

### **Rolls-Royce's Board Governance**

ADOPTED BY RESOLUTION OF THE BOARD OF ROLLS-ROYCE HOLDINGS PLC ON 16 JANUARY 2015 AND AMENDED BY RESOLUTIONS OF THE BOARD ON 10 DECEMBER 2015, 8 FEBRUARY 2017, 7 DECEMBER 2017 AND 8 DECEMBER 2021.

MATTERS RESERVED FOR THE BOARD AND ITS COMMITTEE'S TERMS OF REFERENCE WERE AMENDED BY RESOLUTION OF THE BOARD ON 11 DECEMBER 2018, 26 FEBRUARY 2019 AND 8 DECEMBER 2021.

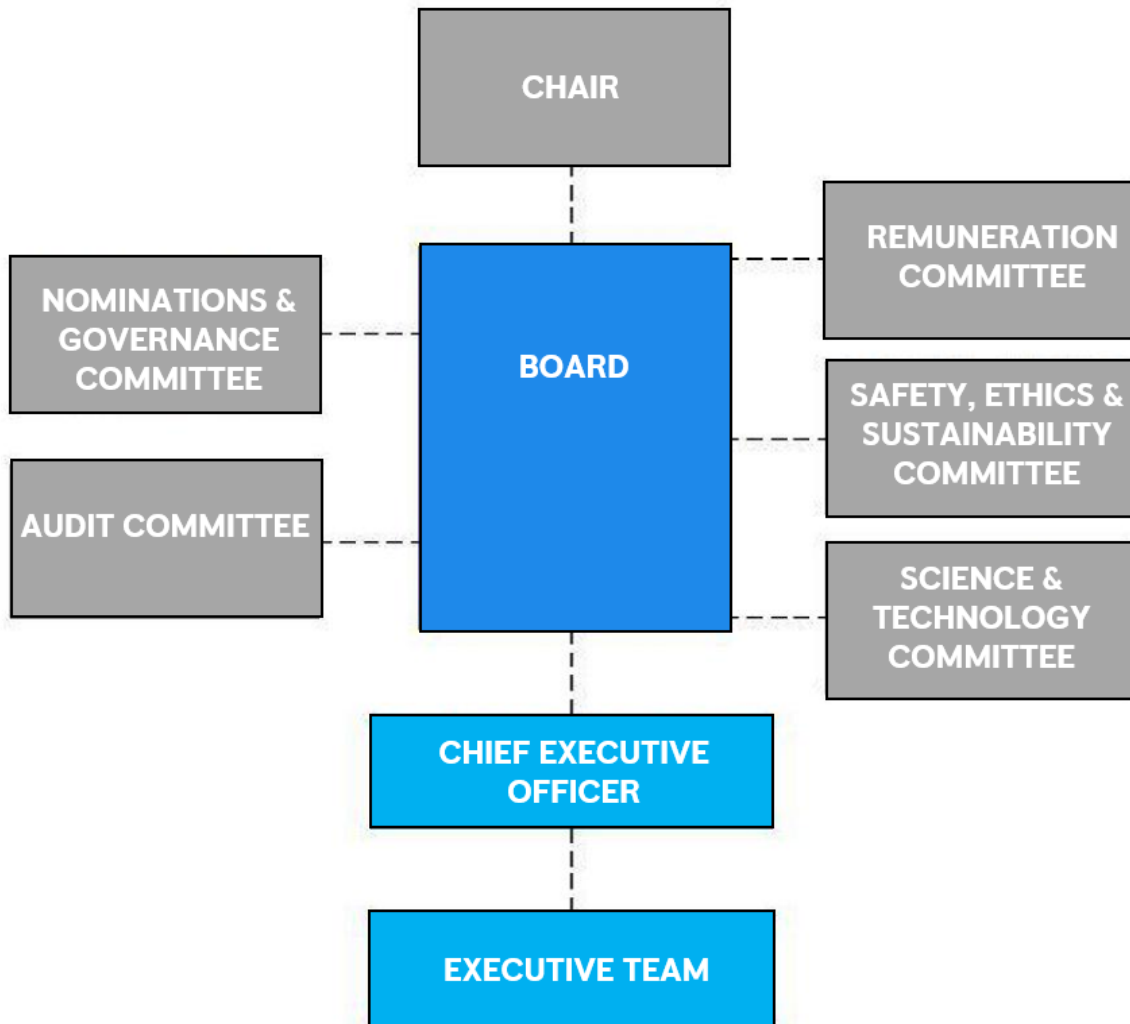
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## INTRODUCTION

This document, Rolls-Royce's Board Governance, explains how Rolls-Royce Holdings plc (the "Company") is structured and organised to enable the effective discharge of its corporate

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## THE BOARD

### **1.1 BOARD STRUCTURE**

The Board is ultimately responsible for Rolls-Royce's management, general affairs, direction, performance and long-term success.

The Executive and Non-Executive Directors are jointly responsible for Rolls-Royce's direction.

Additionally, the Executive Directors are responsible for running the Company, with day-to-day business delegated to the Chief Executive Officer.

Non-Executive Directors have the same general legal responsibilities to the Company as any other Director. In addition, Non-Executive Directors should assess management performance against agreed goals and objectives and monitor how those goals are reported. They should satisfy themselves that financial information is accurate and that financial controls and systems of risk management are robust and defensible. They are also responsible for ensuring Executive Directors' remuneration is effective, for appointing and, where necessary, removing Executive Directors, and for succession planning.

Every Director may request that any matter should be discussed by the Board.

### **1.2 COMPOSITION**

The Board determines the numbers of Executive and Non-Executive Directors.

The composition of the Board must allow it to discharge its responsibilities and provide effective leadership to Rolls-Royce. Each Director must bring relevant skills and experience to the Board.

The majority of the Board, excluding the Chair, must be Non-Executive Directors determined by the Board to be independent, who are chosen for their ability to contribute to Rolls-Royce's governance and strategic development.

In accordance with the Articles at least half of the Board must be British citizens but there is an emphasis on recruiting candidates from diverse backgrounds and with international experience.

### **1.3 DIRECTORS' INTERESTS**

Directors must avoid any conflict or apparent conflict of interest with Rolls-Royce. The Board is responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Where conflicts arise the Board is also responsible for ensuring that in dealing with them all applicable laws, regulations and the UK Corporate Governance Code are complied with.

### **1.4 MEETINGS AND LOCATION**

The Chair of the Board decides when Board meetings take place.

There should be a minimum of eight meetings throughout the calendar year. The Board may call additional meetings to discuss strategic issues and any other matters that arise.

The Board may hold meetings in London or any other location the Board thinks appropriate. Meetings include at least one strategy session. The Board generally holds one meeting overseas in a country of significance to the Group. Directors can attend by video and telephone link.

The Board may adopt written resolutions to approve matters at other times.

## **1.5 AGENDAS**

The Chair sets the agenda for Board meetings in consultation with the Chief Executive Officer. This must take full account of the concerns of all Board members and provide an opportunity to review strategic issues, the long-term development of the business and any points of more immediate concern.

The agenda of each of the meetings of the Board includes:

- 1.5.1 regular items, such as reports by the Chief Executive Officer or his or her nominee and the Board Committees, including in relation to operating performance, quality updates and safety and ethics;
- 1.5.2 special items, such as business reviews, market and competitive developments and status with investors;
- 1.5.3 items for approval; and
- 1.5.4 papers for information.

The Chief Governance Officer makes available a calendar of meetings showing for each future meeting the items which the Board intends to cover. The schedule for the forthcoming year is also available.

## **1.6 SUPPORT**

All Directors have access to the Chief Governance Officer. The Chief Governance Officer provides general and administrative support to the Board and Board Committees. They serve as Secretary of each Board Committee. Their responsibilities include:

- 1.6.1 organising Board and Board Committees meetings;
- 1.6.2 ensuring that information flows to the Board and Board Committees;
- 1.6.3 taking and circulating minutes of Board and Board Committees meetings;
- 1.6.4 assisting the Nominations & Governance Committee with plans for Directors' induction and ongoing training;
- 1.6.5 providing Directors access to external independent advice at the Company's expense;

- 1.6.6 assisting the Chair with arrangements for the AGM;
- 1.6.7 responsibility to the Board for ensuring compliance with Board procedures; and
- 1.6.8 responsibility to the Board for corporate governance and maintaining the Company's corporate governance documents.

## ROLE OF THE BOARD

### **2.1 RESPONSIBILITY**

The Board is responsible for Rolls-Royce's overall leadership and conduct. Its powers, authorities and duties derive from the relevant laws of the United Kingdom and the Company's Articles of Association.

In all its dealings, the Board considers the interests of Rolls-Royce as a whole. These include its shareholders, employees, customers and suppliers, and its social, environmental and legal responsibilities.

The Board is ultimately responsible for the management, direction and performance of the Company and its business.

It is important to identify and manage risk if Rolls-Royce is to implement its strategy and achieve its long-term goals. The Board has overall responsibility for managing risk and reviewing and assessing Rolls-Royce's internal control and risk management. Although as part of this responsibility the Board keeps overall risk under review, it has delegated responsibility for the in depth review and oversight of particular risks to certain Board Committees. Those Committees then report back to the Board on such risks and how they are being managed and controlled.

The Board will receive reports and recommendations from time to time on any matter which it considers significant to the Group.

### **2.2 BOARD POWERS**

The Board exercises all powers, authorities and discretions of Rolls-Royce. The Board has delegated to the Chief Executive Officer (but not to the exclusion of its powers, authorities and discretions) all its powers, authorities and discretions excluding the matters set out in paragraphs 2.2.1-2.2.10 (which are reserved for the Board) and the matters set out in paragraphs 3-8 (which are delegated to the Board Committees). Each of the Board, the Chief Executive Officer and the Board Committees perform their duties for all of the Company, its subsidiaries and subsidiary undertakings unless stated otherwise. Each member of the Board has one vote. The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:

#### **2.2.1 STRATEGY AND MANAGEMENT**

- (a) the Group's values and standards;
- (b) the Group's long-term objectives, strategy and risk appetite;
- (c) new policy;
- (d) the Group's organisation and capability;
- (e) the annual operating and capital expenditure budgets and any material changes to them;

- (f) the Company's overall corporate governance arrangements, having received recommendations from the Nominations & Governance Committee;
- (g) extensions into new business areas or new territories;
- (h) exiting or ceasing to operate in all or any material part of the Company's business;
- (i) major changes in tax planning, having received recommendations from the Audit Committee;
- (j) changes to the structure, size and composition of the board, having received recommendations from the Nominations & Governance Committee;
- (k) the continuation in office of any Director (including the suspension or termination of service of an Executive Director as an employee of the Company, subject to the law and their service contract) and the recommendation to shareholders of their election or re-election under the Articles of Association and the UK Corporate Governance Code, having received recommendations from the Nominations & Governance Committee;
- (l) the selection of the Chair and Chief Executive Officer, having received recommendations from the Nominations & Governance Committee, and the appointment of the Senior Independent Director, having received recommendations from the Chair;
- (m) succession planning for both Executive and Non-Executive Directors, having received recommendations from the Nominations & Governance Committee;
- (n) the appointment and removal of the Chief Governance Officer, having received proposals from the Chief Executive Officer and the Chair;
- (o) a determination of the independence of Non-Executive Directors, having received recommendations from the Nominations & Governance Committee;
- (p) the approval of appointments of Executive Directors as non-executive directors of other companies, having received recommendations from the Nominations & Governance Committee;
- (q) conflicts of interest involving Directors or significant (holders of 10% or more) shareholders, to include both authorisation and any conditions attached;
- (r) the recommendation to shareholders of the appointment, reappointment and removal of the external auditor, having received recommendations from the Audit Committee; and
- (s) a review of the performance of the Board, Board Committees and each Director. A member of the Board must not participate in the review of their own performance.



## 2.2.2 CORPORATE STRUCTURE

- (a) the recommendation to shareholders of changes to the Articles of Association; and
- (b) the issuing and allotment of shares (except under employee share plans) and major changes to the capital structure of the Company (including reductions of capital and share buy-backs including the use of treasury shares), its corporate structure, its management and control structure, its legal status as a public company, the listing of its shares, its registered office or its principal office address.

## 2.2.3 FINANCIAL REPORTING

- (a) the preliminary announcement of interim and final results, having received recommendations from the Audit Committee;
- (b) the annual report and accounts, having received recommendations from the Audit Committee;
- (c) any significant change in the Company's accounting policies or practices, having received recommendations from the Audit Committee;
- (d) the policy in relation to dividends or payments to shareholders; and
- (e) the declaration of dividends or payments to shareholders.

## 2.2.4 EXPENDITURE

Financial expenditure, commitments, agreements and arrangements of such size, value or nature as the Board resolves from time to time should be exclusively reserved to it.

## 2.2.5 BOARD COMMITTEES

- (a) the establishment, membership and chairmanship of the Board Committees, having discussed with and received recommendations from the Nominations & Governance Committee on the membership of the Remuneration Committee, Audit Committee, Safety, Ethics & Sustainability Committee and Science & Technology Committee; and
- (b) terms of reference for Board Committees, including amending these as appropriate.

## 2.2.6 SYSTEMS AND CONTROLS

- (a) the Company's overall internal controls, governance and risk management framework and risk appetite, including a robust assessment of both emerging and principal risks, having received recommendations from the Board Committees;
- (b) the effectiveness of the Company's arrangements for the workforce to raise concerns, in confidence, about possible wrongdoing, ensuring proportionate and independent investigation of such matters and

appropriate follow-up action, having received recommendation from the Safety, Ethics & Sustainability Committee;

- (c) issues raised through the Ethics Line and the results of investigations into ethical or compliance breaches or allegations of misconduct, having received reports on all such matters from the Safety, Ethics & Sustainability Committee;
- (d) the necessary financial and human resources for the Company to meet its objectives; and
- (e) considering risk reports from the Board Committees;

#### 2.2.7 REMUNERATION

- (a) the Remuneration Report (to include a “directors’ remuneration policy” and an “annual report on directors’ remuneration”), having received recommendations from the Remuneration Committee;
- (b) the Chair’s fees;
- (c) the remuneration of Non-Executive Directors, having received recommendations from the Chair, subject to the Articles of Association and shareholder approval as appropriate;
- (d) new share incentive plans or major changes to existing plans, to be put to shareholders as appropriate, having received recommendations from the Remuneration Committee.

#### 2.2.8 COMMUNICATION

- (a) convening shareholder meetings, setting the agenda thereof and ensuring satisfactory dialogue with shareholders;
- (b) resolutions and corresponding documentation to be put to shareholders at a general meeting;
- (c) all circulars, prospectuses and listing particulars;
- (d) press releases concerning matters decided by the Board; and
- (e) regulatory announcements concerning matters decided by the Board.

#### 2.2.9 PENSION SCHEMES

- (a) the establishment of any pension or similar post-retirement benefit schemes;
- (b) any amendments to such a pension or post-retirement scheme which materially changes benefits payable or the respective rights of the Company and, where relevant, the Trustees or Beneficiaries;

#### 2.2.10 OTHER

- (a) the overall levels of insurance for the Group and principal terms of directors and officers insurance for the Company, any express indemnities to be given to Directors and any other significant decision regarding indemnification of Directors;
- (b) political donations;
- (c) terms of reference for the Chief Executive Officer, including amending these where appropriate;
- (d) the division of responsibilities between the Chair and the Chief Executive Officer;
- (e) receiving reports on the views of the Company's shareholders;
- (f) considering matters of national security that may affect the Company in respect of any of the jurisdictions in which it operates, with the power to create a committee of the Board comprised of such directors as the Board sees fit having regard to relevant security clearance considerations; and
- (g) this list of matters reserved for the Board and any changes thereto.

### **2.3 DECISION MAKING BY THE BOARD**

- (a) Resolutions by the Board are passed by a majority of votes. Each member of the Board has one vote.

## Terms of Reference<sup>1</sup>

### Nominations & Governance Committee

<b>Purpose</b>	<p>To lead the process for appointments to the Rolls-Royce Board and ensure plans are in place for orderly succession for the Board and Senior Management<sup>2</sup> positions and, in so doing, oversee the development of a diverse pipeline for succession.</p> <p>To keep the Board's corporate governance arrangements under review and ensure arrangements are consistent with best corporate governance standards.</p>
<b>Membership</b>	The Chair of the Board and all the independent Non-Executive Directors.
<b>Chair</b>	<p>Chair of the Board.</p> <p>The Senior Independent Director will chair the Committee in the Chair's absence or when the Committee is considering succession of the role of Chair of the Board.</p>
<b>Quorum</b>	<p>Three members.</p> <p>A member must leave the meeting when their own position is discussed but this will not affect the quorum.</p>
<b>Attendees</b>	<p>The Chief Executive, Chief Financial Officer, Chief People Officer and external advisers may attend all or part of any meeting, at the invitation of the Chair of the Committee.</p> <p>Attendees will not be present in meetings when his or her own nomination or declarations of interest are to be discussed.</p>
<b>Frequency of Meetings</b>	The Committee will meet as and when it is deemed necessary, a twice a year.

### Duties

The Committee will:

#### Nominations

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<sup>1</sup> to be considered in conjunction with the 'Committee Terms of Reference: Applicable to All Committees' appended to these Terms of Reference

<sup>2</sup> excluding the Chief Governance Officer, whose appointment is a Matter Reserved for the Board

- 1.1 regularly review the structure, size, composition (including the skills, knowledge, experience, diversity and length of service) of the Board as a whole and recommend changes to the Board;
- 1.2 give full consideration to succession planning for Directors and Senior Management, including overseeing the development of a diverse pipeline for succession, taking into account the challenges and opportunities, strategic and commercial issues facing the Company and the markets in which it operates and the skills and expertise needed on the board in the future;
- 1.3 keep under review the leadership needs of the organisation, both executive and non-executive, to ensure that the organisation can continue to compete effectively in the marketplace;
- 1.4 be responsible for identifying and nominating to the Board, candidates to fill Board vacancies as and when they arise;
- 1.5 before any appointment is made by the Board, evaluate the balance of skills, knowledge, experience and diversity on the Board, and, in the light of this evaluation, prepare a description of the role and capabilities required for that appointment. In identifying suitable candidates the Committee must:
  - (a) use open advertising or the services of external advisers to facilitate the search;
  - (b) consider candidates from a wide range of backgrounds; and
  - (c) consider candidates on merit and against objective criteria and with due regard for the benefits of diversity on the board, including gender, social and ethnic backgrounds, cognitive and personal strengths, taking care that appointees have enough time available to devote to the position;
- 1.6 for the appointment of a Chair, prepare a job specification, including the time commitment expected. A proposed Chair's other significant commitments should be disclosed to the Board before appointment and any changes to the Chair's commitments should be approved by the Board prior to acceptance or otherwise;
- 1.7 as part of the process for nominating candidates for appointment, obtain details of and review any interests the candidate may have which conflict or may conflict with the interests of the Company, including those resulting from significant shareholdings and ensure that the influence of third parties does not compromise or override independent judgement. The Committee must consider whether despite any such conflict, there are nevertheless grounds for recommending the candidate for appointment and for the Board to authorise the relevant conflict;
- 1.8 ensure that on appointment to the Board, Non-Executive Directors receive a formal letter of appointment setting out clearly what is expected of them in terms of time commitment, committee service and involvement outside Board meetings;

- 1.9 consult with the Chief Executive Officer in relation to the appointment and dismissal of Senior Management, excluding the Chief Governance Officer;
- 1.10 make recommendations to the Board concerning:
- (a) formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chair and Chief Executive Officer;
  - (b) suitable candidates for the role of Senior Independent Director;
  - (c) the re-appointment of any Non-Executive Director at the end of their term of office, having considered their performance and ability to continue to contribute to the Board in the light of knowledge, skills and experience required;
  - (d) the annual re-election by shareholders of Directors in accordance with the Company's Articles of Association, having considered their performance and ability to continue to contribute to the Board in the light of the knowledge, skills and experience required, why their contribution is, and continues to be, important to the Company's long-term sustainable success and the need for progressive refreshing of the Board;
  - (e) any matters relating to the continuation in office of any Director at any time including the suspension or termination of service of an Executive Director as an employee of the Company subject to the provisions of the law and their service contract; and
  - (f) the appointment of any Director to executive or other office;
- 1.11 make recommendations to the Chair and Chief Executive concerning formulating plans for succession for the Executive Leadership Team;

#### Governance

- 2.1 regularly review situations of actual or potential conflict that have been previously authorised by the Board at least annually, and make recommendations to the Board regarding whether the authorisation (and any conditions attached to such authorisation) remains appropriate;
- 2.2 review the Board's diversity policy and its development and implementation;
- 2.3 report to the Board on the Company's corporate governance practices and procedures to ensure they, and their development and implementation, remain appropriate for a group of the size and complexity of Rolls-Royce and reflect best practice principles;
- 2.4 review and make recommendations to the Board at least once a year on any changes to the documents and policies within the corporate governance framework including its constitutional documents;

- 2.5 advise the Board periodically with respect to significant developments in the law and practice of corporate governance;
- 2.6 review the results of the Board performance evaluation process that relate to the composition of the Board and corporate governance generally;
- 2.7 be exclusively responsible for establishing the selection criteria, selecting, appointing, setting the terms of reference for and reviewing the performance of any external person or agency engaged to advise the Committee in connection with executive search, board performance evaluation or any other matter within its remit;
- 2.8 review annually the time needed to fulfil the role of Chair, Senior Independent Director and each Non-executive Director (taking into account committee memberships, and other non-meeting related aspects). Performance evaluation should be used to assess whether the Non-Executive Directors are spending enough time to fulfil their duties;
- 2.9 conduct an annual evaluation of the performance of the Chief Executive Officer;
- 2.10 make recommendations to the Board concerning:
  - (a) composition and chair of the Remuneration Committee, Audit Committee, Safety, Ethics & Sustainability Committee and Science & Technology Committee in consultation in each case with the Chair of the relevant Committee. For the composition of the Audit Committee, ensure that, as a whole, it has competence to the sector in which the Company operates, having regard to relevant legal and best practice requirements. The membership of the Board Committees will be reviewed from time to time and at least every three years;
  - (b) the independence of Non-Executive Directors;
  - (c) the Corporate Governance Statement for inclusion in the Annual Report. Where departure from “comply or explain” standards is required or believed to be appropriate, the Committee recommends to the Board the appropriate explanation to be communicated to shareholders in the Annual Report;
  - (d) requests from Executive Directors for election to the Board of other companies, having weighed the development benefits for the individual with the likely demands of the role and their responsibilities as an employee of the Company; and
- 2.11 review and consider any other topics or risks, including those related to climate change, as appropriate to the overall remit of Committee as delegated by the Board to the Committee from time to time.

Approved by the Board, 8 December 2021

## Terms of Reference<sup>3</sup>

### Remuneration Committee

<b>Purpose</b>	<p>To determine a policy for executive director remuneration capable of attracting and retaining individuals necessary for business success.</p> <p>To set remuneration for the Chair of the Board, Executive Directors and Senior Management.</p> <p>To review workforce remuneration and related policy and the alignment of incentives and rewards with culture, taking these into account when setting the policy for executive director remuneration.</p>
<b>Membership</b>	<p>A minimum of three independent Non-Executive Directors.</p> <p>The Chair of the Board may also be appointed as an additional member if they were considered independent on appointment as Chair of the Board.</p>
<b>Chair</b>	<p>The Chair of the Committee must be an independent Non-Executive Director who would normally have previously served on a remuneration committee for at least 12 months.</p> <p>The Chair of the Board may not be Chair of the Committee.</p>
<b>Quorum</b>	<p>Two members.</p> <p>A member must leave the meeting when his or her own position is discussed but this will not affect the quorum.</p>
<b>Attendees</b>	<p>The Chair of the Company (if they are not a member), the Chief Executive Officer, the Chief People Officer and the People Director, Performance and Reward are normally expected to attend all or part of any meeting at the invitation of the Chair of the Committee.</p> <p>Attendees will not be present in meetings when his or her own remuneration is to be discussed.</p>
<b>Frequency of Meetings:</b>	<p>The Committee will meet as and when it is deemed necessary but as a minimum twice a year.</p>

### Duties

The Committee will:

1. determine the remuneration policy for the Executive Directors (the Policy) and set the remuneration for the Chair of the Board, the Executive Directors and Senior Management;

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<sup>3</sup> to be considered in conjunction with the 'Committee Terms of Reference: Applicable to all Committees' appended to these Terms of Reference



2. review workforce remuneration and related policies and the alignment of incentives and rewards with culture, taking these into account when setting the Policy;
3. ensure that the Policy promotes the long-term sustainable success of the Company and in so doing, ensure that:
  - (a) executive remuneration is aligned to the Company's purpose and value and clearly linked to the successful delivery of the Group's long-term strategy;
  - (b) has regard to the interests of shareholders and the risk appetite of the Company;
  - (c) has regard to the Company's climate change strategy, including progress and delivery against agreed climate change targets and objectives;
4. ensure Senior Management are provided with appropriate incentives to encourage enhanced performance and are rewarded in a fair and responsible manner for their individual contributions to the success of the Company, without paying more than is necessary;
5. consider non-financial factors or metrics relevant to Directors' and Senior Management's remuneration, including recommendations from other Board Committees where relevant;
6. ensure that all elements of Executive Directors' remuneration:
  - (a) are in line with the latest Policy approved by shareholders;
  - (b) have regard to remuneration trends and employment conditions across the Group, in particular when determining annual base salary increases;
  - (c) have regard to all applicable laws and regulatory requirements;
7. determine the terms and conditions of the service contracts of the Executive Directors and Senior Management and the Chair of the Board's letter of appointment;
8.
  - (a) determine the policy on termination payments and compensation commitments for Executive Directors and Senior Management, ensuring that contractual terms on termination, and any potential payments, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised; and
  - (b) approve termination payments and compensation commitments for Executive Directors and Senior Management, with a view to ensuring that any payments or awards made to these individuals are in line with the Policy.
9. determine the policy for, and scope of, pension arrangements for each Executive Director and Senior Management;
10. approve the design of, and determine performance metrics and targets for, any annual and long-term incentive schemes for each Executive Director and Senior Management, subject to final approval by the Board, and/or shareholders where

necessary, and approve the total annual payments made under such schemes. The Committee should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of both Company and individual performance, and wider circumstances;

11. approve the design of, and determine targets for, share-based plans available to all employees, subject to final approval by the Board and/or shareholders where necessary, and approve any issues made under such schemes;
12. approve minor alterations or additions to benefit the administration of the share-based plans to take account of a change in legislation or to obtain a favourable tax, exchange control or regulatory treatment for participants, the Company or any subsidiary. The Committee should seek Board and/or shareholder approval for major alterations or amendments that would alter the basic structure of the plans.
13. approve any proposals to employ any former Executive Directors by the Company as consultants;
14. submit the Policy for approval by the Board and shareholders at least every three years. Notwithstanding this requirement, in any year in which there is a change of Policy relative to the prior year, the amended Policy will be resubmitted for approval by the Board and shareholders. If shareholder approval is not achieved for the Policy, then a revised Policy will be submitted for approval by the Board and be put to shareholders for approval at the next general meeting.
15. prepare the Remuneration Report (the Report) to enable the Board to report to shareholders annually on matters relating to executive remuneration as required by law. Where there is a significant vote against the Report, to recommend to the Board actions which could be taken in response to investor concerns;
16. consider the pension consequences and associated costs to the Company of proposed increases in the basic salaries and any changes in the remuneration of the Executive Directors and Senior Management;
17. oversee any major changes in remuneration, including changes agreed under annual pay round negotiations, throughout the Group;
18. obtain reliable, up-to-date information about remuneration in other companies of comparable scale and complexity;
19. be exclusively responsible for establishing the selection criteria, appointment and terms of reference for the remuneration consultants. When appointing advisers and throughout their engagement, the Committee will have due regard for other services provided by the adviser and ensure there is no conflict or potential conflict of interest with that of the Company;
20. review and consider any other topics or risks appropriate to the overall remit of Committee as delegated by the Board to the Committee from time to time.

## Terms of Reference<sup>4</sup>

### Audit Committee

<b>Purpose</b>	<p>To assist the Board in monitoring the integrity of the Company's financial statements and any formal announcements relating to financial performance.</p> <p>To review the internal financial controls and the risk management and internal control systems.</p> <p>To monitor and review the effectiveness of the internal audit function.</p> <p>To oversee the Company's relations with the external auditor.</p>
<b>Membership</b>	<p>A minimum of three Independent Non-Executive Directors. At least one member of the Committee must have recent and relevant financial experience. The Chair of the Board will not be a member.</p> <p>The Committee as a whole will have competence relevant to the sector in which the Company operates, as determined by the Board.</p>
<b>Chair</b>	<p>As appointed by the Board.</p>
<b>Quorum</b>	<p>Two members.</p>
<b>Attendees</b>	<p>The Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the Group Financial Controller, the Director of Risk &amp; Internal Audit, the General Counsel and the External Auditor are normally expected to attend all or part of any meeting, at the invitation of the Chair of the Committee.</p>
<b>Frequency of Meetings</b>	<p>The Committee will meet as and when it is deemed necessary, normally four times a year.</p> <p>Members of the Committee, the lead partner of the External Auditor and the Director of Risk &amp; Internal Audit may each request the Chief Governance Officer to convene a meeting if they consider it necessary.</p> <p>The Committee will meet independently with the External Auditors and Director of Risk &amp; Internal Audit in private sessions, without management present, at least once a year. It may also meet routinely in private session with any of the External Auditors, the Director of Risk &amp; Internal Audit, and management, or any combination of these.</p> <p>Outside the formal meetings, the Chair of the Committee must maintain a dialogue with key individuals involved in Rolls-Royce's governance, including the Chair of the Board, the Chief Executive Officer, the Chief Financial Officer, the Director of Risk &amp; Internal Audit, the Chief Governance Officer and the lead partner of the External Auditor.</p>

<sup>4</sup> to be considered in conjunction with the 'Committee Terms of Reference: Applicable to All Committees' appended to these Terms of Reference

## **Duties**

The Committee will:

### Financial reporting

1. review the annual financial report, half yearly financial reports and interim management statements and any formal announcements and trading statements relating to financial performance before their approval by the Board, focusing particularly on:
  - (a) the integrity of the Company's financial statements, including the directors' report and corporate governance statements relating to audit and to risk management;
  - (b) critical accounting policies and practices, their appropriateness, any changes to them and the consistency of their application from year to year and throughout the group;
  - (c) accounting and audit judgments and estimates and ensuring that the bases for these are robust;
  - (d) the extent to which the financial statements are affected by any unusual transactions and how they are disclosed;
  - (e) significant adjustments resulting from the external audit and any unadjusted items identified during the external audit;
  - (f) the going concern assumption and the viability statement as to the Company's ability to continue in operation and meet its liabilities taking account of its current position and principal risks;
  - (g) compliance with accepted accounting standards and their appropriateness to the Company;
  - (h) compliance with legal and regulatory requirements governing financial statements, announcement and trading statements relating to financial performance;
  - (i) the clarity and completeness of disclosures and the context in which such statements are made;
  - (j) the level of errors identified during the external audit; and
  - (k) major issues arising from the external audit;
2. following its review, draw to the attention of the Board any concerns about the financial or other information which it has reviewed, having regard to the matters reported to it by the External Auditor;
3. where requested by the Board, review the content of the Annual Report and Accounts and advise the Board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy;

### Risk and Control Environment

4. monitor the Company's risk management and internal control systems and review their effectiveness and the processes for assessing such systems, resolving any weaknesses, including liaising with other Board Committees as necessary;
5. review and approve statements to be included in the annual report and accounts concerning internal controls and risk management and the viability statement;
6. review any concerns about fraud or other possible improprieties in matters of financial reporting, including those which the Safety, Ethics & Sustainability Committee refers to the Committee;
7. review compliance with the expense approval policies for the Directors and Senior Management;
8. review potential liabilities for the Company in relation to major contracts;
9. review proposed actions to manage risks in relation to the breach of IT security causing controlled data to be lost, made inaccessible, corrupted or accessed by unauthorised users;
10. ensure that the Company has a suitable system and policy in relation to cyber-security;

### Climate change

11. oversee climate change reporting for the Group by:
  - (a) considering scenarios and environmental perspectives in relation to the Company's framework and reporting requirements regarding climate-related issues, including the impact of climate-related risks and opportunities on the Company's business, strategy and financial planning;
  - (b) seeking support from the Group Chief Financial Controller, Chief Governance Officer, Head of Sustainability and Head of Risk to ensure effective and appropriate regulatory disclosures relating to the financial statements relating to climate change for the Group;

### Internal Audit

12. consider whether the mandate, organisation, resourcing and standing of Internal Audit are appropriate to enable the Committee to meet its objectives;
13. approve the appointment or termination of appointment of the Director of Risk & Internal Audit;
14. approve a programme of Internal Audit work each year having regard to resourcing and the complementary roles of Internal Audit and the External Auditor;
15. meet with the Director of Risk & Internal Audit at least once a year without management being present;

16. ensure the Director of Risk & Internal Audit has direct access to the Chair of the Company and to the Chair of the Committee and is accountable to the Committee. The Director of Risk & Internal Audit and the Chair of the Committee will meet in private before each meeting of the Committee;
17. review Internal Audit's conclusions with regard to risk management and internal control, corporate governance and significant investigations;
18. monitor management's response to Internal Audit's findings and recommendations;
19. monitor and review the effectiveness and independence of Internal Audit;

#### External Auditors

20. make recommendations to the Board for it to put to shareholders on the appointment, reappointment and removal of the External Auditor;
21. oversee the process of selecting the External Auditor and, if an auditor resigns investigate the issues leading to this and decide whether any action is required;
22. ensure that, in accordance with relevant regulations, the audit services contract is put out to tender to enable the Committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms; and in respect of such tender oversee the selection process and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process;
23. ensure the key partners within the appointed firm are rotated from time to time in accordance with best practice and relevant ethical and professional guidance;
24. oversee the relationship with the External Auditor including (but not limited to):
  - (a) approving the terms of their engagement;
  - (b) at the start of the annual audit cycle, approving the audit strategy which identifies key risks for the purposes of the audit and the scope of work of the External Auditor. The Committee ensures co-ordination between External Auditors where more than one audit firm is involved;
  - (c) assessing their independence and objectivity taking into account relevant professional and regulatory requirements and the provision of any non-audit services;
  - (d) assessing their qualifications, expertise and resources;
  - (e) the effectiveness of the working relationship with the External Auditor;
  - (f) approving their remuneration whether for audit or non-audit services and considering whether the level of fees is appropriate to enable an adequate audit to be conducted;

- (g) resolving all disagreements between the External Auditors and management regarding financial reporting;
  - (h) recommending to the Board and keeping under review guidelines for the hiring of any employees of the External Auditor who were formerly engaged on the external audit;
  - (i) satisfying itself that there are procedures in place to ensure that there are no relationships (such as family, employment, investment, financial or business) between the External Auditor and the Company which could affect the External Auditor's independence and objectivity taking account of audit or ethical standards; and
  - (j) reviewing co-ordination between Internal Audit and the External Auditors.
25. meet regularly with the External Auditor including at least once at the planning stage before the audit and once after the audit at the reporting stage. The Committee meets the External Auditor at least once a year without management present to discuss the External Auditor's remit and any issues arising from the audit;
26. discuss problems and reservations arising from the external audit and any matters the External Auditors may wish to discuss;
27. review any representation letter requested by the External Auditor before it is signed by the Board, giving particular consideration to non-standard issues;
28. review the management letter (or equivalent) and review and monitor management's response to the External Auditor's findings and recommendations;
29. review the processes that aim to ensure that the External Auditor is aware of all information that is relevant to its audit. The output from such processes will be reviewed by the Committee at the conclusion of each audit;
30. at the end of the annual audit cycle, assess and report on the effectiveness of the audit process:
- (a) reviewing whether the External Auditor has met the agreed audit strategy;
  - (b) considering the robustness and perceptiveness of the External Auditor; and
  - (c) obtaining feedback from key individuals about the conduct of the audit;

31. report to the Board any significant concerns of the External Auditor that it is being impeded or hindered in carrying out the annual audit of the group whether by management or other circumstances;
32. develop and implement a policy on the engagement of the External Auditor to supply any non-audit services to the Company, taking into account relevant ethical guidance. In doing so the Committee will consider whether there is any prospect that the non-audit work may impair the independence of the External Auditor;
33. assess any non-audit services undertaken by the External Auditor and recommend any necessary action or improvement;

#### Other matters

34. make recommendations to the Board in relation to major changes in tax planning;
35. review Key Performance Indicators in relation to financial matters and review the Company's progress in measuring and reporting on them; and
36. review and consider any other topics or risks appropriate to the overall remit of the Committee as delegated by the Board to the Committee from time to time.

Approved by the Board, 8 December 2021



## Terms of Reference<sup>5</sup>

### Data Security Sub-Committee

<b>Purpose</b>	To review management's actions to manage risks in relation to data breach and to ensure the appropriateness of cyber security systems and policy.  A sub-committee of the Audit Committee.
<b>Membership</b>	A minimum of two Non-Executive Directors.
<b>Chairman</b>	As appointed by the Audit Committee.
<b>Quorum</b>	Two members.
<b>Attendees</b>	The Chief Financial Officer, the General Counsel, the Director of Risk and Internal Audit, the Group IT Director, Director of Cyber Security, IT Risk and Compliance, the Security Director and relevant subject matter experts may attend all or part of any meeting, at the invitation of the Chairman of the Committee.
<b>Frequency of Meetings</b>	The Committee will meet as and when it is deemed necessary, at least twice a year.

### Duties

The Committee will:

1. review the Company's data management framework, including the Group's associated regulatory compliance obligations, and oversee its effectiveness;
2. review the threat profile of the organisation and how this is impacted by potential changes in the internal and external environment;

<sup>5</sup> to be considered in conjunction with the 'Committee Terms of Reference: Applicable to All Committees' appended to these Terms of Reference

3. receive reports on the indicators and metrics management use to gauge and measure data security and cyber risk; review the number and type of threats, incidents, near misses and assurance findings and their root causes;
4. keep under review the contingency plans, crisis management and/or disaster recovery plans relating to data security, in support of the Audit Committee's review of the principal risk: Business Continuity;
5. review the monitoring of key suppliers' and customers' data security capabilities;
6. keep under review the relevant effective resourcing, development of required capability, skills and tools and training and awareness programmes;
7. receive feedback on activity in relation to the sharing of security information through industry, government and security forums;
8. review and consider any other topics or risks appropriate to the overall remit of the Sub-Committee as delegated by the Audit Committee from time to time.

Approved by the Audit Committee, 2 November 2021

## Terms of Reference<sup>6</sup>

### Science & Technology Committee

<b>Purpose</b>	To provide oversight and assurance of the Company's scientific and technological strategy, processes and investments.
<b>Membership</b>	A minimum of three independent Non-Executive Directors.
<b>Chair</b>	As appointed by the Board.
<b>Quorum</b>	Three members.
<b>Attendees</b>	The Chief Technology Officer and other representatives of the engineering and technology team may attend all or part of any meeting, at the invitation of the Chair of the Committee.
<b>Frequency of Meetings</b>	The Committee will meet as and when it is deemed necessary, at least twice a year.

### Duties

The Committee will:

1. review the strategy and direction of the Company's research, technology and development activities in the light of anticipated industry segment and competitive developments and the environmental impacts, including significant trends in science, technology, software and data;
2. assist the Board in its oversight of major technology investments and provide assurance on the competitiveness and adequacy of technology investment ensuring thorough consideration is always given to the environmental impact of new products and technology;
3. oversee the delivery of major technology programmes including conducting visits to R&D facilities and technology centres where appropriate;
4. provide assurance on the identification and management of key technology risks;
5. oversee effective resourcing, development of required technology capability, skills and tools and management of partnerships and government relationships;
6. receive reports from the Environment & Sustainability Committee on an ad hoc basis in respect of the environmental impact of new products and technologies;
7. review progress and delivery against agreed climate change metrics, targets and objectives whilst managing climate change as a principal risk in the delivery of the Group's strategy.

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<sup>6</sup> to be considered in conjunction with the 'Committee Terms of Reference: Applicable to All Committees' appended to these Terms of Reference

8. report to the Safety, Ethics & Sustainability Committee regarding the environmental impacts of new products and technologies in support of their oversight of the environmental sustainability strategy and the Group's response to related emerging risks and opportunities; and
9. review and consider any other topics or risks appropriate to the overall remit of the Committee as delegated by the Board from time to time.

Approved by the Board, 8 December 2021

## Terms of Reference<sup>7</sup>

### Safety, Ethics & Sustainability Committee

<b>Purpose</b>	To assist the Board in fulfilling its oversight responsibilities in respect of product safety, HS&E (occupational health and safety, process safety, maintenance of facilities, asset integrity, personnel security, the environment and sustainability), ethics and compliance; collectively referred to here as Safety, Ethics & Compliance.
<b>Membership</b>	A minimum of three Independent Non-Executive Directors.
<b>Chair</b>	As appointed by the Board.
<b>Quorum</b>	Two members.
<b>Attendees</b>	The Chair of the Board, the Chief Executive Officer, the General Counsel, the Chief People Officer, the Chief Technology Officer, the Group Chief Engineer, Chief Counsel Head Office, GBS & Head of Ethics & Compliance, Director of HSE, Head of Sustainability, Director of Risk & Internal Audit, Director of Technical Assurance and Head of Engineering Fellowship and Head of Product Safety Assurance may attend all or part of any meeting, at the invitation of the Chair of the Committee.
<b>Frequency of Meetings</b>	The Committee will meet as and when it is deemed necessary but at least four times a year.

### Duties

The Committee will:

1. maintain an understanding of and keep under review the Company's frameworks for the effective governance of Safety, Ethics & Sustainability and the Company's Safety, Ethics & Sustainability culture. These governance frameworks will include the set of processes and controls the Company uses to define and deliver its goals, including but not limited to: policies, objectives, strategies, plans and programmes, competence, organisational structures, processes, systems and procedures, standards and guidelines in relation to Safety, Ethics & Sustainability;
2. review the development and implementation of changes to the Company's governance frameworks in relation to Safety, Ethics & Sustainability;
3. agree with management annual programmes of the Safety Ethics & Sustainability Committee's oversight work, including but not limited to:
  - (a) progress reports on implementation of annual plans and programmes;

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<sup>7</sup> to be considered in conjunction with the 'Committee Terms of Reference: Applicable to All Committees' appended to these Terms of Reference

- (b) routine matters such as considering performance reports;
  - (c) arising short term Safety, Ethics & Sustainability issues of a critical nature;
  - (d) progress reports from the Environment & Sustainability Committee on the development of the environmental sustainability strategy and the Group's response to related emerging risks and opportunities; and
  - (d) the review of selected elements of the governance framework, likely to be over a cycle of several years;
4. review the Company's compliance with relevant legislation, regulation and recommendations for Safety, Ethics & Sustainability in all of its areas of operation including but not limited to:
    - (a) anti-bribery and corruption and export control;
    - (b) product safety;
    - (c) health and safety; and
    - (d) the environment;
  5. refer concerns about possible improprieties in matters of financial reporting to the Audit Committee;
  6. ensure appropriate independent internal scrutiny of policies and practices in relation to Safety, Ethics and Sustainability, and where necessary appointing external advisors to conduct an external review;
  7. ensure the appropriate training is provided for employees in relation to Safety and Ethics;
  8. review the adequacy of the Company's arrangements for its workforce to raise concerns, in confidence, about possible wrongdoing. The Committee must ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. Recommend to the Board any changes in such arrangements;
  9. receive reports on issues raised through the Ethics Line, and review the results of investigations into ethical or compliance breaches or allegations of misconduct. Provide regular reports to the Board on all such matters;
  10. review reports on risks in relation to products not meeting safety expectations, or causing significant impact to customers or the environment through failure in engineering, design or manufacturing quality control;
  11. review reports on HS&E risks and review proposed actions to manage such risks;
  12. review remedial actions and lessons learned in relation to material investigations when requested by the Head of Ethics & Compliance, including:

- (a) reviewing disciplinary action, subject to Rolls-Royce's established disciplinary process; and
  - (b) assessing remedial action taken, giving guidance where necessary;
13. review progress and delivery against agreed climate change metrics, targets and objectives whilst managing climate change as a principal risk in the delivery of the Group's strategy.
  14. review Key Performance Indicators in relation to Safety, Ethics & Sustainability, including targets in the public domain, and review the Company's progress in measuring and reporting on them;
  15. monitor the integrity and effectiveness of the non-financial statements of the Company and any other formal communications relating to the Company's performance in Safety, Ethics & Sustainability; and
  16. review and consider any other topics or risks appropriate to the overall remit of the Committee as delegated by the Board to the Committee from time to time.

Approved by the Board, 8 December 2021

## **Terms of Reference<sup>8</sup>**

### **Applicable to all Committees**

#### **1. Membership**

- 1.1 Membership of all Committees will be reviewed from time to time by the Board and at least every three years. The Nominations & Governance Committee will make recommendations to the Board for approval of any proposed changes in composition or chair of the Remuneration Committee, Audit Committee, Safety, Ethics & Sustainability Committee and Science & Technology Committee.
- 1.2 The number of Directors on each Committee who are not British citizens must not exceed one half of the total number of the members of the relevant Committee, in accordance with the Articles of Association of the Company.
- 1.3 The Secretary of each Committee is the Chief Governance Officer or their nominee.
- 1.4 The Board appoints the Chair of each Committee from those who would qualify under the relevant Terms of Reference. In the absence of a Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the relevant meeting, in accordance with their Terms of Reference.

#### **2. Meetings**

- 2.1 The Secretary of each Committee convenes meetings.
- 2.2 Only members of the relevant Committee have the right to attend meetings of that Committee and all members of each Committee are expected to attend each meeting.
- 2.3 Directors who are not members of the relevant Committee, Senior Management, employees and third parties may attend all or part of any meeting, at the invitation of the relevant Chair of the Committee.
- 2.4 In advance of any meeting, the Chair of the Committee may consult with Executive Directors and the Non-Executive Directors who are not members of the Committee in order to assist in framing the Committee's recommendations.
- 2.5 All or any members of each Committee may participate in Committee meetings by teleconference or videoconference. A person so participating is deemed to be present in person at the meeting and is counted in a quorum accordingly.
- 2.6 Each Committee makes formal decisions by a simple majority vote. The Chair of the meeting holds a casting vote.
- 2.7 The Secretary of the Committee is responsible, in conjunction with the Chair of each Committee, for compiling the annual work programmes and seeking approval from each Committee as well as circulating the agenda and papers for Committee meetings. The Secretary is also responsible for liaising with the Executive Team to ensure that all

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<sup>8</sup> to be read in conjunction with each Committee's Terms of Reference



papers, reports etc required by each Committee are forwarded to the relevant Committee in a timely manner.

### **3. Risk Management**

Each Committee shall undertake a robust assessment of both emerging and principal risks, relevant to their duties, as required but at least annually and report to the Board accordingly.

### **4. Non-Financial Metrics**

Each Committee shall review proposals and make recommendations to the Remuneration Committee as to non-financial factors or metrics which it considers relevant to Directors' and Senior Management's remuneration.

### **5. Stakeholder Engagement**

- 5.1 Directors, when making decisions and choices, should exercise their own independent judgement and consider broader implications, including the interests of employees and how the actions and behaviours of the Company affect its customers, suppliers, the community and the environment as well as the Company's reputation, as set out in Section 172 of the Companies Act 2006 and the Code. All Committee members should seek the support of the Chief Governance Officer to ensure effective and appropriate stakeholder engagement is maintained to support their decisions and choices. The Board will need to report on stakeholder engagement in its annual report and accounts.
- 5.2 The Chair of each of the Nominations & Governance, Audit and Remuneration Committees should seek engagement with shareholders on significant matters relating to their areas of responsibility as considered appropriate. Other Board Committees should seek engagement with shareholders as required through any investor relations engagement.

### **6. Climate change**

Directors, during strategy discussions, should give consideration to the following requirements:

- 6.1 Scenarios and environmental perspectives in relation to the Company's framework and reporting requirements regarding climate-related issues, including the impact of climate-related risks and opportunities on the Company's business, strategy and financial planning.
- 6.2 The Company's climate change strategy, including progress and delivery against agreed climate change targets and objectives.
- 6.3 All Committee members should seek the support of the Chief Governance Officer and Head of Sustainability to ensure effective and appropriate climate change consideration is maintained to support disclosures on the Company's governance and Board's oversight of climate-related risks and opportunities.

## **7. Reporting, Self-Assessment and Performance Evaluation**

- 7.1 Each Committee shall report to the Board after each meeting on its proceedings on all matters within its Terms of Reference and make whatever recommendations to the Board it deems appropriate where action or improvement is needed.
- 7.2 The Secretary of each Committee prepares minutes of all meetings of that Committee and shall circulate these promptly to its members and, once approved, to the Board unless in the opinion of the Committee Chair, it would be inappropriate to do so.
- 7.3 Each Committee reviews annually the adequacy of its current Terms of Reference, and confirms that it has fully carried out the responsibilities set out therein. Any proposed changes to a Committee's Terms of Reference shall be approved by the Board.
- 7.4 The Secretary of each Committee shall ensure that its current Terms of Reference are available on Rolls-Royce's external website.
- 7.5 Each Committee shall prepare a report about its activities and recommend it to the Board for approval and inclusion in the Company's Annual Report to shareholders. The report should include all information requirements set out in the UK Corporate Governance Code and relevant legislation and regulation and be for the benefit of all stakeholders.
- 7.6 Each Committee will be included in the overall annual performance evaluation of the Board.
- 7.7 All Committee members shall be provided with appropriate and relevant training, both in the form of an induction programme for new members and on an ongoing basis for all Committee members, as agreed by the Chair of each Committee and in conjunction with the Chief Governance Officer.

## **8. Annual General Meeting**

The Chair of each Committee shall attend the Annual General Meeting of Rolls-Royce and be available to respond to any shareholder questions on the Committee's activities through the Chair of the Board, if applicable.

## **9. Authority**

Each Committee:

- 9.1 must ensure that their considerations and decisions are aligned with the relevant Rolls-Royce policies and practices to ensure that the Company's purpose, values and strategy are delivered and that the cultural ambition for the Group is led by the Board as a whole.
- 9.2 must give due consideration to all laws, regulations, the UK Corporate Governance Code, listing rules and other applicable legislation or regulation as appropriate.
- 9.3 must be cognisant of the activities of the other Board Committees and interact appropriately when making decisions.

- 9.4 is authorised by the Board to investigate any matter within its Terms of Reference using, at Rolls-Royce’s expense, resources from within Rolls-Royce or from external legal, accounting or other advisers as the Committee considers necessary. The Committee is authorised to seek information from any Director, Senior Management or employee and from any adviser, agent or representative of Rolls-Royce, for the purpose of fulfilling its duties. The Board, if so requested, directs such persons to co-operate with the Committee.
- 9.5 is authorised by the Board to have unrestricted access to Company documents and Company information.
- 9.6 is authorised by the Board to give any approvals referred to in its remit.
- 9.7 may form and delegate authority to sub-committees if the Committee thinks it appropriate. Any such sub-delegation shall be noted in the minutes of the Committee.

## **10. Interpretation**

- 10.1 Where the term “Senior Management” is used in a Committee’s Terms of Reference, this means the Executive Team and the Chief Governance Officer.
- 10.2 Where the term “Independent” is used in relation to a Non-Executive Director, this means that the Board, when assessing the independence of a Non-Executive Director, has considered the criteria set out in the UK Corporate Governance Code (Principle 10) together with any other circumstances that could impair or could appear to impair a Non-Executive Director’s independent judgement.

Approved by the Board, 8 December 2021

## CHAIR AND CHIEF EXECUTIVE OFFICER

### **1. RELATIONSHIP OF THE CHAIR AND CHIEF EXECUTIVE OFFICER**

- 1.1 The Chair is responsible for the running of the Board and the Chief Executive Officer is responsible for the running of the Company's business. The division of responsibilities between the Chair and the Chief Executive Officer are as set out in this paragraph 9:
- 1.2 The two roles must be complementary. The Chair and the Chief Executive Officer must ensure that each is appropriately informed of the other's current areas of activity. They must be seen to work closely together as a team;
- 1.3 Their relationship must be based on mutual respect and trust. It must be frank and open, with problem areas addressed early;
- 1.4 The Chair will have direct access to any staff, as they deem necessary;
- 1.5 The Chair and Chief Executive Officer must agree on their respective roles in setting major tasks and in taking new initiatives.

### **2. REMIT OF THE CHAIR**

The duties of the Chair arise from their leadership of the Board and their responsibility for the Group's corporate governance. These are:

### **3. BOARD**

- 3.1 ensuring the effective running of the Board and its Committees in accordance with the highest standards of corporate governance;
- 3.2 serving on, attending and/or chairing certain Board Committees;
- 3.3 setting the Board agenda;
- 3.4 managing the Board to ensure that adequate time is allowed for discussion of all agenda items (in particular strategic issues) and to ensure that complex or contentious issues are effectively dealt with, making sure in particular that non-executive directors have sufficient time to consider them;
- 3.5 ensuring that Board members receive accurate, timely and clear information, in particular about the Company's performance;
- 3.6 ensuring that the Board participates fully in understanding and approving the objectives, policies and strategies for the Group, including the Corporate Strategic Plan, the Annual Budget, the Three Year Commitment and the Ten Year Forecast;
- 3.7 monitoring progress towards the implementation of the objectives, policies and strategies agreed by the Board and ensuring the appropriate decisions are taken promptly by or on behalf of the Board;

- 3.8 fostering constructive relations between Executive and Non-Executive Directors;
- 3.9 ensuring appropriate delegation of authority from the Board to executive management;
- 3.10 promoting a culture of openness and debate by encouraging active engagement by all members of the Board and facilitating the effective contribution of Non-Executive Directors;
- 3.11 holding meetings with Non-Executive Directors without the Executive Directors present;
- 3.12 regularly considering succession planning and the composition of the Board;
- 3.13 acting as a sounding board for the Chief Executive Officer, in particular, together with the Board, in constructively challenging and helping develop proposals on strategy and, more broadly, supporting and advising the Chief Executive Officer;
- 3.14 at the beginning of each year establishing with the Chief Executive Officer their personal goals for the year and submitting them to the Remuneration Committee. Achievement of these goals, along with their appreciation of the performance of the Chief Executive Officer and remuneration market trends, will be the basis on which the Remuneration Committee will establish the compensation payable to the Chief Executive Officer;
- 3.15 making recommendations to the Board on the remuneration of Non-Executive Directors;
- 3.16 making proposals to the Board together with the Chief Executive Officer on the appointment of the Chief Governance Officer;
- 3.17 making proposals to the Board on the appointment of the Senior Independent Director;

#### **4. SHAREHOLDERS AND GOVERNANCE**

- 4.1 ensuring effective communication between the Board and shareholders;
- 4.2 chairing shareholder meetings;
- 4.3 ensuring that all directors are made aware of major shareholders' issues and concerns and that the views of shareholders are communicated to the Board as a whole;
- 4.4 discussing governance and strategy with major shareholders;
- 4.5 ensuring that the Company maintains a dialogue with the major shareholders about directors' and senior managers' remuneration;
- 4.6 leading all governance matters to ensure they are conducted in accordance with best practice;
- 4.7 determining the nature and extent of the significant risks the Board is willing to embrace in the implementation of its strategy;

- 4.8 agreeing with the Chief Executive Officer the general approach to be adopted in the area of public relations, including relations with the Company's shareholders, governments, other public organisations, other companies, the media and the public generally and being involved where appropriate; and
- 4.9 as appropriate and in agreement with the Chief Executive Officer, acting as an ambassador for Rolls-Royce on a global basis and sharing this role with the Chief Executive Officer;

## **5. TRAINING AND PERFORMANCE EVALUATION**

- 5.1 ensuring new Directors receive full, formal and tailored induction on joining the Board;
- 5.2 ensuring that the performance of individual Directors and the whole Board and its Committees is evaluated at least annually and that there is an externally facilitated evaluation every three years;
- 5.3 ensuring that the evaluation of the Board considers the balance of skills, experience, independence and knowledge of the Company on the board its diversity, including gender, how the Board works together as a unit, and other factors relevant to its effectiveness;
- 5.4 acting on the results of the performance evaluation by recognising the strengths and addressing the weaknesses of the Board and, where appropriate, proposing new members be appointed to the Board or seeking the resignation of Directors;
- 5.5 confirming to the shareholders when proposing the re-election of Directors that the individual's performance continues to be effective and demonstrate commitment to the role; and
- 5.6 ensuring the Directors continually update their skills and knowledge of the Company as required to fulfil their role, both on the Board and on Board Committees.

## **6. REMIT OF THE CHIEF EXECUTIVE OFFICER**

Certain of the Board's powers, authorities and discretions are delegated to the Chief Executive Officer. The Chief Executive Officer is entrusted with all the Board's powers, authorities and discretions (including the power to sub-delegate any of those powers, authorities and discretions) excluding the matters set out in paragraphs 2.2.1-2.2.10 which are reserved for the Board and the matters set out in paragraphs 3-8 which are delegated to the Board Committees including without limitation the following powers, authorities and discretions:

## **7. STRATEGY AND MANAGEMENT**

- 7.1 overseeing the day-to-day operation of the Company's business and delivering the performance of the Group;
- 7.2 developing strategy proposals for recommendation to the Board;

- 7.3 implementing the Company's strategy as approved by the Board and keeping the Board as a whole updated on progress in relation to the strategy;
- 7.4 helping the operating businesses of the Company to develop their own strategic plans for the future ensuring that they are properly evaluated and that they are built into the overall agreed Company strategy;
- 7.5 developing an annual budget and the funding plan consistent with the agreed Company strategy for presentation to the Board for approval;
- 7.6 regularly reviewing the Company's organisational structure and recommending changes as appropriate to the Board;
- 7.7 establishing and maintaining formal delegations of authority at appropriate levels throughout the Company;
- 7.8 appointing or dismissing Executive Team members other than Executive Directors;
- 7.9 taking responsibility for the overall performance of each member of the Executive Team. At the beginning of each year establishing with the relevant member of the Executive Team their personal goals for the year and submitting them to the Remuneration Committee. Achievement of these goals, along with their appreciation of the performance of the relevant member of the Executive Team and remuneration market trends, will be the basis on which the Remuneration Committee will establish the compensation payable to the relevant member of the Executive Team; and
- 7.10 appointing directors and the Chief Governance Officer of subsidiaries and other legal entities.

## **8 BOARD COMMITTEES**

- 8.1 consulting with the Remuneration Committee on remuneration policy, executive remuneration and terms of employment of the senior executive team;

## **9 SYSTEMS AND CONTROLS**

- 9.1 ensuring that effective business and financial controls and risk management processes are in place across the Company and that all relevant laws and regulations are complied with;
- 9.2 ensuring that the Company has a suitable system and policy for the timely and accurate disclosure of information in accordance with regulatory requirements; and
- 9.3 satisfying themselves that reporting lines within the Company are clearly established and are effective;

## **10 COMMUNICATION**

- 10.1 establishing a close relationship of trust with the Chair and keeping them promptly informed on all matters that may be of importance to the Board or of which the Board should be aware;
- 10.2 ensuring that financial results, business strategies and, where appropriate, targets and milestones are communicated to the investment community;
- 10.3 leading the Group's processes for communicating to, and consulting with, employees;

## **11 OTHER**

- 11.1 performing such other duties as may from time to time be assigned or delegated to the Chief Executive Officer by the Board.



## SENIOR INDEPENDENT DIRECTOR

### **1. APPOINTMENT AND REMIT**

The Board appoints one of its independent Non-Executive Directors to be the Senior Independent Director or SID. The role of the SID is to:

- 1.1 provide a sounding board for the Chair;
- 1.2 serve as intermediary for the other Directors when necessary;
- 1.3 be available to major shareholders if they have concerns which contact through the normal channels of Chair, Chief Executive Officer or other Executive Directors has failed to resolve or for which such contact is inappropriate;
- 1.4 chair the Nominations and Governance Committee when it is considering the Chair's succession;
- 1.5 work with the Chair and others to resolve significant issues in times of stress including in crisis management situations or if there is a dispute between the Chair and Chief Executive Officer;
- 1.6 act as an alternative point of contact for Non-Executive Directors and major shareholders with concerns which are not being addressed by the Chair or Chief Executive Officer;
- 1.7 lead a meeting with other Non-Executive Directors without the Chair present in order to appraise the performance of the Chair, at least annually and at such other times as are deemed appropriate; and
- 1.8 meet with major shareholders to listen to their views and to develop a balanced understanding of their issues and concerns.

## DIRECTORS' TRAINING

### 1. INDUCTION PROGRAMME

Newly appointed Directors participate in a structured induction programme and receive a comprehensive data pack providing detailed information on the Group. This will include training in relation to each Board Committee of which they are to be a member.

A typical induction programme will provide newly appointed Directors the following introductions to the Group:

1.1 Operation of the Board and governance facilitated by the Chair and Chief Governance Officer, to include:

- (a) the Group's structure;
- (b) Board and Committee procedures;
- (c) the role of the Board;
- (d) Board information;
- (e) directors' duties as a matter of Company Law;
- (f) the Group's approach to corporate governance issues;
- (g) the Global Code of Conduct;
- (h) the Company's internal controls framework;
- (i) key policies and procedures including ABC Compliance, Ethics and Export Controls; and
- (j) the UKLA Model Code regulations relating to share dealings by directors;

1.2 Group strategy development and current issues facing the Company facilitated by the Chief Executive Officer, to include:

- (a) an assessment of competition;
- (b) key performance indicators; and
- (c) employment and HR issues;

1.3 Financial structure facilitated by the Chief Finance Officer, to include:

- (a) principal assets and liabilities;
- (b) investor relations and treasury operations;
- (c) accounting issues; and
- (d) Board information on financial issues;

1.4 risk strategy facilitated by the General Counsel, to include:

- (a) major risks; and
- (b) risk management strategy;

- 1.5 Operational strategy facilitated by the Operations Strategy Director, to include:
- (a) the Group's main manufacturing facilities;
  - (b) procurement activities;
  - (c) IT strategy;
  - (d) health, safety and the environment; and
  - (e) the Rolls-Royce Management System;
- 1.6 technology and engineering issues facilitated by the Director of Engineering and Technology;
- 1.7 key site visits facilitated by the Chief Governance Officer; and
- 1.8 in relation to any Board Committee on which it is proposed that the Director will serve, training on their role, the remit of the Committee and any technical requirements.

## **1.9 ONGOING TRAINING**

Further training is available for Directors, including presentations by the Executive Team on particular aspects of the business. In addition, there is a procedure for Directors to take independent professional advice at the Company's expense and every Director has access to the General Counsel and to the Chief Governance Officer, who is responsible to the Board on corporate governance. All Directors are advised of changes in legislation, regulation and changing risks with the assistance of the Company's advisers where necessary.