followed by an interview process which gave the Non-Executive Directors the opportunity to meet the shortlisted candidates. There was good communication throughout the process and the Chair received support from the Chief Governance Officer.

Set out below are the milestone steps that culminated in our announcement in July 2022 of the appointment of Tufan Erginbilgic as our Chief Executive:



Further detail on the key stages are outlined below:

Identify

A detailed job specification and preferred attributes of the new Chief Executive were agreed in February. A thorough review of potential internal and external candidates was undertaken, including a long list of external candidates proposed by MWM Consulting. These candidate profiles were made available to Committee members. The Chair, the Senior Independent Director, Sir Kevin Smith and Nick Luff considered the long list of candidates and reduced it to a short list in discussion with MWM Consulting. This included a number of diverse candidates.

Interview

All members of the Board met with and interviewed all candidates on the short list.

Select

Tufan Erginbilgic was identified as the preferred candidate during a Board session attended by the Non-Executive Directors only. Tufan Erginbilgic had met with all Board directors and extensive references had been taken and were available to the Committee.

Consider

The Board discussed Tufan Erginbilgic's background in engineering, noting also that he built his career in international business, leading multi-cultural teams and operations within complex multinational organisations. It was recognised that he would bring strategic and operational capabilities and had experience of safety critical industries and an understanding of the challenges and commercial opportunities presented by the energy transition.

The Remuneration Committee approved the terms and conditions relating to Tufan Erginbilgic's remuneration.

Appoint

The Board unanimously approved the appointment of Tufan Erginbilgic and the appointment was announced on 26 July 2022.

AUDIT COMMITTEE REPORT

KEY AREAS OF FOCUS IN 2022

Understanding and external presentation of results, ensuring that business performance is fairly presented in financial reporting

Impact of climate change on accounting assumptions, financial reporting and disclosures, including in relation to TCFD recommendations

Financial risk management including changes to foreign exchange hedging policy

Oversight of effectiveness of risk management and progress on internal controls improvement programmes

I am pleased to present the 2022 report of the Audit Committee which describes how the Committee has carried out its responsibilities during the year.

At the end of 2022, Lee Hsien Yang stepped down from the Board and as a member of the Audit Committee, having completed his full nine-year term. I would like to thank him for his commitment and contribution to the Committee. The Committee membership is set out on page 60. In accordance with the Code and DTR 7.1, George Culmer, Beverly Goulet and I have recent and relevant financial experience. The Board has confirmed that it believes that the Committee as a whole has competence relevant to the Company's sector.

In 2022, we were pleased to have the opportunity to meet with several shareholders in person as well as hearing virtually from shareholders at our 2022 AGM, where we were able to answer questions both in person and via the live stream of the meeting.

This report sets out the work of the Committee in 2022. It has been another busy year for the Committee as we continued to 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. We have ensured, as the commitments the Group made in 2020 were delivered, in particular with the disposal of ITP Aero, that the appropriate accounting judgements and assessments were made. We reviewed changes to the foreign exchange hedging policy. 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 have continued to support the Board in its considerations of climate change risk and opportunity and, together with the Safety, Ethics & Sustainability Committee, we have overseen the reporting against the TCFD recommendations. We also reviewed the impact of the Group's climate strategy on the 2022 financial statements 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, particularly in relation to business continuity. The Committee continued to receive regular reports from internal audit, overseeing delivery of the 2022 audit plan and approving the 2023 plan. The Data Security sub-committee, comprising myself and George Culmer, met three times in the year, to focus on the cyber threat principal risk.

The Committee received a briefing on the UK BEIS consultation on 'restoring trust in audit and corporate governance' following BEIS announcing that it intends to take forward a number of the proposed reforms. We have continued to monitor the Group's internal control framework and its effectiveness across the business throughout 2022 with the appropriate lens so that any final recommendations by BEIS are incorporated in our processes. Over the coming months, we will review communications from both BEIS and the FRC and we will also consider related consultations and guidance. As the landscape becomes clearer, most likely in 2023, work will begin particularly in the areas of assurance and non-financial controls, to ensure the Group is able to meet the new requirements and the directors have sufficient support to enable them to provide the enhanced statements and disclosures.

During the year, the Committee received individual business presentations focused primarily on business governance, including risk management and internal control systems.

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 2022, in addition to our scheduled workload, we have focused on the impact of the Russia-Ukraine conflict and the ongoing macro-economic challenges that exist globally. In particular, we have considered the implications of these circumstances on our assumptions and key accounting judgements, including the recovery of Civil Aerospace engine flying hours, inflationary assumptions and discount rates. We have also reviewed the accounting judgements associated with the disposal of ITP Aero in September 2022. In addition, during 2022, the Committee considered the impact of the Group's climate strategy on the assumptions and scenarios used by management.

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 113.

Fair, balanced and understandable

As part of its review of the 2022 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 Company's position, performance, business model and strategy. In so doing, the Committee considers the processes and controls involved in preparing the report. There is a robust governance framework to ensure the report is critically reviewed and signed off by key business and function teams. The Committee was satisfied that the process was effective and confirmed to the Board that, when taken as a whole, the Annual Report is fair, balanced and understandable.

Significant issues relating to the 2022 financial statements:

A summary of the principal matters we considered in respect of the 2022 Consolidated Financial Statements is set out below.

AREA OF FOCUS	CONSIDERATIONS
Alternative Performance Measures (APMs)	Consistent with 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 203 for a reconciliation of APMs to their statutory equivalents.
Long-term contract accounting	The Committee considered the assessment of estimates of future revenue and costs on the Group's complex, long-term contractual arrangements. This has continued to be a particular focus for the Committee due to the impact of changing macro-economic conditions, in particular on our Civil Aerospace business. As part of our considerations, we reviewed onerous contracts and the carrying value and recoverability of tangible and intangible assets. 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 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. We confirmed the approach, which remained consistent with that taken in 2021, 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. This included understanding and challenging the assumptions in the climate scenarios used by management to sensitise forecasts in respect of going concern, viability, long-term contract accounting, impairment assessments and deferred tax asset recognition. See note 1 in the Consolidated Financial Statements.
Sales of spare engines	Throughout the year, the Committee kept under review the assessment of whether the sales of spare engines, either to related or third parties, represented a sale and was at fair value. The Committee challenged management on the approach, the accounting and the reporting of these transactions.
Accounting for complex treasury instruments	The Committee considered numerous topics in relation to the complex treasury instruments including the GBP : USD hedge book and associated hedge book rates, the long term planning rate used by management beyond the hedge book period, and the deal contingent forward foreign exchange contracts entered into to hedge the proceeds from the ITP disposal. This included understanding and challenging management on the assumptions, the approach, the accounting and reporting.

Risk management and the internal control environment

Our risk management and internal control framework is described on page 42. During the year, we focused on the effectiveness of risk mitigation, understanding our appetite for taking risk as described on pages 42 to 43, including in respect of business continuity activities following consideration of the lessons learned as a result of COVID-19 and more recent challenges caused by the Russia-Ukraine conflict. We will continue to focus on risk mitigation effectiveness and risk appetite in 2023, 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 by business and functional risk owners, we reported to the Board 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 43 to 47. 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 the year:

- Business Continuity: the Committee received updates on the status of the continuity risk management of each business, including the impact of the Russia-Ukraine conflict on both our supply chain and operations in particular for the Power Systems business.
- Cyber: at each meeting of our data security committee, cyber security risks are considered together with lessons learnt from incidents and 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 macroeconomic nature (for example, foreign currency, oil price, 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 42). During 2022, 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 2022 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 2022 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.

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 review 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 the Audit Committee, Internal Audit function and the external auditor;
- review the Company's response to incidents and threats, including those related to cybersecurity and safety; and
- review information gathered from the Company's formal whistleblowing process.

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 £6,016m on the Group's 2022 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 Company is able to continue to meet its liabilities as these fall due, over the five year period to 31 December 2027.

We reviewed the processes and assumptions underlying the going concern and viability statements set out on pages 48 to 49, 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 incorporates the activities of our second line assurance functions in their approach. We considered and 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.

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 Chambers, who has been the lead audit partner since PwC were appointed, is required to rotate after five years. He will be replaced by Ian Morrison following the completion of the 2022 audit. 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.

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

2022 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 2023. 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 2023 AGM.

In November, 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 185 to 198), 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 2022 and February 2023, 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.

Members

Nick Luff (Chair)
George Culmer
Lord Jitesh Gadhia
Beverly Goulet

Biographies are on page 62 to 63

Remit

See page 60

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.

Fees paid to PwC are set out in note 7 to the Consolidated Financial Statements on page 137. 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 £1.5m (2021: £1.9m), representing 11% (2021: 14%) of the audit fee. This included £0.7m (2021: £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.

Compliance

During 2022, 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, as disclosed within the external audit section.

Nick Luff

Chair of the Audit Committee

REMUNERATION COMMITTEE REPORT

KEY AREAS OF FOCUS IN 2022

Remuneration of new Chief Executive

Review of base salaries and incentive metrics

Global inflationary pressures and cost of living crisis and the impact on wider workforce remuneration

I am pleased to present my first report as Chair of the Committee having joined the Board at an important moment of transition for the Group. I would like to thank my predecessor, Irene Dorner, for her hard work and dedication during her time as Chair of the Committee and for the time and effort that she put in to ensure a smooth handover of responsibilities.

This letter outlines the key decisions taken by the Committee during 2022, both in relation to policy and changes in leadership, with the retirement of Warren East in December 2022 and the appointment of our new Chief Executive, Tufan Erginbilgic, in January 2023. The letter also sets out the impact that the external challenges have had on the Group, with global inflationary pressures and the cost of living crisis leading to several extraordinary reward interventions for the wider workforce.

Business context for 2022

Although our results improved year-on-year there is still much to do to strengthen the balance sheet and achieve our ambition of returning to an investment grade credit rating in the medium term.

In 2022 we faced significant external headwinds including global inflationary pressures, supply chain disruption and the impact of the Russia-Ukraine conflict. Despite this, the management team delivered on their commitments and we consider that this should be fairly recognised. The foundations have been laid for the transformation and recovery to accelerate in 2023 and beyond, as we aim to deliver greater, sustainable value to our shareholders. The external challenges faced in 2022 in turn led to internal challenges with higher than anticipated wage inflation for all of our employee groups. This has had an impact on Group-level operating costs and this is reflected in the 2022 Incentive Plan outturn.

Retirement of Warren East

In February 2022, Warren announced that he would retire from the Board and step down as Chief Executive at the end of the year. I would like to take this opportunity to personally thank Warren for helping me pick up my duties as Chair of the Committee. I would also like to commend Warren on his achievements during his tenure, in particular his leadership during the pandemic.

As a good leaver, the Committee has agreed that the incentive award made to Warren in respect of the 2021 annual Incentive Plan will be fully preserved and that Warren will be eligible to receive the annual Incentive Plan award for 2022 in full. In line with the remuneration policy, the 2021 and 2022 incentives are awarded entirely in deferred shares. Under the current remuneration policy, Warren received 30% of his salary deferred into shares each month. This arrangement

started in June 2021 and ended in December 2022. In line with the policy, these awards will vest on a monthly basis starting in June 2023 and end in December 2024. Warren has received no payments for loss of office.

The performance conditions for the LTIP award granted to Warren in 2020 have not been met and this award will formally lapse on the five-year anniversary of the grant in March 2025.

Appointment of new Chief Executive

A key focus for the Committee in 2022 was agreeing the remuneration for the new Chief Executive, Tufan Erginbilgic. The search to replace Warren was international and focused on leaders with proven experience of operating in a global industrial organisation. The global talent pool for potential chief executives is small and consequently very competitive in terms of reward. Tufan's remuneration package was subject to much consideration, with inputs received from our external advisers Willis Towers Watson (WTW), and I am pleased that our policy gave us the necessary flexibility to design a compensation package that is both competitive and strongly aligned to shareholder interests. The reward package for the Chief Executive is in line with the policy, with a maximum total incentive opportunity of 385% of salary, all of which will be paid as deferred shares; 30% of salary paid as shares which will be deferred for two years; and a pension cash allowance of 12%, in line with the wider workforce.

Tufan's base salary is at the upper quartile when benchmarked against other chief executives in the FTSE 100, reflecting his background in private equity and his proven track record for leadership and delivery in complex global industrial organisations. The Committee feels that this salary reflects the complexity of the markets that we operate in, the technology and the ongoing transformation needed to restore the balance sheet and to return Rolls-Royce to an investment grade credit rating. The Committee also considered that the circumstances during Warren's tenure led to him receiving only one pay increase in the last five years of his tenure, resulting in his salary not moving with the market.

Recognising the compensation which Tufan will forego as a result of leaving his previous employment, he will receive two tranches of Rolls-Royce shares, each worth £3.75m at the date of grant, which will be in March 2023. The shares will vest equally in March 2027 and March 2028 and will be subject to malus and clawback conditions. To further strengthen the link between executive remuneration and the interests of shareholders, the Chief Executive's shareholding requirement has increased from 250% to 400% of salary.

The Committee agreed that for 2023 the incentive targets for the Chief Executive will be based solely on in-year targets agreed in early 2023, ensuring that his reward reflects business performance from the start of his tenure. The targets focus on the key drivers of transformational performance which will underpin future strategy.

Remuneration decisions related to 2022

Compliance with the policy

The current remuneration policy was agreed by shareholders at the AGM in 2021 and runs until the end of 2023. Key features of the policy can be found on page 80 and how it operated during 2022 on pages 80 to 81.

Alignment with the wider workforce

To ensure alignment with the wider workforce, the Incentive Plan metrics were cascaded to the wider Group, with c.60% of the global population in scope of an incentive plan that replicated these metrics. When the annual results are announced each year, we communicate directly with colleagues, confirming how business performance has impacted their incentive and how the Incentive Plan structure for Executive Directors flows through to the wider workforce. Regular updates on performance against incentive targets are also shared across the Group during the year.

Incentive outturn in respect of 2022

The Incentive Plan was designed to incentivise the execution of business strategy, and the achievement of personal objectives, weighted 80% towards business objectives and 20% towards personal performance. Incentive metrics for 2022 represent an evolution of the policy, transitioning from a focus on short-term performance in 2021, reflecting the importance of restoring financial stability at the time, to measures which balance short-term and longer-term performance. Our 2022 priorities were cash generation and achievement of targeted disposals to strengthen the balance sheet (aligned with our ambition to return to investment grade credit rating) and profit improvement targeting improved margins, enabled partly through cost base control. The cost base control targets were set to ensure that costs taken out of the business in 2021 endured as load recovered in 2022. The 2022 Incentive Plan metrics can be found on page 86, with 90% of the metrics relating to financial targets which reflects the priority for the Group at this time.

The Executive Team has delivered on its commitments in 2022, despite significant headwinds, achieving business performance in line with budget.

At Group level, adjusted free cash flow was £546m, which was above the maximum target set by the Committee, therefore generating a maximum outturn.

Operating profit for 2022 was above target, led by growth in Civil Aerospace and Power Systems.

Maintaining control over operating costs in an environment of high inflation, including wage inflation, was challenging in 2022. The Group achieved an outturn of between base and target, driven by higher than budgeted pay and benefits in Civil Aerospace and Defence, plus higher indirect costs.

Our key non-financial metric is people engagement, measured by our annual engagement survey delivered by Gallup. I am delighted to see that positive progress was made for the third successive year and that the Group is on-track to achieve top quartile status for manufacturing companies by the end of 2023. In 2022, we achieved 75% participation and a score of 3.85, which was marginally above target.

The Incentive Plan in 2022 comprised two longer-term metrics set at the start of 2021. Cumulative free cash flow was above target, driven primarily by Civil Aerospace cash flow being ahead of target. Net debt reduction was also ahead of target, driven by the completion of four disposals since 2020, including the sale of ITP Aero in 2022, the proceeds from which were used to repay a £2bn loan.

In agreeing the Incentive Plan outturns, the Committee gave consideration to the experience of both internal and external stakeholder groups, in particular our colleagues and our

shareholders. These results have been delivered in a year which has seen higher than budgeted wage settlements and a number of extraordinary reward interventions to support colleagues with the cost of living crisis.

In line with our established approach, and as emphasised during the consultation with shareholders in 2021, the formulaic outturns have been carefully reviewed and discretion applied to adjust for items which do not appropriately reflect underlying business performance and to ensure that the incentive target and outturn are comparable. We also make adjustments for disposals and business structure changes.

Once these adjustments were made, this resulted in an Incentive Plan outturn of 131% (75% of maximum). When personal performance was taken into account, this led to a weighted outturn of 129% for Warren. The Committee believes that this outturn is deserving and recognises Warren's steadfast focus to deliver throughout a turbulent and demanding period, as well as an excellent handover of executive responsibility to Tufan. The weighted outturn for Panos Kakoullis was 129%. The Committee took into account the fact that the incentive will be delivered fully in shares with vesting dates in 2026 and 2027 and the deferral of salary into shares on a monthly basis, therefore aligning the interests of the Executive Directors with the interests of the shareholders. Incentive payments will also be made to all eligible employees across the Group, reflecting the achievements of 2022.

Wider workforce

Global inflationary pressures created cost of living pressures for our people across many of our global locations. We have also observed extremely competitive talent markets. These factors have led to some specific reward interventions during 2022.

In the early part of 2022, the annual salary review process took place for our global leadership population, with an average increase of 3%. Towards the end of the first quarter, as inflation started to rise, it became clear that salary budgets would need to be revised upwards. The UK negotiated increase was settled at 6.5% and the UK average salary increased by 5.7% during 2022. This has impacted operating costs across the Group but was appropriate given the circumstances.

To help balance a need to support colleagues and to protect the financial position of Group, one-off payments have been paid to supplement consolidated pay increases: £1,500 payment was made to UK represented colleagues in October 2022, along with a 6.5% increase to base pay, and £2,000 was made to the most junior level of leaders in our UK population.

In Germany, a tariff deal was agreed which covered the period from October 2022 to September 2024 and provides an increase of 5.2% from June 2023 and 3.3% from May 2024. It also provides two one-off payments of €1,500 each, paid over two years.

As an organisation we continue to have a strong focus on diversity and inclusion, believing that having a diverse, equitable and inclusive workforce makes us a stronger company. We have voluntarily published our UK ethnicity pay gap for the second time in 2022, following the gender pay gap reporting methodology and I am pleased to report that both our gender and ethnicity pay gaps have reduced in 2022. We continue to focus on increasing diverse talent and have structured development programmes in place to help retain and develop diverse talent. Over time these strategies will reduce our pay gap further as we increase representation, particularly in senior roles.

Incentive targets for the three-year period to 2025

Incentive targets for the three-year period to 2025 will be set following the strategic review. These targets will align with our transformation programme and will support the delivery of a high quality and competitive business, focused on profitable performance and operational efficiency; improving sustainable cash flows; and a strong balance sheet and growing shareholder returns.

Summary implementation of the remuneration policy in 2023

Salary review

The Committee has reviewed the salary for the Chief Financial Officer and has concluded to make an award of 4% from 1 March 2023. This is below the average annual base pay increase for the wider management population and reflects prevailing wage inflation in the UK for this role. The Committee also considered the fact that Panos Kakoullis received a 2.5% increase in 2022 in line with the UK management population, while increases for the wider workforce were substantially higher than this. Base pay increases for the wider UK workforce are subject to negotiation and increases for 2023 have not yet been agreed.

Incentive Plan operation

The targets set in respect of the Incentive Plan for 2023 are set out in the Remuneration report. The 2023 incentive for Panos Kakoullis as set out in the policy comprises a 50%/50% combination of short and long-term metrics. The Committee agreed that Tufan Erginbilgic should be incentivised only on business performance during his tenure and so will be 100% based on in-year metrics.

Remuneration Committee advisers

During 2022, the Committee had access to advice from WTW. Total fees for the advice provided to the Committee during the year by WTW were £108,200 (2021: £26,000 by WTW and £47,800 by Deloitte). Fees are based on a time and materials basis. WTW also provided human capital and benefits services to the Company. 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.

Members	Lord Jitesh Gadhia (Chair) George Culmer Beverly Goulet Sir Kevin Smith
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Biographies are on pages 62 to 63

Remit	See page 61
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Summary

I have been delighted to join the Board as Chair of the Committee this year and am energised by the agenda that is being laid out for the future.

We are now in the third year of the remuneration policy and I am pleased that it has allowed us to support the business through the challenges of COVID-19, in particular the ability to align the interests of our management team with those of our shareholders. I look forward to engaging with shareholders during the course of 2023 to discuss a new policy in support of our 'winning together' transformation programme and our future priorities.

Lord Jitesh Gadhia

Chair of the Remuneration Committee

Remuneration at a glance

This section provides a summary of the remuneration policy (and its implementation) that was approved by a binding shareholder vote at the 2021 AGM on 13 May 2021 (see page 95). The policy is designed to attract, retain and incentivise our leaders within a framework that is aligned to our strategy and the interests of our stakeholders. The full policy can be found at www.rolls-royce.com

Summary of our remuneration policy

Fixed pay	Variable pay			
Base salary	Rolls-Royce Incentive Plan			
Benefits	80% Group performance			20% personal performance
Pension	Annual financial metrics 2022 – profit, cash, cost base control 2023 – profit, cash, operating cost, operating profit margin	Long-term metrics 2022 – cumulative cash (two-year), net debt reduction 2023 – cumulative cash (three-year), TSR, CO ₂ sustainability	Annual non-financial metric: people	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			
	<p>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. These provisions apply from the start of the performance period to three years after date of grant or the settlement date, if later.</p> <p>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 (250% before 1 January 2023) and 200% 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.</p>			

Executive Directors summary policy and implementation table

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	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 2022	A salary increase of 2.5% was awarded to both Executive Directors. This is in line with the average increase for the UK management population, and significantly lower than the average increase for wider workforce. Throughout 2022, 30% of salary for the Chief Executive and 20% for the Chief Financial Officer was deferred into shares for two years.
Planned implementation in 2023	Given the recent appointment of the Chief Executive, no salary adjustment is proposed in 2023. A salary increase of 4% for the Chief Financial Officer is proposed, effective 1 March 2023, lower than the increase for the wider management population.
Benefits	
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.
Key features	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 2022	No changes to benefits.
Planned implementation in 2023	No changes to benefits.

Executive Directors summary policy and implementation table (continued)

Pension			
Purpose and link to strategy	To attract and retain individuals of the right calibre to develop and execute the business strategy.		
Key features	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 2022	Pension contribution/allowance of 12%, in line with the rate for the wider UK workforce.		
Planned implementation in 2023	No changes to pension contribution/allowance of 12%.		
Rolls-Royce 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	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 2022	An outturn of 129% of target for the Chief Executive and 129% of target for the Chief Financial Officer. All deferred into shares, 40% held for three years and 60% for four years.		
Planned implementation in 2023	The incentive for the newly appointed Chief Executive will be weighted 80% towards annual Group metrics, and 20% on personal performance. The incentive for the Chief Financial Officer will be weighted 80% based on Group metrics, of which 50% is weighted toward annual metrics and 50% long-term metrics. The remaining 20% of incentive is based on personal performance.		
	Annual metric	Chief Executive weighting	Chief Financial Officer weighting
	Free cash flow	40%	20%
	Operating profit	20%	10%
	Key strategic objectives ¹	30%	15%
	People	10%	5%
	Weighting for 12 month targets	100%	50%
	Long-term metrics		
	Cumulative cash (three-year)		20%
	Total shareholder return		25%
	CO ₂ sustainability ²		5%
	Weighting for longer-term three year metrics		50%
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	Shareholding requirement of: Chief Executive – 250% (400% from 1 January 2023) Chief Financial Officer – 200%		
Implementation in 2022	Shareholdings as a % of salary as at 31 December 2022: Chief Executive – 281% Chief Financial Officer – 97%		

¹ The key strategic objectives will align to the wider transformation programme and will be weighted 50% to operating cost and 50% to operating profit margin

² CO₂ sustainability will be an average of the individual business targets, which are mainly based on product compatibility with sustainable fuels

Remuneration policy – performance scenarios for 2023

CHIEF EXECUTIVE £000			CHIEF FINANCIAL OFFICER £000		
Minimum	100%	£1,430	Minimum	100%	£842
On-target	34% 66%	£4,180	On-target	38% 62%	£2,219
Maximum	23% 77%	£6,243	Maximum	26% 74%	£3,252

■ Fixed remuneration (including salary, benefits and pension)
■ Rolls-Royce Incentive Plan

Minimum – fixed remuneration (salary including salary deferred into shares, pension, benefits), no incentive award

On-target – fixed remuneration, on-target incentive award (57% of maximum)

Maximum – fixed remuneration, maximum incentive award (100% of maximum)

There is no share price impact as incentive awards are granted following the end of the performance period

Alignment with strategy and business performance

Executive Directors' remuneration is strongly linked to strategic performance and in particular the commitments made to shareholders as part of the recapitalisation in 2020. Incentive metrics for 2022 represent an evolution of the policy, transitioning from focusing on short-term performance in 2021, which reflected the importance of restoring financial stability at that time, to measures which balance short and longer-term performance. The key measures which reflect our 2022 priorities of cash generation and a strengthened balance sheet are shown below, together with their impact on 2022 incentive outturns:

Annual metrics and weighting:

Underlying operating profit/(loss) (20%) *	Free cash flow (20%) *	Operating costs (10%) *
£618m	£546m	£(5,355)m
152% of target incentive	175% of target incentive	62% of target incentive

Long-term metrics (set at the start of 2021) and weighting:

Cumulative free cash flow (2 year) (20%) *	Net debt reduction (20%) *
£(1,203)m	£(1,404)m
118% of target incentive	124% of target incentive

* Adjusted performance metrics (see page 87)

In addition, the people score is measured as part of the incentive, which delivered 108% of target incentive (see page 86 for further detail).

The overall Group outturn of 131% after discretion was applied by the Committee (see page 78). The Committee considers this a fair outcome given the challenging business context.

Looking forward, we plan to continue to tailor the incentive metrics to align with the strategic focus of the business. For 2023, our hybrid incentive structure includes in-year performance measures and longer-term three-year performance measures. The long-term metrics are cash, TSR and product related CO₂ sustainability. All of these targets were agreed in 2021, and were intended to form 50% of the weighted outturn for any incentive payable in 2023. This structure will apply to the Chief Financial Officer in 2023, but the incentive targets for the Chief Executive will be based solely on in-year targets agreed in January 2023. The in-year targets have been reviewed and will focus on the key drivers of transformational performance, which will underpin future strategy and which have been agreed by the Committee. Operating cost and operating profit margin will be included as key strategic performance measures, each with a relative 15% weighting in respect of the in-year performance measures for the Chief Executive and 7.5% for the Chief Financial Officer.

Alignment with shareholders

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

- 30% of salary for the Chief Executive and 20% for the Chief Financial Officer is deferred into shares for two years; and
- all incentive awards are delivered in shares in March following the performance year, 40% held for three years and 60% for four years. No cash incentive has been awarded for 2022 and this will continue for the life of the policy.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Base salary	30%/20% of salary deferred in to shares for two years					
Benefits						
Rolls-Royce Incentive Plan		40% of incentive award held for three years				
		60% of incentive award held for four years				

Alignment with the wider workforce

The Remuneration Committee considers a range of factors when deciding upon the remuneration for Executive Directors, one of which is the alignment with reward practices across the wider workforce. In implementing the current policy, the Committee took the opportunity to ensure a cascade of the policy down the organisation, in particular the incentive design and metrics and the alignment of UK pension contribution rates.

	Base salary	Benefits	Pension	Rolls-Royce Incentive Plan
Executive Directors	Base salary is typically set with reference to the market and wider workforce considerations. In 2022, annual increases were significantly lower than those which were negotiated for the wider workforce, particularly in the UK.	Benefits are set according to local market practice in that country. In many countries, voluntary benefits are also offered to all employees.	Pension contributions (or equivalent cash allowances) are set at 12% across the UK workforce.	Incentive Plan linked 80% to business performance and 20% to individual performance. Delivery of all or part of the incentive awards into deferred shares. All incentive awards delivered in deferred shares for Executive Directors.
Executive Team				Longer-term metrics in addition to annual metrics in the plan from 2022 onwards.
Enterprise Leadership Group				Incentive Plan linked to both business and personal performance (weighting varies by level).
Management				Same annual metrics as the Incentive Plan. Some groups may also receive a long-term incentive grant for market or retention purposes.
Wider workforce	In some jurisdictions, base salary levels are subject to negotiation with recognised trade unions and/or are set in line with market requirements. Annual increases are also subject to negotiation.			The majority of employees globally participate in an annual incentive plan, for which the Incentive Plan plan metrics and targets are usually applied.

The Company engaged with its workforce on the changes to the Executive Directors' policy in 2021 and provided opportunities to give feedback via existing communication channels. The Company also communicated how the Incentive Plan metrics for the Chief Executive and the Chief Financial Officer cascade to the wider workforce, therefore providing alignment throughout the vast majority of the organisation. More context is provided in the Committee Chair's letter on pages 78 to 79.

Provision 40 factors

When developing the remuneration policy and considering its implementation for 2022, 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 made these arrangements transparent through disclosure in the 2020 Annual Report, before the policy was implemented, as well as consulting with our largest shareholders and proxy agencies.
Simplicity	Remuneration arrangements for our senior leadership and our wider workforce are simple in nature and well understood by both participants and shareholders. Consultations with our shareholders enabled us to explain the context for the bespoke approach to executive remuneration and why it was appropriate for Rolls-Royce in the challenging circumstances. Our shareholders gave us valuable feedback to enable us to finalise the policy and we have received a good level of support for both the overall approach and the detailed policy.
Risk	The Committee considers that our variable pay structure does not encourage inappropriate risk-taking. The incentive structure introduced in 2021 reduced the maximum award and resulted in the incentives being delivered fully in shares. All awards are ultimately determined by the Committee after the end of the performance period and discretion may be applied.
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	<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 the Group's priorities.</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 deferral of a proportion of salary into shares with holding periods and our shareholding requirements (including after leaving employment with Rolls-Royce) 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 Plan.</p>
Alignment to culture	<p>The devastating impact of COVID-19 on the aerospace sector forced the Committee to review the remuneration policy in 2020 to ensure that it was right for the circumstances and supported the necessary restructure and recovery required to secure future growth. As such, a bespoke solution was developed and tailored to the specific challenges facing the Group.</p> <p>The policy was aimed at retaining talent, placing emphasis on short-term performance turning into longer-term growth, emphasising shares and long-term holding of those shares and ensuring alignment between Executive Directors and the wider organisation.</p> <p>To ensure alignment to the wider organisation, we introduced a new Incentive Plan, reduced maximum potential awards and reduced pension contributions. To ensure alignment to shareholders, we delivered incentives fully in shares and deferred salary into shares.</p>

REMUNERATION REPORT FOR 2022

Executive Directors' remuneration

The following pages show how we have applied our remuneration policy during 2022 and disclose all elements of remuneration received by our Executive Directors. Details of remuneration received by our Non-Executive Directors during 2022 can be found on page 94.

Executive Directors' single figure of remuneration (audited)

	Salary (a) £000		Salary as deferred shares £000		Benefits (b) £000		Incentive Plan (c) £000		Long-Term Incentive Plan (d) £000		Pension (e) £000		Total remuneration £000		Total fixed remuneration £000		Total variable remuneration £000	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Warren East	674	760	289	165	17	16	2,739	2,896	–	–	116	113	3,835	3,950	1,096	1,054	2,739	2,896
Panos Kakoullis *	555	374	139	79	26	11	1,705	1,200	–	–	83	54	2,508	1,718	803	518	1,705	1,200

* Panos Kakoullis was appointed on 3 May 2021

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 June 2021, 30% of Warren East's salary and 20% of Panos Kakoullis' salary is 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; and
- in 2021, Warren East took five days' unpaid leave, in line with employees in Head Office.

In February 2023, the Committee reviewed the base salary of Panos Kakoullis and agreed an increase of 4% which will be lower than the wider workforce, with effect from 1 March 2023.

	Base salary as at 1 March 2023	Base salary as at 1 March 2022
Warren East	n/a	£967,088
Panos Kakoullis	£724,880	£697,000

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	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
Warren East	15	15	1	1	–	–	–	–	16	16
Panos Kakoullis	15	10	1	1	8	–	2	–	26	11

c) Rolls-Royce Incentive Plan (audited)

The Rolls-Royce 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 the C Shares 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.

The Committee reviewed the 2022 outturn against the performance measures.

2022 Rolls-Royce Incentive Plan performance outturn

	Weighting	Threshold ¹ (50% outturn)	Target (100%)	Maximum ¹ (175%)	Performance pre-discretion	Performance ² post-discretion	% of target	% of maximum
Annual Targets								
Free cash flow	20%	£2m	£227m	£452m	£505m	£546m	175%	100%
		Actual £546m						
Operating profit	20%	£279m	£479m	£679m	£652m	£618m	152%	87%
		Actual £618m						
Cost base control	10%	£(5,403)m	£(5,203)m	£(5,003)m	£(5,439)m	£(5,355m)	62%	35%
		Actual (£5,355m)						
People	10%	3.73	3.84	3.93	3.85	3.85	108%	62%
		Actual 3.85						
Weighting for 12 month targets	60%							
Longer-term targets								
Cumulative free cash flow (2 year)	20%	£(1,950)m	£(1,350)m	£(750)m	£(917)m	£(1,203m)	118%	68%
		Actual (£1,203)						
Net debt reduction	20%	£(2,325)m	£(1,625)m	£(925)m	£(1,404)m	£(1,404m)	124%	71%
		Actual (£1,404)						
Weighting for 2 year targets	40%							
Total scorecard outcome								

¹ Payout between threshold and target, and target, and maximum, is calculated on a straight line sliding scale

² Discretion applied to underlying performance metrics to ensure that incentive target and outcome are comparable

The Committee applied discretion to adjust the formulaic outturn for a number of items which they felt were not reflective of underlying business performance. As a result of these adjustments, the overall Group outturn is 131% of target, 75% of the maximum.

	Warren East	Panos Kakoullis
Group performance (% of maximum) – weighting 80%	75%	75%
Individual performance (% of maximum) – weighting 20%	69%	69%
Actual award – % of maximum	74%	74%
Actual award – % of salary	283%	245%
Actual award – £000	£2,739	£1,705

All of the incentive outturn was delivered in deferred shares, 40% for three years and 60% for four years, and for Panos Kakoullis, and will vest subject to continued employment. No further performance conditions are attached.

Definitions used for performance measures:

Profit – adjusted underlying operating profit before tax for 2022.

Cash – adjusted free cash flow.

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

People – measured through our annual Gallup Q12 survey. 75% of employees completed the survey and we achieved a Group score of 3.85 exceeding our target of 3.84. This was a meaningful improvement and we remain on track to achieve top quartile in 2023.

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 2022 was to ensure that Group operating costs did not exceed £5,403m. Personal performance objectives are set at the beginning of the year and are aligned with the Group's priorities.

For Executive Directors, these have included:

- deliver on cash and profit targets;
- support customers by meeting delivery and quality targets;
- drive simplicity and efficiency, measured by tracking resource level against external benchmarks;
- drive diversity through inclusivity, aiming for a Gallup Q12 score of 3.84;
- drive sustainability roadmap by transitioning investment towards net zero technologies;
- deliver health and safety targets and change the focus from lagging to leading indicators;
- support the Board on Chief Executive succession; and
- strengthen risk management and internal controls.

The Committee assesses performance against the objectives. The overall assessed percentage is based on the Committee's judgement and may include other factors and achievements in the year.

Both Warren East and Panos Kakoullis led the Group to deliver on financial commitments, navigating inflationary pressures and supply chain challenges. Key achievements include:

- delivery of financial commitment, including growth in revenue and profitability and a return to positive cash flow despite slower than planned engine flying hour recovery, global inflationary pressures and supply chain disruptions;
- completion of the programme of disposals, achieving £2bn in total proceeds which was used to repay debt;
- completion of the internal restructuring programme ahead of schedule;
- extensive supply chain disruption managed effectively to protect customers wherever possible;
- continued delivery of strong year-on-year improvement on engagement, achieving an above target result on the Gallup Q12 engagement survey;
- health and safety targets met, with a 5% decrease in total recordable injuries when compared to 2021, and the safety index performance showing improvements; and
- exceptionally professional and diligent handover of responsibility to the incoming Chief Executive by Warren East.

d) Rolls-Royce Long-Term Incentive Plan (audited)

Prior to 2021, conditional share awards were made to Warren East under the LTIP to reward the execution and development of the business strategy over a three-year performance period. The conditional shares are then subject to a further two-year holding period.

2020 LTIP awards

The following sets out details in respect of the March 2020 LTIP award for which the final year of performance was the 2022 financial year. The performance conditions were assessed to the end of 2022 and were not met. The performance adjustment will be made on the three-year anniversary of the grant, in March 2023, and the award will formally lapse on the original vesting date in March 2025.

	Weighting	Threshold (20% vesting)	Mid (50% vesting)	Maximum (100% vesting)	Performance achieved	Vesting as a % of maximum
CPS	60%	162p	203p	244p	(68p)	0%
EPS	20%	85p	106p	127p	(65p)	0%
Relative TSR v FTSE 100 constituents	10%	Median		Upper quartile	Below median	0%
Relative TSR v constituents of the S&P Global Industrials index	10%	Median		Upper quartile	Below median	0%
						Total vesting of 0%

e) Pensions (audited)

Executive Directors are offered membership of a defined contribution plan. A cash allowance may be payable in lieu of pension contributions. From 1 January 2021, all Executive Directors are offered a maximum employer contribution of 12% of salary into the defined contribution pension plan (or cash allowance of equivalent value). This aligns to the average rate for the UK workforce. Executive Directors do not have a prospective entitlement to a defined benefit pension.

In 2022, Both Warren East and Panos Kakoullis received a cash allowance in lieu of pension contributions.

Payments to past directors (audited)

Jasmin Staiblin stepped down as a Non-Executive Director from the Board on 13 May 2021. She was appointed as a member of the supervisory board of Rolls-Royce Power Systems AG on 10 June 2021 and chair of the supervisory board, executive committee, audit committee and mediation committee of Rolls-Royce Power Systems AG on 11 June 2021. Payments of £300,200 have been made to Jasmin in 2022 in relation to her appointment (2021: £109,300). No other payments have been made to past directors during the year.

Payments for loss of office (audited)

Warren East stepped down from the Board and retired from the Group on 31 December 2022. He received no payments for loss of office.

Implementation of remuneration policy for 2023

Base salary	<p>Base salaries are: Tufan Erginbilgic – £1,250,000; Panos Kakoullis – £724,880.</p> <p>30% of Tufan Erginbilgic's salary and 20% of Panos Kakoullis' salary is deferred into shares for two years.</p>
Benefits	<p>There will be no change to our approach to benefits in 2023, which includes car allowance, financial planning assistance, insurances and other benefits.</p>
Pensions	<p>The pension cash allowance for Tufan Erginbilgic and Panos Kakoullis is 12% of salary, in line with the rate applied to the wider UK workforce.</p>
Rolls-Royce Incentive Plan	<p>In line with the policy, since 2021, the Rolls-Royce Incentive Plan has been implemented in place of the previous bonus and LTIPs in operation over the last policy period. This will continue in 2023 and any awards will be made based on 80% Group performance and 20% individual performance. The maximum incentive opportunity for Tufan Erginbilgic will be 385% of salary and for Panos Kakoullis will be 333% of salary. Any incentive payable will be delivered in shares. 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>In 2021, the Incentive Plan focused on short-term measures which incentivised pace of action at a time of market uncertainty, but incorporated longer-term cumulative measures in 2022 and 2023. For 2022, the Group's measures and weightings were:</p> <ul style="list-style-type: none"> — annual targets: <ul style="list-style-type: none"> • free cash flow (20%) • operating profit (20%) • cost base control (10%) • people (10%) — long-term targets: <ul style="list-style-type: none"> • cumulative cash flow (two year) (20%) • net debt reduction (20%) <p>For 2023, the Incentive Plan metrics will combine annual and longer-term metrics for the Chief Financial Officer and annual metrics only for the Chief Executive. The Committee agreed that it was appropriate for the Chief Executive's 2023 incentive to be measured only on business performance during his tenure.</p>

Implementation of remuneration policy for 2023 continued

Rolls-Royce Incentive Plan

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 can disclose the following:

2023

Metrics	Weighting Chief Executive	Weighting Chief Financial Officer	Threshold (50% outturn)	Target (100%)	Maximum (175%)
Annual targets (50%)					
Free cash flow	40%	20%	Performance targets will be disclosed following the end of the performance period		
Operating profit (£)	20%	10%			
People	10%	5%			
Key strategic objectives ¹	30%	15%			
Long-term targets (50%)					
Cumulative cash (three-year) ²	n/a	20%	£(1,670)m	£(770)m	£(130)m
Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P global industrials index constituents)	n/a	25%	Median triggers threshold vesting and upper quartile maximum		
CO ₂ sustainability ³	n/a	5%	An average of the individual business targets, which are based in the main on product compatibility with sustainable fuels		

¹ The key strategic objectives will align to the wider transformation programme and will be weighted 50% to operating cost and 50% to operating profit margin

² The targets were set in early 2021 based on the business forecasts at that time

³ CO₂ sustainability will be an average of the individual business targets, which are mainly based on product compatibility with sustainable fuels

2023 is the third year of our policy and so we will be consulting with shareholders during 2023 on a new policy which will be effective 1 January 2024 and subject to shareholder approval at the Annual General Meeting in May 2024. Although the construct of this policy is not known at this time, performance metrics with a three-year performance period (ending 31 December 2024) have been set to enable continuity of reward for rolling periods of long-term performance. The extent to which these targets will apply to the Chief Executive will form part of the policy consultation. These targets are illustrated below.

2024

Metrics	Weighting	Minimum	Targets	Maximum
Long-term targets (45%)				
Cumulative cash (three-year) *	10%	£874m	£1,774m	£2,674m
Cumulative operating profit	10%	£1,705m	£2,305m	£2,905m
Relative TSR (three-year)	25%	Median triggers threshold vesting and upper quartile maximum		

* The targets were set in early 2022 based on the business forecasts at that time

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 Incentive Plan opportunities and time horizons will operate as per the remuneration policy.

Compensation for remuneration forfeited from previous employment

Tufan Erginbilgic became Chief Executive on 1 January 2023 and in line with the remuneration policy will be compensated for remuneration forfeited from previous employment. This compensation will be in the form of a grant of Rolls-Royce Holdings plc shares to the value of £7.5m. The award of shares will be made in March 2023 and the number of shares subject to the award will be calculated using the average closing share price during the month prior to joining (December 2022); 50% of the award will vest in March 2027 and 50% in March 2028, subject to continued employment. The award will be subject to the Rolls-Royce malus and clawback policy. In recognition of the award of shares, the shareholding requirement for the Chief Executive has increased to 400% of salary.

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)	
	23 February 2023	31 December 2022	23 February 2023	31 December 2022	23 February 2023	31 December 2022	23 February 2023	31 December 2022
Warren East	1,339,905	1,339,905	466,859	466,859	3,177,200	3,177,200	–	2,976,113 *
Panos Kakoullis	–	–	234,167	223,931	1,316,606	1,316,606	–	–

* All LTIP awards will lapse on the five-year anniversary of the award date, see LTIP 2018, 2019 and 2020 section below for further explanation

Executive Directors' share awards (audited)

The following sets out details of share awards that were granted, outstanding and vested during the year:

	Balance at 31 December 2021	Granted during the year	Vested during the year	Lapsed during the year	Balance at 31 December 2022	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)
Warren East										
Salary as deferred shares	137,969	328,890	–	–	466,859	22/12/22	various	22/12/24	–	289
2021 Incentive Plan	–	3,177,200	–	–	3,177,200	08/03/22	91.15	08/03/26	–	2,896
LTIP 2017	435,426	–	435,426	–	–	05/05/17	820.17	05/05/22	83.78	–
LTIP 2018	801,536	–	–	–	801,536	08/03/18	857.47	08/03/23	–	–
LTIP 2019	770,793	–	–	–	770,793	15/03/19	891.67	15/03/24	–	–
LTIP 2020	1,403,784	–	–	–	1,403,784	16/03/20	489.60	16/03/25	–	–
Deferred share bonus 2019 award	210,230	–	210,230	–	–	16/03/20	489.60	16/03/22	95.71	–

	Balance at 31 December 2021	Granted during the year	Vested during the year	Lapsed during the year	Balance at 31 December 2022	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)
Panos Kakoullis										
Salary as deferred shares	65,900	158,031	–	–	223,931	22/12/22	various	22/12/24	–	139
2021 Incentive Plan	–	1,316,606	–	–	1,316,606	08/03/22	91.15	08/03/26	–	1,200

Salary as deferred shares

30% of Warren East's salary and 20% of Panos Kakoullis' salary was deferred into shares for two years. During 2022, 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 2022). These shares will vest on a monthly basis from January 2024 (the date of vest/lapse in the table above is the vest date of the last grant made in 2022). The face value has been determined using the market price of each month in 2022 (see 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
115.5p	106.08p	110.14p	82.38p	86.44p	81.81p	87.37p	80.53p	69.23p	76.34p	90.85p	91.12p

2021 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. Warren East's award represented 306.9% of his salary and Panos Kakoullis' award represented 176.4% of his salary. 40% of each award is deferred for three years (vesting on 8 March 2025) and 60% for four years (vesting on 8 March 2026). The face value of each award has been determined using the three-day average closing share price to 8 March 2022. The shares are conditional on continued employment but are not subject to performance conditions. The performance outcome was assessed before the award was granted.

LTIP 2018, 2019 and 2020

Warren East was granted LTIP awards in 2018, 2019 and 2020. The performance conditions of each award were assessed to the end of 2020, 2021 and 2022 respectively and were not met. The performance adjustment has been/will be made on the three-year anniversary of the grant and the awards will formally lapse on the five-year anniversary of the grant (8 March 2023, 15 March 2024 and 16 March 2025 respectively).

Executive Directors' shareholding requirements (audited)

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 (250% before 1 January 2023) and 200% 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 Rolls-Royce 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 2022, Warren East's shareholding represented 281% of his base salary and Panos Kakoullis' shareholding represented 97% of his base salary (having been subject to the policy since May 2021). This has been calculated by reference to the three-month average share price to 30 December 2022, 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 has agreed to hold shares in accordance with the shareholding requirements policy until January 2025.

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 *
Panos Kakoullis	3 May 2021	12 months	12 months

* Neither party can give notice that would expire before 1 January 2025

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; 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.

	2021-2022			2020-2021			2019-2020		
	Salary/fees %	Benefits %	Incentive award %	Salary/fees %	Benefits %	Incentive award %	Salary/fees %	Benefits %	Incentive award %
Dame Anita Frew ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Warren East	4.11	6.25	(5.42)	5.96	–	∞ ⁷	(7.5)	(8.03)	(100)
Panos Kakoullis ¹	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
George Culmer ²	14.29	150	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lord Jitesh Gadhia ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Beverly Goulet ³	14.29	1,633.33	n/a	7.69	–	n/a	(7.5)	(72.27)	n/a
Lee Hsien Yang	0	216.67	n/a	7.69	(14.29)	n/a	(7.5)	(82.56)	n/a
Nick Luff ⁴	5.56	0	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
Wendy Mars ¹	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Sir Kevin Smith ⁵	(20.95)	50	n/a	8.25	∞ ⁷	n/a	(7.5)	(79.32)	n/a
Dame Angela Strank ⁶	8.43	300	n/a	n/a	n/a	n/a	n/a	n/a	n/a
UK employees average ^{8,9}	5.71	3.8	3	1.03	(9.13)	1,435	1.96	2.23	(89.94)

¹ Appointed during 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 Dame Angela Strank was appointed Chair of the Safety, Ethics & Sustainability Committee on 13 May 2021 and received an increase in fees

⁷ Unable to show percentage change as the increase was from zero

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 45% 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

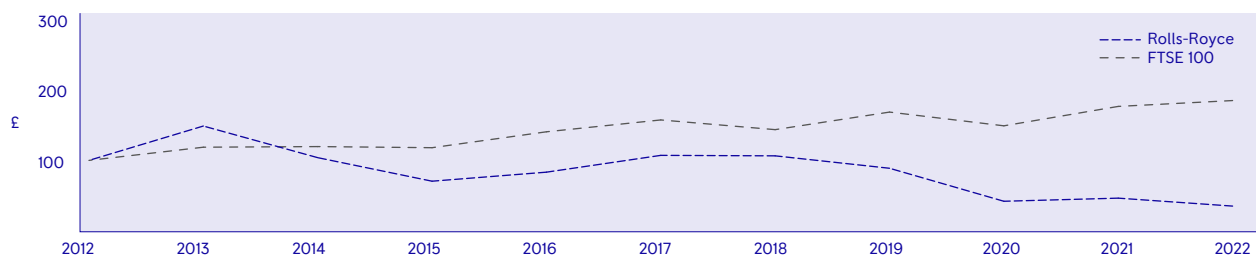
Chief Executive pay

Year	Chief Executive	Single figure of total remuneration £000	Incentive award as a % of maximum	LTIP as a % of maximum
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
2013	John Rishton	6,228	55	100

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

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 fifth 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 2022.

Year	Method	25th percentile	Median	75th percentile
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 2022, 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	£39.9k	£48.4k	£57.4k
Total remuneration	£51.0k	£60.0k	£70.1k

The pay ratio has decreased slightly in 2022 as a result of the reduced Incentive Plan outturn in comparison to 2021, and the increased total remuneration for our UK employees.

The Chief Executive has a larger proportion of his total reward based on variable elements linked to performance than other UK employees. As outlined on page 83, the Committee has considered the wider workforce context in terms of alignment of total reward for the Executive Directors. The majority of employees participate in an incentive plan, with a good degree of alignment of financial measures with the Executive Directors' Incentive Plan. 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.

The Remuneration Committee believes that the median pay ratio for 2022 is consistent with the pay and progression policies for the Group's UK employees as a whole.





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)		GROUP EMPLOYMENT COSTS (£M)	
(Consolidated cash flow statement)		(Note 8, employee information – see page 138)	
2022	0 (0%)	2022	3,468 (8.2%)
2021	0 (0%)	2021	3,206 (2.7%)

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 on pages 37 to 40. We published our UK gender pay gap in February 2023, which showed:

MEDIAN GENDER PAY GAP ACROSS ALL ROLLS-ROYCE EMPLOYEES IN THE UK			MEAN GENDER PAY GAP ACROSS ALL ROLLS-ROYCE EMPLOYEES IN THE UK		
2022		3.6%	2022		1.6%
2021		4.8%	2021		3.2%

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)	
	2022	2021	2022	2021	2022	2021
Dame Anita Frew ¹	490	140	13	3	503	143
Paul Adams ²	83	56	10	3	93	59
George Culmer ³	80	70	5	2	85	72
Irene Dorner ⁴	39	105	–	–	39	105
Lord Jitesh Gadhia ⁵	65	–	2	–	67	–
Beverly Goulet ⁶	80	70	52	3	132	73
Lee Hsien Yang ⁷	70	70	19	6	89	76
Nick Luff ⁸	95	90	–	–	95	90
Mike Manley ⁹	70	35	7	–	77	35
Wendy Mars ¹⁰	70	5	5	–	75	5
Sir Kevin Smith ^{2,3}	83	105	3	2	86	107
Dame Angela Strank ¹¹	90	83	4	1	94	84
Sir Ian Davis ¹²	–	319	–	–	–	319
Lewis Booth ¹³	–	31	–	–	–	31
Sir Frank Chapman ¹³	–	33	–	–	–	33
Jasmin Staiblin ¹³	–	26	–	1	–	27
Total	1,315	1,238	120	21	1,435	1,259

¹ Dame Anita Frew was appointed as a Non-Executive Director (NED) on 1 July 2021 and as Chair on 1 October 2021

² Paul Adams was appointed as a NED on 11 March 2021 and as Chair of the Science & Technology Committee on 12 May 2022, when Sir Kevin Smith stepped down as Chair

³ George Culmer was appointed Senior Independent Director (SID) on 12 May 2022, when Sir Kevin Smith stepped down as SID

⁴ Irene Dorner stepped down on 12 May 2022

⁵ Lord Jitesh Gadhia was appointed as a NED on 1 April 2022 and as Chair of the Remuneration Committee on 12 May 2022

⁶ Beverly Goulet was appointed Lead Employee Champion on 12 May 2022

⁷ Lee Hsien Yang stepped down on 31 December 2022

⁸ Nick Luff was appointed Chair of the Audit Committee on 13 May 2021

⁹ Mike Manley was appointed on 1 July 2021

¹⁰ Wendy Mars was appointed on 8 December 2021

¹¹ Dame Angela Strank was appointed as Chair of the Safety, Ethics & Sustainability Committee on 13 May 2021

¹² Sir Ian Davis stepped down on 30 September 2021

¹³ Lewis Booth, Sir Frank Chapman and Jasmin Staiblin stepped down on 13 May 2021

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 Executive Directors, who consider recommendations from the Chair. No individual may be involved in setting his or her own fee. The Chair and 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. Lee Hsien Yang and Wendy Mars used this facility.

	2022 £000	2021 £000
Chair	490	490
Other Non-Executive Directors base fee	70	70
Chair of the Audit Committee	25	25
Chair of the Remuneration Committee	20	20
Chair of the Safety, Ethics & Sustainability Committee	20	20
Chair of the Science & Technology Committee	20	20
Senior Independent Director	15	15
Lead Employee Champion	15	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:

	23 February 2023	31 December 2022
Dame Anita Frew	350,000	350,000
Paul Adams	10,000	10,000
George Culmer	37,960	37,960
Lord Jitesh Gadhia	50,000	50,000
Beverly Goulet	40,972	40,972
Nick Luff	120,000	120,000
Mike Manley	–	–
Wendy Mars	23,026	19,546
Sir Kevin Smith	116,540	116,540
Dame Angela Strank	13,780	13,780
Lee Hsien Yang	n/a	76,089

Paul Adams' share interests are held as American Depositary Receipts.

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
Paul Adams	11 March 2021	10 March 2024
George Culmer	2 January 2020	1 January 2026
Lord Jitesh Gadhia	1 April 2022	31 March 2025
Beverly Goulet	3 July 2017	2 July 2023
Nick Luff	3 May 2018	2 May 2024
Mike Manley	1 July 2021	30 June 2024
Wendy Mars	8 December 2021	7 December 2024
Sir Kevin Smith	1 November 2015	31 October 2023
Dame Angela Strank	1 May 2020	30 April 2023

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 2022 AGM held on 12 May 2022. Details of voting are shown in the table below.

	For	% For	Against	% Against	Withheld
Approval of the Directors' remuneration policy (2021)	5,662,106,630	97.04	172,496,155	2.96	14,886,550
Approval of the Directors' remuneration report (2022)	5,303,462,164	94.28	320,923,549	5.72	34,999,234

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.

SAFETY, ETHICS & SUSTAINABILITY COMMITTEE REPORT

KEY AREAS OF FOCUS IN 2022

Reviewed and advised on a simplified product safety performance reporting process across each business

Oversight of the development of a climate-related governance structure, TCFD reporting and separate Climate Review

Reviewed the impact of the Government's sanctions regime as a result of the Russia-Ukraine conflict

Activities and overview of 2022

Firstly, I would like to take this opportunity to welcome Dame Anita Frew who formally joined the Committee on 1 January 2023. I would also like to thank Lee Hsien Yang for his valued contribution to the Committee as he stepped down from the Board at the end of 2022.

Throughout 2022, the Committee continued to monitor the Group's product safety management, HSE performance, ethics and compliance programme and our climate and sustainability agenda.

Product safety

One of the Committee's main priorities was to closely review the process for identifying and managing in-service product safety issues. We received a quarterly report from the group chief engineer detailing the status of all open product safety issues across the Group. Monitoring in-service safety issues in this way is, by its nature, a reactive check on the effectiveness of the Group's product safety management system. Therefore, we also reviewed in detail the businesses' proactive analysis of the management of product safety against identified control areas using the safety assurance framework.

The Committee also received detailed reports from the engineering directors responsible for product safety in each of the businesses, providing an update on safety topics, the status and effectiveness of the product safety management system, their priorities for the year and an assessment of their position against the defined risk appetite for the Group. This year, we have given particular focus to product safety management in Rolls-Royce Electrical, given that this is a new market for the Group.

Finally, we scrutinised the planned activities of the product safety assurance team in identifying and introducing improvements to product safety policies, processes, training and the wider product safety management system.

HSE

Another focus for the Committee was HSE performance Group-wide; we received detailed statistics on total reportable injuries and other safety performance indices. We also monitored adherence to our lifesaving rules and our progress against the Group's HSE improvement programmes, offering advice, challenge and insight where necessary.

At the beginning of the year, we analysed the impact of COVID-19 and scrutinised the Group's continuing approach and mitigating actions. I would like to thank our HSE community and our colleagues for their dedication to making our sites safe places to work during the pandemic.

We received a series of reports on asset integrity across the Rolls-Royce estate from the site professional services director, resulting in a review of our capital maintenance budget and the initiation of a footprint rationalisation programme.

We also received regular reports from the operations directors regarding HSE performance and plans and their position against the defined risk appetite in each business.

The Committee held a deep dive into the findings of an internal audit of the Group's HSE accountability framework. We heard from the operations directors in each business about the findings of the audit and their agreed action plans. We then monitored progress against these action plans throughout the rest of the year.

Finally, we reviewed the Group's HSE strategic plan, risk profile and safety targets.

Sustainability

2021 was an important year for sustainability at Rolls-Royce and key highlights included the publication of our decarbonisation pathway and active participation at COP26. In 2022, the Committee continued to monitor and support the delivery of the Group's climate and sustainability agenda.

Climate-related governance was also reviewed during the year. A new climate steering committee was created to support the existing executive-level environment & sustainability committee. The steering committee defined six primary workstreams to prioritise activity in 2022 and its membership includes representatives from each of the businesses and key functions. We advised on the development of the governance model and received regular updates on the progress of the workstreams.

The Science-Based Targets (SBTs) initiative is widely regarded as the gold standard for corporate commitments to decarbonisation so, as a Committee, we have been very close to the Group's progress towards setting SBTs. We have also advised the sustainability team on their work to incorporate emissions from our product testing activities into our climate-related target setting as we transition to validated SBTs.

The Committee also continued to review the Group's preparation for both TCFD reporting and the separate Climate Review. Particular focus was given during 2022 to the assessment of organisational resilience in the face of climate change; metrics and targets; and the review of outputs of climate-related physical risk impact assessments, including making recommendations for further modelling. The Climate Review can be found at www.rolls-royce.com

Looking at sustainability in its broadest sense, the Committee received regular updates on the topic of human rights. In line with increased scrutiny and legislative requirements, a Group-wide human rights development programme has been established to drive and co-ordinate activity. This programme has included revisions to Group policies and the introduction of a human rights impact assessment and due diligence process to mitigate human rights related risk across the Group. The programme also led to the introduction of appropriate escalation frameworks to embed results into business decision-making.

The Committee was kept up to date on a communication and engagement programme to increase employee awareness and involvement in sustainability matters. Finally, we analysed the Group's community investment approach, strategy and impact.

Ethics and compliance

I am pleased to report that in January 2022 the Serious Fraud Office (SFO) filed a notice releasing us from the UK Deferred Prosecution Agreement (DPA). I would like to thank our ethics and compliance team for their work over the past five years towards achieving this outcome. The SFO requested that we conduct an external assurance exercise before being released from the DPA. Forensic Risk Alliance (FRA) were appointed to consider the progress and status of our ethics and compliance programme, since the issue of Lord Gold's report and against the context of significant economic and related challenges, including COVID-19. FRA were asked to consider whether the programme continues to be sustainable and dynamic in the longer term. Throughout the year, we have monitored progress against improvement actions that were identified by the ethics and compliance team to respond to recommendations made by FRA. We also reviewed other areas of the ethics and compliance programme, including the launch of updated Group policies and the rollout of the know-your-partner procedures and portal.

In December 2021, the sanctions and export control team began engagement with the businesses on the impact of possible sanctions on Russia in the event of a Russia-Ukraine conflict. When the conflict began, a Russia sanctions group was created to manage the impact while assisting the businesses to understand the sanctions regime. The UK Government amended the sanctions over time and our sanctions and export control team worked diligently to remain aligned to the changing landscape. As a Committee, we kept very close to these developments and received regular reports from the General Counsel and the director of strategic export control.

We regularly discussed other prosecutorial and regulatory matters with the General Counsel and head of ethics & compliance. In February and July 2022, the Committee assessed and reported to the Board on concerns raised through the speak up line and reviewed detailed reports on significant issues, in line with the Code requirement. An overview of the speak up process is summarised below.

Finally, the Committee received updates on progress against the Group's anti-bullying and harassment campaign. We also received a year-end status report on the Group's mandatory learning completion statistics.

Members	Dame Angela Strank (Chair) Paul Adams Dame Anita Frew
	Biographies are on pages 62 to 63
Remit	See page 61

Principal risks

We undertook a review of the product safety, people safety, compliance and climate change principal risks as well as reviewing emerging risks across the Group relevant to the Committee's remit.

Dame Angela Strank

Chair of the Safety, Ethics & Sustainability Committee

SPEAK UP LINE

Individual raises a concern via one of the following speak up channels: manager; local ethics adviser; appropriate subject matter expert; a member of the ethics and compliance team; or the externally hosted speak up line.



The concern is passed to the speak up team, who review the case information and carry out an initial assessment to determine next steps. Where required, an investigating manager is appointed.



The speak up team provides details of the concern to the investigating manager who carries out an initial fact-finding exercise to determine the scope of the investigation.



The investigating manager investigates the concern and, once completed, submits a fact-finding report and root cause worksheet to the speak up team.



Any follow up actions are tracked until completion and the case is closed by the speak up team.



The Safety, Ethics & Sustainability Committee assesses concerns raised through the speak up channels and reviews reports of significant issues twice a year and reports these matters to the Board.

SCIENCE & TECHNOLOGY COMMITTEE REPORT

KEY AREAS OF FOCUS IN 2022

Continued to oversee the Group's key technology programmes

Reviewed the development of the Group's engineering capability in line with our future technology needs

Reviewed the competitiveness of our products and key programmes against key competitors

Activities and overview of 2022

Throughout 2022, we continued to oversee the Group's key technology programmes to provide support to technologies emerging from the net zero strategy. This enabled us to focus on reviewing the development of the Group's engineering capability in line with our future technology needs.

Sir Kevin Smith stepped down as Committee Chair following the May meeting and I would like to thank Sir Kevin for his commitment and leadership of the Committee. I would also like to thank the work of our technology community and the flexibility, resilience and commitment of our people during these challenging times.

Technology strategy

During the year, we reviewed the strategic direction of the Group's research technology and development activities, with consideration to their environmental impacts amongst other matters, and to ensure investment was appropriately allocated. We reviewed digital, electrical and hybrid-electric technologies and developments in alternative fuels including hydrogen and sustainable aviation fuels. Our review involved the primary net zero milestones across the Group and how this was impacted by the 2022 budget and investment allocation. In November, we received an update on the status of the net zero technology plans for each of the businesses. We discussed progress against the net zero technology plan in Civil Aerospace, Defence, Power Systems, Rolls-Royce Electrical, Rolls-Royce SMR and central technologies. In addition, we discussed what the Group should be doing to tackle test emissions beyond procuring sustainable fuels at our testbeds. A separate discussion will be held with engineering in Civil Aerospace to look at what is being done to reduce the amount of fuel being burnt by reducing the test running time.

We received an update on hydrogen and the Civil Aerospace supersonic technology during May. In addition, we were presented with an overview of hydrogen and collaboration opportunities together with the mitigation of technical risks. We further considered the option of bioderived SAF and whether hydrogen would be cheaper than power to liquid synthetic SAF. Additional discussions continued on the use of hydrogen in large aircraft propulsion.

During November, we reviewed the advanced manufacturing technology infrastructure and how it is aligned to support the businesses, including its role in the gas turbine technology developments within the five-year plan. The Committee discussed medium-term manufacturing technology activities, including technology roadmapping and manufacturing development in our New Markets. Further discussions continued on the granularity behind the identification of the improvement measures.

The Committee discussed time on wing and the process from design to driving down shop visit costs. The Committee received updates on the methods in place to disassemble and assemble engines with parts being re-used and repaired rather than replaced, taking advantage of new technologies such as additive manufacturing.

The Committee reviewed the competitiveness of our products and key programmes against key competitors to ensure we enhance our capability to invest and develop. The review was also carried out with consideration given to the capital re-allocation process.

While receiving updates from the businesses, we assisted the Board in its oversight of major research and development investment and provided assurance on its competitiveness and the adequacy of technology investment. During the year we had an indepth review of the competitiveness of gas turbines. This focused on whether the Group's planned investments were sufficient to ensure that the Group could protect the current business and secure future opportunities.

Throughout the year, we maintained a strong focus on low carbon technologies which underpin the Group's sustainability strategy and leverage our advanced manufacturing and nuclear power design expertise.

Cross-sector technology

We continued to provide oversight of the effectiveness of key engineering and technology processes and operations, including the delivery of major product development and technology programmes.

Technology capabilities and skills

We discussed the processes for ensuring there was effective resourcing and development of required technological capability and skills. We received updates from the group chief engineer including an understanding of how productivity drivers are used to drive efficiency throughout the organisation.

The Committee discussed the consolidated research and technology plan. They received updates on the status of the Group-wide skills programme and how it was intended to support our future strategy. The update on the Group-wide skills programme explained that, following the significant engineering restructure, talent development would be prioritised to enable a skills shift to secure and support future strategy. We reviewed and discussed the global talent pool whilst receiving an update from the science advisory council on the industry-wide difficulties in hiring UK employees with specific software and electrical skills. We acknowledged the challenges with hiring and retention. We recognised that key enablers of the skills-shift included the need to deliver simplified processes and modern, intuitive systems and tools to help reduce any barriers to moving engineers across different disciplines and to support the increase in the number of engineers with system-level skills.

During May, we received an update on the split of the workforce deeply skilled versus those multi-skilled. We discussed the programme that supported the model and advised the Civil Aerospace team that the success of the skills programme would be contingent on good behaviours and culture, with the need for a clear recognition system. In addition, we reiterated the need for positive engagement with the wider workforce.

We further discussed the fellowship programme and the reignited specialist academy.

Technology trends and risks

We provided assurance on the identification and management of key technological risks and reviewed and considered other topics or risks appropriate to the overall remit of the Committee as delegated by the Board.

Principal risk

We continued to monitor disruptive technologies as part of the competitive environment principal risk. The Committee received an update on the potential threats and opportunities arising from disruption through technology. The information presented received valuable input from the science advisory council. The Group remains actively engaged in deriving benefit from sustainability-related technology, such as atmospheric carbon capture and sustainable synthetic fuels that have a high impact across the broader Group.

In addition, in November we reviewed emerging risks across the Group relevant to the Committee's remit.

Paul Adams

Chair of the Science & Technology Committee

Members

Paul Adams (Chair)
Dame Angela Strank
Mike Manley
Wendy Mars

Biographies are on page 62 to 63

Remit

See page 61

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 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 Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 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 loss 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 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 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 Company's auditors are aware of that information.

By order of the Board
Pamela Coles
Chief Governance Officer
23 February 2023