

ROLLS-ROYCE GROUP plc
REMUNERATION COMMITTEE
TERMS OF REFERENCE
(approved by the Board on 13 December 2007)

1. **COMPOSITION AND AUTHORITIES**

- 1.1. The membership of the Remuneration Committee (“the Committee”) shall be as determined by the Board.
- 1.2. The Committee shall comprise at least three Directors of the Company, none of whom shall hold executive responsibility in the Company and all of whom shall be independent as determined by the Board.
- 1.3. The Board shall appoint the Chairman of the Committee who shall not hold executive responsibility and shall not be the Chairman of the Company.
- 1.4. The Company Secretary or his nominee shall act as the Secretary of the Committee.
- 1.5. The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be authorised to exercise all or any of the powers and discretions vested in or exercisable by the Committee.
- 1.6. The Committee shall meet at least three times a year and at such other times as the Chairman of the Committee shall require.
- 1.7. The Chairman of the Company, the Chief Executive and other executives of the Company may be invited by the Committee to attend meetings of the Committee but shall not be present during any discussion of their own emoluments.
- 1.8. The Committee may, at its discretion, appoint and instruct suitably experienced and qualified persons to act as advisers to the Committee and attend such meetings as the Committee may decide. The Company shall meet the expense of such advice.
- 1.9. The Committee is authorised by the Board to seek any information it requires from any employee of the company in order to perform its duties and may request that the Company Secretary or the Director of Human Resources obtain this information on their behalf.

2. **RESPONSIBILITIES**

- 2.1. The responsibilities of the Committee shall be:
 - (a) To act in a way which the Committee considers, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole;

- (b) To make recommendations to the full Board of Directors on the strategy and policy for the remuneration of the Chairman of the Company, the Chief Executive, the Executive Directors, other members of the Group Executive and direct reportees of the Chief Executive not covered above (“the Relevant Executives”).
 - (c) To determine the salaries, fees and other remuneration of the Relevant Executives. The remuneration of non-executive directors shall be a matter for the Chairman of the Company and the executive members of the Board.
 - (d) In carrying out the duties at (a) and (b) the Committee shall consider, in consultation with the Chairman and the Chief Executive of the Company, proposals on the strategy and policy for the remuneration of executive directors and senior executives and for the individual remuneration of those executives.
 - (e) To determine the conditions and coverage of any annual incentive schemes for the Relevant Executives.
 - (f) To determine the conditions and coverage of any long term incentive schemes (including restricted share option schemes) for the Relevant Executives.
 - (g) To determine targets for any performance related pay schemes operated by the Company.
 - (h) To determine the issue and terms of all share-based plans available to all employees, subject to agreement by the Board and, as required, by shareholders in general meeting.
 - (i) To determine the scope and content of the Service Contracts (or letters of appointment) of the Relevant Executives, and liaise with the Nominations Committee to ensure that the remuneration of newly appointed executives is within the company’s overall policy.
 - (j) To determine the extent of compensation (if any) in the event of the termination of the Service Contracts of any of the Relevant Executives.
 - (k) To review expenses incurred by the Chairman of the Company, the Chief Executive, and the Executive Directors.
 - (l) To approve the employment of former Executive Directors by the Company as consultants.
- 2.2 The Committee shall be informed of all relevant annual and long-term incentive arrangements in Joint Venture companies and shall review any new proposals in advance of implementation.
- 2.3 In carrying out its responsibilities, the Committee shall give consideration to such guidance on remuneration principles and practice

that are set out in the Combined Code and the UK Listing Authority's Listing Rules and associated guidance.

3. REPORTING

- 3.1. The Committee shall report to the Board as appropriate.
- 3.2. The Committee shall produce an annual report on all aspects of the remuneration of the Relevant Executives for approval by the Board for inclusion in the Company's Annual Report and Accounts and to be put to shareholders for approval at the AGM.
- 3.3. The Committee shall review any disclosures that the Company is required to make in respect of its activities, making any recommendations on how such disclosures should be represented for consideration by the Board, in particular to ensure that the provisions regarding the disclosure of remuneration, as listed in the Directors' Remuneration Report Regulations 2002, are fulfilled.
- 3.4. The Chairman of the Committee shall be available to respond to any shareholders' questions at any general meeting of the Company.
- 3.5. The Committee shall annually review its terms of reference and its own effectiveness and recommend any changes to the Board.

4. DUTIES OF THE SECRETARY

- 4.1. The Secretary shall be required to keep a proper and timely record of meetings of the Committee and circulate such minutes to all members of the Committee. Such records should also be made available for inspection by the Board and the Company's external auditors on request.
- 4.2. The Secretary and the Director of Human Resources shall be required to make available to the Committee full and relevant information as the Committee may require to inform its decisions.
- 4.3. The Secretary shall ensure that the Committee is properly constituted in accordance with these Terms of Reference. Any actual or anticipated variance of these terms shall be brought to the attention of the Chairmen of both the Committee and the Nominations Committee and the Chairman of the Company, as appropriate.
- 4.4. The Secretary shall ensure that these Terms of Reference are made available on the Company's website.