

UK Ethnicity Pay Report 2021

Rolls-Royce Holdings plc



Choosing to report our 2021 ethnicity pay gaps

We are voluntarily publishing our ethnicity pay gap for the first time in 2021 and will publish this each year going forwards. We have followed the gender pay gap reporting methodology and have used the same snapshot date of 5 April 2021.

Our ethnicity pay gap is primarily driven by two factors – relatively low representation of employees from ethnic minority backgrounds at senior levels, and higher levels of representation in junior professional and lower skilled roles. We continue to strive to create an inclusive working environment where each of us is able to be at our best and are working hard to ensure that we are an inclusive employer at all levels of the organisation. We are focused on increasing representation of ethnic minorities within our workforce generally in order to better represent the communities where we work, and to this end have set a public target of 14% of our UK workforce having ethnically diverse backgrounds by 2025.

Our four pillar D&I strategy is focused on how we attract, recruit and retain diverse talent, as well as how we create the right environment by providing the right leadership and governance to build diverse teams.

A key element of our strategy is to support and partner with our Employee Resource Groups (ERGs) – employee groups who join together based on a similar demographic, lifestyle and cultural characteristics. Our ERGs work together for a common goal in supporting diversity and inclusion in our organisation. Run by our people for our people, they offer direct support, personal and professional development, and are critical in driving our strategy across the organisation. Our ERGs allow the voices of all our people to be heard, which helps encourage diverse ideas and ultimately enables us to deliver business excellence.

Our workforce

Rolls-Royce's ethnicity pay gap data was collected on the snapshot date of 5 April 2021. At this time there were 19,622 people within our UK workforce. 90.6% (17,784) of our people openly disclosed their ethnicity to us. Of those, 90.4% (16,079) are white (including white British, white Irish and any other white backgrounds) and 9.6% (1,705) are from other ethnic backgrounds. We are pleased to have such high voluntary disclosure rates to help us to monitor our progress as an organisation.

All our Rolls-Royce employees in the UK

Pay difference in between Ethnic Minority and White backgrounds

at 5 April 2021

Our Ethnicity Pay Gap

	2021
Median Ethnicity Pay Gap across all Rolls-Royce employees in the UK	5.2%
Mean Ethnicity Pay Gap across all Rolls-Royce employees in the UK	8.9%
UK's National Ethnicity Median Pay Gap (all industries) <small>Source: Office for National Statistics 2019</small>	2.3% (2019)

Our mean ethnicity pay gap

We add together all the hourly pay rates of colleagues who report their ethnicity as being a minority group. We then divide this total pay figure by the number of individuals. We then repeat this calculation for colleagues who report their ethnicity to be white. Comparing these figures to each other is the mean ethnicity pay gap. For 2021, the average pay for a person from an ethnic minority group was 8.9% less per hour than the average pay for a white person. This gap means that for every £1 a white person receives, a person from an ethnic minority group receives on average 91.1p. To improve our ethnicity pay gap we must continue to increase representation of employees from ethnically diverse backgrounds in senior roles and are doing so through the development of internal talent pools and external recruitment.

Our median ethnicity pay gap

We rank all our colleagues by their hourly pay. Then we compare what the person in the middle of our ethnic minority population pay range received with what the person in the middle of our white population received. Comparing these figures to each other is the median ethnicity pay gap. This year the person in the middle of our ethnic minority population pay range received 5.2% less than the person in the middle of our white population pay range. This median gap indicates that for every £1 a white person receives, a person from an ethnic minority group receives on average 94.8p.

We have a variety of mechanisms to ensure consistency of reward for equivalent roles or the same work. These include fixed rates in our manufacturing sites and a structured approach to job sizing and pay determination in other areas of the business. The ethnicity pay gap reflects the distribution of people from different ethnic backgrounds across all job levels of the organisation, and how this translates into the average salary and bonus payments.

Bonus difference between Ethnic Minority and White backgrounds

in 12 months preceding 5 April 2021

Bonus	Mean	Median
2021	34.8%	11.1%
2020	N/A	N/A

Proportion of all UK employees receiving a bonus

in 12 months preceding 5 April 2021

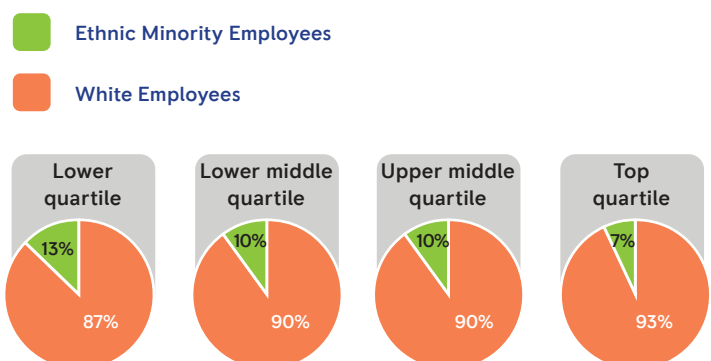
Proportion of White employees who received bonus pay	33.3%
Proportion of Ethnic Minority employees who received bonus pay	24.1%

In absolute terms, the bonus payments made for 2020 were very low. The dramatic impact of COVID-19 on the Rolls-Royce Group in 2020 meant that performance targets (set pre-COVID) were not met at a Group level or for the vast majority of our sub-units. The Defence business is the only sub-unit that achieved its targets which triggered an element of bonus for its population. Defence employees represented 29.6% of our employees in the UK. The bonus gap is driven by the Defence Business having proportionately fewer employees from ethnically diverse backgrounds in senior roles, which attracts higher bonuses. The proportion of employees from ethnic minority backgrounds who received bonus pay is smaller than the number of white employees because Defence has relatively fewer employees from ethnic minority groups (7.2% of the workforce, compared to the overall average of 9.6%).

Pay quartiles across UK employees

at 5 April 2021

Ethnicity distribution across Rolls-Royce in the UK in four equally sized hourly pay quartiles



Overall, those from an ethnic minority background currently represent 9.4% of our UK employees. The pay quartile data shows that this population is evenly represented in the middle two quartiles, with higher levels of representation in the lower quartile and lower representation in the top quartile. To correct this imbalance, we need to continue our focus on attracting diverse talent across the organisation, particularly into senior roles, and continue to develop our own diverse talent pools. Over recent years we've been successful at increasing the number of apprentices and graduates from minority ethnic groups. In the short term this will increase the proportion of those in the lower quartile pay group, but as these employees take on substantive roles, we have every confidence that their pay and bonus will increase.

Pay and Bonus difference in between Ethnic Minorities and White backgrounds:

Ethnic Groups	Mean Hourly Rate Gap	Median Hourly Rate Gap	Mean Bonus Gap	Median Bonus Gap	Bonus Received	Population %
White	N/A	N/A	N/A	N/A	33.32%	90.4%
Black	12.15%	6.49%	48.52%	12.64%	26.92%	1.17%
Asian	8.10%	3.46%	31.03%	8.35%	22.82%	6.19%
Mixed	9.72%	6.93%	36.44%	15.90%	26.21%	1.97%
Other	3.64%	-0.87%	38.32%	3.26%	26.09%	0.26%

Focusing on specific ethnic groups shows how the pay gap varies by ethnicity. The overall median pay gap of 5.2% widens to 6.93% for employees from a mixed ethnic background and narrows to 3.46% for employees from an Asian background. Reviewing the data at this level of detail allows us to understand whether we need any further targeting in our action plans. For example, the

mean hourly pay gap is highest for our Black employees, which is due to a combination of having a small number of Black employees in our organisation (only 1.17%), and a large proportion of these colleagues are in unskilled roles or more junior professional roles.

Continuing our focus on diversity and inclusion

This year we have matured our diversity and inclusion strategy, driving towards our challenging ethnicity 2025 targets, through our four key pillars: leadership and governance; attracting and recruiting; retention; and development. We have continued our response to supporting ethnically diverse employees following the 'Black Lives Matter' (BLM) events in 2020. Following listening sessions with black employees, we are implementing a strategy that has included increased external communications; flying black solidarity flags across multiple sites; leadership intervention from our Executive Team supporting anti-racism events and promoting black role models. We have also continued to progress our Anti-Bullying and Harassment programme 'Treating everyone with dignity and respect'. One of our Employee Resource Groups (ERGs) launched an employee handbook as a tool to help all of our people better support our black colleagues. We have also created a new development programme called 'Connect and Belong', as a direct result of our BLM listening events, which is focused on supporting career progression for our ethnically diverse employees.

Other highlights in 2021 include:

- New learning materials developed to support all of our leaders in creating an inclusive culture and leading inclusively;
- The launch of our new mandatory D&I learning for all including e-learning on the importance of D&I along with tools and techniques for our people to use to help create a more inclusive workplace.

This year we also maintained our focus on increasing the diversity of our external hires. We launched a successful inclusive hiring campaign focused on reaching a more diverse population. 23% of all global hires were female this year compared to 19% in 2020. 14% of hires in the UK and 31% of hires in the US were of ethnic minority backgrounds. We have been recognised for our good work in this area and have also been awarded 'Star Employer' status by 'Investing in Ethnicity' for the progress of our ethnicity strategy. In Early Careers we increased our female graduate hires globally from 19% in 2020 to 37%. In the UK 32% of our apprentice hires were female and 29% were of ethnic minority backgrounds.

UK Ethnicity Pay Report 2021

Rolls-Royce Holdings plc

Across our legal entities

As with the Gender Pay reporting, we are reporting on all UK entities which have more than 250 employees. Rolls-Royce Holdings plc has two such entities.

Rolls-Royce plc

Rolls-Royce plc has ethnicity data for 14,406 employees, 10% are from Ethnic Minority backgrounds

Pay difference in between Ethnic Minority and White backgrounds

at 5 April 2021

	Mean	Median
Hourly Pay	9.4%	4.4%
Bonus	39.3%	24.8%

This chart, and those of the other legal entities below, shows the percentage by which Ethnic Minorities' average hourly pay and bonus pay is lower compared to White Background employees'.

Proportion of employees receiving a bonus

in 12 months preceding 5 April 2021

White Background	19.5%
Ethnic Minority	12.2%

Pay quartiles across the legal entity's employees

at 5 April 2021

Pay Quartiles	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Top Quartile
White	87%	90%	90%	92%
Minority	13%	10%	10%	8%

Rolls-Royce Submarines Ltd

Rolls-Royce Submarines Ltd has ethnicity data for 2,967 employees, 7.3% are Ethnic Minorities.

Pay difference in between Ethnic Minority and White backgrounds

at 5 April 2021

	Mean	Median
Hourly Pay	5.9%	2.9%
Bonus	24.1%	0.3%

We confirm the data reported is accurate

Warren East

For Rolls-Royce Holdings plc
Warren East
CEO

Steven Dearden

For Rolls-Royce Submarines Ltd
Steven Dearden
President Submarines - Defence

Proportion of employees receiving a bonus

in 12 months preceding 5 April 2021

White Background	96.6%
Ethnic Minority	98.2%

Pay quartiles across the legal entity's employees

at 5 April 2021

Pay Quartiles	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Top Quartile
White	91%	92%	94%	94%
Minority	9%	8%	6%	6%