

UK Ethnicity Pay Report 2022

Rolls-Royce Holdings plc



Choosing to report our 2022 ethnicity pay gaps

We are voluntarily publishing our ethnicity pay gap for the second time running in 2022 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 2022.

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 factory staff 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 in addition to this we have set a publicly disclosed 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

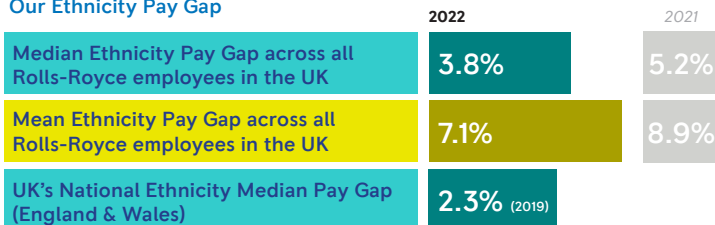
Rolls-Royce's ethnicity pay gap data was collected on the snapshot date of 5 April 2022. At this time there were 19,346 people within our UK workforce. 89.6% (17,335) of our people openly disclosed their ethnicity to us. Of those, 90.1% (15,619) are white (including white British, white Irish and any other white backgrounds) and 9.9% (1,716) are from other ethnic backgrounds (0.3% up from 2021). 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 2022

Our Ethnicity Pay Gap



Source: Office of National Statistics 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 2022, the average pay for a person from an ethnic minority group was 7.1% 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 92.9p. We are working to improve representation of employees from ethnically diverse backgrounds at all levels within our organisation, but increasing representation in senior roles will be key to closing the pay gap. We are focusing on the development of internal talent pools and also external recruitment to do this.

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 3.8% 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 96.2p.

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 the average salary and bonus payments.

Bonus difference between Ethnic Minority and White backgrounds

in 12 months preceding 5 April 2022

Bonus	Mean	Median
2022	26.4%	-3.8%
2021	34.8%	11.1%

Proportion of all UK employees receiving a bonus

in 12 months preceding 5 April 2022

	2022	2021
Proportion of White employees who received bonus pay	98.5%	33.3%
Proportion of Ethnic Minority employees who received bonus pay	98.0%	24.1%

In the UK we have incentive plans in place for employees at all levels, which accounts for our high percentages of inclusion. Bonus payments for 2021 were made across all of our sub-units which makes the inclusion rates considerably higher than in the previous year when they were made only for our Defence business.

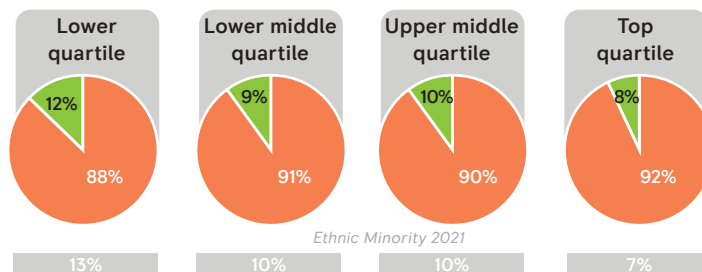
The bonus gap is primarily driven by ethnic minority employees being over represented in the lower pay quartile, which attracts lower on-target bonuses, and under represented in the upper pay quartile, which is primarily leadership roles which attract higher on-target bonuses.

This also explains the difference between the mean and median bonus gaps.

Pay quartiles across UK employees

at 5 April 2022

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



Overall, those from an ethnic minority background currently represent 9.9% of our UK employees. The pay quartile data shows that ethnic minority employees are over represented in the lower quartile, and under represented 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 %	(2021)
White	N/A	N/A	N/A	N/A	98.52%	90.10%	90.4%
Black	11.18%	5.41%	42.35%	5.01%	98.56%	1.21%	1.17%
Asian	5.85%	2.36%	23.11%	-8.40%	98.28%	6.39%	6.19%
Mixed	8.83%	6.22%	28.90%	5.47%	97.40%	2.00%	1.97%
Other	6.21%	6.05%	15.18%	-10.78%	92.59%	0.31%	0.26%

Focusing on specific ethnic groups shows how the pay gap varies by ethnicity. The overall median pay gap of 3.8% widens to 6.22% for employees from a mixed ethnic background and narrows to 2.36% 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 1.21%), and a large proportion of these colleagues are in factory staff 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 & governance; attracting & 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 2022

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 13,222 employees, 10.6% are from Ethnic Minority backgrounds

Pay difference in between Ethnic Minority and White backgrounds

at 5 April 2022

	Mean	Median
Hourly Pay	8.1%	3.9%
Bonus	29.7%	-1.2%

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 2022

White Background	98.6%
Ethnic Minority	98.1%

Pay quartiles across the legal entity's employees

at 5 April 2022

Pay Quartiles	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Top Quartile
White	86%	90%	90%	92%
Minority	14%	10%	10%	8%

Rolls-Royce Submarines Ltd

Rolls-Royce Submarines Ltd has ethnicity data for 3,023 employees, 7.5% are Ethnic Minorities.

Pay difference in between Ethnic Minority and White backgrounds

at 5 April 2022

	Mean	Median
Hourly Pay	6.3%	2.7%
Bonus	26.4%	6.8%

We confirm the data reported is accurate

Warren East

For Rolls-Royce Holdings plc
Warren East
CEO

Steve Carlier

For Rolls-Royce Submarines Ltd
Steve Carlier
President Submarines - Defence

Proportion of employees receiving a bonus

in 12 months preceding 5 April 2022

White Background	98.2%
Ethnic Minority	98.2%

Pay quartiles across the legal entity's employees

at 5 April 2022

Pay Quartiles	Lower Quartile	Lower Middle Quartile	Upper Middle Quartile	Top Quartile
White	90%	93%	93%	95%
Minority	10%	7%	7%	5%