



# Rolls-Royce

Rolls-Royce Group plc

## Notice of Annual General Meeting

**This document is important and requires your immediate attention.**

If you are in any doubt about the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your ordinary shares in Rolls-Royce Group plc, you should pass this document and all other enclosures to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

**The Notice of the Annual General Meeting of Rolls-Royce Group plc, to be held at 11.30am on Wednesday May 7, 2008 in the Platinum Conference Suite at ExCel London, 1 Western Gateway, Royal Victoria Dock, London E16 1XL, is set out in this document.**

**The accompanying blue headed Proxy form for use in connection with the Annual General Meeting should be completed and returned, in accordance with the instructions printed on it, as soon as possible but, in any event, so as to be received by the Company's Registrar by no later than 11.30am on Monday May 5, 2008. Alternatively, you may register the appointment of a proxy electronically by accessing the Investors section on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com) or, if you are a member of CREST, by using the CREST electronic proxy appointment service. Further details are set out in the Explanatory Notes to the Proxy form.**

March 5, 2008



## To holders of ordinary shares

March 5, 2008

Dear Shareholder,

### Notice of Annual General Meeting

The 2008 Annual General Meeting of Rolls-Royce Group plc (the Company) will be held at 11.30am on Wednesday May 7, 2008 in the Platinum Conference Suite at ExCel London, 1 Western Gateway, Royal Victoria Dock, London E16 1XL. The Notice of Annual General Meeting of the Company is set out in this document.

I am writing to you to give details of the items of business to be transacted at the meeting.

### Resolutions 1 to 14

Resolutions 1 to 14 deal with: the Report of the directors and the audited financial statements for 2007 (resolution 1); the approval of the Directors' remuneration report (resolution 2); the election and re-election of directors (resolutions 3 to 10); the reappointment of the Company's auditors and approval of their remuneration (resolution 11); the proposed allotment and issue of B Shares to shareholders (resolution 12); political donations and expenditure (resolution 13); and the remuneration of non-executive directors (resolution 14). All of these resolutions will be proposed as Ordinary Resolutions.

### Resolutions 15 to 19

Resolutions 15 to 19 deal with: the directors' authority to allot new shares (resolution 15); the authority to disapply pre-emption rights on the issue of a limited number of new shares in the Company (resolution 16); the authority for the Company to purchase its own shares (resolution 17); the proposed allotment and issue of C Shares to shareholders (resolution 18); and the adoption of new Articles of Association (resolution 19). All of these resolutions will be proposed as Special Resolutions.

### Poll voting

In line with the approach adopted in recent years, all the above resolutions will be put to the vote and decided by a poll. This reflects best practice and will ensure that shareholders who are not able to attend the Annual General Meeting, but who have appointed proxies, have their votes fully taken into account. Any directors appointed as proxies will cast their votes as directed by shareholders.

The poll results will be notified to the UK Listing Authority and published on the Group's website as soon as possible after the conclusion of the Annual General Meeting.

### Recommendation

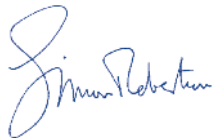
Your directors consider that the resolutions set out in this document are in the best interests of the Company and its shareholders and, accordingly, recommend that you give them your support by voting in favour of the resolutions set out on pages 5 to 7 of the Notice of Annual General Meeting, as your directors intend to do in respect of their own beneficial shareholdings.

### Action to be taken

Shareholders will find enclosed a blue headed Proxy form. If you are not intending to attend the Annual General Meeting in person, please complete and return this form indicating how you wish your votes to be cast on each of the resolutions. To appoint more than one proxy, additional Proxy form(s) may be obtained from the Registrar's helpline on 0870 703 0162, or you may copy the enclosed Proxy form. To be effective, the Proxy form(s) must be completed in accordance with the instructions printed thereon and should be returned as soon as possible but, in any event, so as to reach the Company's Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8FA, **by no later than 11.30am on Monday May 5, 2008.**

Alternatively, you may register the appointment of a proxy electronically by accessing the Investors section on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com) or, if you are a member of CREST, by using the CREST electronic proxy appointment service. Further details are set out in the Explanatory Notes to the Proxy form and in the Notes to the Notice of Annual General Meeting.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Simon Robertson', written in a cursive style.

**Simon Robertson**  
Chairman

# Notice of Annual General Meeting

The 2008 Annual General Meeting of **Rolls-Royce Group plc** (the Company) will be held in the Platinum Conference Suite at ExCel London, 1 Western Gateway, Royal Victoria Dock, London E16 1XL, at **11.30am on Wednesday May 7, 2008** for the purpose of transacting the following business:

To consider and, if thought fit, to pass the proposed resolutions. Voting on these resolutions will be by way of a poll.

## ORDINARY RESOLUTIONS

### **Resolution 1 – Receipt of the Report of the directors and the audited financial statements**

**To** receive the Report of the directors and the audited financial statements for the year ended December 31, 2007.

### **Resolution 2 – Approval of the Directors' remuneration report**

**To** approve the Directors' remuneration report for the year ended December 31, 2007.

### **Resolution 3 – Election of director**

**To** elect Helen Alexander CBE as a director of the Company.

### **Resolution 4 – Election of director**

**To** elect Dr John McAdam as a director of the Company.

### **Resolution 5 – Election of director**

**To** elect Mike Terrett as a director of the Company.

### **Resolution 6 – Re-election of director**

**To** re-elect Peter Byrom as a director of the Company.

### **Resolution 7 – Re-election of director**

**To** re-elect Sir John Rose as a director of the Company.

### **Resolution 8 – Re-election of director**

**To** re-elect Andrew Shilston as a director of the Company.

### **Resolution 9 – Re-election of director**

**To** re-elect Colin Smith as a director of the Company.

### **Resolution 10 – Re-election of director**

**To** re-elect Ian Strachan as a director of the Company.

### **Resolution 11 – Reappointment of the auditors and authority to agree auditors' remuneration**

**To** reappoint KPMG Audit Plc as the Company's auditors to hold office until the next General Meeting at which financial statements are laid before the Company and to authorise the directors to agree the auditors' remuneration.

### **Resolution 12 – Proposed allotment and issue of B Shares**

**That** the directors be and are authorised:

- a) on one or more occasions, to capitalise such sums as they may determine from time to time but not exceeding the aggregate sum of £350 million, standing to the credit of the Company's merger reserve and/or such other reserves as the Company may legally use in paying up in full at par, up to 350 billion non-cumulative redeemable convertible preference shares with a nominal value of 0.1 pence each (B Shares) from time to time having the rights and being subject to the restrictions contained in the Articles of Association of the Company and any terms of their issue;
- b) pursuant to Section 80 of the Companies Act 1985, and for the period up to the end of the next Annual General Meeting of the Company, to exercise all powers of the Company to allot and distribute B Shares credited as fully paid up to an aggregate nominal amount of £350 million to the holders of ordinary shares of 20 pence each on the register of members on any dates determined by the directors from time to time and on the basis of the number of B Shares for every ordinary share held as may be determined by the directors from time to time, this authority being in addition to any other authority for the time being vested in the directors; and
- c) to do all acts and things they may consider necessary or desirable to give effect to this resolution and to satisfy any entitlement to B Shares howsoever arising.

### **Resolution 13 – Political donations and expenditure**

**That** the Company and any company which is or becomes a subsidiary of the Company during the period to which this resolution is effective be and is hereby authorised to:

- a) make donations to political parties and/or independent election candidates;
- b) make donations to political organisations other than political parties; and
- c) incur political expenditure, during the period commencing on the date of this resolution and ending on the date of the Company's next Annual General Meeting, provided that in each case any such donations and expenditure made by the Company or by any such subsidiary shall not exceed £25,000 per company, and the aggregate of those made by the Company and any such subsidiary shall not exceed £50,000. For the purposes of this resolution, the terms 'political donation', 'political parties', 'independent election candidates', 'political organisation' and 'political expenditure' have the meanings given by Part 14 of the Companies Act 2006.

#### **Resolution 14 – Remuneration of non-executive directors**

**That** for the purposes of Article 112(a) of the Articles of Association of the Company, the maximum amount of the ordinary remuneration of the directors shall be increased from £850,000 to £950,000; and such amount as the directors determine should be paid to the directors by way of ordinary remuneration in any year shall be divided among those directors who do not hold any executive office.

#### **SPECIAL RESOLUTIONS**

#### **Resolution 15 – Authority to allot new shares**

**That** the Section 80 amount as defined in Article 10(d) of the Company's Articles of Association shall be £128,748,950.

#### **Resolution 16 – Disapplication of pre-emption rights**

**That** the Section 89 amount as defined in Article 10(d) of the Company's Articles of Association shall be £19,312,342.

#### **Resolution 17 – Authority to purchase own shares**

**That** the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of its ordinary shares of 20 pence each in the capital of the Company, subject to the following conditions:

- a) the maximum number of ordinary shares authorised to be purchased is 182,161,998;
- b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is 20 pence (being the nominal value of an ordinary share);
- c) the maximum price (exclusive of expenses) which may be paid for each ordinary share is the higher of (i) an amount equal to 105 per cent of the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased and (ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from all London Stock Exchange Trading Systems;
- d) this authority shall expire at the close of the Annual General Meeting of the Company held in 2009 or 18 months from the date of this resolution (whichever is the earlier); and
- e) a contract to purchase shares under this authority may be made prior to the expiry of this authority, and concluded, in whole or in part, after the expiry of this authority.

#### **Resolution 18 – Proposed allotment and issue of C Shares**

**That:**

- a) the authorised share capital of the Company be increased from £1,500,050,000.60 to £3,500,050,000.60 by the creation of 2,000,000,000,000 non-cumulative redeemable preference shares with a nominal value of 0.1 pence each ('C Shares') having the rights and restrictions contained in the Articles of Association of the Company as amended by paragraph (c) below;
- b) the directors be and are authorised and empowered:
  - i) on one or more occasions, to capitalise such sums as they may determine from time to time but not exceeding the aggregate sum of £350 million standing to the credit of the Company's merger reserve and/or such other reserves as the Company may legally use in paying up in full at par, up to 350 billion C Shares from time to time having the rights and being subject to the restrictions contained in the Articles of Association of the Company as amended by paragraph (c) below or any other terms and conditions approved by the directors from time to time;
  - ii) pursuant to Section 80 of the Companies Act 1985 (as amended) to exercise all powers of the Company to allot and distribute C Shares credited as fully paid up to an aggregate nominal amount of £350 million to the holders of ordinary shares of 20 pence each on the register of members on any dates determined by the directors from time to time and on the basis of the number of C Shares for every ordinary share held as may be determined by the directors from time to time; and provided that the authority conferred by this resolution shall expire at the end of the next Annual General Meeting of the Company and so that such authority shall be additional to and without prejudice to the unexercised portion of any authorities and powers granted to the directors pursuant to resolution 15 above, and any resolution passed prior to the date of passing of this resolution;
- c) the Articles of Association of the Company be and are amended by the insertion of a new Article 6B which is set out in the document produced to the meeting and initialled by the Chairman of the Meeting for the purpose of identification as May 2008 Articles; and
- d) the directors be and are authorised to do all acts and things they may consider necessary or desirable to give effect to this resolution and to satisfy any entitlement to C Shares howsoever arising.

## Resolution 19 – Adoption of new Articles of Association

**That** with effect from 00.01am on October 1, 2008, the amended Articles of Association of the Company produced to the meeting and initialled by the Chairman for the purpose of identification as October 2008 Articles be approved and adopted as the Articles of Association of the Company, in substitution for, and to the exclusion of, the May 2008 Articles adopted pursuant to resolution 18.

By order of the Board



**Tim Rayner** General Counsel and Company Secretary

March 5, 2008

### Notes:

#### Proxies

1 Members entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and to vote instead of them. A proxy need not be a member of the Company. Appointing a proxy will not preclude members from attending and voting at the Annual General Meeting if they later decide to do so. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this Proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account). To appoint more than one proxy, (an) additional Proxy form(s) may be obtained by contacting the Registrar's helpline on 0870 703 0162 or you may copy the enclosed Proxy form. Please indicate in the relevant box the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is in addition to a previous instruction.

2 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm (BST) on May 5, 2008 or, in the event that the Annual General Meeting is adjourned, registered in the register of members 48 hours before the time of any adjourned meeting(s), shall be entitled to attend or vote at the Annual General Meeting in respect of the number of ordinary shares registered in their name at that time. Changes to entries on the register of members of the Company after 6.00pm (BST) on May 5, 2008 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

3 A blue headed Proxy form is enclosed. To be valid this should be completed, signed and lodged with the Company's Registrar, Computershare Investor Services PLC, in the reply paid envelope provided, not less than 48 hours before the time of the Annual General Meeting or any adjourned meeting at which the person named in the Proxy form proposes to vote. Where this Proxy form is signed under a power of attorney or other authority, such power or authority (or a notarially certified copy thereof) should be enclosed with the Proxy form.

4 In the case of joint registered holders, the signature of one holder will be accepted and the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand on the register of members in respect of the relevant joint holding.

5 You may complete and lodge the Proxy form electronically via the internet by accessing the Investors section on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com). To do so, you will need your PIN and SRN numbers, which are shown on the Proxy form.

6 The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communications from the company in accordance with section 146 of the Companies Act 2006 ('nominated persons'). Nominated persons may have a right under an agreement with the

registered shareholder who holds the shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have the right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

#### Electronic proxy appointment through CREST

7 If you are a CREST system user (including a CREST personal member), you can appoint a proxy or give an instruction to a proxy by having an appropriate CREST message transmitted. To appoint a proxy or to give an instruction to a proxy (whether previously appointed or otherwise) via the CREST system, the CREST message must be received by Computershare (ID number R009) no later than 48 hours before the time appointed for holding the meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp generated by the CREST system) from which Computershare is able to retrieve the message. CREST personal members or other CREST sponsored members should contact their CREST sponsor for assistance with appointing proxies by CREST. For further information on CREST procedures, limitations and system timings please refer to the CREST manual.

#### Corporate representatives

8 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that (i) if a corporate shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman, and the Chairman will vote (or withhold a vote), as corporate representative in accordance with those directions; and (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives ([www.icsa.org.uk](http://www.icsa.org.uk)) for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

#### Documents available for inspection

9 Members may inspect the executive directors' service contracts, the letters of appointment for the Chairman and the non-executive directors, the directors' deeds of indemnity, the Memorandum and Articles of Association of the Company, (the existing Articles of Association and the May 2008 Articles and October 2008 Articles referred to in resolutions 18 and 19 will all be available), and the explanatory statement relating to the B Shares. Members may do this at the Company's registered office during normal business hours and from 10.30am on the date and at the place of the Annual General Meeting until it closes.

# Notice of Annual General Meeting

## Explanation of resolutions

**Resolutions 1 to 14 will be proposed as ordinary resolutions. For these resolutions to be passed, more than 50 per cent of shareholders' votes cast must be in favour.**

### **Resolution 1 – Receipt of the Report of the directors and the audited financial statements**

The directors will present to the Annual General Meeting the Report of the directors and the audited financial statements for 2007.

### **Resolution 2 – Approval of the Directors' remuneration report**

The Directors' Remuneration Report Regulations 2002 (the Regulations) require the Board to present its Directors' remuneration report (the Report) to shareholders in the Annual report. A summary version of the Report is also included in the Annual review and summary financial statement.

The Report is on pages 55 to 64 of the Annual report and a summarised version is on pages 29 to 31 of the Annual review and summary financial statement. It explains the Group's policy on remuneration and gives details of the directors' remuneration for the year ended December 31, 2007. The Company's auditors, KPMG Audit Plc, have audited those parts of the Directors' remuneration report as required by the Regulations. Their report is on page 117 of the Annual report and on page 23 of the Annual review and summary financial statement.

The Board believes that its policy on executive remuneration plays a vital part in helping to achieve the Group's objectives by providing the directors with effective incentives for strong performance.

### **Resolutions 3 to 5 – Election of directors**

The Company's Articles of Association require any director appointed by the Board to retire and seek election at the first Annual General Meeting following his or her appointment. Accordingly, Helen Alexander CBE, Mike Terrett and Dr John McAdam who were appointed as directors by the Board with effect from September 1, 2007, and February 19, 2008 are proposed for election.

### **Resolutions 6 to 10 – Re-election of directors**

In line with the policy adopted by the Company in 2005 requiring directors who have served more than nine years on the Board to seek annual re-election, Peter Byrom is proposed for re-election. Additionally, under the Company's Articles of Association, one third of the directors must retire by rotation each year, with each director also being subject to re-election at intervals of not more than three years. Accordingly Sir John Rose, Andrew Shilston, Colin Smith and Ian Strachan are also proposed for re-election.

Biographies of all of the directors proposed for election and re-election are at Appendix 1.

In line with the Combined Code, the Board has reviewed the independence of its non-executive directors and has determined that they remain fully independent of management. In particular, the Board has reviewed the independence of Peter Byrom who has served on the Board for more than nine years. It has also reviewed the independence of Helen Alexander in view of her cross-directorship at The Economist Newspaper Limited, where Helen Alexander is the Chief Executive and the Chairman is a non-executive director. The Board has concluded that both Peter Byrom and Helen Alexander remain independent, as explained on page 51 of the Annual report and page 28 of the Annual review and summary financial statement.

### **Resolution 11 – Reappointment of the auditors and authority to agree the auditors' remuneration**

This resolution proposes the reappointment of KPMG Audit Plc as the Company's auditors and follows the standard practice of giving authority to the directors to determine the auditors' remuneration.

### **Resolution 12 – Proposed allotment and issue of B Shares**

At the Company's Annual General Meeting in 2004, shareholders approved the issue of B Shares as a method of making payments to shareholders rather than paying a cash dividend.

The Company proposes to make a bonus issue of 89.6 B Shares for every ordinary share held, to holders of ordinary shares on the register on March 7, 2008 rather than paying a final cash dividend for 2007.

Shareholders can redeem their B Shares for cash or convert them into ordinary shares in the Company. Further details of B Shares are contained in the booklet 'Your guide to B Shares', a copy of which can be obtained from the Registrar, or in the Investors section on the Group's website [www.rolls-royce.com](http://www.rolls-royce.com). A detailed explanatory statement, provided in accordance with the Listing Rules of the UK Listing Authority, is also available in the Investors section on the Group's website. A paper copy of this document can be obtained from the Registrar or may be inspected during normal business hours at the registered office of the Company.

Resolution 12 allows for the allotment and issue of B Shares up to the limit specified. It is additional to the general authority to issue shares provided by resolution 15 and expires at the conclusion of the Company's next Annual General Meeting.

Shareholders will not have to make any payments for the B Shares or, should they elect to convert their B Shares, for the ordinary shares arising from such conversion.



**Resolution 13 – Political donations and expenditure**

It is not the policy of the Group to make donations to political parties. However, it is possible that certain routine activities undertaken by the Group may unintentionally fall within the broad scope of the provisions controlling political donations and expenditure contained in the Companies Act 2006. Any expenditure that is regulated under this Act must first be approved by shareholders and will be disclosed in next year's Annual report. This resolution, if passed, will provide the directors with authority to make donations and incur expenditure which might otherwise be caught by the terms of that Act, up to a maximum amount of £25,000 per Group company and maximum amount of £50,000 for the entire Group, until the Annual General Meeting to be held in 2009 (when the directors intend to renew this authority).

**Resolution 14 – Remuneration of non-executive directors**

The Articles of Association require the Company to establish, with shareholder approval, a maximum ceiling on the total remuneration payable to its non-executive directors and non-executive Chairman. This resolution therefore has no relevance to the executive directors. The resolution proposes that the maximum ceiling should be increased from £850,000 to £950,000. The proposed increase in the limit will provide further headroom for the potential recruitment of additional non-executive directors.

**Resolutions 15 to 19 will be proposed as Special Resolutions. For these resolutions to be passed, 75 per cent or more of shareholders' votes cast must be in favour.**

**Resolution 15 – Authority to allot new shares**

The directors of a company may only allot unissued shares if authorised to do so. The Company's Articles of Association authorise the directors to allot shares in accordance with the terms of Articles 10(a) to 10(d). However, it is necessary to specify each year the maximum nominal amount of shares which the directors are authorised to allot. This is called the Section 80 amount.

Resolution 15 enables the directors to allot new shares up to a nominal value of £128,748,950 (referred to in the resolution as the Section 80 amount), comprising approximately 33 per cent of the total issued share capital of the Company at February 6, 2008.

This limit accords with the recommendations of the Association of British Insurers. The directors have no present intention of exercising the authority to allot new shares but will keep the matter under review.

The authority will be valid until the conclusion of the next Annual General Meeting in 2009 or 18 months from the date of this resolution, whichever is the earlier.

**Resolution 16 – Disapplication of pre-emption rights**

Company law requires that the directors, when they decide to issue new shares, must first offer them to shareholders in proportion to the number of shares held by them. This is called a 'pre-emption right'. Resolution 16 sets the maximum nominal amount of new shares which the directors are authorised to allot for cash without first offering them to existing shareholders (referred to in the resolution as the Section 89 amount).

The Section 89 amount is equal to five per cent of the Company's issued share capital as at February 6, 2008. This limit accords with the recommendations of the Association of British Insurers.

**Resolution 17 – Authority to purchase own shares**

Resolution 17 gives the Company authority to buy back its own ordinary shares in the market as permitted by the Companies Act 1985.

The directors believe that, in common with many other listed companies, the Company should obtain from shareholders a general authority to make market purchases of its own ordinary shares on the London Stock Exchange. This resolution specifies the maximum number of shares which may be acquired (up to ten per cent of the Company's issued ordinary share capital at February 6, 2008) and the minimum and maximum prices at which they may be bought.



On February 6, 2008 there were options over ordinary shares in the capital of the Company representing 2.5 per cent of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares was exercised in full and those shares were subsequently cancelled, these options would represent 2.78 per cent of the Company's issued and voting ordinary share capital.

It is expected that any shares purchased under this authority will be held by the Company as Treasury shares. However, prior to any repurchase, the Company will advise shareholders through a Regulatory Information Service if any shares repurchased are to be cancelled. Whilst held as Treasury shares, the shares will not receive any dividend, or dividend equivalent (apart from any issue of bonus shares), and will have no voting rights. They may be used by the Company to satisfy incentive schemes (including option schemes), may be resold or may be cancelled. The transfer of Treasury shares by the Company into any incentive scheme (including any option schemes) will be treated by the Company as if the shares had been issued to that incentive scheme when calculating the aggregated commitments of all the Company's incentive schemes in any rolling ten year period. For this purpose the Treasury shares will be included in the calculation of the Company's issued share capital.

The authority will be exercised only if the directors believe that to do so would result in an increase in earnings per ordinary share and would be in the best interests of shareholders generally. The directors have no present intention of exercising the authority to purchase the Company's ordinary shares but will keep the matter under review.

The authority will be valid until the conclusion of the next Annual General Meeting in 2009 or 18 months from the date of this resolution, whichever is the earlier.

#### Resolution 18 – Proposed allotment and issue of C Shares

A summary of the rights attaching to C Shares, which are proposed to be included in the Company's Articles of Association, is set out in Appendix 2.

Assuming that the resolution is approved, the Company proposes to **make future payments to shareholders** in the form of a bonus issue of C Shares rather than B Shares. The issue of C Shares should maintain the tax advantages to the Company of B Shares but will eliminate further dilution arising from the conversion of B Shares.

Shareholders will be able to redeem their C Shares for cash or continue to hold them to receive dividends or for future redemption. The Company plans to make arrangements with its Registrar to allow shareholders to reinvest the redemption proceeds from C Shares in a market purchase of Ordinary Shares. Shareholders should refer to Appendix 2 for further details.

Resolution 18 allows for the creation, allotment and issue of C Shares.

18a) is the authority for an increase in the Company's authorised share capital to allow for the creation of C Shares. This resolution proposes to increase the authorised share capital by £2 billion or approximately 133 per cent. The creation of authorised C Share capital of this amount will provide sufficient C Shares for their allotment and issue as an alternative to the payment of dividends for the foreseeable future. The directors do not currently expect to use the increased share capital for purposes other than the issue and allotment of C Shares. The amount of C Shares that may be allotted and issued at any time is limited by 18b.

18b) is the authority for the directors to allot and issue C Shares up to the limit specified. This authority, under Section 80 of the Companies Act 1985, is separate from, and additional to, the authority to issue ordinary shares provided by resolution 15 and expires at the conclusion of the Company's next Annual General Meeting.

18c) amends the Articles of Association of the Company to enable the introduction of C Shares.

Shareholders will not have to make any payments for C Shares.

#### Resolution 19 – Adoption of new Articles of Association

For details of the proposed changes to the Articles of Association to take account of the introduction of the Companies Act 2006 see Appendix 3.

**APPENDIX 1**

Biographies of directors proposed for election and re-election:

**Helen Alexander CBE****Non-executive director, a member of the remuneration and nominations committees**

Appointed to the Board in September 2007. Helen Alexander was appointed Chief Executive of The Economist Group in January 1997, having joined the company in 1984. She was Managing Director of The Economist Intelligence Unit from 1993 until the end of 1996. She is a non-executive director of Centrica plc, a Trustee of the Tate Gallery and a governor of St Paul's Girls' School. She was awarded a CBE for services to publishing in 2004. She has an MBA from INSEAD. She is currently Chairman of PPA, the magazine industry trade association. Age 51.

**Dr John McAdam****Non-executive director, a member of the remuneration and nominations committees**

Appointed to the Board in February 2008, John McAdam was the Chief Executive of ICI plc until ICI's recent acquisition by Akzo Nobel. He is a non-executive director of J Sainsbury Plc and is a non-executive director, and Chairman designate, of United Utilities PLC and a member of the University of Cambridge Chemistry Advisory Board. Age 59

**Mike J Terrett****Chief Operating Officer**

Appointed to the Board in September 2007, having joined Rolls-Royce in 1978. He has held a variety of senior positions in the development of new aero engine programmes, including Managing Director of Airlines and President and Chief Executive Officer of International Aero Engines (IAE) based in the United States. Prior to his appointment as Chief Operating Officer, he was President – Civil Aerospace. He is a member of the Institute of Mechanical Engineers and a Fellow of the Royal Aeronautical Society. Age 51.

**Peter J Byrom BSc, FCA****Non-executive director, a member of the remuneration and nominations committees**

Appointed to the Board in 1997. He is Chairman of Domino Printing Sciences plc and Molins PLC, and a non-executive director of AMEC plc. He is a Fellow of the Royal Aeronautical Society. He was a director of N M Rothschild & Sons Limited from 1977 to 1996. Age 63.

**Sir John Rose****Chief Executive since 1996, a member of the nominations committee**

Appointed to the Board in 1992 having joined Rolls-Royce in 1984. He is a Trustee of The Eden Project. Age 55.

**Andrew B Shilston MA, ACA, MCT****Finance Director**

Appointed to the Board in 2003 having joined Rolls-Royce in 2002. He is a non-executive director of Cairn Energy PLC and was Finance Director of Enterprise Oil plc from 1993 until 2002. Age 52.

**Colin P Smith BSc Hons, FEng, FRAeS, FIMechE  
Director – Engineering and Technology**

Appointed to the Board in 2005 having joined Rolls-Royce in 1974. He has held a variety of key positions within Engineering, including Director – Research and Technology and Director of Engineering and Technology – Civil Aerospace. He is a Fellow of the Royal Academy of Engineering, the Royal Aeronautical Society and the Institution of Mechanical Engineers. Age 52.

**Ian C Strachan****Non-executive director, a member of the audit and nominations committees**

Appointed to the Board in 2003. He is a non-executive director of Reuters Group plc, Johnson Matthey plc, Xstrata plc and Transocean Inc. He was Chief Executive of BTR plc, Deputy Chief Executive and Chief Financial Officer of Rio Tinto plc and non-executive Chairman of Instinet Group Inc. Age 64.

## APPENDIX 2

### Introduction

The Company has previously identified the importance and relevance of making payments to Shareholders in the form of B Shares rather than cash dividends to aid the recovery of historical Advance Corporation Tax (ACT). This position remains and so future Shareholder payments will be made in a form that enables the Company to avoid the creation of further shadow ACT and assist in the recovery of historical ACT, leading to reduced future cash taxes that benefit all Shareholders.

As a result of the Company's strategic financial review the directors have concluded that the increase in the Company's issued share capital, which occurs when Shareholders choose to convert B Shares to Ordinary Shares, is inconsistent with its strategy to maintain a more efficient balance sheet and limit Earnings Per Ordinary Share dilution.

Consequently, it is intended to create a new class of share to be titled 'C Shares' to replace B Shares. The only material difference between the existing B Shares and the proposed C Shares is that C Shares will not carry an option to convert into Ordinary Shares. The Company plans to make arrangements with its Registrar to allow Shareholders to reinvest the redemption proceeds from C Shares in a market purchase of Ordinary Shares. The key features attaching to C Shares are set out in more detail below.

The directors propose that the 2007 final payment to Shareholders be made by a final issue of B Shares using the current B Share process. Subsequently, the directors intend that future Shareholder payments, commencing with the 2008 interim payment to Shareholders, will be by the issue of C Shares.

**Subject to the approval of Resolution 18 at the AGM, following the 2007 final payment to Shareholders, and prior to the issue of C Shares for the 2008 interim payment to Shareholders, the directors will consider exercising the Company's rights to redeem for cash any B Shares then in issue. Therefore B Shareholders should note that the final option to convert their B Shares into Ordinary Shares is likely to be in July 2008 for which completed election forms must be received by the Registrar by no later than 5.00pm on May 30, 2008.**

### Anticipated timetable

Record date for B Share entitlements	March 7, 2008
Approval of C Shares at AGM	May 7, 2008
Latest time and date for the receipt of completed B Share elections	5.00pm May 30, 2008
B Share issue in respect of 2007 final payment to Shareholders	July 1, 2008
Announcement of 2008 half-year results and interim payment to Shareholders in the form of C Shares	July 24, 2008
Redemption of B Shares remaining in issue	September 2008
Record date for C Share entitlements	October 31, 2008
Latest time and date for the receipt of C Share elections	5.00pm December 5, 2008
C Share issue in respect of 2008 interim payment to Shareholders	January 2, 2009

## PART 1: Key features of the C Share proposal

### Summary of the Proposals:

Following the July 2008 B Shares issue, the Company expects to make future payments to Shareholders through the issue of C Shares. The Company may revert to paying dividends if it considers that it is appropriate to do so.

Shareholders will have the ability to redeem any number of their C Shares for cash.

Alternatively Shareholders may take no action and retain their C Shares. The Company expects to offer Shareholders opportunities to redeem their C Shares in the months of January and July each year.

Shareholders who retain their C Shares will receive a C Preferential Dividend of 75 per cent of LIBOR on the 0.1 pence nominal value of each of their C Shares.

C Shares will not be listed and will only have limited voting rights. The details of these rights are set out more fully in Part 2 of this Appendix 2.

In certain circumstances the Company will have the option to redeem all outstanding C Shares. These circumstances are set out in Part 2 of this Appendix 2.

As was the case with the issue of B Shares, elections by Shareholders can apply to all future issues of C Shares until such time as the Shareholders contact the Registrar and elect otherwise:

- Shareholders who have previously completed an Evergreen Election in relation to redemption of B Shares will be deemed to have elected to redeem for cash all C Shares that may be issued by the Company in the future; and
- the Company intends to arrange a C Share Reinvestment Programme (CRIP) with the Registrar. Under the CRIP, the Registrar will apply the redemption proceeds from C Shares to purchase additional Ordinary Shares on behalf of Shareholders. Shareholders

who have previously completed an Evergreen Election in relation to conversion of B Shares will be deemed to have elected to participate in the CRIP unless they cancel that election in the prescribed manner. Further details will be provided following the 2008 half-year results. SIP participants will be asked to make a new election in respect of C Shares held within the SIP indicating whether they want those C Shares to be redeemed, or to retain those C Shares for up to five years. In the absence of such an election, a SIP participant will be deemed to have elected to retain those C Shares. Further details will be provided in a separate communication to participants in the SIP.

If for any reason the issue of C Shares does not proceed, the directors will continue to issue B Shares.

### PEPs and ISAs

C Shares will **not** be qualifying investments for the purposes of the relevant PEP and ISA regulations.

### ADR Holders

On behalf of the ADR holders, the Bank of New York, as depositary, has advised the Company that, in accordance with the terms of the Deposit Agreement, it will effectively sell the C Shares to be issued to it back to the Company, by electing to redeem all these C Shares. The Bank of New York will distribute the proceeds of the redemption to the ADR holders.

### US Registration

C Shares have not been and will not be registered under the US Securities Act of 1933 (as amended) or the state securities laws of any state of the United States and such shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of such laws.

### United Kingdom and United States taxation

A summary of the general tax position of United Kingdom Shareholders and United States Shareholders as at the date of this document is set out in Part 3 of this Appendix 2. *Shareholders who are in any doubt as to their tax position should consult a professional adviser.*

## PART 2: Details of C Shares and the proposed redemption offer

### 1 Allotment of C Shares

It is proposed that the sum of £350 million standing to the credit of the Company's merger reserve and/or such other reserves as the Company may legally use for this purpose, be capitalised and applied in paying up C Shares with a nominal value of 0.1 pence each. As fractions of C Shares cannot be issued, the total number of C Shares to be issued to you will be rounded down to the nearest whole C Share.

C Shares will not be marketed or made available in whole or in part to the public.

C Shares will be an unlisted security and will not be admitted to the Official List or admitted to trading on the London Stock Exchange. The Company will apply for C Shares to be admitted to CREST. Accordingly, settlement of market transactions may take place within the CREST system.

### 2 Features of C Shares

Subject to the approval of the resolution to issue C Shares at the Company's AGM, C Shares will be non-cumulative redeemable preference shares with a nominal value of 0.1 pence (one tenth of a penny) each. The following is a brief summary of the rights and restrictions of C Shares, the full terms of which will be reflected in the amended Articles of Association of the Company:

- a) *Income*
  - (i) Out of the profits available for distribution, C Shareholders shall be entitled, in priority to any payment of a dividend to the Shareholders and *pari passu* to any payment of a dividend to B Shareholders, to be paid a C Preferential Dividend at such rate on the nominal value thereof (exclusive of any associated tax credit relating thereto or withholding tax deductible therefrom) as calculated in accordance with sub-paragraph (ii) below, such dividend to be paid half-yearly in arrears in respect of Calculation Periods (as defined below) on January 2 and July 1 in each year or, if any such date is not a Business Day, on the next day which is a Business Day (without any interest or payment in respect of such delay) (each a 'Payment Date').
  - (ii) Each of the periods commencing on January 1 and ending on June 30 and commencing on July 1 and ending on December 31 (as applicable) is called a 'Calculation Period'. The rate per annum of C Preferential Dividend for each Calculation Period shall be 75 per cent of LIBOR on the first Business Day immediately preceding the first day of the relevant Calculation Period.
  - (iii) Payments of C Preferential Dividends in respect of Calculation Periods shall be made to C Shareholders on the register on a date selected by the directors being not less than 15 days nor more than 120 days (or, in default of selection by the directors, the date falling 120 days) prior to the relevant Payment Date. The aggregate dividend due to each C Shareholder will be rounded down to the nearest penny.
  - (iv) The C Shareholders shall not be entitled to any further right of participation in the profits of the Company.
  - (v) All C Preferential Dividends which are unclaimed for a period of 12 years from the date when the dividend became due for payment shall be forfeited and shall revert to the Company.

*b) Capital*

C Shares will not rank *pari passu* with the Ordinary Shares, but will rank *pari passu* with any B Shares in issue. On a return of capital on a winding-up, C Shareholders shall be entitled, in priority to any payment to Shareholders, to the repayment of the nominal capital paid up or credited as paid up on C Shares held by them, together with a sum equal to the outstanding C Preferential Dividend which will have accrued but not been paid until the date of the return of capital.

The C Shareholders shall not be entitled to any further right of participation in the profits or assets of the Company. If, on a return of capital, the amounts available for payment are insufficient to cover in full the amounts payable on C Shares, the holders of such shares will share pro rata in the distribution of assets (if any) in proportion to the full preferential amounts to which they are entitled. The aggregate amount due to each C Shareholder on the return of capital on a winding-up will be rounded down to the nearest whole penny.

*c) Voting and general meetings*

C Shares will carry limited voting rights. The C Shareholders shall not be entitled in respect of their holdings of such shares to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting except any general meeting at which a resolution to wind up the Company is to be considered in which case C Shareholders shall have the right to attend the general meeting and shall be entitled to speak and vote only on such resolution. Where C Shareholders are entitled to vote at a general meeting of the Company upon any such resolution being proposed at such general meeting, on a show of hands every C Shareholder who (being an individual) is present in person or, being a corporation, is present by representative will have one vote and on a poll every C Shareholder present in person or, being a corporation, is present by representative or by proxy will have one vote for every 200 C Shares held by such holder.

*d) Redemption Right*

C Shares are redeemable for cash in accordance with the Redemption Offer as set out below in paragraph 4.

*e) Transfers*

C Shares will be transferable by instrument of transfer in usual or common form.

*f) Class rights*

The Company will be entitled from time to time to effect a reduction of its capital other than the capital paid up on C Shares and (subject to the provisions of the Companies Act) to create, allot and issue further shares, whether ranking *pari passu* with, in priority to or deferred to C Shares, and such reduction of capital or creation, allotment or issue of any such further shares (whether or not ranking in any respect in priority to C Shares and whether or not the same confer on the holders voting

rights more favourable than those conferred by C Shares) shall be deemed not to involve a variation of the rights attaching to C Shares for any purpose.

### **3 Form in which C Shares will be issued and Shareholders to whom they will be issued**

*a) Holders of C Share Entitlements in certificated form*

Subject to the approval of the resolution to issue the C Shares at the Company's AGM, all Shareholders on the Record Date will have their names entered into the Company's C Share register, to reflect their holding of C Shares. C Share Entitlements will be issued in registered form to Certificated Shareholders. C Shares issued in certificated form may be dematerialised and held through CREST.

Certificated Shareholders who make an Evergreen Election to redeem C Shares will receive cash and will not receive C Share certificates.

Unless they complete and return the Redemption Mandate by the prescribed time, those Certificated Shareholders who have not previously made an Evergreen Election will be sent a C Share certificate.

*b) Holders of C Share Entitlements in uncertificated form (ie in CREST)*

Holders of C Share Entitlements in uncertificated form will be given a separate option to redeem or reinvest those shares via a CREST notification.

### **4 Redemption Offer and reinvestment**

Following the first issue of C Shares, the Company expects to offer to redeem for cash all C Shares, in accordance with the provisions of this paragraph 4.

*a) Circumstances under which C Shares can be redeemed*

During the Election Period, and in accordance with the terms and conditions of the Redemption Offer, C Shareholders may elect to exercise their Redemption Right. The Company expects to set Election Periods twice a year and may at any other time, by notifying C Shareholders in any way it deems appropriate, allow C Shareholders to elect to have their C Shares redeemed at their 0.1 pence nominal value (subject to rounding in the manner the Company deems appropriate) and on the terms and conditions announced by the Company at those times.

In addition, the Company may, at its discretion, redeem all unredeemed C Shares remaining in issue in the following circumstances:

- (i) at any time, if the aggregate number of C Shares in issue is less than 10 per cent of the aggregate number issued; or
- (ii) at the Company's option, at any time, in the following circumstances:



- (aa) a proposed capital restructuring of the Company by way of a creation and/or issue of new or existing securities (other than C Shares); or
- (bb) a new holding company being inserted above the Company; or
- (cc) an acquisition of the Company; or
- (dd) a demerger from the Group.

All C Shares which are redeemed will be cancelled and will not be reissued.

*b) Manner in which Shareholders may redeem their C Shares*

Certificated Shareholders who make an Evergreen Election to redeem their C Shares, or who have previously completed an Evergreen Election in relation to redemption of B Shares, will have their C Shares redeemed automatically and will have cash sent to them unless they change or cancel their election.

All other Certificated Shareholders (including those who make an Evergreen Election but change it) may elect during the Election Period to redeem C Shares and any C Shares that may be issued in the future, for cash by completing the Redemption Mandate in the prescribed manner and ensuring that it is received by the Registrar by the prescribed time, details of which are to be provided following the 2008 half-year results. Mandates received after this time will not be processed except, in exceptional circumstances, at the discretion of the Company.

CREST participants who wish to redeem will be required to send an electronic message through the CREST system for C Share Entitlements during the Election Periods and will not be able to record an Evergreen Election.

The Company reserves the right at its sole discretion to reject any Redemption Mandates or other election mandates if redemption pursuant to them would be illegal.

*c) C Share Reinvestment Programme*

The Company intends to arrange a C Share Reinvestment Programme (CRIP) with the Registrar. Under the CRIP, the Registrar will apply the redemption proceeds from C Shares to purchase additional Ordinary Shares on behalf of Shareholders. Shareholders who have previously completed an Evergreen Election in relation to conversion of B Shares will be deemed to have elected to participate in the CRIP unless they cancel that election in the prescribed manner. Further details will be provided following the 2008 half-year results. SIP participants will be asked to make a new election in respect of C Shares held within the SIP, indicating whether they want those C Shares to be redeemed, or to retain those C Shares for up to five years. In the absence of such an election, a SIP participant will be deemed to have elected to retain those C Shares. Further details will be provided in a separate communication to participants in the SIP.

## **5 Number of C Shares that may be redeemed and Evergreen Elections**

The Redemption Mandate allows an Evergreen Election to be made by Shareholders holding their Ordinary Shares in certificated form to redeem for cash all C Shares that may be issued by the Company in the future. Shareholders who have previously completed an Evergreen Election in relation to redemption of B Shares, will be deemed to have elected to redeem for cash all C Shares that may be issued by the Company in the future.

## **6 Retention of C Shares, future redemption opportunities, and future C Share issues**

C Shareholders who wish to retain C Shares to be issued to them need take no action.

As long as there is a tax benefit in doing so, the Company expects to offer C Shares rather than dividends on an ongoing basis. Election Periods are expected to be set to allow redemptions in the months of January and July on a yearly basis. Shareholders will on such occasions be able to redeem any retained C Shares.

## **7 Non-United Kingdom resident Shareholders**

Shareholders who are not resident in the United Kingdom or who are citizens, residents or nationals of other countries should consult their professional advisers to ascertain whether the effect of any Redemption Offer or subsequent disposal of C Shares by them will be subject to any restrictions or require compliance with any formalities imposed by the laws or regulations of, or any body or authority located in, the jurisdiction in which they are resident or to which they are subject. In particular, it is the responsibility of any Shareholder not resident in the United Kingdom or a citizen, resident or national of another country wishing to redeem or reinvest C Shares or otherwise dispose of any shares in the Company to satisfy himself or herself fully as to observance of any government, exchange control or other consents which may be required or the compliance with other necessary formalities needing to be observed and the payment of any issue, transfer or other taxes or duties in such jurisdiction. The distribution of this document in certain jurisdictions may be restricted by law. Persons into whose possession this document comes should inform themselves about and observe any such restrictions. Neither this document nor any other document issued or to be issued by or on behalf of the Company in connection with the redemption or reinvestment of C Shares constitutes an invitation or offer to redeem or reinvest C Shares in any jurisdiction in which such invitations or offers are unlawful.

In the event that the Board is advised that the allotment and/or issue of C Shares would or might infringe the laws of any jurisdiction outside the United Kingdom, or would or might require the Company to obtain governmental or other consent, or effect any registration, filing or other formality with which, in the opinion of the Company, it would be unable to comply or which it regards as unduly onerous, the Company will have

the right to issue C Shares to which such Shareholders are entitled, to a nominee on behalf of such Shareholders which nominee shall be entitled to sell or redeem such C Shares for cash with the net proceeds of such sale or redemption (as the case may be) being remitted to such Shareholders. Any remittance of the net proceeds of sale or redemption shall be at the risk of the relevant Shareholder.

In particular, but without prejudice to the generality of the foregoing, C Shares have not been and will not be registered under the US Securities Act of 1933 (as amended) or the state securities laws of any state of the United States and such shares may not be offered or sold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of such laws.

This document is not a Securities Prospectus (Wertpapierprospekt) within the meaning of the German Securities Prospectus Act (Wertpapierprospektgesetz) of June 22, 2005 as amended and has not been filed or approved by the German Federal Financial Services Supervisory Authority (Bundesanstalt für Finanzdienstleistungsaufsicht) or any other competent German authority under the relevant laws.

This Appendix 2, copies thereof or any document relating to C Shares are only being distributed to Shareholders and, for informational purposes only to holders in the ADR Programme. C Shares are therefore only being issued to Shareholders.

Prices and values of, and income from, shares may go down as well as up. It should be noted that past performance is not a guide for future performance. Persons needing advice should consult an independent professional adviser.

## 8 General

All questions as to validity, form and eligibility in relation to the Redemption Mandate, the mandate on the reverse of C Share certificates and CREST USE instructions, will be determined by the Company (which may delegate this power in whole or part to the Registrar) and such determination shall be final and binding.

No authority conferred by or agreed to by execution of the Redemption Mandate, the mandate on the reverse of C Share certificates and CREST USE instructions, shall be affected by, and all such authority shall survive, the death or incapacity of the Shareholder executing such mandate. All obligations of such Shareholders shall be binding upon the heirs, personal representatives, successors and assignees of such Shareholders.

C Shares will be in registered form and may be settled through CREST if in uncertificated form. Future redemptions of C Shares may take place via CREST.

## PART 3: Taxation

The tax treatment for UK or US tax resident Shareholders of the receipt of C Shares and the redemption or retention of those C Shares is expected to be the same as the tax treatment of the receipt, and the redemption or retention, of B Shares (including, in the case of UK tax resident individuals, the effect of the amended UK capital gains tax rules expected to be introduced with effect from April 6, 2008). A UK tax resident Shareholder who elects to redeem C Shares and reinvest the proceeds into Ordinary Shares under the proposed CRIP, or who does not revoke an existing Evergreen Election for conversion of B Shares, should however note that the UK tax consequences are expected to be different from, and may be less favourable than, electing to convert B Shares directly into Ordinary Shares – further information will be provided when details of the proposed CRIP are circulated to Shareholders later this year. Shareholders resident in jurisdictions other than the UK or the US should seek confirmation from their tax adviser in their local jurisdiction as to whether the tax consequences of receiving, and redeeming or retaining, C Shares will be the same as that of receiving, and redeeming or retaining B Shares and how any reinvestment through the proposed CRIP is likely to be taxed. Details will be provided after the 2008 half-year results. **This statement is not intended to be, and should not be construed to be, legal or taxation advice to any particular shareholder. If you are in any doubt as to your taxation position, you are recommended to seek your own taxation advice immediately from an independent professional adviser.**

**This paragraph does not apply to SIP participants in respect of their interests in Ordinary Shares and B Shares held within the SIP. There will be a separate communication to SIP participants.**

## PART 4: Definitions

The following terms apply throughout this Appendix 2 unless the context otherwise requires.

**ADR** means American Depositary Receipt;

**ADR Programme** means the American Depositary Receipt Programme between the Bank of New York, the Company and the owners and holders of deposit receipts, set up pursuant to a deposit;

**AGM or Annual General Meeting** means the Annual General Meeting of the Company to be held at 11.30am on May 7, 2008;

**B Shareholder** means a holder of B Shares;

**B Shares** means the existing non-cumulative redeemable convertible preference shares of 0.1 pence each in the capital of the Company issued from time to time;



**Business Day** means a day upon which sterling deposits may be dealt in on the London interbank market and commercial banks are generally open in London;

**C Preferential Dividend** means the non-cumulative preferential dividend to be paid to C Shareholders as more fully set out in paragraph 2 of Part 2 of this Appendix 2;

**C Shareholder** means a holder of C Shares;

**C Shares** means the non-cumulative redeemable preference shares of 0.1 pence each in the capital of the Company proposed to be issued from time to time on the terms and conditions set out in this Appendix 2;

**C Share Entitlements** means the entitlements of those Shareholders holding Ordinary Shares on the Record Date to be issued C Shares pursuant to the terms and conditions set out in this Appendix 2;

**Calculation Period** means each six-monthly period ending on the last day in June and December each year by reference to which the C preferential dividend is calculated;

**Certificated Shareholders** means Shareholders holding Ordinary Shares in certificated form;

**Companies Act** means the Companies Act 1985 (as amended or re-enacted);

**Company** means Rolls-Royce Group plc;

**CREST** means the relevant system (as defined in the Uncertificated Securities Regulation 1995) in respect of which Euroclear UK & Ireland Limited is the operator;

**CRIP** means C Share Reinvestment Programme to be provided by the Registrar;

**Election Period** means any period or periods when the Company gives C Shareholders an opportunity to redeem C Shares for cash;

**Evergreen Election** means (in the case of C Shares) an election made by Shareholders to either redeem all C Shares issued to them from time to time or reinvest all C Share redemption proceeds from C Shares via the CRIP, until such time as the Shareholder cancels that election in the prescribed manner, and (in the case of B Shares) means an election made by Shareholders to either redeem or convert all B Shares issued to them from time to time, until such time as the Shareholder cancels that election in the prescribed manner;

**Group** means the Company and its subsidiary undertakings (as defined in the Companies Act) from time to time;

**LIBOR** means London Inter-Bank Offered Rate for six month deposits in sterling per annum which appears on the display designated as page 3750 on the Telerate Monitor (or such other page or service as may replace it for the purpose of displaying LIBOR of leading banks for sterling deposits) at or about 11.00am (BST) on the relevant date;

**London Stock Exchange** means London Stock Exchange plc;

**Official List** means the Official List of the UK Listing Authority;

**Ordinary Shares** means Ordinary Shares of 20 pence each in the share capital of the Company;

**Proposal** means C Share issue, and the redemption of C Shares described in this Appendix 2;

**Record Date** means 6.00pm on October 31, 2008, being the record date for the proposed bonus issue of C Shares to take place in January 2009 details of which are to be provided following the 2008 half-year results;

**Redemption Mandate** means the form that allows Shareholders to elect to redeem all their C Shares during the Election Period subject to the conditions referred to therein;

**Redemption Offer** means the offer made by the Company in paragraph 4 of Part 2 of this Appendix 2 to redeem any or all C Shares for cash on the terms and conditions set out in this Appendix 2;

**Redemption Right** means the right of C Shareholders to redeem their C Shares for cash when the Company makes the Redemption Offer or a Future Redemption Offer, more fully set out in paragraph 4 of Part 2 of this Appendix 2;

**Registrar** means Computershare Investor Services PLC, or such other agent as the Company may appoint from time to time;

**Shareholder** means a holder of Ordinary Shares;

**SIP** means the Rolls-Royce Group plc SharePurchase and ShareBonus Plan;

**UK or United Kingdom** means the United Kingdom of Great Britain and Northern Ireland; and

**US or United States** means the United States of America and its territories and possessions, any state of the United States of America and the District of Columbia.

### APPENDIX 3

The UK Government recently announced that implementation of certain key sections of the Companies Act 2006 (the '2006 Act') will now be delayed until October 1, 2009. Consequently, the amendments to the Articles of Association of the Company (the 'Current Articles') proposed at the AGM this year address the implementation of the 2006 Act up to and including October 1, 2008, with further amendments to be proposed at next year's AGM to incorporate provisions of the 2006 Act that will come into effect on October 1, 2009. Resolution 19 proposes to amend the Current Articles with effect from October 1, 2008 to take account of those sections of the 2006 Act that will have been brought into force by that date (referred to in this Appendix 3 as the 'October 2008 Articles').

The material differences between the Current Articles and the October 2008 Articles are set out below. Other changes, which are of a minor, technical or clarifying nature and minor amendments which merely reflect changes made by the 2006 Act, have not been noted in this Appendix 3. Copies of the Current Articles and the October 2008 Articles are available for inspection as noted on page 7.

#### Changes to be made in the October 2008 Articles

##### *(a) Directors' conflicts of interest*

The 2006 Act sets out directors' general duties. The provisions largely codify the existing law, but with some changes. Under the 2006 Act, from October 1, 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with a company's interests. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The 2006 Act allows directors of public companies to authorise conflicts and potential conflicts where appropriate, where the Articles contain a provision to this effect. The 2006 Act also allows the Articles to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty. The October 2008 Articles give the directors authority to approve such situations and to include other provisions to allow conflicts of interest to be dealt with in a similar way to the current position.

There are safeguards that will apply when directors decide whether to authorise a conflict or potential conflict. First, only independent directors (ie those who have no interest in the matter being considered) will be able to take the relevant decision, and second, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote a company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the October 2008 Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

It is the Board's intention to report annually on the Company's procedures for ensuring that the Board's powers of authorisation of conflicts are operated effectively and that the procedures have been followed.

##### *(b) Electronic and web communications*

Provisions of the 2006 Act which came into force in January 2007 enable companies to communicate with shareholders by electronic and/or website communications. The October 2008 Articles continue to allow communications to shareholders in electronic form and, in addition, they also permit the Company to take advantage of the new provisions relating to website communications. Before the Company can communicate with a shareholder by means of website communication, the relevant shareholder must be asked individually by the Company to agree that the Company may send or supply documents or information to him/her by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the shareholder (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a shareholder can always request a hard copy version of the document or information.

The Company has not yet decided whether to utilise these provisions of the 2006 Act but seeks to amend its Current Articles to allow it to do so in the future if the Board considers such methods of communication with shareholders to be appropriate.

##### *(c) Articles that differ from statutory provisions*

Provisions in the Current Articles that differ from provisions contained in the 2006 Act are, in the main, being amended to bring them into line with the 2006 Act. Examples of such provisions include the form of resolutions, the period of notice required to convene general meetings and the holding of AGMs, which are explained in items (d) to (i) below.

##### *(d) Form of resolution*

The Current Articles contain a provision that, where for any purpose an ordinary resolution is required, a special or extraordinary resolution is also effective and that, where an extraordinary resolution is required, a special resolution is also effective. This provision is being amended, as the concept of extraordinary resolutions has not been retained under the 2006 Act.

*(e) Convening extraordinary and annual general meetings*

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the 2006 Act. In particular, an extraordinary general meeting to consider a Special Resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. Further, the chairman of a meeting no longer has a casting vote.

*(f) Votes of members*

Under the 2006 Act, proxies are entitled to vote on a show of hands, whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment have been altered by the 2006 Act so that the Articles cannot provide that they should be received more than 48 hours before the meeting or, in the case of a poll taken more than 48 hours after the meeting, more than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. The October 2008 Articles reflect all of these new provisions.

The Company is aware of concerns that have been raised about the effect of section 323(4) of the 2006 Act, which provides that where a corporate shareholder appoints multiple corporate representatives and they exercise their powers to vote at a general meeting in different ways the power is treated as not exercised. The Company is subject to the new law regardless of any amendment to its Articles but intends to engage with relevant shareholder groups and to take account of best practice to allow, as far as possible, multiple corporate representatives to attend general meetings of the Company and ensure their votes are counted. The Company understands that representations have been made to the UK Government to change the provisions of the 2006 Act in this regard. In light of this, the Company shall wait until this issue is resolved before amending its Articles.

*(g) Age of directors on appointment or re-election*

The Current Articles contain a provision stating that continuation in office of a director after he has attained the age of 70 shall be subject to the provisions of the Companies Act 1985. This provision has been removed from the October 2008 Articles in line with the 2006 Act.

*(h) Provision for employees on cessation of business*

The 2006 Act provides that the powers of the directors to make provision for a person employed or formerly employed by the Company in connection with the cessation or transfer to any person of the whole or part of the undertaking of the Company, may be exercised by the directors or by the Company in general meeting. However, if the power is to be exercised by the directors, the Articles must include a provision to this effect. The October 2008 Articles provide that the directors may exercise this power.

*(i) Directors' indemnities and loans to fund expenditure*

The 2006 Act has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies. The October 2008 Articles reflect the wider provisions of the 2006 Act.



Rolls-Royce Group plc  
65 Buckingham Gate  
London SW1E 6AT  
England

[www.rolls-royce.com](http://www.rolls-royce.com)