

# Remuneration policy

## Introduction

The policy will take effect from immediately after the AGM to be held on 1 May 2025, subject to shareholder approval.

## Key policy themes

At the 2024 AGM, shareholders approved a new remuneration policy with a vote of 95.6% in support for the resolution. We are not proposing any material changes to the current policy but are seeking shareholder support for two minor amendments which are detailed below. The amendments are proposed in light of the following:

1. Since the existing policy was approved, the Investment Association has issued revised principles of remuneration which acknowledge the competitive pressures facing UK listed businesses operating within a global talent market. As is evidenced by recent appointments to the Executive Team, we consider that Rolls-Royce is participating in a global talent market and we need to ensure that we have flexibility to attract and retain the right international leadership; and
2. Both Executive Directors are personally invested in Rolls-Royce through significant share interests which has created strong alignment with shareholders. Tufan Erginbilgic and Helen McCabe have fully satisfied their shareholding requirement under the current policy. As at 31 December 2024, Tufan Erginbilgic had achieved a shareholding interest of 2,468.7% of salary against a guideline of 400% of salary and Helen McCabe had achieved a shareholding interest of 911.2% against a guideline of 300% of salary. The driver of this shareholding position relative to salary has been the growth in shareholder value the Executive Team has created in recent years.

## Changes to policy design

### 1. Tiered approach to annual incentive deferral linked to achievement of the shareholding guideline

An adjustment to the annual incentive deferral policy is proposed by introducing a tiered approach to mandatory deferral into shares, linked to the achievement of the in-employment shareholding guideline.

Under the proposed policy, the current level of annual incentive deferral would remain at 50% of salary for Executive Directors who have not achieved the shareholding guideline. If the Executive Director has exceeded their in-employment shareholding guideline but has not achieved a level of double the shareholding guideline, the level of deferral into shares reduces from 50% to 25% of salary. Should the Executive Director achieve double the shareholding guideline then the annual incentive would pay out fully in cash. There is no proposed change to the length of the deferral period which will remain at three years.

| Chief Executive                                    | Proportion of annual incentive paid as cash | Proportion of annual incentive paid as shares (deferred for 3 years) |
|----------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------|
| Share interests are below 400% of salary           | 50%                                         | 50%                                                                  |
| Share interests are between 400% to 800% of salary | 75%                                         | 25%                                                                  |
| Share interests are over 800% of salary            | 100%                                        | –                                                                    |

| Chief Financial Officer                            | Proportion of annual incentive paid as cash | Proportion of annual incentive paid as shares (deferred for 3 years) |
|----------------------------------------------------|---------------------------------------------|----------------------------------------------------------------------|
| Share interests are below 300% of salary           | 50%                                         | 50%                                                                  |
| Share interests are between 300% to 600% of salary | 75%                                         | 25%                                                                  |
| Share interests are over 600% of salary            | 100%                                        | –                                                                    |

This tiered deferral is proposed to balance the need to encourage Executive Directors with limited shareholdings to build a material holding over time, while acknowledging that mandatory annual incentive deferral may not significantly enhance shareholder alignment for those with substantial existing shareholdings and, in fact, may inadvertently encourage Executive Directors to sell down shareholdings to realise cash.

Should shareholders approve the revised policy, this change will take effect for the annual bonus payable for the performance period ending 31 December 2025, and thereafter.

### 2. Enhanced post-cessation shareholding requirements

We are proposing enhanced post-cessation shareholding requirements to strengthen protection for shareholders. This would require our Executive Directors to hold the lower of their actual shareholding at leaving or 100% of the share ownership guideline for the full two years post-cessation, as opposed to the current requirement to hold the lower of their actual shareholding at leaving or 100% of the share ownership guideline for the first year following termination of employment and 50% for the second year. This proposal would align the Group's policy with the Investment Association's recommendation.

| Period                                          | Chief Executive (current) | Chief Executive (proposed) | Chief Financial Officer (current) | Chief Financial Officer (proposed) |
|-------------------------------------------------|---------------------------|----------------------------|-----------------------------------|------------------------------------|
| First year following termination of employment  | 400% of base salary       | 400% of base salary        | 300% of base salary               | 300% of base salary                |
| Second year following termination of employment | 200% of base salary       | 400% of base salary        | 150% of base salary               | 300% of base salary                |

There are no further changes proposed to the policy.

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

### Consideration of shareholder feedback

During the policy review, we have consulted with our largest shareholders to provide context for the proposed minor adjustments to our policy. We have been pleased that the feedback that we have received has been substantially positive with shareholders supporting the rationale for the adjustments proposed.

### Remuneration policy table

The table below sets out each element of the Executive Directors' remuneration, which is subject to shareholder approval at the AGM to be held in May 2025.

| Base salary                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
|------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy | We provide competitive salaries to attract and retain individuals of the highest calibre to develop and execute the business strategy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Operation                    | <p>Salaries are reviewed annually but not necessarily increased. Decisions on salary are informed but not led by reference to:</p> <ul style="list-style-type: none"> <li>– companies of a similar size, complexity and international reach;</li> <li>– size and scope of the role;</li> <li>– skills and experience of the individual;</li> <li>– market competitiveness of the broader remuneration package;</li> <li>– performance of the Group and individual;</li> <li>– wider market and economic conditions; and</li> <li>– increases made across the Group.</li> </ul> <p>The Committee has the flexibility to set the salary of a new hire at a discount to the market and to realign it in subsequent years as the individual gains experience in the role. In exceptional circumstances, the Committee may agree to pay above market levels to secure or retain an individual who is considered by the Committee to possess significant and relevant experience that is critical to the delivery of the Group's strategy.</p> <p>No recovery or withholding applies.</p> |
| Maximum opportunity          | There is no formal maximum. Any salary increases will be assessed annually and will not normally exceed average increases for employees in other appropriate parts of the Group. Where the Committee considers it necessary or appropriate, larger increases may be awarded in individual circumstances, including but not limited to: where there is a significant change in the scale, scope or responsibility of a role; where the organisation has undergone significant change; development within a role; and/or significant market movement.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Performance measures         | Not applicable, although overall individual and business performance is considered when setting and reviewing base salary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| Benefits                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Purpose and link to strategy | We provide competitive benefits suitable to attract and retain individuals of the right calibre to develop and execute the business strategy and support wellbeing.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Operation                    | <p>A range of benefits may be provided including, but not limited to, provision of a company car or car allowance; financial planning and tax assistance; private medical insurance; life assurance; and other appropriate benefits at the discretion of the Committee.</p> <p>Relocation support or support for accommodation and travel may be offered to executives where necessary. Executive Directors may participate in the Group's all-employee share plans.</p> <p>No recovery or withholding applies.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Maximum opportunity          | <p>There is no formal maximum. The cost of benefits is not predetermined, reflecting the need to allow for increases associated with the provision of benefits. Benefit costs are reviewed regularly to ensure they remain cost-effective.</p> <p>Participation in any tax advantaged share schemes is capped at the same level as other participants which is determined by the Group within the bounds of any applicable legislation which may change from time to time.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| Performance measures         | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |

## Remuneration policy table continued

| Retirement                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy | We provide a competitive retirement savings plan suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Operation                    | <p>Executive Directors are offered membership of a retirement savings plan. A cash allowance may be payable in lieu of contributions to the plan.</p> <p>In certain jurisdictions it may be more appropriate to offer more bespoke retirement arrangements. The Committee will give due consideration to local employment legislation, market practices and the cost of the plan.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Maximum opportunity          | The maximum employer contribution for the Executive Directors is aligned with that made available to the wider workforce, being 12% of base salary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
| Performance measures         | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Annual incentive             |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| Purpose and link to strategy | <p>We reward annual performance against stretching financial, strategic and individual targets aligned to delivery of the Group's strategy.</p> <p>Mandatory deferral reinforces retention and enhances alignment with shareholders by encouraging longer-term focus and sustainable performance.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| Operation                    | <p>The Group operates an annual incentive plan which may be based on a combination of financial, operational or individual performance measures aligned to the Group's strategy.</p> <p>At least half the annual incentive awarded in any year will be deferred into shares for Executive Directors who have not achieved the shareholding guideline. If the Executive Director has exceeded their in-employment shareholding guideline, but has not achieved a level of double the shareholding guideline, the level of annual incentive deferral into shares reduces from 50% to 25% of salary. Should the Executive Director achieve double the shareholding guideline then the annual incentive would pay out fully in cash. The deferral period will normally be for a period of three years. The Committee has discretion to permit a dividend equivalent amount to accrue on shares delivered under the deferred annual incentive arrangement. Vesting of deferred shares is dependent on continued employment or good leaver status, as described in the notes to the policy table on page 95.</p> <p>The Committee retains the discretion, acting fairly and reasonably, to alter the annual incentive outcome in light of the underlying performance of the Group, taking account of any factors it considers relevant. Clawback will apply to cash incentive paid and to any deferred shares within the three-year deferral period.</p> |
| Maximum opportunity          | The maximum annual incentive opportunity for the Executive Directors is 200% of base salary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Performance measures         | <p>The incentive may be based on a combination of financial, operational and individual measures which the Committee will review on an annual basis. The precise allocation between financial and non-financial measures, as well as weightings within these metrics, will depend on the strategic focus of the Group from year-to-year. At least 50% of the performance measures will be financial.</p> <p>Up to 25% of the maximum incentive opportunity is paid for achieving a threshold level of performance and the maximum incentive is paid for delivering stretching levels of business performance and outstanding personal performance. No incentive is payable if threshold levels of performance are not achieved.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |

## Remuneration policy table continued

| Long-term incentive plan     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Purpose and link to strategy | We incentivise the execution of strategy and seek to drive long-term value creation and alignment with long-term returns to shareholders.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
| Operation                    | <p>Awards under the LTIP are conditional rights to receive shares subject to continued employment or good leaver status and the achievement of any relevant performance conditions.</p> <p>Awards are subject to performance targets normally assessed over three financial years. The number of shares will be adjusted to reflect performance on the third anniversary of the grant. The shares will vest on the five-year anniversary of the grant, after a two-year holding period. The Committee has discretion to set different performance periods if it considers appropriate.</p> <p>The Committee shall determine the extent to which the performance measures have been met. The Committee may make adjustments to performance targets if an event occurs or circumstances arise which causes the Committee to determine that performance conditions are no longer appropriate. The performance targets will be at least as challenging as the ones originally set.</p> <p>The Committee has discretion to permit a dividend equivalent amount to accrue on shares during the holding period under the LTIP. Awards under the LTIP are subject to the malus and clawback policy which takes account of exceptional and adverse circumstances as described in the notes to the policy table (see page 95).</p> <p>The Committee has the ability to exercise discretion in adjusting the formulaic outcome of incentives to ensure the outcome is reflective of the performance of the Group and the individual over the performance period.</p> |
| Maximum opportunity          | The maximum long-term incentive award for Executive Directors is 375% of base salary.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| Performance measures         | <p>The Committee determines performance measures each year and will ensure that the targets are stretching and support value creation for shareholders while remaining motivational for management. The precise measures and weightings will be determined by the Committee on an annual basis and will depend on the strategic focus of the Group year-to-year. A minimum of 90% of measures will be financial.</p> <p>Measures for the 2024 award included: free cash flow (30%); operating margin % (30%); relative total shareholder return (30%); and return on capital % (10%). Return on capital will be replaced by Scope 1 + 2 greenhouse gas emission targets for the LTIPs awarded from 2025. For each performance element, achievement of the threshold performance level will result in no more than 20% of the maximum award paying out. For achievement of the maximum performance level, 100% of the maximum pays out. Normally, there is straight-line vesting between these points. No amount is payable if threshold levels of performance are not achieved.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| Share ownership              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Purpose and link to strategy | Ensures alignment with shareholders' interests.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Operation                    | <p>Executive Directors are required to build a holding of beneficially-owned shares equivalent in value to a percentage of their base salary. For the Chief Executive this requirement is 400% of salary and for the Chief Financial Officer and any other Executive Director this requirement is 300% of base salary. Where requirements are not met, Executive Directors must retain at least one half of after-tax shares released from the legacy single incentive plan, the deferred bonus arrangements and the LTIP until this requirement is met.</p> <p>Post-cessation, Executive Directors are normally required to retain the lower of the shareholding requirement or their actual shareholding at leaving date for 24 months.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| Maximum opportunity          | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Performance measures         | Not applicable.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |

## Remuneration policy table continued

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

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

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

## Remuneration policy – worked examples for 2025

The tables below provide an illustration of what could be received by each Executive Director for the 2025 performance year, assuming minimum, on-target and maximum levels of performance. The maximum with share price increase scenario shows the impact of a 50% share price growth on the LTIP shares.

### Tufan Erginbilgic Chief Executive £000

|                                              |                 |         |
|----------------------------------------------|-----------------|---------|
| Minimum                                      | 100%            | £1,566  |
| On-target                                    | 26% 23% 51%     | £6,024  |
| Maximum                                      | 17% 29% 54%     | £9,453  |
| Maximum assuming 50% increase in share price | 13% 23% 43% 21% | £12,024 |

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

### Helen McCabe Chief Financial Officer £000

|                                              |                 |        |
|----------------------------------------------|-----------------|--------|
| Minimum                                      | 100%            | £921   |
| On-target                                    | 30% 26% 43%     | £3,029 |
| Maximum                                      | 20% 34% 47%     | £4,700 |
| Maximum assuming 50% increase in share price | 16% 27% 38% 19% | £5,794 |

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

### Alignment with shareholders

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

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

<sup>1</sup> Deferral of 50% of the annual bonus will apply unless an Executive Director has satisfied at least their minimum shareholding requirement. 25% of the annual bonus will be deferred if the shareholding requirement is met in full. No deferral will apply where an Executive Director holds over 200% of their shareholding requirement

### Notes to the policy table

#### Performance measure selection and setting

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

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

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

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

#### Malus and clawback provisions

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

- a material misstatement of audited results;
- serious financial irregularity;
- material financial downturn or an event causing a material negative impact on the value of the Group;
- material failure of risk management;
- a serious breach of Our Code;
- individual misconduct or actions that materially damage the Group;
- acting in a way which has materially damaged the reputation of the Group or any member of the Group;
- a breach of or inadequate response to a significant HSE or other environmental issue;
- materially incorrect calculation of an award; and/or
- failure to adequately manage/supervise others which in turn led to one of the above triggers and/or materially incorrect calculation of an award.

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

The malus provisions apply from the date of grant until the settlement date. The clawback period extends for a further three years, up to six years, from the date of grant.

### Policy on new appointments

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

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

- if such remuneration was in the form of shares, compensation will be in the Company's shares;
- if remuneration was subject to achievement of performance conditions, compensation will, where possible, be subject to performance (either Rolls-Royce performance conditions or actual/forecast performance outturns from the previous company); and
- the timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited.

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

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

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

### Wider workforce considerations

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

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

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

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

Input on the 2024 remuneration policy was sought from employee groups at all levels within the organisation, including the European works council and representatives of our global management population. Input was received by both face-to-face and virtual meetings. We shared how reward packages for Executive Directors are typically structured and received input on appropriate performance measures to determine pay outcomes and how incentive structures should cascade to the wider organisation.

### Share plans

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

The treatment of leavers in all of our share plans are covered by the respective plan rules. Change of control provisions in respect of employee share plans are set out overleaf.



### Service contracts

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

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

### Payments for loss of office

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

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

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

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

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

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



### Legacy commitments

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

### Minor amendments

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

### Provision 40, section 41 disclosures

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

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

## Implementation of remuneration policy for 2025

|                         |                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Base salary</b>      | A salary increase of 5% for the Chief Executive and 5% for the Chief Financial Officer is proposed. This takes into account their performance and the wider market for executive roles in multinational corporations of similar size and complexity. Median base pay increases for the wider UK workforce will be 5.5%.                                                                                    |
| <b>Benefits</b>         | There will be no change to our approach to benefits in 2025, which includes car allowance, financial planning assistance, insurances and other benefits.                                                                                                                                                                                                                                                   |
| <b>Retirement</b>       | The cash allowance for Tufan Erginbilgic and Helen McCabe is 12% of salary, in line with the rate made available to the wider UK workforce.                                                                                                                                                                                                                                                                |
| <b>Annual incentive</b> | In line with the proposed policy, the annual incentive for 2025 will be based on 80% Group performance and 20% individual performance, with a maximum opportunity for both Tufan Erginbilgic and Helen McCabe of 200% of salary. Subject to the amendments proposed for shareholder approval at the 2025 AGM, 50% of any incentive payable would be delivered in shares which will vest after three years. |

The performance metrics have been reviewed and updated for 2025 to reflect key strategic priorities for the Group.

The metrics and associated weightings will be:

| Metric                                                                   | Weighting | Link to strategy                                                                                                                                                                                                                   |
|--------------------------------------------------------------------------|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Free cash flow                                                           | 40%       | A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions.                                          |
| Operating profit                                                         | 30%       | Indicates how the effect of growing revenue and control of our costs delivers value for shareholders.                                                                                                                              |
| Strategic objectives (split 5% customer and 15% operating profit margin) | 20%       | Incentivises the delivery of key annual objectives linked to the transformation. Customer delivery and continuing focus on margin improvement are both critical to increasing the quality and sustainability of financial returns. |
| Safety                                                                   | 5%        | Safety is the Group's licence to operate and is the number one priority for all of our people.                                                                                                                                     |
| People                                                                   | 5%        | Employee engagement is an objective way of assessing how engaged our employees are with the business and its leaders.                                                                                                              |

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

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

## Implementation of remuneration policy for 2025 continued

### Long-term incentive plan

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

For each performance element, achievement of threshold will result in no more than 20% of the maximum pay out and no amount payable for an element if the threshold is not met. Achievement of the maximum performance would result in 100% of the maximum award paying out.

| Metrics                                                                                                                                                    | Weighting | Threshold <sup>1</sup><br>(20% vesting) | Maximum <sup>1</sup><br>(100% vesting) | Link to strategy                                                                                                                                                                          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Free cash flow (three-year cumulative)                                                                                                                     | 30%       | £9,234m                                 | £10,434m                               | A fundamental KPI which helps to measure the level of value we are creating for our shareholders. It enables the business to fund growth, reduce debt and make shareholder distributions. |
| Operating margin % (average over three-year performance period)                                                                                            | 30%       | 13.8%                                   | 15.5%                                  | Reflects the quality of performance and will encourage continued cost focus across the Group.                                                                                             |
| Relative TSR (50% versus the FTSE 100 constituents and 50% versus the S&P global industrials index constituents)                                           | 30%       | Median                                  | Upper quartile                         | Closely aligns executive pay outcomes with the shareholder experience, a measure favoured by a large proportion of our shareholder base.                                                  |
| Progress against our science aligned target to reduce Scope 1 + 2 greenhouse gas emissions (1 January 2025 to 31 December 2027 total cumulative emissions) | 10%       | 925 kTCO <sub>2</sub> e                 | 757 kTCO <sub>2</sub> e                | Aligns executive pay outcomes with our commitment to reduce Scope 1 + 2 greenhouse gas emissions by 46% by 2030 (against a 2019 baseline).                                                |

<sup>1</sup> Outturn between threshold and maximum will be calculated on a straight line sliding scale

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

The long-term incentive opportunities and time horizons will operate in accordance with the remuneration policy.