BOARD OF DIRECTORS

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1. IAN DAVIS CHAIRMAN[2]
CHAIRMAN OF THE NOMINATIONS AND GOVERNANCE COMMITTEE
Appointed to the Board March 2013 and as Chairman May 2013
Key areas of experience: Finance, government and overseas experience
Other current appointments:
- Johnson & Johnson Inc, non-executive director
- BP p.l.c., non-executive director
- UK Cabinet Office Board, non-executive member
- Apax Partners LLP, senior adviser

Previous relevant experience:
- McKinsey & Company 1979 – 2003
- Chairman and worldwide managing director of McKinsey 2003 – 2010
  He served as a consultant at McKinsey to a range of global organisations across the private, public and not-for-profit sectors

2. JOHN RISHTON CHIEF EXECUTIVE
Appointed to the Board March 2007 and as Chief Executive March 2011
Key areas of experience: Finance, sales and marketing, and overseas experience
Other current appointments:
- Unilever N.V and Unilever plc, non-executive director

Previous relevant experience:
- Ford Motor Company, held a variety of positions in the UK and Europe 1979 – 1994
- British Airways Plc 1994 – 2001
- British Airways Plc, chief financial officer 2001 – 2005
- Royal Ahold, CFO from 2006 – 2007 and CEO from 2007 – 2011

3. LEWIS BOOTH CBE
SENIOR INDEPENDENT DIRECTOR[1,2,5]
CHAIRMAN OF THE AUDIT COMMITTEE
Appointed to the Board May 2011
Key areas of experience: Finance, industrial and overseas experience
Other current appointments:
- Mondelez International Inc., director
- Gentherm Inc., director
- University of Liverpool in America Inc., director

Previous relevant experience:
- Ford Motor Company, senior positions in Europe, Asia, Africa and US, 1978 – 2009
- Ford Motor Company, executive vice president and CFO 2008 – 2012
  He was awarded a CBE in 2012 for services to the UK automotive and manufacturing industries

4. DAME HELEN ALEXANDER
NON-EXECUTIVE DIRECTOR[2,3,4]
CHAIRMAN OF THE REMUNERATION COMMITTEE
Appointed to the Board September 2007
Key areas of experience: Media, business and finance
Other current appointments:
- UBM plc, chairman
- Port of London Authority, chairman
- esure Group plc, deputy chairman
- Bain Capital, senior adviser
- EDF's UK Advisory Board, member
- University of Southampton, chancellor
- She is also involved with other not-for-profit organisations in media, the arts and education

Previous relevant experience:
- Economist Group, chief executive 1997 – 2008
- Economist Intelligence Unit, managing director 1993 – 1997
- BT Group plc, non-executive director 1998 – 2001
- Northern Foods plc, non-executive director 1994 – 2002
- CBI, president 2009 – 2011
- Centrica plc, non-executive director 2003 – 2011
  She was awarded a DBE in 2011 for services to business

5. RUTH CAIRNIE NON-EXECUTIVE DIRECTOR[2,3,5]
Appointed to the Board September 2014
Key areas of experience: International marketing and supply chain, and overseas experience
Other current appointments:
- Associated British Foods plc, non-executive director
- Keller Group plc, non-executive director Rotterdam School of Management, member of advisory board

Previous relevant experience:
- Royal Dutch Shell plc, 1976 – 2014 executive vice president strategy & planning and other senior international roles, including managing the global commercial fuels business

6. SIR FRANK CHAPMAN NON-EXECUTIVE DIRECTOR[2,3,4]
CHAIRMAN OF THE SAFETY AND ETHICS COMMITTEE
Appointed to the Board November 2011
Key areas of experience: Engineering and industrial
Other current appointments:
- Golar LNG Limited, chairman

Previous relevant experience:
- Appointments within BP P.l.c., 1974 – 1978 and Royal Dutch Shell plc, 1978 – 1996
- BG Group plc, CEO 2000 – 2012
  He was knighted in 2011 for services to the oil & gas industries

7. WARREN EAST CBE NON-EXECUTIVE DIRECTOR[1,2,5]
CHAIRMAN OF THE SCIENCE AND TECHNOLOGY COMMITTEE
Appointed to the Board January 2014
Key areas of experience: Technology and engineering
Other current appointments:
- De La Rue plc, non-executive director
- Dyson Ltd, non-executive director
- BT Group plc, non-executive director
- Micron Technology Inc., non-executive director

Previous relevant experience:
- ARM Holdings plc, chief executive 2001 – 2013
- ARM Holdings plc, various senior appointments 1994 – 2001
  He was awarded a CBE in 2014 for services to the technology industry

COMMITTEE MEMBERSHIP
1 Audit Committee
2 Nominations and Governance Committee
3 Remuneration Committee
4 Safety and Ethics Committee
5 Science and Technology Committee (formed January 2015)

8. LEE HSIEN YANG NON-EXECUTIVE DIRECTOR [2,4]
Appointed to the Board January 2014
Key areas of experience: Telecommunications, government, engineering and finance
Other current appointments:
- General Atlantic LLC, special advisor
- Civil Aviation Authority of Singapore, chairman
- General Atlantic Singapore Fund Pte. Ltd, chairman
- The Islamic Bank of Asia Private Limited, chairman
- The Australian and New Zealand Banking Group Ltd, director
- Lee Kuan Yew School of Public Policy, member of the board of governors
- INSEAD South East Asia Council, president
- Singapore Exchange Limited, director

Previous relevant experience:
- Singapore Telecommunications Limited, chief executive 1995 – 2007
- Fraser and Neave Limited, chairman and non-executive director 2007 – 2013

9. JOHN MCADAM NON-EXECUTIVE DIRECTOR [2,3,4]
Appointed to the Board February 2008
Key areas of experience: Retail and industrial
Other current appointments:
- United Utilities Group PLC, chairman
- Rentokil Initial plc, chairman
- J Sainsbury plc, senior independent director

Previous relevant experience:
- Unilever PLC, senior positions within Birds Eye Walls, Quest and Unichema from 1974 –1998
- ICI Paints, chairman and CEO 1998 – 2002
- ICI plc, chief executive 2003 – 2008
- Severn Trent plc, non-executive director 2000 – 2005
- Sara Lee Corporation, non-executive director 2008 – 2012

10. JOHN NEILL CBE NON-EXECUTIVE DIRECTOR [1,2]
Appointed to the Board November 2008
Key areas of experience: Engineering, industrial and finance
Other current appointments:
- Unipart Group of Companies, chairman and group chief executive
- Atlantis Resources Limited, chairman
- Business in the Community, council and board member
- Society of Motor Manufacturers and Trades, vice president
- BEN, the automotive industry charity, vice president
- The Institute of the Motor Industry, vice president

Previous relevant experience:
- Bank of England, director
- Royal Mail, non-executive director
- Charter International plc, non-executive director

He was awarded a CBE in June 1994 for services to the motor industry

11. JASMIN STAIBLIN NON-EXECUTIVE DIRECTOR [2,5]
Appointed to the Board May 2012
Key areas of experience: Technology, engineering and overseas experience
Other current appointments:
- Alpiq Holding AG, CEO
- Georg Fischer AG, non-executive director.
- Federal Institute of Technology, the ETH Domain, board member

Previous relevant experience:
- ABB Switzerland Ltd, CEO until 2012

12. JAMES GUYETTE PRESIDENT AND CHIEF EXECUTIVE OFFICER OF ROLLS-ROYCE NORTH AMERICA INC.
Appointed to the Board January 1998
Key areas of experience: Sales, marketing and airline operations
Other current appointments:
- PrivateBancorp Inc., chairman
- priceline.com, lead independent director

Previous relevant experience:
- United Airlines, executive vice president marketing and planning 1969 – 1997

13. DAVID SMITH CHIEF FINANCIAL OFFICER
Appointed to the Board November 2014
Key areas of experience: Finance
Other current appointments:
- Motability Operations Group plc, non-executive director
- British Motor Industry Heritage Trust, trustee

Previous relevant experience:
- Ford and Jaguar Land Rover, various senior positions spanning 25 years
- Jaguar Land Rover, CEO 2008 – 2010
- Edwards, chief financial officer 2010 – 2013

14. COLIN P SMITH CBE DIRECTOR – ENGINEERING AND TECHNOLOGY
Appointed to the Board July 2005
Key areas of experience: Engineering
Other current appointments:
- Council for Science and Technology, member

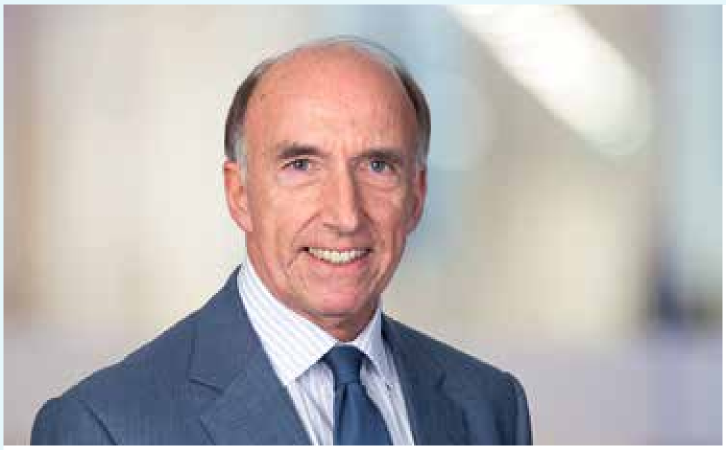
Previous relevant experience:
- Rolls-Royce plc, 1974 to date. He has held a variety of key positions including Director – Research and Technology and Director of Engineering and Technology – Civil aerospace

In June 2012 he was awarded a CBE for services to UK engineering

15. PAMELA COLES COMPANY SECRETARY
Appointed Company Secretary in October 2014
Key areas of experience: Corporate governance and company law
Previous relevant experience:
- Centrica plc, head of secretariat 2008 – 2014
- Held a variety of company secretary roles including: Rank Group plc, group company secretary and a member of the executive committee
- RAC plc, company secretary and head of legal

Fellow of the Institute of Chartered Secretaries and Administrators since 1997

CHAIRMAN'S INTRODUCTION



We benefit from a strong Board that has the requisite skills to manage an international business."

Strong ethical standards and behaviours, supported by good governance are fundamental to a healthy company. This year we have focused on reviewing and amending our governance arrangements and structures as well as continuing to reinforce the conduct and behaviours we expect, wherever we operate.

We are very conscious that our governance must meet the demands of our business, our shareholders and other stakeholder groups. Changes in our operating and risk environment are constant, arising from developments in technology, regulation and our relative competitive position in shifting markets. Furthermore, we need to remain alert to our shareholders' points of view and ensure we are well-equipped to respond to their concerns.

During the year, the Board considered the Group's overall governance framework, including the work and composition of the board committees and the structure of reporting lines, information flow and delegation of responsibilities. We have also reviewed how we engage with shareholders and respond to their comments, particularly around the forward-looking information provided and setting out our strategy. Following this thorough review, we agreed a number of changes which took effect from 1 January 2015.

We invest over £1 billion on R&D every year. Investment in innovation and managing engineering-related risks are critical to our success and so we have established a Science and Technology Committee, under the chairmanship of Warren East. This committee will provide greater oversight of the development and implementation of our innovation strategy and provide assurance that we are concentrating our efforts in the right areas. The committee will review the direction of the Group's research, technology and development activities to ensure that significant science and technology trends are identified and incorporated into future plans.

We expanded the remit of the Nominations Committee to include the regular review of governance arrangements. We strengthened our Company Secretarial team with the recent appointment of a highly experienced Company Secretary who will be overseeing the implementation and regularly reviewing the revised governance framework. In particular, I am looking forward to benefiting from the support she will provide to me as Chairman and to the Senior Independent Director.

In last year's Annual Report, I commented that the Safety and Ethics Committees would be combined. However, as the governance review was underway it was decided to defer this until the review was completed. These committees were combined with effect from 1 January 2015 and have assumed responsibility for sustainability as well as their other responsibilities detailed on page 66. This gives greater focus of our vision to deliver better power for a changing world ethically, safely and sustainably. We see close linkages between ethical behaviour, taking a responsible attitude towards safety and meeting our social and environmental obligations.

The Board governance structure is set out on page 59 and a full copy of the refreshed high-level governance structure is available on the Group's website.

The structure of the Group was changed in 2014 to bring greater organisational and management coherence to the work of our main two Divisions, Aerospace and Land & Sea. Through this change we are aiming to encourage better coordination across our different activities, secure benefits from greater integration and reinforce accountabilities. Each of the Divisions is described in more detail on pages 32 to 41. As part of the ongoing work looking at governance across the Group, we will continue to review our processes and structures within the Divisions and as we integrate Power Systems. As mentioned in the Audit Committee report on page 69, we are further strengthening governance at a divisional level through our sector audit committees.

Also, as part of the ongoing review, the Board is considering how internal controls and the risk management framework are operating in practice (as outlined on pages 50, 62 and 71). We view this as fundamental to understanding and discussing the main challenges to the business, both strategic and operational. The Executive Leadership Team (ELT) will continue to review all principal and emerging risks. As set out on pages 51 to 53, each identified principal risk will also be considered by the Board who will allocate certain risks to the most appropriate board committee. Those committees will then report back to the Board with their views on how those risks are being managed and controlled.

The Audit Committee will continue to review all principal risks and the overall internal controls and risk management framework as part of its year-end activities. This will remain an area of focus in 2015, especially as we consider our approach to the changes to the UK Corporate Governance Code regarding the Board's responsibility to review, at least annually, the effectiveness of the Group's risk management and internal control systems.

In September 2014, we commissioned Independent Audit, a specialist board and governance consultancy, to carry out an evaluation of the effectiveness of the Board and its committees. I was particularly pleased with its conclusion that the Board was working off a firm base with a strong core of highly experienced and committed directors, working well together as a team in an open and supportive atmosphere. We identified a number of areas where we could do better and further details of the evaluation and its outcomes can be found on page 61 of this report.

We benefit from a strong Board that has the requisite skills to manage an international business, driven by manufacturing quality and innovation. Our Nominations and Governance Committee regularly reviews the composition and balance of the Board in terms of skills, knowledge, experience and diversity to ensure we have the right mix to manage the Group. This is particularly important as we work with the Chief Executive to ensure that, at all levels of the executive and senior management team, the right people are in place. We recruited a highly-experienced Group HR Director who will ensure that our long-term executive development and succession planning and, more generally, our resourcing and retention strategies are implemented successfully.

I am confident that the Board works well together and with the ELT. This gives us a strong platform, based on trust and confidence, on which to have rigorous discussions and hold executives accountable.

During the year we appointed Lewis Booth as the Senior Independent Director. His strong capabilities and experience, together with his contribution to the Board over several years, made him the right candidate for the role.

As I said in my review on page 13, I am delighted that David Smith has joined the Board as Chief Financial Officer. He has an exceptional track record as a financial leader and since joining Rolls-Royce has demonstrated determination, discipline and intellectual rigour.

A copy of the governance framework is available at
www.rolls-royce.com/about/whoweare/corporate_governance

INTERNATIONAL ADVISORY BOARD (IAB)

The IAB, formed in 2006, advises the Board on political and economic developments around the world and alerts the Company to possible long-term opportunities, threats and risks. Its members are:

LORD POWELL OF BAYSWATER (CHAIRMAN OF THE IAB)
Former Foreign Affairs and Defence Adviser to Prime Ministers Baroness Thatcher and Sir John Major

VLADIMÍR DLOUHÝ
International advisor to Goldman Sachs for Central and Eastern Europe, European deputy chairman of the Trilateral Commission, president, Czech Chamber of Commerce and a former member of the Czech Government

SIR ROD EDDINGTON
Chairman of JP Morgan (Australia & New Zealand) and former chief executive of British Airways Plc

DR FAN GANG
Professor at China's Academy of Social Sciences and director of National Economic Research Institute, China

MUSTAFA KOÇ
Chairman of Koç Holding, A.Ş., Turkey

DR PEDRO SAMPAIO MALAN
Chairman of Itaú Unibanco's international advisory board and a member of the boards of EDP – Energias do Brasil, Souza Cruz, Brazil, Mills Engenharia, a director of Thomson Reuters Founders Share Company and a member of the Temasek international panel

AKIO MIMURA
Senior advisor, honorary chairman Nippon Steel & Sumitomo Metal Corporation, Japan

LUBNA OLAYAN
CEO and deputy chairperson of the Olayan Financing Company, Saudi Arabia

RATAN TATA
Former chairman of Tata Sons Limited, India

AMBASSADOR ROBERT B. ZOELLICK
Chairman of Goldman Sachs International Advisors, senior fellow at the Belfer Center at Harvard University, former president of World Bank Group, US Trade Representative and US Deputy Secretary of State

THE EXECUTIVE LEADERSHIP TEAM (ELT)

The ELT is an executive forum, at which the Group's most senior business and functional leaders review, communicate and agree on issues and actions of group-wide significance. Its members are:

JOHN RISHTON
CHIEF EXECUTIVE
(CHAIRS THE ELT)

MILES COWDRY
DIRECTOR GLOBAL CORPORATE DEVELOPMENT

JAMES GUYETTE
PRESIDENT AND CHIEF EXECUTIVE OFFICER – ROLLS-ROYCE NORTH AMERICA INC.

LAWRIE HAYNES
PRESIDENT – LAND & SEA

HARRY HOLT
GROUP OPERATIONS STRATEGY DIRECTOR

MARY HUMISTON
GROUP HR DIRECTOR

COLIN SMITH
DIRECTOR – ENGINEERING AND TECHNOLOGY

DAVID SMITH
CHIEF FINANCIAL OFFICER

ROBERT WEBB
GENERAL COUNSEL

TONY WOOD
PRESIDENT – AEROSPACE

CHAIRMAN'S INTRODUCTION
CONTINUED

James Guyette will be stepping down as a Board member, at the conclusion of the AGM on 8 May 2015 and retiring from his role as President and Chief Executive Officer of Rolls-Royce North America on 31 May 2015. John Neill has also indicated that he will not put himself forward for re-election at the 2015 AGM and will therefore leave the Board having completed over six years as a Non-Executive Director.

I am delighted that Irene Dorner will be appointed as a Non-Executive Director with effect from 27 July 2015. Details of Irene's experience are included in my review on page 13.

I am pleased that we have made demonstrable progress to increase the number of women on our Board. Most recently Ruth Cairnie joined the Board as a Non-Executive Director with effect from 1 September 2014. The process for Ruth's appointment is described on page 65 of the Nominations and Governance Committee report.

Women currently represent 7% of senior management and we will continue to focus on increasing this proportion over the coming years. Historically, women have been under-represented in the engineering sector. In order to achieve our aspirations we need to increase diversity in all levels of the Group, not just the Board and we are working on programmes to achieve this. We will select future candidates based on their relevant skills, experience and knowledge and in keeping with the business needs, irrespective of gender.

Last year we began to roll-out an ethics and compliance programme where all employees were asked to certify that they had read and understood the Global Code of Conduct (Global Code) and would comply with it. This was supported by a training course. By the end of 2014, 96% of employees had provided certification in respect of the Global Code and while we are satisfied with this level of certification, we are looking to improve this figure.

The Group has continued to implement the recommendations made in Lord Gold's interim report in 2013 and has developed an ethics and compliance improvement programme to deliver the recommendations. Lord Gold has continued to work with us and reports regularly to the Board. Further details of our activities in this area are included in the Safety and Ethics Committee report on page 68.

Overall I am pleased with the progress we are making on updating and upgrading our controls and governance. We need to maintain our focus on risk management and compliance procedures. We will review our governance framework annually to ensure that we are well-positioned to provide effective oversight over a complex business and to give our shareholders a clear view of our performance and strategic direction.

IAN DAVIS
Chairman

CORPORATE GOVERNANCE

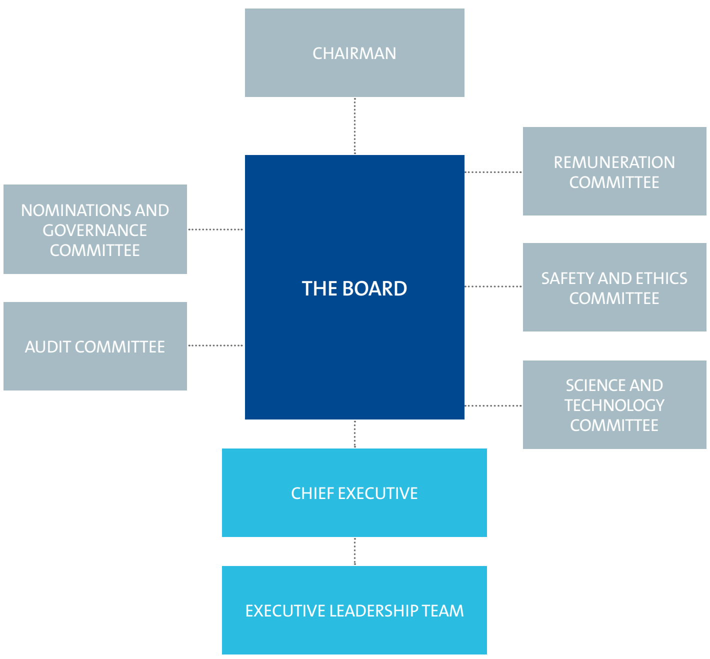
UK CORPORATE GOVERNANCE CODE

This report sets out how the Company applied the principles of the UK Corporate Governance Code 2012 (the Code) and the extent to which the Company complied with the provisions of the Code during the year. A copy of the Code is available from the Financial Reporting Council's website www.frc.org.uk

The Board considers that the Company complied in all material respects with the Code for the whole of the year to 31 December 2014. The Board has agreed that arrangements by which staff may raise concerns in confidence are considered and reviewed by the Safety and Ethics Committee. Matters relating to financial reporting, the integrity of financial management or fraud are also reported to the Audit Committee.

The Audit Committee has considered the requirement to put the audit out to tender every ten years. In line with the FRC's transitional arrangements, the committee will do so during the tenure of the current lead partner which expires in 2017. More detail can be found in the Audit Committee report on page 73.

GOVERNANCE FRAMEWORK FROM JANUARY 2015



THE BOARD

ROLE AND RESPONSIBILITIES

The Board believes that good corporate governance is not just a matter of compliance: it should be contributing to the Group's performance by making sure we have a clear strategic direction, manage our risks to the right level and keep the business under control. A clearly defined framework of roles and responsibilities has been agreed and this has been fully reviewed during 2014.

The powers of the directors are set out in the Company's Articles of Association (the Articles), which are available on the Group's website. The Articles may be amended by special resolution. In addition the directors have responsibilities and duties under legislation, in particular the Companies Act 2006.

The Board has a schedule of matters reserved for its approval, generally being those items which affect the shape and risk profile of the Group, as well as items such as the annual budget and performance targets, the financial statements, payments to shareholders, major capital investments, substantial changes to balance sheet management policy and the strategic plan. The schedule of reserved matters was reviewed during the year as part of the governance review and is available on the Group's website.

BOARD MEETINGS

The Board holds regular scheduled meetings throughout the year. In 2014, the Board met 11 times, of which nine meetings were scheduled and two were unscheduled supplementary meetings.

We are very conscious of the need to provide directors with the information they need to be effective. We send out papers well in advance of meetings to help directors prepare. We keep the content and structure of papers under review to help make sure that they communicate the main issues clearly. This year's board review has highlighted some changes that would help in maintaining the Board's focus on the main strategic issues so we will be looking to develop some aspects of the board papers during 2015. The review confirmed that the directors are satisfied with the fullness of the papers and management's commitment to transparency but we recognise that more can be done to enhance the presentation of trends and key performance indicators.

Directors are expected to attend all meetings of the Board and the committees on which they sit and to devote sufficient time to the Company's affairs to enable them to fulfil their duties as directors. If directors are unable to attend a meeting, their comments on the board papers are discussed in advance with the Chairman so that their contribution can be included in the wider board discussion.

Details of attendance by directors at board meetings during 2014 are set out in the table overleaf and attendance at committee meetings is set out within the reports on pages 64, 66, 69 and 74.

CORPORATE GOVERNANCE
CONTINUED

Members	Attendance in 2014
Ian Davis (Chairman)	9/9
John Rishton	9/9
Dame Helen Alexander	7/9
Lewis Booth CBE	9/9
Ruth Cairnie (appointed 1 September 2014)	3/3
Sir Frank Chapman	9/9
Iain Conn (retired 1 May 2014)	4/4
Warren East CBE	9/9
James Guyette	9/9
Lee Hsien Yang	8/9
John McAdam	9/9
Mark Morris (left 4 November 2014)	7/7
John Neill CBE	9/9
Colin Smith CBE	9/9
David Smith (appointed 4 November 2014)	2/2
Jasmin Staiblin	9/9

BOARD COMPOSITION

The Board comprises a Non-Executive Chairman, four Executive Directors and nine Non-Executive Directors.

Details of the Board are set out on pages 54 and 55. Details of the Executive Directors' service contracts, or letters of appointment in the case of Non-Executive Directors, are on page 80. Details of their remuneration and share interests are set out in the Directors' Remuneration Report on pages 76 to 84.

KEY ROLES

The roles of the Chairman, Chief Executive, Senior Independent Director and Company Secretary are set out in writing and have been agreed by the Board.

THE CHAIRMAN
Ian Davis

Responsibilities

- effective running of the Board and its committees in accordance with the highest standards of corporate governance
- setting the Board agenda
- managing the Board to ensure adequate time for discussion of all agenda items
- ensuring the Board receives accurate, timely and clear information

THE CHIEF EXECUTIVE
John Rishton

Responsibilities

- overseeing the day-to-day operation of the Company's business
- developing and implementing the Company's strategy as approved by the Board
- establishing and maintaining formal and appropriate delegations of authority
- maintaining a close working relationship with the Chairman

THE SENIOR INDEPENDENT DIRECTOR
Lewis Booth CBE

Responsibilities

- providing a sounding board for the Chairman
- being available to major shareholders if they have concerns which have not been resolved through the normal channels of the Chairman, Chief Executive or other Executive Directors
- conducting an annual review of the performance of the Chairman

THE COMPANY SECRETARY
Pamela Coles

All directors have access to the advice and services of the Company Secretary. She acts as Secretary to the Board and its committees.

Responsibilities

- ensuring compliance with board procedures and corporate governance
- administering the process for directors to access external independent advice at the Company's expense
- assisting the Nominations and Governance Committee with plans for directors' induction and ongoing training
- ensuring the Board receives accurate, timely and clear information

The guiding principles, agreed by the Board, to govern the relationship between the Chairman and the Chief Executive are contained within the governance framework available on the Group's website.

INDEPENDENCE OF NON-EXECUTIVE DIRECTORS

The Board conducts a rigorous review of the independence of the Non-Executive Directors every year, based on the criteria in the Code. This review was undertaken in November 2014 and the Board concluded that all the Non-Executive Directors remained independent in character and judgement.

The Code does not consider the test of independence to be appropriate to the chairman of a company. However, Ian Davis did meet the Code's independence criteria upon his appointment as Chairman in May 2013. His other external commitments are described on page 54.

CONFLICTS OF INTEREST

Directors have a duty to avoid a situation in which they have, or can have, a direct or indirect interest which conflicts, or possibly may conflict, with the interests of the Company unless that situational conflict has been authorised by the Board. The Nominations Committee reviewed and authorised all directors' situational conflicts and has agreed, that while directors are required to keep confidential all Company information, they shall not be required to share with the Company confidential information received by them from a third party which is the subject of the situational conflict.

APPOINTMENTS AND RE-APPOINTMENTS

A formal, rigorous and transparent process is followed during the selection and subsequent appointment of new directors. Each director stands for re-appointment at each AGM. Non-Executive Directors' terms of office will be terminated without compensation if they fail to be re-elected (see page 91 for further information). Non-Executive Directors are appointed for an initial term of three years, which may be extended with the agreement of the Board, although re-appointment is not automatic. A rigorous review is undertaken, taking account of their performance and ability to contribute to the Board in the light of the knowledge, skills, experience and diversity required, when considering extending a term for a Non-Executive Director beyond six years. For 2014, this has consisted of face-to-face discussions between the Chairman and each director, taking into account observations arising from the external board review.

EXECUTIVE LEADERSHIP TEAM (ELT)

The ELT is the senior decision-making executive committee and is chaired by the Chief Executive. Its membership is shown on page 57. During the year it developed detailed strategic options for the Board to consider. It also reviewed HS&E performance, customer relations, governance, principal risks, financial and operational performance as well as acquisitions and disposals during the year.

The ELT assists the Board in determining the nature and extent of the principal risks as described on page 50.

DIRECTORS' INDEMNITIES AND INSURANCE

In accordance with the Articles, and to the extent permitted by law, the Company has entered into separate deeds of indemnity with its directors, which were in force during the financial year and remain in force at the date of this report. The Company also maintains directors' and officers' liability insurance cover for its directors and officers. This cover also extends to directors of subsidiary companies.

THE WORK OF THE BOARD

At each scheduled meeting, Executive Directors supplied reports on business and financial performance including the approval of financial statements and budgets. The Board also received regular updates on HS&E, employee and legal issues and conducted a review of its governance arrangements. The chairman of each of the board committees provided verbal reports on matters discussed by that committee since the previous board meeting.

In September 2014, the Board held its annual strategy meeting. We focused on areas of particular importance and immediacy including our human resource strategy and our approach to strengthening our technology infrastructure and exploiting technological developments.

In addition to its routine business, matters considered by the Board in 2014 included:

- an update by Lord Gold on his interim report on ethical issues;
- the proposed acquisition of Wärtsilä;
- discussions with FRC over accounting for risk and revenue sharing arrangements (RRSAs);
- our relationship and strategy with major airframe customers;
- the sale of our Energy gas turbines and compressor business to Siemens;
- the £1 billion share buyback;
- a proposal to provide engines for the Airbus A330neo;
- feedback from investor days held during the year;
- renewal of £2.75 billion Euro Medium Term Note programme;
- the Board external evaluation report and actions to be taken;
- the revised corporate governance framework;
- management succession issues; and
- the integration of Power Systems.

BOARD EVALUATION

The Board and its committees undertake an annual evaluation of their performance, which is conducted by external consultants at least once every three years. In 2014, the evaluation was conducted by Independent Audit who do not have any other connection to the Company.

Independent Audit reviewed a year's worth of board and committee papers and interviewed all directors and others who have significant interaction with the Board and its committees including the external auditors and our remuneration advisors. They also observed meetings of the Board and committees. The final report was discussed in detail by the Board at a board dinner and with Independent Audit during a full discussion at a board meeting. Follow-up meetings with individual committee chairmen, the Company Secretary and other senior management are underway.

The review concluded that we benefit from a strong Board which works well as a team of directors and enjoys a constructive and open relationship with management. Numerous positive points were noted and particular emphasis was put on the changes that have already been made to introduce new directors who bring fresh perspectives and different experience to the Board, and to encourage lively debate at meetings.

CORPORATE GOVERNANCE
CONTINUED

There is always scope for improvement so we have taken into account Independent Audit's recommendations and during 2015 will be implementing a number of changes in emphasis, which include:

- reaffirming our strategy and business model for the Land & Sea Division;
- making sure our agendas are managed actively to reflect our priorities;
- enhancing the board information to make sure it is more explicitly tied into our strategic priorities and objectives;
- monitoring and guiding management's programme for enhancing our management information;
- ensuring that our investor communications are at the right level;
- driving through the human resource and executive development programmes; and
- making sure that our risk management and internal control frameworks are meeting our business and governance needs.

The committees' work was reviewed and this confirmed that all committees are providing effective support to the Board. Areas for further development are noted in the individual committee reports.

The evaluation of the Chairman was carried out by Lewis Booth, Senior Independent Director, who sought the individual views of each of the Executive and Non-Executive Directors, particularly given that this was the Chairman's first full year in the role. All the directors, with the exception of the Chairman, then met in December 2014 to discuss the feedback and Lewis Booth subsequently met with the Chairman to discuss the outcome.

The Board unanimously agreed that the Chairman's performance had been very strong and that he had established himself in the role very effectively. The Chairman's engagement across the entire spectrum of the Group was notable, and he has developed strong working relationships with both the Non-Executive and Executive Directors while being very effective in introducing new directors onto the Board.

BOARD DEVELOPMENT

Newly appointed directors participate in a structured induction programme, facilitated by the Company Secretary, and receive a comprehensive data pack providing detailed information on the Group.

We recognised last year that our induction programme needed further development and we were pleased to note that the new directors informed the external reviewers that they were very satisfied with the support they received.

This thorough introduction for new directors includes meetings with a range of management. Visits by board members to our operating sites are also an important part of both induction and continuing education, to ensure that directors understand our business through direct experience of operating processes and discussions with employees at different levels throughout the business. During the year, some of the Non-Executive Directors visited sites in the UK at Derby and Bristol, Ålesund in Norway and our Crosspointe facility in the US. We are reviewing the programme for 2015 to make sure that all directors have opportunities to visit our operations.

Further training is available for all the 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 Company Secretary.

FINANCIAL REPORTING

The Group has a comprehensive budgeting system with an annual budget approved by the Board. Revised forecasts for the year are reported at least quarterly. Actual results, at both a business and Group level, are reported monthly against budget and variances are kept under scrutiny. The new Chief Financial Officer is undertaking an in-depth review of our management reporting and budgeting processes to ensure that they fully provide what we need, taking into account the size and shape of the Group and the structure of our operations.

Financial managers are required to acknowledge in writing that their routine financial reporting is based on reliable data and that results are properly stated in accordance with Group requirements. In addition, for annual reporting, business presidents and finance directors are required to confirm that their business has complied with the Group's finance manual.

INTERNAL CONTROL AND RISK MANAGEMENT

The Group's system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives for the Group's subsidiaries (not including joint ventures and associates) and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board will continue routinely to challenge management in order to ensure that the system of internal control is constantly improving and remains fit for purpose. A major review of our risk management framework has been conducted over the past year and implementation is now underway. The Board, with the advice of the Audit Committee, has reviewed the effectiveness of the systems of internal control for the year under review and to the date of this report. Further information can be found in the Audit Committee report on page 71.

The Board confirms that the Group continues to be compliant with the Turnbull Guidance. Details of the Group's approach to risk management are set out on pages 50 to 53. We are working on our approach to meeting the new standards introduced in September 2014 by the FRC's changes to the UK Corporate Governance Code.

RELATIONS WITH SHAREHOLDERS

INVESTOR RELATIONS

The Board recognises and values the importance of maintaining an effective investor communication programme. It is proactive in obtaining an understanding of shareholder views on a number of key matters affecting the Group. We recognise that, at certain points over the past year, our communications might have been more effective and so we are now undertaking a full review of the processes underpinning our investor communications and relations.

A dedicated Investor Relations department, that reports to the Chief Financial Officer, conducts an investor relations programme with institutional investors which includes formal events during the year, as well as a regular series of one-to-one and group meetings. The purpose of these events is to highlight particular issues, themes or announcements that the Group believes warrant further explanation or clarification. The events also provide opportunities for shareholders to meet members of the senior management team to discuss topics of interest. Examples of these events in 2014 were: the full and half-year results announcements; the AGM; a capital markets day held in June to discuss our strategy and contract accounting; visits to the Group's sites; a Marine capital markets day in Ålesund; and industry conferences. The one-to-one and group meetings provide additional context around the Group's business strategy and financial performance such that shareholders are able to consistently and fairly value the Group's businesses.

Lewis Booth, the Senior Independent Director, is available to major shareholders if they have concerns that contact through the normal channels has either failed to resolve or is deemed inappropriate. Since his appointment as Senior Independent Director in May 2014, Lewis Booth attended the June capital markets day in London and the October Marine capital markets day in Ålesund, both of which allowed him to engage directly with investors and analysts.

The Group's website contains up-to-date information for shareholders which includes an online version of the Annual Report, share price information, news releases, presentations to the investment community and information on shareholder services. It also contains factual data about the Group's businesses, products and services.

ANNUAL GENERAL MEETING (AGM)

All holders of ordinary shares may attend the Company's AGM at which the Chairman and Chief Executive present a review of the key business developments during the year. This year's AGM will be held at 11.00am on Friday, 8 May 2015 at the Queen Elizabeth II Centre, Broad Sanctuary, Westminster, London SW1P 3EE.

Shareholders can ask questions of the Board on the matters put to the meeting, including the Annual Report and the running of the Company generally. All directors are invited to attend each AGM. Unless unforeseen circumstances arise, all committee chairmen will be present to take questions at the AGM.

The Company intends to send the AGM notice and any relevant related papers to shareholders at least 20 working days before the meeting. The AGM notice will be available to view on the Group's website.

A poll is conducted on each resolution at all Company general meetings. All shareholders have the opportunity to cast their votes in respect of proposed resolutions by proxy, either electronically or by post. Following the AGM, the voting results for each resolution are published and are available on our website.

Shareholders unable to attend the AGM can vote on the business of the meeting either by post or online.

At the 2015 AGM, a special resolution is being proposed to amend the Articles by increasing the directors' powers to incur borrowings as set out in Article 130 from £3 billion to £5 billion. The current fixed limit was introduced in 2004. The Company has grown very significantly over the last decade in terms of market capitalisation, revenue, order book and global operational scale. The Board considers it commercially prudent and timely to refresh the borrowing limit. This will create additional flexibility for the Company to respond to any future needs of the business. The Company's external borrowing is already limited by existing internal controls, the need to maintain a favourable credit rating, the limits contained in the financial covenants in the Group's committed borrowing facilities and the principles of sound corporate governance. The adoption of the higher limit will not materially change the Company's borrowing policy and the Board believes it to be in the best commercial interests of the Group.

INFORMATION INCLUDED IN THE DIRECTORS' REPORT

Certain additional information that fulfils the requirements of the Corporate Governance Statement can be found in the section headed Other Statutory Information on page 162 and is incorporated into this Corporate Governance Report by reference.

NOMINATIONS AND GOVERNANCE COMMITTEE

The role of the Nominations and Governance Committee is to lead the process for appointments to the Board, ensuring there is a formal and appropriate procedure for the appointment and induction of new directors. As part of the governance review conducted in the year, the Board agreed that corporate governance would become the responsibility of the Nominations Committee. As a result, the committee's remit has been widened so that it is responsible for reviewing the governance framework going forward.

The committee reviews the composition and balance of the Board and senior executive team on a regular basis to ensure that the Group has the right structure, knowledge, skills, and experience in place to ensure effective management of the Group.

COMMITTEE MEMBERS AND ATTENDANCE

The committee, which met four times during 2014 as the Nominations Committee, consists of all of the Non-Executive Directors.

Members	Attendance in 2014
Ian Davis (Chairman)	4/4
Dame Helen Alexander	4/4
Lewis Booth CBE	4/4
Ruth Cairnie (appointed 1 September 2014)	1/1
Sir Frank Chapman	4/4
Iain Conn (retired 1 May 2014)	2/2
Warren East CBE	4/4
Lee Hsien Yang	3/4
John McAdam	4/4
John Neill CBE	4/4
Jasmin Staiblin	4/4

Responsibilities:

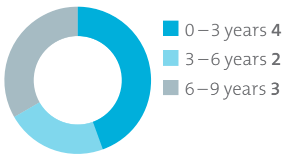
- reviewing the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and its committees and make recommendations to the Board
- giving consideration and formulating plans for succession planning for directors and senior executives
- evaluating any conflicts of interest that the directors may have
- reviewing the Board's diversity policy
- reporting 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
- overseeing induction plans for directors
- reviewing the results of the annual board performance evaluation
- reviewing the independence of the Non-Executive Directors
- conducting an annual evaluation of the Chief Executive

The terms of reference for the committee were reviewed during the year and can be accessed on the website.

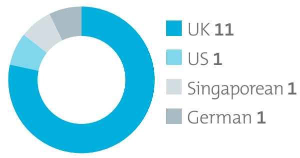
BOARD BALANCE AND COMPOSITION

During the year, the committee reviewed the balance and composition of the Board taking into account skills, knowledge, experience and diversity. The review highlighted the skills and attributes required in order to determine and identify new Board members.

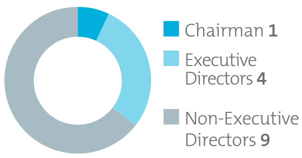
TENURE OF NON-EXECUTIVES



NATIONALITIES OF THE BOARD



BALANCE OF BOARD



We are confident that we now have the right mix of skills, experience and diversity. Across the board membership we benefit from extensive experience of working in global and complex businesses operating in diverse geographical and product markets. Our Non-Executive Directors have extensive experience of working at the most senior levels within complex multi-national companies and organisations and our Audit Committee chairman was CFO of a global company. They have had direct experience of a range of significant factors in common with Rolls-Royce including product quality and customer service across a diverse range of engineering, manufacturing and extractive environments, innovative technology and long-term product development. Our Non-Executive Directors also have extensive listed company experience with a good understanding of investor relations, financing, reporting and regulatory issues.

The appointment of Irene Dorner, who has extensive risk management and international experience, will be a strong addition to our Board. We are particularly pleased that she will be joining our Safety and Ethics Committee, as well as the Nominations and Governance Committee, from the date of her appointment.

We are satisfied with the current composition of the Board although the Chairman and the committee will, of course, regularly review membership of the Board and ensure we continue to have the requisite skills and experience as our markets and product mix develop.

The recruitment processes are formal, rigorous and transparent. Job specifications are drawn up for all new appointments against which potential candidates are considered. Recommendations are made to the Board who consider and approve appointments. We were pleased to note Independent Audit's findings: the directors feel that the recruitment processes have been sufficiently transparent, inclusive, and that the director succession plans are well-structured and are discussed openly with the Board.

The committee discusses with the Chief Executive the senior executive positions and succession plans and this will continue to be a particular point of focus during 2015.

Ruth Cairnie joined the Board as a Non-Executive Director with effect from 1 September 2014. Her strategic and international experience and her roles in addressing technology and environmental challenges will enable her to make a significant contribution to Rolls-Royce. MWM Consulting was engaged as the search consultants for a new Non-Executive Director with the particular skills required as set out in its brief, which resulted in Ruth Cairnie's appointment. MWM Consulting does not provide any other services to the Company.

David Smith joined the Board as Chief Financial Officer with effect from 4 November 2014. He was previously chief financial officer for the Aerospace Division and has an exceptional track record as a financial leader having held a number of senior positions at Ford and Jaguar Land Rover, and more recently as chief financial officer at the technology group, Edwards.

The committee is also responsible for nominating appropriate individuals for membership of the Board's committees. A number of changes were considered, recommended to the Board and implemented as part of the governance review.

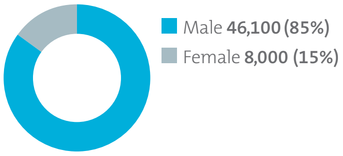
DIVERSITY

Increasing diversity is an important element of the changing culture in Rolls-Royce. The Board fully recognises and embraces the benefits of diversity throughout the Group at both Board and senior management levels as it brings a broader and more rounded perspective to decision making. Increasing diversity is an important element of the changing culture in Rolls-Royce.

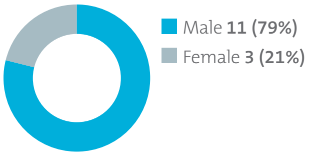
A diverse workforce will help ensure our continued success as a global business and contribute towards a better future. We face challenges in increasing diversity throughout the Group but we are working with our leadership teams, championed by the ELT, to raise awareness and to create a more inclusive workplace.

We have seen increased levels of diversity in both our early career and high potential pool and, as I detailed in my introduction on page 12, graduate intake for women has increased.

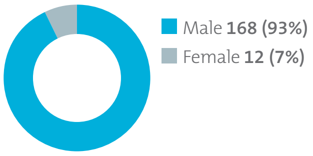
EMPLOYEE HEADCOUNT BY GENDER



BOARD MEMBERS BY GENDER



SENIOR MANAGERS BY GENDER



With the appointment of Ruth Cairnie, the proportion of female Non-Executive Directors exceeds 25% (33%) and in total 21% of the Board are female. Although we have not set a fixed target we are committed to maintaining the current level of women on the Board. We continue to participate in the FTSE 100 Cross-Company Mentoring Programme which aims to increase the number of eligible female candidates for UK board positions and we have comprehensive programmes in place to increase the diversity in our talent pipeline.

We will continue to consider candidates for future Board appointments from the widest possible pool and will only engage executive search firms that have signed up to the Voluntary Code of Conduct for Executive Search Firms in relation to gender diversity on corporate boards.

In addition to the work described above, the committee also carried out the following:

- recommended the appointment of a new Senior Independent Director;
- renewed terms of office for Lewis Booth, Sir Frank Chapman and John Neill;
- considered the independence of the Non-Executive Directors;
- considered the schedule of directors' conflicts of interests and recommended that the schedule be approved by the Board;
- considered the proposal for a revised governance framework and recommended to the Board that it should be approved;
- reviewed and revised the Non-Executive Directors induction programme; and
- reviewed its own terms of reference.

SAFETY AND ETHICS COMMITTEE REPORT

During the year, it was agreed that the Group's Safety and Ethics Committees would be combined with effect from 1 January 2015 and, to that end, I assumed the chairmanship of both committees, taking over from Iain Conn as Chairman of the Ethics Committee in May 2014. I would like to express my thanks to Iain Conn for his support.

COMMITTEE MEMBERS AND ATTENDANCE

The combined committee comprises four Non-Executive Directors, Sir Frank Chapman (Chairman), Dame Helen Alexander, Lee Hsien Yang and John McAdam, and will meet at least four times a year.

Working with the other members over the course of the year, I have very much valued the way they apply their personal experience and am convinced that we have the right combination of skills for securing rigorous independent review of our safety and ethics practices.

Responsibilities

- maintaining an understanding of, and keeping under review, the Group's frameworks for the effective governance of safety and ethics
- overseeing and reviewing annually safety and ethics policies
- reviewing progress reports on implementation of annual plans and programmes
- reviewing compliance with relevant legislation and regulation in relation to safety and ethics and the environment
- reviewing key performance indicators in relation to safety and ethics
- ensuring appropriate training is provided for all employees in relation to safety and ethics

The new terms of reference for the combined committee are available on the Group's website.

The role of the committee is to assist the Board in fulfilling its oversight responsibilities in respect of all aspects of safety and ethics as detailed in the following sections.

The attendance at the separate Safety and Ethics Committee meetings during the year is shown below:

SAFETY

Members	Attendance in 2014
Sir Frank Chapman (Chairman)	2/2
Iain Conn (retired 1 May 2014)	n/a
Lee Hsien Yang	2/2
John McAdam	1/2

ETHICS

Members	Attendance in 2014
Sir Frank Chapman (Chairman)	2/2
Dame Helen Alexander	3/3
Lewis Booth CBE	3/3
Iain Conn* (retired 1 May 2014)	1/1
Lee Hsien Yang	2/3
Jasmin Staiblin	3/3

* Committee Chairman until 1 May 2014

SAFETY

PRODUCT SAFETY

Our Aerospace and Land & Sea Divisions supply high-value products that people's lives depend upon. These products have to meet our own internal standards and strict regulatory requirements with regards to safety. The Product Safety policy describes five principles that govern our approach: leadership commitment and accountability; level of product safety; maintaining and improving product safety; conforming product; and, safety awareness and competence. The safety management system (SMS) links these to our operational processes. An overview of the key elements is shown below and this provides a framework for our product safety governance work.

SAFETY MANAGEMENT SYSTEM (SMS) OVERVIEW

COMPANY OBJECTIVE

Provide products and services that meet or exceed regulatory requirements, achieving the high standard of safety we require and our customers expect.

Continuously pursue opportunities to improve the safety of our products.

STRATEGIES – PRODUCT SAFETY POLICY PRINCIPLES

Clear leadership and management accountabilities and commitment.

Continuously improve product safety in design.

Raise the level of product safety by setting higher standards, correcting issues and learning from experience.

Improve product quality to support product safety.

Safety awareness and competence for all our people.

KEY ENABLERS

CAPABILITY	ROLLS-ROYCE MANAGEMENT SYSTEM	METHODS AND STANDARDS	ORGANISATIONAL STRUCTURES
Competence and capacity	High consequence group processes	Rolls-Royce specific and external	Product Safety Boards Quality Boards Process Councils

The Safety Committee conducted a thorough review of our product safety approach during 2014 including receiving detailed briefings on the SMS and the safety assurance framework. In part the objective was to make sure all committee members are fully familiar with our process framework. Also we used this 'walk through' as an opportunity for management to ensure that the processes can be readily understood and communicated, and for sharing our experience of similar processes from companies we have worked with. This detailed review will continue during 2015.

In respect of the policy of continuous improvement, the committee reviewed progress with a significant product safety programme aimed at improvements to our parts classification process. In addition we extended the committee's understanding of product safety risks outside of the Aerospace activities, focusing on Marine activities. We kept under review the product safety metrics emanating from management's safety boards and management's response to significant product safety events. Important highlights were brought to the attention of the Board.

HEALTH, SAFETY AND ENVIRONMENT

The committee received reports on the HS&E risk profile, improvements currently being implemented in the HS&E management system, periodic performance trends and a new balanced scorecard together with major incident investigation reports. The committee reviewed the insights from serious chemical incidents which occurred during the year at our Crosspointe and Indianapolis facilities in the US. Common themes were identified from the investigations that were carried out and improvements were identified that will help to strengthen controls across the Group.

We agreed to a rolling agenda of HS&E topics for future discussion and reviewed the Group level HS&E risk profile to assess levels of control and current improvement and assurance priorities and programmes. In 2015, the committee will continue oversight of Group HS&E across the three strategic areas of people and culture, management systems and risk based improvement programmes.

In both areas of product safety and HS&E, we have been very pleased with the open-minded and constructive approach management have exhibited in looking for opportunities to learn from the committee's experience of practice elsewhere. I was pleased to note that the external review of the Board's work highlighted the efforts made by both management and the committee to undertake a rigorous review and to work together to consider any opportunities for strengthening our approach.

The committee discussed HS&E and process safety leadership and culture, and creating the right environment for effective management systems and risk control. We also considered progress with significant programmes, most notably the Group-wide electrical safety enhancement initiative. Further information on HS&E performance can be found in Sustainability on pages 45 to 47.

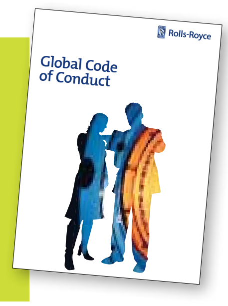
GLOBAL CODE OF CONDUCT (GLOBAL CODE)

We reviewed updates on the Global Code roll-out and training programmes. By the end of 2014, 96% of all employees had provided certification in respect of the Global Code. The roll-out of the Global Code in Power Systems commenced in 2014. Whilst we are satisfied with this level of completion, the committee is looking at the reasons behind the outstanding gaps.

The Red Flag Group, a US company that provides consulting and governance training to help companies manage risk, has ranked Rolls-Royce third amongst the FTSE 100 companies that had their code of conduct assessed.

96%

of employees have certified that they have read and understood the Global Code of Conduct



Discover more online
www.rolls-royce.com/sustainability/better_business/ethics/

A high-performance safety culture with sound and ethical business practices wherever we operate is being embedded in everything that we do."

SAFETY AND ETHICS COMMITTEE REPORT
CONTINUED

SECURITY
The committee received a briefing on personnel security matters for employees travelling to higher-risk regions and how the Group reviews operational security for those regions. International travellers complete mandatory in-house e-learning courses before travelling to regions where specific security risks have been identified.

ETHICS
REGULATORY INVESTIGATIONS
We reported last year that the Serious Fraud Office (SFO) had begun a formal investigation. The committee received regular updates on the regulatory investigations. The Group is continuing to cooperate fully with the authorities in the UK, US and elsewhere. As the investigation is still ongoing we are unable to give any further details or a timescale when the investigation will conclude.

LORD GOLD'S REVIEW
The Group has continued to implement the recommendations made in Lord Gold's interim report in 2013 and has developed an ethics and compliance improvement programme to deliver the recommendations. In December 2014, Lord Gold issued a second interim report and the recommendations made in that report have been accepted by the Company and incorporated into the improvement plan.

During the year, we received updates on this improvement programme and the Group has made good progress. Throughout the year, Lord Gold and the director of risk have held focus groups made up of employees throughout our domestic and international operations to obtain feedback on the Group's ethics and compliance improvement programmes.

ANTI-BRIBERY AND CORRUPTION POLICIES (ABC)
We reviewed progress made by the ABC compliance team who completed a review of all of the Group's current advisers, reducing the overall number significantly. All advisers must comply with the Group's new adviser policy.

During 2014, the ABC compliance team reviewed, issued and updated a suite of new Group-wide mandated policies including: a new Group ABC policy; advisers; confidential information; gifts and hospitality; and facilitation payments. The majority of the revised ABC policies were issued in 2014 with the balance issued in January 2015. A further ABC training programme will be rolled out to all staff in 2015. The size, structure and skills of the ethics and ABC compliance team were reviewed to ensure that the composition of the team is appropriate for the demands placed upon it.

ETHICS LINE
We reviewed effectiveness of the Company's 24/7 confidential reporting line 'the Ethics Line' which, since its relaunch last year, has seen calls rise significantly from the 2013 level of 588 to the 2014 level of 850. This is thought to be mainly due to improving awareness and engagement across the Group following the Global Code roll-out and mandatory ethics training. The oversight group, formed in 2014, review all high-risk cases, analyse the contact trends and provide updates to the committee highlighting any high-risk cases. Where appropriate we share cases with the Audit Committee.

The committee fully recognises the importance of the Board showing leadership around ethical and behavioural standards. We have committed significant board time to the issue during the year and have taken steps to send clear messages, including all directors completing the ethics training course. Lord Gold has regularly discussed his work with both the Board and the committee. As part of the review of the Board's effectiveness, our approach was considered by Independent Audit who recognised the structured and committed approach taken by the Board over the course of the year. We are now turning our attention to working out the most effective way of monitoring policy and process implementation and gauging behaviour and attitudes so that the Board can be confident that the right values and attitudes are being consistently reflected in the way we work.

CONCLUSION
Safety in Rolls-Royce is given the highest priority for our customers, those affected by the operation of our products, our people and the communities in which we work. Overall, product safety and HS&E performance is improving, but as we strive for continuously improving standards there is still more we can and will do.

The Board has been explicit that improper business conduct will not be tolerated and disciplinary action will be taken against anyone not adhering to the ethics and compliance policies. We are making excellent progress with our ethics programme.

A high-performance safety culture with sound and ethical business practices wherever we operate is being embedded in everything that we do in order to underpin long-term sustainability and to deliver to all stakeholders our brand promise of 'trusted to deliver excellence'.

SIR FRANK CHAPMAN
Chairman of the Safety and Ethics Committee

AUDIT COMMITTEE REPORT

I am pleased to present the 2014 report of the Audit Committee.

Our key aim is to review and report to the Board on financial reporting, internal control and internal audit, and to ensure the relationship with the external auditors is open and effective. Our work to deliver this objective during 2014 is summarised later in this report. I would like to thank the members of the committee, the executive management team and KPMG for the open discussions that take place at our meetings and the importance they all attach to its work.

The terms of reference for the committee were reviewed during the year as part of the wider governance review. This has clarified some aspects of the committee's responsibilities, primarily around oversight of risk management. From 2015, we will be working to this revised version, which is available on the Group's website.

Responsibilities
Financial reporting
• reviewing the financial results announcements and financial statements and monitoring compliance with relevant regulations
• reviewing the appropriateness of accounting policies and the supporting key judgements and estimates
Internal control and internal audit
• assessing the scope and effectiveness of the systems to identify, manage and monitor financial and non-financial risks
• reviewing the procedures for detecting, monitoring and managing the risk of fraud
• reviewing the scope, resources, results and effectiveness of internal audit
External audit
• overseeing the relationship with the external auditor, reviewing the effectiveness of the external audit process and making recommendations to the Board regarding the external auditor's appointment

The Audit Committee consists of Non-Executive Directors and met five times in 2014.

Members	Attendance in 2014
Lewis Booth CBE (Chairman)*	5/5
Iain Conn (retired 1 May 2014)	3/3
Warren East CBE	3/5
John Neill CBE	5/5

* Lewis Booth has recent and relevant financial experience. His biography is on page 54.

SECTOR AUDIT COMMITTEES

In support of the committee's work, each of the Group's businesses now has its own sector audit committee. We felt that this would be helpful in building in a level of detailed executive oversight which would strengthen further accountability for the quality of financial reporting and internal control at the divisional and sector level. All the sector committees are chaired by the director of internal audit to introduce a degree of independence from management and to support their effective organisation and operation.

The sector committees meet twice a year to consider the accounting policies, judgements and estimates and the internal control environment of each business. We receive formal reports and discuss the results of these meetings. This gives us further insight into the extent of management control and accountability, broadens our reach within the Group and informs areas for further consideration at our meetings. Over the next year, their focus on internal control and risk management systems will develop further.

OUR WORK DURING 2014

FINANCIAL REPORTING

In meeting our responsibilities over the past year, we have devoted a lot of time to discussing accounting policies and judgements and our work and conclusions are discussed in detail below. Coming out of these discussions, we fully recognise the need for the Group to communicate clearly to shareholders and to give them confidence that our accounting policies are sound and subject to thorough review by the committee as well as the auditors and management.

We review financial announcements and financial statements with both management and KPMG. In 2014, we focused on:

- compliance with financial reporting standards and governance reporting requirements;
- the appropriateness of accounting policies, focusing on areas requiring significant judgements;
- the procedures and controls around estimates that are key in applying accounting policies;
- the response of senior executives to their perception of the increased risk relating to the pressure on, and incentives for, management to achieve financial targets;
- whether the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy; and
- any relevant correspondence from regulators.

AUDIT COMMITTEE REPORT

CONTINUED

We place considerable emphasis on making sure that the accounting policies are appropriate so that the financial statements faithfully represent the results and financial position of the Group and its underlying contractual arrangements. This is particularly so for the Civil aerospace business, where our business model includes a number of unique features.

As described in the business model on page 24, the development of gas turbine engines for use in civil aircraft applications involves large upfront investments, which may be shared with suppliers, and which are expected to be recovered over long periods from the sale of OE; and subsequently from the aftermarket from the sale of spare parts and engine maintenance work. Much of the aftermarket repair and overhaul is provided through long-term service agreements. Given this long exposure, which may extend for decades from the initial concept, the amount of revenue and profit recognised during any period requires a significant number of accounting judgements and estimates. Consequently, one of our primary responsibilities is to ensure that the bases for these judgements and estimates are robust.

As reported last year, we monitored the enquiry from the FRC's Conduct Committee on the accounting for risk and revenue sharing arrangements (RRSAs). I joined management and KPMG in meeting with the Conduct Committee to hear first-hand and to participate in the debate. We considered carefully the Conduct Committee's views and possible alternative approaches. The Audit Committee concurred with management's view that the revised policy adopted in 2013 best reflects the nature of the transactions.

We also monitored an enquiry from the Conduct Committee regarding the accounting for long-term contractual arrangements in Civil aerospace. No adjustments resulted from this. However, the discussions did lead us to conclude that we had been insufficiently clear in explaining how the different ways we do business with our Civil aerospace customers lead to our accounting policies. In response to this and the views of investors, the Group has taken two principal steps. Firstly, an investor day was held in June, at which management explained the different commercial arrangements that apply and how we account for each. Secondly we have made enhancements to this year's Annual Report, primarily:

ACCOUNTING POLICIES: SIGNIFICANT JUDGEMENTS AND ESTIMATES

Given the long-term nature of the Group's businesses it is inevitable that most of the accounting policies subject to significant accounting judgement will remain the same from year to year, though the facts and circumstances on which those judgements are based will vary. In 2014, our discussions were principally on whether:

Key issue	Activity
• the key accounting judgements set out on pages 101 to 103 are appropriate.	The Group finance department presented to the committee the key accounting judgements and the reasons why these judgements had been made. We were satisfied that these are the appropriate key judgements. For 2014, two new areas of judgement were identified. The first related to the disposal of the Energy business — see below. The second related to whether the leaseback of spare engines that the Group has sold to joint ventures should be classified as operating leases (when the profit on sale is recognised immediately) or finance leases (when it is spread over the lease term). We concluded that certain arrangements should be treated as finance leases and, accordingly, the profit has been deferred.
• there are any indications of impairment of the carrying values of the intangible assets in Civil aerospace.	We considered the business plans for the relevant engine programmes, including the key assumptions on which they are based, and which support the value in use assessments for the intangible assets. We were satisfied that no impairments were required. For 2014, we focused particularly on the intangible assets related to the Trent 900 programme.
• the estimates used in accounting for long-term contractual arrangements in Civil aerospace are appropriate.	We reviewed the forecasts of future contract performance on which the accounting is based. We also considered performance to date against these forecasts and the results of a detailed review of certain aspects of the processes supporting these forecasts. Where the accounting results in a contract asset, we assessed the recoverability of the asset against agreed criteria. We were satisfied that the forecasts have been prepared on an appropriate and consistent basis.
• the provisions for customer financing liabilities in Civil aerospace are adequate.	We considered the likelihood of the liabilities crystallising, based on an assessment of customers' fleet plans and their creditworthiness. We also considered the value of any security held, based on third-party valuations. We were satisfied that provisions have been made on an appropriate basis. For 2014, we considered in particular the release of previously established provisions relating to unexpired guarantees under which the Group's obligations are judged to have been terminated.
• the disposal of the Energy business has been appropriately accounted for.	We considered the estimates made in determining the amounts of the proceeds deferred in respect of the Group's continuing obligations for transitional commitments to provide future goods and services to Siemens. We were satisfied that the disposal has been accounted for appropriately.
• the disclosures of contingent liabilities, in particular those in respect of the possible outcome of the SFO enquiries are adequate.	We considered legal advice in respect of the SFO enquiries. We were satisfied that the disclosures appropriately reflect the current position.

- The description of the Civil aerospace business now emphasises that whenever we sell engines, we secure contractual rights to profitable aftermarket business even where there is no TotalCare agreement. Consequently, the description of the resulting intangible asset previously referred to as 'recoverable engine costs' has been changed to 'contractual aftermarket rights'.
- The accounting policies include a plain English description of the rationale for the accounting we apply and the detailed descriptions have been enhanced (see page 101).

"We place considerable emphasis on making sure that the Group's accounting policies are appropriate."

Following these two enquiries, we instigated a review of all the Group's significant accounting policies as described in note 1 of the Financial Statements and the key judgements and estimates supporting them.

These reviews were undertaken by management and involved analysis of the relevant accounting standards and guidance, comparative analysis with other companies with similar or analogous transactions to the extent available, consideration of the pros and cons of options in the context of achieving the most faithful representation of the transactions in the Group's accounts, and informal discussions with accounting firms other than KPMG. KPMG also provided the committee with its views.

We were satisfied with the results of these reviews, which concluded that the accounting policies adopted by the Group were the most appropriate available and that enhancements and revisions in note 1 should be made to add clarity to the accounting policies and the rationale on which they are based.

Since the year end, we have reviewed the form and content of the Group's 2014 Annual Report together with the production process used to develop and verify the report. We have reported to the Board that, taken as a whole, we consider the Annual Report to be fair, balanced and understandable.

INTERNAL CONTROL AND RISK MANAGEMENT

To support the Board in carrying out its review of internal controls and risk management, we reviewed the process by which the Board reaches its conclusion. This involved consideration of the key findings from the ongoing oversight, monitoring and reporting processes, management representations and independent assurance reports.

We are currently assessing how we will develop our approach to meeting the revised Code standards requiring the monitoring of internal control and risk management as an ongoing process as well as evaluating effectiveness at least annually.

From 2015 onwards, as a result of a broad ranging review of our risk governance approach, our overall assessment will combine oversight of the principal risks management activities undertaken by each board committee or the Board (as explained in the Chairman's Introduction on page 56); the Audit Committee will consider financial control and reporting, fraud and IT risks together with an assessment of the integrated control and risk management approach covering all financial and non-financial risks. In this way we aim to make sure that the Board's oversight of risks and risk management is rigorous in its coverage and depth, making sure that principal risks are assessed in detail and that one committee has an integrated review of how the internal control framework is operating.

In line with this, during 2014, we carried out an assessment of financial controls, primarily based on a self-assessment of these controls by each of the businesses. A priority for 2015 is to standardise and, where necessary, enhance the Group's financial internal control framework, against which this assessment is made. This will create greater consistency, particularly in the Group's small operations, and reinforce ownership and accountability for effective internal control throughout the organisation.

We also schedule detailed reviews with the management of each of the Group's businesses and with key functions. The objective of these reviews is to have the opportunity to discuss and challenge key accounting judgements and estimates, and to assess the internal control and risk management systems. They also provide the committee members with the opportunity to meet and evaluate the financial and risk management personnel deeper in the Group.

At our meetings during 2014, we received presentations from:
- The **Civil aerospace** business — we discussed: the key business risks (including possible competitor actions, ensuring profitable delivery of the increased engine volumes, ensuring on-time delivery of new programmes, business continuity risks including supply chain disruption and market shock due to external events or factors reducing air travel); accounting policies; key accounting judgements, estimates and controls; credit risks associated with customers; and, CorporateCare and TotalCare accounting.
- The **Marine** business — we discussed: key challenges for the business (slower than anticipated recovery of the business's markets, cost reduction initiatives, and delivering critical systems changes); key business risks (competitor actions linked with failure to address our own cost base, market shock to which the offshore sector is particularly vulnerable, failure to invest in the right technologies, and failure to maintain customer satisfaction through poor quality or late delivery); the control environment in a widely dispersed business; ERP systems; and key accounting policies and judgements including warranty/reliability issues, with a focus on an emerging product quality issue.
- The **chief information officer** — we discussed: current trends in cyber security including inherent risks and vulnerabilities and the current landscape; the Group's 'defence in depth' approach to cyber security; the Group's recent experience of attacks; and plans

AUDIT COMMITTEE REPORT
CONTINUED

for the future. The committee asked for KPMG's views on the Group's approach. We agreed that committee members would visit the Group's key cyber-security centre in 2015 to see the approach being applied in practice.
- The **director of tax** — we discussed: the approach to managing the Group's tax affairs; the role of the tax function and its interaction with other areas of finance and external suppliers; key tax risks and how they are managed; the profile of tax payments over the last five years; the effective tax rate; the UK tax position (in particular the impact of R&D expenditure, pension contributions and the timing of tax payments on TotalCare profits); and key tax-related accounting policies and judgements (including accounting for advance corporation tax).

These reviews provide the committee with invaluable insights into the risks facing the Group and the management of them, and the application of key accounting policies, judgements and estimates.

We were also notified of any matters raised through the Group's whistle-blowing arrangements or otherwise that related to financial reporting, the integrity of financial management or fraud. There were no cases of fraud that were significant or that demonstrated weaknesses in internal controls. Additionally we monitor compliance with the Group's policies in respect of expenses incurred by the directors and other senior executives; no significant issues were identified.

INTERNAL AUDIT

The new director of internal audit has been working closely with the committee in undertaking a full review of our audit structure and approach. This has given us an opportunity to review internal audit's effectiveness. The discussions on his conclusions and suggestions for changes have formed the basis of the committee's review of internal audit effectiveness over the course of 2014.

We are very pleased with the progress that has been made. A number of changes have been made to improve the structure of audit reports and we are satisfied that the approach to reporting to the committee is now working well. A process for mapping risks, controls and assurance is underway and this will help ensure that our audit coverage is sound.

Twice a year, we review detailed updates on significant findings and audit operations. In particular, we review the nature and number of issues raised by internal audit and the time to complete the related actions, which during 2014 we considered to be reasonable. We were pleased to see that the responsiveness of management across all areas of the business to audit findings has improved and we consider that audit findings are being followed through effectively and promptly. Between these six-monthly updates, we review a dashboard which identifies key trends.

I meet the director of internal audit in private before each meeting and on an ad-hoc basis throughout the year, and the committee as a whole has a private meeting with him at least once a year. These discussions cover the activities, findings, resolution of control weaknesses, progress against the agreed plan and the resourcing of the department.

We were satisfied that the scope, extent and effectiveness of internal audit work are appropriate for the Group and that the director of internal audit has a sound plan for ensuring that this continues to be the case as our business progresses and the risks we face change.

EXTERNAL AUDITOR

The audit cycle is continuous. In April, following the completion of the 2013 audit, the lead audit partner presented the audit strategy for 2014, identifying KPMG's assessment of the key audit risks and the proposed scope of audit work. In addition to those described in the auditor's report (pages 154 to 159), these risks were: valuation of derivatives; accounting for RRSAs; warranties and guarantees; valuation of derivative financial instruments; valuation of pension liabilities; recoverability of tax assets and adequacy of tax provisions; litigation and claims; and the form and content of the Annual Report.

As part of the reporting of the half and full-year results, in July 2014 and February 2015, KPMG reported to the committee on their assessment of the Group's judgements and estimates in respect of these risks and the adequacy of the reporting.

The 2013 Annual Report included, for the first time, an extended auditor's report under new auditing standards. We agreed to assist KPMG in their trialling of a report that went beyond the minimum requirements. We were pleased to note the positive comment that this report generated and have agreed to continue with this approach.

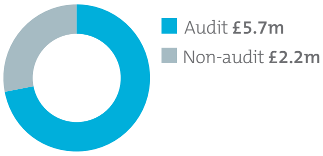
I meet the lead audit partner before each meeting and the whole committee meets with KPMG in private at least once a year. In 2014, I met senior members of the KPMG team to discuss key accounting policies, judgements and estimates in depth and, upon his appointment to the committee, Warren East was briefed by KPMG. In addition, I met with a small group of KPMG's senior partners to discuss emerging and leading audit committee practices in comparable UK listed companies as well as other topical matters.

NON-AUDIT SERVICES PROVIDED BY KPMG

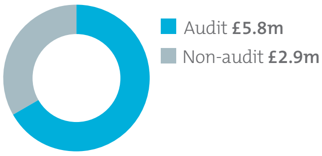
In order to safeguard auditors' independence and objectivity, we do not engage KPMG for any non-audit services except where it is work that they must, or are clearly best suited to, perform. Fees paid to KPMG for audit, audit related and other services are set out in note 8 to the Financial Statements.

All proposed services must be pre-approved in accordance with an agreed policy which is approved annually. We also review the non-audit fees charged by KPMG quarterly.

AUDIT FEES 2014



AUDIT FEES 2013



Non-audit related fees paid to KPMG during the year were 39% of the audit fee, principally in respect of assurance work requested by Siemens in respect of the disposal of the Energy business, grant claims and tax compliance. The nature and level of all services provided by the external auditor is a factor taken into account by the Audit Committee in its annual review of the external auditor.

As described in last year's Annual Report, we took the decision to allow Power Systems to complete engagements already in progress. Non-audit related services provided to Power Systems in 2014 amounted to £0.9 million, a reduction of 57% compared to 2013.

Based on our review of the services provided by KPMG and discussion with the lead audit partner we concluded that neither the nature nor the scale of these services gave any concerns regarding the objectivity or independence of KPMG.

RE-APPOINTMENT OF AUDITOR AND AUDIT TENDERING

Following the completion of the audit, we reviewed the effectiveness and performance of KPMG with feedback from committee members, senior finance personnel and internal audit. A wide range of factors were considered including: independence and objectivity; business understanding; technical knowledge; quality, continuity and experience of the audit personnel, in particular the lead audit partner; responsiveness; planning and risk identification; working with management; the quality of reporting to, and discussions with, the committee; cost effectiveness; and the quality of the report to shareholders. We also considered the reports on KPMG by the FRC's audit quality review team. The audit of Rolls-Royce was not subject to their review in 2014. We also reviewed the fees of the external auditor.

Our conclusions were that the external audit was carried out effectively, efficiently and with the necessary objectivity and independence. The committee and the Board have recommended their re-appointment at the 2015 AGM.

KPMG were appointed as auditors in 1990 and this appointment has not been subject to a tender process since that date. No contractual obligations restrict our choice of external auditors. The lead audit partner is required to rotate every five years and other key audit partners are required to rotate every seven years. Jimmy Daboo took over as lead audit partner in 2013.

The new EU Directive requires that audits be tendered at least every ten years and that an incumbent auditor can only be re-appointed once. Under the transitional arrangements, we will be required to appoint a different auditor no later than the audit of the 2020 financial statements.

The Group is a complex and technologically advanced business with a long cycle from the development of an engine to its eventual retirement. We believe that KPMG's knowledge of this, built up over a number of years, enhances the effectiveness of the audit and that the existing professional requirements, such as the rotation of audit personnel, maintain independence.

In accordance with the requirements of the EU Directive, we plan to recommend a tender of the audit during the tenure of the current lead partner which, subject to KPMG's annual re-appointment, would end following the 2017 audit. Before we make such a recommendation, we will satisfy ourselves that: (i) it will not be unnecessarily disruptive, taking account of any other activities; and (ii) appropriate plans are in place to ensure audit effectiveness is maintained. We do not propose to tender the audit in 2015.

LOOKING FORWARD

The work of an audit committee is increasingly broad and complex. We are very conscious of the need to keep on top of developments in financial accounting and reporting and to stay alert to regulatory changes around external audit. There is also considerable change in our responsibilities to make sure that the internal control framework is working well and to give the Board confidence that the business is under control and risks are appropriately mitigated.

The external review undertaken in 2014 gave particular attention to the committee's work and how, as a Board and committee, we are approaching internal control and risk management. This risk governance assessment, along with the wider governance review conducted by the Board, has helped me consider how we will develop further the committee's work.

The reviews have highlighted areas where oversight and risk management need more structured review by the committee so that we receive an integrated picture of the effectiveness of the control framework in addition to our usual active oversight of financial controls. As described in this report, we have made good progress during the course of this year, very ably and actively supported by the management team. I look forward to seeing that progress continue with the implementation of the new risk management framework and other initiatives during 2015.

LEWIS BOOTH CBE
Chairman of the Audit Committee

REMUNERATION COMMITTEE REPORT

Our remuneration policy is aligned with our strategy to generate the funds we need to invest in future growth."

On behalf of the Board, I am pleased to present our Directors' Remuneration Report for 2014.

THE WORK OF THE COMMITTEE

During the year, the committee continued to perform its responsibilities and, in particular, we kept under review the performance against incentive plans and the appropriateness of metrics. On a longer-term basis, the committee initiated a review of the Group's remuneration principles to ensure that they remain aligned with our strategic objectives. A project is now underway to develop an integrated reward strategy which also aligns with our overall people strategy.

During 2014, the committee:
- endorsed the out-turn of the 2013 annual bonus and 2011 PSP;
- established new rules for the PSP, including malus and clawback provisions;
- considered the requirements of the new remuneration reporting regulations in formulating the remuneration report and recommended the approval of the 2013 report to the Board;
- reviewed Executive Directors' base salary levels;
- established new minimum shareholding requirements for Executive Directors;
- set 2014 annual bonus targets and performance targets for the PSP 2014 – 2016;
- considered a benchmarking report on executive benefits;
- considered a benchmarking report for the executive salary review in 2015;
- approved mid-year PSP grants to certain senior executives;
- considered the projected out-turns for the 2014 annual bonus, All Employee Bonus Scheme and the 2012 PSP;
- agreed termination terms for the former Chief Financial Officer;
- agreed the remuneration terms for David Smith who was appointed as Chief Financial Officer;
- reviewed our terms of reference;
- reviewed our reward principles;
- considered provisional targets for 2015; and
- considered the structure of the annual bonus for 2015.

I am confident that we have covered our responsibilities effectively.

As part of the 2014 board review, the effectiveness of the committee was considered by the external reviewers, Independent Audit. I was pleased to note its view that the make-up of the committee is sound, with members bringing a good knowledge of remuneration issues and all making an informed contribution. Our processes ensure the right issues are considered in a timely way and with robust discussion. Suggestions were put forward to strengthen further the way management works with the committee and we will follow through on these in 2015.

COMMITTEE MEMBERS, ATTENDANCE AND RESPONSIBILITIES

The Remuneration Committee comprises four independent Non-Executive Directors and met five times in 2014.

Members	Attendance in 2014
Dame Helen Alexander	5/5
Ruth Cairnie (appointed 1 September 2014)	3/3
Sir Frank Chapman	5/5
John McAdam	5/5

The Chairman, the Chief Executive, the Group HR Director, the HR director reward and pensions, the Company Secretary and the Chief Financial Officer were invited to attend meetings. None of them was present during any discussion of their own remuneration packages.

When considering remuneration for our senior executives, the Remuneration Committee has used the policy framework approved by shareholders at the AGM in May 2014.

Our remuneration policy aligns the interests of our directors and senior executives with that of our shareholders by linking incentives to the performance of the business on both short and long-term measures. Our performance was not as strong as targeted during 2014 and therefore we will not be making an annual bonus payment as a result.

The Performance Share Plan (PSP), granted in 2012, was measured over a three-year performance period that ended at the end of 2014. The three measures for performance, earnings per share (EPS), cash flow per share (CPS) and total shareholder return (TSR) have exceeded the base threshold which has resulted in the 2012 grant vesting in March 2015, but at a lower level than in previous years.

We continue to believe our incentive programmes support our business strategy. Our short-term incentive is based on cash and profit, which are key objectives; it is also linked to personal performance which includes longer-term strategic objectives. Our long-term incentive is primarily based on cash flow per share which continues to be critical for our growth and success. Part of the annual bonus is deferred into shares and executives have an ongoing shareholding requirement which aligns them to the interests of shareholders.

Responsibilities
• considering and making recommendations to the Board on the strategy and policy for the remuneration of the Executive Directors, the Chairman and members of the ELT
• determining the design, conditions and coverage of annual and long-term incentive plans for senior executives and approving total and individual payments under the plans
• determining targets for any performance-related pay plans
• determining the issue and terms of all share-based plans available to all employees
• determining compensation (if any) in the event of termination of service contracts of Executive Directors or ELT members

ANNUAL BONUS OUTCOME

Group underlying profit and cash flow were below the base level targets of performance set by the Remuneration Committee and therefore there will be no bonus paid for 2014.

PSP OUTCOME

Over the three-year performance period for the 2012 PSP grant, earnings per share growth was 16%, which exceeded the OECD index of consumer prices of 5%, and cash flow per share was 63p. This resulted in 49% of the shares conditionally granted being released. The Company's total shareholder return (TSR) performance was 39th in the FTSE 100 over the three-year performance period which resulted in a 37% increase in the shares released to Executive Directors.

2015 SALARY REVIEW

The committee has reviewed the salary levels of the Executive Directors in accordance with our approved remuneration policy. The Executive Directors did not receive an increase in 2014 and again in 2015 John Rishton and James Guyette will not receive a salary increase. Colin Smith and David Smith will receive salary increases based on their individual business circumstances and their positioning within the external market range. The details of the increases are on page 77.

LOSS OF OFFICE PAYMENTS

The committee gave careful consideration to remuneration matters relating to the departure of Mark Morris, the former Chief Financial Officer, in accordance with the remuneration policy agreed by the Board and approved by shareholders at the 2014 AGM. The details of the payments are on page 80.

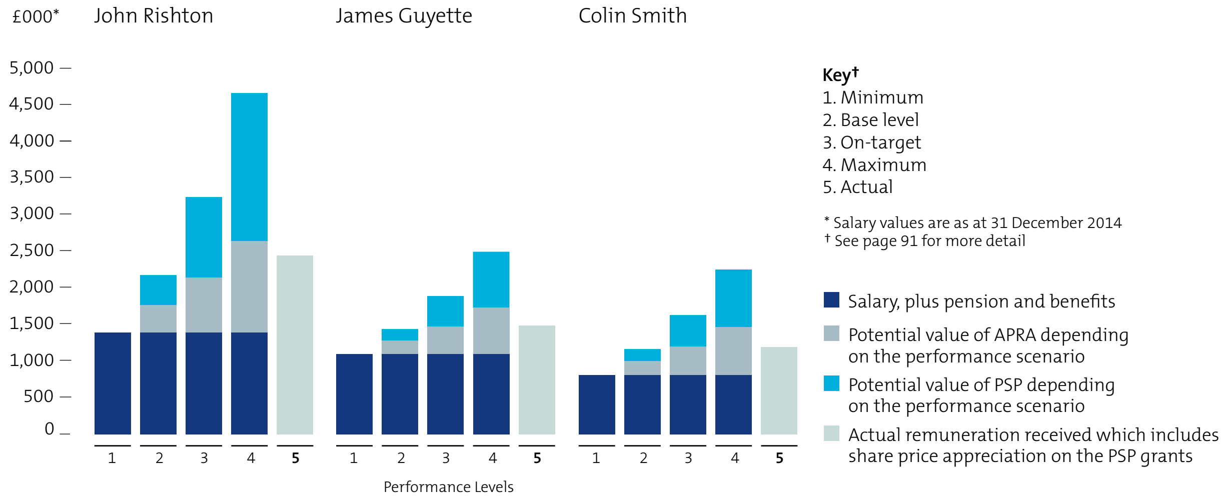
Overall, our remuneration policy is aligned with our strategy to generate the funds we need to invest in future growth. Our overarching aim is to ensure the long-term health of the Company. Therefore we need to ensure and continually monitor that our incentives are market-competitive and are designed to attract, retain and develop the best talent which will drive long-term value and future business success.

DAME HELEN ALEXANDER
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION REPORT

This section gives information on directors' remuneration and incentive out-turns, and details how the remuneration policy, set out on pages 86 to 92, will be applied in 2015.

The bar chart below shows the total remuneration received for current Executive Directors, except David Smith who was only appointed on 4 November 2014.



SINGLE FIGURE OF REMUNERATION (SUBJECT TO AUDIT)

	Salary/fees (a) £000		Benefits (b) £000		Bonus (c) £000		LTIP (d) £000		Other (e) £000		Sub-total £000		Pension (f) £000		Total £000	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Executive Directors																
John Rishton	**925**	921	**151**	125	**–**	824	**1,007**	3,478	**–**	–	**2,083**	5,348	**303**	303	**2,386**	5,651
James Guyette	**510**	535	**108**	114	**–**	423	**373**	1,256	**–**	–	**991**	2,328	**462**	532	**1,453**	2,860
Mark Morris[1]	**429**	506	**149**	159	**–**	383	**–**	318	**–**	6	**578**	1,372	**137**	162	**715**	1,534
Colin Smith CBE	**525**	523	**138**	128	**–**	394	**364**	1,140	**–**	–	**1,027**	2,185	**131**	531	**1,158**	2,716
David Smith[2]	**84**	–	**2**	–	**–**	–	**–**	–	**–**	–	**86**	–	**27**	–	**113**	–
Sub-total	**2,473**	2,485	**548**	526	**–**	2,024	**1,744**	6,192	**–**	6	**4,765**	11,233	**1,060**	1,528	**5,825**	12,761
Chairman and Non-Executive Directors																
Ian Davis[3]	**425**	292	**3**	2	**–**	–	**–**	–	**–**	–	**428**	294	**–**	–	**428**	294
Dame Helen Alexander	**85**	75	**1**	–	**–**	–	**–**	–	**–**	–	**86**	75	**–**	–	**86**	75
Lewis Booth CBE	**100**	80	**6**	10	**–**	–	**–**	–	**–**	–	**106**	90	**–**	–	**106**	90
Ruth Cairnie[4]	**23**	–	**–**	–	**–**	–	**–**	–	**–**	–	**23**	–	**–**	–	**23**	–
Sir Frank Chapman	**85**	75	**3**	3	**–**	–	**–**	–	**–**	–	**88**	78	**–**	–	**88**	78
Iain Conn[5]	**29**	82	**–**	–	**–**	–	**–**	–	**–**	–	**29**	82	**–**	–	**29**	82
Warren East CBE[6]	**67**	–	**–**	–	**–**	–	**–**	–	**–**	–	**67**	–	**–**	–	**67**	–
Lee Hsien Yang[7]	**67**	–	**2**	–	**–**	–	**–**	–	**–**	–	**69**	–	**–**	–	**69**	–
John McAdam	**67**	60	**–**	–	**–**	–	**–**	–	**–**	–	**67**	60	**–**	–	**67**	60
John Neill CBE	**67**	60	**2**	2	**–**	–	**–**	–	**–**	–	**69**	62	**–**	–	**69**	62
Jasmin Staiblin	**67**	60	**1**	2	**–**	–	**–**	–	**–**	–	**68**	62	**–**	–	**68**	62
Sub-total	**1,082**	784	**18**	19							**1,100**	803	**–**	–	**1,100**	803
Total	**3,555**	3,269	**566**	545	**–**	2,024	**1,744**	6,192	**–**	6	**5,865**	12,036	**1,060**	1,528	**6,925**	13,564

1 Mark Morris left the Company on 4 November 2014.
2 David Smith was appointed as an Executive Director on 4 November 2014.
3 Ian Davis was appointed Chairman on 2 May 2013.
4 Ruth Cairnie was appointed as a Non-Executive Director on 1 September 2014.
5 Iain Conn retired as a Non-Executive Director on 1 May 2014.
6 Warren East CBE was appointed as a Non-Executive Director on 1 January 2014.
7 Lee Hsien Yang was appointed as a Non-Executive Director on 1 January 2014.

Notes to the table

(a) Salary/fees – cash paid in the year. James Guyette was paid in US dollars translated at £1 = US$1.6477 (2013 US$1.565).

(b) Benefits – taxable value of all benefits paid in the year. The benefits for the Non-Executive Directors relate to travel and subsistence associated with attending board meetings.

	John Rishton £000		James Guyette £000		Mark Morris £000		Colin Smith CBE £000		David Smith £000	
Benefits	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Car or car allowance including fuel allowance	**21**	18	**11**	11	**21**	24	**24**	21	**2**	–
Chauffeur services	**14**	13	**–**	–	**–**	–	**–**	–	**–**	–
Financial planning	**5**	–	**18**	19	**5**	–	**5**	–	**–**	–
Medical insurance	**2**	1	**7**	7	**1**	1	**2**	1	**–**	–
Life assurance	**–**	–	**33**	38	**–**	–	**–**	–	**–**	–
Club membership fees	**–**	–	**24**	23	**–**	–	**–**	–	**–**	–
Travel and subsistence	**3**	–	**–**	–	**23**	30	**3**	3	**–**	–
Housing costs	**106**	93	**15**	16	**99**	104	**104**	103	**–**	–
Total	**151**	125	**108**	114	**149**	159	**138**	128	**2**	–

(c) Bonus. Group profit and cash performance were below the base level targets set by the committee and therefore no bonus was awarded for 2014.

(d) Long-term incentive plan (LTIP). This is the estimated value of the PSP shares that are due to vest in March 2015 (2014 being the final year of the performance period) and for John Rishton, as well as his PSP shares, the performance related shares he received on joining the Company. It is based on the number of shares that will vest multiplied by the average share price of 863.65p over the quarter ending 31 December 2014 (as the vesting price is not known at the date of approval of the Directors' Remuneration Report). The performance against targets for 2014 has been determined for these awards as detailed on page 79 and 67% of the original award, which includes the TSR kicker, will vest. The LTIP amounts for 2013 relating to shares that vested in 2014 have been recalculated using the vesting price of 1015.81p per share. The original calculation used a share price of 1184.52p per share, as the vesting price was not known at the time.

(e) Value of the gain made on the exercise of ShareSave options is the difference between the exercise price of 387p and the mid-market price of 1062p on the date of exercise relating to the ShareSave option exercised in 2013.

(f) Pensions. For defined benefit plans, this is the increase in pension benefit net of inflation for the current year and applying the HMRC methodology multiplier of 20. Cash in lieu of pension accrual is also included. David Smith opted not to join the UK defined contribution pension scheme and receives a cash allowance. The pension figure shown in the single figure table is his benefits accrued from 4 November 2014.

BASE SALARY

The committee has reviewed the salary levels of Executive Directors and the result of the review is shown below. Executive Directors did not receive an increase in 2014 and there will be no increase to the salaries for John Rishton and James Guyette in 2015. David Smith's increase reflects that his salary on appointment was positioned to allow scope for progression in the role. The increase for Colin Smith reflects the importance of the role to the business, along with the current modest positioning compared to the external market range.

Name	Base salary as at 1 March 2015	Base salary as at 1 March 2014	Base salary as at 1 March 2013
John Rishton	£925,000	£925,000	£925,000
James Guyette	$840,000	$840,000	$840,000
Colin Smith CBE	£550,000	£525,000	£525,000
David Smith*	£540,000	£510,000	n/a

* David Smith's salary level was set at the date of his appointment on 4 November 2014.

ANNUAL BONUS

The annual bonus pool is delivered under the Annual Performance Related Award plan (APRA) and in 2014, Executive Directors were eligible for award levels detailed in the remuneration policy.

APRA 2014 PERFORMANCE MEASURES

The APRA bonus is determined by Group financial performance and personal performance and for 2014, the Group financial measures were cash flow performance and profit. Levels for both measures were set as follows:

	Profit element %	Cash element %	% of maximum bonus
Base	15	15	30
Target	30	30	60
Maximum	50	50	100

The Group financial performance is the addition of the cash and profit out-turns, provided a specified minimum level is achieved on both, after deduction of the cost of bonus from profit, otherwise no bonus is payable.

DIRECTORS' REMUNERATION REPORT
CONTINUED

The 2014 financial performance resulted in no APRA bonus out-turn:

Group underlying profit	Group underlying profit* was £1,649 million which was below the base level of £1,800 million and therefore no bonus was payable for 2014.
Cash flow	Cash flow* for the year was an outflow of £232 million which was below the hurdle of zero inflow/outflow which was required to activate any bonus payments.
Overall award	No bonus is payable for 2014.

* Group underlying profit and cash flow, after deduction of the cost of bonus, and excludes the impact of acquisitions and disposals in the year and unbudgeted foreign exchange translation effects where material.

The extent of this disclosure reflects the Board's view that APRA profit and cash targets are commercially sensitive and this will be kept under review.

DEFERRED APRA AWARDS IN MARCH 2014 (SUBJECT TO AUDIT)
Executive Directors receive 40% of any annual bonus in deferred shares. For 2013 APRA, the following deferred share awards were made in March 2014. Ordinary shares held as deferred shares may receive a bonus issue of C Shares during the deferral period.

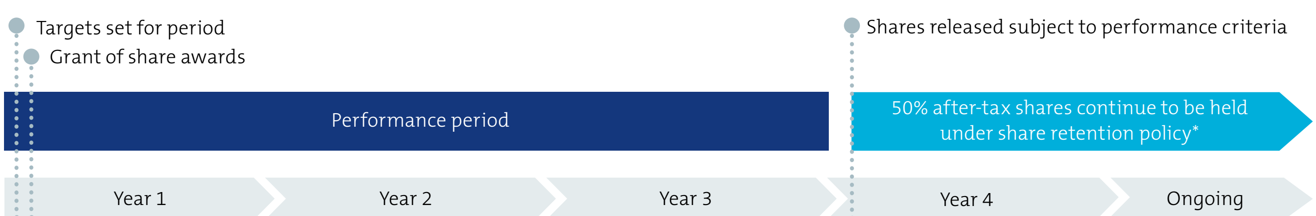
Name	Number of shares	Face value £000	Vesting date
John Rishton	33,490	330	03/03/2016
James Guyette	16,307	161	03/03/2016
Mark Morris*	15,543	153	n/a
Colin Smith CBE	16,000	158	03/03/2016

* Mark Morris forfeited the above award when he left the Company.

APRA 2015
The committee has determined that the bonus in respect of 2015 will be operated on similar terms to 2014. There will be no change to the maximum bonus opportunities for Executive Directors.

APRA TIMELINE
The chart below provides an illustration of the annual bonus resulting from performance in year 1. This is usually delivered in March of year 2, partially in cash and partially in deferred shares. The deferred shares are held in trust for two years and are then released in March of year 4, subject to the recipient being still employed by the Group. Malus and clawback provisions apply.

PERFORMANCE SHARE PLAN (PSP) TIMELINE
The chart below provides an illustration of PSP awards, which are conditional share awards, entitling senior executives to a number of shares determined by reference to corporate performance over a three-year performance period. PSP awards are usually made in March of year 1 and released in March of year 4, subject to the performance criteria being met. Malus and clawback provisions apply.



* For details of the share retention policy, see page 82.

LONG-TERM INCENTIVES – PSP

The PSP is designed to reward and incentivise selected senior executives who can influence the long-term performance of the Group.

PSP 2014 AWARD TARGETS (SUBJECT TO AUDIT)

The targets were as follows and straight line vesting will apply between these points.

Aggregate cash flow per share (CPS) over the three-year period	% of maximum award released
Less than 125p	0%
125p	30%
155p	100%

PSP AWARDS MADE IN MARCH 2014

In 2014, Executive Directors received PSP grants in line with the remuneration policy as follows:

	Number of shares awarded	% of salary	Face value (at maximum vesting) £000	Minimum % vesting (as a % of maximum)	Performance period end date
John Rishton	112,768	120	1,665	20	31/12/2016
James Guyette	51,770	100	764	20	31/12/2016
Mark Morris*	51,812	100	765	20	n/a
Colin Smith CBE	53,336	100	788	20	31/12/2016

* Mark Morris forfeited the above award when he left the Company on 4 November 2014.

All awards are made as performance shares based on a percentage of salary and the value is divided by the average share price over a three-day period which was 984.33p before to the date of grant. The face value is the maximum number of shares that would vest (150% of the award) multiplied by the share price at the date of grant. If the EPS or base CPS targets are not achieved, no shares vest.

PSP AWARDS VESTING IN MARCH 2015

The following sets out details in respect of the March 2012 PSP award, for which the final year of performance was the 2014 financial year.

	Targets for 2012 – 2014 period	Performance against targets
EPS growth (hurdle)	Awards may vest if EPS growth exceeds the OECD index of consumer prices. Awards will lapse if hurdle not met.	EPS growth of 16% over the three-year period exceeded the hurdle which was 5%.
Aggregate CPS (100% of award)	Aggregate CPS over three-year period of less than 56p – zero vesting. Aggregate CPS over three-year period of 56p – 30% vesting. Aggregate CPS over three-year period of 83p – 100% vesting. Straight-line vesting between these points.	Aggregate CPS performance over three years of 63p. 49% vesting.
TSR performance (multiplier of up to 50%)	TSR below median of FTSE 100 – no additional vesting. TSR above median of FTSE 100 – 25% increase. TSR at upper quartile of FTSE 100 – 50% increase. Straight-line basis between these points.	TSR performance was 39th best amongst the FTSE 100. 37% increase.
Total		67% of shares will vest during March 2015.

PSP AWARDS TO BE MADE IN MARCH 2015

The performance targets in respect of the 2015 to 2017 performance period under the aggregate CPS measure will be as follows:

Aggregate CPS over the three-year period	% of maximum award released
Less than 60p	0%
60p	30%
100p	100%

CPS is calculated as reported cash flow before the cost of business acquisitions or proceeds of disposals, foreign exchange translation effects, special payments into pension schemes and payments to shareholders, divided by the weighted average number of shares in issue. CPS is cumulative over a three-year period.

DIRECTORS' REMUNERATION REPORT
CONTINUED

We believe that the combination of EPS, CPS and TSR 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.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS
The table below summarises the notice periods contained in the Executive Directors' service contracts.

	Date of contract	Notice period Company	Notice period individual
John Rishton	10 Mar 2011	12 months	6 months
James Guyette	29 Sep 1997	30 days	30 days
Colin Smith CBE	1 July 2005	12 months	6 months
David Smith	19 Nov 2014	12 months	6 months

NON-EXECUTIVE DIRECTORS' LETTERS OF APPOINTMENT
The Chairman and Non-Executive Directors have letters of appointment rather than service contracts.

	Appointment date	Current letter of appointment end date
Ian Davis	1 Mar 2013	29 Feb 2016
Dame Helen Alexander	1 Sep 2007	31 Aug 2016
Lewis Booth CBE	25 May 2011	24 May 2017
Ruth Cairnie	1 Sep 2014	31 Aug 2017
Sir Frank Chapman	10 Nov 2011	9 Nov 2017
Warren East CBE	1 Jan 2014	31 Dec 2016
Lee Hsien Yang	1 Jan 2014	31 Dec 2016
John McAdam	19 Jan 2008	18 Feb 2017
John Neill CBE	13 Nov 2008	12 Nov 2015
Jasmin Staiblin	21 May 2012	20 May 2015

PAYMENTS TO PAST DIRECTORS (NOT SUBJECT TO AUDIT)
Dr Mike Howse retired from the Board on 30 June 2005. Following his retirement, he has continued to be retained by the Company for his expertise in engineering and was paid £27,720 in 2014 (2013 £23,310).

LOSS OF OFFICE PAYMENTS (SUBJECT TO AUDIT)
Mark Morris left the Company on 4 November 2014. It was agreed to pay him 12 months' salary and benefits, in equal monthly payments, in lieu of his notice period totalling £717,150 gross (base salary £510,000 and benefits comprising a cash payment in respect of pension of £163,200 and other benefits of £43,950 which included: car and fuel allowance, tax planning, medical and life insurance) and a payment for unused leave of £15,632. The total paid to him after leaving the Company up to 31 December 2014 was £133,443 which includes the unused leave payment. The contractual payments were made in accordance with his service agreement. He received his 2013 APRA deferred shares of 18,591 shares in accordance with the rules of the plan. His 2014 APRA deferred shares and his ShareSave option lapsed, and he forfeited his PSP awards. He was offered up to £48,000, including VAT, in respect of career transition support which the Company will pay. No further payments were made to Mark Morris in respect of his loss of office. If he commences alternative employment within 12 months following his departure, the committee will consider reducing the amount due to be paid.

EXTERNAL DIRECTORSHIPS
The directors retained the payments detailed below from serving on the boards of these companies:

	Directorships held	Payments received £000
John Rishton[1]	Unilever PLC and Unilever N.V.	86
James Guyette[2,3]	PrivateBancorp Inc. and priceline.com	135
David Smith	Motability Operations Group plc	43

1 John Rishton's fee was partly paid in euros translated at £1 = EUR 1.24.
2 James Guyette received 1,881 Restricted Stock Units (RSUs) at US$26.59 per share in PrivateBank and 187 RSUs at US$1,338.24 per share in priceline.com, in addition to his annual fees.
3 James Guyette was paid in US dollars translated at £1=US$1.6477.

NON-EXECUTIVE DIRECTORS' FEES PAID

The Chairman and 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. The base fees were increased with effect from 1 May 2014 following shareholder approval.

NON-EXECUTIVE DIRECTORS' BASE FEES

	2014 £000	2013 £000
Chairman	**425**	425
Other Non-Executive Directors	**70**	60
Chairman of Audit Committee	**25**	20
Chairman of Safety and Ethics Committee	**20**	15
Chairman of Remuneration Committee	**20**	15
Senior Independent Director	**15**	12

The Chairman of the Science and Technology Committee will be paid £20,000 with effect from 1 January 2015.

PENSION ENTITLEMENTS (SUBJECT TO AUDIT)

The Group's UK pension schemes are funded, registered schemes and were approved under the regime applying until 6 April 2006. They include both defined contribution and defined benefit schemes. Normal retirement age for the defined benefit schemes is 62.

John Rishton is a member of one of the Group's UK defined contribution pension schemes and received employer contributions 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.

Mark Morris, who left the Company on 4 November 2014, had opted out of future pension accrual with effect from 16 August 2012 and received a cash allowance in lieu of future pension accrual.

Colin Smith CBE opted out of future pension accrual with effect from 1 April 2006 and receives a cash allowance in lieu of future pension accrual.

David Smith receives a cash allowance in lieu of a defined contribution pension.

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. 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. Under the defined benefit plans, 65 was the earliest age at which benefits could have been taken without consent and without actuarial reduction.

Details of the defined benefits of the Executive Directors as at 31 December 2014, in the Group's UK and US pensions schemes are given below:

	Total accrued annual pension entitlement at 31 December 2014 £000
Mark Morris*	172
Colin Smith	393

* The accrued pension for Mark Morris is as at 4 November 2014 when he left the Company.

	Total accrued retirement lump sum entitlement at 31 December 2014 £000
James Guyette[1]	1,380

[1] Benefits are translated at £1 = US$1.5877 (2013 US$1.6542).

DIRECTORS' REMUNERATION REPORT
CONTINUED

Details of defined contribution pension contributions paid by the Group on behalf of the following Executive Directors are given below:

	2014 £000	2013 £000
John Rishton	**42**	50
James Guyette[1]	**349**	395

[1] Benefits are translated at £1=US$1.6477 (2013 US$1.565).

SHARE RETENTION POLICY (SUBJECT TO AUDIT)

We believe 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 the percentage of salary shown in the table below. When this level is reached it must be maintained until retirement or departure from the Group. The Executive Director's total shareholding, for the purposes of comparing it with the minimum shareholding requirement, includes shares held: by their connected persons; in the SIP; and PSP shares that have vested, but does not include unvested PSP awards. The shareholding requirement increased in 2014 to 250% of salary for the Chief Executive and 200% of salary for the other Executive Directors. APRA deferred shares do not count towards their minimum shareholding requirement.

Except for David Smith, who was appointed on 4 November 2014, and has not had an opportunity to build up his shareholding, the Executive Directors each complied with the 2014 minimum shareholding requirement as detailed in the table below.

	Base salary £000	Total shareholding	Minimum shareholding requirement as % of salary	Minimum shareholding requirement[1]	Actual shareholding as % of minimum requirement
John Rishton	925	411,061	250	234,931	175
James Guyette[2]	529	384,898	200	107,484	358
Colin Smith CBE	525	202,369	200	106,671	190
David Smith	510	116	200	103,623	0.11

[1] Salary divided by the March 2014 PSP grant price of 984.33p multiplied by percentage of salary.
[2] Translated at £1 = US$1.5877.

DIRECTORS' INTERESTS IN SHARES (SUBJECT TO AUDIT)

The directors and their connected persons had the following interests in the ordinary shares and C Shares[1] of the Company at 31 December 2014, or at date of leaving or retirement, if earlier, are shown in the table below:

			Unvested awards			Vested awards
	Ordinary shares	C Shares	Conditional shares not subject to performance conditions (APRA)	Conditional shares subject to performance conditions (PSP)	Options over shares subject to savings contracts (ShareSave)	Vested shares and options exercised in year
Executive Directors						
John Rishton	411,061	–	81,740	354,621	1,745	388,459
James Guyette	384,863	–	42,077	167,869	–	152,824
Mark Morris (left on 4 November 2014)	82,736	–	33,600	161,549	541	37,674
Colin Smith CBE	202,369	–	39,207	167,627	–	140,216
David Smith (appointed 1 November 2014)	116	–	–	18,287	–	–
Chairman and Non-Executive Directors						
Ian Davis	19,027	–	–	–	–	–
Dame Helen Alexander	3,566	–	–	–	–	–
Lewis Booth CBE	30,000	1,675,000	–	–	–	–
Ruth Cairnie (appointed 1 September 2014)	4,540	–	–	–	–	–
Sir Frank Chapman	9,137	1,515,481	–	–	–	–
Iain Conn (retired 1 May 2014)	28,401	11,178	–	–	–	–
Warren East CBE	999	–	–	–	–	–
Lee Hsien Yang	702	–	–	–	–	–
Dr John McAdam	2,452	–	–	–	–	–
John Neill CBE	44,919	–	–	–	–	–
Jasmin Staiblin	–	–	–	–	–	–

[1] Non-cumulative redeemable preference shares of 0.1p each.

CHANGES IN INTERESTS (SUBJECT TO AUDIT)

	Ordinary shares		C Shares	
	31 December 2014	Changes from 31 December 2014 to 12 February 2015	**31 December 2014**	Changes from 31 December 2014 to 12 February 2015
Executive Directors				
John Rishton	**411,061**	4,255	**–**	–
James Guyette	**384,863**	3,983	**–**	–
Colin Smith CBE	**202,369**	2,053	**–**	–
David Smith	**116**	17	**–**	–
Chairman and Non-Executive Directors				
Ian Davis	**19,027**	641	**–**	–
Dame Helen Alexander	**3,566**	236	**–**	–
Lewis Booth CBE	**30,000**	–	**1,675,000**	(1,675,000)
Ruth Cairnie	**4,540**	443	**–**	–
Sir Frank Chapman	**9,137**	900	**1,515,481**	741,960
Warren East CBE	**999**	–	**–**	–
Lee Hsien Yang	**702**	229	**–**	–
Dr John McAdam	**2,452**	54	**–**	–
John Neill CBE	**44,919**	723	**–**	–

DIRECTORS' INTERESTS IN UNVESTED AND VESTED AWARDS

JOHN RISHTON

	31 December 2013	Granted during year	TSR uplift/ dividend enhancement	Vested awards	**31 December 2014**	Market price at date of award (p)	Date of grant	Date of vesting	Market price at vesting (p)
PSP 2011	164,866	–	82,433	247,299	**–**	601.50	09/03/2011	09/03/2014	1015.81
PSP 2012	133,383	–	–	–	**133,383**	809.70	01/03/2012	01/03/2015	–
PSP 2013	108,470	–	–	–	**108,470**	1023.33	01/03/2013	01/03/2016	–
PSP 2014	–	112,768	–	–	**112,768**	984.33	07/05/2014	03/03/2017	–
	406,719	112,768	82,433	247,299	**354,621**				
Performance related shares	63,397	–	31,699	95,096	**–**	601.50	09/03/2011	01/03/2014	1015.81
Performance related shares	40,565	–	–	–	**40,565**	601.50	09/03/2011	01/03/2015	–
	103,962	–	31,699	95,096	**40,565**				
APRA 2011	44,400	–	1,664	46,064	**–**	808.80	01/03/2012	01/03/2014	1015.81
APRA 2012	48,250	–	–	–	**48,250**	1023.33	01/03/2013	01/03/2015	–
APRA 2013	–	33,490	–	–	**33,490**	984.40	07/05/2014	03/03/2016	–
	92,650	33,490	1,664	46,064	**81,740**				
ShareSave (options)	1,450	–	–	–	**1,450**	525.00*	01/02/2012	01/02/2017	–
ShareSave (options)	–	295	–	–	**295**	961.60*	01/02/2014	01/02/2017	–

* For ShareSave, the share price shown is the exercise price which was 85% of the market price at the date of the award. The performance related shares were awarded as part of a special grant of shares to John Rishton on joining the Company and were intended to mirror the fair value and vesting profile of incentives he forfeited on leaving his previous employer.

JAMES GUYETTE

	31 December 2013	Granted during year	TSR uplift/ dividend enhancement	Vested awards	**31 December 2014**	Market price at date of award (p)	Date of grant	Date of vesting	Market price at vesting (p)
PSP 2011	82,404	–	41,204	123,608	**–**	601.50	09/03/2011	09/03/2014	1015.81
PSP 2012	64,385	–	–	–	**64,385**	809.70	01/03/2012	01/03/2015	–
PSP 2013	51,714	–	–	–	**51,714**	1023.33	01/03/2013	01/03/2016	–
PSP 2014	–	51,770	–	–	**51,770**	984.33	07/05/2014	03/03/2017	–
	198,503	51,770	41,204	123,608	**167,869**				
APRA 2011	28,161	–	1,055	29,216	**–**	808.80	01/03/2012	01/03/2014	1015.81
APRA 2012	25,770	–	–	–	**25,770**	1023.33	01/03/2013	01/03/2015	–
APRA 2013	–	16,307	–	–	**16,307**	984.40	07/05/2014	03/03/2016	–
	53,931	16,307	1,055	29,216	**42,077**				

DIRECTORS' REMUNERATION REPORT
CONTINUED

MARK MORRIS

	31 December 2013	Granted during year	TSR uplift*/ dividend enhancement	Vested awards	**4 November 2014**[1]	Market price at date of award (p)	Date of grant	Date of vesting	Market price at vesting (p)
PSP 2011	25,039	–	6,260	31,299	**–**	601.50	09/03/2011	09/03/2014	1015.81
PSP 2012	59,899	–	–	–	**59,899**	809.70	01/03/2012	n/a	–
PSP 2013	49,838	–	–	–	**49,838**	1023.33	01/03/2013	n/a	–
PSP 2014	–	51,812	–	–	**51,812**	984.33	07/05/2014	n/a	–
	134,776	51,812	6,260	31,299	**161,549**				
APRA 2011	6,145	–	230	6,375	**–**	808.80	01/03/2012	01/03/2014	1015.81
APRA 2012	18,057	–	–	–	**18,057**	1023.33	01/03/2013	01/03/2015	–
APRA 2013	–	15,543	–	–	**15,543**	984.40	07/05/2014	n/a	–
	24,202	15,543	230	6,375	**33,600**				
ShareSave (options)	541	–	–	–	**541**	525.00	01/02/2012	n/a	–

* The TSR uplift applied was 25% of the original grant.
[1] All the above awards except the APRA 2012, granted in 2013, were forfeited on leaving the Company.

COLIN SMITH CBE

	31 December 2013	Granted during year	TSR uplift/ dividend enhancement	Vested awards	**31 December 2014**	Market price at date of award (p)	Date of grant	Date of vesting	Market price at vesting (p)
PSP 2011	74,813	–	37,407	112,220	**–**	601.50	09/03/2011	09/03/2014	1015.81
PSP 2012	62,987	–	–	–	**62,987**	809.70	01/03/2012	01/03/2015	–
PSP 2013	51,304	–	–	–	**51,304**	1023.33	01/03/2013	01/03/2016	–
PSP 2014	–	53,336	–	–	**53,336**	984.33	07/05/2014	03/03/2017	–
	189,104	53,336	37,407	112,220	**167,627**				
APRA 2011	26,985	–	1,011	27,996	**–**	808.80	01/03/2012	01/03/2014	1015.81
APRA 2012	23,207	–	–	–	**23,207**	1023.33	01/03/2013	01/03/2015	–
APRA 2013	–	16,000	–	–	**16,000**	984.40	07/05/2014	03/03/2016	–
	50,192	16,000	1,011	27,996	**39,207**				

DAVID SMITH

	4 November 2014	Granted during year	TSR uplift at vesting/ dividend enhancement	Vested awards	**31 December 2014**	Market price at date of award (p)	Date of grant	Date of vesting	Market price at vesting (p)
PSP 2014	18,287	–	–	–	**18,287**	984.33	03/03/2014	03/03/2017	–

CHIEF EXECUTIVE PAY, TSR AND ALL-EMPLOYEE PAY

This section of the report enables our remuneration arrangements to be seen in context by providing:
- a five-year history of our Chief Executive's remuneration;
- our TSR performance over the same period;
- a comparison of the year-on-year change in our Chief Executive's remuneration with the change in average remuneration across the Group; and
- a year-on-year comparison of the total amount spent on employment costs across the Group and shareholder payments.

CHIEF EXECUTIVE PAY

Year	Chief Executive[1, 2]	Single figure of total remuneration £000	Annual bonus as a % of maximum	PSP as a % of maximum
2014	John Rishton	2,386	–	45
2013	John Rishton	6,228	55	100
2012	John Rishton	4,577	85	–
2011	John Rishton	3,677	63	–
2011	Sir John Rose	3,832	–	75
2010	Sir John Rose	3,914	100	100

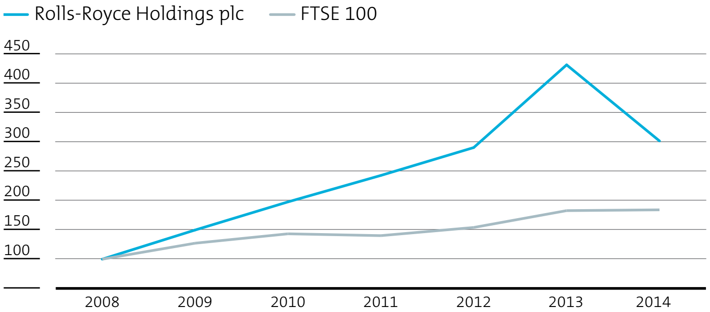
[1] On 31 March 2011, Sir John Rose retired as Chief Executive and John Rishton was appointed.
[2] The remuneration for Sir John Rose does not include any pension accrual or contribution as he was receiving his pension from 1 February 2008. John Rishton received a special grant of shares on joining the Company on 1 March 2011 to mirror the shares he forfeited on resigning from his previous employer. The share price has increased from 483.50p at the time this grant was made to 870p at the end of 2014. These are the main reasons why John Rishton's remuneration in 2012 and 2013 exceeds that of his predecessor.

TSR PERFORMANCE

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

The graph shows the growth in value of a hypothetical £100 holding in the Company's ordinary shares over six years, relative to the FTSE 100 index. The values of the hypothetical £100 holdings at the end of the six-year period were £302.23 and £184.40 respectively.

ROLLS-ROYCE – SIX YEAR REBASED TSR



PERCENTAGE CHANGE IN CHIEF EXECUTIVE REMUNERATION

The following table compares the percentage change in the Chief Executive's salary, bonus and benefits to the average percentage change in salary, bonus and benefits for all UK employees from 2013 to 2014.

	Salary	Benefits	Annual bonus
Chief Executive	0%	21%	-100%
UK employees average	3%	-0.1%	-98.5%

UK employees were chosen as a comparator group in order to avoid the impact of exchange rate movements over the year. UK employees make up approximately 45% of the total employee population.

RELATIVE SPEND ON PAY

The following chart sets out the percentage change in payments to shareholders and overall expenditure on pay across the Group.

PAYMENTS TO SHAREHOLDERS
(note 17 – financial statements)

GROUP EMPLOYMENT COSTS
(note 7 – financial statements)

STATEMENT OF SHAREHOLDER VOTING

	For	Against	Votes withheld
Approval of 2013 remuneration report			
Percentage of votes (%)	94.16	5.84	
Number of votes cast	1,242,179,846	77,016,965	14,049,941

We monitor carefully shareholder voting on our remuneration policy and implementation. We recognise the importance of ensuring that our shareholders continue to support our remuneration arrangements.

ADVISERS TO THE COMMITTEE

During the year, the committee had access to advice from Deloitte LLP's executive compensation advisory practice. Total fees for advice provided to the committee during the year by Deloitte were £81,432. Deloitte also advised the Company on tax, assurance, pensions and corporate finance and Deloitte MCS Limited provides consulting services.

Deloitte is a founding member of the Remuneration Consultants Group and adheres to its code in relation to executive remuneration consulting. The committee requests Deloitte to attend meetings periodically during the year. The committee is satisfied that the advice it has received has been objective and independent.

STATUTORY REQUIREMENTS

The Directors' Remuneration Report has been prepared on behalf of the Board by the Remuneration Committee.

We adopt the principles of good governance as set out in the UK Corporate Governance Code 2012 and comply with the regulations contained in the Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, the Listing Rules of the Financial Conduct Authority and the relevant schedules of the Companies Act 2006.

The Companies Act 2006 and the Listing Rules require the Company's auditor to report on the audited information in their report on page 159 and to state that this section has been properly prepared in accordance with these regulations. The Directors' Remuneration Report is subject to shareholder approval at the AGM on 8 May 2015.

The Directors' Remuneration Report was approved by the Board on 12 February 2015 and signed on its behalf.

DAME HELEN ALEXANDER
Chairman of the Remuneration Committee

DIRECTORS' REMUNERATION POLICY

The policy was approved by shareholders at the 2014 AGM and is reproduced here for information only.

REMUNERATION POLICY FRAMEWORK

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 believes that an effective remuneration strategy plays an essential part in the future success of the Group.

Accordingly, the remuneration policy 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;
- remuneration policy must be sufficiently flexible to take account of changes in the Group's business environment and market practices;
- 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 committee will take into account pay and employment conditions elsewhere in the Group.

POLICY REPORT

The policy became effective from 1 May 2014.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Salary	It is essential that the Company provides competitive salaries, suitable to attract and retain individuals of the right calibre to develop and execute the business strategy.	Salary levels are set using careful judgement, taking into account the scope of the role and responsibilities, performance, experience, potential, retention issues and salaries elsewhere in the Group. Judgement will be informed, but not led, by reference to companies of a similar size, complexity and internationality. Salaries are reviewed annually and normally fixed for 12 months from 1 March each year. However, salary increases are not automatic. Exceptionally, salaries may be increased on other dates in the year. Executive Directors may be appointed at salaries below the target level to enable pay progression commensurate with growth in the new role.	Annual salary increases will not normally exceed average increases for employees in other appropriate parts of the Group. On occasion, increases may be larger where the committee considers this to be necessary. Circumstances where this may apply include: growth into a role; to reflect a change in scope of role and responsibilities; where market conditions indicate a level of under competitiveness and the committee judges that there is a risk in relation to attracting or retaining executives. Where the committee exercises its discretion to award increases above the average for other employees, the resulting salary will not exceed the competitive market range.	None, although individual performance is the primary consideration in setting salary alongside overall Company affordability and market competitiveness.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits	To provide market competitive benefits sufficient to recruit and retain, and to support the executive to give maximum attention to their role.	Benefits provided include a car or car allowance, contribution to the cost of fuel, use of a driver, financial planning assistance, life assurance and medical insurance. Other appropriate benefits may be provided from time-to-time at the discretion of the committee. Certain benefits, such as accommodation or use of a driver, are to enable an executive to devote maximum time and attention to their role. Club membership fees may also be provided. The Group may pay any tax due on these benefits. The Group offers relocation for executives to be located within reasonable reach of their place of work. Where relocation is not practical or a preferred option, or where work is mainly split between two locations, support for accommodation and travel may be provided. Relocation support may include items such as transaction and legal fees, removals, disturbance allowance and temporary travel and subsistence costs. International relocation support may include items such as school fees, tax equalisation and home visits.	Benefits will be market competitive taking into account the role and the local market. Benefits excluding any accommodation, relocation and associated tax costs will not exceed £100,000 per annum. The value of benefits provided for international and domestic relocation and any ongoing accommodation and travel support will be appropriate to the individual circumstances of the executive and only expenses that the committee considers necessary and appropriate will be supported.	None.
Pension	To provide market-competitive pensions sufficient to recruit and retain.	New executives to the Company are offered membership of a defined contribution pension plan. Pension contributions are based on base salary only. There are a number of legacy pension arrangements, including defined benefit plans, which were in place before 27 June 2012 and have not been changed since. Commitments to these arrangements will be honoured. Executives may opt to receive a cash allowance in lieu of pension.	The maximum employer contribution to defined contribution pension arrangements is 38% of base salary. Under the Group's legacy defined benefit arrangements, the pension due is the higher of a pension based on the executive's final salary, with a maximum annual accrual rate of 2.5%, or based on career average salary with a maximum annual accrual rate of 3.3%. The resulting pension is limited so that the maximum pension at normal retirement age is two thirds of the executive's final remuneration. The benefits under these arrangements include a lump sum payable on death in service and pensions for surviving spouses, civil partners and certain dependants. Executives may opt to receive a cash allowance in lieu of pension. The cash allowance is calculated to be equivalent to the employer's defined contribution pension contributions, reduced to allow for the additional National Insurance cost incurred by the employer. James Guyette participates in qualified and non-qualified defined benefit and defined contribution pension arrangements in the US. Under these various arrangements combined it is expected that the benefits provided by the Company will be equivalent in value to a pension of two thirds of salary, with post retirement increases similar to those required by statute in the UK.	None.

DIRECTORS' REMUNERATION POLICY
CONTINUED

EXECUTIVE DIRECTORS' REMUNERATION POLICY

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	To incentivise and reward execution of the business strategy, delivery of financial performance targets and achievement of personal objectives. Compulsory deferral of part of any bonus encourages retention and provides alignment with shareholders.	The committee sets Group financial targets and agrees personal objectives for each executive director at the start of the financial year. At the end of the year, business performance determines the Company bonus payout level and the committee considers whether any adjustment to the payout level is appropriate. Each Executive Director's bonus is also dependent on the achievement of their personal objectives and wider contribution to the Group. The committee may apply an uplift of up to 20% or a reduction, potentially to zero, as appropriate. A portion of the bonus paid, in a range 30% to 50%, is compulsorily deferred into the Company's shares for a period of two years and is subject to continued employment (with early release in certain circumstances). There are no further performance conditions. Deferred shares may receive a bonus issue of C Shares or equivalent during the deferral period. The bonus plan is non-contractual and may be offered on a year-by-year basis. The committee has the right to apply the malus provision on an individual or group basis and amend or withdraw the bonus before payment. From 2014, the same right over deferred shares will apply as will the right to clawback bonuses paid or vested shares on an individual basis if it can be demonstrated that individuals have acted in an improper manner. Malus and/or clawback provisions may apply in exceptional cases such as: material misstatement of results; a material failure of risk management; serious reputational damage; serious individual wrongdoing such as non-compliance with the Company's Code of Conduct; or gross misconduct.	The current maximum annual bonus, linked to business performance, is 135% of salary for the Chief Executive and 125% for other Executive Directors. This is based on achieving the highest targets set for business performance. However, the committee may adjust the bonus to reflect personal performance as described in the previous column, giving an overall maximum of 162% and 150% respectively. The committee has the discretion to increase the overall maximum bonus level to 200% of salary for the Chief Executive and 175% for other Executive Directors, subject to this not being above the competitive market range.	The bonus payout level is determined primarily by Group financial performance but the committee may introduce non-financial metrics and/or adjust the payout level to reflect other factors as appropriate. The final bonus awarded to each director is also linked to their personal performance. Any non-financial metrics used in the annual bonus plan will be linked to the Group's strategy and will not be weighted more than 50% of the whole bonus. A principle applies that no bonus is payable unless the base financial targets are achieved and this also applies if non-financial measures are introduced. Based on the current bonus opportunity: **Chief Executive:** Bonus generated by business performance is 40% of salary for achieving the base level targets and 135% of salary for achieving the highest level of targets. Bonus may then be adjusted for personal performance in a range 0-120% at committee discretion with 100% typically applying for good performance and a 20% uplift available for outstanding personal performance. **Other Executive Directors:** Bonus generated by business performance is 37% of salary for achieving the base level targets and 125% of salary for achieving the highest level of targets. Bonus may then be adjusted for personal performance as above.

EXECUTIVE DIRECTORS' REMUNERATION POLICY

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Performance Share Plan (PSP) **Post 2014 AGM onwards**	To incentivise and reward development and execution of the business strategy over the longer term. The plan provides alignment with shareholder interests through the performance measures chosen and a retention element through the plan timescale. A shareholding requirement is linked to the PSP in order to further provide alignment with shareholders. The link between the performance measures and the Company's strategy is explained in the notes to this table on page 90.	Executive Directors are granted awards over shares annually at the start of a three-year performance period. The proportion of those awards that vest is determined at the end of the period according to a set of Company performance measures. Vesting of awards is subject to continued employment until vesting date with the exception of certain leaver circumstances, in which case vesting is subject to Company performance and pro-rating for service. The plan rules contain malus and clawback provisions. The committee has the right to amend and withdraw share grants before vesting for individuals and groups and the right to reclaim vested shares or their proceeds from individuals where it has been demonstrated that they acted in an improper manner. Situations where the provisions will apply are as described in the bonus section on page 88. Executive Directors are required to hold a level of shareholding.	The Chief Executive is granted awards each year over shares to the value of 120% of salary. Other Executive Directors are granted 100% of salary. Subject to the earnings per share (EPS) condition being met, these shares vest at the end of the performance period if the Company has achieved the maximum target set for cash flow per share (CPS). The number of shares vesting can be increased by 25% for above median TSR ranking rising to 50% increase for upper quartile TSR ranking. Maximum face values of annual awards are therefore 180% of salary for the Chief Executive and 150% of salary for other Executive Directors.	The three corporate performance measures are: 1. EPS – condition. The increase in EPS over the three-year period must exceed an appropriate index of consumer prices for the same period. If this condition is not met share vesting is zero. 2. CPS – prime measure. The aggregate CPS over the performance period will determine the number of shares which vest. Achieving a base target of CPS will result in 30% of the shares vesting and achieving a maximum CPS target will cause 100% of the shares to vest. The number of shares which may vest is determined on a straight-line basis between the 30% and 100% level. 3. Total shareholder return (TSR) relative to FTSE 100 or other appropriate index. The number of shares vesting will be increased by 25% if the Company's TSR is ranked above the median of the FTSE 100, or other appropriate index, over the same periods and by 50% if ranked at or above the upper quartile of the same group. Intermediate TSR ranking will increase the number of shares released on a straight-line basis.
Performance Share Plan (PSP) **Legacy awards – 2004 plan**	The purpose of the 2004 share plan is fully consistent with the purpose of the 2014 plan described above.	The operation of the 2004 plan is as described above with the exception of malus and clawback elements which will apply for 2014 grants.	As above.	As above.
ShareSave Plan	This savings-related share option plan provides all employees worldwide an interest in the performance of Rolls-Royce shares.	Executive Directors may participate on the same terms as other employees. The option price may be discounted by up to 20%. Accumulated savings may be used to exercise an option to acquire shares.	The maximum savings amount is currently £250 per month over a three- or five-year period. This may be increased in accordance with changes to UK legislation.	No performance measures are permitted by UK legislation applicable to this type of plan.
Share Incentive Plan (SIP)	UK employees may elect to receive part of any annual bonus in shares. UK employees may elect to make regular monthly purchases of shares from pre-tax income.	UK-based Executive Directors may participate on the same terms as all other UK employees. Shares held in the SIP for five years will vest free from income tax and National Insurance contributions.	Currently, up to £3,000 of the annual cash bonus can be applied to purchase shares. The maximum monthly amount of £125 may be used to purchase shares. The above limits may be increased in accordance with changes to UK legislation.	The award of any bonus will depend on performance conditions (see page 88) but no further conditions apply once the employee elects to participate in the SIP.

DIRECTORS' REMUNERATION POLICY
CONTINUED

NON-EXECUTIVE DIRECTORS' REMUNERATION POLICY

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Fees	To reward individuals for fulfilling the relevant role and to attract individuals of the skills and calibre required.	The committee makes recommendations to the Board on the remuneration of the Chairman. The Chairman and the Executive Directors determine the remuneration for the Non-Executive Directors. The level of remuneration is set within a limit approved from time-to-time by shareholders. The Chairman is paid a single consolidated fee. Other Non-Executive Directors are paid a base fee covering Board and committee membership. Committee chairmen and the Senior Independent Director receive an additional fee.	The Articles of Association require the Company to set a maximum ceiling on the total remuneration payable to Non-Executive Directors including the Non-Executive Chairman. A resolution to increase this to £1,400,000 was proposed at the 2014 AGM. Fees are set at a level appropriate for the role and are reviewed regularly, taking into account fees payable to Non-Executive Directors of companies of a similar size and complexity.	None
Benefits	To devote maximum time and attention to the requirements of the role.	The Chairman has occasional use of chauffeur services. Travel, hotel and subsistence expenses incurred in attending Board meetings and committee meetings or otherwise required to attend the Company's offices are reimbursed by the Company. The Group may pay any tax due on such benefits. Where a Non-Executive Director is based outside the UK and has to file a UK tax return, the Company may pay towards tax advice and filing.	The maximum value for chauffeur services will not exceed £25,000 per annum. The maximum contribution towards tax advice and filing is £5,000 per annum.	None

PERFORMANCE MEASURES AND TARGETS
The annual bonus measures are primarily based on Group financial performance but may contain non-financial measures as detailed in the above table.

The committee will set the Group financial targets with reference to the prior year and to the budgets and business plans for the coming year, ensuring the levels to achieve base, on-target and maximum bonus payout are appropriately challenging.

The PSP performance measures set out in the policy table support the Group's strategy as follows:

- the EPS growth hurdle ensures any payout is supported by sound profitability;
- the aggregate CPS measure incentivises the generation of cash flow in line with the Group's strategy. This measure is set in line with the principles described for the annual bonus; and
- the TSR performance measure aligns interests with shareholders by rewarding TSR out-performance. The TSR is measured with reference to constituents of an appropriate index such as the FTSE 100.

In accordance with the rules of the PSP, the performance conditions may be replaced or varied if an event occurs or circumstances arise which cause the committee to determine that the performance conditions have ceased to be appropriate. If the performance conditions are varied or replaced, the amended performance conditions must, in the opinion of the committee, be fair, reasonable and materially no more or less difficult than the original condition when set.

SHAREHOLDERS' VIEWS
This statement of remuneration policy is largely a consolidation of policies which have enjoyed the support of shareholders for many years. We considered the guidance provided by the GC 100 and shareholder advisory groups in preparing this policy and have followed this insofar as it is appropriate in the context of our business. Prior to finalising the policy, we shared it with a selection of major shareholders. Looking ahead, we welcome an open dialogue with shareholders and intend to continue to consult with major shareholders before implementing any significant change.

GROUP EMPLOYEE CONSIDERATIONS
When setting remuneration for Executive Directors the committee takes into account contextual information about pay and conditions within the Group, including the following:
- salary increases for the all-employee population;
- bonus awards for the all-employee population; and
- pay ratios between Executive Directors and other employees.

Rolls-Royce employs over 54,000 people in more than 50 countries. Inevitably remuneration arrangements differ to reflect local markets, but some common themes apply to employees at all levels worldwide:

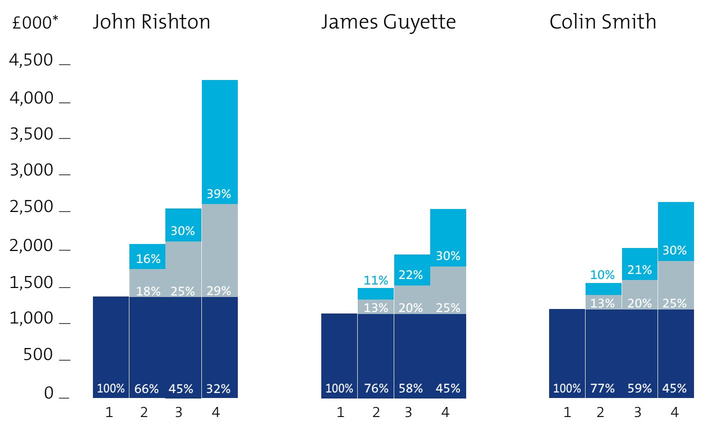
- we aim to offer competitive levels of remuneration, benefits and incentives to attract and retain employees;
- all employees participate in bonus arrangements where the bonus is determined by the same financial measures as that applicable to Executive Directors; and
- all employees have the opportunity to participate in a savings related share option plan.

At more senior levels, remuneration is increasingly long term and larger proportions are dependent on both Group and individual performance and paid in the form of shares.

Given the scale of the employee population, the committee considered that it would be impractical to consult all employees when drawing up the policy.

ILLUSTRATIONS OF REMUNERATION POLICY APPLICATION

The bar chart below illustrates projected executive remuneration for 2014 at four different levels of performance showing payments from minimum to maximum. The table below the chart explains performance levels one to four and the associated remuneration.



* Salary values are as at 31 December 2013

- Salary, plus pension and benefits
- Potential value of bonus depending on the performance scenario
- Potential value of PSP depending on the performance scenario

Remuneration achieved for key levels of performance are:

1. Minimum	Fixed remuneration only. No bonus or PSP paid.
2. Base level	Bonus and PSP resulting from base level of business performance. Bonus at 30% of maximum payment assuming no adjustment for personal performance. PSP vesting at 30% of maximum from achieving base CPS target with no TSR multiplier.
3. On-target	Bonus and PSP resulting from performance in line with Company expectations. Bonus at 60% of maximum assuming no adjustment for personal performance. PSP vesting mid-way between base and maximum levels with 25% TSR multiplier.
4. Maximum	Maximum annual bonus based on achieving the highest targets set for business performance and outstanding individual performance: PSP vesting from achieving maximum CPS target and with maximum 50% TSR multiplier.

SERVICE CONTRACTS

UK-based Executive Directors' contracts include the following provisions:

- 12 months' notice of termination from Rolls-Royce;
- 6 months' notice of termination from the executive; and
- reimbursement of reasonable business expenses.

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.

James Guyette has a contract with Rolls-Royce North America Inc., drawn up under the laws of the State of Virginia, US. This provides that, on termination without cause, he is entitled to 12 months' severance pay without mitigation and, in addition, appropriate costs incurred in relocating household and personal effects. The contract also provides for the payment of club membership fees and for tax and financial planning up to a maximum of US$15,000 per annum and the Group will gross up any amounts to cover any applicable taxes arising.

All contracts also include the entitlement to paid holidays, sick pay and other standard employee terms.

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 or if they fail to be re-elected at an AGM.

POLICY ON EXIT PAYMENTS

The notice period the Company is required to give to Executive Directors under their contracts of employment is 12 months. Payment in lieu of notice will not exceed the value of 12 months' salary, benefits and pension contributions. Both mitigation and the staggering of payments through the notice period will be considered by the committee where appropriate, as will the funding of reasonable outplacement and other professional fees. Should

DIRECTORS' REMUNERATION POLICY
CONTINUED

additional compensation matters arise, such as a settlement or compromise agreement, the committee will exercise judgement and will take into account the specific commercial circumstances.

Pension benefits on early retirement should be payable in accordance with the normal rules of the relevant pension plan. Under legacy UK defined benefit pension arrangements, accrued pension is reduced to reflect early receipt in accordance with factors set by the trustees from time-to-time and is limited to a maximum pension of two thirds of the executive's final remuneration, pro-rated by actual service to potential service.

The committee has the discretion to preserve incentive awards pro-rated to service and to release deferred shares. In exercising this discretion, the committee will have regard to performance and the circumstances of leaving. For deferred shares these are usually released in cases such as retirement, death, injury, ill-health and redundancy.

For PSP, the rules state that unvested awards may be preserved at the committee's discretion according to the circumstances. In such cases vesting will be at the normal date, subject to the established performance conditions, and pro rata to employment in the performance period. In cases such as death and terminal illness, the committee also has the discretion to vest the awards immediately using an estimate of future out-turn.

The treatment of leavers in the Company's ShareSave and SIP plans is governed by the plan rules. The UK rules are HMRC approved. An Executive Director who has ShareSave options who retires or who leaves the Company through ill-health, disability or redundancy will be entitled to exercise their options, pro rata to the savings made, within six months of leaving the Company. An Executive Director who leaves in any other manner such as dismissal would only be entitled to have their savings returned to them. Participants in the SIP who leave the Company for the same reasons listed above will have their shares released to them free of tax and National Insurance contributions.

In the event of a change of control of the Company, PSP awards will vest based on the extent to which the committee determines the performance conditions have been or would have been met. Pro-rating for service in the performance period will apply. Deferred shares earned under APRA would vest in full. ShareSave options would immediately be exercisable pro rata to savings made. Consideration received as shares would be held in the SIP, if possible, otherwise the consideration would be treated as a disposal from the SIP.

If awards are made on recruitment (such as buy-outs) the treatment on leaving would be determined at the time at the committee's discretion.

POLICY ON NEW APPOINTMENTS

The committee will normally award newly appointed Executive Directors with a remuneration package which is consistent with the policy and principles as set out in this report. Base salary may be set at a level higher or lower than previous incumbents and in certain circumstances, to facilitate the recruitment of individuals of the required calibre, the committee may use its discretion to make individual additional incentive awards up to a maximum of 100% of annual salary. Incentive levels may also be increased by up to 30% of salary per annum for incentives commencing within two years of joining. This level of discretion is considered appropriate given the current conservative market positioning of Rolls-Royce and our potential need to recruit from other market sectors or countries outside of the UK.

In addition, remuneration forfeited on resignation from a previous employer may be compensated. The form of this compensation would be considered on a case-by-case basis and may comprise either cash or shares. Generally:

- if such remuneration was in the form of shares, compensation will be in the Company's shares;
- if remuneration was subject to achievement of performance conditions, compensation will be subject to Rolls-Royce performance conditions; and
- the timing of any compensation will, where practicable, match the vesting schedule of the remuneration forfeited.

A newly appointed Executive Director may be provided with reasonable relocation support as set out in the policy table. Internal appointments would receive a remuneration package that is consistent with the remuneration policy. Legacy terms and conditions would be honoured, including pension entitlements and any outstanding incentive awards.

If an Executive Director is appointed following a merger or an acquisition of a company by Rolls-Royce, of which the Executive Director was employed, legacy terms and conditions may be honoured.

LEGACY COMMITMENTS

Contractual commitments made before 27 June 2012 and before the policy came into effect will be honoured. This will include grants made under the old PSP arrangement which will vest, subject to the performance criteria being achieved after the adoption of this policy, as well as previous contractual provisions relating to the defined benefit pension scheme.

The committee may make minor amendments to the policy set out above (for regulatory, exchange control, tax, administrative purposes or to take account of a change in legislation) without obtaining shareholder approval for that amendment.

RESPONSIBILITY STATEMENTS

RESPONSIBILITY STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The directors, as listed on pages 54 and 55, are responsible for preparing the Annual Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and parent company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRS as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent and Group's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

RESPONSIBILITY STATEMENTS UNDER THE DISCLOSURE AND TRANSPARENCY RULES

Each of the persons who is a director at the date of approval of this report confirms that to the best of his or her knowledge:

i) each of the Group and parent company financial statements, prepared in accordance with IFRS and UK Accounting Standards respectively, gives a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;

ii) the Strategic Report on pages 1 to 53 and Directors' Report on pages 54 to 92 and pages 162 to 165 includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and

iii) the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

PAMELA COLES
Company Secretary
12 February 2015

OTHER STATUTORY INFORMATION

SHARE CAPITAL
On 31 December 2014, 1,882,517,856 ordinary shares of 20 pence each, 22,005,007,762 C Shares of 0.1 pence each and one Special Share of £1 were in issue. The ordinary shares are listed on the London Stock Exchange.

PAYMENT TO SHAREHOLDERS
The Company issues non-cumulative redeemable preference shares (C Shares) as an alternative to paying a cash dividend.

Shareholders can choose to:
- redeem all C Shares for cash;
- redeem all C Shares for cash and reinvest the proceeds in the C Share Reinvestment Plan (CRIP); or
- keep the C Shares.

The CRIP is operated by Computershare Investor Services PLC (the Registrar). The Registrar will purchase ordinary shares in the market for shareholders electing to reinvest their C Share proceeds. Shareholders wishing to participate in the CRIP or redeem their C Shares must ensure that their instructions are lodged with the Registrar no later than 5.00pm on 1 June 2015. Redemption will take place on 3 July 2015.

At the AGM, the directors will recommend an issue of 141 C Shares with a total nominal value of 14.1 pence for each ordinary share. The C Shares will be issued on 1 July 2015 to shareholders on the register on 24 April 2015 and the final day of trading with entitlement to C Shares is 23 April 2015. Together with the interim issue on 2 January 2015 of 90 C Shares for each ordinary share with a total nominal value of 9.0 pence, this is the equivalent of a total annual payment to ordinary shareholders of 23.1 pence for each ordinary share.

Further information for shareholders is on page 166.

SHARE CLASS RIGHTS
The full share class rights are set out in the Company's Articles of Association (Articles), which are available on the Group's website, and are summarised below.

ORDINARY SHARES
Each member has one vote for each ordinary share held. Holders of ordinary shares are entitled to receive the Company's Annual Report; attend and speak at general meetings of the Company; to appoint one or more proxies or, if they are corporations, corporate representatives; and to exercise voting rights. Holders of ordinary shares may receive a bonus issue of C Shares or a dividend and on liquidation may share in the assets of the Company.

C SHARES
C Shares have limited voting rights and attract a dividend of 75% of LIBOR on the 0.1p nominal value of each share, paid on a twice-yearly basis. The Company has the option to redeem the C Shares compulsorily, at any time, if the aggregate number of C Shares in issue is less than 10% of the aggregate number of all C Shares issued, or on the acquisition or capital restructuring of the Company.

On a return of capital on a winding-up, the holders of C Shares shall be entitled, in priority to any payment to the holders of ordinary shares, to the repayment of the nominal capital paid-up or credited as paid-up on the C Shares held by them, together with a sum equal to the outstanding preferential dividend which will have been accrued but not been paid until the date of return of capital.

The holders of C Shares are only entitled to attend, speak and vote at a general meeting if a resolution to wind up the Company is to be considered, in which case they may vote only on such resolution.

SPECIAL SHARE
Certain rights attach to the special rights non-voting share (Special Share) issued to HM Government (Special Shareholder). Subject to the provisions of the Companies Act 2006, the Treasury Solicitor may redeem the Special Share at par at any time. The Special Share confers no rights to dividends but in the event of a winding-up it shall be repaid at its nominal value in priority to any other shares.

Certain Articles (in particular those relating to the foreign shareholding limit, disposals and the nationality of directors) that relate to the rights attached to the Special Share may only be altered with the consent of the Special Shareholder. The Special Shareholder is not entitled to vote at any general meeting or any other meeting of any class of shareholders.

RESTRICTIONS ON TRANSFER OF SHARES AND LIMITATIONS ON HOLDINGS
There are no restrictions on transfer or limitations on the holding of the ordinary shares or C Shares other than under the Articles (as described here), under restrictions imposed by law or regulation (for example, insider trading laws) or pursuant to the Company's share dealing code. The Articles provide that the Company should be and remain under United Kingdom control. As such, an individual foreign shareholding limit is set at 15% of the aggregate votes attaching to the share capital of all classes (taken as a whole) and capable of being cast on a poll and to all other shares that the directors determine are to be included in the calculation of such holding. The Special Share may only be issued to, held by and transferred to the Special Shareholder or his successor or nominee.

SHAREHOLDER AGREEMENTS AND CONSENT REQUIREMENTS
There are no known arrangements under which financial rights carried by any of the shares in the Company are held by a person other than the holder of the shares and no known agreements between the holders of shares with restrictions on the transfer of shares or exercise of voting rights. No disposal may be made to a non-Group member which, alone or when aggregated with the same or a connected transaction, constitutes a disposal of the whole or a material part of either the Nuclear business or the assets of the Group as a whole, without consent of the Special Shareholder.

AUTHORITY TO ISSUE SHARES

At the AGM in 2014, authority was given to the directors to allot new ordinary shares up to a nominal value of £125,353,891 equivalent to one-third of the issued share capital of the Company.

In addition, a special resolution was passed to effect a disapplication of pre-emption rights for a maximum of 5% of the issued share capital of the Company. These authorities are valid until the AGM in 2015, and the directors propose to renew these authorities at that AGM. It is proposed to seek a further authority, at the AGM in 2015 to allot up to two thirds of the total issued share capital, but only in the case of a rights issue.

The Board believes that this additional authority will allow the Company to retain the maximum possible flexibility to respond to circumstances and opportunities as they arise; and to allot new C Shares up to a nominal value of £500 million as an alternative to a cash dividend. Such authority expires at the conclusion of the AGM in 2015. The directors propose to renew the authority to allot new C Shares at the AGM in 2015.

AUTHORITY TO PURCHASE OWN SHARES

At the AGM in 2014, the Company was authorised by shareholders to purchase up to 188,030,836 of its own ordinary shares representing 10% of its issued ordinary share capital.

The Company announced on 19 June 2014 that, as there were no material acquisitions planned, and reflecting the strength of the balance sheet, the Company would return the proceeds of the sale of the Energy gas turbines and compressor business to shareholders by way of a £1 billion share buyback. The buyback commenced on 10 December 2014.

As at 31 December 2014, 8,215,000 ordinary shares of 20p each had been purchased at a total aggregate consideration of £68.96 million representing 0.44% of the called-up share capital. The purchased shares have been cancelled.

The authority for the Company to purchase its own shares expires at the conclusion of the AGM in 2015 or 18 months from 1 May 2014, whichever is the earlier. A resolution to renew it will be proposed at that meeting.

VOTING RIGHTS

DEADLINES FOR EXERCISING VOTING RIGHTS

Electronic and paper proxy appointments, and voting instructions, must be received by the Company's Registrar not less than 48 hours before a general meeting.

VOTING RIGHTS FOR EMPLOYEE SHARE PLAN SHARES

Shares are held in various employee benefit trusts for the purpose of satisfying awards made under the various employee share plans. For shares held in a nominee capacity or if plan/trust rules provide the participant with the right to vote in respect of specifically allocated shares, the trustee votes in line with the participants' instructions. For shares that are not held absolutely on behalf of specific individuals, the general policy of the trustees, in accordance with investor protection guidelines, is to abstain from voting in respect of those shares.

CHANGE OF CONTROL

CONTRACTS AND JOINT VENTURE AGREEMENTS

There are a number of contracts and joint venture agreements which would allow the counterparties to terminate or alter those arrangements in the event of a change of control of the Company. These arrangements are commercially confidential and their disclosure could be seriously prejudicial to the Company.

BORROWINGS AND OTHER FINANCIAL INSTRUMENTS

The Group has a number of borrowing facilities provided by various banks. These facilities generally include provisions which may require any outstanding borrowings to be repaid or the alteration or termination of the facility upon the occurrence of a change of control of the Company. At 31 December 2014 these facilities were less than 24% drawn (2013 35%).

The Group has entered into a series of financial instruments to hedge its currency, interest rate and commodity exposures. These contracts provide for termination or alteration in the event that a change of control of the Company materially weakens the creditworthiness of the Group.

EMPLOYEE SHARE PLANS

In the event of a change of control of the Company, the effect on the employee share plans would be as follows:

- PSP – awards would vest pro rata to service in the performance period, subject to Remuneration Committee judgement of Group performance;
- APRA deferred shares – the shares would be released from trust immediately;
- ShareSave – options would become exercisable immediately. The new company might offer an equivalent option in exchange for cancellation of the existing option; and
- Share Incentive Plan (SIP) – consideration received as shares would be held within the SIP, if possible, otherwise the consideration would be treated as a disposal from the SIP.

MAJOR SHAREHOLDINGS

At 12 February 2015, the following companies had notified an interest in the issued ordinary share capital of the Company in accordance with the Financial Services Authority's Disclosure and Transparency Rules:

Company	Date notified	% of issued ordinary share capital
Invesco Limited	7 July 2014	4.99
Harbor International Fund	22 October 2014	4.02
The Capital Group Companies, Inc.	30 October 2014	4.99
Aberdeen Asset Managers Limited	7 November 2014	5.16

OTHER STATUTORY INFORMATION
CONTINUED

DIRECTORS
The names of the directors who held office during the year are set out on pages 54 and 55, with the exception of Iain Conn who retired on 1 May 2014, and Mark Morris who left the Company on 4 November 2014.

DISCLOSURES IN THE STRATEGIC REPORT
The Board has taken advantage of Section 414C(11) of the Companies Act 2006 to include disclosures in the Strategic Report:

	page(s)
• disabled people and employee involvement	44
• the future development, performance and position of the Group	1 to 53
• the financial position of the Group	26 to 31
• R&D activities	20 and 21
• the principal risks and uncertainties	50 to 53

GOING CONCERN
As described on page 161, the Group meets its funding requirements through a mixture of shareholders' funds, bank borrowings, bonds and notes. At 31 December 2014, the Group had borrowing facilities of £3.5 billion and total liquidity of £4.1 billion, including: cash and cash equivalents of £2.9 billion and undrawn facilities of £1.3 billion. £67 million of the facilities mature in 2015.

The Group's forecasts and projections, taking into account reasonably possible changes in trading performance, show that the Group has sufficient financial resources. The directors have reasonable expectation that the Company and the Group are well placed to manage their business risks and to continue in operational existence for the foreseeable future, despite the current uncertain global economic outlook.

Accordingly, the directors continue to adopt the going concern basis (in accordance with the guidance 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' issued by the FRC) in preparing the consolidated financial statements.

POLITICAL DONATIONS
The Group's policy is not to make political donations and therefore did not donate any money to any political party during the year.

However, it is possible that certain activities undertaken by the Group may unintentionally fall within the broad scope of the provisions contained in the Companies Act 2006 (the Act). The resolution to be proposed at the AGM is to ensure that the Group does not commit any technical breach of the Act.

During the year, expenses incurred by Rolls-Royce North America Inc. in providing administrative support for the Rolls-Royce North America Political Action Committee (RRNAPAC) was US$52,690 (2013: US$69,430). PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act.

The PAC is independent of the Group and independent of any political party. The PAC funds are contributed voluntarily by employees and the Company cannot affect how they are applied, although under US Law, the business expenses are paid by the Company. Such contributions do not require authorisation by shareholders under the Companies Act 2006 and therefore do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at this year's AGM to renew the authority given at the 2014 AGM.

GREENHOUSE GAS EMISSIONS
Our greenhouse gas emissions reporting excludes data from our Power Systems business for 2013 and 2014, as detailed on page 46.

In 2014, our total greenhouse gas (GHG) emissions from our facilities, processes, and product test and development was 565 kilotonnes carbon dioxide equivalent (ktCO_2e). This represents an increase of 2% compared with 554 ktCO_2e in 2013 (see table below).

Total GHG emissions (ktCO2e)	2010	2011	2012	2013	**2014***
Direct emissions – facilities, processes, product test and development (Scope 1)	221	218	219	241	**231**
Indirect emissions – facilities, processes, product test and development (Scope 2)	349	327	313	313	**334**
Total for facilities, processes, product test and development	570	545	532	554	**565**
Direct emissions – power generation to grid (Scope 1)				153	**155**
Indirect emissions – power generation to grid (Scope 2)				12	**14**
Total for facilities, processes, product test and development, and power generation to grid				719	**734**
Normalised (by revenue) emissions ration for facilities, processes, product test and development (ktCO_2e/£m)	0.058	0.056	0.049	0.048	**0.047**

* We engaged KPMG LLP to undertake a limited assurance engagement, reporting to Rolls-Royce Holdings plc, using the assurance standards ISAE 3000 and ISAE 3410 over the GHG and TRI data that have been highlighted in this report with ☑ and as set out on page 46 and in the table above. Their full statement, as well as our methodology for reporting and the criteria used as set out in our Basis of Reporting document, is available on our website at www.rolls-royce.com/sustainability. The level of assurance provided for a limited assurance engagement is substantially lower than a reasonable assurance agreement. In order to reach their opinion they performed a range of procedures over the GHG and TRI data including: evaluating the work performed and conclusions reached by the Rolls-Royce Internal Audit team; agreeing a selection of the data to the corresponding source documentation; and reviewing the data collation and validation processes at the head office level, including formulae used and manual calculations performed. A summary of the work they performed is included within their assurance opinion. Non-financial performance information, greenhouse gas quantification in particular, is subject to more inherent limitations than financial information. It is important to read the energy, GHG and TRI data in the context of the full limited assurance statement provided by KPMG LLP and the reporting criteria as set out in the Rolls-Royce Basis of Reporting document.

The figures in the table do not include emissions associated with our Power Systems business. We are in the process of integrating our Power Systems business into our HS&E management system. The figures presented have been adjusted to reflect the disposal of our Energy gas turbines and compressor business in December 2014.

Entities that were part of the Energy business that were not part of the disposal have been included.

Power generation relates to the operation of commercial gas-fired power stations and the figures have been adjusted to include emissions associated with Trigno Energy S.r.l.

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) as of 31 December 2014 data gathered to fulfil our requirements under the Carbon Reduction Commitment (CRC) Energy Efficiency scheme, the UK Government's GHG reporting guidance and Department for Environment, Food & Rural Affairs' (Defra) emissions factors for company reporting for 2014 as the basis of our methodology.

Through our active participation in the International Aerospace Environment Group we have helped to introduce new guidance on greenhouse gas emissions reporting in June to enable consistent communications and reporting for aerospace industry companies. The Guidance is a voluntary consensus standard designed to supplement the World Resources Institute's (WRI) GHG Protocol. It earned the WRI 'Built on GHG Protocol' mark after public comment consultation.

BRANCHES

We are a global company and our activities and interests are operated through subsidiaries, branches of subsidiaries, joint ventures and associates which are subject to the laws and regulations of many different jurisdictions. Our principal subsidiaries and joint ventures are listed on page 152 and 153.

POST BALANCE SHEET EVENTS

There have been no events affecting the Group since 31 December 2014 which need to be reflected in the 2014 Financial Statements.

FINANCIAL INSTRUMENTS

Details of the Group's financial instruments are set out in note 17 to the Financial Statements.

RELATED PARTY TRANSACTIONS

Related party transactions are set out in note 24 to the Financial Statements.

INFORMATION REQUIRED BY UK LISTING RULE 9.8.4

There are no disclosures to be made under the above listing rule.

MANAGEMENT REPORT

The Strategic Report and the Directors' Report together are the management report for the purposes of the Disclosure and Transparency Rules 4.1.8R.

DISCLOSURE OF INFORMATION TO AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

i) so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
ii) the director has taken all steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given, and should be interpreted, in accordance with the provisions of Section 418 of the Companies Act 2006.