

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. PART II OF THIS DOCUMENT COMPRISES AN EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT. If you are in any doubt as to the contents of this document or what action you should take, you are recommended to seek your own independent financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who, if you are taking advice in the United Kingdom, is authorised pursuant to FSMA or if you are taking advice in Ireland, is authorised or exempted under the European Communities (Markets in Financial Instruments) Regulations (Nos. 1 to 3) 2007 or the Investment Intermediaries Act 1995 or from another appropriately authorised independent financial adviser if you are in a territory outside the United Kingdom or Ireland.

If you sell or otherwise transfer or have sold or otherwise transferred all of your shares in Rolls-Royce Group, you should immediately forward this document and the accompanying documents (including the Forms of Proxy) to the purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for delivery to the purchaser or transferee. However, these documents should not be forwarded or transmitted (in whole or in part) in, into or from any jurisdiction in which such act would constitute a violation of the relevant laws of such jurisdiction. If you sell or otherwise transfer or you have sold or otherwise transferred only part of your holding of shares in Rolls-Royce Group, you should retain these documents and consult the bank, stockbroker or other agent through whom the sale or transfer was effected.

The release, publication or distribution of this document and/or the accompanying documents in or into jurisdictions other than the United Kingdom may be restricted by law and therefore this document and/or the accompanying documents may not be distributed or published in any jurisdiction except under circumstances which result in compliance with any applicable laws and regulations. Persons into whose possession this document and/or the accompanying documents come should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

A Prospectus relating to Rolls-Royce Holdings and Admission, prepared in accordance with the Prospectus Rules made under Part VI of FSMA, is expected to be made available in accordance with Rule 3.2 of the Prospectus Rules in electronic form on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com), and may be inspected as described in paragraph 18 of Part II of this document, after it has been approved by, and filed with, the FSA. Further details in relation to the timing of the publication of the Prospectus will be set out in an announcement relating to the Proposals expected to be made by Rolls-Royce Group on or around the date of this document. A copy of the Prospectus may also be obtained from the time of publication until Admission on request, free of charge, by writing to the registered office of Rolls-Royce Group (65 Buckingham Gate, London SW1E 6AT, United Kingdom), to the registered office of Rolls-Royce Holdings (65 Buckingham Gate, London SW1E 6AT, United Kingdom) or to Rolls-Royce Group's Registrar, Computershare Investor Services PLC, at their offices at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom.

N M Rothschild & Sons Limited (*Rothschild*), which is authorised and regulated in the UK by the FSA, is acting exclusively for Rolls-Royce Group and Rolls-Royce Holdings and no-one else in connection with the Proposals described in this document and will not regard any other person (whether or not a recipient of this document) as its client in relation to the Proposals and will not be responsible to anyone (whether or not a recipient of this document) other than Rolls-Royce Group and Rolls-Royce Holdings for providing the protections afforded to clients of Rothschild or for providing advice in connection with the Proposals or any transaction or arrangement referred to herein.



## Recommended Proposals for the introduction of a new holding company Rolls-Royce Holdings plc

by means of a Scheme of Arrangement  
under Part 26 of the Companies Act 2006  
and

## Notices of Annual General Meeting and Court Meeting

Shareholders should read the whole of this document and any other documents incorporated by reference, particularly the Prospectus. Capitalised terms in this document have the meanings ascribed to them in the section of this document headed Definitions and Glossary. References to times are to London time unless otherwise stated.

Your attention is drawn to the letter from the Chairman of Rolls-Royce Group in Part I of this document, which contains the unanimous recommendation of the Board that you vote in favour of the Resolutions to be proposed at the Annual General Meeting, and the Scheme at the Court Meeting. A letter from the Financial Adviser explaining the Scheme, which constitutes an Explanatory Statement in compliance with section 897 of the Companies Act, appears in Part II of this document.

Meetings to consider the Proposals contained in this document will be held on 6 May 2011. The Annual General Meeting will start at 11.00 a.m. on that date and the Court Meeting at 11.30 a.m. (or as soon thereafter as the Annual General Meeting concludes or is adjourned). Notices of the Annual General Meeting and the Court Meeting, each of which will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE are set out in Part VI of this document.

The action to be taken by Rolls-Royce Group Shareholders in respect of the Meetings is set out in paragraph 20 of Part II of this document. **Rolls-Royce Group Shareholders will find enclosed with this document a white Form of Proxy for use in connection with the Annual General Meeting and a blue Form of Proxy for use in connection with the Court Meeting. Whether or not you intend to be present at the Meetings in person, please complete and sign both of the enclosed Forms of Proxy in accordance with the instructions printed on them and return them to Rolls-Royce Group's Registrar, Computershare, at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom, as soon as possible and, in any event, so as to be received by 11.00 a.m. in the case of the white Form of Proxy and 11.30 a.m. in the case of the blue Form of Proxy, both on 4 May 2011. Forms of Proxy returned by fax will not be accepted.**

If the blue Form of Proxy for the Court Meeting is not returned by the above time, it may be handed to the Chairman of the Court Meeting or to Rolls-Royce Group's Registrar, Computershare, immediately prior to the start of the Court Meeting. However, in the case of the Annual General Meeting, unless the white Form of Proxy is returned by the time mentioned in the instructions printed on it, it will be invalid. The completion and return of the relevant Form of Proxy will not prevent you from attending and voting in person at the Annual General Meeting or the Court Meeting or any adjournment thereof, if you so wish and are so entitled.

Rolls-Royce Group Shareholders who hold their shares through CREST and who wish to appoint a proxy or proxies for the Meetings or any adjournment(s) by using the CREST electronic proxy appointment service may do so by using the CREST proxy voting service in accordance with the procedures set out in the CREST Manual. CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider, should refer to that CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf. Further details are set out in Part II of this document.

Application will be made to the UK Listing Authority for all of the Rolls-Royce Holdings Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for all of the Rolls-Royce Holdings Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities. If the Scheme proceeds as presently envisaged, it is expected that dealings in Rolls-Royce Group Ordinary Shares will continue until close of business on 20 May 2011 and that Admission of the Rolls-Royce Holdings Ordinary Shares will become effective, and that dealings in Rolls-Royce Holdings Ordinary Shares on the London Stock Exchange's main market for listed securities will commence, at 8.00 a.m. on 23 May 2011.

No person has been authorised to give any information or make any representations other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. The contents of this document are not to be construed as legal, business or tax advice. Each prospective investor should consult his own independent legal, financial or tax adviser for legal, financial or tax advice.

**ROLLS-ROYCE HOLDINGS ORDINARY SHARES HAVE NEITHER BEEN MARKETED TO, NOR ARE AVAILABLE FOR PURCHASE OR EXCHANGE, IN WHOLE OR IN PART, BY, THE PUBLIC IN THE UNITED KINGDOM OR ELSEWHERE IN CONNECTION WITH THE INTRODUCTION OF THE ROLLS-ROYCE HOLDINGS ORDINARY SHARES TO THE OFFICIAL LIST. THIS DOCUMENT IS NOT A PROSPECTUS BUT A SHAREHOLDER CIRCULAR AND DOES NOT CONSTITUTE AN INVITATION OR OFFER TO SELL OR THE SOLICITATION OF AN INVITATION OR OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED, SUBSCRIBED FOR, PURCHASED, EXCHANGED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.**

Securities may not be offered or sold in the United States unless they are registered under the US Securities Act or are exempt from such registration. The Rolls-Royce Holdings Ordinary Shares will not be, and are not required to be, registered with the SEC under the US Securities Act but will be issued in reliance upon the exemption from registration provided by Section 3(a)(10) thereof. **Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the Rolls-Royce Holdings Ordinary Shares or passed on the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.**

This document does not constitute a prospectus or a listing prospectus for the purpose of Art. 652a of the Swiss Code of Obligations. In addition, this document has not been reviewed by any regulatory authority in Hong Kong; no prospectus in relation to Admission has been, or will be, lodged with, or registered by The Australian Securities and Investments Commission; and no registration statement has been, or will be, filed with the Japanese Ministry of Finance in relation to Admission of the Rolls-Royce Holdings Ordinary Shares. Accordingly, subject to certain exceptions, the Rolls-Royce Holdings Ordinary Shares may not, directly or indirectly, be offered or sold within, or offered or sold to a resident of, Hong Kong, Australia or Japan.

#### **INFORMATION FOR UNITED STATES SHAREHOLDERS**

In the United States, this document is being furnished to Rolls-Royce Group Shareholders solely to explain the Proposals and describe the action recommended to be taken by Rolls-Royce Group Shareholders in relation to the Annual General Meeting and the Court Meeting. This document is personal to each Rolls-Royce Group Shareholder and does not constitute an offer to any person or to the public generally to subscribe for or otherwise acquire Rolls-Royce Holdings Ordinary Shares. This document is not an offer of securities for sale in the United States. The Rolls-Royce Holdings Ordinary Shares to be issued to Rolls-Royce Group Shareholders in connection with the Scheme will not be, and are not required to be, registered with the SEC under the US Securities Act, but will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) of that Act. For the purpose of qualifying for the Section 3(a)(10) exemption with respect to the Rolls-Royce Holdings Ordinary Shares issued pursuant to the Scheme, Rolls-Royce Group will advise the Court that it will rely on the Section 3(a)(10) exemption based on the Court's sanctioning of the Scheme, which will be relied upon by Rolls-Royce Group as an approval of the Scheme following a hearing on its fairness to Rolls-Royce Group Shareholders at which hearing all such Rolls-Royce Group Shareholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such Rolls-Royce Group Shareholders.

The Rolls-Royce Holdings Ordinary Shares have not been and will not be registered on a United States securities exchange or quoted on any inter-dealer quotation system in the United States. Rolls-Royce Group expects that Rolls-Royce Holdings will not intend to take any action to facilitate a market in Rolls-Royce Holdings Ordinary Shares in the United States and consequently Rolls-Royce Group believes that it is unlikely that an active trading market in the United States will develop for the Rolls-Royce Holdings Ordinary Shares.

The Rolls-Royce Holdings Ordinary Shares will not be registered under the securities laws of any state of the United States, and will be issued in the United States pursuant to the Scheme in reliance on available exemptions from such state law registration requirements.

#### **Enforceability of judgments**

Rolls-Royce Group is a public limited company incorporated under the laws of England and Wales and Rolls-Royce Holdings is a public limited company incorporated under the laws of England and Wales. Certain of the directors of Rolls-Royce Holdings and Rolls-Royce Group are citizens or residents of countries other than the United States. Substantially all or a significant portion of the assets of such persons and a significant proportion of the assets of the Group are located outside the United States. As a result, it may not be possible to effect service of process within the United States upon such persons or Rolls-Royce Holdings and/or Rolls-Royce Group, or to enforce against them judgments of US courts, including judgments predicated upon civil liabilities under the securities laws of the United States or any state or territory within the United States. There is substantial doubt as to the enforceability in the United Kingdom in original actions or in actions for enforcement of judgments of US courts, based on the civil liability provisions of US federal securities laws.

#### **NOTICE TO NEW HAMPSHIRE RESIDENTS**

**NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT, ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

#### **INFORMATION FOR CANADIAN SHAREHOLDERS**

This document constitutes an offering of the securities described herein only in those jurisdictions and to those persons where and to whom they may be lawfully offered for sale, and therein only by persons permitted to sell such securities. This document is not, and under no circumstances is to be construed as an advertisement or a public offering of the securities described herein. No securities commission or similar regulatory authority in Canada has reviewed or in any way passed upon this document or the merits of the securities described herein and any representation to the contrary is an offence in Canada.

The Rolls-Royce Holdings Ordinary Shares will be issued in Canada pursuant to the Scheme and the issuance of the Rolls-Royce Holdings Ordinary Shares will be on a private placement basis only and is exempt from the requirement that Rolls-Royce Holdings prepare and file a prospectus with the relevant Canadian regulatory authorities pursuant to National Instrument 45-106 – Prospectus and Registration Exemptions. Accordingly, any resale of the Rolls-Royce Holdings Ordinary Shares must be made in accordance with applicable securities laws which may require resale to be made in accordance with prospectus and dealer registration requirements or pursuant to exemptions from such registration and prospectus requirements. These resale restrictions may in some circumstances apply to resales of the Rolls-Royce Holdings Ordinary Shares outside Canada. Rolls-Royce Group Shareholders who are resident in Canada are advised to seek legal advice prior to any resale of the Rolls-Royce Holdings Ordinary Shares.

Neither Rolls-Royce Group nor Rolls-Royce Holdings is, and nor does it intend to become, a “reporting issuer”, as such term is defined under applicable Canadian securities legislation, in any province or territory of Canada in which Rolls-Royce Holdings Ordinary Shares will be offered and there is currently no public market for the Rolls-Royce Holdings Ordinary Shares in Canada and no such market may ever develop. Under no circumstances will Rolls-Royce Group or Rolls-Royce Holdings be required to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Rolls-Royce Holdings Ordinary Shares to the public in any province or territory of Canada. Rolls-Royce Group Shareholders resident in Canada are advised that neither Rolls-Royce Group nor Rolls-Royce Holdings currently intends to file a prospectus or similar document with any securities regulatory authority in Canada qualifying the resale of the Rolls-Royce Holdings Ordinary Shares to the public in any province or territory of Canada.

Any discussion of taxation and related matters contained in this document does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to acquire the Rolls-Royce Holdings Ordinary Shares and, in particular, does not address Canadian tax considerations. Rolls-Royce Group Shareholders resident in Canada should consult their own legal, financial and tax advisers with respect to the tax consequences of the Scheme in their particular circumstances.

Both Rolls-Royce Group and Rolls-Royce Holdings are incorporated under the laws of England and Wales. All or substantially all of the directors and officers of Rolls-Royce Group and Rolls-Royce Holdings may be located outside Canada and, as a result, it may not be possible for Canadian investors to effect service of process within Canada upon Rolls-Royce Group or Rolls-Royce Holdings or such persons. All or a substantial portion of the assets of Rolls-Royce Group and Rolls-Royce Holdings and such other persons may be located outside Canada and, as a result, it may not be possible to satisfy a judgment against Rolls-Royce Group or Rolls-Royce Holdings or such persons in Canada or to enforce a judgment obtained in Canadian courts against Rolls-Royce Group or Rolls-Royce Holdings or persons outside Canada.

Upon receipt of this document, each recipient confirms that it has expressly requested that all documents evidencing or relating in any way to the

sale of the securities described herein (including for greater certainty any purchase confirmation or any notice) be drawn in the English language only. *Par la réception de ce document, chaque investisseur Canadien confirme par les présentes qu'il a expressément exigé que tous les documents faisant foi ou se rapportant de quelque manière que ce soit à la vente des valeurs mobilières décrites aux présentes (incluant, pour plus de certitude, toute confirmation d'achat ou tout avis) soient rédigés en Anglais seulement.*

#### INFORMATION FOR NEW ZEALAND SHAREHOLDERS

This document is not a New Zealand prospectus or an investment statement and has not been registered, filed with or approved by any New Zealand regulatory authority under or in accordance with the Securities Act 1978 (or any other relevant New Zealand law). This document may not contain all the information that an investment statement or prospectus under New Zealand law is required to contain. The Rolls-Royce Holdings Ordinary Shares are offered to the public of New Zealand under this document in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand).

#### INFORMATION FOR UNITED ARAB EMIRATES SHAREHOLDERS

This document is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates (**UAE**). The Rolls-Royce Holdings Ordinary Shares have not been and will not be registered under Federal Law No. 4 of 2000 Concerning the Emirates Securities and Commodities Authority and the Emirates Security and Commodity Exchange, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

The promotion of the Rolls-Royce Holdings Ordinary Shares and interests therein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and does not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this document is strictly private and confidential and is being distributed to a limited number of persons and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The Rolls-Royce Holdings Ordinary Shares may not be offered or sold directly or indirectly to the public in the UAE.

#### Cautionary note regarding forward looking statements

This document includes statements that are, or may be deemed to be, forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms **believes, estimates, anticipates, expects, intends, plans, annualised, goal, target, aim, may, will, would, could or should** or, in each case, their negative or other variations or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this document and they include statements regarding the intentions, beliefs or current expectations of the Directors, Rolls-Royce Holdings or the Group concerning, amongst other things, the results of operations, expectations in respect of the Proposals, financial condition, liquidity, prospects, growth, strategies and dividend and shareholder payment policy of the Group and the industries and markets in which it operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future and may be beyond the Group's ability to control or predict. Forward-looking statements are not guarantees of future performance. The Group's actual results of operations, financial condition, liquidity, dividend and shareholder payment policy and the development of the industries and markets in which it operates may differ materially from the impression created by the forward-looking statements contained in this document. In addition, even if the results of operations, financial condition, liquidity and dividend and shareholder payment policy of the Group, and the development of the industries and markets in which it operates, are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in subsequent periods. Important factors that could cause these differences include, but are not limited to changes in general economic conditions, including, in particular, factors related to the Group's financial indebtedness and covenants; factors related to the Group's strategy; fluctuations in product and commodities pricing; factors related to the Group's international operations; factors related to the Group's supply chain, logistics infrastructure or IT systems; the ability of the Group to manage its growth; actions of competitors and suppliers; risks related to litigation in the jurisdictions in which the Group operates; the ability of the Group to identify, finance and successfully integrate acquisitions; the ability of the Group to retain and attract personnel; changes to government regulations in countries in which the Group has operations; the ability of the Group to effect restructurings, achieve disposals and realise anticipated cost savings; changes in interest or exchange rates and other factors discussed elsewhere in this document and in the Prospectus, particularly in the section of the Prospectus titled *Risk Factors* (all such factors, and cautionary statements with respect thereto, collectively, the **Cautionary Statements**). All subsequent written and oral forward-looking statements attributable to the Group or persons acting on behalf of the Group are expressly qualified in their entirety by such Cautionary Statements.

Except as required by the UK Listing Rules, the Disclosure and Transparency Rules, the Prospectus Rules, the London Stock Exchange or otherwise required by law or regulation, Rolls-Royce Group expressly disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in Rolls-Royce Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

You are advised to read this document, the accompanying documents, the Prospectus and the information incorporated by reference into the Prospectus in their entirety for a further discussion of the factors that could affect the Group's future performance and the industries and markets in which it operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document, the accompanying documents, the Prospectus and/or the information incorporated by reference into the Prospectus may not occur.

**Rounding**

Some financial and other numerical information in this document has been rounded and, as a result, the numerical figures shown as totals in this document may vary slightly from the exact arithmetic aggregation of the figures that precede them.

**No profit forecast**

No statement in this document is intended as a profit forecast or a profit estimate and no statement in this document should be interpreted to mean that earnings per share for the current or future financial years would necessarily match or exceed the historical published earnings per share.

**Helpline**

If you have any questions about this document, the Annual General Meeting, the Court Meeting or the Proposals or are in any doubt as to how to complete the Forms of Proxy or to appoint a proxy electronically, please call the Rolls-Royce shareholder helpline between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on 0870 703 0162 (from within the UK) or +44 870 703 0162 (from outside the UK). Calls will be charged at 7 pence per minute from a BT landline. Calls to the Rolls-Royce shareholder helpline from outside the UK will be charged at international rates. Other telephone provider costs may vary. Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Proposals.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

<u>Time and Date</u>	<u>Event</u>
5.00 p.m. (New York time) on Friday 11 March 2011	Voting record time in respect of holders of Rolls-Royce ADRs
5.00 p.m. (New York time) on Thursday 28 April 2011	Latest time for receipt by the US Depositary of voting instructions in respect of the Rolls-Royce ADRs
11.00 a.m. on Wednesday 4 May 2011	Latest time for receipt by Rolls-Royce Group's Registrar of white Form of Proxy from Rolls-Royce Group Shareholders for the Annual General Meeting <sup>(1)</sup>
11.30 a.m. on Wednesday 4 May 2011	Latest time for receipt by Rolls-Royce Group's Registrar of blue Form of Proxy from Rolls-Royce Group Shareholders for the Court Meeting <sup>(1)</sup>
6.00 p.m. on Wednesday 4 May 2011	Scheme Voting Record Time <sup>(2)</sup>
11.00 a.m. on Friday 6 May 2011	Annual General Meeting
11.30 a.m. on Friday 6 May 2011	Court Meeting <sup>(3)</sup>
Friday 20 May 2011	First Court Hearing to sanction the Scheme and confirm the Rolls-Royce Group reduction of capital <sup>(4)</sup>
Friday 20 May 2011	Last day of dealings in, and for registration of transfers of, Rolls-Royce Group Ordinary Shares
4.30 p.m. on Friday 20 May 2011	Suspension of listing of, and dealings in, Rolls-Royce Group Ordinary Shares
6.00 p.m. on Friday 20 May 2011	Scheme Record Time
Monday 23 May 2011	Scheme Effective Date
8.00 a.m. on Monday 23 May 2011	Rolls-Royce Holdings Ordinary Shares listed, crediting of Rolls-Royce Holdings Ordinary Shares to CREST accounts and trading in Rolls-Royce Holdings Ordinary Shares on the Official List of the London Stock Exchange commences <sup>(5)</sup>
Tuesday 24 May 2011	Second Court Hearing to confirm the Rolls-Royce Holdings Reduction of Capital
Tuesday 24 May 2011	Rolls-Royce Holdings Reduction of Capital becomes effective
By Tuesday 31 May 2011	Despatch of share certificates in respect of Rolls-Royce Holdings Ordinary Shares in Certificated form

Unless otherwise stated, all references to times in this document are to London time. The times and dates given are based on the Directors' expectations and may be subject to change. These times and dates are indicative only and will depend, amongst other things, on the date on which the Court sanctions the Scheme and the Rolls-Royce Holdings Reduction of Capital. In particular, certain Court dates are subject to confirmation by the Court. If the scheduled date of either or both of the Court Hearings is changed, Rolls-Royce Group will give adequate notice of the change by issuing an announcement through an RIS. Any changes to other times or dates indicated above may, in Rolls-Royce Group's discretion, be notified in the same manner. All Rolls-Royce Group Shareholders have the right to attend the Court Hearings. In order to vote, holders of Rolls-Royce ADRs are required to follow the voting instructions and to meet the deadlines provided by or on behalf of the Bank of New York Mellon, as depositary for the Rolls-Royce ADRs. These instructions will describe how to provide voting instructions to the US Depositary with respect to the Rolls-Royce ADRs.

### Notes:

- (1) Blue Forms of Proxy for the Court Meeting not returned by this time may be handed to the Chairman or the Registrar at the Court Meeting prior to the vote being taken. To be valid, white Forms of Proxy for the Annual General Meeting must be lodged by 11.00 a.m. on Wednesday 4 May 2011.
- (2) If either the Annual General Meeting or the Court Meeting is adjourned, the voting record time for the adjourned meeting will be 6.00 p.m. on the date falling two days before the adjourned meeting.
- (3) To commence at the time fixed or as soon thereafter as the Annual General Meeting concludes or is adjourned, whichever is the later.
- (4) For further details of the time and location of the First Court Hearing, Rolls-Royce Group Shareholders and creditors may consult the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com) from 19 May 2011.
- (5) Rolls-Royce Holdings Ordinary Shares credited to the account of the US Depositary will be represented by the Rolls-Royce ADRs (in certificated or book-entry form) which will continue to be honoured by the US Depositary.



## SUMMARY

### THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to the action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under FSMA if you are in the United Kingdom or, if not, from another appropriately authorised independent financial adviser.

On 23 May 2011, it is proposed that Rolls-Royce Group will be replaced as the holding company of the Group by a new holding company by way of a scheme of arrangement. The new holding company is *Rolls-Royce Holdings plc*. You will receive one new ordinary share in Rolls-Royce Holdings in exchange for each existing ordinary share you hold in Rolls-Royce Group.

New share certificates will be issued and existing certificates will become invalid. However, the number of shares you hold and the way in which you receive payments will be unchanged. Subject to normal market fluctuations, the value of your shareholding should be unaffected.

Here is what you need to do:

- Read this summary.
- Read the Chairman's letter set out at Part I of this document. This explains what is happening and why your Board recommends that you should vote in favour of the Proposals.
- Read the remainder of this document.
- If you have any further queries, please call the Rolls-Royce shareholder helpline, the details of which are set out below.

**Rolls-Royce Group Shareholders should read the whole of this document and not just rely solely on this summary. This summary should not be regarded as a substitute for reading the whole document.**

#### ROLLS-ROYCE SHAREHOLDER HELPLINE TELEPHONE NUMBER:

**0870 703 0162**

(+44 870 703 0162 if you are calling from outside the UK)

Monday to Friday, 8.30 a.m. to 5.30 p.m. (UK time)

Calls cost 7 pence (including VAT) per minute from a standard BT landline.

Charges from mobiles and other operators may vary.

Calls from outside the UK will be charged at international rates.

**Note:** For legal reasons, this helpline will only be able to provide practical information and will not provide advice on the merits of any of the Proposals or Admission or give any financial, legal or taxation advice. For financial, legal or taxation advice, you will need to consult an independent financial or legal adviser.



## 1. WHAT IS BEING PROPOSED?

It is proposed that a new, non-trading, holding company be put in place for the Group, being Rolls-Royce Holdings, which is incorporated in England and Wales. Rolls-Royce plc and its operating subsidiaries will continue as the principal trading entities of the Group and Rolls-Royce Group will become an intermediate non-trading, holding company of the Group.



Rolls-Royce Holdings will own all of the shares in Rolls-Royce Group and you will be issued with shares in Rolls-Royce Holdings, represented by a new share certificate (if you hold your shares in Certificated form). The Rolls-Royce Holdings Ordinary Shares will be listed on the Official List of the London Stock Exchange.

## 2. WHY IS ROLLS-ROYCE PROPOSING THE SCHEME?

The Scheme and subsequent reduction of capital are the most effective way to provide flexibility to the capital structure of the Group and to create distributable and merger reserves, which will allow for the continued issue and redemption of C Shares by the Group. This will help the recovery of the Group's £182m of historic advance corporation tax.

## 3. WHY IS ROLLS-ROYCE USING A SCHEME?

The Scheme is a formal procedure under the Companies Act which is commonly used to carry out corporate reorganisations. The Scheme requires the approval of Rolls-Royce Group Shareholders and the Court. If approved, all Rolls-Royce Group Shareholders will be bound by the Scheme regardless of whether or how they voted.

## 4. DO I HAVE TO PAY ANYTHING UNDER THE SCHEME?

No. All Rolls-Royce Holdings Ordinary Shares arising as a result of the Scheme are being issued to Rolls-Royce Group Shareholders in consideration for the cancellation of their existing Rolls-Royce Group Ordinary Shares. No payment is required.

## 5. WILL THERE BE ANY CHANGE TO THE VALUE OF MY SHAREHOLDING?

Subject to normal market fluctuations, there is no reason to believe that the market price of each Rolls-Royce Holdings Ordinary Share following the Scheme will be different to the market price that each Rolls-Royce Group Ordinary Share would have been, had Rolls-Royce Holdings not been introduced as a new holding company of the Group.

## 6. DO I NEED TO VOTE?

It is important that as many Rolls-Royce Group Shareholders as possible cast their votes (whether in person or by proxy). This applies to the Annual General Meeting and the Court Meeting.

If you do not wish, or are unable, to attend the Annual General Meeting and/or the Court Meeting you may appoint someone (known as a proxy) to act on your behalf and vote at those Meetings.

## 7. HOW DO I APPOINT A PROXY?

You may appoint your proxy by completing the white Form of Proxy (in relation to the Annual General Meeting) and the blue Form of Proxy (in relation to the Court Meeting) and returning them in accordance with the instructions set out on the relevant Form of Proxy, or by electronic appointment, further details of which are set out in section 20 of Part II of this document.

## **8. HOW CAN I VOTE?**

You can vote in person at the meetings or you can complete, sign and return the Forms of Proxy. You can also vote online by going to [www.eproxyappointment.com](http://www.eproxyappointment.com).

## **9. WHAT DO I DO WITH MY OLD SHARE CERTIFICATES?**

When the Scheme becomes effective, your holding of Rolls-Royce Group Ordinary Shares will be replaced by an equivalent holding of Rolls-Royce Holdings Ordinary Shares. Your Rolls-Royce Group share certificates will cease to be valid on completion of the Scheme. Upon receipt of the new Rolls-Royce Holdings share certificate, you should destroy your Rolls-Royce Group share certificates.

## **10. WHEN WILL I RECEIVE MY ROLLS-ROYCE HOLDINGS SHARE CERTIFICATE?**

It is expected that share certificates for Rolls-Royce Holdings Ordinary Shares will be despatched to you on or around 31 May 2011. These are important documents and should be retained in a safe place. If you have not received your new share certificate by 13 June 2011, please contact the Registrar, Computershare.

## **11. HOW DOES THE SCHEME AFFECT C SHARES AND PAYMENTS TO SHAREHOLDERS?**

The way in which you receive shareholder payments will be unchanged. It is intended that Rolls-Royce Holdings will continue the practice of the Group to make payments to shareholders in the form of C Shares, twice yearly in January and July.

## **12. WHAT HAPPENS TO THE C SHARES I HOLD IN ROLLS-ROYCE GROUP?**

All C Shares in the capital of Rolls-Royce Group will be redeemed compulsorily on 6 April 2011 ahead of the implementation of the Scheme. Cash payments in respect of the redemption of the C Shares are expected to be made no later than 15 April 2011.

## **13. WHAT ARE C SHARES?**

C Shares are redeemable shares of 0.1 pence each with limited voting rights that can, during defined periods, be redeemed for cash. It is intended that Rolls-Royce Holdings will issue C Shares in the same way that Rolls-Royce Group has done and, as for C Shares previously issued by Rolls-Royce Group, you will be able to opt to:

- redeem C Shares for cash;
- redeem C Shares for cash and reinvest the proceeds in ordinary shares through the C Share Reinvestment Plan (*CRIP*); or
- keep the C Shares.

## **14. WHAT HAPPENS TO MY CURRENT C SHARE PAYMENT INSTRUCTION?**

Your current C Share payment instruction will be carried forward to Rolls-Royce Holdings.

If you currently have a payment instruction in place to redeem C Shares for cash this will be carried forward so that any C Shares issued to you in future by Rolls-Royce Holdings will be redeemed for cash.

If you currently have a payment instruction in place to participate in the CRIP this will be carried forward, along with any cash residual you may have accrued under the plan.

You are able to change your payment instruction at any time by completing and returning a new payment instruction form.

## **15. HOW DO I MAKE A C SHARE PAYMENT INSTRUCTION?**

The payment instruction form and copies of the CRIP terms and conditions, are available on the Investors' section of the Group's website, [www.rolls-royce.com](http://www.rolls-royce.com), or from our Registrar online at [www.computershare.com](http://www.computershare.com) or by request over the phone by dialling 0870 703 0162.

You can request either to redeem your C Shares for cash or to redeem and reinvest that cash in new ordinary shares using the CRIP. These instructions will apply to all future issues of C Shares until you revoke them or put in place a new payment instruction.

Your payment instruction form must be received by the Registrar no later than 5.00 p.m. on 6 June 2011 to be in time for the next scheduled C Share issue. If you do not currently have a payment instruction in place and you do not take any action you will receive a C Share certificate twice yearly.

**16. WHERE CAN I FIND MORE INFORMATION ON C SHARES?**

For further information on C Shares, please visit the Investors' section of the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com).

**17. WHAT IF I HOLD ROLLS-ROYCE ADRS?**

Holders of Rolls-Royce ADRs will continue to hold the same instrument following the Scheme Effective Time but from such time they will represent five Rolls-Royce Holdings Ordinary Shares instead of five Rolls-Royce Group Ordinary Shares.

**18. WHAT IS AN ADR?**

Rolls-Royce Group, like many other non-US companies, has an American depositary receipt (**ADR**) facility in the United States. Rolls-Royce Group's ADR facility is operated by the Bank of New York Mellon.

If you hold Rolls-Royce Group Ordinary Shares only, you do not need to worry about references in this document to ADRs or Rolls-Royce ADRs.

**19. WHAT IF I STILL HAVE QUESTIONS?**

If you have read this summary, and the rest of this document, and have any questions please call the Rolls-Royce shareholder helpline between 8.30 a.m. and 5.30 p.m. (London time) Monday to Friday (except UK public holidays) on 0870 703 0162 (from within the UK) or +44 870 703 0162 (from outside the UK).

Calls will be charged at 7 pence per minute from a BT landline. Calls to the Rolls-Royce shareholder helpline from outside the UK will be charged at international rates. Other telephone provider costs may vary. Please note that calls may be monitored or recorded.

**For legal reasons this helpline will only be able to provide practical information and will not provide advice on the merits of any of the Proposals or give any financial, legal or taxation advice. For financial, legal or taxation advice, you will need to consult an independent financial or legal adviser.**

PART I  
LETTER FROM THE CHAIRMAN



Rolls-Royce

*Registered Office:*  
Rolls-Royce Group plc  
65 Buckingham Gate  
London, SW1E 6AT  
United Kingdom

22 March 2011

Dear Shareholder,

**Recommended Proposals in respect of the introduction of Rolls-Royce Holdings as a new holding company of the Group and related matters**

**1. INTRODUCTION**

On 10 February 2011, Rolls-Royce Group announced its intention to put in place a new holding company for the Group, being Rolls-Royce Holdings. It is intended that this new corporate structure will be implemented by means of a scheme of arrangement under Part 26 of the Companies Act involving the cancellation of most of the capital of Rolls-Royce Group. Upon the Scheme taking effect, it is proposed that the capital of Rolls-Royce Holdings be reduced to create distributable reserves.

We have prepared the summary on pages 8 to 11 to help you understand what is involved. You should nevertheless read the whole of this document and not rely solely on the summary.

The purpose of this letter is to explain why the Board considers the Proposals to be in the best interests of Rolls-Royce Group and its shareholders as a whole. Your Board is unanimously recommending that you vote in favour of the Proposals. **A summary of the action recommended to be taken is set out on page 13 of this document and on the Forms of Proxy accompanying this document.**

**2. REASONS FOR THE PROPOSALS**

The Board believes that the Proposals, which provide for the introduction of an additional new, non-trading, holding company and a subsequent reduction of capital of the new holding company, are the most effective way to provide flexibility to the capital structure of the Group and to create distributable and merger reserves. A benefit of the creation of these reserves is that they will allow for the continued issue and redemption of C Shares by the Group. Shareholders will be familiar with the benefits to the Group of payments being made to them in the form of redeemable C Shares rather than cash dividends, to help the recovery of the Group's £182m of historic advance corporation tax. These Proposals will not affect the commercial operations of Rolls-Royce in any way.

**3. EFFECTS OF THE SCHEME**

The effects of the implementation of the Scheme will be as follows:

- (a) instead of owning a given number of Rolls-Royce Group Ordinary Shares, each Rolls-Royce Group Shareholder will own the same number of Rolls-Royce Holdings Ordinary Shares;
- (b) Rolls-Royce Holdings will be the new holding company of the Group; and
- (c) instead of having its ordinary share capital owned by the Rolls-Royce Group Shareholders, Rolls-Royce Group will become a wholly-owned subsidiary of Rolls-Royce Holdings with its entire issued share capital owned by Rolls-Royce Holdings.

Immediately following the Scheme becoming effective, the only material asset of Rolls-Royce Holdings will be the ordinary share capital of Rolls-Royce Group.

Following the Scheme Effective Time, any future issues of C Shares shall be by Rolls-Royce Holdings as determined by its board of directors. Accordingly, the issue of C Shares scheduled for July 2011 will be made by Rolls-Royce Holdings and is expected to be made to the holders of Rolls-Royce Group Ordinary Shares on the register on 26 April 2011.

#### 4. LONDON LISTING

It is expected that, at 8.00 a.m. on 23 May 2011, the Rolls-Royce Holdings Ordinary Shares will be listed and dealings in Rolls-Royce Holdings Ordinary Shares on the London Stock Exchange's main market for listed securities will commence.

#### 5. ROLLS-ROYCE HOLDINGS REDUCTION OF CAPITAL

Shortly after the Scheme becomes effective, it is expected that the share capital of Rolls-Royce Holdings will be reduced to create distributable reserves in Rolls-Royce Holdings. This is a legal and accounting adjustment and should not have any impact on the market value of the Rolls-Royce Holdings Ordinary Shares.

Further details in relation to the Rolls-Royce Holdings Reduction of Capital are contained in the explanatory letter from the Financial Adviser contained in Part II of this document.

#### 6. SPECIAL SHAREHOLDER

In order to protect the UK Government's strategic interests, Rolls-Royce Group has a Special Share which is held by a nominee of the Secretary of State for Business, Innovation and Skills. The Special Share will not be subject to the Scheme. The Special Shareholder has agreed that, immediately after the Scheme becomes effective, the Special Share will be redeemed and the Special Shareholder will subscribe for the New Special Share in Rolls-Royce Holdings. The New Special Share will have the same rights as are attached to the Special Share.

#### 7. ACTION TO BE TAKEN

The Scheme is conditional upon a number of matters which are set out in full in the explanatory letter from the Financial Adviser contained in Part II of this document, including approval by the Rolls-Royce Group Shareholders of the Resolutions at the Annual General Meeting and of the Scheme at the Court Meeting. Further details of the Annual General Meeting and the Court Meeting are contained in Part II of this document, including the action to be taken by Rolls-Royce Group Shareholders.

Notices convening the Annual General Meeting and the Court Meeting are set out in Part VI of this document. **In order that the Court can be satisfied that the votes cast fairly represent the views of Rolls-Royce Group Shareholders, it is important that as many votes as possible are cast at the Court Meeting. Rolls-Royce Group Shareholders are therefore urged to attend the Court Meeting in person or by proxy. Separate Forms of Proxy or, if you hold Rolls-Royce ADRs, voting instruction cards, for use at the Annual General Meeting and the Court Meeting are enclosed.**

If you have any questions about this document, the Annual General Meeting, the Court Meeting or the Proposals or are in any doubt as to how to complete the Forms of Proxy or the voting instruction cards or appoint a proxy electronically, please call the Rolls-Royce shareholder helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0870 703 0162 (from within the UK) or +44 870 703 0162 (from outside the UK). Calls will be charged at 7 pence per minute from a BT landline. Calls to the Rolls-Royce shareholder helpline from outside the UK will be charged at international rates. Other telephone provider costs may vary. Please note that calls may be monitored or recorded and the helpline cannot provide financial, legal or tax advice or advice on the merits of the Proposals.

#### 8. RECOMMENDATION

The Board, which has been advised by Rothschild, has considered the Proposals and unanimously believes the Proposals and their terms to be in the best interests of Rolls-Royce Group and its shareholders as a whole. In providing its advice, Rothschild has placed reliance on the Board's commercial assessments of the Proposals.

**Accordingly, the Board unanimously recommends Rolls-Royce Group Shareholders to vote, and that holders of Rolls-Royce ADRs instruct the US Depositary to vote, in favour of the Proposals at the Annual General Meeting and the Court Meeting, as the Directors intend to do in respect of their own shareholdings totalling 3,091,264 Rolls-Royce Group Ordinary Shares (representing approximately 0.165 per cent. of the issued ordinary share capital of Rolls-Royce Group) as at 10 March 2011 (being the latest practicable date prior to publication of this document).**

Yours sincerely



Sir Simon Robertson  
Chairman

## PART II

### EXPLANATION OF THE SCHEME AND ITS EFFECTS

(EXPLANATORY STATEMENT IN COMPLIANCE WITH SECTION 897 OF THE COMPANIES ACT 2006)



22 March 2011

Dear Shareholder,

#### **Rolls-Royce Group plc - Recommended Proposals in respect of the introduction of a new holding company and related matters**

##### **1. INTRODUCTION**

On 10 February 2011, Rolls-Royce Group announced its intention to implement a corporate reorganisation pursuant to which it is proposed that a new, non-trading, holding company be introduced for the Group. The new company, Rolls-Royce Holdings plc, is a newly incorporated company registered in England and Wales. It is intended that this new corporate structure will be implemented by means of a scheme of arrangement under Part 26 of the Companies Act and that a subsequent reduction of capital of Rolls-Royce Holdings will be used to create distributable reserves.

The Scheme is subject to various conditions, including the approval of Rolls-Royce Group Shareholders and the Court. If these conditions are satisfied and the Scheme is approved and implemented in full, Rolls-Royce Holdings will own the entire issued share capital of Rolls-Royce Group.

Your attention is drawn to the letter from the Chairman of Rolls-Royce Group set out in Part I of this document, which forms part of this Explanatory Statement. That letter, amongst other things, outlines the reasons for the Proposals and contains the unanimous recommendation by the Board to Rolls-Royce Group Shareholders to vote, and for holders of Rolls-Royce ADRs to instruct the US Depositary to vote, in favour of the Proposals at the Annual General Meeting and the Court Meeting. The Directors intend to vote their own shareholdings of Rolls-Royce Group Ordinary Shares, totalling 3,091,264 Rolls-Royce Group Ordinary Shares (representing approximately 0.165 per cent. of Rolls-Royce Group's issued ordinary share capital as at 10 March 2011 (being the latest practicable date prior to publication of this document)), in favour of the Proposals at the Annual General Meeting and the Court Meeting.

That letter also states that the Board considers the Proposals and their terms to be in the best interests of Rolls-Royce Group and Rolls-Royce Group Shareholders as a whole.

The Directors have been advised by Rothschild in connection with the Proposals. We have been authorised by the Directors to write to you to set out the terms of the Proposals and to provide you with other relevant information. The Scheme is set out in full in Part IV of this document and the notices convening the Annual General Meeting and the Court Meeting, including the full text of the Resolutions to be proposed, are set out in Part VI of this document.

It is expected that, if the conditions to the Scheme have been satisfied, the Scheme will become effective and trading in the Rolls-Royce Holdings Ordinary Shares will commence on 23 May 2011.

##### **2. BACKGROUND TO AND REASONS FOR THE PROPOSALS**

The background to and reasons for the Proposals are described in paragraph 2 of the Chairman's letter set out in Part I of this document.

##### **3. EFFECTS OF THE SCHEME**

The effects of the implementation of the Scheme will be as follows:

- (a) instead of owning a given number of Rolls-Royce Group Ordinary Shares, each Rolls-Royce Group Shareholder will own an equivalent number of Rolls-Royce Holdings Ordinary Shares;
- (b) Rolls-Royce Holdings will be the new holding company of the Group; and

- (c) instead of having its ordinary share capital owned by the Rolls-Royce Group Shareholders, Rolls-Royce Group will become a wholly-owned subsidiary of Rolls-Royce Holdings with its entire issued share capital owned by Rolls-Royce Holdings.

Immediately following the Scheme becoming effective, Rolls-Royce Holdings will own no assets other than the ordinary share capital of Rolls-Royce Group, the Rolls-Royce Group A Ordinary Share, the one ordinary share of £1 in the share capital of Mansfield Holdings Limited (acquired from Rolls-Royce Group and which holds one ordinary share of 20 pence in the share capital of Rolls-Royce plc) and nominal cash balances.

#### 4. SUMMARY OF THE SCHEME

The principal steps involved in the Scheme are as follows:

- (a) Cancellation of Scheme Shares

All of the Scheme Shares will be cancelled on the Scheme Effective Date (which is expected to be 23 May 2011).

In consideration of the cancellation of the Scheme Shares, the Scheme Shareholders will receive, in respect of any Scheme Shares held as at the Scheme Record Time:

**for each one Scheme Share cancelled one Rolls-Royce Holdings Ordinary Share.**

Rolls-Royce ADRs (each representing five Rolls-Royce Group Ordinary Shares before the Scheme Effective Date) will not be cancelled but will continue after such time. On the Scheme Effective Date, the US Depositary will be issued with Rolls-Royce Holdings Ordinary Shares in lieu of its Rolls-Royce Group Ordinary Shares. Therefore, Rolls-Royce ADR holders will continue to hold the same instrument but, from the Scheme Effective Time, the Rolls-Royce ADRs will instead simply represent five Rolls-Royce Holdings Ordinary Shares.

With effect from the Scheme Effective Time, the rights attaching to the Rolls-Royce Holdings Ordinary Shares will be substantially the same as those attaching to the Rolls-Royce Group Ordinary Shares.

- (b) Establishing Rolls-Royce Holdings as the new holding company of the Group

Following the cancellation of the Scheme Shares, the credit arising in the accounts of Rolls-Royce Group as a result of the cancellation will be capitalised and applied in paying up, in full at par, such number of New Shares as shall be equal to the number (and aggregate nominal value) of the Scheme Shares cancelled. The New Shares will be allotted and issued, credited as fully paid, to Rolls-Royce Holdings which will, as a result, become the new holding company of Rolls-Royce Group and the Group.

- (c) Redemption of Special Share

Rolls-Royce Group has a Special Share which is held by a nominee of the Secretary of State for Business, Innovation and Skills. Under the Rolls-Royce Group Articles, certain provisions (for example, provisions relating to the nationality of Rolls-Royce Group's Directors) may only be changed with the written consent of the Special Shareholder. Immediately after the Scheme becomes effective, the Special Share in Rolls-Royce Group will be redeemed and the Special Shareholder will subscribe for the New Special Share with equivalent rights in relation to Rolls-Royce Holdings.

- (d) Amendments to Rolls-Royce Group's Articles

In addition to the changes to the Rolls-Royce Group Articles set out in paragraph 10 of Part III of this document, Rolls-Royce Group Shareholders will be asked to approve, by way of Special Resolution, some further amendments in order to facilitate the Scheme at the Annual General Meeting.

The first of these is to create a Rolls-Royce Group A Ordinary Share. The Rolls-Royce Group A Ordinary Share will have no voting rights or dividend rights and only very limited rights on any return of assets on a winding up. The Rolls-Royce Group A Ordinary Share will be a separate class of share from the Rolls-Royce Group Ordinary Shares and will not be subject to the Scheme, but will facilitate the allotment of New Shares to Rolls-Royce Holdings by Rolls-Royce Group without the requirement for an independent valuation report.

Secondly, it is proposed that, at the Annual General Meeting, the Rolls-Royce Group Articles be amended in such a way as to ensure that: (i) any Rolls-Royce Group Ordinary Shares which are issued to any person other than Rolls-Royce Holdings (or its nominee(s)) before the Scheme Record Time (but after the Annual General Meeting) are allotted subject to the terms of the Scheme and the holders of such shares will be bound by the Scheme accordingly; and (ii) any Rolls-Royce Group Ordinary Shares which are allotted after the Scheme Record Time will be immediately transferred to Rolls-Royce Holdings in exchange for the issue or transfer to the relevant allottees of one Rolls-Royce Holdings Ordinary Share for each Rolls-Royce Group Ordinary Share transferred. These changes are necessary because, in some cases, Rolls-Royce Group Ordinary Shares may need to be allotted before the Scheme Record Time (for example, because of the exercise of rights granted by Rolls-Royce Group under the Rolls-Royce Employee Share Schemes) but the timing of their allotment could mean that they are not classified as Scheme Shares and are therefore outside the scope of the Scheme. In addition, Rolls-Royce Group Ordinary Shares may be issued after the Scheme Record Time which would also put them outside the scope of the Scheme.



These measures will avoid any person other than Rolls-Royce Holdings being left with Rolls-Royce Group Ordinary Shares after dealings in such shares have ceased on the London Stock Exchange and will further ensure that Rolls-Royce Group becomes a wholly-owned subsidiary of Rolls-Royce Holdings despite issues of Rolls-Royce Group Ordinary Shares that would otherwise not be classified as Scheme Shares.

The full text of this Special Resolution and the other proposed amendments to the Rolls-Royce Group Articles can be found in the notice of the Annual General Meeting in section Part VI of this document.

## **5. CONDITIONS TO IMPLEMENTATION OF THE SCHEME**

The implementation of the Scheme is conditional upon:

- (a) the passing of the Resolutions set out in the notice of the Annual General Meeting (contained in Part VI of this document) to approve the Scheme and various matters in connection with the Scheme including (A) the cancellation of the Scheme Shares, (B) the issue and allotment of New Shares in Rolls-Royce Group to Rolls-Royce Holdings, (C) changes to the Rolls-Royce Group Articles, (D) the issue and allotment of the Rolls-Royce Group A Ordinary Share, (E) confirmatory approval of the Rolls-Royce Holdings Reduction of Capital and (F) the de-listing of the Rolls-Royce Group Ordinary Shares;
- (b) the approval of the Scheme by a majority in number, and at least 75 per cent. in value of the Rolls-Royce Group Ordinary Shares held by Rolls-Royce Group Shareholders present and voting, either in person or by proxy, at the Court Meeting (or at any adjournment of such meeting);
- (c) the sanction of the Scheme by the Court at the First Court Hearing;
- (d) an office copy of the First Court Order (including a copy of the related statement of capital) having been delivered to the Registrar of Companies for registration;
- (e) permission having been granted by the FSA to de-list the Rolls-Royce Group Ordinary Shares and to admit (subject to the allotment of the Rolls-Royce Holdings Ordinary Shares and satisfaction of conditions (b) to (d) above, save to the extent such conditions are already satisfied) the Rolls-Royce Holdings Ordinary Shares to be issued in connection with the Scheme to the Official List; and
- (f) the London Stock Exchange having agreed to admit the Rolls-Royce Holdings Ordinary Shares to be issued in connection with the Scheme to trading on its main market for listed securities and its agreement not being withdrawn prior to the Scheme Effective Date.

The Directors will not take the necessary steps to implement the Scheme unless the above conditions have been satisfied (or waived) and, at the relevant time, they consider that it continues to be in Rolls-Royce Group's best interests and that of its Shareholders that the Scheme should be implemented.

The First Court Hearing (at which it is proposed that the Court sanction the Scheme) is expected to be held on or around 20 May 2011 at The Royal Courts of Justice, The Strand, London WC2A 2LL. Rolls-Royce Group Shareholders or creditors who wish to support or oppose the Scheme will be informed by advertisement in a newspaper with national distribution in the United Kingdom of their right to appear in person, or be represented by Counsel, at the First Court Hearing.

The Scheme contains a provision for Rolls-Royce Group and Rolls-Royce Holdings jointly to consent, on behalf of all persons concerned, to any modification of or addition to the Scheme, or to any condition that the Court may think fit to approve or impose. Rolls-Royce Group has been advised by its legal advisers that the Court would be unlikely to approve or impose any modification of, or addition or condition to, the Scheme which might be material to the interests of Rolls-Royce Group Shareholders unless Rolls-Royce Group Shareholders were informed of any such modification, addition or condition. It will be a matter for the Court to decide, in its discretion, whether or not further meetings of Rolls-Royce Group Shareholders should be held. If the Court does approve or impose a modification of, or addition or condition to, the Scheme which, in the opinion of the Directors, is such as to require the consent of the Rolls-Royce Group Shareholders, the Directors will not take the necessary steps to enable the Scheme to become effective unless and until such consent is obtained.

If the Scheme is sanctioned by the Court and the other conditions to the Scheme are satisfied (or waived), the Scheme is expected to become effective, and dealings in Rolls-Royce Holdings Ordinary Shares to be issued pursuant to the Scheme are expected to commence, on 23 May 2011.

If the Scheme has not become effective by 31 December 2011 (or such later date as Rolls-Royce Group and Rolls-Royce Holdings agree and the Court allows), it will lapse, in which event the Scheme will not proceed, there will not be a new holding company of Rolls-Royce Group, the Special Shareholder will remain the holder of the Special Share, the Scheme Shareholders will remain shareholders of Rolls-Royce Group and the Rolls-Royce Group Ordinary Shares will continue to be listed on the Official List.

The full text of the Scheme and of the Resolutions to be proposed at the Annual General Meeting and the Court Meeting are set out in Part IV and Part VI respectively of this document.

## 6. THE ROLLS-ROYCE HOLDINGS REDUCTION OF CAPITAL

Shortly after the Scheme Effective Date, the Directors expect that Rolls-Royce Holdings will undertake the Rolls-Royce Holdings Reduction of Capital which will create distributable reserves in the accounts of Rolls-Royce Holdings. This will involve the nominal value of each Rolls-Royce Holdings Ordinary Share being reduced from 150 pence (or such lower nominal value as the Rolls-Royce Holdings Directors shall decide prior to the date on which the Court is asked to sanction the Scheme) to 20 pence, replicating the nominal value of the existing Rolls-Royce Group Ordinary Shares.

This is a legal and accounting adjustment and will create a new reserve on the balance sheet of Rolls-Royce Holdings of approximately £2.4 billion (assuming a reduction from 150 pence to 20 pence per share and, since the number of New Shares issued by Rolls-Royce Holdings shall be equal to the number of Scheme Shares cancelled, no further shares of Rolls-Royce Group are issued after 10 March 2011 (being the last practicable date prior to the publication of this document)). The Rolls-Royce Holdings Reduction of Capital should not have any impact on the market value of the Rolls-Royce Holdings Ordinary Shares.

The implementation of the Rolls-Royce Holdings Reduction of Capital is conditional upon:

- (a) confirmatory approval of the Rolls-Royce Holdings Reduction of Capital by Rolls-Royce Group Shareholders, who will become the Rolls-Royce Holdings Shareholders if the Scheme becomes effective, by the passing of the relevant Special Resolution being proposed at the Annual General Meeting;
- (b) confirmation of the Rolls-Royce Holdings Reduction of Capital by the Court at the Second Court Hearing; and
- (c) the registration by the Registrar of Companies of an office copy of the Second Court Order confirming the Rolls-Royce Holdings Reduction of Capital.

## 7. ROLLS-ROYCE GROUP A ORDINARY SHARE

It is proposed that Rolls-Royce Holdings will acquire the Rolls-Royce Group A Ordinary Share after the Annual General Meeting to be held on 6 May 2011. This is in order to facilitate the allotment of the New Shares to Rolls-Royce Holdings by Rolls-Royce Group without the requirement for an independent valuation of the New Shares. The Rolls-Royce Group A Ordinary Share will not be a Scheme Share and will therefore not be cancelled as part of the Scheme but will continue to be held by Rolls-Royce Holdings once it becomes the holding company of the Group.

## 8. TAXATION

Your attention is drawn to paragraph 13 of Part III of this document for further information about the taxation consequences of the Scheme.

**Subject to the qualifications described in the summary information on taxation in this document, the Scheme is not expected to give rise to any new taxation liabilities for Rolls-Royce Group Shareholders. However, summary information on taxation in this document is intended as a guide only and holders of Rolls-Royce Group Ordinary Shares who are in any doubt about their tax position, or who are resident for tax purposes outside the UK or the US, are strongly advised to contact an appropriate professional, independent adviser immediately**

## 9. ARTICLES OF ASSOCIATION OF ROLLS-ROYCE HOLDINGS

The Rolls-Royce Holdings Articles are substantively the same as the amended Rolls-Royce Group Articles proposed to be adopted at the Annual General Meeting. Further information is set out in paragraphs 10 and 11 of Part III of this document.

## 10. DIRECTORS' AND OTHER INTERESTS

As at 10 March 2011 (being the latest practicable date before the publication of this document), the board of directors of Rolls-Royce Holdings is composed of Peter Byrom, John Rishton, Sir Simon Robertson, Sir John Rose, Andrew Shilston and Mike Terrett.

Details of the current interests of the Directors in, and options and awards relating to, Rolls-Royce Group Ordinary Shares are set out in paragraph 5 of Part III of this document.

Details of the Directors' service contracts and the terms of their appointment are set out in paragraph 6 of Part III of this document.

The effect of the Scheme on the interests of the Directors is set out in paragraph 5 of Part III of this document. Save as described above, the effect of the Scheme on the interests of the Directors does not differ from its effect on the like interests of other persons.

## 11. C SHARES

It is expected that Rolls-Royce Holdings will continue, through the issuance of Rolls-Royce Holdings C Shares, the current practice of Rolls-Royce Group of issuing C Shares (in lieu of a cash dividend). It is expected that Rolls-Royce Holdings C Shares will have substantially the same rights and entitlements as Rolls-Royce Group C Shares.

In accordance with the Rolls-Royce Group Articles, a compulsory redemption of all existing Rolls-Royce Group C Shares is expected to become effective on or around 6 April 2011 (the ***Rolls-Royce Group C Share Redemption Date***) and Rolls-Royce Group C Share redemption payments are expected to be issued to holders of Rolls-Royce Group C Shares by 15 April 2011.

With effect from (and including) the Rolls-Royce Group C Share Redemption Date, all share certificates for Rolls-Royce Group C Shares will cease to be valid and should be destroyed in accordance with the terms of the redemption.

Subject to the allotment and issue of Rolls-Royce Holdings Ordinary Shares to the Scheme Shareholders and from the Scheme Effective Time, any future issues of C Shares shall be by Rolls-Royce Holdings as determined by its board of directors. Accordingly, the issue of C Shares scheduled for July 2011 will be made by Rolls-Royce Holdings and is expected to be made to the holders of Rolls-Royce Group Ordinary Shares on the register on 26 April 2011.

Mandates and instructions in relation to Rolls-Royce Group C Shares in force at the Scheme Record Time will continue to apply in respect of issues of C Shares by Rolls-Royce Holdings following the Scheme Effective Date, unless and until you revoke them. For example, if you have elected to participate in the CRIP, any Rolls-Royce Holdings C Shares issued to you following the Scheme Effective Date will be redeemed for cash and the proceeds reinvested in additional Rolls-Royce Holdings Ordinary Shares. If you wish to alter or revoke your instruction, please contact the Registrar, Computershare, at their offices at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom.

## 12. ROLLS-ROYCE EMPLOYEE SHARE SCHEMES

The effect of the Scheme on, and proposed amendments to, certain of the Rolls-Royce Employee Share Schemes are described in paragraph 14 of Part III of this document.

## 13. CREST

It is proposed that the Rolls-Royce Holdings Ordinary Shares be made eligible for settlement in CREST, the paperless system for settlement of securities listed by the FSA, and traded on the London Stock Exchange's main market for listed securities. Euroclear requires Rolls-Royce Holdings to confirm to it that certain conditions imposed by the CREST Regulations are satisfied before Euroclear will admit any security to CREST. It is expected that these conditions will be satisfied in respect of the Rolls-Royce Holdings Ordinary Shares on Admission. As soon as practicable after satisfaction of the conditions to the Scheme, it is expected that Rolls-Royce Holdings will confirm this to Euroclear.

Information on listing, dealings, share certificates and settlement is set out in paragraph 15 of Part II of this document.

## 14. OVERSEAS SHAREHOLDERS

### General

The implications of the Scheme for, and the distribution of this document to, Overseas Shareholders may be affected by the laws of the relevant jurisdictions. Overseas Shareholders should inform themselves about and observe all applicable legal requirements.

It is the responsibility of any person into whose possession this document comes to satisfy himself as to the full observance of the laws of the relevant jurisdiction in connection with the Scheme and the distribution of this document and/or the accompanying documents, including the obtaining of any governmental, exchange control or other consents which may be required and/or compliance with other necessary formalities which are required to be observed and the payment of any issue, transfer or other taxes or levies due in such jurisdiction.

If, in respect of any Overseas Shareholder, Rolls-Royce Holdings is advised that the allotment and issue of Rolls-Royce Holdings Ordinary Shares would or might infringe the laws of any jurisdiction outside the United Kingdom, or would or might require Rolls-Royce Holdings to obtain any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of Rolls-Royce Holdings, it would be unable to comply or which it regards as unduly onerous, the Scheme provides that Rolls-Royce Holdings may determine that the Rolls-Royce Holdings Ordinary Shares shall be issued to such shareholder and then sold on his behalf as soon as reasonably practicable at the best price which can reasonably be obtained at the time of sale, with the net proceeds of sale being remitted to the Overseas Shareholder at the risk of such shareholder. Alternatively, Rolls-Royce Holdings may determine that no Rolls-Royce Holdings Ordinary Shares shall be allotted and issued to that shareholder but instead those Rolls-Royce Holdings Ordinary Shares shall be allotted and issued to a nominee appointed by Rolls-Royce Holdings as trustee for such shareholder, on terms that they shall be sold on behalf of such shareholder as soon as reasonably practicable after the Scheme becomes effective, with the net proceeds of sale being remitted to the Overseas Shareholder concerned at the risk of such shareholder.

Overseas Shareholders should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Scheme in their particular circumstances. For additional information relating to the US tax considerations relevant to the Scheme, see paragraph 13.2 of Part III of this document.

**THIS DOCUMENT DOES NOT CONSTITUTE AN INVITATION OR OFFER TO SELL OR THE SOLICITATION OF AN INVITATION OR OFFER TO BUY ANY SECURITY. NONE OF THE SECURITIES REFERRED TO IN THIS DOCUMENT SHALL BE SOLD, ISSUED, SUBSCRIBED FOR, PURCHASED, EXCHANGED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.**

## **Canada**

The Rolls-Royce Holdings Ordinary Shares issued to, or for the benefit of, any resident of Canada pursuant to the Scheme will not be qualified for sale under the securities law of any province or territory of Canada and will be subject to resale restrictions.

**Rolls-Royce Group Shareholders who are residents of Canada should consult their own legal and tax advisers with respect to the legal and tax consequences of the Scheme in their particular circumstances.**

## **United States**

Any securities to be issued under the Scheme in the United States have not been, will not be, and are not required to be, registered under the US Securities Act but will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof. For the purpose of qualifying for the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof, Rolls-Royce Group will advise the Court that its sanctioning of the Scheme will be relied upon by Rolls-Royce Holdings as an approval of the Scheme following a hearing on its fairness to Rolls-Royce Group Shareholders, at which hearing all such Rolls-Royce Group Shareholders will be entitled to attend in person or through Counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such shareholders.

Securities to be issued in the Scheme should not be treated as restricted securities within the meaning of Rule 144(a)(3) under the US Securities Act and persons who receive securities in the Scheme (other than affiliates as described in the paragraph below) may resell them without restriction under the US Securities Act.

A person who is entitled to receive securities in the Scheme and who is an affiliate of Rolls-Royce Holdings following implementation of the Scheme may not resell such securities without registration under the US Securities Act pursuant to the applicable resale provisions of Rule 145(d) of the US Securities Act or another applicable exemption from registration or in a transaction not subject to registration (including a transaction that satisfies the applicable requirements of Regulation S under the US Securities Act). Whether a person is an affiliate of a company for the purposes of the US Securities Act depends on the circumstances but affiliates can include certain officers, directors and significant shareholders. Persons who believe they may be affiliates of Rolls-Royce Group should consult their own legal advisers prior to any sale of securities received in the Scheme.

Holders of Rolls-Royce Group Ordinary Shares and Rolls-Royce ADRs who are citizens or residents of the United States are advised that any securities issued pursuant to the Scheme have not been and will not be registered under the US Exchange Act. Rolls-Royce Holdings intends to obtain an exemption from the reporting requirements of Section 12(g) of the US Exchange Act pursuant to Rule 12g3-2(b) thereunder. Accordingly, if the SEC informs Rolls-Royce Holdings that it has been added to the list of foreign private issuers that claim this exemption, Rolls-Royce Holdings will comply with the information supplying requirements of Rule 12g3-2(b) and, so long as it continues to rely on this exemption, will post on its website information that (A) it has made or is required to make public in the United Kingdom; (B) it has filed or is required to file with the UK Listing Authority and which has been made public by the UK Listing Authority; or (C) it has distributed or is required to distribute to its shareholders.

**Rolls-Royce Group Shareholders who are citizens or residents of the United States should consult their own legal, financial and tax advisers with respect to the legal, financial and tax consequences of the Scheme and in their particular circumstances.**

## **15. LISTING, DEALINGS, SHARE CERTIFICATES AND SETTLEMENT**

Application will be made to the UK Listing Authority for all of the Rolls-Royce Holdings Ordinary Shares to be admitted to the Official List and to the London Stock Exchange for all of the Rolls-Royce Holdings Ordinary Shares to be admitted to trading on the London Stock Exchange's main market for listed securities.

If all of the conditions to the Scheme are satisfied, Rolls-Royce Group intends to seek the de-listing of the Rolls-Royce Group Ordinary Shares from the Official List. The last day of dealings in Rolls-Royce Group Ordinary Shares is expected to be 20 May 2011.

It is expected that, at 8.00 a.m. on 23 May 2011, the Rolls-Royce Holdings Ordinary Shares will be issued, their Admission will become effective and that dealings in them will commence.

These dates may be deferred if it is necessary to adjourn any meeting required to approve the arrangements described in this document or if there

is any delay in obtaining the Court's sanction of the Scheme. In the event of a delay, the application for the Rolls-Royce Group Ordinary Shares to be de-listed will be deferred, so that the listing will not be cancelled until immediately before the Scheme becomes effective.

**With effect from (and including) the Scheme Effective Date, all share certificates representing the Scheme Shares will cease to be valid and binding in respect of such holdings and should be destroyed.** Rolls-Royce ADRs (in certificated and book-entry form) will represent Rolls-Royce Holdings Ordinary Shares from the Scheme Effective Date and will continue to be honoured by the US Depositary.

Rolls-Royce Holdings Ordinary Shares can be held in Certificated or Uncertificated form. Definitive share certificates for the Rolls-Royce Holdings Ordinary Shares of Rolls-Royce Group Shareholders who held their Rolls-Royce Group Ordinary Shares in Certificated form are expected to be despatched by 31 May 2011. In the case of joint holders, share certificates will be despatched to the joint holder whose name appears first in the register. All share certificates will be sent by pre-paid first class post at the risk of the person entitled thereto. Pending the despatch of such certificates, transfers of Rolls-Royce Holdings Ordinary Shares in Certificated form will be certified against the register of Rolls-Royce Holdings. Temporary documents of title have not been, and will not be, issued in respect of such shares.

Rolls-Royce Group Ordinary Shares held in Uncertificated form will be disabled in CREST on the Scheme Effective Date. For Rolls-Royce Group Shareholders who hold their Rolls-Royce Group Ordinary Shares in a CREST account, Rolls-Royce Holdings Ordinary Shares are expected to be credited to the relevant CREST member account on 23 May 2011. CREST is a paperless settlement system enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by written instrument. The Rolls-Royce Holdings Articles permit the holding of Rolls-Royce Holdings Ordinary Shares under the CREST system. Application will be made for the Rolls-Royce Holdings Ordinary Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Rolls-Royce Holdings Ordinary Shares following Admission may take place within the CREST system. CREST is a voluntary system and holders of Rolls-Royce Holdings Ordinary Shares who wish to receive and retain share certificates will be able to remove their Rolls-Royce Holdings Ordinary Shares from the CREST system following the Scheme becoming effective.

Rolls-Royce Holdings will have the right to issue Rolls-Royce Holdings Ordinary Shares to all shareholders in Certificated form if, for any reason, it wishes to do so.

All instructions, mandates, elections and communication preferences in force on the Scheme Effective Date relating to notices and other communications will, unless and until varied or revoked, be deemed from the Scheme Effective Date to be valid and effective mandates or instructions to Rolls-Royce Holdings in relation to the corresponding holding of Rolls-Royce Holdings Ordinary Shares.

All documents, certificates, cheques or other communications sent by, to, from or on behalf of Scheme Shareholders, or as such persons shall direct, will be sent entirely at their own risk.

## **16. MEETINGS AND CONSENTS FOR IMPLEMENTATION OF THE SCHEME**

The Scheme will require the passing by Rolls-Royce Group Shareholders of the Special Resolutions set out in the notice of the Annual General Meeting, and the approval of the Rolls-Royce Group Shareholders at the Court Meeting, convened pursuant to an order of the Court. Both of the Meetings have been convened for 6 May 2011 and will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE. The Scheme also requires a separate sanction from the Court.

Notices of the Annual General Meeting and the Court Meeting are contained in Part VI of this document.

Entitlement to attend and vote at these Meetings and the number of votes which may be cast thereat will be determined by reference to the register of members of Rolls-Royce Group at the Scheme Voting Record Time. All Rolls-Royce Group Shareholders whose names appear on the register of members of Rolls-Royce Group at the Scheme Voting Record Time, shall be entitled to attend and speak and vote at the relevant Meeting in respect of the number of Rolls-Royce Group Ordinary Shares registered in their name at that time.

### **16.1 Annual General Meeting**

The Annual General Meeting has been convened for 11.00 a.m. on 6 May 2011. At the Annual General Meeting or at any adjournment thereof, Rolls-Royce Group Shareholders will consider and, if thought fit, pass the Resolutions set out in the notice of the Annual General Meeting contained in Part VI of this document.

#### ***Special Resolutions***

The Special Resolutions set out in the notice of the Annual General Meeting are proposed in order to approve:

- (a) the adoption of the amended articles of association for Rolls-Royce Group in substitution for the Rolls-Royce Group Articles;
- (b) the ability of Rolls-Royce Group to call a general meeting of Rolls-Royce Group on not less than 14 clear days' notice;

- (c) the maximum nominal amounts of new shares in Rolls-Royce Group which may be allotted by the Directors pursuant to section 551 of the Companies Act;
- (d) the maximum nominal amount of new shares in Rolls-Royce Group which may be allotted by the Directors on a non pre-emptive basis;
- (e) the authorisation of Rolls-Royce Group to make market purchases of Rolls-Royce Group Ordinary Shares; and
- (f) the Scheme, including:
  - (i) the cancellation of the Scheme Shares;
  - (ii) the application of the reserve arising as a result of the cancellation of the Scheme Shares in paying up the New shares and the allotment of the New Shares to Rolls-Royce Holdings by the Directors pursuant to the Scheme (such authority to allot will (unless previously revoked, varied or renewed) lapse on 31 December 2011);
  - (iii) the allotment of the Rolls-Royce Group A Ordinary Share to Rolls-Royce Holdings by the Directors (such authority to allot will (unless previously revoked, varied or renewed) lapse on the fifth anniversary of the date of the resolution);
  - (iv) the amendments to the Rolls-Royce Group Articles to deal with transitional matters arising from the Scheme;
  - (v) the confirmation of the Rolls-Royce Holdings Reduction of Capital;
  - (vi) the de-listing of the Rolls-Royce Group Ordinary Shares; and
  - (vii) the amendments to the terms of the Rolls-Royce Group Performance Share Plan and the Rolls-Royce plc Share Purchase Plan.

The majority required for the passing of the Special Resolutions is not less than 75 per cent. of the votes cast (in person or by proxy) at the Annual General Meeting. Voting on the Special Resolutions will be by poll and not on a show of hands.

## 16.2 Court Meeting

The Court Meeting has been convened for 11.30 a.m. on 6 May 2011 (or as soon thereafter as the Annual General Meeting concludes or is adjourned) pursuant to an order of the Court. At the Court Meeting, or at any adjournment thereof, the Rolls-Royce Group Shareholders will consider and, if thought fit, approve the Scheme.

Voting at the Court Meeting will be by poll and not on a show of hands and each Rolls-Royce Group Shareholder entitled to attend and who is present in person or by proxy will be entitled to one vote for each Rolls-Royce Group Ordinary Share held. The statutory majority required to approve the Scheme at the Court Meeting is a simple majority in number of the Rolls-Royce Group Shareholders present and voting (either in person or by proxy) at the Court Meeting and representing not less than 75 per cent. of the nominal value of the Rolls-Royce Group Ordinary Shares voted (either in person or by proxy) by such Rolls-Royce Group Shareholders.

**In order that the Court can be satisfied that the votes cast constitute a fair representation of the views of the Rolls-Royce Group Shareholders, it is important that as many votes as possible are cast at the Court Meeting. Rolls-Royce Group Shareholders are therefore urged to take the action referred to in paragraph 20 of this Part II.**

**It is also particularly important for you to be aware that if the Scheme is approved and becomes effective, it will be binding on all Scheme Shareholders irrespective of whether they attended the Court Meeting and irrespective of the manner in which they voted.**

## 16.3 Forms of Proxy and voting instruction cards

For your convenience, the Forms of Proxy are accompanied by a business reply paid envelope and addressed to Rolls-Royce Group's Registrar, Computershare. Forms of Proxy should be returned as soon as possible and, in any event, by no later than 11.00 a.m. on 4 May 2011 in the case of the white Form of Proxy in relation to the Annual General Meeting and 11.30 a.m. on 4 May 2011 in the case of the blue Form of Proxy in relation to the Court Meeting. If the blue Form of Proxy for use at the Court Meeting is not returned by the above time, it may be handed to Rolls-Royce Group's Registrar, Computershare, or the Chairman of the Court Meeting, before the start of that Meeting. However, in the case of the Annual General Meeting, unless the white Form of Proxy is returned by the time mentioned in the instructions printed on it, it will be invalid. The completion and return of a Form of Proxy (or appointment of a proxy electronically) will not prevent you from attending and voting in person at either the Annual General Meeting or the Court Meeting, or at any adjournment thereof, if you so wish and are so entitled.

Completed ADR voting instruction cards should be returned to the US Depositary by 5.00 p.m. (New York time) on 28 April 2011. If you hold your Rolls-Royce ADRs indirectly, you must rely on the procedures of your bank, broker or financial institution through which you hold your Rolls-Royce ADRs.

In each case, the Forms of Proxy and voting instruction cards should be completed in accordance with the instructions printed on them.

#### **16.4 Sanction of the Scheme by the Court**

Under the Companies Act, the Scheme requires the sanction of the Court. The First Court Hearing to sanction the Scheme is expected to be held on 20 May 2011 at the Royal Courts of Justice, The Strand, London WC2A 2LL. All Rolls-Royce Group Shareholders are entitled to attend the First Court Hearing in person or through Counsel to support or oppose the sanctioning of the Scheme.

The Scheme will become effective as soon as an office copy of the First Court Order (including a copy of the related statement of capital) has been duly delivered to the Registrar of Companies for registration. This is expected to occur on 23 May 2011.

#### **16.5 Confirmation of the Rolls-Royce Holdings Reduction of Capital**

Under the Companies Act, the Rolls-Royce Holdings Reduction of Capital also requires the sanction of the Court. The Second Court Hearing to confirm the Rolls-Royce Holdings Reduction of Capital is expected to occur on 24 May 2011 at the Royal Courts of Justice, The Strand, London WC2A 2LL. Any creditors of Rolls-Royce Holdings are entitled to attend the Second Court hearing in person or through Counsel to support or oppose the sanctioning of the Rolls-Royce Holdings Reduction of Capital.

The Rolls-Royce Holdings Reduction of Capital will become effective as soon as an office copy of the Second Court Order (including a copy of the related statement of capital of Rolls-Royce Holdings) has been duly delivered to the Registrar of Companies for registration. This is expected to occur on 24 May 2011.

### **17. AUTHORITIES RELATING TO ROLLS-ROYCE HOLDINGS' SHARE CAPITAL**

Prior to the Court Meeting, the Rolls-Royce Holdings Subscriber Shareholders and Rolls-Royce Holdings Directors are expected to pass certain resolutions in order to, among other matters, authorise Rolls-Royce Holdings to carry out the actions required of it in relation to the Proposals, including the approval of:

- (a) the allotment of the Rolls-Royce Holdings Ordinary Shares to the Rolls-Royce Group Shareholders pursuant to the scheme;
- (b) the allotment of C Shares on terms the Rolls-Royce Holdings Directors see fit;
- (c) the Rolls-Royce Holdings Reduction of Capital; and
- (d) the adoption of and amendments to the Rolls-Royce Employee Share Schemes.

It is expected that the authorities to be granted to the Rolls-Royce Holdings Directors in relation to allotment of Rolls-Royce Holdings Ordinary Shares will be equivalent to the corresponding authorities currently granted to the Rolls-Royce Group Directors.

### **18. PROSPECTUS**

A Prospectus relating to Rolls-Royce Holdings and Admission, prepared in accordance with the Prospectus Rules made under Part VI of FSMA, is expected to be made available to the public (in accordance with Rule 3.2 of the Prospectus Rules) in electronic form on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com) once approved by and filed with the FSA. Further details in respect of the timing of the publication of the Prospectus will be set out in an announcement relating to the Proposals expected to be made by Rolls-Royce Group on or around the date of this document. It is expected that copies may also be obtained from the time of publication up until Admission on request, free of charge by writing to the registered office of Rolls-Royce Group, to the registered office of Rolls-Royce Holdings (65 Buckingham Gate, London SW1E 6AT, United Kingdom) or to Rolls-Royce Holdings' Registrar, Computershare, at their offices at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom. A copy of the Prospectus will also be available upon request from the Rolls-Royce shareholder helpline, further details of which are included on page 8 of this document.

The information in the Prospectus will include financial information and an operating and financial review in relation to the Group, a business overview of the Group and a section of additional information, including details of the remuneration and interests of the Directors, material contracts and capital resources of the Group and details of litigation concerning the Group, all of which will be relevant to Rolls-Royce Holdings as the new holding company of the Group. Certain of this information will be incorporated into the Prospectus by reference from other sources.

### **19. FURTHER INFORMATION**

You should read the whole of this document.

Your attention is drawn, in particular, to a shareholder guide produced by Rolls-Royce Group in connection with the Proposals, the summary set out at the front of this document, the letter from your Chairman in Part I of this document, the Additional Information set out in Part III of this document, the Scheme set out in Part IV of this document, the Notices of Meetings in Part VI of this document and to the Prospectus.



## 20. ACTION TO BE TAKEN

Rolls-Royce Group Shareholders will find enclosed with this document:

- (a) a white Form of Proxy for use at the Annual General Meeting;
- (b) a blue Form of Proxy for use at the Court Meeting; and
- (c) a business reply paid envelope.

Holders of Rolls-Royce ADRs will receive voting instruction cards. These may be used to instruct the US Depositary how to vote at the Annual General Meeting and the Court Meeting in relation to the Rolls-Royce Group Ordinary Shares underlying such holders' Rolls-Royce ADRs.

It is important that, for the Court Meeting in particular, as many votes as possible are cast so that the Court may be satisfied that there is a fair and reasonable representation of Rolls-Royce Group Shareholder opinion.

Whether or not you plan to attend the Meetings in person, you are strongly encouraged, if you hold Rolls-Royce Group Ordinary Shares, to sign and return both Forms of Proxy or to appoint a proxy electronically as referred to below, as soon as possible and in any event so as to be received by Rolls-Royce Group's Registrar, Computershare, at their address: The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom as follows:

**White Forms of Proxy for the Annual General Meeting by 11.00 a.m. on 4 May 2011**

**Blue Forms of Proxy for the Court Meeting by 11.30 a.m. on 4 May 2011**

(or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting).

If you hold Rolls-Royce ADRs, you are strongly encouraged to complete and sign the enclosed voting instruction card as soon as possible and in any event so as to be received by the US Depositary by 5.00 p.m. (New York time) on 28 April 2011.

If you hold your Rolls-Royce Group Ordinary Shares in Uncertificated form (i.e. in CREST), you may vote using the CREST voting service in accordance with the procedures set out in the CREST Manual (please also refer to the accompanying notes for the notice of the Annual General Meeting set out at the end of Part VI of this document). Proxies submitted via CREST (under CREST participant 3RA50) must be received by Rolls-Royce Group's Registrar, Computershare, not later than 11.00 a.m. on 4 May 2011 in the case of the Annual General Meeting and by 11.30 a.m. on 4 May 2011 in the case of the Court Meeting (or, in the case of an adjourned meeting, not less than 48 hours prior to the time and date set for the adjourned meeting).

The return of the Forms of Proxy (or appointment of a proxy electronically) will not prevent you from attending either of the Meetings and voting in person if you wish. In each case, the Forms of Proxy and voting instruction cards should be completed in accordance with the instructions printed on them.

The blue Form of Proxy in respect of the Court Meeting may also be handed to Rolls-Royce Group's Registrar, Computershare, or the Chairman at the Court Meeting before the start of the Meeting. However, in the case of the Annual General Meeting, the white Form of Proxy will be invalid unless it is lodged so as to be received at least 48 hours before the time appointed for such Meeting.

Yours very truly,



**Robert Leitão**  
*Head of UK Investment Banking*

For and on behalf of NM Rothschild & Sons Limited

## PART III

### ADDITIONAL INFORMATION

#### 1. RESPONSIBILITY

The Directors, whose names appear in paragraph 4 of this Part III, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. INFORMATION ON ROLLS-ROYCE GROUP

Rolls-Royce Group was incorporated and registered in England and Wales on 21 March 2003 under the Companies Act 1985 with registered number 04706930. Its registered office is 65 Buckingham Gate, London SW1E 6AT, United Kingdom.

#### 3. DESCRIPTION OF THE GROUP

Rolls-Royce is a world-leading provider of power systems and services for use on land, at sea and in the air and has established a strong position in four global markets - civil aerospace, defence aerospace, marine and energy.

Rolls-Royce today has a broad customer base comprising 650 airlines, freight operators and lessors, 4,000 corporate operators, 160 defence customers, more than 2,500 marine customers, including 70 navies, and energy customers in 120 countries, with an installed base of 54,000 gas turbines.

Rolls-Royce employs over 38,900 skilled people in offices, manufacturing and service facilities in 50 countries. The Group has a strong commitment to apprentice and graduate recruitment, and to further developing employee skills.

Annual underlying revenues were £10.9 billion in 2010, of which over half came from services revenues. The firm and announced order book stood at £59.2 billion at 31 December 2010, providing visibility of future levels of activity.

#### 4. DIRECTORS

4.1 The Directors of Rolls-Royce Group and their principal functions are as follows:

##### Executive Directors

James Guyette	President and Chief Executive Officer of Rolls-Royce North America Inc.
John Rishton	Chief Executive (from 31 March 2011)
Sir John Rose	Chief Executive (until 31 March 2011)
Andrew Shilston	Finance Director
Colin Smith	Director – Engineering and Technology
Mike Terrett	Chief Operating Officer

##### Non-Executive Directors

Helen Alexander CBE	Non-Executive Director
Peter Byrom	Non-Executive Director
Iain Conn	Non-Executive Director and Senior Independent Director
Peter Gregson	Non-Executive Director
John McAdam	Non-Executive Director
John Neill CBE	Non-Executive Director
Sir Simon Robertson	Non-Executive Chairman
Ian Strachan	Non-Executive Director

4.2 As at 10 March 2011 (being the latest practicable date before the publication of this document), the Rolls-Royce Holdings Directors are Peter Byrom, John Rishton, Sir Simon Robertson, Sir John Rose, Andrew Shilston and Mike Terrett (each of whom is also a Director).

4.3 Andrew Shilston and Tim Rayner (company secretary and general counsel for Rolls-Royce Group) were appointed as the initial directors of Rolls-Royce Holdings from incorporation of Rolls-Royce Holdings on 10 February 2011. Peter Byrom, John Rishton, Sir Simon Robertson, Sir John Rose and Mike Terrett have been directors of Rolls-Royce Holdings since 23 February 2011. Tim Rayner resigned as a director of Rolls-Royce Holdings with effect from 8 March 2011. Sir John Rose will retire as a director of Rolls-Royce Holdings on 31 March 2011.

4.4 The business address of each of the Directors is 65 Buckingham Gate, London SW1E 6AT, United Kingdom.

4.5 Brief biographical details of the Rolls-Royce Holdings Directors (in their capacities as directors of Rolls-Royce Group) are set out in the annual report of Rolls-Royce Group for the financial year ended 31 December 2010.

4.6 It is expected that the remaining Executive Directors (being James Guyette and Colin Smith) will be appointed as executive directors of Rolls-Royce Holdings with effect from the Scheme Effective Date. It is further expected that the remaining Non-Executive Directors (being Helen Alexander, Iain Conn, Peter Gregson, John McAdam, John Neill and Ian Strachan) will be appointed as non-executive directors of Rolls-Royce Holdings with effect from the Scheme Effective Date, at which time they will resign as directors of Rolls-Royce Group. As a public limited, non-listed company, from the Scheme Effective Date, Rolls-Royce Group will not require a large board of executive and non-executive directors.

## 5. DIRECTORS' INTERESTS

5.1 On the Scheme becoming effective, assuming that no further Rolls-Royce Group Ordinary Shares have been purchased or issued after 10 March 2011 (being the latest practicable date prior to the publication of this document) the Rolls-Royce Holdings Directors will have the following beneficial interests in Rolls-Royce Holdings Ordinary Shares by virtue of the effect of the Scheme on their Rolls-Royce Group Ordinary Shares:

Director	Number of Rolls-Royce Group Ordinary Shares	Percentage of issued share capital of Rolls-Royce Group	Number of Rolls-Royce Holdings Ordinary Shares	Percentage of issued share capital of Rolls-Royce Holdings
<b>Executive Directors</b>				
James Guyette	327,347	0.0175	327,347	0.0175
John Rishton	9,546	0.0005	9,546	0.0005
Sir John Rose	1,079,229	0.0576	1,079,229	0.0576
Andrew Shilston	612,441	0.0327	612,441	0.0327
Colin Smith	234,399	0.0125	234,399	0.0125
Mike Terrett	505,861	0.0270	505,861	0.0270
<b>Non-Executive Directors</b>				
Helen Alexander CBE	1,071	0.00006	1,071	0.00006
Peter Byrom	220,114	0.0118	220,114	0.0118
Iain Conn	18,554	0.001	18,554	0.001
Peter Gregson	3,621	0.0002	3,621	0.0002
John McAdam	1,236	0.00007	1,236	0.00007
John Neil CBE	25,081	0.0013	25,081	0.0013
Sir Simon Robertson	41,264	0.0022	41,264	0.0022
Ian Strachan	11,500	0.0006	11,500	0.0006

The interests of the Directors together represent approximately 0.165 per cent. of the issued share capital of Rolls-Royce Group in existence as at 10 March 2011, the latest practicable date prior to publication of this document.

5.2 The interests in paragraph 5.1 above are based upon the interests of the Directors in Rolls-Royce Group Ordinary Shares which (a) have been notified by the relevant Director to Rolls-Royce Group pursuant to Chapter 3 of the Disclosure and Transparency Rules on or before 10 March 2011 (the latest practicable date prior to publication of this document), or (b) are interests of a connected person (within the meaning of the Disclosure and Transparency Rules) of a Director which have been notified to Rolls-Royce Group by each connected person (within the meaning of the Disclosure and Transparency Rules) pursuant to Chapter 3 of the Disclosure and Transparency Rules.

5.3 Save as set out in this paragraph 5 of this Part III, no Director (nor any person connected with a Director): (a) has any interests (beneficial or non-beneficial) in the share capital of Rolls-Royce Group or Rolls-Royce Holdings; or (b) holds any interest in any other securities of the Group.

5.4 There are no outstanding loans granted by Rolls-Royce Group or any member of the Group to any of the Directors, nor has any guarantee been provided by Rolls-Royce Group or any of its subsidiaries for their benefit.

## 6. DIRECTORS' EMPLOYMENT CONTRACTS AND LETTERS OF APPOINTMENT

### 6.1 Executive Directors

With the exception of Sir John Rose, who is to retire as Chief Executive and a Director on 31 March 2011, each of the Executive Directors will continue to be employed by Rolls-Royce plc.

The overall level of remuneration of Executive Directors will remain unchanged as a consequence of the Scheme.

### 6.2 Non-Executive Directors

All Non-Executive Directors have letters of appointment with Rolls-Royce Group which set out the specific terms of engagement. Each Non-Executive Director will enter into a letter of appointment with Rolls-Royce Holdings (such appointment to take effect from the Scheme Effective Date), the terms of which (including the expiry date) will be substantially the same as the terms of their appointment with Rolls-Royce Group.

From the Scheme Effective Date, the Non-Executive Directors will receive their fees from Rolls-Royce Holdings. The total fees payable to each Non-Executive Director will not be varied as a result of the Scheme.

## 7. DIRECTORS' REMUNERATION

The aggregate remuneration paid and benefits in kind granted to the Directors, including gains on exercise of share options, the value of shares vested under long-term incentive plans and money purchase pension contributions for the financial year ended 31 December 2010 was £12.5 million.

There is no arrangement under which a Director has agreed to waive future Rolls-Royce Group emoluments, nor have there been any such waivers during the financial year immediately preceding the date of this Document.

The emoluments receivable by the Directors will not be varied as a result of the Scheme.

### 7.1 Executive Directors

The emoluments of each of the Directors (including benefits in kind) for the year ended 31 December 2010 were as follows:

Executive Director	Appointment date	Basic salary	Annual bonus	Deferred shares	Benefits
		£'000	£'000	£'000	£'000
James Guyette	27 September 1997	506	336	224	54
John Rishton	01 March 2011	n/a	n/a	n/a	n/a
Sir John Rose	04 December 1992	864	843	562	30
Andrew Shilston	05 November 2002	559	438	292	19
Colin Smith	01 July 2005	524*	290	194	19
Mike Terrett	01 September 2007	508	398	265	99

\* includes £105,000 cash allowance in lieu of future pension accrual.

## 7.2 Non-Executive Directors

Non-Executive Director	Date of appointment	Current letter of appointment end date	Annual fees £'000
Helen Alexander CBE	1 September 2007	31 August 2013	67
Peter Byrom	1 January 1997	31 December 2011	55
Iain Conn	20 January 2005	19 January 2014	65
Peter Gregson	1 March 2007	1 March 2013	55
John McAdam	19 February 2008	18 February 2014	55
John Neil CBE	13 November 2008	12 November 2011	55
John Rishton	1 March 2007	1 March 2011*	69
Sir Simon Robertson	1 January 2005	31 December 2013	386**
Ian Strachan	19 September 2003	18 September 2012	71

\* John Rishton ceased to be a Non-Executive Director upon his appointment as an Executive Director on 1 March 2011.

\*\* This includes the base fee of £370,000 and a benefit in kind of £16,000 in relation to the provision of chauffeur services.

All Non-Executive Directors have letters of appointment with Rolls-Royce Group which set out the specific terms of engagement. The fees paid to each of the Non-Executive Directors consist of a basic fee and, as relevant, additional fees for acting as chair of the Remuneration Committee, the Nominations Committee, the Audit Committee and the Ethics Committee, and an additional annual fee for the Director nominated as Senior Independent Director (being Iain Conn as at 10 March 2011 (being the latest practicable date before the publication of this document)). Fees are benchmarked against comparable companies in the sector and are determined by the Board.

Each Non-Executive Director is entitled to reimbursement of reasonable expenses incurred in the course of his duties.

No Non-Executive Director is entitled to any benefit upon the termination of his appointment.

## 8. DIRECTORS' INTERESTS IN TRANSACTIONS

No Director of Rolls-Royce Group has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of Rolls-Royce Group or any members of the Group and which were effected by Rolls-Royce Group or any member of the Group during the current or immediately preceding financial year and which remain in any respect outstanding or unperformed.

## 9. INTERESTS OF MAJOR SHAREHOLDERS

As at 10 March 2011 (being the latest practicable date prior to the publication of this document), in so far as it has been notified to Rolls-Royce Group pursuant to the Disclosure and Transparency Rules, the name of each person, other than a Director who, directly or indirectly, has a notifiable interest in three per cent. or more of Rolls-Royce Group's issued share capital, and the amount of such person's interest, are set forth below:

Name	Date of notification	Percentage of issued Rolls-Royce Group Ordinary Shares at date of notification (%)	Percentage of Rolls-Royce Holdings Ordinary Shares expected to be held (%)
AXA S.A	11 January 2010	4.90	4.90
BlackRock Inc.	3 September 2010	5.02	5.02
Invesco Limited	4 February 2008	6.91	6.91
Legal & General Group plc	14 October 2009	3.96	3.96

## 10. SUMMARY OF CHANGES TO ROLLS-ROYCE GROUP ARTICLES

Following discussions with the Special Shareholder, the following changes are being proposed to be made to the Rolls-Royce Group Articles by way of Special Resolution to be passed at the Annual General Meeting. Changes of a minor or technical nature are not so noted but a copy of the amended Rolls-Royce Group Articles including all proposed changes will be available for inspection on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com) or at Rolls-Royce Group's registered office and will be available for at least 15 minutes prior to and during the Annual General Meeting.

#### 10.1 Additional one third allotment authority

Article 12 will introduce a “Second Section 551” amount which authorises the directors to allot up to two thirds of the issued share capital for use in any rights issue. This is in line with guidance issued by the Association of British Insurers in December 2009.

#### 10.2 Variation of rights of the Special Shareholder

Article 18(h) will allow for certain rights pertaining to the Special Shareholder to be varied by consent of the Special Shareholder and without the need to seek further approval from the ordinary shareholders. The regulations affected will be listed in article 18(a)(i).

#### 10.3 Foreign shareholding limit

Article 54 will be amended so that the definition of an interest to be taken into account in determining whether an individual shareholder has reached the 15 per cent. individual foreign shareholder limit shall be by reference to an interest to be notified under DTR5 of the Disclosure and Transparency Rules. Previously this was determined by reference to an interest disclosable under Part VI of the Companies Act 1985.

#### 10.4 Nationality of directors

Article 111 will be amended to allow either the Chairman or the Chief Executive to be either an EU or US citizen provided the other is a British citizen. This proposed change has been approved by the Special Shareholder. The Board believe that in a global business, it is essential to have a wider pool of talent to draw upon for such key positions.

#### 10.5 Re-election of directors

Article 112 will provide that at every annual general meeting all the directors at the date of the notice convening the annual general meeting shall retire from office. This is in line with the recommendations of the UK Corporate Governance Code.

### 11. THE ROLLS-ROYCE HOLDINGS ARTICLES

The Rolls-Royce Holdings Articles are based on the Rolls-Royce Group Articles (including the proposed amendments described above) and do not contain any substantive differences.

### 12. FURTHER INFORMATION FOR US SHAREHOLDERS

If you are a citizen, resident or national of a jurisdiction outside of the United Kingdom, your attention is drawn to paragraph 14 of Part II of this document for further details concerning the Scheme.

For information on UK and US taxation, your attention is drawn to paragraph 13 of this Part. **The summary information is intended as a guide only and holders of Rolls-Royce Group Ordinary Shares who are in any doubt about their tax position, or who are resident for tax purposes outside, the UK or the US are strongly advised to contact an appropriate professional, independent adviser immediately.**

#### *Certain US securities law considerations*

The Rolls-Royce Holdings Ordinary Shares will not be, and are not required to be, registered with the SEC under the US Securities Act and will be issued pursuant to the Scheme in reliance on the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) of that Act. For the purpose of qualifying for the Section 3(a)(10) exemption with respect to the Rolls-Royce Holdings Ordinary Shares issued pursuant to the Scheme, Rolls-Royce Group will advise the Court that it will rely on the Section 3(a)(10) exemption based on the Court’s sanctioning of the Scheme, which will be relied upon by Rolls-Royce Group as an approval of the Scheme following a hearing on its fairness to Rolls-Royce Group Shareholders at which hearing all such Rolls-Royce Group Shareholders will be entitled to attend in person or through counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been or will be given to all such shareholders.

The Rolls-Royce Holdings Ordinary Shares will not be registered under the securities laws of any state of the United States, and will be issued pursuant to the Scheme in reliance on available exemptions from such state law registration requirements or the pre-emption of such requirements by the US Securities Act.

Neither the SEC nor any other US federal or state securities commission or regulatory authority has approved or disapproved the Rolls-Royce Holdings Ordinary Shares or passed on the accuracy or adequacy of this document. Any representation to the contrary is a criminal offence in the United States.

Rolls-Royce Group is exempt from reporting under the US Exchange Act pursuant to Rule 12g3-2(b) thereunder, and once the Scheme becomes effective, Rolls-Royce Holdings expects to rely on the exemption provided in Rule 12g3-2(b) under the Exchange Act.

US Shareholders should note that no appraisal or similar rights of dissenting shareholders are to apply in connection with the Scheme as none are required as a matter of English law.

## 13. TAXATION

### *General*

The following section is a summary guide only to certain aspects of tax in the UK and the US. This is not a complete analysis of the potential tax effects of the Proposals nor will it relate to the specific tax position of all Rolls-Royce Holdings Shareholders in all jurisdictions. This summary does not purport to be a legal opinion. Shareholders are advised to consult their own tax advisers as to the effects of the Proposals in relevant jurisdictions.

### 13.1 UK Taxation

The following summary is intended as a general guide only and relates only to certain limited aspects of the UK tax consequences for Shareholders of the Scheme and of disposing of Rolls-Royce Holdings Ordinary Shares. It is based on current UK tax law and what is understood to be the current practice of HMRC, both of which are subject to change, possibly with retrospective effect. The summary applies only to Shareholders who are resident and, if individuals, ordinarily resident and domiciled in the UK for taxation purposes, who hold their Rolls-Royce Group Ordinary Shares and Rolls-Royce Holdings Ordinary Shares as an investment (other than under an individual savings account), who are the absolute beneficial owners of their Rolls-Royce Group Ordinary Shares and their Rolls-Royce Holdings Ordinary Shares, who have not (and are not deemed to have) acquired their Rolls-Royce Group Ordinary Shares and their Rolls-Royce Holdings Ordinary Shares by virtue of an office or employment (whether current, historic or prospective) and are not officers or employees of any member of the Group. In addition, these comments may not apply to certain classes of Rolls-Royce Holdings Shareholder such as dealers in securities, collective investment schemes and insurance companies.

If you are in any doubt about your tax position, you should consult your own professional adviser without delay.

#### *UK tax consequences of the cancellation of Rolls-Royce Group Ordinary Shares and issue of Rolls-Royce Holdings Ordinary Shares*

For the purposes of UK capital gains tax and corporation tax on chargeable gains (**CGT**), the cancellation of the Rolls-Royce Group Ordinary Shares and the issue of Rolls-Royce Holdings Ordinary Shares should be treated as a scheme of reconstruction. UK resident Shareholders who do not hold (either alone or together with connected persons) more than 5 per cent. of, or of any class of, shares in or debentures of Rolls-Royce Group should obtain rollover relief in respect of the cancellation of Rolls-Royce Group Ordinary Shares and the issue to them of the Rolls-Royce Holdings Ordinary Shares. This means that the Rolls-Royce Holdings Ordinary Shares issued to a Shareholder should be treated as the same asset, and as having been acquired at the same time and for the same consideration, as his Rolls-Royce Group Ordinary Shares from which they are derived.

Shareholders who hold (alone, or together with connected persons) more than 5 per cent. of, or of any class of, shares in or debentures of Rolls-Royce Group will be eligible for the above treatment only if the Scheme is effected for bona fide commercial reasons and does not form part of a scheme or arrangements of which the main purpose, or one of the main purposes, is avoidance of a liability to capital gains tax or corporation tax. If these conditions are not met, then such a Rolls-Royce Group Shareholder will be treated as receiving Rolls-Royce Holdings Ordinary Shares in consideration for the cancellation of his Rolls-Royce Group Ordinary Shares and as having made a disposal of his Rolls-Royce Group Ordinary Shares which may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for CGT purposes. Confirmation has been obtained from HMRC under section 138 of the Taxation of Chargeable Gains Act 1992 such that the Scheme can be regarded as satisfying these conditions, that is, it is being undertaken for bona fide commercial reasons.

#### *Rolls-Royce Holdings Reduction of Capital*

The Rolls-Royce Holdings Reduction of Capital should not have any UK tax consequences for Rolls-Royce Holdings Shareholders. In particular it should not result in a disposal by any Rolls-Royce Holdings Shareholders of any of their Rolls-Royce Holdings Ordinary Shares.

#### *Transactions in securities*

Rolls-Royce Group has been advised that Shareholders should not be subject to a counteracting tax assessment in relation the Scheme or the Rolls-Royce Holdings Reduction of Capital under the "transactions in securities" provisions of sections 682 to 713 of the Income Tax Act 2007 in relation to income tax payers or section 733 of the Corporation Tax Act 2010 in relation to corporation tax payers. Rolls-Royce Group has not considered it necessary that a clearance need be sought from HMRC to confirm this.

#### *UK stamp duty and stamp duty reserve tax (SDRT) consequences of the Scheme*

No stamp duty or SDRT will be payable by Shareholders as a result of the cancellation of Rolls-Royce Group Ordinary Shares and issue of Rolls-Royce Holdings Ordinary Shares under the Scheme (including the issue of Rolls-Royce Holdings Ordinary Shares to the US Depositary in respect of Rolls-Royce ADRs as replacements for the Rolls-Royce Group Ordinary Shares held by the US Depositary).



### ***UK taxation consequences of disposing of Rolls-Royce Holdings Ordinary Shares in the future***

A future disposal of Rolls-Royce Holdings Ordinary Shares by a Rolls-Royce Holdings Shareholder may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for CGT purposes.

A disposal of Rolls-Royce Holdings Ordinary Shares by a Rolls-Royce Holdings Shareholder who is not resident in the UK for tax purposes but who carries on a trade, profession or vocation in the UK through a branch, agency or permanent establishment and has used, held or acquired the Rolls-Royce Holdings Ordinary Shares for the purposes of such trade, profession or vocation or such branch, agency or permanent establishment may, depending on individual circumstances, give rise to a chargeable gain or allowable loss for CGT purposes.

A Rolls-Royce Holdings Shareholder who is an individual and who is temporarily non-resident in the UK for a period of less than five complete tax years may, under anti-avoidance legislation, still be liable to UK taxation on their return to the UK on a chargeable gain realised on the disposal or part disposal of Rolls-Royce Holdings Ordinary Shares during the period when he is non-resident.

For corporate shareholders only, indexation allowance on the relevant proportion of the original allowable cost should be taken into account for the purposes of calculating a chargeable gain (but not an allowable loss) arising on a disposal or part disposal of Rolls-Royce Holdings Ordinary Shares.

### ***UK taxation of dividends on Rolls-Royce Holdings Ordinary Shares***

Rolls-Royce Holdings is expected to make payments to shareholders by issuing and redeeming C Shares rather than by paying cash dividends. Rolls-Royce Holdings is not required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a Rolls-Royce Holdings Shareholder.

An individual Rolls-Royce Holdings Shareholder who is resident for tax purposes in the UK and who receives a dividend from Rolls-Royce Holdings will generally be entitled to a tax credit equal to one-ninth of the amount of the dividend received, which is equivalent to ten per cent. of the aggregate of the dividend received and the tax credit (the "gross dividend"), and will be subject to income tax on the gross dividend. An individual UK resident Rolls-Royce Holdings Shareholder who is subject to income tax at a rate or rates not exceeding the basic rate will be liable to tax on the gross dividend at the rate of ten per cent., so that the tax credit will satisfy the income tax liability of such a Rolls-Royce Holdings Shareholder in full. Where the tax credit exceeds the Rolls-Royce Holdings Shareholder's tax liability the Rolls-Royce Holdings Shareholder cannot claim repayment of the tax credit from HMRC.

An individual UK resident Rolls-Royce Holdings Shareholder who is subject to income tax at the higher rate or the additional rate will be liable to income tax on the gross dividend at the rate of 32.5 per cent. or 42.5 per cent. respectively to the extent that such sum, when treated as the top slice of that Rolls-Royce Holdings Shareholder's income, falls above the threshold for higher rate or additional rate income tax. After taking into account the ten per cent. tax credit, a higher rate taxpayer will therefore be liable to additional income tax of 22.5 per cent. of the gross dividend, equal to 25 per cent. of the net dividend. An additional rate taxpayer will be liable to additional income tax of 32.5 per cent. of the gross dividend, which is equal to 36.1 per cent. of the net dividend.

Corporate Rolls-Royce Holdings Shareholders who are UK resident will be taxed on dividends paid by Rolls-Royce Holdings under legislation introduced by the Finance Act 2009. Under that legislation dividends paid by one UK resident company to another are prima facie taxable, subject to certain limited classes of exemption. Although it is likely that most dividends paid on the Rolls-Royce Holdings Ordinary Shares to UK resident corporate Rolls-Royce Holdings Shareholders would fall within one or more of the classes of dividend qualifying for exemption, the exemptions are not comprehensive and are also subject to anti-avoidance rules. Rolls-Royce Holdings Shareholders within the charge to corporation tax should consult their own professional advisers.

UK resident Rolls-Royce Holdings Shareholders who are not liable to UK tax on dividends, including pension funds and charities, are not entitled to claim repayment of the tax credit.

Rolls-Royce Holdings Shareholders who are resident outside the UK for tax purposes will not generally be able to claim repayment of any part of the tax credit attaching to dividends received from Rolls-Royce Holdings although this will depend on the existence and terms of any double taxation convention between the UK and the country in which such Rolls-Royce Holdings Shareholder is resident. A Rolls-Royce Holdings Shareholder resident outside the UK may also be subject to taxation on dividend income under local law. A Rolls-Royce Holdings Shareholder who is resident outside the UK for tax purposes should consult his own tax adviser concerning his tax position on dividends received from Rolls-Royce Holdings.

### ***UK taxation of the issue and redemption of C Shares by Rolls-Royce Holdings***

#### ***(i) The issue of C Shares***

The allotment and issue of C Shares by Rolls-Royce Holdings should not in itself give rise to a charge to UK income tax or corporation tax on income nor (save in respect of the issue of C Shares scheduled for July 2011 (*July 2011 C Shares*)) to a chargeable gain for Rolls-Royce Holdings Shareholders.

For CGT purposes, the allotment and issue of C Shares by RRH other than the July 2011 C Shares should be treated as a reorganisation of its share capital. Accordingly, a Rolls-Royce Holdings Shareholder receiving an entitlement to C Shares should not be regarded as making a disposal of all or part of that Rolls-Royce Holdings Shareholder's existing holding of Rolls-Royce Holdings Ordinary Shares (the **Existing Holding**). The C Shares will be treated as the same asset as, and as having been acquired at the same time as, the Rolls-Royce Holdings Shareholder's existing holding of Rolls-Royce Holdings Ordinary Shares. Accordingly, the new combined holding of existing shares and C Shares (other than any July 2011 C Shares) (the **New Holding**) will have the same aggregate base cost as the existing holding of shares in Rolls-Royce Holdings immediately before the issue. On a subsequent disposal (including a redemption) of the whole or part of the New Holding, the Rolls-Royce Holdings Shareholder's base cost in respect of the New Holding will be apportioned between the shares being disposed of and the shares being retained by reference to their respective market values on the first day after issue on which market values or prices are quoted or published for one or both classes of shares, as derived from the Official List.

The allotment and issue of the July 2011 C Shares is not expected to be treated as a reorganisation of Rolls-Royce Holdings' share capital. Instead, a Rolls-Royce Holdings Shareholder who receives such C Shares is expected to be treated as making a part disposal of the Existing Holding for an amount equal to the nominal value of the July 2011 C Shares with the base cost in respect of that Existing Holding being apportioned by reference to the market values on the day of disposal.

*(ii) Redemption of C Shares by Rolls-Royce Holdings*

A payment by Rolls-Royce Holdings to a Rolls-Royce Holdings Shareholder of the nominal value of a C Share on its redemption should not constitute an income distribution of Rolls-Royce Holdings for UK tax purposes. Accordingly, no part of the proceeds received by a Rolls-Royce Holdings Shareholder pursuant to the redemption should be an income receipt in that Rolls-Royce Holdings Shareholder's hands for UK tax purposes. Those proceeds will not carry any entitlement to a tax credit.

A Rolls-Royce Holdings Shareholder who disposes of the whole or part of that Rolls-Royce Holdings Shareholder's holding of C Shares as part of a redemption may, depending on that Rolls-Royce Holdings Shareholder's personal circumstances, incur a charge to CGT. In computing any chargeable gain, the base cost of the C Shares being redeemed (other than July 2011 C Shares), will be calculated as set out in the penultimate paragraph of (i) above. It is not expected that a charge to CGT will, in practice, arise in respect of the redemption of July 2011 C Shares.

*(iii) Amount of CGT*

Where the Rolls-Royce Holdings Shareholder is an individual: (a) no tax will be payable on any gain realised as a result of the redemption (or the receipt of the July 2011 C Shares), if the amount of the gain, when aggregated with any other chargeable gains realised by that Rolls-Royce Holdings Shareholder in the year of assessment in question, does not exceed the annual exempt amount (currently £10,100); (b) Rolls-Royce Holdings Shareholders may be able to reduce or eliminate a chargeable gain by utilising any unused allowable losses available to them; and (c) any remaining gain which exceeds the annual exempt amount will be taxed at either 18 per cent. or 28 per cent. depending on the relevant Rolls-Royce Holdings Shareholder's personal circumstances. The 18 per cent. rate will apply if and to the extent the gain in respect of the redemption proceeds (or of the nominal value of the July 2011 C Shares received), taken on top of the Rolls-Royce Holdings Shareholder's taxable income (and ignoring any other chargeable gains which are taxable in the relevant year of assessment), does not exceed the income tax higher rate threshold, currently £37,400. The 28 per cent. rate will apply if and to the extent the gain in respect of the redemption proceeds (or of the nominal value of the July 2011 C Shares received), taken on top of the Rolls-Royce Holdings Shareholder's taxable income (and ignoring any other chargeable gains which are taxable in the relevant year of assessment), does exceed that threshold.

For Rolls-Royce Holdings Shareholders who are subject to corporation tax: (a) indexation allowance on the relevant proportion of the original allowable cost should be taken into account for the purposes of calculating a chargeable gain (but not an allowable loss) arising on a redemption of C Shares (or receipt of the July 2011 C Shares); and (b) Rolls-Royce Holdings Shareholders may be able to reduce or eliminate a chargeable gain by utilising any unused allowable losses available to them

## 13.2 US Taxation

The following is a general summary based on present law of certain US federal income tax considerations relevant to the exchange of Rolls-Royce Group Ordinary Shares for Rolls-Royce Holdings Ordinary Shares and the substitution of Rolls-Royce Holdings Ordinary Shares for Rolls-Royce Group Ordinary Shares underlying the Rolls-Royce ADRs pursuant to the Scheme and to the ownership of Rolls-Royce Holdings Ordinary Shares and Rolls-Royce ADRs. It addresses only US Holders (as defined below) that exchange Rolls-Royce Group Ordinary Shares or Rolls-Royce ADRs pursuant to the Scheme, hold their Rolls-Royce Group Ordinary Shares or Rolls-Royce ADRs as capital assets and use the US dollar as their functional currency. This summary is for general information only. It is not a complete description of all the tax considerations that may be relevant to a particular US

Holder. It does not consider the circumstances of holders subject to special tax regimes, such as banks, insurance companies, regulated investment companies, dealers, traders in securities that elect mark-to-market treatment, insurance companies, tax-exempt entities or persons holding shares or ADRs as part of a hedge, straddle, conversion or other integrated financial transaction. It does not address persons resident or ordinarily resident in the United Kingdom and persons holding shares or ADRs through a permanent establishment or fixed base outside the United States. It does not consider consequences for persons that own (or are deemed to own) 10 per cent or more (by voting power) of shares of Rolls-Royce Group or that will own (or be deemed to own) five per cent or more (by voting power or value) of the shares of Rolls-Royce Holdings. It does not address US state or local tax considerations. The summary is not a substitute for tax advice.

Rolls-Royce Holdings believes and this summary assumes that it is not and is not likely to become a passive foreign investment company (*PFIC*) for US federal income tax purposes. Rolls-Royce Holdings' status as a PFIC must be determined annually, and it therefore could change. If Rolls-Royce Holdings were to be a PFIC in any year, US Holders could suffer material adverse tax consequences.

**THE STATEMENTS ABOUT U.S. FEDERAL INCOME TAX MATTERS IN THIS DOCUMENT ARE MADE TO SUPPORT THE SCHEME AND THE ADMISSION OF THE ROLLS-ROYCE HOLDINGS ORDINARY SHARES TO THE OFFICIAL LIST. NO TAXPAYER CAN RELY ON THEM TO AVOID US FEDERAL TAX PENALTIES. EACH SHAREHOLDER OR ADR HOLDER SHOULD SEEK ADVICE FROM ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES TO IT OF PARTICIPATING IN THE SCHEME AND HOLDING ROLLS-ROYCE HOLDINGS ORDINARY SHARES OR ROLLS-ROYCE ADRs UNDER THE LAWS OF THE UNITED KINGDOM, THE UNITED STATES AND THEIR CONSTITUENT JURISDICTIONS AND ANY OTHER JURISDICTION WHERE THE PURCHASER MAY BE SUBJECT TO TAXATION.**

As used here, "US Holder" means a beneficial owner of shares or ADRs that for US federal income tax purposes is (i) an individual citizen or resident of the United States, (ii) a corporation or other business entity organised in or under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of a US person and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income taxation regardless of its source.

The US federal tax consequences to a partner in a partnership generally will depend on the status of the partner and the activities of the partnership. US Holders that are partnerships are urged to consult their own tax advisers about the tax consequences to their partners of receiving Rolls-Royce Holdings Ordinary Shares in connection with the Scheme and owning and disposing of Rolls-Royce Holdings Ordinary Shares or ADRs.

Holders of ADRs generally will be treated for US federal income tax purposes as holding the shares represented by the ADRs. The substitution of Rolls-Royce Holdings Ordinary Shares for Rolls-Royce Group Ordinary Shares held by the US Depositary as part of the Scheme will be treated as an exchange by holders of Rolls-Royce ADRs of Rolls-Royce Group Ordinary Shares for Rolls-Royce Holdings Ordinary Shares subject to the treatment described below even though holders of Rolls-Royce ADRs will continue to hold the same instruments after implementation of the Scheme. After the implementation of the Scheme, no gain or loss will be recognised upon the exchange of Rolls-Royce ADRs for Rolls-Royce Holdings Ordinary Shares as long as the US Depositary has not taken any action inconsistent with either the material terms of the deposit agreement or the US Holder's ownership of the underlying shares.

### ***Share Exchange in the Scheme***

Rolls-Royce Group and Rolls-Royce Holdings intend to treat the Scheme as a tax-free reorganisation for US federal income tax purposes under section 368(a) of the US Internal Revenue Code. The proper US federal income treatment of the Scheme is not certain, however, and neither Rolls-Royce Group nor Rolls-Royce Holdings has sought a ruling from US tax authorities or an opinion from US tax counsel on the proper treatment of the Scheme. **Although the summary in this section assumes that the Scheme constitutes a tax-free reorganisation, each Holder should consult its own tax adviser about the proper US federal, state and local income tax treatment of the Scheme.**

Assuming that the Scheme is a tax-free reorganisation, a US Holder will recognise no gain or loss on exchange of Rolls-Royce Group Ordinary Shares for Rolls-Royce Holdings Ordinary Shares. A US Holder's basis in Rolls-Royce Holdings Ordinary Shares will equal its aggregate adjusted tax basis in the Rolls-Royce Group Ordinary Shares exchanged, and its holding period in the Rolls-Royce Holdings Ordinary Shares will include the period it held the Rolls-Royce Group Ordinary Shares. If a US Holder acquired different blocks of Rolls-Royce Group Ordinary Shares at different times or at different prices, the US Holder's basis and holding period in the Rolls-Royce Holdings Ordinary Shares will be determined separately for each block of shares.

A US Holder may be required to attach to its tax return for the year in which it receives Rolls-Royce Holdings Ordinary Shares a statement regarding application of the tax-free reorganisation requirements (including information about the Rolls-Royce Group Ordinary Shares it exchanged and the Rolls-Royce Holdings Ordinary Shares it received) and to maintain certain records regarding the Scheme.

If the Scheme were not a tax-free reorganisation, a US Holder receiving Rolls-Royce Holdings Ordinary Shares in exchange for Rolls-Royce Group Ordinary Shares would recognise capital gain or loss equal to the difference between (x) the fair market value of the Rolls-Royce Holdings Ordinary Shares as of the effective date of the exchange and (y) its adjusted tax basis in the Rolls-Royce Group Ordinary Shares exchanged. Any gain would be long-term gain if the US Holder held the Rolls-Royce Group Ordinary Shares for more than one year. Any loss would be long-term loss if the US Holder held the Rolls-Royce Group Ordinary Shares for more than one year or to the extent the US Holder previously received qualified dividend income in excess of 10 per cent of the US Holder's basis in its Rolls-Royce Group Ordinary Shares. Deductions for capital losses are subject to limitations. Any gain or loss generally would be treated as arising from US sources. The holder would have a tax basis in the Rolls-Royce Holdings Ordinary Shares

equal to their fair market value as of the effective date of the exchange and a holding period for the Rolls-Royce Holdings Ordinary Shares beginning on the day following the exchange date.

### ***Dividends***

US Holders generally must include any dividends paid on Rolls-Royce Holdings Ordinary Shares in their gross income as ordinary income from foreign sources. Payments made to shareholders through the issue of C Shares will be treated like cash dividends of the amount for which they can be redeemed because shareholders can elect prompt cash redemption. A US Holder that does not elect to have C Shares promptly redeemed for cash will have a tax basis in the C Shares equal to the amount of the dividend. Dividends will not be eligible for the dividends-received deduction generally available to corporations. Dividends received before 2013 should, however, be eligible for the reduced rate on qualified dividend income available to non-corporate US Holders who meet certain holding period and other requirements if Rolls-Royce Holdings qualifies for benefits under the income tax treaty between the United Kingdom and the United States. Rolls-Royce Holdings expects to qualify for benefits under that treaty. In computing its foreign tax credit limitation, a non-corporate US Holder that receives a dividend taxed at the reduced rate for qualified dividend income may take into account only the portion of the dividend effectively taxed at the highest applicable marginal rate.

US Holders that receive dividends in a currency other than US dollars must include in income a US dollar amount determined at the spot rate on the date of receipt whether or not they convert the currency into US dollars at that time. A US Holder will have a basis in the non-US currency received equal to its US dollar value on the date of receipt. Gain or loss on a subsequent conversion or other disposition of the non-US currency for a different US dollar amount generally will be treated as ordinary income or loss from sources within the United States for foreign tax credit limitation purposes.

A US Holder that does not elect to have C Shares promptly redeemed for cash may be treated as receiving an additional dividend upon subsequent redemption of the C Shares in an amount equal to the redemption proceeds (converted into US dollars at the spot rate on the date of receipt) unless the redemption results in a meaningful reduction of the holder's proportionate interest in the Company. If redemption proceeds are treated as a dividend, the US Holder's tax basis in the redeemed C Shares will be added to its tax basis in its remaining shares pro rata according to their relative fair market values. If the redemption does result in a meaningful reduction of the US Holder's interest in the Company, the redemption will be treated as a disposition of the C Shares redeemed (see "Dispositions" below). Whether redemption of C Shares is treated as a dividend or as a sale of the C Shares depends on a number of factors, some of which the Company may not be able to determine. US Holders are urged to consult their own tax advisers regarding the specific tax consequences of tendering issued and outstanding C Shares for redemption.

### ***Dispositions***

US Holders generally will recognise capital gain or loss on the sale or other disposition of Rolls-Royce Holdings Ordinary Shares in an amount equal to the difference between their adjusted tax basis in the shares and the US dollar value of the amount realised. Any gain will be long-term gain if the US Holder has held the Rolls-Royce Group Ordinary Shares and the Rolls-Royce Holdings Ordinary Shares for a combined period longer than one year. Any loss will be long-term loss if the US Holder has held the Rolls-Royce Group Ordinary Shares and the Rolls-Royce Holdings Ordinary Shares for a combined period longer than one year or to the extent the US Holder previously received qualifying dividend income in excess of 10 per cent of the US Holder's basis in its Rolls-Royce Holdings Ordinary Shares. Deductions for capital losses are subject to limitations. Any gain or loss generally will be treated as arising from US sources.

A US Holder that receives a currency other than US dollars in exchange for its shares will realise an amount equal to the US dollar value of the currency received at the spot rate on the date of disposition (or, if the shares are traded on an established securities market and a US Holder is a cash-basis or electing accrual basis taxpayer, at the spot rate on the settlement date). A US Holder will have a tax basis in the currency received equal to the US dollar value of the currency on the settlement date. Any currency gain or loss realised on the settlement date or on a subsequent conversion or other disposition of the currency for a different US dollar amount generally will be US source ordinary income or loss.

### ***Reporting and Backup Withholding***

Dividends on the Rolls-Royce Holdings Ordinary Shares or Rolls-Royce ADRs and proceeds from the disposition of those shares may be reported to the US Internal Revenue Service unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding tax may apply to amounts subject to reporting if the holder fails to provide an accurate taxpayer identification number or to meet other conditions. The amount of any backup withholding tax may be credited against or refunded to the extent it exceeds the holder's US federal income tax liability.

A US Holder (including a holder of ADRs) may be required specifically to report the receipt (directly or indirectly through the US Depositary) of Rolls-Royce Holdings Ordinary Shares in the Scheme. A US Holder also may be required specifically to report a sale or other taxable disposition of the Rolls-Royce Group Ordinary Shares, Rolls-Royce Holdings Ordinary Shares or Rolls-Royce ADRs to the US Internal Revenue Service if it recognises a foreign currency or other loss from a single transaction that exceeds, in the case of an individual or trust, \$50,000 in a single taxable year or, in other cases, various higher thresholds. US Holders should consult their tax advisors about these possible reporting requirements.

Recently enacted legislation requires certain US Holders to report information with respect to their investment in the Rolls-Royce Holdings Ordinary Shares or Rolls-Royce ADRs not held through an account with a financial institution to the US Internal Revenue Service. Holders who fail to report required information could become subject to substantial penalties. Holders are encouraged to consult with their own tax advisors about information reporting requirements with respect to their investment in the shares or ADRs.

THE SUMMARY ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE IMPORTANT TO A PARTICULAR HOLDER. EACH HOLDER SHOULD CONSULT HIS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES OF PARTICIPATING IN THE SCHEME AND HOLDING ROLLS-ROYCE HOLDINGS ORDINARY SHARES UNDER THE HOLDER'S OWN CIRCUMSTANCES.

#### **14. EFFECT OF THE SCHEME ON THE ROLLS-ROYCE EMPLOYEE SHARE SCHEMES**

Participants in the Rolls-Royce Employee Share Schemes will be written to separately about the effect of the Scheme on their options and awards under those schemes.

The Remuneration Committee has, to the extent possible, sought to exercise its powers and discretions under the rules so as to prevent the Scheme from causing any early triggering of participants' rights and instead allow options and awards to continue over Rolls-Royce Holdings Ordinary Shares. This is consistent with the Remuneration Committee's overall approach that the Scheme should have minimum impact on the Rolls-Royce Employee Share Schemes and that they should continue to be operated with minimum changes, in relation to Rolls-Royce Holdings Ordinary Shares. Further details of the amendments necessary for this and requiring shareholder approval are set out below.

##### **14.1 ShareSave Schemes**

If the Scheme is sanctioned by the Court, holders of options and stock appreciation rights under the ShareSave Schemes will be permitted to exchange their options over Rolls-Royce Group Ordinary Shares for options of equivalent value over Rolls-Royce Holdings Ordinary Shares. The new options (and in the case of the International ShareSave Scheme 1999 and the International ShareSave Scheme 2007, stock appreciation rights) will continue to be subject to the rules of the relevant ShareSave Scheme and will be treated as if they had been granted on the same date as the options for which they are exchanged.

Alternatively, option holders will be entitled to exercise their options (or stock appreciation rights as applicable) within six months from the date on which the Scheme is sanctioned. To the extent that holders of options granted under the ShareSave Schemes wish to exercise their options, the number of Rolls-Royce Group Ordinary Shares available for acquisition will be restricted to those which can be purchased with the proceeds of their savings contract at the date of the exercise. Stock appreciation rights are cash settled and so do not entitle a participant to acquire Rolls-Royce Group Ordinary Shares.

Rolls-Royce Group Ordinary Shares which are issued on exercise of options after the Effective Date will be automatically acquired by Rolls-Royce Holdings in consideration for an issue of Rolls-Royce Holdings Ordinary Shares on the same terms as the Scheme by virtue of the proposed amendment to the Rolls-Royce Holdings Articles. The proposed amendment is set out in Resolution 28A(e) in the Notice of Annual General Meeting.

Options which are not exchanged or exercised within six months from the date on which the Scheme is sanctioned, will lapse. Stock appreciation rights under the International ShareSave Scheme 1999 which are not exercised within six months from the date the Scheme was sanctioned will be automatically exercised on their maturity date.

##### **14.2 Executive Share Option Scheme**

Options under the Executive Share Option Scheme are already exercisable having passed their third anniversaries of grant and may be exercised at any time prior to the date the Scheme is sanctioned.

If the Scheme is sanctioned by the Court, holders of options under the Executive Option Scheme will be able to exchange their existing options for options to acquire Rolls-Royce Holdings Ordinary Shares on the same terms as their existing options. Options which are not exchanged within six months from the date on which the Scheme is sanctioned, or otherwise exercised prior to the date the Scheme is sanctioned will lapse.

##### **14.3 PSP**

Since the purpose and effect of the Scheme is solely to create a new holding company for Rolls-Royce Group, awards granted under the PSP will automatically be converted into awards to acquire Rolls-Royce Holdings Ordinary Shares. The Remuneration Committee has a discretion under the rules of the PSP to allow the awards under the PSP to be released, but has decided not to exercise this discretion.

##### **14.4 SIP**

Rolls-Royce Group Ordinary Shares which are currently held on trust for eligible employees under the SIP will be replaced by Rolls-Royce Holdings Ordinary Shares if the Scheme becomes effective. The trustees of the SIP will hold Rolls-Royce Holdings Ordinary Shares on behalf of the participants until the normal release date.

#### **14.5 Deferred Share Plan**

Since the purpose and effect of the Scheme is solely to create a new holding company, the Remuneration Committee has power under the rules to resolve that any awards granted under the Deferred Share Plan shall not become capable of release in connection with the Scheme. The Remuneration Committee has resolved that such awards should not become capable of release and shall instead be converted into awards to acquire Rolls-Royce Holdings Ordinary Shares on terms which the Remuneration Committee reasonably considers to be equivalent to the old awards. The new awards shall continue to be capable of release in accordance with the rules of the DSP.

The Rolls-Royce Group Ordinary Shares required to satisfy all outstanding awards are held on trust. The Scheme will result in the Trust holding Rolls-Royce Holdings Ordinary Shares in place of Rolls-Royce Group Ordinary Shares.

#### **14.6 Graduate Scheme**

There are no outstanding awards under the Graduate Scheme. Future operation of and amendments to this scheme are summarised in paragraph 15 below.

#### **14.7 Trust arrangements**

Rolls-Royce Group has one employee benefit trust which is resident in and administered in Jersey which may acquire and hold Rolls-Royce Group Ordinary Shares for the benefit of some or all of the employees of the Group. Pursuant to the Scheme, the Trust will acquire Rolls-Royce Holdings Ordinary Shares which may be used in connection with some or all of the Rolls-Royce Employee Share Schemes following the Scheme. The Trust currently holds 15,320,247 Rolls-Royce Group Ordinary Shares.

### **15. PROPOSED AMENDMENTS TO CERTAIN ROLLS-ROYCE EMPLOYEE SHARE SCHEMES AND ADOPTION OF NEW SHARES/SAVE SCHEMES**

Subject to shareholder approval of Resolution 28 in the Notice of Annual General Meeting, the terms of the SIP and the PSP will be amended so that all references to Rolls-Royce Group Ordinary Shares (and other relevant references) are changed to Rolls-Royce Holdings Ordinary Shares. These amendments are designed to enable these schemes to be operated in relation to Rolls-Royce Holdings Ordinary Shares for the remainder of each scheme's life. The Remuneration Committee has concluded that this approach is preferable to setting up new schemes specifically as a consequence of the introduction of Rolls-Royce Holdings as a new holding company (except as set out below).

These amendments will require the approval of HMRC. Although the Company expects such approval to be granted, Rolls-Royce Holdings will, if such approval is not granted, establish new schemes mirroring the terms of those original schemes, which will be operated for the remainder of the original schemes' life.

It is proposed that the Board make similar changes to the DSP and Graduate Scheme where shareholder approval is not required.

In addition, subject to shareholder approval of Resolutions 21 and 22 in the Notice of Annual General Meeting and where relevant the approval of HMRC, new schemes will be set up at Rolls-Royce plc level replacing the ShareSave Schemes and mirroring the rules of the 2007 ShareSave Scheme and the International ShareSave Scheme 2007. In order to assist the administration of the Group's Employee Share Schemes, the Remuneration Committee has concluded that this approach is preferable because of the potential complexities around operating these schemes at Rolls-Royce Group level and for the efficient operation of the Rolls-Royce Employee Share Schemes going forward.

### **16. CONSENT**

Rothschild has given and not withdrawn its written consent to the inclusion of references to its name in this document in the form and context in which they appear. In accordance with customary practice in providing financial advice, Rothschild has not provided legal or taxation advice in relation to the Scheme.

### **17. COSTS AND EXPENSES REGARDING ISSUE OF DOCUMENTATION**

All costs and expenses relating to the issue of this document and the Prospectus and to the negotiation, preparation and implementation of the Scheme will be borne by the Group.

## 18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents may be inspected during normal business hours on any Business Day at the registered office of Rolls-Royce Group at 65 Buckingham Gate, London SW1E 6AT, United Kingdom up to and including the date of the Annual General Meeting:

- (a) the Rolls-Royce Group Articles;
- (b) the Rolls-Royce Group Articles as proposed to be amended by the Resolutions set out in the notice of the Annual General Meeting which is included at the end of this document;
- (c) the Rolls-Royce Holdings Articles;
- (d) the annual reports of Rolls-Royce Group for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010, including the audited consolidated financial statements and the independent auditors' reports for each of those financial years;
- (e) the consent letter referred to in paragraph 16 of Part III of this document;
- (f) the rules of the Rolls-Royce Employee Share Schemes with proposed amendments and draft rules of the New ShareSave Schemes referred to in paragraphs 14 and 15 of Part III of this document;
- (g) the Executive Directors' employment contracts with Rolls-Royce plc and the Non-Executive Directors' draft letters of appointment with Rolls-Royce Holdings referred to in paragraph 6 of Part III of this document;
- (h) the Prospectus (from the date of its publication, further details in relation to the timing of which will be set out in an announcement relating to the Proposals expected to be made by Rolls-Royce Group on or around the date of this document);
- (i) the documents incorporated by reference into the Prospectus, which will be listed in the Prospectus (from the date of publication of the Prospectus, further details in relation to the timing of which will be set out in an announcement relating to the Proposals expected to be made by Rolls-Royce Group on or around the date of this document); and
- (j) this document.



PART IV

SCHEME OF ARRANGEMENT

IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT

No. 1723 of 2011

IN THE MATTER OF ROLLS-ROYCE GROUP PLC

- and -

IN THE MATTER OF THE COMPANIES ACT 2006

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SCHEME OF ARRANGEMENT  
(under Part 26 of the Companies Act 2006)

BETWEEN

ROLLS-ROYCE GROUP PLC

AND

THE HOLDERS OF THE SCHEME SHARES  
(as hereinafter defined)

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**Preliminary**

- (A) In this scheme of arrangement, references to Clauses are references to clauses of this scheme of arrangement and the following expressions shall, unless inconsistent with the subject or context, bear the following meanings:

<b>ADR</b>	American depositary receipt;
<b>Annual General Meeting</b>	the general meeting of Rolls-Royce Group to be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, United Kingdom at 11.00 a.m. on 6 May 2011, and any adjournment thereof;
<b>Business Day</b>	any day other than a Saturday or Sunday on which banks in London, United Kingdom, are open for normal business;
<b>C Shares</b>	(i) prior to the Scheme Effective Time, Rolls-Royce Group C Shares; and (ii) after the Scheme Effective Time, Rolls-Royce Holdings C Shares;
<b>Certificated or in Certificated form</b>	a share which is not in Uncertificated form (that is, not in CREST);
<b>Companies Act</b>	the UK Companies Act 2006 (as amended from time to time);
<b>Court</b>	the High Court of Justice of England and Wales;
<b>Court Hearing</b>	the hearing by the Court of the claim form to sanction the Scheme under section 899 of the Companies Act and confirm the Rolls-Royce Group reduction of capital at which the Court Order will be sought;

<i>Court Meeting</i>	the meeting of Rolls-Royce Group Shareholders to be convened pursuant to an order of the Court pursuant to Part 26 of the Companies Act, to be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, United Kingdom at 11.30 a.m. on 6 May 2011 (or as soon as possible after the conclusion or adjournment of the Annual General Meeting), to consider and, if thought fit, approve the Scheme, including any adjournment thereof;
<i>Court Order</i>	the order of the Court sanctioning the Scheme under Part 26 of the Companies Act and confirming the Rolls-Royce Group reduction of capital;
<i>CREST</i>	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK and Ireland Limited is the operator;
<i>CREST Regulations</i>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended from time to time;
<i>Effective</i>	the Scheme having become effective in accordance with its terms, expected to occur on 23 May 2011;
<i>Euroclear</i>	Euroclear UK & Ireland Limited, the operator of CREST;
<i>holder</i>	a registered holder, including any person entitled by transmission;
<i>members</i>	members of Rolls-Royce Group on the register of members at any relevant date;
<i>New Shares</i>	ordinary shares of 20 pence each (or such lower nominal value as the directors of Rolls-Royce Group shall decide prior to the date on which the Court is asked to sanction the Scheme) in the capital of Rolls-Royce Group to be issued to Rolls-Royce Holdings;
<i>New Special Share</i>	the one special rights non-voting share of £1 in the capital of Rolls-Royce Holdings;
<i>Overseas Shareholder</i>	a Scheme Shareholder who is a citizen, resident or national of any jurisdiction outside the United Kingdom;
<i>£, pence or sterling</i>	the lawful currency of the United Kingdom;
<i>Registrar of Companies</i>	the Registrar of Companies in England and Wales;
<i>Rolls-Royce ADR</i>	an ADR issued by the US Depositary representing: <ul style="list-style-type: none"> <li>(i) prior to the Scheme Effective Date, the Rolls-Royce Group Ordinary Shares deposited with the US Depositary; and</li> <li>(ii) after the Scheme Effective Date, the Rolls-Royce Holdings Ordinary Shares deposited with the US Depositary;</li> </ul>
<i>Rolls-Royce Group</i>	Rolls-Royce Group plc, a public limited company incorporated in England and Wales (registered number 04706930), whose registered office is at 65 Buckingham Gate, London SW1E 6AT, United Kingdom;
<i>Rolls-Royce Group A Ordinary Share</i>	the non-voting A ordinary share of 20 pence in the capital of Rolls-Royce Group, to be issued and allotted pursuant to the special resolutions to be proposed at the Annual General Meeting;
<i>Rolls-Royce Group C Shares</i>	the non-cumulative redeemable preference shares of 0.1 pence each in the capital of Rolls-Royce Group;
<i>Rolls-Royce Group Ordinary Shares</i>	ordinary shares of 20 pence each in the capital of Rolls-Royce Group in issue prior to the Scheme Effective Date;
<i>Rolls-Royce Group Shareholder</i>	a holder of Rolls-Royce Group Ordinary Shares from time to time;

<i>Rolls-Royce Holdings</i>	Rolls-Royce Holdings plc, a public limited company incorporated in England and Wales (registered number 07524813), whose registered office is at 65 Buckingham Gate, London SW1E 6AT, United Kingdom;
<i>Rolls-Royce Holdings C Shares</i>	the non-cumulative redeemable preference shares of 0.1 pence each in the capital of Rolls-Royce Holdings to be allotted and issued, credited as fully paid, following the Scheme Effective Date;
<i>Rolls-Royce Holdings Ordinary Shares</i>	ordinary shares of 150 pence each in the capital of Rolls-Royce Holdings;
<i>Rolls-Royce Holdings Subscriber Shareholders</i>	a holder of Rolls-Royce Holdings Subscriber Shares;
<i>Rolls-Royce Holdings Subscriber Shares</i>	the two subscriber ordinary shares with a nominal value of 150 pence each in the capital of Rolls-Royce Holdings;
<i>Scheme</i>	this scheme of arrangement in its present form or with any modification thereof or addition thereto or condition approved or imposed by the Court and agreed to by Rolls-Royce Group and Rolls-Royce Holdings;
<i>Scheme Effective Date</i>	the date on which the Scheme becomes Effective in accordance with its terms;
<i>Scheme Effective Time</i>	the time at which this Scheme becomes Effective on the Scheme Effective Date;
<i>Scheme Record Time</i>	6.00 p.m. on the Business Day immediately prior to the Scheme Effective Date;
<i>Scheme Shareholder</i>	a holder of Scheme Shares;
<i>Scheme Shares</i>	<p>(i) all Rolls-Royce Group Ordinary Shares in issue at the date of the Scheme and remaining in issue at the Scheme Record Time;</p> <p>(ii) all additional (if any) Rolls-Royce Group Ordinary Shares in issue 48 hours prior to the Court Meeting at which the Scheme is approved and remaining in issue at the Scheme Record Time; and</p> <p>(iii) all further (if any) Rolls-Royce Group Ordinary Shares which may be in issue immediately prior to confirmation by the Court of the reduction of capital provided for under the Scheme (as further described in Clause 1 below) in respect of which the original or any subsequent holders thereof are, or shall have agreed in writing to be, bound by the Scheme and remaining in issue at the Scheme Record Time,</p> <p>excluding, for the avoidance of doubt, the Rolls-Royce Group A Ordinary Share and the Special Share;</p>
<i>Special Share</i>	the one special rights non-voting share of £1 in the capital of Rolls-Royce Group;
<i>Special Shareholder</i>	prior to the Scheme Effective Time, the holder of the Special Share and after the Scheme Effective Time, the holder of the New Special Share, being at all times the Secretary of State for Business, Innovation and Skills;
<i>Uncertificated or in Uncertificated form</i>	recorded on the relevant register as in uncertificated form, being held in uncertificated form in CREST and title to which by virtue of CREST Regulations may be transferred by means of CREST;
<i>United Kingdom or UK</i>	the United Kingdom of Great Britain and Northern Ireland; and
<i>US Depositary</i>	The Bank of New York Mellon.

- (B) The issued share capital of Rolls-Royce Group as at the date of this Scheme is £400,680,389.04 consisting of 1,872,178,430 Rolls-Royce Group Ordinary Shares, 26,244,702,035 Rolls-Royce Group C Shares and one Special Share, all of which are in issue and fully paid up. On 10 March 2011 (being the latest practicable date prior to the publication of this document), Rolls-Royce Group did not hold any Rolls-Royce Group Ordinary Shares in treasury. All of the Rolls-Royce Group C Shares in issue as at the date of this Scheme are expected to be compulsorily redeemed prior to the Scheme Effective Date. It is proposed that the Rolls-Royce Group A Ordinary Share be issued and allotted to Rolls-Royce Holdings for cash prior to the Scheme Record Time. No Scheme Shares are or will be owned by Rolls-Royce Holdings.
- (C) Rolls-Royce Holdings was incorporated in the United Kingdom as a private limited company on 10 February 2011 with registered number 07524813 under the name Rolls-Royce Holdings Limited. Rolls-Royce Holdings was subsequently re-registered as a public limited company on 8 March 2011 under the name Rolls-Royce Holdings plc. The share capital of Rolls-Royce Holdings as at the date of this Scheme is £50,003 divided into 2 Rolls-Royce Holdings Subscriber Shares (both of which have been issued and are credited as fully paid) and 50,000 redeemable preference shares of £1 each (paid up to a quarter of their value).
- (D) It is proposed that, subject to certain conditions being fulfilled including this Scheme becoming Effective, the share capital of Rolls-Royce Holdings be reduced pursuant to (i) a special resolution of the Rolls-Royce Holdings Subscriber Shareholders to be passed at a general meeting of the Rolls-Royce Holdings Subscriber Shareholders, and (ii) a confirmatory special resolution of the Rolls-Royce Group Shareholders to be passed at the Annual General Meeting.
- (E) Rolls-Royce Holdings and the Special Shareholder have agreed to appear by Counsel at the Court Hearing to sanction this Scheme and to undertake to the Court to be bound by this Scheme and to execute and do or procure to be executed and done all such documents, acts and things as may be necessary or desirable to be executed or done by them for the purpose of giving effect to this Scheme.

## The Scheme

### 1. Cancellation of the Scheme Shares

- (a) At the Scheme Effective Time, the issued share capital of Rolls-Royce Group shall be reduced by cancelling and extinguishing all of the Scheme Shares.
- (b) Subject to and forthwith upon the said reduction of capital taking effect, the credit arising in the books of account of Rolls-Royce Group as a result of the said reduction of capital shall be capitalised and applied in paying up, in full at par, such number of New Shares as shall be equal to the number (and aggregate nominal value) of the Scheme Shares cancelled in accordance with Clause 1(a) above which shall be allotted and issued, credited as fully paid, to Rolls-Royce Holdings, as holder of the Rolls-Royce Group A Ordinary Share.

### 2. Rolls-Royce Holdings Ordinary Shares

- (a) In consideration of the cancellation of the Scheme Shares and the allotment and issue of the New Shares to Rolls-Royce Holdings pursuant to Clause 1 above, Rolls-Royce Holdings shall (subject to, and in accordance with, the remaining provisions in this Scheme), at the Scheme Effective Time, allot and issue (credited as fully paid) Rolls-Royce Holdings Ordinary Shares to the Scheme Shareholders (as appearing in the register of members of Rolls-Royce Group at the Scheme Record Time) on the following basis:

one **Rolls-Royce Holdings Ordinary Share** for each **Scheme Share** held at the Scheme Record Time.

- (b) The Rolls-Royce Holdings Ordinary Shares shall be issued and credited as fully paid, shall rank equally in all respects with all other fully paid Rolls-Royce Holdings Ordinary Shares and shall be entitled to all dividends and other distributions declared, paid or made by Rolls-Royce Holdings by reference to a record date on or after the Scheme Effective Date.
- (c) The provisions of Clause 2(a) shall be subject to any prohibition or condition imposed by law. Without prejudice to the generality of the foregoing, if, in respect of any Overseas Shareholder, Rolls-Royce Holdings is advised that the allotment and issue of Rolls-Royce Holdings Ordinary Shares pursuant to this Clause would or might infringe the laws of any jurisdiction outside the United Kingdom or would or might require Rolls-Royce Holdings to observe any governmental or other consent or effect any registration, filing or other formality with which, in the opinion of Rolls-Royce Holdings, it would be unable to comply or which it regards as unduly onerous, then Rolls-Royce Holdings may in its sole discretion either:
  - (i) determine that such Rolls-Royce Holdings Ordinary Shares shall be sold, in which event the Rolls-Royce Holdings Ordinary Shares shall be issued to such Overseas Shareholder and Rolls-Royce Holdings shall appoint a person to act pursuant to this sub-clause 2(c) (i) and such person shall be authorised on behalf of such Overseas Shareholder to procure that any shares in respect of which Rolls-Royce Holdings has made such a determination shall, as soon as practicable following the Scheme Effective Date, be sold at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale shall (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) be paid to such Overseas Shareholder by sending a cheque or warrant to such Overseas Shareholder in accordance with the provisions of Clause 3 below. To give effect to

any such sale, the person so appointed shall be authorised on behalf of such Overseas Shareholder to execute and deliver a form of transfer and to give such instructions and do all such things which he may consider necessary or expedient in connection with such sale. In the absence of bad faith or wilful default, none of Rolls-Royce Group, Rolls-Royce Holdings, any appointee referred to in this sub-clause 2(c)(i) or any broker or agent of any of them shall have any liability for any loss arising as a result of the timing or terms of any such sale; or

- (ii) determine that no such Rolls-Royce Holdings Ordinary Shares shall be allotted and issued to such Overseas Shareholder under this Clause, but instead such Rolls-Royce Holdings Ordinary Shares shall be allotted and issued to a nominee appointed by Rolls-Royce Holdings as trustee for such Overseas Shareholder, on terms that they shall, as soon as reasonably practicable following the Scheme Effective Date, be sold on behalf of such Overseas Shareholder at the best price which can reasonably be obtained at the time of sale and the net proceeds of such sale shall (after the deduction of all expenses and commissions, including any amount in respect of value added tax payable thereon) be paid to such Overseas Shareholder by sending a cheque or warrant to such Overseas Shareholder in accordance with the provisions of Clause 3 below. In the absence of bad faith or wilful default, none of Rolls-Royce Group, Rolls-Royce Holdings, any nominee referred to in this sub-clause 2(c)(ii) or any broker or agent of any of them shall have any liability for any loss arising as a result of the timing or terms of any such sale.

### **3. C Shares**

Subject to the allotment and issue of Rolls-Royce Holdings Ordinary Shares to the Scheme Shareholders pursuant to clause 2(a) and from the Scheme Effective Time, any future issues of C Shares shall be by Rolls-Royce Holdings as determined by its board of directors. Accordingly, the issue of C Shares scheduled for July 2011 will be made by Rolls-Royce Holdings and is expected to be made to the holders of Rolls-Royce Group Ordinary Shares on the register on 26 April 2011.

### **4. Certificates and payments**

- (a) Not later than ten (10) Business Days after the Scheme Effective Date, Rolls-Royce Holdings shall send by post to the allottees of the allotted and issued Rolls-Royce Holdings Ordinary Shares certificates in respect of such shares, save that where Scheme Shares are held in Uncertificated form, Rolls-Royce Holdings shall procure that Euroclear is instructed to cancel the entitlement to Scheme Shares of each of the Scheme Shareholders concerned and to credit to the appropriate stock accounts in CREST of the Scheme Shareholders concerned their due entitlements to Rolls-Royce Holdings Ordinary Shares.
- (b) Not later than ten (10) Business Days following the sale of any relevant Rolls-Royce Holdings Ordinary Shares pursuant to Clause 2(c), Rolls-Royce Holdings shall procure that the nominee appointed under Clause 2(c)(i) or the person appointed under Clause 2(c)(ii) shall account for the cash payable by despatching to the persons respectively entitled thereto, cheques and/or warrants by post or by any direct, bank or other funds transfer or, in the case of an Uncertificated share, by the relevant system.
- (c) All certificates required to be sent by Rolls-Royce Holdings pursuant to Clause 4(a) and all cheques and/or warrants required to be sent pursuant to Clause 4(b) shall be sent by post in pre-paid envelopes addressed to the persons respectively entitled thereto at their respective addresses appearing in the register of members of Rolls-Royce Group at the Scheme Record Time (or, in the case of joint holders, to the address of that one of the joint holders whose name stands first in the register in respect of the joint holding) or in accordance with any special instructions regarding communications received at the registered office of Rolls-Royce Group prior to the Scheme Record Time.
- (d) If the Rolls-Royce Holdings Ordinary Shares are consolidated or subdivided or if the nominal value of the Rolls-Royce Holdings Ordinary Shares is reduced prior to the despatch of any certificates or the giving of any instructions in accordance with this Clause 3, the certificates or instructions shall relate to such Rolls-Royce Holdings Ordinary Shares as so consolidated, subdivided and/or reduced.
- (e) None of Rolls-Royce Group, Rolls-Royce Holdings, any nominee referred to in sub-clause 2(c)(i), such person appointed to act under sub-clause 2(c)(ii) or any agent of any of them shall be responsible for any loss or delay in transmission of certificates, cheques or warrants sent in accordance with this Clause 4.
- (f) All cheques and warrants shall be made payable to the Scheme Shareholder or, in the case of joint holders, to the first-named of such holders of the Scheme Shares concerned, in sterling drawn on a UK clearing bank, and the encashment of any such cheque or warrant shall be a complete discharge to Rolls-Royce Holdings for the monies represented thereby. With respect to Scheme Shareholders who hold their Scheme Shares in Uncertificated form, all assured payment obligations created by Euroclear in favour of the payment bank of the persons entitled thereto for any sums payable to them respectively pursuant to Clause 2 above, shall be a complete discharge of Rolls-Royce Holdings for the monies represented thereby.
- (g) This Clause 4 shall take effect subject to any prohibition or condition imposed by law.

## **5. Certificates representing Scheme Shares**

With effect from and including the Scheme Effective Date, all certificates representing holdings of Scheme Shares shall cease to have effect as documents of title to the Scheme Shares comprised therein and every holder of Scheme Shares should destroy such certificates upon receipt of their share certificate for Rolls-Royce Holdings Ordinary Shares.

## **6. Record of Cancellation of Scheme Shares**

- (a) Euroclear shall be instructed to cancel the entitlements to Scheme Shares of holders of Scheme Shares in Uncertificated form and appropriate entries shall be made in Rolls-Royce Group's register of members, with effect from the Scheme Effective Date, to reflect their cancellation.
- (b) As regards Certificated Scheme Shares, appropriate entries shall be made in Rolls-Royce Group's register of members, with effect from the Scheme Effective Date, to reflect their cancellation.

## **7. Mandates and instructions**

Each mandate in force and duly notified to Rolls-Royce Group at the Scheme Record Date relating to the payment of dividends or the redemption of Rolls-Royce Group C Shares and bonus share issues on Scheme Shares and each instruction, election and communication preference then in force as to notices and other communications (including electronic communications) from Rolls-Royce Group shall, unless and until varied or revoked, be deemed, from and including the Scheme Effective Date, to be a valid and effective mandate or instruction to Rolls-Royce Holdings in relation to the corresponding Rolls-Royce Holdings Ordinary Shares to be allotted and issued pursuant to this Scheme.

## **8. Scheme Effective Date**

- (a) The Scheme shall become Effective as soon as an office copy of the Court Order (including a copy of the related statement of capital) shall have been duly delivered to the Registrar of Companies for registration; and
- (b) Unless the Scheme shall have become Effective on or before 31 December 2011 or such later date, if any, as Rolls-Royce Group and Rolls-Royce Holdings may agree and the Court may allow, this Scheme shall never become Effective.

## **9. Modification**

Rolls-Royce Group and Rolls-Royce Holdings may jointly consent on behalf of all persons concerned to any modification of, or addition to, the Scheme or to any condition which the Court may think fit to approve or impose.

## **10. Costs**

Rolls-Royce Group is authorised and permitted to pay all the costs and expenses relating to the negotiation, preparation and implementation of the Scheme.

## **11. ADRs**

Rolls-Royce ADRs (each representing five Rolls-Royce Group Ordinary Shares before the Scheme Effective Date) will not be cancelled but will continue after such time. At the Scheme Effective Time, the US Depositary will be issued with Rolls-Royce Holdings Ordinary Shares in lieu of its Rolls-Royce Group Ordinary Shares. Therefore, Rolls-Royce ADR holders will continue to hold the same instrument but, from the Scheme Effective Date, the Rolls-Royce ADRs will instead simply represent five Rolls-Royce Holdings Ordinary Shares.

Dated 22 March 2011

## PART V DEFINITIONS AND GLOSSARY

The following definitions apply throughout this document (except in Part IV of this document containing the Scheme of Arrangement, which contains separate definitions) unless the context requires otherwise:

<i>1997 ShareSave Scheme</i>	the Rolls-Royce ShareSave Scheme 1997;
<i>2007 ShareSave Scheme</i>	the Rolls-Royce Group UK ShareSave Plan 2007;
<i>Admission</i>	admission of the Rolls-Royce Holdings Ordinary Shares to the premium listing segment of the Official List in accordance with the Listing Rules and the admission of the Rolls-Royce Holdings Ordinary Shares to trading by the London Stock Exchange on its main market for listed securities in accordance with the Standards, expected to occur on 23 May 2011;
<i>ADR</i>	American depositary receipt;
<i>Annual General Meeting</i>	the annual general meeting of Rolls-Royce Group to be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.00 a.m. on 6 May 2011;
<i>Audit Committee</i>	the audit committee of Rolls-Royce Group or, following the Scheme becoming effective, of Rolls-Royce Holdings;
<i>BST</i>	British Summer Time;
<i>Business Day</i>	any day other than a Saturday or Sunday on which banks in London are open for normal business;
<i>C Shares</i>	(i) prior to the Scheme Effective Time, Rolls-Royce Group C Shares; and (ii) after the Scheme Effective Time, Rolls-Royce Holdings C Shares.
<i>CA or Companies Act</i>	the UK Companies Act 2006 (as amended from time to time);
<i>Certificated or in Certificated form</i>	In relation to a share or other security, which is not in Uncertificated form (that is, not in CREST);
<i>Computershare</i>	Computershare Investor Services PLC;
<i>Court</i>	the High Court of Justice of England and Wales;
<i>Court Hearings</i>	the First Court Hearing and the Second Court Hearing and <b>Court Hearing</b> shall be construed accordingly;
<i>Court Meeting</i>	the meeting of holders of Scheme Shares to be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE, at 11.30 a.m. on 6 May 2011 (or as soon as possible after the conclusion or adjournment of the Annual General Meeting) convened pursuant to an order of the Court pursuant to Part 26 of the Companies Act for the purposes of considering and, if thought fit, approving the Scheme, notice of which is set out in Part VI of this document, and any adjournment thereof;
<i>CREST</i>	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK and Ireland Limited is the operator;
<i>CREST Manual</i>	the CREST manual referred to in agreements entered into by Euroclear;
<i>CREST Regulations</i>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755) as amended from time to time;
<i>CRIP</i>	C Share Reinvestment Plan;

<i>Directors or Board</i>	the director(s) of Rolls-Royce Group, as set out in paragraph 4 of Part III of this document;
<i>Disclosure and Transparency Rules</i>	the disclosure and transparency rules relating to the disclosure of information in respect of financial instruments which have been admitted to trading on a regulated market or for which a request for admission to trading on such a market has been made, as published by the FSA;
<i>DSP</i>	the Rolls-Royce plc Deferred Share Plan, also known as APRA;
<i>ESOP</i>	the Rolls-Royce plc Executive Share Option Plan 1999;
<i>Ethics Committee</i>	the ethics committee of Rolls-Royce Group or, following the Scheme becoming effective, of Rolls-Royce Holdings;
<i>Euroclear</i>	Euroclear UK & Ireland Limited, the operator of CREST;
<i>Executive Director(s)</i>	the executive director(s) of Rolls-Royce Group as set out in paragraph 4.1 of Part III of this document;
<i>Explanatory Statement</i>	this document and, in particular, Part II of this document, which has been prepared in accordance with section 897 of the Companies Act;
<i>Financial Adviser or Rothschild</i>	N M Rothschild & Sons Limited;
<i>First Court Hearing</i>	the hearing by the Court of the claim form to sanction the Scheme under Section 899 of the Companies Act and confirm the Rolls-Royce Group reduction of capital at which the First Court Order will be sought;
<i>First Court Order</i>	the order of the Court sanctioning the Scheme under Part 26 of the Companies Act and confirming the Rolls-Royce Group reduction of capital;
<i>Form(s) of Proxy</i>	the form(s) of proxy sent to Rolls-Royce Group Shareholders for use in connection with the Annual General Meeting and the Court Meeting, which accompany this document;
<i>FSA</i>	the Financial Services Authority of the United Kingdom;
<i>FSMA</i>	the Financial Services and Markets Act 2000, as amended from time to time;
<i>GMT</i>	Greenwich Mean Time;
<i>Graduate Scheme</i>	the Rolls-Royce Group Graduate Development Share Plan 2008;
<i>Group</i>	(i) prior to the Scheme Effective Time, Rolls-Royce Group and its subsidiary undertakings; and (ii) after the Scheme Effective Time, the Rolls-Royce Holdings Group;
<i>holder</i>	a registered holder, including any person entitled by transmission;
<i>HMRC</i>	HM Revenue and Customs;
<i>International ShareSave Scheme 1999</i>	the Rolls-Royce International ShareSave Plan 1999;
<i>International ShareSave Scheme 2007</i>	the Rolls-Royce Group International ShareSave Plan 2007;
<i>International ShareSave Plan</i>	the Rolls-Royce plc International ShareSave Plan 2011;
<i>Listing Rules or LR</i>	the rules and regulations made by the FSA in its capacity as the UK Listing Authority under FSMA, and contained in the UK Listing Authority's publication of the same name;
<i>London Stock Exchange</i>	London Stock Exchange plc (or any successor body thereto);



<i>London time</i>	the prevailing time in London, United Kingdom, being GMT or BST as applicable;
<i>Meetings</i>	the Annual General Meeting and the Court Meeting, and <b>Meeting</b> shall be construed accordingly;
<i>members</i>	members of Rolls-Royce Group on the register of members at any relevant date and <b>member</b> shall be construed accordingly;
<i>New Shares</i>	the ordinary shares in Rolls-Royce Group of 20 pence each to be issued to Rolls-Royce Holdings pursuant to the Scheme;
<i>New ShareSave Schemes</i>	the International ShareSave Plan and the UK ShareSave Plan;
<i>New Special Share</i>	the one special rights non-voting share of £1 in the capital of Rolls-Royce Holdings;
<i>Nominations Committee</i>	the nominations committee of Rolls-Royce Group or, following the Scheme becoming effective, of Rolls-Royce Holdings;
<i>Non-Executive Director(s)</i>	the non-executive director(s) of Rolls-Royce Group as set out in paragraph 4.1 of Part III of this document;
<i>Official List</i>	the Official List of the FSA;
<i>Ordinary Resolutions</i>	the ordinary resolutions which are set out in Part VI of this document, to be proposed to be passed at the Annual General Meeting;
<i>Overseas Shareholders</i>	Rolls-Royce Group Shareholders who are resident in, ordinarily resident in, or citizens or nationals of, jurisdictions outside the United Kingdom;
<i>Proposals</i>	collectively, the Scheme and the Rolls-Royce Holdings Reduction of Capital;
<i>Prospectus</i>	the prospectus relating to Rolls-Royce Holdings and the Rolls-Royce Holdings Ordinary Shares prepared in accordance with the Prospectus Rules;
<i>Prospectus Rules</i>	the rules and regulations made by the FSA in its capacity as the UK Listing Authority under Part VI of FSMA and contained in the UK Listing Authority's publication of the same name;
<i>PSP</i>	the Rolls-Royce Group Performance Share Plan;
<i>Registrar of Companies</i>	the Registrar of Companies in England and Wales;
<i>relevant system</i>	has the meaning given to it in the Uncertificated Securities Regulation 2001;
<i>Remuneration Committee</i>	the remuneration committee of Rolls-Royce Group or, following the Scheme becoming effective, of Rolls-Royce Holdings;
<i>Resolutions</i>	the Ordinary Resolutions and the Special Resolutions;
<i>RIS</i>	any information service authorised from time to time by the FSA for the purpose of disseminating regulatory announcements;
<i>Rolls-Royce ADR</i>	an ADR issued by the US Depositary representing: <ul style="list-style-type: none"> <li>(i) prior to the Scheme Effective Time, the Rolls-Royce Group Ordinary Shares deposited with the US Depositary; and</li> <li>(ii) after the Scheme Effective Time, the Rolls-Royce Holdings Ordinary Shares deposited with the US Depositary;</li> </ul>
<i>Rolls-Royce Employee Share Schemes</i>	the ShareSave Schemes, the DSP, the SIP, the PSP, the ESOP and the Graduate Scheme;

<i>Rolls-Royce Group or the Company</i>	Rolls-Royce Group plc, a public limited company incorporated in England and Wales with registered number 04706930;
<i>Rolls-Royce Group A Ordinary Share</i>	the non-voting A ordinary share of 20 pence in the capital of Rolls-Royce Group, to be issued and allotted pursuant to the Special Resolutions to be proposed at the Annual General Meeting;
<i>Rolls-Royce Group Articles</i>	the articles of association of Rolls-Royce Group;
<i>Rolls-Royce Group C Shares</i>	the non-cumulative redeemable preference shares of 0.1 pence each in the capital of Rolls-Royce Group;
<i>Rolls-Royce Group Ordinary Shares</i>	the ordinary shares of 20 pence each in the share capital of Rolls-Royce Group excluding, for the avoidance of doubt, the Rolls-Royce Group A Ordinary Share;
<i>Rolls-Royce Group's Registrar or Registrar</i>	Computershare Investor Services PLC;
<i>Rolls-Royce Group Shareholder or Shareholder</i>	a holder for the time being of Rolls-Royce Group Ordinary Shares (other than Rolls-Royce Holdings);
<i>Rolls-Royce Holdings</i>	Rolls-Royce Holdings plc, a public limited company incorporated in England and Wales (registered number 07524813) ), whose registered office is at 65 Buckingham Gate, London SW1E 6AT, United Kingdom;
<i>Rolls-Royce Holdings Articles</i>	the articles of association of Rolls-Royce Holdings at the date of this document;
<i>Rolls-Royce Holdings C Shares</i>	the non-cumulative redeemable preference shares of 0.1 pence each in the capital of Rolls-Royce Holdings to be allotted and issued, credited as fully paid, following the Scheme Effective Date;
<i>Rolls-Royce Holdings Director(s)</i>	the director(s) of Rolls-Royce Holdings, as set out in paragraph 4.2 of Part III of this document;
<i>Rolls-Royce Holdings Group</i>	(i) prior to the Scheme Effective Time, Rolls-Royce Holdings; and (ii) after the Scheme Effective Time, Rolls-Royce Holdings and its subsidiary undertakings;
<i>Rolls-Royce Holdings Ordinary Shares</i>	(i) prior to the Rolls-Royce Holdings Reduction of Capital, the ordinary shares of 150 pence each in the capital of Rolls-Royce Holdings to be allotted and issued, credited as fully paid, in accordance with Clause 1 of the Scheme; and (ii) after the Rolls-Royce Holdings Reduction of Capital, the ordinary shares of 20p each in the capital of Rolls-Royce Holdings;
<i>Rolls-Royce Holdings Reduction of Capital</i>	the proposed reduction of capital of Rolls-Royce Holdings, after the Scheme becomes effective;
<i>Rolls-Royce Holdings Shareholder</i>	a holder of Rolls-Royce Holdings Ordinary Shares from time to time;
<i>Rolls-Royce Holdings Subscriber Shareholders</i>	a holder of Rolls-Royce Holdings Subscriber Shares;
<i>Rolls-Royce Holdings Subscriber Shares</i>	the two subscriber ordinary shares with a nominal value of 150 pence each in the capital of Rolls-Royce Holdings;
<i>Scheme</i>	the scheme of arrangement under Part 26 of the Companies Act between Rolls-Royce Group and holders of Scheme Shares including any modification, addition or condition approved by the Court, details of which are set out in this document;
<i>Scheme Effective Date</i>	the date on which this Scheme becomes effective in accordance with its terms, expected to be 23 May 2011;
<i>Scheme Effective Time</i>	the time at which this Scheme becomes effective on the Scheme Effective Date;
<i>Scheme Record Time</i>	6.00 p.m. London time on the Business Day immediately preceding the Scheme Effective Date;

<i>Scheme Shareholder</i>	a holder of Scheme Shares;
<i>Scheme Shares</i>	<p>(i) all Rolls-Royce Group Ordinary Shares in issue at the date of the Scheme and remaining in issue at the Scheme Record Time;</p> <p>(ii) all additional (if any) Rolls-Royce Group Ordinary Shares in issue 48 hours prior to the Court Meeting at which the Scheme is approved and remaining in issue at the Scheme Record Time; and</p> <p>(iii) all further (if any) Rolls-Royce Group Ordinary Shares which may be in issue immediately prior to confirmation by the Court of the reduction of capital provided for under the Scheme in respect of which the original or any subsequent holder shall be bound or shall have agreed in writing by such time to be bound by the Scheme and remaining in issue at the Scheme Record Time,</p> <p>excluding the Rolls-Royce Group A Ordinary Share and the Special Share;</p>
<i>Scheme Voting Record Time</i>	6.00 p.m. on Wednesday 4 May 2011 or, if the Annual General Meeting or the Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting;
<i>SEC</i>	the US Securities and Exchange Commission;
<i>Second Court Hearing</i>	the hearing by the Court of the claim form to confirm the Rolls-Royce Holdings Reduction of Capital under section 648 of the Companies Act at which the Second Court Order will be sought;
<i>Second Court Order</i>	the order of the Court confirming the Rolls-Royce Holdings Reduction of Capital under section 648 of the Companies Act;
<i>ShareSave Schemes</i>	the 1997 ShareSave Scheme, 2007 ShareSave Scheme and the International ShareSave Scheme 1999 and the International ShareSave Scheme 2007;
<i>SIP</i>	the Rolls-Royce plc Share Purchase Plan;
<i>Special Resolutions</i>	the special resolutions which are set out in Part VI of this document, to be proposed to be passed at the Annual General Meeting;
<i>Special Share</i>	the one special rights non-voting share of £1 in the capital of Rolls-Royce Group;
<i>Special Shareholder</i>	prior to the Scheme Effective Time, the holder of the Special Share and after the Scheme Effective Time, the holder of the New Special Share, being at all times the Secretary of State for Business, Innovation and Skills;
<i>Standards</i>	the current edition of the Admission and Disclosure Standards produced by the London Stock Exchange;
<i>subsidiary or subsidiary undertaking</i>	has the meaning given in the Companies Act;
<i>Trust</i>	the Rolls-Royce Employee Share Trust 2008;
<i>Trustee</i>	EES Trustees International Limited;
<i>UK or United Kingdom</i>	the United Kingdom of Great Britain and Northern Ireland;

<i>UK Corporate Governance Code</i>	The UK Corporate Governance Code published in June 2010 by the Financial Reporting Counsel;
<i>UK Listing Authority</i>	the FSA acting in its capacity as the competent authority for the purpose of Part VI of FSMA and in the exercise of its functions in respect of the Admission to the Official List otherwise than in accordance with Part VI of FSMA;
<i>UK ShareSave Plan</i>	the Rolls-Royce plc UK ShareSave Plan 2011;
<i>Uncertificated or in Uncertificated form</i>	in relation to a share or other security, a share or other security title to which is recorded on the relevant register of the share or security concerned as being held in Uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
<i>US, USA or United States</i>	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia and all other areas subject to its jurisdiction;
<i>US Depositary</i>	The Bank of New York Mellon;
<i>US Exchange Act</i>	US Securities Exchange Act of 1934, as amended from time to time;
<i>US Securities Act</i>	the US Securities Act of 1933, as amended from time to time;
<i>US Shareholders</i>	Rolls-Royce Group Shareholders with registered addresses in the United States, its territories and possessions.

PART VI

NOTICES OF MEETINGS

NOTICE OF COURT MEETING

IN THE HIGH COURT OF JUSTICE  
CHANCERY DIVISION  
COMPANIES COURT  
DEPUTY REGISTRAR MIDDLETON

No. 1723 of 2011

IN THE MATTER OF ROLLS-ROYCE GROUP PLC

- and -

IN THE MATTER OF THE COMPANIES ACT 2006

NOTICE IS HEREBY GIVEN that by an Order dated 11 March 2011 made in the above matter the Court has given permission for a meeting (the **Court Meeting**) to be convened of the holders of the ordinary shares of 20 pence each (hereinafter called the **Rolls-Royce Group Ordinary Shares**) in the capital of Rolls-Royce Group plc (registered in England and Wales with registered number 04706930) (hereinafter called **Rolls-Royce Group**) for the purpose of considering and, if thought fit, approving (with or without modification) a scheme of arrangement (the **Scheme of Arrangement**) proposed to be made between Rolls-Royce Group and the holders of Rolls-Royce Group Ordinary Shares expressed to be subject to that Scheme of Arrangement and that such meeting will be held at the Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London SW1P 3EE at 11.30 a.m. on 6 May 2011 (London time) (or as soon thereafter as the Annual General Meeting (as defined in the document of which this notice forms part) convened for 11.00 a.m. on the same day and at the same place shall have been concluded) at which place and time all the holders of Rolls-Royce Group Ordinary Shares are requested to attend.

A copy of the Scheme of Arrangement and a copy of the explanatory statement required to be furnished pursuant to section 897 of the Companies Act 2006 (the **Explanatory Statement**) are incorporated in the document of which this notice forms part.

If you have any questions about this document, the Annual General Meeting, the Court Meeting or the proposals in relation to the Scheme of Arrangement and related actions referred to in the Explanatory Statement or are in any doubt as to how to complete the Forms of Proxy or voting instruction cards or appoint a proxy electronically, please call the Rolls-Royce shareholder helpline between 8.30 a.m. and 5.30 p.m. Monday to Friday (except UK public holidays) on 0870 703 0162 (from within the UK) or +44 870 703 0162 (from outside the UK). Calls will be charged at 7 pence per minute from a BT landline. Calls to the Rolls-Royce shareholder helpline from outside the UK will be charged at international rates. Other telephone provider costs may vary. Please note that calls may be monitored or recorded and the helpline cannot provide financial or tax advice or advice on the merits of the proposals.

Scheme Shareholders (as defined in the Scheme of Arrangement) entitled to attend and vote at the Court Meeting may vote in person at the Court Meeting or they may appoint another person, whether a member of the Company or not, as their proxy to attend and vote in their stead.

A blue Form of Proxy for use at the Court Meeting is enclosed with this notice. Completion of the blue Form of Proxy (or appointment of a proxy electronically) will not prevent a Scheme Shareholder from attending and voting at the Court Meeting (or any adjournment thereof) in person, if he wishes to do so.

It is requested that the blue Form of Proxy (together with any power of attorney or other authority under which it is signed, or a notarially certified copy of such power or authority) be lodged with the Registrar of the Company, Computershare, at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom, no later than 11.00 a.m. on 4 May 2011 or, if the meeting is adjourned, by not later than 48 hours before the time of the adjourned meeting but, if forms are not so lodged, they may be handed to the Registrar of the Company, Computershare, or the Chairman at the Court Meeting. For an electronic proxy appointment to be valid, it must be received by the Registrar of the Company by no later than 11.00 a.m. on Wednesday 4 May 2011.

In the case of joint holders of a share, the vote of the senior holder who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holder(s) and for this purpose seniority will be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

To be entitled to attend and vote at the meeting (and for the purpose of the determination of the votes that may cast), Scheme Shareholders must be registered in the register of members at the Scheme Voting Record Time (as defined in the Scheme of Arrangement). Changes to entries on the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend or vote at the meeting. Changes to entries in the relevant register of members after 6.00 p.m. (London time) on 4 May 2011 or, in the event that the Court Meeting is

adjourned, less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the Court Meeting.

Any person to whom this notice is sent who is a person nominated under section 146 of the Companies Act 2006 to enjoy information rights (a **Nominated Person**) may, under an agreement between him and the member by whom he was nominated, have a right to be appointed (or to have someone else appointed) as a proxy for the meeting. If a Nominated Person has no such proxy appointment right or does not wish to exercise it, he may, under any such agreement, have a right to give instructions to the member as to the exercise of voting rights. The statement of the rights of members in relation to the appointment of proxies in this notice does not apply to Nominated Persons. The rights described therein can only be exercised by members of the Company.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

By the said Order, the Court has appointed Sir Simon Robertson or, failing him, John Rishton or, failing him, Iain Conn, to act as Chairman of the Court Meeting and has directed the Chairman to report the result thereof to the Court.

The Scheme of Arrangement will be subject to the subsequent sanction of the Court.

Dated 22 March 2011

Freshfields Bruckhaus Deringer LLP  
65 Fleet Street  
London  
EC4Y 1HS  
United Kingdom

*Solicitors for the Company*

## NOTICE OF ANNUAL GENERAL MEETING

The 2011 Annual General Meeting of Rolls-Royce Group plc (the **Company**) will be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE, United Kingdom at 11.00am on Friday 6 May 2011 for the purpose of transacting the following business:

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

### ORDINARY RESOLUTIONS

#### **Resolution 1 – Receipt of the Directors’ report and the audited financial statements**

That the Directors’ report and the audited financial statements for the year ended 31 December 2010 be received.

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

That the Directors’ remuneration report for the year ended 31 December 2010 be approved.

#### **Resolution 3 – Re-election of director**

That Sir Simon Robertson be re-elected as a director of the Company.

#### **Resolution 4 – Re-election of director**

That John Rishton be re-elected as a director of the Company.

#### **Resolution 5 – Re-election of director**

That Helen Alexander CBE be re-elected as a director of the Company.

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

That Peter Byrom be re-elected as a director of the Company.

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

That Iain Conn be re-elected as a director of the Company.

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

That Peter Gregson be re-elected as a director of the Company.

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

That James Guyette be re-elected as a director of the Company.

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

That John McAdam be re-elected as a director of the Company.

#### **Resolution 11 – Re-election of director**

That John Neill CBE be re-elected as a director of the Company.

#### **Resolution 12 – Re-election of director**

That Andrew Shilston be re-elected as a director of the Company.

#### **Resolution 13 – Re-election of director**

That Colin Smith be re-elected as a director of the Company.

#### Resolution 14 – Re-election of director

That Ian Strachan be re-elected as a director of the Company.

#### Resolution 15 – Re-election of director

That Mike Terrett be re-elected as a director of the Company.

#### Resolution 16 – Reappointment of the auditors

That KPMG Audit Plc be reappointed as the Company's auditors to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company.

#### Resolution 17 – Authority to agree the auditors' remuneration

That the directors be authorised to agree the auditors' remuneration.

#### Resolution 18 – Payment to shareholders

That, subject to the Scheme referred to in Resolution 28 becoming effective, the proposed resolution of the shareholders of Rolls-Royce Holdings plc (*Rolls-Royce Holdings*) be approved:

"the directors of Rolls-Royce Holdings 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 nominal sum of £350 million standing to the credit of Rolls-Royce Holdings' merger reserve, capital redemption reserve and/or such other reserves as Rolls-Royce Holdings may legally use in paying up in full at par, up to 350 billion non-cumulative redeemable preference shares with a nominal value of 0.1 pence each in the capital of Rolls-Royce Holdings (*C Shares*) from time to time having the rights and being subject to the restrictions contained in the articles of association of Rolls-Royce Holdings from time to time or any other terms and conditions approved by the directors from time to time;
- (b) pursuant to Section 551 of the Companies Act 2006 (the *Act*), to exercise all powers of Rolls-Royce Holdings to allot and issue 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 in the capital of Rolls-Royce Group or Rolls-Royce Holdings on the register of members of Rolls-Royce Group or Rolls-Royce Holdings 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 Rolls-Royce Holdings or 18 months after the date on which the resolution is passed (whichever is the earlier) and so that such authority shall be additional to, and without prejudice to, the unexercised portion of any other authorities and powers granted to the directors, and any resolution passed prior to the date of passing of this resolution;
- (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 C Shares howsoever arising."

#### Resolution 19 – 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 or 18 months after the date on which this resolution is passed (whichever is the earlier), 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 Act.



#### **Resolution 20 – Renewal of the Rolls-Royce plc Share Purchase Plan rules**

That the Rolls-Royce plc Share Purchase Plan, formerly known as the Rolls-Royce plc All Employee Share Ownership Plan, the main terms of which are described in Appendix 1 hereto and a copy of the rules of which are signed by the Chairman for identification purposes, be and is hereby renewed for a further ten years from the date of this meeting and the directors be and are hereby authorised to do all such things as they consider necessary or desirable to carry the plan into effect.

#### **Resolution 21 – Adoption of the Rolls-Royce plc UK ShareSave Plan 2011 rules**

That, subject to the passing of Resolution 28, the Rolls-Royce plc UK ShareSave Plan 2011 (the *UK ShareSave Plan*), the main terms of which are described in Appendix 2 hereto and a copy of the rules of which are signed by the Chairman for identification purposes, be and is hereby approved and adopted by the Company and the directors be and are hereby authorised to do all such things as they consider necessary or desirable to carry the UK ShareSave Plan into effect.

#### **Resolution 22 – Adoption of the Rolls-Royce plc International ShareSave Plan rules**

That, subject to the passing of Resolution 28, the Rolls-Royce plc International ShareSave Plan 2011 (the *International ShareSave Plan*), the main terms of which are described in Appendix 3 hereto and a copy of the rules of which are signed by the Chairman for identification purposes, be and is hereby approved and adopted and the directors be and are hereby authorised to:

- (a) do all such things as they consider necessary or desirable to carry the International ShareSave Plan into effect; and
- (b) be authorised to establish further plans based on the International ShareSave Plan, modified to take account of differences in taxation, exchange control or securities laws in any overseas jurisdictions, provided that the shares made available under any such plans shall count towards the individual and overall limits with the International ShareSave Plan.

#### **SPECIAL RESOLUTIONS**

#### **Resolution 23 – Adoption of amended articles of association**

That with immediate effect, the amended articles of association of the Company produced to the meeting and initialled by the Chairman for the purpose of identification (the *Amended Articles*) be approved and adopted as the articles of association of the Company, in substitution for the existing articles of association.

#### **Resolution 24 – Notice of general meetings**

That a general meeting of the Company other than an Annual General Meeting may be called on not less than 14 clear days' notice.

#### **Resolution 25 – Authority to allot new shares**

That subject to the passing of Resolution 23:

- (a) the first section 551 amount as defined in article 12 of the Amended Articles shall be £124,811,895; and
- (b) the second section 551 amount as defined in article 12 of the Amended Articles shall be £249,623,790; and
- (c) the prescribed period for which the authorities conferred by this resolution are given shall be a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the next Annual General Meeting of the Company or 18 months after the date on which this resolution is passed (whichever is the earlier).

#### **Resolution 26 – Disapplication of pre-emption rights**

That, subject to the passing of Resolution 23, the Section 561 amount as defined in article 12 of the Amended Articles shall be £18,721,784 and the prescribed period for which the authority conferred by this resolution is given shall be a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the next Annual General Meeting of the Company or 18 months after the date on which this resolution is passed (whichever is the earlier).

## Resolution 27 – Authority to purchase own shares

That the Company be and is generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of its ordinary shares, subject to the following conditions:

- (a) the maximum aggregate number of ordinary shares authorised to be purchased is 187,217,843;
- (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 the London Stock Exchange Trading System;
- (d) this authority shall expire at the end of the next Annual General Meeting of the Company 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 28 – Scheme of Arrangement

That:

- (A) for the purpose of giving effect to the scheme of arrangement dated 22 March 2011 between the Company and the holders of the Scheme Shares (as defined in the said scheme), a print of which has been produced to this meeting and for the purposes of identification signed by the Chairman hereof, in its original form or subject to such modification, addition or condition agreed between the Company and Rolls-Royce Holdings (registered in England and Wales with registered number 07524813) and approved or imposed by the High Court (the **Scheme**):
  - (a) the Scheme be approved and the directors of the Company be and are hereby authorised to take all such action as they may consider necessary or appropriate for carrying the Scheme into effect;
  - (b) the issued share capital of the Company be reduced by cancelling and extinguishing all of the Scheme Shares;
  - (c) subject to and conditional upon the reduction of capital referred to in Resolution 28(A)(b) above taking effect and notwithstanding anything to the contrary in the articles of association of the Company:
    - (i) the Company shall apply the credit arising in its books of account as a result of the reduction of share capital referred to in Resolution 28(A)(b) above in paying up, in full at par, such number of ordinary shares of 20 pence each in the capital of the Company (the **New Shares**) as shall be equal to the number of Scheme Shares (as defined in the Scheme) cancelled pursuant to Resolution 28(A)(b) above, which shall be allotted and issued, credited as fully paid, to Rolls-Royce Holdings and/or Rolls-Royce Holdings' nominee(s) in accordance with the Scheme; and
    - (ii) conditional on the Scheme becoming effective, the directors of the Company be and are hereby generally and unconditionally authorised, for the purposes of Section 551 of the Act, to allot the New Shares provided that: (1) the maximum aggregate nominal amount of relevant securities that may be allotted under this authority shall be the aggregate nominal amount of the said New Shares (not exceeding £380,000,000); (2) this authority shall expire (unless previously revoked, varied or renewed) on 31 December 2011; and (3) this authority shall be in addition, and without prejudice to, any other subsisting authority under the said Section 551 previously granted and in force on the date on which this resolution is passed;
  - (d) subject to and conditional upon the reduction of capital referred to in Resolution 28(A)(b) above taking effect, one A Ordinary Share of 20 pence in the capital of the Company, having the rights set out in the Amended Articles as amended pursuant to Resolution 28(A)(e) below, be issued and allotted to Rolls-Royce Holdings;
  - (e) with effect from the passing of this resolution, the Amended Articles be hereby amended by the adoption and inclusion of the following new articles 218 and 219:

**“218 Shares not otherwise subject to the Scheme**

- (a) In this article only, references to the **Scheme** are references to the scheme of arrangement between the Company and its members dated 22 March 2011 under sections 895 and 899 of the Act, in its original form or with or subject to any modification, addition or condition approved or imposed by the High Court and (save as defined in this article) expressions defined in the Scheme shall have the same meaning in this article.
- (b) Notwithstanding any other provisions in these articles, if any Rolls-Royce Group Ordinary Shares are allotted and issued to any person (a **New Member**) other than Rolls-Royce Holdings plc (**Rolls-Royce Holdings**) and/or its nominee or nominees after the time at which this article becomes effective and before the Scheme Record Time, such Rolls-Royce Group Ordinary Shares shall be allotted and issued subject to the terms of the Scheme and shall be Scheme Shares for the purposes thereof and the New Member, and any subsequent holder other than Rolls-Royce Holdings and/or its nominee or nominees, shall be bound by the terms of the Scheme.
- (c) If any Rolls-Royce Group Ordinary Shares are allotted and issued to a New Member after the Scheme Record Time, they will immediately be transferred to Rolls-Royce Holdings and/or its nominee or nominees in consideration of and conditional on the issue or transfer to the New Member of one Rolls-Royce Holdings Ordinary Share for every one Rolls-Royce Group Ordinary Share so transferred. The Rolls-Royce Holdings Ordinary Shares issued or transferred pursuant to this article 218(c) to the New Member will be credited as fully paid and will rank equally in all respects with all Rolls-Royce Holdings Ordinary Shares in issue at the time and be subject to the memorandum and articles of association of Rolls-Royce Holdings.
- (d) The number of Rolls-Royce Holdings Ordinary Shares to be issued or transferred to the New Member under this article 218 may be adjusted by the directors of the Company in such manner as the Company's auditors may determine on any reorganisation or material alteration of the share capital of either the Company or of Rolls-Royce Holdings or any other return of value to holders of Rolls-Royce Holdings Ordinary Shares, provided always that any fractions of Rolls-Royce Holdings Ordinary Shares shall be disregarded and shall be aggregated and sold for the benefit of Rolls-Royce Holdings.
- (e) In order to give effect to any such transfer required by this article 218, the Company may appoint any person to execute and deliver a form of transfer on behalf of the New Member in favour of Rolls-Royce Holdings and/or its nominee or nominees and to agree for and on behalf of the New Member to become a member of Rolls-Royce Holdings. Pending the registration of Rolls-Royce Holdings as holder of any share to be transferred pursuant to this article 218, Rolls-Royce Holdings shall be empowered to appoint a person nominated by the directors to act as attorney on behalf of any holder of such share in accordance with such directions as Rolls-Royce Holdings may give in relation to any dealings with or disposal of such share (or any interest therein), exercising any rights attached thereto or receiving any distribution or other benefit accruing or payable in respect thereof and any holder of such share shall exercise all rights attached thereto in accordance with the directions of Rolls-Royce Holdings but not otherwise.”

**“219 A Ordinary Share**

The A Ordinary Share issued and allotted by special resolution of the Company passed on or around the date of adoption of this article shall have all the rights of an ordinary share as set out in these articles, save that:

- (a) the holder of the A Ordinary Share shall not be entitled to receive a dividend or other distribution or to have any other right to participate in the profits of the Company;
- (b) the holder of the A Ordinary Share shall have no right to attend or vote at any general meeting of the Company; and
- (c) on a return of capital or winding-up of the Company, the holder of the A Ordinary Share shall be entitled, subject to payment to the holders of all other classes of shares of the amount paid up or credited as paid up on such shares, to repayment of the amount paid up or credited as paid up on the A Ordinary Share, but shall have no further or other right to participate in the assets of the Company.”; and

the adoption and inclusion of the following additional related definition to article 2:

*“A Ordinary Share* means the one A Ordinary Share of 20 pence in the capital of the Company whose rights are set out in article 219;”

- (f) the directors of the Company be and are hereby generally and unconditionally authorised, for the purposes of section 551 of the Act, to allot an A Ordinary Share of 20 pence in the capital of the Company (***Rolls-Royce Group A Ordinary Share***) having the rights and being subject to the restrictions of the articles of association of the Company as amended in accordance with Resolution 28(A)(e), provided that: (1) this authority shall expire (unless previously revoked, varied or renewed) on the fifth anniversary of the date of this Resolution; and (2) this authority shall be in addition, and without prejudice to, any other subsisting authority under the said section 551 previously granted and in force on the date on which this resolution is passed; and
  - (g) pursuant to and during the period of the said authority the directors of the Company be empowered to allot the said Rolls-Royce Group A Ordinary Share as if section 561(1) of the Act did not apply to any such allotment;
- (B) subject to and conditional upon: (i) the passing of Resolution 28(A) set out in this notice; (ii) the ordinary shares of 20 pence each in the capital of Rolls-Royce Holdings (***Rolls-Royce Holdings Ordinary Shares***) required to be allotted and issued by Rolls-Royce Holdings pursuant to the Scheme having been allotted and issued and registered in the names of the persons entitled to such Rolls-Royce Holdings Ordinary Shares in Rolls-Royce Holdings' register of members; and (iii) the Scheme becoming effective, the reduction of the nominal value of each Rolls-Royce Holdings Ordinary Share from 150 pence (or such lower nominal value as the directors of Rolls-Royce Holdings determine) to 20 pence be approved;
- (C) subject to and conditional upon the Scheme becoming effective, the Rolls-Royce Group Ordinary Shares be de-listed from the Official List (as defined in the Scheme); and
- (D) subject to and conditional upon the Scheme becoming effective, the rules of the Rolls-Royce Group Performance Share Plan and the Rolls-Royce plc Share Purchase Plan be amended in the manner described in paragraphs 14 and 15 of Part III of this document.

By order of the Board

**Tim Rayner**  
General Counsel and Company Secretary  
22 March 2011

## Notes to the Notice of Annual General Meeting

### Issued share capital and total voting rights

As at 10 March 2011 (being the latest practicable date prior to the publication of this Notice) the issued share capital consisted of 1,872,178,430 ordinary shares of 20 pence each, 26,244,702,035 C Shares of 0.1 pence each and one Special Share of £1. At the Annual General Meeting, voting on the resolutions set out in this Notice will be by way of a poll. Holders of ordinary shares will be entitled to one vote for each ordinary share held. The Special Shareholder (as defined in the articles of association) is entitled to receive notice of and to attend and speak at any general meeting but has no right to vote at a general meeting. C Shares do not carry the right to receive notice of any general meeting of the Company nor to attend, speak or vote at any general meeting except one at which a resolution to wind up the Company is to be considered. Therefore, the total number of voting rights in the Company as at 10 March 2011 (being the latest practicable date prior to the publication of this Notice) was 1,872,178,430.

### Entitlement to attend and vote

Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, and section 360B(2) of the Act, the Company specifies that only those shareholders registered in the register of members of the Company as at 6.00pm (BST) on Wednesday 4 May 2011 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. Save in relation to any adjourned meeting(s), changes to entries on the register of members of the Company after 6.00pm (BST) on Wednesday 4 May 2011 shall be disregarded in determining the rights of any person to attend or vote at the Annual General Meeting.

### Proxies

Shareholders entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend, speak and vote at the Annual General Meeting instead of them. Appointing a proxy will not preclude shareholders from attending and voting at the Annual General Meeting if they later decide to do so.

You should have received a proxy form with this Notice. You can only appoint a proxy using the procedures set out in these notes and the explanatory notes to the proxy form.

A proxy need not be a shareholder of the Company but must attend the Annual General Meeting to represent you. 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 ordinary 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 the proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

You may indicate how you wish your proxy to vote by ticking the relevant boxes on the enclosed proxy form. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote or abstain from voting as he or she thinks fit in relation to any other matter which is put before the Annual General Meeting.

### Voting at the Annual General Meeting

On a show of hands every member who (being an individual) is present in person or (being a corporation) is present by a duly authorised representative, not being himself a member entitled to vote, shall have one vote. Also, every proxy present who has been duly appointed by one or more members entitled to vote on the resolution has one vote. A proxy has one vote for and one vote against the resolution if the proxy has been duly appointed by more than one member entitled to vote on the resolution and the proxy has been instructed by one or more of those members to vote for the resolution and by one or more other of those members to vote against it.

On a poll, every member shall have one vote for every ordinary share of which he is the holder.

### Vote withheld

A vote withheld option is provided to enable you to abstain on any particular resolution. It is not a vote in law, which means that the vote will not be counted in the calculation of the number of votes for or against the resolution.

### Multiple proxies

You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different ordinary shares. You may not appoint more than one proxy to exercise rights attached to any one ordinary share. To appoint more than one proxy, (an) additional proxy form(s) may be obtained by contacting the Registrar's helpline on +44 (0)870 703 0162 or you may copy the enclosed proxy form. Please enter in the box next to the proxy holder's name, the number of ordinary shares in relation to which they are authorised to act as your proxy.

### **Appointment of proxy using hard-copy form**

A proxy form is enclosed. To be valid this should be completed, signed and sent or delivered to the Registrar in the reply paid envelope provided, to be received no later than 11.00am (BST) on Wednesday 4 May 2011 or not less than 48 hours before any adjourned meeting at which the person named in the proxy form proposes to vote.

In the case of a shareholder which is a company, a proxy form must be executed under its common seal or signed on its behalf by a duly authorised person or in any other manner authorised by its constitution.

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.

### **Appointment of proxy by joint shareholders**

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 Company's register of members in respect of the relevant joint holding.

### **Electronic appointment of proxies**

As an alternative to completing the hard-copy proxy form, you can register your proxy appointment at [www.eproxyappointment.com](http://www.eproxyappointment.com). You will be asked to enter the Control Number, the Shareholder Reference Number (SRN) and Personal Identification Number (PIN) as printed on the proxy form and agree to certain terms and conditions. For an electronic proxy appointment to be valid, it must be received by the Registrar no later than 11.00am (BST) on Wednesday 4 May 2011.

### **Changing proxy instructions**

To change your proxy instructions, you must submit a new proxy appointment using either the hard-copy proxy form appointment method or the electronic appointment method set out above. Note that the cut-off time of 11.00am (BST) on Wednesday 4 May 2011 for receipt of proxy appointments (or not less than 48 hours before any adjourned meeting) also applies in relation to the receipt of amended proxy appointments; any amended proxy appointment received after the relevant cut-off time will be disregarded. For the avoidance of doubt, any indication of how you wish your proxy to vote contained in your proxy appointment constitutes part of such appointment and, as such, the relevant cut-off time applicable to the receipt of amended proxy appointments also applies to any amendment of any voting instructions given to your proxy by way of your proxy appointment.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact the Registrar. You can speak to a member of the Registrar's Rolls-Royce team by calling +44 (0)870 703 0162 between 8.30am to 5.30pm Monday to Friday or you can write to them at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE.

If you have voted online you can amend your vote by resubmitting your voting instructions electronically as described above.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

### **Termination of proxy appointment**

In order to revoke a proxy instruction you will need to inform the Company using one of the following methods:

- by sending a signed hard-copy notice clearly stating your intention to revoke your proxy appointment to the Registrar – Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE. In the case of a shareholder which is a company, the revocation notice must be executed under its common seal or signed on its behalf by a duly authorised person or in any other manner specified in its constitution. Any power of attorney or any other authority under which the revocation notice is signed (or a notarially certified copy of such power or authority) must be included with the revocation notice; or
- by calling the Registrar's helpline on +44 (0)870 703 0162.

In either case, the revocation notice must be received by the Registrar at least three hours before the commencement of the Annual General Meeting or adjourned meeting at which the vote is to be given.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the Annual General Meeting and voting in person. If you have appointed a proxy and attend and vote at the Annual General Meeting in person, your proxy appointment will be terminated automatically.

### Nominated Persons

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 Act (Nominated Persons). If you are a Nominated Person you may have a right under an agreement with the registered shareholder who has nominated you to have information rights (the **Relevant Shareholder**) to be appointed (or to have someone else appointed) as a proxy for the Annual General Meeting but you cannot yourself appoint a proxy. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have the right under such an agreement to give instructions to the Relevant Shareholder as to the exercise of voting rights.

Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the Relevant Shareholder (or the custodian or broker who administers the investment on their behalf).

Nominated Persons should continue to contact that shareholder, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

### Voting through the CREST electronic proxy appointment service

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by following the procedures described in the CREST manual. CREST personal members or other CREST-sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instruction, as described in the CREST manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by Computershare Investor Services PLC (Issuer agent ID number 3RA50) by 11.00am (BST) on Wednesday 4 May 2011 (or not less than 48 hours before any adjourned meeting). For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time, any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his or her CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

### Corporate representatives

The Companies (Shareholders' Rights) Regulations 2009 (the **Shareholders' Rights Regulations**) have amended the Act in order to enable multiple representatives appointed by the same corporate member to vote in different ways on a show of hands and a poll (provided they do not do so in relation to the same shares).

### **American Depositary Receipt (ADR) holders**

ADR holders who do not hold their investment directly should contact the registered shareholder or custodian or broker, or whoever administers the investment on their behalf in relation to any rights under agreements with them to be appointed as a proxy and to attend, speak and vote at the meeting. Registered holders should contact the depositary:

BNY Mellon  
Shareholder Services  
PO Box 358516  
Pittsburgh PA 15252-8516  
Phone: +1 888 269 2377 or +1 888 BNY ADRS (toll free within the US)  
Phone outside the US: +1 201 680 6825  
Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)  
Website: [www.adrbnymellon.com](http://www.adrbnymellon.com)

### **Documents available for inspection**

Shareholders may inspect the following documents at the Company's registered office during normal business hours and from 10.00am on the date and at the place of the Annual General Meeting until it closes:

- Executive Directors' service contracts;
- letters of appointment for the Chairman and the Non-Executive Directors;
- directors' deeds of indemnity;
- the Amended Articles;
- the rules of the Rolls-Royce plc Share Purchase Plan and the Rolls-Royce Group Performance Share Plan with proposed amendments which are referred to in paragraphs 14 and 15 of Part III of this document.
- the draft rules of the UK ShareSave Plan and the International ShareSave Plan; and
- the document of which this notice forms part.

### **Business at the Annual General Meeting**

Under section 319A of the Act, shareholders have the right to ask questions at the Annual General Meeting relating to the business of the meeting and for these to be answered, unless such answer would interfere unduly with the business of the meeting or involve the disclosure of confidential information or if the answer has already been published on the Company's website or if it is not in the interests of the Company or the good order of the meeting that the question be answered.

Under section 338A of the Act, shareholders may request the Company to include in the business to be dealt with at annual general meetings any matter (other than a proposed resolution) which may be properly included in the business, provided that it is not defamatory, frivolous or vexatious. The Company will include such matter if sufficient requests have been received in accordance with section 338A(3) of the Act. This requires a minimum of 100 shareholders who have a right to vote at the meeting and hold shares in the Company on which there has been paid up an average sum, per member, of at least £100 or shareholders representing at least five per cent of the total voting rights to make the request which must be submitted in the manner detailed in section 338A of the Act.

### **Information available on our website**

The following information is available on the Company's website at [www.rolls-royce.com](http://www.rolls-royce.com):

- the matters set out in this Notice;
- the total voting rights and number of shares of each class in respect of which shareholders are entitled to exercise voting rights at the Annual General Meeting;
- shareholders' rights to include business to be dealt with at the Annual General Meeting; and
- shareholders' statements, resolutions and matters of business received by the Company after 9 March 2011.



### **Publication of audit concerns on our website**

Under section 527 of the Act, shareholders have a right to request publication of any concerns that they propose to raise at the Annual General Meeting relating to the audit of the Company's accounts (including the auditors' report and the conduct of the audit) that are to be submitted to the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the last Annual General Meeting. The Company will publish the statement on its website if sufficient requests have been received in accordance with section 527(2) of the Act. This requires members representing at least 5 per cent. of the total voting rights of all the members who have a right to vote at the Annual General Meeting or at least 100 members who have a right to vote at the Annual General Meeting and hold shares in the Company on which there has been paid up an average sum, per member, of at least £100, to make the request which must be submitted in the manner detailed in section 527 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with such request. Where a statement is published, the Company will forward the statement to the Company's auditors not later than the time when it makes the statement available on the website.

The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required, under section 527 of the Act, to publish on its website.

### **Communication**

Except as provided above, shareholders who have general queries about the Annual General Meeting should use the following means of communication (no other methods of communication will be accepted):

- by calling the Registrar's helpline on +44 (0)870 703 0162; or
- by writing to the Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE.

You may not use any electronic address provided either in this Notice or in any related documents (including the Chairman's letter and proxy form) to communicate with the Company for any purposes other than those expressly stated.

## Explanation of resolutions

Resolutions 1 to 22 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 Directors' report and the audited financial statements

The directors will present the Directors' report and the audited financial statements for the year ended December 31, 2010 to the Annual General Meeting.

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

Companies listed on the premium segment of the Official List of the Financial Services Authority are required to give shareholders the opportunity to cast an advisory vote on the Directors' remuneration report. The Directors' remuneration report is on pages 67 to 77 of the Annual Report. It explains the Company's policy on remuneration and gives details of the directors' remuneration for the year ended December 31, 2010. The Company's auditors, KPMG Audit Plc, have audited those parts of the Directors' remuneration report required by the Act. Their report is on page 140 of the Annual report.

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

### Resolutions 3 to 15 – To re-elect directors

The Company's articles of association require that one third of the directors shall retire by rotation each year and that each director be subject to re-election at intervals of not more than three years. However, the UK Corporate Governance Code (the **Code**) issued by the Financial Reporting Council recommends that, in the interests of greater accountability, all directors of FTSE 350 companies should be subject to annual re-election. The Board has carefully considered the changes made to the Code and intends to comply with them. Accordingly, all Rolls-Royce Group directors will put themselves forward for re-election at the Annual General Meeting in 2011. A profile of each of the directors proposed for re-election is given on pages 56 and 57 of the Annual report. The Chairman confirms that each of the directors proposed for re-election continues to make an effective and valuable contribution and demonstrates commitment to their responsibilities. This is supported by the annual performance evaluation that was undertaken recently.

In accordance with the Code, the Board has reviewed the independence of its non-executive directors and has determined that they remain fully independent of management. The Code does not consider the test of independence to be appropriate to the chairman of a company. However, Sir Simon Robertson did meet the Code's independence criteria upon his appointment as Chairman on January 1, 2005. The Board will again be asking shareholders to re-elect Peter Byrom as a director even though he has served as a director of the Company (then Rolls-Royce plc) since 1 January 1997. In so doing the Board has taken full account of the Code requirement to consider carefully a non-executive director's independence where that director has served on the Board for more than nine years from the date of their first election. The Board strongly remains of the view that Peter Byrom continues to be independent and there are no issues which are likely to affect his independent judgement and that he is in no way dependent on the remuneration he receives from the Company. The Board believes that in a complex and technologically advanced company, with a long business cycle from the development of an engine to its eventual retirement, it is highly desirable to retain at least one non-executive director with long-term experience.

### Resolutions 16 and 17 – Reappointment of the auditors and authority to agree the auditors' remuneration

These resolutions propose the reappointment of KPMG Audit Plc as the Company's auditors and follow the standard practice of giving authority to the directors to agree the auditors' remuneration.

### Resolution 18 – Payment to shareholders

At the Company's Annual General Meeting in 2008, shareholders approved the issue of C Shares as a method of making payments to shareholders rather than paying a cash dividend. Subject to the Scheme referred to in Resolution 28 becoming effective, it is intended that this arrangement will be continued by the new holding company, Rolls-Royce Holdings.

Accordingly, Rolls-Royce Holdings will make a bonus issue of 96 Rolls-Royce Holdings C Shares on 1 July 2011 for every Rolls-Royce Group Ordinary Share held by Shareholders on the register of Rolls-Royce Group as at 26 April 2011. Redemption will take place on 5 July 2011.

As with previous payments, shareholders can continue to redeem their C Shares for cash or reinvest the proceeds in additional ordinary shares using the C Share Reinvestment Plan (CRIP). Standing instructions made by shareholders in Rolls-Royce Group to redeem their C Shares or to reinvest through the CRIP will continue to apply to their new shareholdings in Rolls-Royce Holdings in accordance with the terms of the Scheme. A copy of the terms and conditions applying to the CRIP are available on request from the Registrar.

Resolution 18 refers to the resolution to be passed by the holders of the two subscriber ordinary shares in the capital of Rolls-Royce Holdings which allows for the allotment and issue of Rolls-Royce Holdings C Shares by Rolls-Royce Holdings up to the limit specified. The resolution enables shareholders of the Company, who will become the shareholders of Rolls-Royce Holdings if the Scheme becomes effective, to approve the authority for the allotment and issue of Rolls-Royce Holdings C Shares by Rolls-Royce Holdings. It is additional to the general authority to issue shares provided by Resolution 25. Further details of C Shares are contained in the shareholder guide, a copy of which can be obtained from the Registrar, or can be downloaded from the Investors' section of the Company's website [www.rolls-royce.com](http://www.rolls-royce.com). C Shares are not listed on the London Stock Exchange.

#### **Resolution 19 – Political donations and expenditure**

It is not the policy of the Company to make donations to political parties and the Company has no intention of using this authority for that purpose. However, it is possible that certain routine activities undertaken by the Rolls-Royce group of companies (the **Group**) may unintentionally fall within the broad scope of the provisions controlling political donations and expenditure contained in the Act. 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 for each subsidiary company and a maximum amount of £50,000 for the Group. The authority will be valid until the conclusion of the next Annual General Meeting to be held in 2012 or 18 months after the date on which the resolution is passed (whichever is the earlier).

#### **Resolution 20 - Renewal of the Rolls-Royce plc Share Purchase Plan rules**

Rolls-Royce plc obtained the approval of shareholders for the introduction of an HM Revenue & Customs approved Share Purchase Plan (then known as the All Employee Share Ownership Plan or AESOP) at the Annual General Meeting on 31 May 2001. The plan was amended in 2003 to operate over the Company's shares. The Company wishes to renew the 2001 authority by seeking shareholder approval to extend the Share Purchase Plan for a further ten year period from the date of this meeting. Approval for amendments to the plan to take account of the Scheme are the subject of a separate resolution (see Resolution 28).

#### **Resolution 21 and 22 – Adoption of the Rolls-Royce UK and International ShareSave Plans**

The Company is committed to encouraging share ownership by all its employees through savings-related share option and share-based long-term incentive arrangements.

In order to assist the administration of the Group's Share Schemes, the Remuneration Committee has concluded that, following approval of the Scheme by resolution 28, it is preferable that, to the extent practicable, all employee share schemes be established at the Rolls-Royce plc level.

Accordingly, resolutions 21 and 22 seek shareholder approval for: (1) the UK ShareSave Plan and (2) the International ShareSave Plan. The UK ShareSave Plan and the International ShareSave Plan are very similar to the 2007 ShareSave Scheme and the International ShareSave Scheme 2007, save that they will operate over ordinary shares in Rolls-Royce Holdings.

If the UK ShareSave Plan and the International ShareSave Plan are approved by shareholders, it is intended that no further grants will be made under the 2007 ShareSave Scheme and the International ShareSave Scheme 2007.

#### **Resolutions 23 to 28 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 23 – Adoption of amended articles of association**

This resolution seeks shareholders' approval to adopt the Amended Articles. The principal changes are set out in more detail below. Changes of a minor or technical nature are not so noted but a copy of the Amended Articles including all proposed changes is available for inspection on the Company's website at [www.rolls-royce.com](http://www.rolls-royce.com) or at the Company's registered office and will be available for at least 15 minutes prior to and during the Annual General Meeting.

##### **1. Additional one third allotment authority**

Article 12 of the Amended Articles introduces a "Second Section 551" amount which authorises the directors to allot up to two thirds of the issued share capital for use in any rights issue. This is in line with guidance issued by the Association of British Insurers (**ABI**) in December 2009.

##### **2. Variation of rights of the Special Shareholder**

Article 18(h) allows for certain rights pertaining to the Special Shareholder to be varied by consent of the Special Shareholder and without the need to seek further approval from the ordinary shareholders. The regulations affected are listed in article 18(a)(i).

3. Foreign shareholding limit

Article 54 has been amended so that the definition of an interest to be taken into account in determining whether an individual shareholder has reached the 15 per cent. individual foreign shareholder limit shall be by reference to an interest to be notified under DTR5 of the Financial Services Authority's Disclosure and Transparency Rules. Previously this was determined by reference to an interest disclosable under Part VI of the Companies Act 1985.

4. Nationality of directors

Article 111 has been amended to allow either the Chairman or the Chief Executive to be either an EU or US citizen provided the other is a British citizen. This proposed change has been approved by the Special Shareholder. The Board believe that in a global business, it is essential to have a wider pool of talent to draw upon for such key positions.

5. Re-election of directors

Article 112 provides that at every annual general meeting all the directors at the date of the notice convening the annual general meeting shall retire from office. This is in line with the UK Corporate Governance Code issued by the Financial Reporting Council.

#### **Resolution 24 – Notice of general meetings**

Resolution 24 would allow the Company to hold general meetings on 14 clear days' notice. Changes made to the Act by the Shareholders' Rights Regulations increase the notice period required for general meetings of the Company to 21 clear days unless shareholders approve a shorter notice period. Previously, the Company was able to call general meetings other than the Annual General Meeting on 14 clear days' notice. Resolution 24 seeks shareholder approval to preserve the ability to call general meetings on 14 clear days' notice.

The Board does not intend to use the shorter notice as routine for such meetings and confirms it intends in every situation to give as much notice as is practicable. The Board will only use the shorter notice period in limited circumstances for time-sensitive matters where its use would be in the interests of shareholders as a whole. It will not be used for non-urgent business, particularly if this is of a complex or potentially contentious nature. The Board also confirms that shareholders will be able to lodge forms of proxy electronically for all such meetings.

#### **Resolution 25 – Authority to allot new shares**

The directors of a company may only allot shares (or grant rights to subscribe for, or convert any security into, shares) if authorised to do so.

Article 9(a) of the Amended Articles authorises the directors to allot shares up to a maximum nominal amount specified each year. This is called the "first section 551 amount" in the Amended Articles.

Resolution 25(a) enables the directors to allot new shares up to a nominal value of £124,811,895, representing approximately one third of the total issued ordinary share capital of the Company as at 10 March 2011 being the latest practicable date prior to publication of this Notice. This is similar to resolutions passed by shareholders in previous years and is in line with guidance issued by the ABI.

Article 9(b) of the Amended Articles authorises the directors to allot further shares in the case of a rights issue, in line with revised guidance issued by the ABI in November 2009. This is called the "second section 551 amount" in the Amended Articles.

Resolution 25(b) enables the directors to allot new shares up to a nominal value of £249,623,790 representing approximately two thirds of the total issued ordinary share capital of the Company as at 10 March 2011 being the latest practicable date prior to publication of this Notice.

Your directors believe that this additional authority will allow the Company to retain the maximum possible flexibility (consistent with evolving market practice) to respond to circumstances and opportunities as they arise. The directors would all stand for re-election at the next Annual General Meeting following the use of such additional authority.

The authorities sought under Resolution 25(a) and 25(b) will be valid until the conclusion of the next Annual General Meeting in 2012 or 18 months after the date on which the resolution is passed (whichever is the earlier).

#### **Resolution 26 – Disapplication of pre-emption rights**

Section 561(1) of the Act requires that the directors, when they decide to allot new ordinary shares (or grant rights to subscribe for, or convert any security into, shares), must first offer them to shareholders in proportion to the number of shares held by them. This is called a 'pre-emption right'.

As in previous years, Resolution 26 sets the maximum nominal amount of new shares which the directors are authorised to allot for cash without first offering them to existing shareholders. This amount is equal to five per cent of the Company's issued ordinary share capital as at 10 March 2011 (being the latest practicable date prior to publication of this Notice). This limit accords with the recommendations of the ABI. In line with best practice, the Company has not issued more than 7.5 per cent of its issued share capital on a non-pro rata basis over the last three years and the Board confirms its intention to follow best practice set out in the Pre-emption Group's Statement of Principles which provides that usage of this authority in excess of 7.5 per cent of the Company's issued share capital in a rolling three-year period would not take place without prior consultation with shareholders.

#### **Resolution 27 – Authority to purchase own shares**

Resolution 27 gives the Company authority to buy back its own ordinary shares in the market as permitted by the Act. 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 as at 10 March 2011 being the latest practicable date prior to publication of this Notice) and the minimum and maximum prices at which they may be bought.

On 10 March 2011 (being the latest practicable date prior to the publication of this Notice), there were options over ordinary shares in the capital of the Company representing 1.43 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 1.59 per cent of the Company's issued and voting ordinary share capital.

It is expected that the Company will hold any shares purchased under this authority 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.

This 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.

This authority will be valid until the conclusion of the next Annual General Meeting in 2012 or 18 months from the date of this resolution, whichever is the earlier.

#### **Resolution 28 – Scheme of Arrangement**

The Company proposes to introduce a new holding company, Rolls-Royce Holdings, for the Rolls-Royce group of companies by way of the Scheme under Part 26 of the Act. The background and reasons for the Scheme are set out in the Chairman's letter included in the document of which this Notice forms part. Resolution 28 seeks to obtain shareholder approval for certain matters in connection with the Scheme and is proposed to give the directors of the Company the necessary powers and authorities to implement the Scheme.

Paragraphs (A)(a)-(c) of Resolution 28 are proposed to give the directors of the Company the necessary powers and authorities to implement the Scheme.

Paragraphs (A)(d), (f) and (g) of Resolution 28 are proposed to authorise the directors of the Company for the purposes of Section 551 of the Act to issue and allot one A Ordinary Share in the share capital of the Company to Rolls-Royce Holdings to obviate the need under the Act for a valuation report to be produced by Rolls-Royce Group before it issues shares to Rolls-Royce Holdings pursuant to the Scheme.

Paragraph (A)(e) of Resolution 28 seeks to (i) include details of the rights attached to the A Ordinary Share; and (ii) ensure that all shareholders will be bound by the proposed scheme of arrangement when it becomes effective and that the new holding company can make the appropriate adjustments to the number of shares which it has to issue.

Paragraph (B) of Resolution 28 is proposed to enable shareholders of the Company, who will become the shareholders of Rolls-Royce Holdings if the Scheme becomes effective, to approve the reduction of capital of Rolls-Royce Holdings. The background and reasons for the reduction of capital are set out in Part I of the document of which this Notice forms part.

Paragraph (C) of Resolution 28 is proposed to enable the shareholders of the Company, who will become the shareholders of Rolls-Royce Holdings if the Scheme becomes effective, to approve the de-listing of the Company's ordinary shares upon the Scheme becoming effective. Further details relating to the proposed de-listing of Rolls-Royce Group Ordinary Shares are contained in Part II of the document of which this Notice forms part.

Paragraph (D) of Resolution 28 is proposed to amend the terms of certain of the Rolls-Royce Employee Share Schemes.

### **Proposed amendments to certain Rolls-Royce Employee Share Schemes**

Subject to shareholder approval of Resolution 28(D) in the Notice of Annual General Meeting, and where relevant HMRC approval, the terms of certain of the Rolls-Royce Employee Share Schemes (being the Rolls-Royce Group Performance Share Plan and the Rolls-Royce plc Share Purchase Plan) will be amended so that all references to Rolls-Royce Group Ordinary Shares (and other relevant references) are changed to Rolls-Royce Holdings Ordinary Shares. These amendments are designed to enable the schemes to be operated in relation to new shares in Rolls-Royce Holdings for the remainder of each scheme's life. The Remuneration Committee has concluded that this approach is preferable to setting up new schemes specifically in consequence of the introduction of Rolls-Royce Holdings as a new holding company. For certain schemes, this approach requires the approval of HMRC. Although the Company expects such approval to be granted, Rolls-Royce Holdings will, if such approval is not granted, establish new schemes mirroring those of the original schemes, which will be operated only for the remainder of the original scheme's life.

Once Rolls-Royce Holdings is introduced as the new holding company of the Rolls-Royce group of companies pursuant to the Scheme, Resolutions 18 and 25 – 27 will be superseded by equivalent resolutions passed at an extraordinary general meeting of Rolls-Royce Holdings' initial shareholders.

## APPENDIX 1

### Resolution 20: Rolls-Royce plc Share Purchase Plan (the Plan)

#### Overview of the Plan:

In summary, the Plan allows three types of award to be granted and held in trust for participants:

- (a) an award of ordinary shares (Free Shares);
- (b) the opportunity for employees to purchase ordinary shares with deductions from their pre-tax salary (Partnership Shares); and
- (c) an award of ordinary shares to those employees who have purchased Partnership Shares (Matching Shares).

These elements may be operated individually or in conjunction with each other. In addition, employees can be required or allowed to reinvest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further ordinary shares (*Dividend Shares*). To date Rolls-Royce plc has only operated the Free Share element and Partnership Share element.

#### Free Shares

Free Shares may be awarded to eligible employees up to a maximum value set from time to time by HMRC. The current maximum value is £3,000 per employee per annum. If the Company wishes, the award of Free Shares can be based on the achievement of personal, team, divisional or corporate performance targets which must be notified to all employees. Otherwise, Free Shares must be awarded to employees on the same terms subject only to variation according to an employee's remuneration, length of service or hours worked.

#### Partnership Shares

Employees may be given the opportunity to acquire Partnership Shares from their pre-tax salary up to a maximum value set from time to time by HMRC, currently the lesser of £1,500 per annum or 10 per cent. of salary. Salary for these purposes includes base salary and bonus. Rolls-Royce plc may set a minimum monthly deduction which may not be greater than £10. Ordinary shares will be acquired on behalf of employees within 30 days after each deduction at a price equal to the market value of such ordinary shares on the date they are acquired. Alternatively, deductions can be accumulated for up to 12 months. In this case, ordinary shares will be acquired on behalf of employees within 30 days of the end of the accumulation period, at the lower of the market value of the ordinary shares at the beginning of the accumulation period or the date when they are acquired.

#### Matching Shares

Matching Shares may be awarded to those employees who have purchased Partnership Shares. The Matching Shares must be offered on the same basis to all employees in such ratio as Rolls-Royce plc may determine, but that ratio may not exceed two Matching Shares for every one Partnership Share purchased.

#### Dividend Shares

Employees may be given the opportunity, or may be required to re-invest dividends paid on their Free Shares, Partnership Shares and Matching Shares in further ordinary shares up to a maximum value set by HMRC. This value is currently £1,500 per annum.

#### Holding Period

Free Shares and Matching Shares must generally be held in the Plan trust for a minimum period set by Rolls-Royce plc which may not be less than three years or more than five years from the date on which such ordinary shares are allocated to employees. Dividend Shares must generally be held in the Plan trust for a minimum period of not less than three years.

#### Leavers

Free Shares and Matching Shares can be forfeited if employees cease employment within the period of up to three years from the date on which ordinary shares were allocated other than in specified circumstances such as redundancy, disability, injury or reaching retirement age.

Employees may withdraw their Partnership Shares at any time. However, Rolls-Royce plc can stipulate that Matching Shares will be subject to forfeiture if the corresponding Partnership Shares are withdrawn within a specified period (not exceeding three years) of their purchase on behalf of the employee. Free Shares may also be forfeited if an employee purports to withdraw them within a period of up to three years from the date they were allocated. Forfeiture will not apply if the ordinary shares are withdrawn from the Plan in consequence of a change of control.

## Other provisions

Awards under the Plan may be satisfied using existing shares purchased in the market, treasury shares or newly acquired shares. To the extent that new shares are issued, the Company will ensure that over any ten year period, no more than 10 per cent. of the Company's ordinary share capital will be issued under the Plan and all other employee share plans taken together. The satisfaction of awards with treasury shares will be treated as an issue of ordinary shares for the purposes of the above limit for so long as institutional shareholder guidelines recommend this.

Any ordinary shares allotted under an award will rank *pari passu* with ordinary shares then in issue (except for rights arising by reference to a record date prior to their allotment). At any time when the ordinary shares are admitted to listing on a recognised stock exchange, application will be made for any newly issued ordinary shares to be admitted to such listing and admitted to trading on the relevant exchange.

In the event of a variation of the Company's ordinary share capital (for example, by reason of a bonus issue or a rights issue), participants in the Plan will be entitled to direct the trustee as to what action they wish to be taken in respect of their shares under the Plan, in accordance with the terms of the legislation.

Alterations to the basic structure of the Plan which are to the advantage of actual or potential participants may not be made without the prior approval of shareholders in general meeting. The requirement to obtain the prior approval of shareholders will not, however, apply to any alteration which benefits the administration of the Plan or to take account of changes in legislation, or to obtain favourable tax or regulatory treatment for participants. In addition, no amendment may operate to affect adversely any right already obtained by a participant.

No awards may be made under the Plan following the tenth anniversary of shareholder approval of the Plan.



## APPENDIX 2

### Resolution 21: Rolls-Royce plc UK ShareSave Plan 2011 (the UK ShareSave Plan)

#### Introduction

The UK ShareSave Plan is a savings-related share option plan which will be submitted to HMRC for approval in order to allow options to be granted on a tax favoured basis.

#### Participation

All UK resident employees or full-time executive directors of Rolls-Royce plc and participating subsidiaries (the **Group**) who have been employed for a minimum period (not to exceed five years) or have otherwise been nominated by: Rolls-Royce plc board (the **Board**), are entitled to participate in the UK ShareSave Plan.

#### Grant of options

Eligible employees may be granted an option to acquire ordinary shares in Rolls-Royce Holdings (**Shares**) at a fixed exercise price which may be set at a discount (of up to 20 per cent) to the market value of the Shares at the time of grant. Employees are required to save each month by means of a savings account, the proceeds of which they may use to exercise the option. A tax-free bonus is payable on the savings on completion of the relevant savings contract. At the end of the savings period, the employee may either exercise the option within six months of the end of the savings period, or have the savings and bonus repaid.

UK ShareSave Plan participants must save between £5 and £250 a month under an approved savings contract. The Board may scale down the amount of the monthly contributions if applications exceed the number of Shares available for the grant of options.

Invitations to apply for options may normally only be issued within six weeks of the announcement of Rolls-Royce Holdings' results for any period or when the Board determines that exceptional circumstances justify a grant. No options may be granted more than ten years after the adoption of the UK ShareSave Plan by shareholders.

#### Shares

Options may be satisfied by way of an issue of Shares or a transfer of existing Shares acquired in the market. No more than an aggregate maximum of ten per cent of the Rolls-Royce Holdings' (or its predecessors, Rolls-Royce Group and Rolls-Royce plc) issued ordinary share capital will be made available for issue under the UK ShareSave Plan and all other Group share plans in any ten-year period. This percentage limit does not apply if options are satisfied by a transfer of existing shares. Treasury shares will be considered newly issued Shares, provided the institutional investor guidelines continue to regard Treasury shares as new issue.

#### Exercise of options

Options may normally only be exercised during the six month period following the maturity date of the related savings contract and, if not exercised by the end of that period, will lapse. This may be after the third, fifth or seventh anniversary of the start date of the related savings contract.

If a participant leaves employment before the end of the savings period, his or her options will normally lapse. However, early exercise of options is permitted, in respect of the number of Shares that may be acquired using the proceeds of the partially completed savings contract, where a participant leaves employment with the Group in circumstances of death, retirement at or after age 60 (or any other age at which the employee is bound to retire under his contract of employment), injury, disability, redundancy (within the meaning of the UK Employment Rights Act 1996), or following a sale of the employing company or transfer of the employing business out of the Group.

Exercise of options is allowed in the event of a takeover, scheme of arrangement or voluntary winding-up of Rolls-Royce Holdings (but only to the extent of the savings plus interest or bonus that has accumulated in the related savings account up to the date of exercise). Alternatively, in the event of a takeover or scheme of arrangement, options may, with the agreement of the acquiring company, be exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

#### Adjustment of options

In the event of a reorganisation or reduction of the Rolls-Royce Holdings' share capital, the number of Shares under option and/or the exercise price may be adjusted with the approval of HMRC.

Options are not transferable and may only be exercised by the persons to whom they were granted or their personal representatives.

## **Rights attaching to shares**

Shares allotted or transferred under the UK ShareSave Plan will rank pari passu with Shares of the same class then in issue (except in respect of entitlements arising prior to the date of allotment). Rolls-Royce Holdings will apply to the UK Listing Authority for the listing of any newly issued Shares.

## **Amendments**

The Board may amend the UK ShareSave Plan. However, the provisions governing eligibility requirements, equity dilution, share utilisation, terms of savings contracts and options, exercise of options on changes of control and the adjustments that may be made following a reorganisation or reduction of Rolls-Royce Holdings' share capital cannot be altered to the advantage of eligible employees or option holders without the prior approval of shareholders in general meeting. The exceptions to this are minor amendments to benefit the administration of the UK ShareSave Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment, for participants in the UK ShareSave Plan or for any member of the Group. In addition, no alteration may be made that would materially affect any subsisting rights of any participants without their prior consent. Amendments to the UK ShareSave Plan must be approved by HMRC.

## **Duration of the UK ShareSave Plan**

The UK ShareSave Plan will terminate on, and no further options may be granted after 6 May 2021, being the tenth anniversary of its approval by shareholders, but the rights of existing option holders will not be affected.

## APPENDIX 3

### Resolution 22: Rolls-Royce plc International ShareSave Plan 2011 (the International ShareSave Plan)

#### Introduction

The International ShareSave Plan is designed to allow equity participation for employees outside the UK on terms similar to those offered to employees under the UK ShareSave Plan. The International ShareSave Plan therefore has very similar terms to the UK ShareSave Plan (summarised in Appendix 2). However, as the International ShareSave Plan does not require HMRC approval and has been designed to operate in many different jurisdictions outside the UK, there are some differences relative to the UK ShareSave Plan. These differences are summarised in this Appendix.

#### Awards

Awards under the International ShareSave Plan may be granted in the form of Share Appreciation Rights (**SARs**), which can be settled in cash or in Shares. SARs are the right to receive a payment equal to the difference in value between the SARs price (set at the date of grant) and the market value of the Shares at the date of settlement. Options to acquire Shares may also be granted, as under the UK ShareSave Plan.

At the end of the savings periods, where SARs have been granted, these must be settled within 30 days using either cash or Shares. Participants are not required to use their savings to exercise the SARs.

#### Eligibility

All employees or full-time executive directors of Rolls-Royce plc and participating subsidiaries who have been employed for a minimum period (not exceeding five years) or have otherwise been nominated by the Board, and who are not eligible to participate in the UK ShareSave Plan, can participate in the International ShareSave Plan.

#### Amendments

The Board may amend the International ShareSave Plan and establish sub-plans where appropriate. For example, the International ShareSave Plan may be amended to take account of changes in tax or legal regulations in any particular country. However, the provisions governing eligibility requirements, equity dilution, share utilisation, terms of savings plans and SARs and options, settlement of SARs or exercise of options on changes of control and the adjustments that may be made following a reorganisation or reduction of the share capital of Rolls-Royce Holdings cannot be altered to the advantage of eligible employees or option holders without the prior approval of shareholders in general meeting. The exceptions to this are minor amendments to benefit the administration of the International ShareSave Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment, for participants in the International ShareSave Plan or for any member of the Group. In addition, no alteration may be made that would materially affect any subsisting rights of any participants without their prior consent.

