



Statement on Climate-Related Risk

Summary

Climate change continues to shape our world and is emerging as a major driving factor affecting long term resilience in industry and the global economy. Its influence on how and where we live will continue to grow in significance in the absence of appropriate action to abate greenhouse gas emissions.

Likewise, the effect that climate change has on the way business and industry operates cannot be overlooked. Whilst we recognise that climate change presents substantive risks to our operations and products, we also recognise that the challenge posed by climate change presents our organisation with enormous opportunity in terms of the provision of sustainable power and transport. It is only by recognising these risks and opportunities that we can implement appropriate actions to maintain our resilience in a world shaped by climate change.

This document may contain forward-looking statements; any statements that may express forecasts, expectations and projections are not guarantees of future performance. This statement is intended to provide information to stakeholders and by its nature may involve risk and uncertainty.

Risk identification process

The assessment and management of climate-related risk and opportunity is an integral part of our enterprise risk management process. This acts to identify both current and emerging risks and opportunities.

Risks and opportunities are considered over a range of timescales including:

- 0 to 1 years for in-year planning;
- 1 to 5 years for annual target setting;
- 5 to 20 years for strategic planning.

Identification of climate-related risks and opportunities occurs at all levels and in all parts of Rolls-Royce, from our Executive Team and Board who oversee principal risks for the company, through to our shop floor where more specific operational and asset level risks are identified.

Climate-related risks and opportunities are identified through a range of processes, with reviews conducted regularly throughout the year in line with UK Governance Code requirements. These processes include horizon scanning, scenario planning, subject

matter expertise (such as that provided by our Environmental Advisory Committee of academic experts), and broader stakeholder engagement. The outputs of these processes are categorised as either threats or opportunities.

Threats are subjected to a materiality assessment which determines if the risk they represent is within our risk appetite, and to understand where risk management or mitigation is required. Risk mitigation is intended to lessen our exposure to risks with the potential to have substantive financial or strategic impact on our business operations and products. Likewise, opportunities go through a similar materiality assessment to determine if and how we could leverage our position as a leading industrial technology company to deliver solutions to help mitigate climate change and generate new business opportunities.

Risk management process

Once identified, risks are assessed using a risk scoring scheme that is formally defined in a risk management plan. Each risk is initially assessed on a qualitative basis, comprising probability of occurrence and the potential impact of the risk defined. A list ranking and prioritising the risks is then made available in a risk register to facilitate management focus on key risks. The most material risks are reviewed every six months by the Board or the most appropriate Board sub-committee. These actions help us to coordinate our near term and long term research and development programmes from which emerge more efficient products, services, and operational capabilities.

Our treatment of climate-related risks is dependent upon the risk in question and our ability to address all the root causes. Risks that are within our control, such as transitional risks associated with product emissions, are more easily mitigated through the development of technology. Those risks that are outside our control are better managed through risk transfer (for example the purchase of business continuity insurance to safeguard against the physical risk of extreme weather disrupting our supply chain). Risks that conform to the Group's defined risk appetite are either accepted or controlled through less direct methods.

Climate-related opportunities are assessed in terms of their ability to generate returns for minimal risk. Those opportunities with high return potential are realised and capitalised on through the development of new technologies via a gated review process. Applying this approach to both transitional opportunities (such as developments in customer requirements for more efficient products) and physical opportunities (such as the change in product performance requirements to accommodate changes in weather and atmospheric conditions) leads to the development of new products and services that help deliver societies requirement for power in more sustainable ways.

Risks and opportunities

We have identified the following risks and opportunities that have the potential for substantive impact on our business.

Risks associated with climate change

| Risk | Description | Likelihood | Potential impact | Timescale | Management |
|-------------------|--|------------|------------------|-----------|---|
| Product operation | If the impacts of climate change results in severe and unanticipated volatility to the physical operating environment of our product, then our ability to operate a viable services oriented business will be greatly reduced | Low | Very High | >5 years | <p>The management of these risks is an integral part of our multi-disciplinary companywide risk management processes. A variety of methods are used to manage these risks depending on the form they take:</p> <ul style="list-style-type: none"> - Horizon scanning and scenario planning; - Investing in the development of products and capabilities to reduce our environmental impact - Enhancing our capabilities to access, invest in and develop key technologies and innovative service offerings that differentiate us competitively; - Forming strategic partnerships and conducting joint research programmes with our partners; - Actively sharing environmental information where possible through industry, government and NGO forums; - Regular reviews of the strength of relevant teams including engineering, technology, environment and sustainability specialists; - Developing and maintaining relationships with government's and stakeholders and proactively influencing policy, regulation and legislation where it affects us. |
| Societal pressure | If the impacts of climate change result in consumer and societal expectations for low carbon transports increasing at a faster pace than we can innovate and develop low carbon solutions for, then we could potentially lose market share. | Low | Very High | 1-5 years | |
| Regulations | If the impacts of climate change results in severe regulatory limits or restrictions on our production and manufacturing activities, then we could be unable to produce our product as planned and will forfeit sales and associated revenue streams | Low | Very High | 1-5 years | |

Opportunities associated with climate change

| Opportunity | Description | Likelihood | Potential impact | Timescale | Management |
|--------------------------|--|-------------|------------------|-----------|--|
| Product operations | If increases in air temperature cause inlet air temperature to increase, then the power provided by current engines will be reduced, limiting their operational capability (particularly in regions of high altitude). This will provide our company with an opportunity to replace current engine fleets and generate increased revenue. | Medium-high | Low-medium | >5 years | <p>The process we have implemented to manage these opportunities takes its inputs from 2 areas:</p> <ul style="list-style-type: none"> • Customer and stakeholder engagement (to understand product and system requirements) • Monitoring developments in the understanding of climate change and the subsequent changes in regulation, both through in-house activities and our Environmental Advisory Committee of distinguished academics and leading environmental scientists. <p>Our internal Environment & Sustainability Committee uses the outputs of this process to co-ordinate associated activities across the Group as to which related opportunities we should capitalise on. Qualifying opportunities are then realised through the development of new technologies using standard design, development and implementation frameworks.</p> |
| Societal demand | If the impacts of climate change result in increased demand from consumer and broader society for more efficient and lower carbon transport systems, then this would enhance the value of our investment in advanced technology and could potentially result in direct increases in the sale of our products and services to replace legacy or provide cost-effective solutions for customers to maintain the efficiency of our products in the field. | Low | Low-medium | >5 years | |
| New business opportunity | If concerns over climate change cause governments to increase the proportion of nuclear energy generation as part of a future low-carbon energy mix, then our capabilities in nuclear and the development of SMRs for civil power stations would put us in a leading position to supply this expanding market. | High | Medium | >5 years | |