Approach to managing the Group's tax affairs

The purpose of this document is to set out the principles followed by the Group in managing tax affairs.

Key Principles

The Group is committed to:

1. Ensuring appropriate governance, risk management and controls are in place;
2. Complying with applicable tax laws in a responsible manner;
3. Paying tax due where value is created;
4. Building and maintaining constructive working relationships with tax authorities.

These commitments, which are explained in more detail below, apply to all countries and all employees.

1. Governance, risk management and controls

The Group's Framework sets out the key principles which govern the way the Group operates, including on tax matters. The Framework sets out roles and responsibilities, core decision making rights and governs our approach to managing risks, establishing controls and monitoring their effectiveness.

The Framework includes the Code [Global code of conduct (rolls-royce.com)] which helps guide decision making whilst ensuring that the right values and behaviours are followed, including acting with integrity in all tax matters.

The Board has delegated to its Audit Committee the review of these principles, which is undertaken on an annual basis. The Audit Committee also receives updates on the Group's tax position, tax provisions, key tax issues and compliance with these principles. Accountability for ensuring compliance with this strategy is delegated to the Director, Group Financial Control & Tax.

Supported by senior members of the tax function, the Director, Group Financial Control & Tax is responsible for ensuring that appropriate policies, processes, systems and controls are in place and are operating effectively and that the internal team of global tax professionals is suitably resourced and qualified with the required skills. When the necessary expertise is not available in-house, assistance is sought from external advisers.

Where appropriate the systems, processes and controls are subject to periodic assurance from internal and third-party specialists to ensure they are operating effectively and in accordance with the Group's Framework.

2. Compliance and tax planning

The Group is committed to complying with applicable laws in a responsible manner in the jurisdictions in which it operates and paying the right amount of tax at the right time. This includes taking advantage of available tax incentives and exemptions.

This must be done in a way which is aligned with the Group's commercial objectives and meets its legal obligations and ethical standards. It must also be done in a way that gives a tax result the Group reasonably believes is not contrary to the clear intentions of the legislation concerned. The Group does not use tax havens to manage taxes.

Where appropriate and possible the Group seeks to obtain clarity through proactive engagement with tax authorities.

3. Value creation and transfer pricing

The Group seeks to price transactions between Rolls-Royce group companies as if they were between unrelated parties in compliance with the OECD Transfer Pricing Guidelines and the laws of the relevant jurisdictions. As a result, value derived from such transactions is allocated by reference to where it is created and tax is paid on that basis. The Group ensures that transfer pricing policies are consistently applied through the controls established under the Framework.

4. Relationships with tax authorities

The Group is committed to building constructive working relationships with tax authorities based on a policy of full disclosure in order to remove uncertainty in its business transactions and allow the authorities to review possible risks.

If there are misunderstandings or questions around either facts, or interpretation of the tax law, the Group seeks to work with tax authorities to resolve these in a timely manner.

Where appropriate and possible, the Group enters into consultation with governments and tax authorities to help shape proposed legislation and future tax policy.

The Group regards the above as complying with its duty under paragraph 16(2), Schedule 19, Finance Act 2016 for the year ended 31 December 2026.