Directors' remuneration report

Membership of the remuneration committee

The remuneration committee, which consists entirely of non-executive directors, met five times in 2011 and details of those members attending can be found in the table on page 43. Peter Byrom retired as a member of the remuneration committee on February 8, 2011. He continued to attend meetings by invitation. Sir Frank Chapman was appointed as a member of the committee on November 10, 2011. Sir Simon Robertson, Chairman, John Rishton, Chief Executive, the Director – Human Resources, the HR Director – Performance, Reward and Recognition and the General Counsel and Company Secretary routinely attended the meetings and the committee invited the Finance Director to attend for certain items of business. None of these executives were present during any discussion of their own emoluments.

Responsibilities

The committee is responsible for making recommendations to the Board on the Group's policy regarding executive remuneration and determines, on the Board's behalf, the specific remuneration packages of the Chairman, the executive directors and a number of senior executives.

A copy of the committee's terms of reference is available on the Group's website at www.rolls-royce.com.

Advice to the committee

During 2011, the committee had access to advice from:

- Deloitte LLP [1];
- Kepler Associates; and
- Freshfields Bruckhaus Deringer LLP, the Company's lawyers.

[1] Deloitte LLP advised the Group on tax, assurance, pensions and corporate finance and Deloitte MCS Limited provided consulting services.

The remuneration policy framework

The Group operates in a highly competitive, international market. Its business is complex, technologically advanced and has long time horizons. The Group is committed to achieving sustained improvements in performance and this depends crucially on the individual contributions made by the executive team and by employees at all levels. The Board therefore believes that an effective remuneration strategy plays an essential part in the future success of the Group.

The main components of remuneration

The main components of remuneration for all executives worldwide comprise base salary, annual incentive arrangements, share-based long-term incentives and benefits. Executives are also entitled to participate in all-employee share plans.

Component	Summary	Time frame	Main features
Base salary	• Set by the committee at levels required to recruit and retain high quality senior executives with reference to the marketplace for companies of similar size, internationality and complexity and taking account of pay elsewhere in the Group. • Set with reference to the median of market practice.	Not applicable	• Normally set annually on March 1. Performance is taken into account.
Annual Performance Related Award plan (APRA)	• Annual incentive. • Measures set by the committee based on underlying profit, cash flow and individual objectives and performance. • Strong link between performance and remuneration. • Promotes share ownership and encourages decisions in the long-term interest of shareholders.	One year plus two year deferred element	• Compulsory deferral of 40 per cent of bonus into shares. • Bonus potential: – for on target performance – 75 per cent of salary for executive directors, and 81 per cent for Chief Executive. – for maximum performance – 125 per cent of salary for executive directors, and 135 per cent for Chief Executive. • Bonus can be increased by up to 20 per cent to reflect exceptional personal performance. • Shares vest after two years subject to continued employment.
Performance Share Plan (PSP)	• Share-based long-term incentive. • Conditional on corporate performance. • Measures based on Cash Flow Per Share (CPS), TSR and an underlying earnings per ordinary share hurdle (EPS).	Three years	• 50 per cent must be held until retirement or the minimum shareholding requirement is met. • Potential: – for maximum CPS performance – 100 per cent of salary for executive directors and 120 per cent for Chief Executive. – for maximum CPS and TSR performance – 150 per cent of salary for executive directors and 180 per cent for Chief Executive. • Shares vest after three years provided performance criteria are met.
All-employee share plans	• ShareSave Plan – a savings-related share option plan available to all employees allowing purchase of shares at a discount to the share price at date of grant. • 'Free Share' element of the Share Incentive Plan (SIP) where UK employees receive shares as part of any bonus paid. • 'Partnership Share' element of the SIP under which UK employees may make regular purchases of shares from pre-tax income.	Not applicable	• ShareSave options may be exercised in three or five years from the date of grant. • Shares under the SIP vest after five years free from income tax and national insurance.

In addition to the above, pension and other benefits, which are competitive in local markets, are provided.

Accordingly, we remain committed to a remuneration policy which, whilst sufficiently flexible to take account of future changes in the Group's business environment and in remuneration practice, will continue to reflect the following broad principles:

- the remuneration of executive directors and other senior executives should reflect their responsibilities and contain incentives to deliver the Group's performance objectives without encouraging excessive risk taking;
- remuneration must be capable of attracting and retaining the individuals necessary for business success;
- total remuneration should be based on Group and individual performance, both in the short and long term;
- the system of remuneration should establish a close identity of interest between senior executives and shareholders through measures such as encouraging the senior executives to acquire shares in the Company. Therefore, a significant proportion of senior executive remuneration will comprise share-based long-term incentives; and
- when determining remuneration, the remuneration committee will take into account pay and employment conditions elsewhere in the Group.

The committee reviews regularly both the competitiveness of the Group's remuneration structure and its effectiveness in incentivising executives to enhance value for all stakeholders over the longer term.

Base salaries

The committee has commissioned a range of salary benchmarks from Deloitte LLP. The benchmarks have been prepared using their company size and complexity methodology.

All salary increases must be justified on the basis of performance and are not automatic. The committee is informed of pay and conditions elsewhere in the Group and these are taken into account in determining remuneration for the executive directors.

Annual incentives

Executive directors and selected senior executives participate in APRA. For UK participants, APRA awards do not form part of pensionable earnings.

Target and maximum APRA bonus opportunity

The committee considers that there should be a continuing emphasis on those at-risk elements of remuneration, such as annual and long-term incentives, which directly influence the performance of senior executives. For the Chief Executive, a 162 per cent maximum bonus opportunity means that 62 per cent of combined basic pay and bonus opportunity is directly related to annual financial and personal performance.

Under APRA as operated in 2011, executive directors were eligible for awards in accordance with the table below:

	Target bonus (as a % of salary)[1]	Maximum bonus (as a % of salary)[1]
James Guyette	75	125
John Rishton	81	135
Andrew Shilston	75	125
Colin Smith	75	125
Mike Terrett	75	125

[1] It is possible for a bonus award to be increased by a further 20 per cent to reflect exceptional personal performance. Therefore the overall maximum was 162 per cent for the Chief Executive and 150 per cent for the other executive directors.

The committee has determined that the bonus in respect of 2012 will be operated on substantially similar terms to 2011 except that access to bonus earned through profit performance will now be determined by cash flow based on a linear scale rather than by an all-or-nothing hurdle. The committee is mindful of corporate, environmental, social and governance risks when setting personal objectives. There will be no change to the maximum bonus opportunities for executive directors.

APRA performance measures

For 2011, the performance targets operated so that three Group underlying profit targets were set in respect of bonus levels as follows:

	(% of maximum)
Base	30
Stretch (1)	60
Stretch (2)	100

The bonus payable was also subject to a cash flow hurdle.

For 2011, the performance outturns which resulted in the APRA bonus outturns were as follows:

Cash flow hurdle	Cash flow* for the year was £216 million which exceeded the cash flow hurdle.
Group underlying profit	Group underlying profit* was £1,119 million which exceeded the Base and the Stretch (1) target but was less than the Stretch (2) target. The performance resulted in achievement of 90 per cent of the maximum.

* Cash flow and Group underlying profit are prior to the impact of unbudgeted acquisition adjustments and exclude the effect of unbudgeted foreign exchange translation where material.

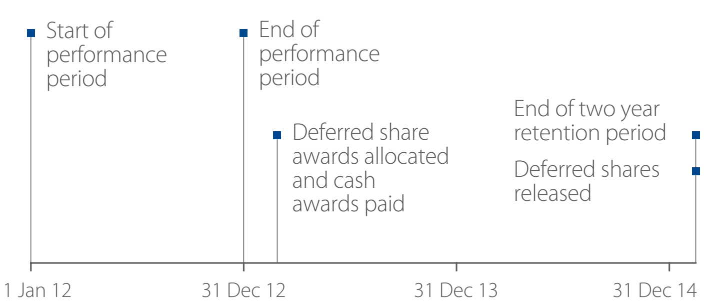
Deferred APRA

For executive directors and other senior executives, 40 per cent of APRA is delivered in the form of a deferred share award in the Company's shares. For other participants in APRA, 33 per cent is delivered in the form of deferred shares. Details of deferred shares held under the plan are shown in the table on page 63.

A participant who is granted a deferred share award under APRA must normally continue to remain an employee of the Group for two years from the date of the award in order for the shares to vest, although shares will be released early in certain circumstances including retirement or redundancy.

The value of any deferred share awards is derived from the annual bonus criteria and is therefore dependent on personal and business financial performance. This arrangement provides a strong link between performance and remuneration, promotes a culture of share ownership amongst the Group's senior management and encourages decisions in the long-term interest of shareholders.

APRA timeline



Other annual incentives

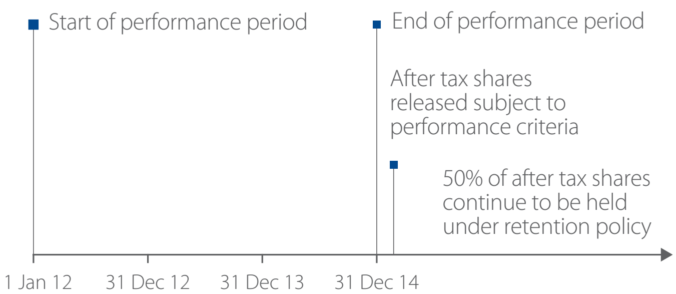
The same financial targets as set for APRA are used for the Managers' Bonus and All-Employee Bonus Scheme (AEBS). The Managers' Bonus typically enables managers worldwide to receive a bonus of up to ten per cent of pay and the AEBS up to two weeks' pay, based on corporate and business performance. Participants in APRA or the Managers' Bonus do not participate in the AEBS.

PSP

The PSP is designed to reward and incentivise selected senior executives who can influence the long-term performance of the Group. The size of awards under the PSP take into account competitive levels within the marketplace for UK companies of a similar size and complexity to the Group. In 2011, John Rishton received a conditional award of shares with a market value at the time of grant of 120 per cent of his annual salary prorated to his date of appointment as an executive director on March 1, 2011. He also received a special award detailed on page 65. The 2011 grant for other executive directors was 100 per cent of their annual salary, for business heads 80 per cent, and 65 per cent for other members of the Group Leadership Team.

Under the rules of the PSP selected senior executives are granted conditional share awards entitling them to a number of shares determined by reference to corporate performance over a three-year performance period. The measures of corporate performance are CPS, EPS and TSR. These measures are considered particularly important in generating shareholder value and are explained in more detail in the following table. There is no retesting of the performance criteria and no automatic vesting in the event of a takeover. In the three-year period to December 31, 2011 the Company's financial and TSR performance generated 100 per cent of the number of shares conditionally granted in 2009.

PSP timeline



Performance measures

Vesting criteria	Purpose of the measure	Performance condition over three-year period
EPS growth	Hurdle to ensure any payouts are supported by sound profitability	• If EPS growth exceeds the hurdle, the number of shares vesting will be determined in accordance with the CPS targets. • If EPS growth does not exceed the hurdle – zero vesting.
Aggregate CPS	Incentivise generation of cash flow in line with the Group's strategy	• Below threshold cash flow target – zero vesting. • Threshold cash flow target – 30 per cent vesting. • Vesting will increase on a straight-line basis between 30 per cent and 100 per cent.
TSR performance against FTSE 100 index	Align interests with shareholders by rewarding out-performance of FTSE 100 returns	• 50th percentile (median) and below – no additional vesting. • Above 50th percentile (median) – vesting will be enhanced by 25 per cent. For executive directors and selected senior executives, a straight-line basis will operate from 25 per cent to 50 per cent enhancement for upper quartile TSR performance.

The profit hurdle for the 2012 grant will require EPS to show real growth by exceeding the OECD index of consumer prices.

The following CPS targets will apply to the grants to be made in 2012:

Aggregate CPS over three-year performance period	Percentage of maximum award released
56p	30
83p	100

The committee believes that these CPS targets are challenging and that the performance necessary to achieve awards towards the upper end of the range is stretching. They should not, therefore, be interpreted as providing guidance on the Group's performance over the relevant period.

PSP awards granted in 2012

For 2012, the size of awards under the PSP will be unchanged from 2011 (except for the additional special award made to John Rishton on his appointment) and will be as follows:

	PSP award (as a % of salary)	PSP award maximum (as a % of salary)
James Guyette	100	150
Mark Morris	100	150
John Rishton	120	180
Colin Smith	100	150
Mike Terrett	100	150

Share retention policy

The committee believes it is important that the interests of the executive directors should be closely aligned with those of shareholders. The deferred APRA award and the PSP provide considerable alignment. However, participants in the PSP are also required to retain at least one half of the number of after tax shares released from the PSP, until the value of their shareholding reaches 200 per cent of salary for the Chief Executive and 150 per cent for other executive directors. When this level is reached, it must be retained until retirement or departure from the Group. Details of the executive directors' share interests are set out on pages 61 to 65. The current executive directors have each complied with the minimum shareholding requirement.

All-employee share plans

The committee believes that share-based plans make a significant contribution to the close involvement and interest of all employees in the Group's performance. Executive directors are eligible to participate in the Group's all-employee share plans on the same terms as other employees:

i) the ShareSave Plan – a savings-related share option plan available to all employees. In the UK, this plan operates within UK tax legislation (including a requirement to finance the exercise of the option using the proceeds of a monthly savings contract) but the key principles are applied globally. The exercise of the option is not subject to the achievement of a performance target;

ii) the 'Free Share' element of the SIP under which UK employees may receive shares as part of the Company component of any bonus paid. The SIP attracts tax benefits for UK employees; and

iii) the 'Partnership Share' element of the SIP under which UK employees may make regular purchases of shares from pre-tax income.

Benefits

Executive directors and senior executives are entitled to a company car or car allowance, private medical insurance and financial counselling. James Guyette is entitled to a housing allowance and the costs of additional housing are met for John Rishton and Mike Terrett.

Service contracts

The committee's policy is that executive directors appointed to the Board are offered notice periods of 12 months. The committee recognises that in the case of appointments to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 12 months after that initial period.

The committee has a defined policy on compensation and mitigation to be applied in the event of a UK director's contract being terminated prematurely. In these circumstances, steps are taken to ensure that poor performance is not rewarded. When calculating termination payments, the committee takes into account a range of factors including the director's obligation to mitigate his or her own loss.

The following table summarises the terms of the executive directors' service contracts:

	Date of contract	Unexpired term	Notice period Group	Notice period individual
James Guyette	29 September 1997	Indefinite	30 days[1]	30 days
Mark Morris	1 January 2012	12 months	12 months	6 months
John Rishton	10 March 2011	12 months	12 months	6 months
Colin Smith	1 July 2005	12 months	12 months	6 months
Mike Terrett	1 September 2007	12 months	12 months	6 months

[1] James Guyette has a contract with Rolls-Royce North America Inc., drawn up under the laws of the State of Virginia, US. It provides that, on termination without cause, he is entitled to 12 months severance pay without mitigation and, in addition, appropriate relocation costs.

External directorships of executive directors

During 2011, James Guyette was chairman of PrivateBancorp Inc. and a director of priceline.com Inc. Andrew Shilston was appointed as a non-executive director of Circle Holdings plc on August 5, 2011. In each case the director retained the relevant fees from serving on the boards of these companies, as shown in the table below:

External directorship fees

	Payment received £000
James Guyette [1, 2]	102
Andrew Shilston	16

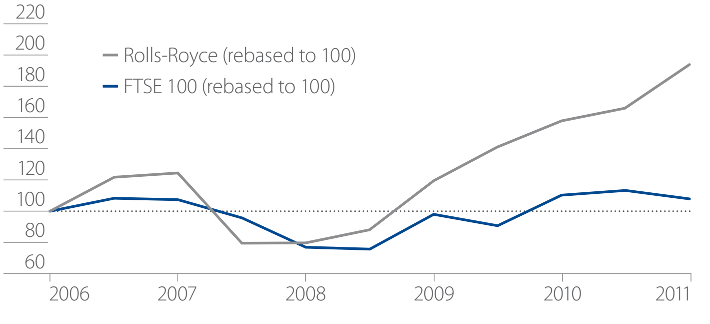
[1] James Guyette was paid in US dollars translated at £1=US$1.6037
[2] In addition to an annual fee, James Guyette received 3,621 Restricted Stock Units (RSUs) at US$13.81 per share in PrivateBancorp. During 2011, 3,651 RSUs vested. He was granted 366 shares of restricted stock at US$464.79 per share in priceline.com. During 2011, 832 shares of restricted stock vested at US$469.13 per share and 333 shares of restricted stock vested at US$464.79 per share.

TSR over five years

The Company's TSR performance over the previous five years compared to a broad equity market index is shown in the graph below. The FTSE 100 has been chosen as the comparator index because it contains a broad range of other leading UK listed companies.

The graph shows the plc growth in value of a hypothetical £100 holding in Rolls-Royce Holdings plc (previously Rolls-Royce Group plc) ordinary shares over five years, relative to the FTSE 100 index. The values of the hypothetical £100 holdings at the end of the five-year period were £194.00 and £107.90 respectively.

Rolls-Royce – five year TSR data



Directors' aggregate emoluments (audited)

The individual directors' emoluments are analysed as follows:

	Basic salary/fees £000	Annual Bonus (APRA) [1] £000	Cash allowance [2] £000	Taxable benefits [3] £000	2011 Aggregate emoluments [4] £000	2010 Aggregate emoluments [4] £000
Executive directors						
James Guyette [5]	499	561	–	64	1,124	1,120
John Rishton [6]	739	898	125	148	1,910	69
Sir John Rose [7]	217	–	–	9	226	2,299
Andrew Shilston [8]	580	657	–	18	1,255	1,308
Colin Smith	455	546	114	20	1,135	1,027
Mike Terrett	543	619	–	115	1,277	1,270
	3,033	3,281	239	374	6,927	7,093
Non-executive directors						
Dame Helen Alexander	74	–	–	–	74	67
Lewis Booth [9]	44	–	–	–	44	–
Peter Byrom	60	–	–	–	60	55
Sir Frank Chapman [10]	11	–	–	–	11	–
Iain Conn	72	–	–	–	72	65
Sir Peter Gregson	60	–	–	–	60	55
John McAdam	60	–	–	–	60	55
John Neill CBE	60	–	–	–	60	55
Sir Simon Robertson	370	–	–	15	385	386
Ian Strachan	86	–	–	–	86	71
	3,930	3,281	239	389	7,839	7,902

1 For executive directors, 60 per cent of APRA is delivered in cash and 40 per cent is delivered in the form of a deferred share award. Shares forming part of the bonus under APRA have been valued at the date of award. The Trustee will acquire the required number of shares at the prevailing market price by March 31, 2012.
2 Colin Smith received a cash allowance in lieu of future pension accrual. John Rishton received employer contributions into the executive defined contribution pension arrangement restricted to the annual allowance limits with any excess paid as a cash allowance.
3 Taxable benefits may include the following: a car or car allowance; the use of a driver; private medical insurance and financial counselling; in the case of James Guyette, a housing allowance and club membership fees; in the case of John Rishton, the figure above includes school fees (for one school term following his appointment) paid on his behalf and the tax charge on that benefit paid by the Group; in the case of John Rishton and Mike Terrett, the figure in the above table includes additional housing costs paid on their behalf and the tax charge on that benefit paid by the Group.
4 Aggregate emoluments exclude pensions contributions. Details of the directors' pensions are set out on pages 60 and 61.
5 James Guyette was paid in US dollars translated at £1 = US$1.6037.
6 John Rishton was appointed as an executive director on March 1, 2011.
7 Sir John Rose retired as an executive director on March 31, 2011.
8 Andrew Shilston retired as an executive director on December 31, 2011.
9 Lewis Booth was appointed as a non-executive director on May 25, 2011.
10 Sir Frank Chapman was appointed as a non-executive director on November 10, 2011.

Payments made to former directors of the Company (audited)

John Cheffins retired from the Board on September 30, 2007. He has continued in his role as Chairman of Rolls-Royce Fuel Cell Systems Limited and provided non-executive advice to the energy business. He was paid £47,617 and benefits totalling £4,770 in 2011 (paid in Canadian dollars translated at £1= CAD$1.5862). Dr Mike Howse retired from the Board on June 30, 2005. He has continued to be retained by the Group for his expertise in engineering and was paid £34,650 in 2011.

Pensions (audited)

The Group's UK pension schemes are funded, registered schemes and were approved under the regime applying until April 6, 2006. They include defined benefit pension schemes, providing at retirement, a pension of up to two thirds of final remuneration, subject to HM Revenue & Customs limits.

Sir John Rose retired on March 31, 2011 and was already in receipt of his pension. John Rishton was appointed to the Board on March 1, 2011 and received employer contributions into the executive defined contribution pension arrangement restricted to the annual allowance limits with any excess paid as a cash allowance. The cash allowance is calculated as equivalent to the cost of the pension contributions allowing for national insurance costs.

Andrew Shilston was a member of one of the Group's UK pension schemes until his retirement on December 31, 2011. He was also a member of the Rolls-Royce Supplementary Retirement Scheme (the Scheme). The purpose of the Scheme is to fund pension provision above the pensionable earnings cap which was imposed on approved pension schemes by the 1989 Finance Act. Membership of the Scheme is restricted to executive directors and to a limited number of senior executives. Employer contributions to the Scheme during 2011 have been added to the increase in transfer value over 2011 for the registered defined benefit plans, and are therefore included in the figures shown in the final two columns of the first table below. Andrew Shilston was replaced on the Board by Mark Morris with effect from January 1, 2012. His pension disclosures will be reported in the 2012 Annual report.

Mike Terrett opted out of future pension accrual with effect from April 1, 2006 and started to receive his pension from November 1, 2009. Since starting to receive his pension, he does not accrue any further pension benefit or allowance in lieu of pension benefit from his ongoing employment with the Group.

Colin Smith opted out of future pension accrual with effect from April 1, 2006. He receives a cash allowance in lieu of future pension accrual. Had he elected to continue to accrue pension the estimated cost of that accrual would be higher than the cash allowance being paid in lieu.

James Guyette participates in pension plans sponsored by Rolls-Royce North America Inc. He is a member of two defined benefit plans in the US, one qualified and one non-qualified. He accrues a retirement lump sum benefit in both of these plans. The aggregate value of the retirement lump sums accrued in these two plans, and the transfer values of these benefits, are shown in the second table below. In addition, James Guyette is a member of two 401(k) Savings Plans in the US, one qualified and one non-qualified, to which both he and his employer, Rolls-Royce North America Inc., contribute. He is also a member of an unfunded non-qualified deferred compensation plan in the US, to which his employer makes notional contributions. Employer contributions to these three plans during 2011 have been added to the increase in transfer value over 2011 for the defined benefit plans, and are therefore included in the figures shown in the final two columns of the second table below.

The transfer values in the tables below have been calculated on the basis of actuarial advice.

Details of the pension benefits, which accrued over the year in the Group's registered UK defined benefit pension scheme[1], are given below:

	Increase in accrued pension during the year ended Dec 31, 2011 £000pa	Increase/decrease in accrued pension during the year ended Dec 31, 2011 [2] £000pa	Total accrued pension entitlement at the year ended Dec 31, 2011 [3] £000pa	Transfer value of accrued pension as at Dec 31, 2011 [4] £000	Transfer value as at Dec 31, 2010 of accrued pension at that date [4] £000	Increase in transfer value over 2011 net of the member's own contributions £000	Transfer value of increase/decrease in accrued pension over 2011 net of the member's own contributions [5] £000
Sir John Rose [6]	4	(10)	457	10,457	8,828	1,629	(199)
Andrew Shilston [7]	3	2	20	575	412	327	233
Colin Smith	42	34	302	6,002	4,467	1,535	613
Mike Terrett	1	(6)	241	5,666	4,739	927	(119)

	Increase in accrued retirement lump sum during the year ended Dec 31, 2011 £000pa	Increase in accrued retirement lump sum during the year ended Dec 31, 2011 [2] £000pa	Total accrued retirement lump sum entitlement at the year ended Dec 31, 2011 [8] £000pa	Transfer value of accrued retirement lump sum as at Dec 31, 2011 £000	Transfer value as at Dec 31, 2010 of accrued retirement lump sum at that date £000	Increase in transfer value over 2011 net of the member's own contributions £000	Transfer value of increase in accrued retirement lump sum over 2011 net of the member's own contributions [5] £000
James Guyette [9]	125	92	965	965	839	520	486

1 Members of the schemes have the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.
2 This column shows the increase/decrease in pension/retirement lump sum during the year ended December 31, 2011 but in this case excluding the effect of inflation.
3 The pension entitlement shown is that which would be paid annually on retirement, based on service to the end of the year, or to April 1, 2006 for members with enhanced protection from 'A' day. For Sir John Rose and Mike Terrett, the pension shown is the annual pension in payment at December 31, 2011.
4 The transfer values stated represent liabilities of the Rolls-Royce sponsored pension schemes and are not sums paid to the individuals. The transfer values of the accrued pensions as at December 31, 2010 and December 31, 2011 have been calculated on a basis adopted by the trustees on October 6, 2008 following receipt of actuarial advice.
5 This column shows the transfer value of the increase/decrease in pension/retirement lump sum during the year ended December 31, 2011 excluding the effect of inflation, and net of the member's own contributions.
6 Sir John Rose retired as an executive director on March 31, 2011.
7 Andrew Shilston retired as an executive director on December 31, 2011.
8 The lump sum entitlement shown is that which would be paid on immediate retirement based on service to the end of the year.
9 Benefits are translated at £1 = US$1.5541.

Details of the money purchase pension contributions paid by the Group on behalf of the following executive directors are given below:

	2011 £000	2010 £000
James Guyette [1]	381	373
John Rishton	115	–
Andrew Shilston [1]	171	166

[1] Employer contributions for the defined contribution plans during 2011, have been included in the increase in transfer value over 2011 for the defined benefit plans and shown in the final two columns of the tables on page 60 for James Guyette and Andrew Shilston.

Directors' share interests (audited)

The directors who held office at December 31, 2011 and their connected persons had the following interests in the ordinary shares and C Shares [1] of the Company in respect of which transactions are notifiable to the Company under DTR 3.1.2R of the Disclosure Rules and Transparency Rules:

	Ordinary shares			C Shares		
	January 1, 2011#	Changes in 2011	December 31, 2011§	January 1, 2011#	Changes in 2011	December 31, 2011§
James Guyette	324,231	(49,434)	274,797	–	–	–
John Rishton	8,996	690	9,686	–	–	–
Sir John Rose [2]	914,478	153,320	1,067,798	–	–	–
Andrew Shilston [3]	525,427	87,830	613,257	–	–	–
Colin Smith	175,179	43,375	218,554	–	–	–
Mike Terrett	428,295	78,871	507,166	–	–	–
Dame Helen Alexander	1,071	–	1,071	–	102,816	102,816
Peter Byrom	218,017	5,304	223,321	–	–	–
Lewis Booth [4]	–	5,000	5,000	–	–	–
Sir Frank Chapman [5]	–	–	–	–	–	–
Iain Conn	17,918	2,292	20,210	–	–	–
Sir Peter Gregson	3,407	811	4,218	–	–	–
John McAdam	1,124	447	1,571	116,769	109,311	226,080
John Neill CBE	24,614	11,850	36,464	350,100	1,508,652	1,858,752
Sir Simon Robertson	40,846	993	41,839	–	–	–
Ian Strachan	11,500	–	11,500	–	–	–

Or date of appointment if later.
§ Or date of retirement if earlier.
[1] Non-cumulative redeemable preference shares of 0.1p each.
[2] Sir John Rose retired as an executive director on March 31, 2011.
[3] Andrew Shilston retired as an executive director on December 31, 2011.
[4] Lewis Booth was appointed as a non-executive director on May 25, 2011.
[5] Sir Frank Chapman was appointed as a non-executive director on November 10, 2011.

Directors' interests in the Company's share plans are shown separately on pages: 62 (SIP); 63 (share options); 63 (APRA); and 64 (PSP). No director had any other interests, beneficial or otherwise, in the share capital of the Company or any of its subsidiaries as at December 31, 2011.

Changes in the interests of the executive directors and non-executive directors between December 31, 2011 and February 8, 2012 are listed below.

	Ordinary shares	C Shares
Dame Helen Alexander	–	73,899
Peter Byrom	2,020	–
Iain Conn	819	11,178
Sir Peter Gregson	137	–
James Guyette	2,488	–
John McAdam	61	103,776
John Neill	254	2,025,978
John Rishton	87	–
Sir Simon Robertson	378	–
Colin Smith	2,115	332,166
Mike Terrett	4,593	112,815

Partnership shares held in trust under the SIP [1]

	Ordinary shares January 1, 2011	Ordinary shares Changes in 2011	Ordinary shares December 31, 2011§	C Shares January 1, 2011	C Shares Changes in 2011	C Shares December 31, 2011§
Sir John Rose [2]	1,734	(30)	1,704	–	–	–
Andrew Shilston [3]	1,734	(123)	1,611	382,710	(382,710)	–
Colin Smith [4]	1,734	(124)	1,610	382,533	(382,533)	–
Mike Terrett [4]	1,733	(124)	1,609	382,241	(382,241)	–

§ Or date of retirement if earlier.

Free shares held in trust under the SIP [1]

	Ordinary shares January 1, 2011	Ordinary shares Changes in 2011	Ordinary shares December 31, 2011§	C Shares January 1, 2011	C Shares Changes in 2011	C Shares December 31, 2011§
Andrew Shilston [3]	3,381	(201)	3,180	839,168	(839,168)	–
Colin Smith	3,381	(202)	3,179	839,168	(839,168)	–

§ Or date of retirement if earlier.

Unrestricted shares held under the SIP [1]

	Ordinary shares January 1, 2011	Ordinary shares Changes in 2011	Ordinary shares December 31, 2011§	C Shares January 1, 2011	C Shares Changes in 2011	C Shares December 31, 2011§
Sir John Rose [2]	9,638	89	9,727	–	–	–
Andrew Shilston [3]	6,198	1,039	7,237	90,591	(90,591)	–
Colin Smith	3,977	1,041	5,018	90,298	(90,298)	–
Mike Terrett	4,186	359	4,545	90,500	(90,500)	–

§ Or date of retirement if earlier.
1 Under the SIP, free shares and partnership shares held in trust for more than five years are classified as unrestricted and are no longer subject to income tax or national insurance contributions on withdrawal. Unrestricted shares can be held in Trust under the SIP for as long as the participant remains an employee of the Group.
2 Sir John Rose retired as an executive director on March 31, 2011.
3 Andrew Shilston retired as an executive director on December 31, 2011.
4 On January 9, 2012 and February 7, 2012 the ordinary shares held as partnership shares by Colin Smith 28 and 28, and Mike Terrett 27 and 28 respectively were classified as unrestricted shares.

Share options (audited)

The directors held options under the Rolls-Royce Sharesave plans.

	January 1, 2011	Granted in 2011	Lapsed in 2011	Exercised in 2011	December 31, 2011	Exercise price	Market price at date exercised	Aggregate gains 2011 £000	Aggregate gains 2010 £000	Exercisable dates
James Guyette	683	–	–	(683)	–	416p	613.00p	1	–	–
John Rishton	–	1,450	–	–	1,450	525p	–	–	–	2017
Colin Smith	1,233	–	–	(1,233)	–	298p	651.50p	4	–	–

The market price of the Company's ordinary shares ranged between 557.50p and 746.50p during 2011. The closing price on December 31, 2011 was 746.50p.

Long-term incentive awards (audited)

The directors as at December 31, 2011 had the following share awards arising out of the operation of APRA [1]:

	January 1, 2011	Dividend enhancement during 2011	Vested during 2011	Granted during 2011	December 31, 2011§	Value of shares vested in 2011 £000
James Guyette	42,397	1,645	(27,770)	35,595	51,867	158
Sir John Rose [2]	73,804	2,772	(46,791)	93,481	123,266	283
Andrew Shilston [3]	41,009	1,524	(25,735)	48,540	65,338	156
Colin Smith	29,816	1.090	(18,426)	32,197	44,677	112
Mike Terrett	37,996	1,412	(23,853)	44,127	59,682	144
Total value of shares vested						853

§ Or date of retirement if earlier.

1 Under APRA, shares vest after two years. Shares went into trust in 2009, 2010 and 2011 at prices of 289.65p, 537.20p and 601.00p respectively. At December 31, 2011, the amounts stated in the emoluments table representing the 2011 APRA deferred shares had not yet been applied by the Trustee to purchase shares. The market value per share which vested under APRA during 2011 was 605.47p. The effective market value per share which vested under APRA for James Guyette was 569.86p.

2 Sir John Rose retired as an executive director on March 31, 2011.

3 Andrew Shilston retired as an executive director on December 31, 2011.

Conditional awards, granted under the PSP to executive directors are shown on page 64. The number of shares released will be dependent upon the achievement of the EPS and CPS targets over the three-year performance period. In respect of awards made up to and including 2008, the number of shares released will be increased by 25 per cent if the TSR exceeds the median for the FTSE 100 index over the three-year performance period. For the 2009, 2010 and 2011 grants, if the Company's TSR is above the median of the FTSE 100 index, the number of shares due to be released to an executive will be increased by between 25 per cent and 50 per cent. This increase is on a straight-line basis between the median and upper-quartile TSR performance in the performance period.

PSP

	January 1, 2011	Granted during 2011	TSR uplift at vesting [1]	Total vested during 2011	December 31, 2011§	Value of shares vested in 2011 £000	Performance period	Date of grant	Market price at date of grant
James Guyette	70,672	–	17,668	(88,340)	–	504	Jan 1, 2008 to Dec 31, 2010	March 3, 2008	439.20p
	207,845	–	–	–	207,845	–	Jan 1, 2009 to Dec 31, 2011	March 10, 2009	260.42p
	91,383	–	–	–	91,383	–	Jan 1, 2010 to Dec 31, 2012	March 1, 2010	544.70p
	–	82,404	–	–	82,404	–	Jan 1, 2011 to Dec 31, 2013	March 9, 2011	601.50p
	369,900	82,404	17,668	(88,340)	381,632	504			
John Rishton [2]	–	164,866	–	–	164,866	–	Jan 1, 2011 to Dec 31, 2013	March 9, 2011	601.50p
Sir John Rose [3]	212,888	–	53,222	(266,110)	–	1,615	Jan 1, 2008 to Dec 31, 2010	March 3, 2008	439.20p
	391,675	–	–	–	391,675	–	Jan 1, 2009 to Dec 31, 2011	March 10, 2009	260.42p
	191,005	–	–	–	191, 005	–	Jan 1, 2010 to Dec 31, 2012	March 1, 2010	544.70p
	795,568	–	53,222	(266,110)	582,680	1,615			
Andrew Shilston [4]	100,183	–	25,046	(125,229)	–	760	Jan 1, 2008 to Dec 31, 2010	March 3, 2008	439.20p
	211.198	–	–	–	211,198	–	Jan 1, 2009 to Dec 31, 2011	March 10, 2009	260.42p
	102,993	–	–	–	102,993	–	Jan 1, 2010 to Dec 31, 2012	March 1, 2010	544.70p
	–	97,091	–	–	97,091		Jan 1, 2011 to Dec 31, 2013	March 9, 2011	601.50p
	414,374	97,091	25,046	(125,229)	411,282	760			
Colin Smith	70,356	–	17,589	(87,945)	–	534	Jan 1, 2008 to Dec 31, 2010	March 3, 2008	439.20p
	148,319	–	–	–	148,319	–	Jan 1, 2009 to Dec 31, 2011	March 10, 2009	260.42p
	78,025	–	–	–	78,025	–	Jan 1, 2010 to Dec 31, 2012	March 1, 2010	544.70p
	–	74,813	–	–	74,813		Jan 1, 2011 to Dec 31, 2013	March 9, 2011	601.50p
	296,700	74,813	17,589	(87,945)	301,157	534			
Mike Terrett	91,075	–	22,769	(113,844)	–	691	Jan 1, 2008 to Dec 31, 2010	March 3, 2008	439.20p
	191,998	–	–	–	191,998	–	Jan 1, 2009 to Dec 31, 2011	March 10, 2009	260.42p
	93,630	–	–	–	93,630	–	Jan 1, 2010 to Dec 31, 2012	March 1, 2010	544.70p
	–	91,438	–	–	91,438		Jan 1, 2011 to Dec 31, 2013	March 9, 2011	601.50p
	376,703	91,438	22,769	(113,844)	377,066	691			
Total value of shares vested						4,104			

§ Or date of retirement if earlier.

1 Under the rules of the PSP, the number of shares vesting in 2011 was increased by 25 per cent as the TSR exceeded the median of the FTSE 100 index during the three-year performance period to December 31, 2011. The market value per share, which vested under the PSP during 2011, was 607.03p. For James Guyette, the market value per share, which vested under the PSP was 570.76p.

2 John Rishton was appointed as an executive director on March 1, 2011.

3 Sir John Rose retired as an executive director on March 31, 2011.

4 Andrew Shilston retired as an executive director on December 31, 2011.

Grant of shares

John Rishton received a special grant of shares on joining the Company intended to mirror the fair value and vesting profile of the incentives he forfeited on resigning from his previous employer. This award was reported in the 2010 Annual report and is detailed below:

	Number of shares	Performance period	Vesting date	Market price at date of grant
Performance related	49,099	Jan 1, 2009 to Dec 31, 2011	March 1, 2012	601.50p
Restricted shares	126,019	n/a	March 1, 2012	601.50p
Performance related	76,365	Jan 1, 2010 to Dec 31, 2012	March 1, 2013	601.50p
Restricted shares	76,143	n/a	March 1, 2013	601.50p
Performance related	63,397	Jan 1, 2011 to Dec 31, 2013	March 1, 2014	601.50p
Performance related	40,565	Jan 1, 2012 to Dec 31, 2014	March 1, 2015	601.50p
Total	431,588			

Non-executive directors' remuneration

Policy

The committee determines, on the Board's behalf, the remuneration package of the Chairman. The Board determines the remuneration of the other non-executive directors.

The Chairman and the non-executive directors have letters of appointment rather than service contracts. No compensation is payable to the Chairman or to any non-executive director if the appointment is terminated early.

	Appointment date	Current letter of appointment start date	Current letter of appointment end date
Dame Helen Alexander	01/09/2007	23/05/2011	31/08/2013
Lewis Booth	25/05/2011	25/05/2011	24/05/2014
Peter Byrom	01/01/1997	01/01/2012	31/12/2012
Sir Frank Chapman	10/11/2011	10/11/2011	09/11/2014
Iain Conn	20/01/2005	23/05/2011	19/01/2014
Sir Peter Gregson	01/03/2007	23/05/2011	28/02/2013
John McAdam	19/02/2008	23/05/2011	18/02/2014
John Neill CBE	13/11/2008	13/11/2011	12/11/2014
Sir Simon Robertson	01/01/2005	23/05/2011	31/12/2013
Ian Strachan	19/09/2003	23/05/2011	18/09/2012

Non-executive directors' fees

The Board takes account of independent market surveys in determining the fees payable to the Chairman and the non-executive directors.

The fees payable to the non-executive directors are reviewed annually by the Board. The table below shows the current fee structure with effect from February 1, 2011.

	Fee £000
Chairman	370
Other non-executive directors	60
Chairman of audit committee	20
Chairman of remuneration committee	15
Chairman of ethics committee	15
Senior Independent Director	12

The Chairman and the non-executive directors are not eligible to participate in any of the Group's share schemes, incentive arrangements or pension schemes. A facility is in place which enables non-executive directors to use some or all of their fees, after the appropriate statutory deductions, to make market purchases of shares in the Company on a monthly basis.

Statutory requirements

The remuneration report has been prepared on behalf of the Board by the remuneration committee.

The committee adopts the principles of good governance as set out in the Code and complies with the Listing Rules of the Financial Services Authority and the relevant schedules of the Companies Act 2006 and the Directors' Report Regulations in Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The report is divided into audited and unaudited information. The above regulations require the Company's auditors to report on the audited information in their report on page 125 and to state that this section has been properly prepared in accordance with these regulations. The report is subject to shareholder approval at the AGM on May 4, 2012.

The Directors' remuneration report was approved by the Board on February 8, 2012 and signed on its behalf.

Dame Helen Alexander
Chairman of the remuneration committee