

This document, which constitutes a prospectus relating to Rolls-Royce Holdings and Admission, has been prepared in accordance with the Prospectus Rules of the FSA made under Part VI of FSMA. This document has been filed with and approved by the FSA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

The Directors, whose names appear on page 6 of this Prospectus, and Rolls-Royce Holdings, whose registered office is 65 Buckingham Gate, London, SW1E 6AT, are responsible for the information contained in this Prospectus. The Directors and Rolls-Royce Holdings declare that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

This document has been prepared in connection with a scheme of arrangement pursuant to Part 26 of the Companies Act to introduce a new holding company, Rolls-Royce Holdings plc, to the Group and has been prepared on the assumption that the Scheme will become effective in accordance with its current terms. A summary of the Proposals, including details of the Scheme, is set out in Part 12 of this document.

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

Capitalised terms in this document have the meanings ascribed to them in the section of this document headed "Definitions and Glossary".

Certain information in relation to the Group has been incorporated by reference into this document. You should refer to the part of this document headed "Presentation and sources of financial and other information – Incorporation of relevant information by reference".

You should read the whole text of this prospectus and the information incorporated by reference into this Prospectus. A list of risk factors relating to Rolls-Royce Holdings and the Rolls-Royce Holdings Shares is set out in the section of this Prospectus headed "Risk Factors".



Rolls-Royce Holdings plc

(Incorporated under the Companies Act 2006 and registered in England and Wales with registered number 7524813)

Introduction of up to 1,900,000,000 Rolls-Royce Holdings Shares of 150 pence each⁽¹⁾ and admission to the premium listing segment of the Official List and to trading on the London Stock Exchange

Sponsor

Rothschild

The Sponsor, which is authorised and regulated in the United Kingdom by the FSA, is acting exclusively for Rolls-Royce Group and Rolls-Royce Holdings and no one else in connection with the listing of the Rolls-Royce Holdings Shares. The Sponsor will not regard any other person (whether or not a recipient of this document) as a client in relation to the listing of the Rolls-Royce Holdings Shares and will not be responsible to anyone other than Rolls-Royce Group and Rolls-Royce Holdings for providing the protections afforded to its clients or for the giving of advice in relation to the listing of the Rolls-Royce Holdings Shares or any transaction, matter, or arrangement referred to in this document. Apart from the responsibilities and liabilities, if any, which may be imposed on the Sponsor by FSMA or the regulatory regime established thereunder, neither the Sponsor nor any of its affiliates accepts any responsibility whatsoever for the contents of this document or for any other statement made or purported to be made by it, or on its behalf, in connection with Rolls-Royce Group and Rolls-Royce Holdings or the listing of the Rolls-Royce Holdings Shares. The Sponsor and each of its affiliates accordingly disclaim all and any liability whether arising in tort, contract or otherwise (save as referred to above) which they might otherwise have in respect of this document or any such statement. No representation or warranty express or implied, is made by the Sponsor or any of its affiliates as to the accuracy, completeness or sufficiency of the information set out in this document.

(1) Following the Rolls-Royce Holdings Reduction of Capital, the nominal value of the Rolls-Royce Holdings Shares will be 20 pence each.

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SUMMARY

This summary must be read as an introduction to this document only. Any decision to invest in the Rolls-Royce Holdings Shares should be based on consideration of this document as a whole. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area ("EEA"), no civil liability will attach to those persons responsible for this summary in any such Member State, including any translations of this summary, unless it is misleading, inaccurate or inconsistent when read together with the other parts of this document. Where a claim relating to the information contained in this document is brought before a court in a Member State of the EEA, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating this document before legal proceedings are initiated.

Information on the Proposals

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.

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

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.

The Board believes that the Proposals 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. Rolls-Royce 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.

Information on 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.

Summary financial information

The selected summary financial information set out below is presented in sterling, prepared in accordance with IFRS and extracted without material amendment from the Audited Financial Statements for the relevant years.

Condensed consolidated income statement

	Year ended 31 December			
	2010	2009	2008 (Restated) ⁽¹⁾	2008
	(£ millions)			
Revenue	11,085	10,414	9,082	9,082
Cost of sales	(8,885)	(8,303)	(7,278)	(7,311)
Gross profit	2,200	2,111	1,804	1,771
Other operating income	95	89	79	79
Commercial and administrative costs	(836)	(740)	(699)	(666)
Research and development costs	(422)	(379)	(403)	(403)
Share of results of joint ventures and associates	93	93	74	74
Operating profit	1,130	1,174	855	855
Profit/(loss) on disposal of businesses	4	(2)	7	7
Profit before financing and taxation	1,134	1,172	862	862
Financing income	453	2,276	432	432
Financing costs	(885)	(491)	(3,186)	(3,186)
Net financing	(432)	1,785	(2,754)	(2,754)
Profit/(loss) before taxation	702	2,957	(1,892)	(1,892)
Taxation	(159)	(740)	547	547
Profit/(loss) for the year	543	2,217	(1,345)	(1,345)
Attributable to:				
Ordinary shareholders	539	2,221	(1,340)	(1,340)
Non-controlling interests	4	(4)	(5)	(5)
Profit for the year	543	2,217	(1,345)	(1,345)
Earnings per ordinary share attributable to shareholders				
Basic	29.20p	120.38p	(73.63p)	(73.63p)
Diluted	28.82p	119.09p	(73.63p)	(73.63p)
Payments to ordinary shareholders in respect of the year				
Per share	16.0p	15.0p	14.3p	14.3p
Total	299	278	263	263

(1) During 2009, Rolls-Royce Group reviewed the allocation of costs. As a result, costs of £33 million classified as cost of sales in 2008 were reclassified as commercial and administrative costs.

Summary condensed consolidated balance sheet

	As at 31 December			
	2010	2009	2008 (Restated) ⁽²⁾	2008
	(£ millions)			
Non-current assets	6,410	6,048	6,302	5,817
Current-assets	9,824	9,374	9,046	9,412
Total assets	16,234	15,422	15,348	15,229
Current liabilities	(7,178)	(6,312)	(6,439)	(8,573)
Non-current liabilities	(5,077)	(5,328)	(6,684)	(4,125)
Total liabilities	(12,255)	(11,640)	(13,123)	(12,698)
Net assets	3,979	3,782	2,225	2,531
Equity attributable to ordinary shareholders	3,975	3,782	2,216	2,522
Non-controlling interests	4	—	9	9
Total equity	3,979	3,782	2,225	2,531

(2) The 2008 balance sheet was restated in the 2009 consolidated financial statements of Rolls-Royce Group, as a result of IFRIC 14, which required the Group to recognise additional pension liabilities.

Summary condensed consolidated cash flow statement

	Year ended 31 December		
	2010	2009	2008 ⁽³⁾
	(£ millions)		
Net cash inflow from operating activities	1,378	859	1,015
Net cash outflow from investing activities	(759)	(606)	(648)
Net cash (outflow)/inflow from financing activities	(743)	384	(221)
(Decrease)/increase in cash and cash equivalents	(124)	637	146

(3) The restatements of the income statement and balance sheet in 2008 described above did not have any effect on the cash flow statement.

Current trading and prospects

The Group's consistent strategy has created a broad and balanced portfolio, and established a strong financial foundation from which to support investment in technology, capability and capacity.

The Group continues to experience strong demand in emerging economies, which is more than mitigating a subdued recovery in some of its traditional markets. The strong order book and balanced portfolio gives the Directors confidence that the Group will double revenues organically over the next decade. The Directors believe that the Group continues to have the management and financial capacity to accelerate growth through acquisition and partnership.

The Group expects underlying revenues to grow modestly in 2011. The Group anticipates a slowdown in original equipment revenues in the marine business and to experience the initial impacts of spending cuts by some customers in its defence business. However, this is expected to be more than compensated for by growth in service activities in the civil aerospace and marine businesses.

On 9 March 2011, Rolls-Royce announced that it, in conjunction with Daimler AG, intends to launch a public tender offer for 100 per cent. of the share capital of Tognum AG, a premium supplier of engines, propulsion systems and components for marine, energy, defence and other industrial applications. The public tender offer is intended to be carried out by a 50:50 joint venture company. The proposed joint venture, which is conditional upon the successful takeover of Tognum AG, comprising of Tognum AG and Bergen, the gas and diesel medium-speed engine business of Rolls-Royce, will offer significant advantages to Daimler AG, Rolls-Royce and Tognum AG.

Tognum AG shareholders will be offered €24 per share in cash representing a total consideration of approximately €3.2 billion. This represents a premium of 30 per cent. above the XETRA closing price of Tognum AG shares on Friday 4 March 2011, the last undisturbed trading day before the transaction was rumoured in the markets, and a premium of around 22 per cent. above the weighted average price of Tognum AG shares over the three months before the announcement of the transaction. Daimler AG holds a 28.4 per cent. stake in Tognum AG which will be tendered into the takeover offer at the offer price.

Shareholder payment policy

The Company seeks to maintain a progressive shareholder payment policy and continue its practice of providing cash returns to shareholders through the issue and redemption of C Shares.

Directors

The directors of Rolls-Royce Group are (and, with the exception of Sir John Rose, who retires on 31 March 2011, the Directors of Rolls-Royce Holdings on Admission will be):

Directors

Executive Directors	Age	Position
Sir John Rose	58	Chief Executive
John Rishton	53	Director and, with effect from 31 March 2011, Chief Executive
James Guyette	65	President and Chief Executive Officer of Rolls-Royce North America Inc.
Andrew Shilston	55	Finance Director
Colin Smith	55	Director – Engineering and Technology
Mike Terrett	54	Chief Operating Officer
Non-executive Directors		
Sir Simon Robertson	70	Non-executive Chairman
Helen Alexander CBE	54	Non-executive Director
Peter Byrom	66	Non-executive Director
Iain C Conn	48	Non-executive Director and Senior Independent Director
Peter Gregson	53	Non-executive Director
John McAdam	62	Non-executive Director
John Neill CBE	63	Non-executive Director
Ian Strachan	67	Non-executive Director

Risk factors

Prior to acquiring Rolls-Royce Holdings Shares, prospective Rolls-Royce Holdings Shareholders should consider the risks associated therewith. Such risks include, but are not limited to, the following:

Risks relating to the Group's business

- The impact of environmental factors, in particular climate change, on law, regulation and customer expectations could have a material adverse effect on the Group's operations.
- Changes in law or regulation could have a material adverse effect on the Group's operations.
- External events, such as terrorism, political change, global pandemic, natural disaster or continued and deeper economic retrenchment, could have a material adverse effect on the Group's operations.
- The Group faces significant competitive pressures.
- The Group's operations require compliance with worldwide export controls.
- A decrease in government spending could have a material adverse effect on the Group's operations.
- The Group is reliant on attracting and retaining key talent.
- The Group faces counterparty credit risk.
- The Group faces foreign currency exposure risk.
- The Group is reliant on maintaining its credit rating.
- Disruption to the Group's supply chain could have a material adverse effect on the Group's operations.
- Ethical violations could have a material adverse effect on the Group's operations.
- Failure to meet its product programme demands could have a material adverse effect on the Group's operations.
- Globalisation and technology advances pose increased IT security risk to the Group.
- A shortfall in the performance of the Group's products could have a material adverse effect on the Group's operations.

Risks relating to the Proposals and the Rolls-Royce Holdings Shares

- There are risks that the Rolls-Royce Holdings Reduction of Capital will not be implemented on a timely basis or at all.
- Rolls-Royce Holdings Shares may be subject to market price volatility, and their market price may decline, in response to developments that are unrelated to the Group's operating performance.
- The Company's ability to make payments to its shareholders is dependent on the availability of appropriate reserves.
- Shareholders in the United States may not be able to participate in future equity offerings.

Documents available for inspection

Copies of this document, the Articles and the information incorporated by reference herein will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the offices of the Company at 65 Buckingham Gate, London SW1E 6AT.

PART 1

RISK FACTORS

Rolls-Royce Holdings Shares are subject to a number of risks. Accordingly, Rolls-Royce Group Shareholders and any prospective Rolls-Royce Holdings Shareholders should consider carefully all of the information set out in this document and all of the information incorporated by reference into this document, including, in particular, the risks described below, which represent all material risks known to the Group, prior to making any decision relating to the Rolls-Royce Holdings Shares. Additional risks and uncertainties not presently known to Rolls-Royce Holdings or the Directors, or that Rolls-Royce Holdings or the Directors currently consider to be immaterial, may also have an adverse effect on the Rolls-Royce Group.

Rolls-Royce Group's business, financial condition or results of operations could be materially and adversely affected by any of the risks described below. In such case, the market price of the Rolls-Royce Holdings Shares may decline and holders of Rolls-Royce Holdings Shares may lose all or part of their investment. Rolls-Royce Group Shareholders and any prospective Rolls-Royce Holdings Shareholders should consider carefully whether Rolls-Royce Holdings Shares are suitable for them in the light of the information set out in this document, the information incorporated by reference into this document and the financial resources available to them.

Risks relating to the Group's operations

The impact of environmental factors, in particular climate change, on law, regulation and customer expectations could have a material adverse effect on the Group's operations.

The Group recognises that its products and business operations have an impact on the environment, particularly in relation to climate change. Environmental performance is of great importance to customers and regulators, and Rolls-Royce is determined to be part of the solution to these environmental challenges through its research and development in low carbon technology such as nuclear power, fuel cells and tidal energy. In addition, the Group's governance structure includes an environment council, which directs and monitors the environmental performance of the Group's products.

A failure to respond proactively to the escalating environmental challenge, particularly in relation to climate change, could result in a dilution of reputation, and ultimately loss of market share to competitors. Product life cycles could also be shortened, with a consequent impact on the business model. Any of these outcomes could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

Changes in law or regulation could have a material adverse effect on the Group's operations.

Many aspects of the Group's business continue to experience increasing requirements from domestic and international legislation. Examples of these legislative and regulatory pressures include anti-bribery laws, authorisation of chemicals and substances, and financial regulations, specifically relating to "over-the-counter" derivatives. As the Group operates in a highly regulated environment and aims to comply with all relevant statutes, it has an established business-wide compliance structure, focussing on anti-bribery and corruption legislation, and it maintains an active role in seeking to inform and influence the content and implementation of relevant new legislation and regulations.

Non-compliance with applicable legislation and regulations could expose the Group to significant financial fines and penalties and may have a damaging effect on its reputation. In addition, any change in laws or regulation could result in additional compliance costs. Such non-compliance or changes in law could, in turn, affect the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

External events, such as terrorism, political change, global pandemic, natural disaster or continued and deeper economic retrenchment, could have a material adverse effect on the Group's operations.

Events may occur, externally to the business, that could undermine the basis of its operational and financial forecasts. Such events might include terrorism, political change, global pandemic, natural disaster or continued and deeper economic retrenchment. Such events could lead to a prolonged reduction in demand for transportation, and hence for a proportion of the Group's products and services. While the Group has procedures in place to manage the impact of such events, there can be no assurance that such events would not also constrain the Group's ability to conduct its business operations, for example in the case of disruption to business premises or mobility of personnel. The occurrence of any one of these events could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

The Group faces significant competitive pressures.

The markets in which the Group operates are highly competitive, and this competition is increasing as a result of global economic uncertainties. The majority of product programmes are long term in nature, and access to key customer platforms, most importantly Airbus and Boeing, is critical to success. The establishment of long-term customer

relationships allows the Group to differentiate its products and services and protect margins in the face of competitive pressures. The Group also focuses on improvement in operational performance, for example through the modernisation of the Group's facilities and managing the costs of operations and products. Doing so requires sustained investment in technology, capability and infrastructure, robust protection of intellectual property, all of which create high barriers to entry. However, these factors alone do not protect the Group from competition, including pricing and technical advances made by competitors.

If the Group's products, services and pricing do not remain competitive, this could result in the loss of market share, which could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

The Group's operations require compliance with worldwide export controls.

Rolls-Royce designs and supplies a number of products and services for the military. Many countries in which the Group conducts its business have legislation controlling the export of specified goods and technology intended or adaptable for military application. To manage compliance with export controls, the Group has an established exports committee, headed by the Chief Operating Officer, which directs the Group's policy and strategy on exports. Export control managers are embedded throughout the business, and export controls awareness training is provided to employees. The Group continues to maintain its capability to monitor and comply with requirements.

Non-compliance with export controls could impact both programme performance and the Group's reputation. The Group's ability to conduct business in certain jurisdictions could be revoked if it were non-compliant. Any of these outcomes could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

A decrease in government spending could have a material adverse effect on the Group's operations.

The Group conducts activities as a result of government investments, whether through direct sales or support to technology and other programmes. Given the importance of government spending to the Group's operations, the Group lobbies proactively for research and technology funding and maintains a focus on performance to achieve commitments under current government contracts. Such spending has experienced, and could continue to experience, pressure during this time of global financial uncertainty and budgetary constraint, in Europe and the US in particular.

A decrease in governmental spending could have an adverse effect on the Group's future performance. For example, asset usage and/or flying hours could reduce across military fleets impacting aftermarket revenues. Reduction in technology investment programmes could delay product development and introduction. Any such reduction could have a material adverse effect on the Groups' business, results of operations, financial condition and prospects and the value of the Rolls-Royce Holdings Shares.

The Group is reliant on attracting and retaining key talent.

The Group's position at the forefront of technology and innovation, and its commitment to delivering significant volumes of business to its customers, demand that the Group maintains world-class capabilities in all of its core resource groups, and particularly management. The Group continues to make significant investments in its resourcing and capability infrastructure, notably in the transformation of its human resources function. In addition, the Group maintains comprehensive systems for the development of individuals' competencies and the objective assessment of performance, linked to reward. However, demographic trends, the UK immigration cap and a limited supply of appropriately educated and skilled personnel in science, technology, engineering and mathematics subjects pose a challenge to maintaining the Group's world-class employee standards.

Failure to grow the Group's resource capability to the necessary levels whilst maintaining world-class quality, would adversely impact delivery of customer programmes, threaten the Group's reputation and stifle opportunities for future innovation and growth, which could in turn have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

The Group faces counterparty credit risk.

Rolls-Royce works with various counterparties including financial institutions for the provision of foreign exchange hedging and short-term deposit accounts, customers, joint venture partners and insurers. The Group has an established policy for managing counterparty credit risk. A common framework exists to measure, report and control exposures to these counterparties across the Group using value-at-risk and fair-value techniques. The Group assigns an internal credit rating to each counterparty, which is assessed with reference to publicly available credit information and subject to regular review. Counterparty failure is recognised as a principal risk driven mainly by the economic uncertainties and pressures in the current environment. Failure of any of these counterparties could impact cash and profit margins in the short term, and although the Group has built a strong balance sheet to protect itself from the impact of individual defaults, counterparty failure on a wider scale could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

The Group faces foreign currency exposure risk.

The Group is exposed to movements in exchange rates for both foreign currency transactions and the translation of net assets and income statements of foreign subsidiaries. The Group manages its translational exposures through the currency matching of assets and liabilities, where applicable. The Group regards its interests in overseas subsidiary companies as long-term investments. While the Group is exposed to a number of foreign currencies, the most significant are USD to GBP and USD to EUR. Foreign exchange risks are reviewed regularly, and appropriate risk mitigation is performed where material mismatches arise. The Group operates a hedging policy using a variety of financial instruments to minimise the impact of fluctuations in exchange rates on future transactions and cash flows. Despite these measures, fluctuations in exchange rates to which the Group is exposed could adversely affect the Group's results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

The Group is reliant on maintaining its credit rating.

As a long-term business, the Group attaches significant importance to maintaining a sound investment grade credit rating, which it views as necessary for the business to operate effectively. The Group has developed a strong financial risk profile and continues to improve the business risk profile. Downgrading of the Group's credit rating would inhibit its ability to secure funding in the future, hedge forward or provide vendor financing, which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and prospects and the value of the Rolls-Royce Holdings Shares.

Disruption to the Group's supply chain could have a material adverse effect on the Group's operations.

The Group's products and services are delivered through the effective operation of its facilities and key capabilities, including its supply chain. The Group continues to invest in developing world-class manufacturing processes in Asia, North America and Europe. The Group's success in strengthening its market position and its presence on a number of high profile civil and defence aerospace programmes, together with a growing marine business, places increased demands on the performance of the supply chain. In addition, there is an ongoing exposure to the price of base metals, arising from business operations. A well-established business continuity management process is in place that focuses on critical facilities, activities, processes, skills and suppliers. Significant progress has been made in dual sourcing in these areas. Increased focus is also being applied to understanding and addressing sources of risk arising in the external supply chain, particularly those associated with financial instability of any third party suppliers. The Group also maintains policies to hedge the price of selected base metals.

While the Group has invested in a comprehensive programme of business interruption insurance, significant supply chain disruption, and failure to deliver parts on time or to committed costs and quality, would undermine the assumptions within business cases, and any consequent damage to the Group's reputation could also hinder its ability to win future business, which could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

Ethical violations could have a material adverse effect on the Group's operations.

The Group recognises the benefits derived from conducting business in an ethical and socially responsible manner. This approach extends from the sourcing of raw materials and components to the manufacture and delivery of products and services in all of its global locations and markets. It applies to the provision of a safe and healthy place of work and investment in technologies to reduce the environmental impact of the Group's products and operations. The Group has an established ethics committee to oversee and maintain ethical standards and has developed a Global Code of Business Ethics, which has been issued to all employees and is supported by a training and engagement programme to improve awareness of the Group's values.

Despite these efforts, any shortcomings in the Group's business conduct could result in significant financial penalties, disruption to the Group's business and could have a damaging effect on the Group's reputation, each of which could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

Failure to meet its product programme demands could have a material adverse effect on the Group's operations.

The Group manages complex product programmes with demanding technical and volume requirements against stringent, and sometimes fluctuating, customer schedules. This requires co-ordination of the engineering function, manufacturing operations, the external supply chain and other partners. The Group seeks continuous improvement of all its processes and employs project management controls to ensure that both technical and business objectives are achieved. In addition, all major programmes are subject to Board approval and are reviewed regularly by the Board with a particular focus on the nature and potential impact of emerging risks and the effective mitigation of previously identified threats.

Any failure to achieve programme goals could have significant financial and reputational implications for the Group. These implications include the risk of impairment of the carrying value of the Group's intangible assets, contractual

penalties, for example potential for liquidated damages for late delivery or failure to meet product performance guarantees, or the loss of contracts in the future and the impact of potential litigation, which could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

Globalisation and technology advances pose increased IT security risk to the Group.

The continuing globalisation of the business and advances in technology have resulted in more data being transmitted internationally, posing an increased security risk. The Group undertakes continual upgrading of security equipment and software and deployment of a multi-layered protection system that includes web gateway filtering, firewalls and intruder detection. The Group has also committed additional specialist resources and engages in active sharing of information through industry and government forums. However, a breach of IT security may result in controlled data or intellectual property being lost, corrupted or accessed by non-authorized users. Adverse impacts upon operational effectiveness, safeguarding of intellectual property, compliance with legislation or the reputation of the Group could arise, any of which in turn could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

A shortfall in the performance of the Group's products could have a material adverse effect on the Group's operations.

The Group strives to deliver world class products that are safe and reliable, focusing attention on product design, robust quality and processes, pre-service maturity and in-service management. The Directors believe that safety is the Group's highest priority. The Group operates, and will continue to operate, in a 'safety first' culture. Ongoing actions and activities are being driven throughout the Group to improve maturity at entry into service. In addition, there is continuing engineering focus on improvements to product reliability and service lives.

Deteriorations in product safety could significantly affect the Group's reputation. Shortfalls in performance at entry into service or through life could lead to penalties or additional costs in the aftermarket, all of which could have a material adverse effect on the Group's business, results of operations, financial condition and future prospects and the value of the Rolls-Royce Holdings Shares.

Risks relating to the Proposals and the Rolls-Royce Holdings Shares

There are risks that the Rolls-Royce Holdings Reduction of Capital will not be implemented on a timely basis or at all.

Implementation of the Rolls-Royce Reduction of Capital is conditional upon, among other things, sanction by the Court. There are risks that this will not be given and that the Rolls-Royce Reduction of Capital will not occur on a timely basis or at all. If this does not happen, the Rolls-Royce Reduction of Capital will not be implemented and the benefits expected to result from the Rolls-Royce Reduction of Capital will not be achieved.

Rolls-Royce Holdings Shares may be subject to market price volatility, and their market price may decline, in response to developments that are unrelated to the Group's operating performance.

The market price of Rolls-Royce Holdings Shares may be volatile and subject to fluctuations, as a result of a variety of factors, including, but not limited to, actual or anticipated fluctuations in the financial performance of the Group and its competitors; the operating and share price performance of other companies in the industry and markets in which the Group operates; speculation about the Group's business in the press, media or the investment community; changes to the Group's sales or financial results and the publication of research reports by analysts.

The Company's ability to make payments to shareholders is dependent on the availability of appropriate reserves.

The ability of the Company to make payments to its shareholders on the Rolls-Royce Holdings Shares is dependent upon the availability of distributable reserves and therefore, amongst other things, upon receipt by the Company of dividends and other distributions of value from its subsidiaries and companies in which it has an investment. Since 2004, Rolls-Royce Group has made payments to its shareholders by issuing and subsequently redeeming Rolls-Royce Group C Shares in lieu of cash dividends. However, Rolls-Royce has identified a shortfall in the reserves required for further Rolls-Royce Group C Share issues. The Proposals are intended to create sufficient reserves for future C Share issues and redemptions. If the Proposals do not become effective, it is unlikely that Rolls-Royce Group will be able to issue further C Shares without taking some action to improve its merger and distributable reserve position. However, the success of the Proposals is no guarantee that any further payments to shareholders will be declared or paid.

Shareholders in the United States may not be able to participate in future equity offerings.

The Articles provide for pre-emptive rights to be granted to Rolls-Royce Holdings Shareholders, unless such rights are disappplied by a shareholder resolution. However, Rolls-Royce Holdings Shareholders in the United States may not be entitled to exercise these rights unless either the rights and Rolls-Royce Holdings Shares are registered under the US

Securities Act, or the Company has available to it, and utilises, an exemption from the registration requirements of the US Securities Act. There can be no assurance that the Company will file any such registration statement, or that an exemption from the registration requirements of the US Securities Act will be available, which would result in Rolls-Royce Holdings Shareholders in the United States being unable to exercise their pre-emptive rights.

The Company would expect to evaluate at the time of any rights or similar offering the costs and potential liabilities associated with any such registration statement or qualifying for an exemption from registration, as well as the indirect benefits of enabling Rolls-Royce Holdings Shareholders in the United States to exercise any pre-emptive rights for Rolls-Royce Holdings Shares and any other factors considered appropriate at the time, prior to making a decision whether to file a registration statement with the SEC or utilise an exemption from the registration requirements of the US Securities Act.

PART 2

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Important Information

No person has been authorised to give any information or make any representation other than those contained in this document and, if given or made, such information or representation must not be relied upon as having been so authorised. The delivery of this document shall not, under any circumstances, create any implication that there has been no change in the affairs of Rolls-Royce Group or Rolls-Royce Holdings since the date of this document or that the information in this document is correct as of any time subsequent to the date hereof. 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.

If you have sold or otherwise transferred all of your Rolls-Royce Group Shares, you should send this document as soon as possible to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for delivery to the purchaser or the transferee.

The distribution of this document in jurisdictions other than the United Kingdom may be restricted by law and therefore this document 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 comes should inform themselves about and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction.

ROLLS-ROYCE HOLDINGS 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 SHARES TO THE OFFICIAL LIST. 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 PROSPECTUS SHALL BE SOLD, ISSUED, SUBSCRIBED FOR, PURCHASED, EXCHANGED OR TRANSFERRED IN ANY JURISDICTION IN CONTRAVENTION OF APPLICABLE LAW.

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.

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 Shares will not be, and are not required to be, registered with the SEC under the US Securities Act 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 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 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 other person or to the public generally to subscribe for or otherwise acquire Rolls-Royce Holdings Shares.

This document is not an offer of securities for sale in the United States. The Rolls-Royce Holdings 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, 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 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 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 Holdings does not intend to take any action to facilitate a market in Rolls-Royce Holdings Shares in the United States. Consequently, Rolls-Royce Holdings believes that it is unlikely that an active trading market in the United States will develop for the Rolls-Royce Holdings Shares.

The Rolls-Royce Holdings 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 ONLY

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 THE STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA421-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 OF THE STATE OF NEW HAMPSHIRE 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 Shares will be issued in Canada pursuant to the Scheme and the issuance of the Rolls-Royce Holdings 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 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 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 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 Shares will be offered and there is currently no public market for the Rolls-Royce Holdings 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 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 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 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 Proposals 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 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 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 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 Shares may not be offered or sold directly or indirectly to the public in the UAE.

General notices

Investors should only rely on the information in this document. No person has been authorised to give any information or to make any representations in connection with the listing of the Rolls-Royce Holdings Shares, other than those contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Rolls-Royce Holdings, the Directors or the Sponsor. No representation or warranty, express or implied, is made by the Sponsor as to the accuracy or completeness of such information, and nothing contained in this document is, or shall be relied upon as, a promise or representation by the Sponsor as to the past, present or future. Without prejudice to any obligation of Rolls-Royce Holdings to publish a supplementary prospectus pursuant to FSMA, neither the delivery of this document nor any subscription or sale of Rolls-Royce Holdings Shares pursuant to the Scheme shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Group since the date of this document or that the information contained herein is correct as of any time subsequent to its date.

Rolls-Royce Holdings will update the information provided in this document by means of a supplement hereto if a significant new factor that may affect the evaluation by prospective investors of the Proposals occurs prior to the publication of this document or if this document contains any mistake or substantial inaccuracy. This document and any supplement hereto will be subject to approval by the FSA and will be made public in accordance with the Prospectus Rules.

This document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Rolls-Royce Group, Rolls-Royce Holdings, the Directors or the Sponsor or any of their representatives that any recipient of this document should subscribe for or purchase the Rolls-Royce Holdings Shares. Prior to making any decision as to whether to subscribe for or purchase the Rolls-Royce Holdings Shares, prospective investors should read this document. Investors should ensure that they read the whole of this document and not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination of Rolls-Royce Holdings and the terms of this document, including the risks involved.

Investors who subscribe for or purchase Rolls-Royce Holdings Shares will be deemed to have acknowledged that: (i) they have not relied on the Sponsor or any person affiliated with it in connection with any investigation of the accuracy of any information contained in this document or their investment decision; and (ii) they have relied on the information contained in this document, and no person has been authorised to give any information or to make any representation concerning the Group or the Rolls-Royce Holdings Shares (other than as contained in this document) and, if given or made, any such other information or representation should not be relied upon as having been authorised by Rolls-Royce Group, Rolls-Royce Holdings, the Directors or the Sponsor.

None of Rolls-Royce Group, Rolls-Royce Holdings, the Directors or the Sponsor or any of their representatives is making any representation to any offeree, subscriber or purchaser of the Rolls-Royce Holdings Shares regarding the legality of an investment by such offeree, subscriber or purchaser.

Incorporation of relevant information by reference

The following documents are incorporated by reference into this document (other than into the section titled "Summary"), all of which have been filed with the National Storage Mechanism and/or announced through a RIS, are available free of charge on the Group's website at: www.rolls-royce.com and are available for inspection as provided in paragraph 23 of Part 13 "Additional Information – Documents available for inspection":

- (a) pages 27 to 40, 55 to 63 and 86 to 145 of Rolls-Royce Group's 2008 Annual Report, comprising pages 27 to 40 of the business review, the finance director's report and the audited consolidated financial statements of the Group prepared in accordance with IFRS as at and for the year ended 31 December 2008 together with relevant accounting policies and notes. The independent auditor's report is on page 145, the consolidated balance sheet as at 31 December 2008 is on page 87, the consolidated income statement for the year ended 31 December 2008 is on page 86, the consolidated statement of cash flow is on page 88, a statement showing changes in equity is on page 130, the accounting policies are on pages 91 to 95, the notes to the consolidated financial statements are on pages 91 to 137, the note on related party transactions is on page 136, the parent company balance sheet as at 31 December 2008 is on page 138, the notes to the parent company financial statements are on pages 139 to 141 and the principal subsidiary undertakings and joint ventures are on pages 142 to 144;
- (b) pages 27 to 41, pages 58 to 65 and 92 to 149 of Rolls-Royce Group's 2009 Annual Report, comprising pages 27 to 41 of the business review, the finance director's report and the audited consolidated financial statements of the Group prepared in accordance with IFRS as at and for the year ended 31 December 2009 together with relevant accounting policies and notes. The independent auditor's report is on page 149, the consolidated balance sheet as at 31 December 2009 is on page 93, the consolidated income statement for the year ended 31 December 2009 is on page 92, a consolidated statement showing changes in equity is on page 96, the consolidated statement of cash flow is on page 94, the accounting policies are on pages 97 to 104, the notes to the consolidated financial statements are on pages 97 to 142, the note on related party transactions is on page 141, the parent company balance sheet as at 31 December 2009 is on page 143, the notes to the parent company financial statements are on pages 144 to 145 and the principal subsidiary undertakings and joint ventures and associates are on pages 146 to 148; and
- (c) pages 28 to 41, pages 48 to 55 and pages 84 to 140 of Rolls-Royce Group's 2010 Annual Report, comprising pages 28 to 41 of the business review, the finance director's report and the audited consolidated financial statements of the Group prepared in accordance with IFRS as at and for the year ended 31 December 2010 together with relevant accounting policies and notes. The independent auditor's report is on page 140, the consolidated balance sheet as at 31 December 2010 is on page 85, the consolidated income statement for the year ended 31 December 2010 is on page 84, a consolidated statement showing changes in equity is on page 88, the consolidated statement of cash flow is on page 86, the accounting policies are on pages 89 to 95, the notes to the consolidated financial statements are on pages 89 to 133, the note on related party transactions is on page 131, the parent company balance sheet as at 31 December 2010 is on page 134, the notes to the parent company financial statements are on pages 135 to 136 and the principal subsidiary undertakings and joint ventures are on pages 137 to 139.

Any information that is incorporated by reference into documents, which in turn are incorporated into this document, is not incorporated by reference into this document.

Rolls-Royce Holdings will provide without charge to each person to whom a copy of this document has been delivered, upon written or verbal request, a copy of any documents incorporated by reference into this document, except that exhibits to such documents will not be provided unless they are specifically incorporated by reference into this document. Requests for copies of such documents should be directed to Rolls-Royce Holdings, at 65 Buckingham Gate, London, SW1E 6AT, United Kingdom.

No incorporation of website information

Except to the extent expressly set out above, neither the contents of the Group's website (or any other website) nor the content of any website accessible from hyperlinks on the Group's website (or any other website) is incorporated into, or forms part of, this document.

Financial information

The financial information in this document has been prepared in accordance with IFRS. The significant IFRS accounting policies applied in the financial information of Rolls-Royce Group are applied consistently in the financial information in this document.

Unless otherwise indicated, the consolidated financial information presented in this document relating to Rolls-Royce Group as at and for the 12 months ended 31 December 2008, 31 December 2009 and 31 December 2010 is presented in sterling, has been prepared in accordance with IFRS, and, unless otherwise indicated, has been extracted without material adjustment from the published Annual Report and accounts of Rolls-Royce Group for the 12 months ended 31 December 2008, 31 December 2009 and 31 December 2010.

Unless otherwise indicated, the information incorporated by reference into this document, as set out above under "Incorporation of relevant information by reference", is presented in sterling and has been prepared in accordance with IFRS as at and for the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010.

Capitalisation and indebtedness information for the Group in this document (i) is extracted without material adjustment from the 2010 Financial Statements (as defined below) and from management information of the Group, (ii) is unaudited and (iii) is presented in sterling.

The Group's historical consolidated financial statements include:

- the audited consolidated financial statements of the Group prepared in accordance with IFRS as at and for the year ended 31 December 2008 (the "2008 Financial Statements");
- the audited consolidated financial statements of the Group prepared in accordance with IFRS as at and for the year ended 31 December 2009 (the "2009 Financial Statements"); and
- the audited consolidated financial statements of the Group prepared in accordance with IFRS as at and for the year ended 31 December 2010 (the "2010 Financial Statements" and, together with the 2008 Financial Statements and the 2009 Financial Statements, the "Audited Financial Statements"), in each case together with the respective notes thereto.

The financial information included in this document has been prepared in accordance with accounting standards applicable in the United Kingdom that may not be comparable to the financial statements of US companies. US generally accepted accounting principles differ in certain significant respects from IFRS. None of the financial information in this document has been audited in accordance with auditing standards generally accepted in the United States.

Key performance indicators

The Group uses a range of financial and non-financial indicators to monitor Group and segmental performance in line with the Group's strategy. These indicators are chosen to monitor both current performance and the success of investments that are intended to sustain and enhance future performance.

The key performance indicators are financial measures that are not recognised under IFRS or any other internationally recognised generally accepted accounting principles. The key performance indicators may not be comparable to other similarly titled measures as reported by other companies, as other companies may calculate these measures differently from the Group. None of the key performance indicators should be considered in isolation, or as a substitute for analysis of the Group's operating results, including its income statements and cash flow statements, as reported under IFRS. The key performance indicators are not audited.

The key performance indicators used in this Prospectus or in the information incorporated by reference in this Prospectus are as follows:

Underlying revenue. Monitoring of revenues provides a measure of business growth. Underlying revenues are used in order to eliminate the effect of the decision not to adopt hedge accounting and to provide a clearer year-on-year measure. The Group measures foreign currency sales at the actual exchange rate achieved as a result of settling foreign exchange contracts from forward cover.

Underlying profit before financing. Underlying profit before financing is presented on a basis that shows the economic substance of the Group's hedging strategies in respect of the transactional exchange rate and commodity price movements. In particular: (a) revenues and costs denominated in US dollars and euros are presented on the basis of the average exchange rates achieved during the year; (b) similar adjustments are made in respect of commodity derivatives; and (c) consequential adjustments are made to reflect the impact of exchange rates on trading assets and liabilities and long-term contracts on a consistent basis.

Cash flow. In a business requiring significant investment, the Board monitors cash flow to ensure that profitability is converted into cash generation, both for future investment and as a reward for shareholders. The Group measures cash flow as the movement in net funds/debt during the year, after taking into account the value of derivatives held to hedge the value of balances denominated in foreign currencies.

Return on capital employed. Return on capital employed is calculated as the after-tax underlying profit, divided by the average net assets during the year, adjusted for net cash, net post-retirement deficit and goodwill previously written off. It represents a measure of the return the Group is making on its investments.

Net research and development charge. Investment in research and development underpins all the elements of the Group's strategy. Programme expenditure is monitored in conjunction with a gated review process on each programme and progress is reviewed at key milestones.

Gross research and development expenditure. The Group's research and development activities comprise both self-funded and customer funded programmes. Gross expenditure measures total research and development activity and is an indicator of the effectiveness of the actions taken to enhance the Group's intellectual property.

Net research and development expenditure as a proportion of underlying revenue. Research and development is measured as the self-funded expenditure before both amounts capitalised in the year and amortisation of previously capitalised balances. The Group expects to spend approximately five per cent of revenues on research and development although this proportion will fluctuate annually depending on the stage of development of current programmes. This measure reflects the need to generate current returns as well as to invest for the future.

Capital expenditure. To deliver on its commitments to customers, the Group invests significant amounts in its infrastructure. All investments are subject to rigorous review to ensure that they are consistent with forecast activity and will provide value for money. Annual capital expenditure is measured as the cost of property, plant and equipment acquired during the period.

Order book. The order book provides an indicator of future business. It is measured at constant exchange rates and list prices and includes both firm and announced orders. In civil aerospace, it is common for a customer to take options for future orders in addition to firm orders placed. Such options are excluded from the order book. In defence aerospace, long-term programmes are often ordered for only one year at a time. In such circumstances, even though there may be no alternative engine choice available to the customer, only the contracted business is included in the order book. Only the first seven years' revenue of long-term aftermarket contracts is included.

Underlying revenue per employee. A measure of personnel productivity, this indicator measures underlying revenue generated per employee on a three-year rolling basis.

Engine deliveries. The Group's installed engine base represents an opportunity to generate future aftermarket business. This is measured as the number of Group products delivered during the year within each business except for marine, as its products do not lend themselves to this measure due to their diversity.

Installed thrust (civil aerospace). Installed thrust is the indicator of the amount of product in use by the Group's customers and therefore the scale of opportunity this presents for the Group's services business.

Percentage of civil fleet under management. Long-term contracts are an important way of generating value for customers. The percentage of fleet under management gives a measure of the proportion of the installed base where the future aftermarket arrangements are agreed under long-term contracts.

Underlying services revenue. Underlying services revenue shows the amount of business during the year that has been generated from the installed engine base. This is measured as the revenue derived from spare parts, overhaul services and long-term service arrangements.

Emissions. Much of the research and development expenditure is focused on reducing emissions of the Group's products. The Group measures both the emissions of its products and the emissions of its manufacturing operations.

Currency presentation

Unless otherwise indicated, all references in this document to "sterling", "pounds sterling", "GBP", "£", or "pence" are to the lawful currency of the United Kingdom. The Company prepares its financial statements in pounds sterling. All

references to the “euro” or “€” are to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended. All references to “US dollars” or “US\$” are to the lawful currency of the United States.

The average exchange rates of the Group’s main trading currencies, other than pounds sterling, are shown relative to pounds sterling below. These exchange rates should not be construed as representations that the relevant currency could be converted into sterling at the rate indicated or at any other rate:

<u>Rate against pounds sterling on</u>	<u>US dollar</u>	<u>euro</u>
31 December 2008	1.438	1.034
31 December 2009	1.615	1.126
31 December 2010	1.566	1.167
31 January 2011	1.614	1.183
28 February 2011	1.627	1.165
21 March 2011	1.628	1.148
<u>Average rate against pounds sterling for the year ended</u>	<u>US dollar</u>	<u>euro</u>
31 December 2008	1.854	1.258
31 December 2009	1.566	1.123
31 December 2010	1.543	1.167
<u>Average rate against pounds sterling for the month ended</u>	<u>US dollar</u>	<u>euro</u>
31 January 2011	1.585	1.181
28 February 2011	1.616	1.181

Source: For rates against pounds sterling at 31 December 2008, 2009 and 2010, the Financial Times; for rates against pounds sterling at 31 January 2011, 28 February 2011 and 21 March 2011, Reuters, as determined as at the end of the relevant monthly accounting period for the Group. For average monthly rates, Reuters, based on the average of the sum of each day for which rates are available within the monthly accounting period. Annual averages are then calculated by dividing the sum of the average of each monthly accounting period within a year by twelve.

Roundings

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

Market, economic and industry data

The Company confirms that any third-party information contained in this document has been accurately reproduced and, so far as the Company is aware and able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this document, the source of such information has been identified.

Definitions and glossary

Certain terms used in this document, including all capitalised terms and certain technical and other items, are defined and explained in Part 14 “Definitions and Glossary”.

Information regarding forward-looking statements

This document includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group’s control and all of which are based on the Directors’ current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as “believe”, “expects”, “may”, “will”, “could”, “should”, “shall”, “risk”, “likely”, “trends”, “indicates”, “intends”, “estimates”, “aims”, “plans”, “predicts”, “continues”, “assumes”, “positioned” or “anticipates” or the negative thereof, other variations thereon 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 include statements regarding the intentions, beliefs or current expectations of the Directors or the Group concerning, among other things, the results of operations, financial condition, prospects, growth, strategies, and shareholder payment policy of the Group and the industry in which it operates. In particular, the statements under the headings “Summary”, “Risk Factors”, “The Business” and “Operating and Financial Review” regarding the Company’s strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this document regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements. Such forward-looking statements contained in this document speak only as of the date of this document. The Company, the Directors and the Sponsor expressly disclaim any obligation or undertaking to update these forward-looking statements contained in the document to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, or the Disclosure and Transparency Rules of the FSA.

PART 3

DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Directors as of the date of this Prospectus

Sir Simon Robertson, Non-executive Chairman
Sir John Rose, Chief Executive
Peter Byrom, Non-executive Director
John Rishon, Chief Executive designate
Andrew Shilston, Finance Director
Mike Terrett, Chief Operating Officer

Each Director's business address is the Company's registered address at 65 Buckingham Gate, London SW1E 6AT.

Company Secretary Tim Rayner

Registered and head office of the Company 65 Buckingham Gate
London SW1E 6AT

Sponsor N M Rothschild & Sons Limited
New Court
St. Swithin's Lane
London EC4P 4DU

Legal advisers to the Company Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Auditor and Reporting Accountants KPMG Audit Plc
15 Canada Square
Canary Wharf
London E14 5GL

Registrar Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS13 8AE
0870 703 0162 (or +44 870 703 0162 from outside the UK)

PART 4

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

2011

<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 Depository 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 ⁽¹⁾
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 ⁽¹⁾
6.00 p.m. on Wednesday 4 May 2011	Scheme Voting Record Time ⁽²⁾
11.00 a.m. on Friday 6 May 2011	Annual General Meeting
11.30 a.m. on Friday 6 May 2011	Court Meeting ⁽³⁾
Friday 20 May 2011	First Court Hearing to sanction the Scheme and confirm the Rolls-Royce Group reduction of capital ⁽⁴⁾
Friday 20 May 2011	Last day of dealings in, and for registration of transfers of, Rolls-Royce Group Shares
4.30 p.m. on Friday 20 May 2011	Suspension of listing of, and dealings in, Rolls-Royce Group 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 Shares listed, crediting of Rolls-Royce Holdings Shares to CREST accounts and trading in Rolls-Royce Holdings Shares on the London Stock Exchange commences ⁽⁵⁾
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 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 depository for the Rolls-Royce ADRs. These instructions will describe how to provide voting instructions to the US Depository 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 from 19 May 2011.
- (5) Rolls-Royce Holdings 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.

PART 5

MARKET OVERVIEW

The Group operates in four long-term global markets – civil and defence aerospace, marine and energy. It is expected that these markets will create a total opportunity worth in excess of US\$2 trillion over the next 20 years and:

- have very high barriers to entry;
- offer the opportunity for organic growth;
- feature extraordinarily long programme lives, usually measured in decades;
- can only be addressed through significant investments in technology, infrastructure and capability; and
- create a significant opportunity for extended customer relationships, with revenues from aftermarket services similar in size to original equipment revenues.

The size of these markets is generally related to world Gross Domestic Product (GDP) growth, or in the case of the defence markets, global security and the scale of defence budgets.

Civil aerospace

The Group produces a 20-year global market outlook, which covers passenger and cargo jets, corporate and regional aircraft. The Group predicts that over the next 20 years 137,000 engines, worth over US\$800 billion, will be required for more than 63,000 commercial aircraft and business jets. Faster growth rates for long-haul markets and those markets to, from and within Asia are expected. These markets will continue to benefit from more liberal air service agreements, which boost demand.

Factors affecting demand include GDP growth, aircraft productivity, operating costs, environmental issues and the number of aircraft retirements. While the market can be temporarily disrupted by external events, such as war, acts of terrorism, or economic downturns, it has, in the past, always returned to its long-term growth trend. In addition to the demand for engines, the Group forecasts a market opportunity worth US\$600 billion for the provision of product-related aftermarket services.

Defence aerospace

The Group forecasts that demand for military engines will be worth US\$160 billion over the next 20 years. This outlook was moderated slightly based on US and European budget pressures. The largest single market is expected to be the US, followed by Europe and the Far East. Within Asia, demand will be dominated by Japan, South Korea and India. Trends are driven by the scale of defence budgets and geopolitical developments around the world. As in the Group's other business sectors, programme lives are long and there is a significant opportunity to support equipment with aftermarket services, estimated at US\$270 billion over the same period. Customers' budget constraints and their need to increase the value they derive from their assets have accelerated the move in this direction.

Marine

The Group forecasts a demand for marine power and propulsion systems valued at US\$215 billion over the next 20 years. Demand will be greatest in the commercial sector, where the shipping of raw materials, finished goods and people, in addition to oil and gas exploration and production activity, play crucial roles in the world economy. These activities require large fleets of specialised and increasingly sophisticated ships, which have to be continually renewed and supported to remain operationally efficient.

Merchant and offshore markets are rarely at the same stage of the business cycle, which helps to reduce overall volatility. Whilst naval markets are driven by different considerations, customers are similarly seeking to get more from their budgets, leading to increasing demand for integrated systems and through-life support arrangements. As in the Group's other markets, marine aftermarket services are expected to generate significant opportunities, with demand forecasted at US\$125 billion over the next 20 years.

Energy

The International Energy Agency has forecast that over the next 20 years, the worldwide demand for oil will grow by more than 18 per cent, for gas by 44 per cent and for energy by more than 30 per cent. To satisfy this demand, there will be a growing requirement for aero derivative gas turbines in various applications.

The Group's 20-year forecast values the total aero-derivative gas turbine sales in the oil and gas and power generation sectors at more than US\$70 billion. Over this period, demand for associated aftermarket services is expected to be around US\$50 billion.

While the oil and gas market is large and growing, demand for aero-derivative gas turbines in the power generation segment is twice that of oil and gas.

Note: A long-term conversion rate has been used where necessary in order to present all figures in US\$.

PART 6

THE BUSINESS

Investors should read this Part 6 “The Business” in conjunction with the more detailed information contained in or incorporated by reference into this document, including the financial and other information appearing in Part 9 “Operating and Financial Review”.

Introduction and summary of the terms of the Proposals

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.

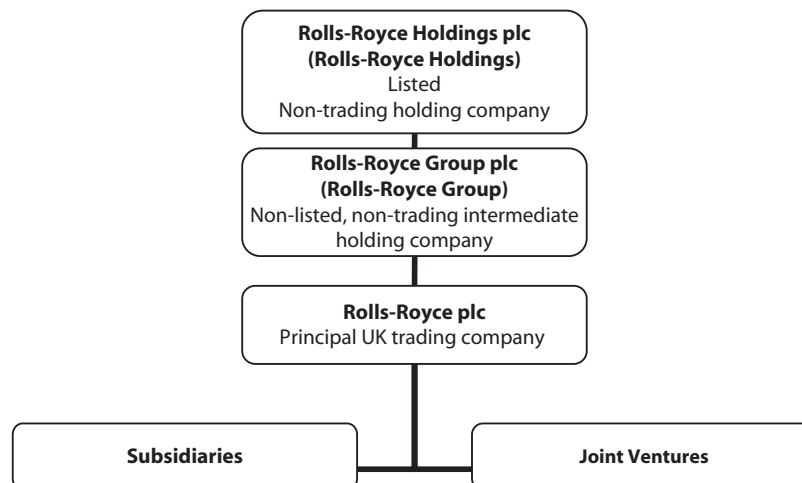
Application will be made to the UK Listing Authority for all of the Rolls-Royce Holdings Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for all of the Rolls-Royce Holdings Shares to be admitted to trading on the London Stock Exchange’s main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

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.

The Board believes that the Proposals 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.

Structure of the Group

The chart below provides an illustration of the structure of the Group following the implementation of the Proposals.



History

The origins of the business of the Group go back to Sir Henry Royce and the Hon. CS Rolls, the compatibility of whose business interests led to the formation of the original Rolls-Royce Limited in 1906.

Until 2003, Rolls-Royce plc was both the main trading company and the entity listed on the London Stock Exchange. In June 2003, shareholders approved the creation of a new holding company, Rolls-Royce Group plc. Rolls-Royce Group plc became the ultimate holding company of the Group.

Rolls-Royce Holdings was incorporated in February 2011 and, following the approval of the Scheme, will be the new holding company of the Group with its shares being admitted to the premium listing segment of the Official List and admitted to trading on the London Stock Exchange’s main market for listed securities.

Strategy of the Group

The Group's consistent strategy is based on five key elements.

1. *Address four global markets.* The Group is a leading producer of mission critical, integrated, power systems for the civil and defence aerospace, marine and energy markets. The civil aerospace segment has the broadest engine range in the world. The defence aerospace segment is Europe's biggest engine maker. The marine segment is a world-leading systems provider and integrator. The energy segment is a world leader in power for the oil and gas sector and a growing power generation presence.

2. *Invest in technology infrastructure and capability.* Over the past five years, the Group has invested £4.2 billion in research and development. The Group invests substantially in employee development and in 2010, the Group invested £361 million in capital projects. The Group invests in world-class, cost-effective technology in order to develop products that add value for customers, improve efficiency and reduce environmental impact. In 2010, the Group invested £923 million in gross research and development.

3. *Develop a competitive portfolio of products and services.* The Group has 40 major engineering programmes and is involved in many of the future projects in the markets it serves. These key projects will define the power systems market for many years. In 2010, the Group continued to bring new advanced products to market, including its new wave-piercing design of offshore support vessel. This vessel improves efficiency of operation and safety at sea for the crew.

4. *Grow market share and installed product base.* Across the Group, the installed base of products in service is expected to generate attractive returns over many decades.

5. *Add value for customers through the provision of product-related services.* The Group seeks to add value for its customers with aftermarket services that will maximise the performance and reliability of its products. The Group has grown its service revenues ten per cent compound over the past ten years. In 2010, services accounted for over 50 per cent of total underlying revenue.

Overview of the Group's operations

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.

The Group's operations are divided into four major customer-facing businesses: civil aerospace, defence aerospace, marine and energy.

Civil aerospace

The civil aerospace business powers over 30 types of commercial aircraft and has a strong position in all sectors of the market: wide-body, narrow-body and corporate and regional aircraft. Over 13,000 engines are currently in service with 650 airlines, freight operators and lessors and 4,000 corporate operators. A Rolls-Royce powered aircraft takes off or lands every 2.5 seconds.

Defence aerospace

Rolls-Royce is the world's second largest provider of defence aero-engine products and services, with 18,000 engines in service for 160 customers in 103 countries. Rolls-Royce engines power aircraft in all sectors: transport, combat, reconnaissance, training, helicopters and unmanned aerial vehicles.

Marine

Rolls-Royce has a world-leading range of capabilities in the marine market, encompassing the design, supply and support of power and propulsion systems. The Group is a leader in the integration of technologically complex, mission critical systems for offshore oil and gas, merchant and naval vessels.

Energy

The Group's energy business supplies gas turbines, compressors and diesel power units to customers around the world. The business is a world leader in the supply of power for onshore and offshore oil and gas applications. The Group's developing civil nuclear capability has further strengthened its position in the power generation market.

Research and development

The Group's engineering and technology activities are undertaken by close to 10,000 product, engineering and technology specialists covering more than 40 major programmes. The activity is global with main engineering centres located in the UK, US, Germany, the Nordic countries, Singapore and India.

Research

The Group's advanced research is supported through its worldwide network of 28 Rolls-Royce University Technology Centres, working across a range of specialist subject areas such as materials, noise, vibration and combustion. Two new centres for nuclear technology at Imperial College London and at the University of Manchester were added during 2010.

During 2010, the Group strengthened its new Advanced Technology Centre (ATC) in Singapore which is developing manufacturing and electrical systems and high-power computing capabilities. Work began on the new, dedicated home for the ATC as part of the Seletar development. The Group opened its new Mechanical Test Operations Centre in Dahlewitz, Germany, during 2010. This centre provides mechanical testing capability for all areas of the Group. Building on the success of its membership of the Advanced Manufacturing Research Centre, the Group continues to increase its focus on advanced manufacturing. In 2010 in the UK, it opened the Advanced Fabrication Research Centre at Strathclyde, Scotland, and the Nuclear Advanced Manufacturing Research Centre project was launched. The Group is also establishing the Commonwealth Centre for Advanced Manufacturing (CCAM) at the Crosspointe Complex in the Commonwealth of Virginia, USA.

In 2010, the Group established the Manufacturing Technology Centre (MTC) in Coventry, UK. MTC will be the largest in the network of Advanced Manufacturing Research Centres when it opens in 2011. Technology programmes in the areas of high integrity joining, intelligent automation, advanced fixturing and net shape powder manufacture have already been launched through MTC partnerships with founder members Rolls-Royce, Airbus and Aero Engine Controls.

Environmental performance

Further improving the environmental performance of the Group's products and operations is a key driver for research and development in Rolls-Royce. During 2010, the Group completed the first build of the Environmentally Friendly Engine, and the second build of the Group's mid-size technology demonstrator engine, E3E was tested successfully in Germany. The E3E two-shaft core demonstrated, amongst other successes, critical operability throughout the flight envelope up to 38,000 ft, for the novel lean-burn combustor.

The European STREAMLINE programme led by Rolls-Royce was launched in 2010. The project includes 22 partners in eight countries and focuses on demonstrating radical new propulsion concepts, aimed at delivering increases in efficiency of at least 15 per cent. The Group achieved notable engineering successes in each of its key business sectors in 2010.

Civil aerospace

In the civil aerospace business, the first Trent XWB engine went to test on schedule in June 2010, running to 100,000 lbs of thrust later in the year. Flight testing of the BR725 for the new Gulfstream G650 progressed well and has now achieved 1000 hours. The Trent 1000 flight test programme for the Boeing 787 continued, although Boeing announced in early 2011 that the entry into service for the aircraft would be further delayed until later in 2011.

There were a number of challenges to the civil aerospace business in 2010. The eruption of a volcano in Iceland in April 2010 resulted in significant disruption to the aviation industry. The Group's engineering team took a leading role and worked in a systematic way to assist the airlines and industry regulators on this issue. Towards the end of 2010, a Trent 900 suffered a high-profile failure on a Qantas A380, which initiated a significant and urgent response from the engineering team in order to return to normal operations.

Marine

In 2010, the marine sector acquired ODIM ASA and the Group has successfully integrated the engineers of this business into the Rolls-Royce engineering community. ODIM's people have a wealth of skills and technological knowledge. The Group anticipates the acquisition will enhance its offshore capability significantly. Marine sold the first offshore vessel with a wave-piercing design (UT 754 WP) for delivery in 2012 and the Dynamic Positioning Release 3 (DP3) successfully passed concept design review.

Defence aerospace

In defence aerospace, the Short Take-Off and Vertical Landing (STOVL) variant of the Lockheed Martin F35 Lightning II, equipped with the Rolls-Royce LiftSystem®, completed a flawless first Hover and Vertical Landing in March 2010. The pace of the F136 engine development programme accelerated significantly during 2010 with six new test engines delivered during the year. Approximately 900 test hours were completed according to plan for the F136 programme in 2010. The programme also continued its successful history of meeting contractual milestones with the first STOVL propulsion system delivered to test, on time.

LibertyWorks® in Indianapolis continues to perform well on the Adaptive Versatile Engine Technology (ADVENT) demonstrator programme; rig testing has demonstrated fan performance as expected and with a favourable stability margin. Work continues in preparation for the core and engine demonstrator phases of the programme.

In 2010, Robinson Helicopter obtained FAA certification for the RR300-powered R66 helicopter and commenced customer deliveries.

Energy

The Group continues to develop its business activities in the civil nuclear market, and it also continued with further investment in nuclear engineers and in infrastructure.

The Group's first tidal stream generator was deployed offshore of the Orkney Islands. A major milestone was reached on 10 November 2010 when the turbine generated 500 kW at full power for the first time at the test site. The turbine is now being operated unrestricted with several periods of fully automatic 24-hour operation and has achieved all requirements to gain a renewable obligation certificate.

Health, safety and environment

The Group is committed to building and maintaining a high reliability organisation; one that delivers consistently high performance across all aspects of health, safety and environmental (HS&E) management. The Group's objective is to achieve world-class levels of HS&E performance throughout its business and to be widely recognised for the excellence of its HS&E performance.

During 2010, the Group conducted a programme of Process Safety audits on its main manufacturing plants and test facilities. The results are being used to further strengthen the Group's approach to assurance over process safety.

The Group operates three sites in the UK which together manufacture, test and support nuclear reactor cores for the Royal Navy's submarines. The Nuclear Propulsion Assurance Committee regularly monitors the performance of both the submarines and the Group's recently formed civil nuclear businesses and seeks evidence that the highest standards of HS&E management are maintained and that fit-for-purpose processes are followed.

The Group's contribution to developing best practice through third party collaboration continues. The Group is taking a leading industry role in Registration, Evaluation, Authorisation and restriction of Chemicals (REACH), the latest EU chemicals regulation, and continues to work with other companies, trade bodies, sectors and regulators on implementation to ensure its continued access to materials necessary for the production and support of the Group's products.

Operational performance

In 2009, the Group declared a new set of global targets for its HS&E performance. The Group made progress against two of its key targets: reducing the Group's Total Reportable Injury (TRI)⁽¹⁾ rate and greenhouse gas (GHG) emissions. The Group's data collection and reporting is subject to independent assurance by Deloitte LLP.

TRI: Following a reduction of 40 per cent in the Group's TRI rate during 2007-09 it set a new target last year to reduce this by a further 50 per cent by 2012 (based on 2009). The Group has reduced its TRI from 0.73 per 100 employees in 2009 to 0.69 in 2010. This represents a five per cent reduction which is slightly behind the Group's interim target. The Group continues to develop global programmes focussed on improving its performance.

GHG: At the end of its last three-year target cycle (2007-09) the Group reported a 38 per cent reduction in energy use (normalised on turnover). In addition, there was an accumulated 36 per cent reduction in absolute GHG emissions in the past decade. During 2010, the Group achieved a further 3 per cent reduction in total Group GHG emissions (including product test and development) moving the Group towards its target of a 10 per cent reduction (normalised) by 2012.

(1) Total Reportable Injuries (TRIs) cover fatalities, lost time injuries, restricted work cases and medical treatment cases.

In absolute terms, GHG emissions for the Group's facilities (excluding product test and development) have remained at the same levels as 2009 compared with the Group's 5 per cent reduction target by 2012.⁽²⁾

Rolls-Royce recognises the need to make cuts in global emissions within its own operations. Individual reduction targets and budgets have been agreed for the Group's top 25 energy consuming sites to enable it to build on previous improvements in energy efficiency.

The Group will continue to work on ways to reduce its reliance on fossil fuels. This includes using more sustainable energy sources, like renewable and other low carbon technologies/materials within the Group's facilities where this is cost effective and practical.

Learning from incidents

In 2010, the Group introduced a new process of notifying serious and high-potential incidents to senior management. High-potential incidents are now required to be reviewed at Chief Operating Officer level within the businesses and functions. This is intended to strengthen the Group's learning from incidents and to prevent their reoccurrence.

Health and wellbeing

Rolls-Royce recognises the association between physical and mental health and the need for its employees to consider their personal wellbeing. A preventative occupational health strategy has been in place since 2005 and supports employee wellbeing and productivity through a series of health promotion initiatives.

Corporate responsibility

Product Responsibility

Product safety is paramount and the highest standards are maintained by the application of a robust safety management system. The Group's role does not stop once the product has been delivered to the customer. Safety and reliability are the Group's highest priorities. The Group continues to drive towards uncompromised levels of safety and reliability through rigorous design processes and by providing expert through-life support.

Rolls-Royce is both committed and well placed to find solutions to the substantial challenges posed by climate change. The Group receives independent expert advice from the Group's Environmental Advisory Board, comprising distinguished academics who are leading authorities in their respective fields, vital to the overall business strategy and design process.

Rolls-Royce believes that technology must be applied on an industrial scale, through companies such as itself with the global reach, to achieve significant reductions in emissions. In 2010 the Group invested £923 million in gross research and development, two-thirds of which was aimed at improving the environmental performance of the Group's products.

The aviation industry has a strong track record of addressing its environmental impact, investing consistently in product technology over the past six decades. Aircraft today are 75 per cent quieter and use 70 per cent less fuel on a passenger-kilometre basis than the earliest jet aircraft. Rolls-Royce is continuing to work on ways to further reduce the effect of aviation.

The Trent 900 and 1000 engines, for the Airbus A380 and Boeing 787 respectively, and in future the Trent XWB for the Airbus A350 XWB, help the Group demonstrate progress towards meeting its Advisory Council for Aeronautics Research in Europe (ACARE) goal of a 15-20 per cent reduction in engine fuel burn by 2020 compared to 2000 levels. The Group also continues to drive for reduction in noise and improvements in air quality.

In the longer term, the Group continues to see open rotor technology as offering a potential step change in performance and it is currently targeting entry into service early in the next decade for this technology. The Group's civil engine product strategy for 2010-2025 means that the Group expects to have engines entering service that, on average, will reduce the fuel burn of aircraft replaced in that 15-year period by at least 15 per cent.

There is widespread interest in the possibility that the aviation industry could replace, at least in part, traditional fuels with biofuel – a synthetic fuel made from bio-mass. Rolls-Royce actively supports, and plays a central part in, the rigorous scientific testing and evaluation of biofuels and the Group supports demonstrations of biofuels where they directly contribute to developing fuel specification criteria, or to the improvement of scientific understanding. However, the Group has to make sure that biofuel achieves the same technical and commercial standards as traditional fuels, and that its production is sustainable (taking account of such factors as impact on biodiversity, water resources, livelihoods, ecosystems and life-cycle CO₂ emissions).

(2) Energy/GHG data for 2010 has been forecast based on data collected during January to October 2010.

Rolls-Royce, as a world leader in marine technology, is well placed to help address the requirement for significantly reduced emissions. The Group's latest generation Azipull thruster technology, which is up to 16 per cent more efficient than conventional marine thrusters, enables ships to use less energy and so reduce emissions. The Group's Bergen lean-burn reciprocating gas engine achieves up to a 90 per cent reduction in oxides of nitrogen, virtually zero emissions of sulphur and a 20 per cent improvement in CO₂ emissions, compared with a conventional diesel engine.

The Group continues to explore opportunities in low emission and alternative energy products and is working in partnership with the UK Energy Technologies Institute. As part of this work programme, a prototype tidal device has been developed and is under test at the European Marine Energy Centre, in the Orkney Islands, Scotland.

The need to drastically cut greenhouse gas emissions, combined with the increasing insecurity of oil supplies, is likely to lead to an expansion of nuclear power over the coming decades. With more than 50 years' experience in designing and supporting pressurised water reactors, the Group is well placed to make a significant contribution to this nuclear renaissance. It has recently established a new civil nuclear business with the aim of serving this growing global power market.

The Group is also leading the development of the Nuclear Advanced Manufacturing Research Centre (NAMRC), as part of the UK's Low Carbon Industrial Strategy.

Suppliers

In 2010, supplier engagement has seen Rolls-Royce leading Global and Regional Supplier Forums which focused on near-term and long-term business improvements. The Group also hosted Regional Supplier Groups, culminating in a Global Best Practice Sharing event aimed at promoting the application of lean techniques across the supply chain.

Society

The Group aims to communicate effectively, protect or enhance local quality of life and be recognised as part of the local community. The Group also recognises that there are significant business benefits for its organisation through community investment. These benefits include recruitment and retention of staff, employee engagement and development of the Group's reputation and brand.

Community investment

The Group has a long-standing commitment to supporting its local communities, focussing on four key areas: education, environment, regeneration and arts and culture. The Group's total contribution in these areas was approximately £5.3 million in 2010, measured using the London Benchmarking Group model.

Donations and sponsorship

The Group's charitable donations amounted to £2.3 million, of which £1.15 million were made in the UK. Rolls-Royce made charitable donations of US\$970,000 in the Americas, €535,000 in Europe and £80,000 in other regions.

A further £1.1 million was contributed in sponsorships including the Smithsonian National Air and Space Museum in North America, the Brandenburg Summer Festival in Germany, and The Big Bang fair for young scientists and engineers in the UK.

Each year the Rolls-Royce Science Prize awards £120,000 in prize money to recognise excellent and innovative science teaching in the UK. The 2010 winner, Teesdale School in Barnard Castle, England, received a total of £20,000 for their project in which pupils developed enrichment devices for primates in zoos.

Employee time

Employee time contributed during 2010 is estimated at a value of over £1.5 million, with more than 4,000 employees participating in activities with societal benefits.

Over 300 employees across the globe took part in 30 community and education outreach projects as part of their personal development during the year. The Group's programme of community projects run by graduate and apprentice trainees was awarded a "Big Tick" by Business in the Community in its Awards for Excellence in 2010 in the category of "Building Stronger Communities".

Employee giving

Rolls-Royce finances the administration of a Payroll Giving Scheme for UK employees, enabling them to make tax-free donations to their chosen charities. During 2010, employees gave almost £460,000 to more than 500 charitable causes. In North America, employees contributed US\$430,000 directly from payroll to good causes through the United Way and Centraide schemes, a percentage of which is matched by the Group.

Insurance

The Group maintains insurance coverage which is mostly negotiated on a Group wide basis, and is partly self-insured through a captive insurance company, Nightingale Insurance Limited (the "Captive"), with operating businesses having limited discretion to take out certain additional cover according to practice in their jurisdictions. The Captive enables the Group to access reinsurance markets to leverage the Group's combined position on the conventional insurance market and to offer funding options for the Group's self-insured retention. Insurances purchased on a Group-wide basis include property damage/business interruption, transit, contractors all risk, crime, aviation products liability (including war and allied perils), non-aviation products and public liability, professional indemnity liability and directors and officers liability. Some examples of insurances purchased on a jurisdiction by jurisdiction basis are employers liability, workers compensation, auto liability, personal accident, employment practices liability and fiduciary or pension trustees liability.

The Group believes that the level of insurance for the Group is in line with industry standard and insurance is purchased only with insurers who meet the Group's minimum security rating of A-.

Employees

Rolls-Royce employs 38,900 people in more than 50 countries. The Group's growing order book and the continuing innovation of the Group's products makes it imperative that it has a skilled workforce that is committed to delivering excellence to customers. To achieve this, the Group seeks to create an inclusive working environment that attracts and retains the best people, enhances their flexibility, capability and motivation, and encourages them to be involved in the ongoing success of the Group.

The Group's workforce is dispersed globally across its business sectors. The table below provides the average number of employees by region and segment for 2008, 2009 and 2010.

Employees by location and segment, 2008-2010

<i>Location:</i>	Headcount		
	2010	2009	2008
United Kingdom	21,000	21,300	22,500
Overseas	17,900	17,200	16,500
Total	38,900	38,500	39,000
<i>Segment:</i>			
Civil aerospace	19,500	19,800	20,900
Defence aerospace	6,900	7,100	7,200
Marine	9,000	8,300	8,000
Energy	3,500	3,300	2,900
Total	38,900	38,500	39,000

Resourcing

In 2010, over 1,250 experienced professionals were recruited to support the growth of the Group's business and, of these, nearly 50 per cent were recruited outside of the UK. During 2010, Rolls-Royce campus teams were active at more than 40 universities in the UK, Europe, Asia and the US, and the Group recruited 222 graduates onto its graduate programmes from 73 universities and 25 nations worldwide.

The Group ranked 26th overall in The Times newspaper's Top 100 UK Graduate Employers of 2010, achieving first position in the Engineering sector. In Singapore, the Group entered Singapore's Top 100 Graduate employers in 21st place.

In 2010, the Group recruited 220 apprentices globally. The Group's apprenticeship programme in the UK was graded as 'Outstanding' by Ofsted.

Learning and career development

Rolls-Royce provides all employees with access to learning that helps them deliver high performance in their current and future jobs. The Group has made significant improvements to the quality of its performance development review activity and in 2011 will continue to focus on developing the right performance culture. The Global Code of Business Ethics, rolled out to managers in 2009, was cascaded to all employees during 2010. A Global Gifts and Hospitality and Commercial Intermediaries policy compliance programme has been provided to all employees as a result of the new UK Bribery Act.

The Group provides over 2,400 learning solutions globally through its online learning system. The catalogue includes several hundred programmes covering health, safety and the environment, diversity, ethics and corporate and management responsibility.

By the end of 2010, employees from 55 countries had accessed the learning system with over 34,000 employees undertaking more than 94,000 days of learning. Of these 86,000 hours consisted of online learning. The Group updated its global leadership development framework in 2010 and partnered with world-class providers to ensure that the Group has a strategically focussed and consistent way of managing its people.

The Group's investment in learning for 2010 was £33 million.

Engaging employees

The Group continues to place great value on giving a voice to its workforce. Employee opinions are obtained via a two-year rolling engagement programme. Improvement activities are then embedded into local and corporate business planning activities. In 2010, the Group conducted its second global engagement survey. Seventy-four per cent of the workforce responded, representing a continuing high level of participation.

Comprehensive feedback has been shared with teams across the Group. The general trend indicates an improvement in overall engagement levels compared to 2009 when the first global survey was undertaken.

Encouraging diversity

The Group is committed to developing a diverse workforce and equal opportunities for all. The Group's global governance framework for diversity includes a senior executive Global Diversity Steering Group which provides leadership and shapes strategic direction.

During 2010, the Group developed a number of programmes to increase self-awareness and promote cross-cultural working. The Group has launched a reverse mentoring programme in 2011, where the Group's most senior executives will be reverse mentored by a colleague who is junior to them in the organisation. The aim is to give senior executives a different perspective from a colleague who can share diverse experiences and ideas.

The Group supports a number of women's networks that focus on personal and professional development as well as providing support through networking.

The Group's policy is to provide, wherever possible, employment training and development opportunities for disabled people. The Group is committed to supporting employees who become disabled during employment and helping disabled employees make the best use of their skills and potential.

PART 7

DIRECTORS AND CORPORATE GOVERNANCE

Directors

The following table lists the names, positions and ages of the directors of Rolls-Royce Group as at the date of this Prospectus:

Executive Directors	Age	Position
Sir John Rose	58	Chief Executive
John Rishton	53	Director and, with effect from 31 March 2011, Chief Executive
James Guyette	65	President and Chief Executive Officer of Rolls-Royce North America Inc.
Andrew Shilston	55	Finance Director
Colin Smith	55	Director – Engineering and Technology
Mike Terrett	54	Chief Operating Officer
Non-executive Directors		
Sir Simon Robertson	70	Non-executive Chairman
Helen Alexander CBE	54	Non-executive Director
Peter Byrom	66	Non-executive Director
Iain C Conn	48	Non-executive Director and Senior Independent Director
Peter Gregson	53	Non-executive Director
John McAdam	62	Non-executive Director
John Neill CBE	63	Non-executive Director
Ian Strachan	67	Non-executive Director

As at the date of this Prospectus, the Directors of Rolls-Royce Holdings are Sir Simon Robertson, Sir John Rose, John Rishton, Andrew Shilston, Mike Terrett and Peter Byrom. Upon his retirement as Chief Executive on 31 March 2011, Sir John Rose will cease to be a director of Rolls-Royce Group and Rolls-Royce Holdings. Prior to Admission but after the date of this Prospectus, the remaining directors of Rolls-Royce Group will be appointed as Directors of Rolls-Royce Holdings on substantially the same terms of appointment as they have with Rolls-Royce Group. The board and corporate governance structure of Rolls-Royce Group will be replicated at Rolls-Royce Holdings prior to Admission.

Sir Simon Robertson (Non-executive Chairman, chairman of the nominations committee)

Sir Simon Robertson was appointed to the Board in 2004. He is the founder member of Simon Robertson Associates LLP and deputy chairman and senior independent director of HSBC Holdings plc. He is a non executive director of Berry Bros & Rudd Limited and The Economist Newspaper Limited. He is a director of The Royal Opera House Covent Garden Limited and a Trustee of The Eden Project and of the Royal Opera House Endowment Fund. He is the former President of Goldman Sachs Europe Limited. He was knighted in the 2010 Queen's Birthday Honours for services to business.

Sir John Rose (Chief Executive, member of the nominations committee)

Sir John Rose was appointed to the Board in 1992, having joined Rolls-Royce in 1984. He has been Chief Executive since 1996 and will retire from the Company at the end of March 2011. He is a Trustee of The Eden Project.

John Rishton (Executive Director and Chief Executive designate)

John Rishton was appointed to the Board in 2007. He served as Chairman of the audit committee and a member of the ethics and nominations committees until 30 September 2010 when the Board announced that he had been appointed to succeed Sir John Rose as Chief Executive. He will take up that role on 31 March 2011. John Rishton is currently Chief Executive Officer of Royal Ahold. He began his career in 1979 at Ford Motor Company and held a variety of positions both in the UK and in Europe. In 1994 he joined British Airways Plc where he was Chief Financial Officer from 2001 to 2005. He is a former non-executive director of Allied Domecq.

James Guyette (President and Chief Executive Officer of Rolls-Royce North America Inc.)

Jim Guyette was appointed to the Board in 1998 having joined Rolls-Royce in 1997. He is a director of the PrivateBank and Trust Company of Chicago, Illinois and of priceline.com Inc and he is Chairman, National Air & Space Museum, Washington D.C. Until 1995 he was Executive Vice President, Marketing and Planning of United Airlines.

Andrew Shilston (Finance Director)

Andrew Shilston was appointed to the Board in 2003 having joined Rolls-Royce in 2002. He was a non-executive director of Cairn Energy PLC until May 2008 and he was Finance Director of Enterprise Oil plc from 1993 until 2002.

Colin Smith (Director – Engineering and Technology)

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

Mike Terrett (Chief Operating Officer)

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

Iain C Conn (Non-executive Director, Senior Independent Director, member of the audit committee and the nominations committee)

Iain Conn was appointed to the Board in 2005. He has been an executive director of BP p.l.c. since 2004 and is Chief Executive of Refining and Marketing, having previously held a range of executive positions within the BP Group worldwide. He is Chairman of the Advisory Board of The Imperial College Business School.

Helen Alexander CBE (Non-executive Director, chairman of the remuneration committee, member of the ethics committee and the nominations committee)

Helen Alexander CBE was appointed to the board in September 2007. She is President of the CBI and Chairman of the Port of London Authority and of Incisive Media. She is a non-executive director and chair of the remuneration committee at Centrica plc and senior adviser to Bain Capital. She was CEO of the Economist Group from 1997 to 2008. She is also chair of the Advisory Council of the Saïd Business School, Oxford; deputy chair of the governors of St Paul's Girls' School and a trustee of the World Wide Web Foundation.

Peter Byrom (Non-executive Director, member of the ethics committee and the nominations committee)

Peter Byrom was appointed to the Board in 1997. He is Chairman of Domino Printing Sciences plc. He is a Fellow of the Royal Aeronautical Society. He was a director of AMEC plc from 2005 to 2011 and of NM Rothschild & Sons Limited from 1977 to 1996.

Peter Gregson (Non-executive Director, member of the remuneration committee and the nominations committee)

Peter Gregson was appointed to the Board in 2007. He is President and Vice-Chancellor of Queen's University Belfast and serves on the Northern Ireland Economic Development Forum, the Council of CBI Northern Ireland and the Steering Group of the US-Ireland Research and Development Partnership. He is a Fellow of the Royal Academy of Engineering, a Member of the Royal Irish Academy and Deputy Lieutenant of Belfast. He was formerly Professor of Aerospace Materials and Deputy Vice-Chancellor of the University of Southampton and has served on the Councils of the Royal Academy of Engineering and the Central Laboratory of the Research Councils.

John McAdam (Non-executive Director, member of the remuneration committee and the nominations committee)

John McAdam was appointed to the Board in 2008. He is Chairman of United Utilities Group PLC and of Rentokil Initial plc, the Senior Independent Director of J Sainsbury plc and a non-executive director of Sara Lee Corporation. He was the Chief Executive of ICI plc until ICI's acquisition by Akzo Nobel.

John Neill CBE (Non-executive Director, member of the audit committee and the nominations committee)

John Neill was appointed to the Board in 2008. He is the Chief Executive of the Unipart Group of Companies. He is a member of the Council and Board of Business in the Community and is a non-executive director of Charter International plc. He is Vice President of the Society of Motor Manufacturers and Traders, BEN, the automotive industry charity and The Institute of the Motor Industry.

Ian Strachan (Non-executive Director, chairman of the ethics committee and the audit committee, member of the nominations committee)

Ian Strachan was appointed to the Board in 2003. He is a non-executive director of Xstrata plc, Transocean Inc and Caithness Petroleum Limited. He is the former Chief Executive of BTR plc, former Deputy Chief Executive and Chief Financial Officer of Rio Tinto plc, former non-executive Chairman of Instinet Group Inc and former non-executive director of Johnson Matthey plc, Commercial Union and Reuters Group plc.

Governance structure

The following description relates to the corporate governance structure which it is intended will be in place for Rolls-Royce Holdings on Admission. With the exception of the retirement of Sir John Rose as the Chief Executive, these arrangements represent the current corporate governance arrangements in place at Rolls-Royce Group.

Sir Simon Robertson, as Chairman of the Board, will be responsible for leadership of the Board and ensuring its effectiveness on all aspects of its role. John Rishton will be the Chief Executive. The division of responsibilities between them will be set down in writing and agreed by the Board. Iain Conn will be the Company's Senior Independent Director. On Admission, it is intended that there will be 13 Directors on the Board, comprising the non-executive Chairman, the Chief Executive, four other Executive Directors and seven Non-executive Directors.

The Board believes that the quality and broad experience of the Directors, the balance of the Board's composition and the dynamics of the Board as a group, will ensure its effectiveness and also prevent any individual or small group dominating its decision making. Each Executive Director has a service contract with Rolls-Royce plc which will continue to govern the terms of his employment. Each Non-executive Director will receive a letter setting out the conditions of his or her appointment (which are broadly the same as those that applied in respect of their appointment to the board of Rolls-Royce Group).

Non-executive Directors are to be appointed for an initial term of three years subject to annual re-election by Rolls-Royce Holdings Shareholders. The initial term may be extended with the agreement of the Board, although an extension is not automatic. Executive Directors are employees who have executive responsibilities in addition to their duties as Directors.

Non-executive Directors are not employees and do not participate in the daily business management of the Group.

Role of the Board

The Board is responsible to all the Company's stakeholders for its conduct and for the performance of the Company. The day-to-day running of the Company is delegated by the Board to the executive team under the leadership of the Chief Executive. The Board retains responsibility for the approval of certain matters which affect the shape and risk profile of the Company, as well as items such as the annual budget and performance targets, the financial statements, payments to shareholders, major capital investments and any substantial change to balance sheet management policy.

The division of responsibilities between the Board and the executive team will be set out in detail in a schedule approved annually by the Board, which also defines those decisions which can only be taken by the Board.

The Board has approved the following statement summarising its core responsibilities:

The primary goal of the Board is to ensure that the Group's strategy creates value for the long-term investor within an acceptable risk profile.

The Board's primary goal and tasks

The primary goal of the Board is to ensure that the Group's strategy creates value within an acceptable risk profile for the long-term investor. In line with its primary goal, the Board's principal tasks are to:

- ensure the development of the Group's strategy and keep it under rigorous review;
- monitor the implementation of the strategy, ensuring that the necessary financial and human resources are in place to deliver it and that effective controls exist to manage risk;
- safeguard the values of the Company, including its brand and corporate reputation and the safety of its products;
- oversee the quality and performance of management and ensure through effective succession planning and remuneration policies that it is maintained at world-class standards; and
- maintain an effective corporate governance framework that aspires to deliver long-term value to shareholders.

Board committees

On Admission, it is intended that the Board will have a number of committees, the principal ones being audit, remuneration, nominations, ethics and risk, the intended composition and functions of which are described below.

Audit committee

The audit committee will consist exclusively of independent Non-executive Directors. Ian Strachan, who has recent and relevant financial experience, will chair the committee. Its other members will be Iain Conn and John Neill CBE. The Director of Risk, Head of Business Assurance, a representative of the external auditors and the General Counsel and Company Secretary will normally attend the meetings. Additionally, the Director of Risk and the Head of Business Assurance have direct access to the committee. The Chairman of the Board, the Chief Executive, the Finance Director and any other Director or senior executive may attend the meetings as necessary, at the invitation of the audit committee chairman.

The committee will have responsibility for recommending the financial statements to the Board and for reviewing the Group's financial reporting and accounting policies, including formal announcements and trading statements relating to the Group's financial performance. It will also be responsible for the relationship with the external auditors and for assessing the role and effectiveness of the internal audit function, which in Rolls-Royce is termed business assurance. In addition, the committee will review the Group's procedures for detecting, monitoring and managing the risk of fraud.

The committee will have responsibility for recommending to the Board the appointment of the external auditors and for reviewing the nature, scope and results of the annual external audit. It will also approve the audit fee and, on an annual basis, assesses the effectiveness and independence of the external auditors. The committee will keep under review the Group's internal controls and systems for assessing and mitigating financial and non-financial risk. It will also review and approve the business assurance work programme and ensure that this function is adequately resourced and coordinated with the work of the external auditors. Twice a year the committee will receive a written report on the reviews conducted throughout the Group by business assurance and reports from senior executives on the key business risks and risk systems in selected sectors.

Nominations committee

Sir Simon Robertson will chair the nominations committee which comprises the Chairman, the Chief Executive and the independent Non-executive Directors and will be attended by the General Counsel and Company Secretary.

The committee will make recommendations to the Board on the appointment of Executive and Non-executive Directors and on the membership of Board committees. It will be assisted in the former task by external recruitment consultants. It will review succession planning generally and also review specific appointments to the Board and to other senior positions within the Group. The committee will also oversee the annual review of board effectiveness.

In carrying out these tasks, the committee will give careful consideration to the balance of skills required on the Board, including the need to reflect diversity, international experience and strong managerial and business skills. Before recommending the appointment of a Non-executive Director to the Board, the committee will satisfy itself that the candidate will have sufficient time available to discharge his or her responsibilities effectively.

Remuneration committee

The remuneration committee will have responsibility for making recommendations to the Board on the Group's policy regarding executive remuneration. The committee will determine, on the Board's behalf, the specific remuneration of the Chairman, the remuneration packages of the Executive Directors and a number of senior executives. The committee will consist exclusively of independent Non-executive Directors. Helen Alexander CBE will chair the committee and Peter Gregson and John McAdam will be members. The committee will review regularly both the competitiveness of the Group's remuneration structure and its effectiveness in incentivising executives to enhance value for shareholders over the longer term.

Ethics committee

The ethics committee will consist exclusively of independent Non-executive Directors. Ian Strachan will chair the committee and its other members will be Helen Alexander CBE and Peter Byrom. The Director of Risk, who has executive responsibility for ethics, will attend the meetings as will the General Counsel and Company Secretary. The Chairman of the Board, the Chief Executive and other executives of the Group may be invited to attend meetings of the committee.

The Board strongly believes that the Group's business should be conducted in a way that reflects the highest ethical standards. The ethics committee of Rolls-Royce Group was originally established in 2008 to oversee the implementation of the Group's global ethics strategy and the management of ethical and reputational risk.

The committee will be responsible for reviewing compliance with the Group's Global Code of Business Ethics (the "Global Code") and will, if appropriate, make recommendations to the Board for changes to the Global Code. The Global Code sets out the principles to be followed by employees when conducting business.

The committee will review recommendations on ethical matters made by external regulatory authorities or other bodies and will be responsible for making recommendations to the Board about whether these should be applied to the Group and, if so, to what extent. It will also have responsibility for monitoring reports on issues raised through the Group's confidential reporting line and for reviewing the results of subsequent investigations.

The committee will ensure that ethical policies and practice are subject to an appropriate level of internal audit and, where necessary, will appoint auditors to conduct an independent external review.

Risk committee

The risk committee will be chaired by the Chief Executive and comprise all of the Executive Directors. It will meet at least twice a year and be attended by all of the sector presidents and the General Counsel and Company Secretary.

The Group has established and implemented a sound risk management structure throughout the business that supports programme execution, informs decision making and, ultimately, underpins better business performance.

The risk committee will have accountability for the system of risk management and report annually to the Board on the policy, process and operation of the risk management system and the principal risks facing the Group, including the treatment plans in place to manage them. The risk committee will have responsibility for implementing the Board's policies on risk and internal control and reviews the results of the risk management process, which operates at all levels of the Group.

Specific committees will have accountability for reviewing certain categories of risk. The financial risk committee will review credit, market or liquidity risks. The ethics committee will review those risks with a significant ethical dimension.

At Rolls-Royce Group level, the risk committee has developed a risk policy which states that risk management is a part of every manager's responsibility and is to be embedded within the day-to-day activity. It is intended that this will continue at the Rolls-Royce Holdings level.

Share dealing code

The Company will adopt, with effect from Admission, a code of securities dealings in relation to the shares which is based on, and is at least as rigorous as, the model code as published in the Listing Rules. The code adopted will apply to the Directors and other relevant employees of the Group.

Conflicts of interest

There are no potential conflicts of interest between any duties owed by the directors of Rolls-Royce Group to Rolls-Royce Group and their private interests or other duties, and there are no potential conflicts of interest between any duties owed by the Directors to the Company and their private interests or other duties.

Corporate governance

The UK Corporate Governance Code

The Board attaches the highest priority to corporate governance, the system by which the Company is directed, managed and controlled in the interests of all its stakeholders. The strength of the Company's corporate values, its reputation and its ability to achieve its objectives are influenced by the effectiveness of its approach towards corporate governance.

In May 2010, the Financial Reporting Council introduced changes to the Combined Code, which will now be known as the UK Corporate Governance Code, to help company boards become more effective and more accountable to their shareholders. Changes include a clearer statement of the board's responsibilities relating to risk, a greater emphasis on the importance of getting the right mix of skills and experience on the board, and a recommendation that all directors of FTSE 350 companies be re-elected annually.

Rolls-Royce Group currently complies with the UK Corporate Governance Code in full. Rolls-Royce Holdings will take the same approach to corporate governance as Rolls-Royce Group and will comply with the UK Corporate Governance Code in full from Admission.

PART 8

HISTORICAL FINANCIAL INFORMATION

The audited consolidated historical financial information of Rolls-Royce Group as of and for the years ended 31 December 2008, 31 December 2009 and 31 December 2010 was published, respectively, in the Annual Reports produced for 2008, 2009 and 2010. Since its incorporation on 10 February 2011, Rolls-Royce Holdings has not commenced operations and has not prepared historical financial information.

Certain historical financial information, in particular in relation to the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 on the Group, has been incorporated by reference into this document. The information provided under Part 2 "Presentation of Financial and Other Information – Incorporation of relevant information by reference" is intended to enable easy identification of specific items of information which have been incorporated by reference into this document.

KPMG Audit Plc, whose address is 15 Canada Square, Canary Wharf, London, E14 5GL, United Kingdom, are the auditors of Rolls-Royce Group and audited the financial statements of Rolls-Royce Group for the years ended 31 December 2008, 31 December 2009 and 31 December 2010. Their reports in respect of the financial statements for each of the three years ended 31 December were unqualified. KPMG Audit Plc is a member of the Institute of Chartered Accountants in England and Wales.

The historical financial information should not be viewed as a likely indicator of future financial performance. See Part 1 "Risk Factors" and Part 9 "Operating and Financial Review" of this document.

Selected consolidated historical financial information on Rolls-Royce Group can be found in the section of this document titled "Summary". You should read the information in the "Summary" section of this document in conjunction with the rest of this document and the information incorporated by reference into this document, and you should not rely solely on selected and summarised information.

PART 9

OPERATING AND FINANCIAL REVIEW

This section should be read in conjunction with the section titled "Presentation of Financial and Other Information", the Group's audited financial statements, which are incorporated by reference into this document, as explained in that section, and the other information set out in this document. This review contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in the sections titled "Risk Factors" and "Presentation of Financial and Other Information – Information regarding forward-looking statements".

A discussion of the financial condition and results of operations of the Group for the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 has been incorporated by reference into this document. The information provided under the section titled "Presentation of Financial and Other Information – Incorporation of relevant information by reference" is intended to enable easy identification of specific items of information which have been incorporated by reference into this document.

PART 10

CURRENT TRADING AND PROSPECTS AND PROFIT FORECAST

The Group's consistent strategy has created a broad and balanced portfolio, and established a strong financial foundation from which to support investment in technology, capability and capacity.

The Group continues to experience strong demand in emerging economies, which is more than mitigating a subdued recovery in some of its traditional markets. The strong order book and balanced portfolio gives the Directors confidence that the Group will double revenues organically over the next decade. The Group continues to have the management and financial capacity to accelerate growth through acquisition and partnership.

The Group expects underlying revenues to grow modestly in 2011. The Group anticipates a slowdown in original equipment revenues in the marine business and to experience the initial impacts of spending cuts by some customers in our defence business. However, this is expected to be more than compensated for by growth in service activities in the civil aerospace and marine businesses.

On 9 March 2011, Rolls-Royce announced that it, in conjunction with Daimler AG, intends to launch a public tender offer for 100 per cent. of the share capital of Tognum AG, a premium supplier of engines, propulsion systems and components for marine, energy, defence and other industrial applications. The public tender offer is intended to be carried out by a 50:50 joint venture company. The proposed joint venture, which is conditional upon the successful takeover of Tognum AG, comprising of Tognum AG and Bergen, the gas and diesel medium-speed engine business of Rolls-Royce, will offer significant advantages to Daimler AG, Rolls-Royce and Tognum AG.

Tognum AG shareholders will be offered €24 per share in cash representing a total consideration of approximately €3.2 billion. This represents a premium of 30 per cent. above the XETRA closing price of Tognum shares on Friday 4 March 2011, the last undisturbed trading day before the transaction was rumoured in the markets, and a premium of around 22 per cent. above the weighted average price of Tognum AG shares over the three months before the announcement of the transaction. Daimler AG holds a 28.4 per cent. stake in Tognum AG which will be tendered into the takeover offer at the offer price.

Profit Forecast

As the Group first stated in its results announcement of 10 February 2011, Group underlying profits in 2011 are expected to see good growth. The Group reiterated this expectation on 9 March 2011 after announcement of the proposed Tognum AG acquisition as described above.

Basis of preparation of the Profit Forecast

The profit forecast set out above (the "Profit Forecast") has been prepared on a basis consistent with the accounting policies of the Group which were applicable for the financial statements for the years ended 31 December 2008, 2009 and 2010 and which will be applicable for the financial statements for the year ending 31 December 2011.

The Profit Forecast was made on the basis of underlying performance. It is based on the unaudited management accounts for February 2011 and a forecast of the results and cash flow for the ten months to 31 December 2011.

The profit forecast is of underlying profit rather than profit before tax because, since transition to IFRS in 2005, the Group has reported a comparable measure of underlying performance on a consistent basis. The principal differences between underlying profit and statutory profit before tax is that underlying profit excludes unrealised losses/gains on revaluation of financial instruments and includes realised losses/gains on financial instruments. The effect of this is to present an 'underlying' profit that adjusts the statutory profit to a figure that reflects the economic impact of the hedging policy.

Tax

The taxation charge represented 24.7 per cent of underlying profit before tax in 2010. The 2011 underlying tax rate is expected to be around 25 per cent.

Assumptions

The Profit Forecast has been prepared on the basis of the following principal assumptions:

Factors outside the influence or control of the Directors

There will be no material changes to general trading and economic conditions.

There will be no changes in exchange rates, interest rates, bases of taxes, legislation or regulatory requirements that would have a significant impact on Rolls-Royce.

There will be no material change in competitive conditions in the industries in which Rolls-Royce operates.

There will be no material industrial disputes or other interruptions to business adversely affecting Rolls-Royce, its suppliers or customers.

There will be no materially adverse or favourable litigation.

There will be no material adverse change in pension fund cost.

Factors within the influence or control of the Directors

There will be no material agreements or contracts entered into which are outside the normal course of business.

There will be no acquisitions and disposals by Rolls-Royce which will have a material impact on its results.

There will be no material changes in accounting policy.

Report on the Profit Forecast

A report from KPMG Audit Plc in respect of the Profit Forecast appears on the following page.

REPORT ON PROFIT FORECAST



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The Directors
Rolls-Royce Holdings plc
65 Buckingham Gate,
London, SW1E 6AT

22 March 2011

Dear Sirs

Rolls-Royce Holdings plc (“the Company”)

We report on the profit forecast comprising underlying profit of Rolls-Royce Holdings plc and its subsidiaries (“the Group”) for the year ending 31 December 2011 (the ‘Profit Forecast’). The Profit Forecast, and the material assumptions upon which it is based, are set out on page 40 of the prospectus issued by the Company dated 22 March 2011. This report is required by paragraph 13.2 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company to prepare the Profit Forecast in accordance with the requirements of the Prospectus Directive Regulation.

It is our responsibility to form an opinion as required by the Prospectus Directive Regulation as to the proper compilation of the Profit Forecast and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of preparation of the Profit Forecast

The Profit Forecast has been prepared on the basis stated on page 40 of the Prospectus and is based on the unaudited management accounts for the two periods ended 5 March 2011 and a forecast to 31 December 2011. The Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Group.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Profit Forecast has been prepared and considering whether the Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Group. Whilst the assumptions upon which the Profit Forecast are based are solely the responsibility of the directors of the Company, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the directors of the Company which, in our opinion, are necessary for a proper understanding of the Profit Forecast have not been disclosed and whether any material assumption made by the directors of the Company appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Profit Forecast has been properly compiled on the basis stated.

Since the Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in the United States of America or other jurisdictions and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices.

Opinion

In our opinion the Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R (2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG Audit Plc

PART 11

CAPITALISATION AND INDEBTEDNESS

Capitalisation and indebtedness

The table below sets out the Company's capitalisation and indebtedness as at 31 December 2010.

	<u>31 December 2010</u>
	£'000
Total current debt	
Guaranteed	—
Secured	—
Unguaranteed/unsecured	717
Total non-current debt (excluding current portion of long-term debt)	
Guaranteed	—
Secured ⁽¹⁾	1
Unguaranteed/unsecured	1,134
Shareholder's equity	
Share capital	374
Legal reserve ⁽²⁾	342
Other reserves ⁽³⁾	3,259
Total	<u><u>5,827</u></u>

(1) Finance lease.

(2) Share premium + capital redemption reserve.

(3) Cash flow hedging reserve + merger reserve + translation reserve + retained earnings.

The following table sets out the Company's net indebtedness as at 31 December 2010.

	<u>31 December 2010</u>
	£'000
Cash	1,647
Cash equivalent	1,212
Trading securities	328
Liquidity	<u>3,187</u>
Current Financial Receivable	—
Current bank debt	(75)
Current portion of non-current debt	—
Other current financial debt ⁽¹⁾	(642)
Current Financial Debt	<u>(717)</u>
Net Current Financial asset	<u>2,470</u>
Non current bank loans	(206)
Bonds issued	(928)
Finance leases	(1)
Non Current Financial Indebtedness	<u>(1,135)</u>
Net financial asset excluding fair value of swaps, hedging, borrowings	1,335
Fair value of swaps, hedging, borrowings	198
Net financial asset including fair value of swaps, hedging, borrowings	<u><u>1,533</u></u>

(1) Bond due in 2011.

Indirect indebtedness comprises financial guarantees given by entities within the Rolls-Royce Group in respect of joint ventures. These guarantees constitute off balance sheet commitments. As at 31 December 2010, indirect indebtedness amounted to £43 million. The Group has no contingent indebtedness.

PART 12

SUMMARY OF THE SCHEME

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 should 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 profits.

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.

Details of the Scheme are set out in the Scheme Circular sent to Rolls-Royce Group Shareholders on 22 March 2011. 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 Shares will commence on 23 May 2011.

1. EFFECTS OF THE SCHEME

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

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

1.2 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 prior to the date of this document and which holds one ordinary share of 20 pence in the share capital of Rolls-Royce plc) and nominal cash balances.

2. 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 Share.

Rolls-Royce ADRs (each representing five Rolls-Royce Group Shares before the Scheme Effective Date) will not be cancelled but will continue after such time. On the Scheme Effective Date, the US Depository will be issued with Rolls-Royce Holdings Shares in lieu of its Rolls-Royce Group 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 Shares.

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

3. 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 the Scheme Circular) 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 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 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 Shares and to admit (subject to the allotment of the Rolls-Royce Holdings Shares and satisfaction of conditions (b) to (d) above, save to the extent such conditions are already satisfied) the Rolls-Royce Holdings 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 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 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 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 the Scheme Circular.

4. 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 the Scheme Circular)). The Rolls-Royce Holdings Reduction of Capital should not have any impact on the market value of the Rolls-Royce Holdings 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.

5. 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.

6. 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 paid 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. Accordingly, the issue of C Shares scheduled for July 2011 shall 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 Rolls-Royce Holdings C Shares following the Scheme Effective Date, unless and until a holder revokes them. For example, if a holder has elected to participate in the CRIP, any Rolls-Royce Holdings C Shares issued to such holder following the Scheme Effective Date will be redeemed for cash and the proceeds reinvested in additional Rolls-Royce Holdings Shares. If a holder wishes to alter or revoke his instruction, he should contact the Registrar, Computershare, at their offices at The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom.

7. 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 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 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 Shares shall be allotted and issued to that shareholder but instead those Rolls-Royce Holdings 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.

Canada

The Rolls-Royce Holdings 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 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.

8. LISTING, DEALINGS, SHARE CERTIFICATES AND SETTLEMENT

Application will be made to the UK Listing Authority for all of the Rolls-Royce Holdings Shares to be admitted to the premium listing segment of the Official List and to the London Stock Exchange for all of the Rolls-Royce Holdings 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 Shares from the Official List. The last day of dealings in Rolls-Royce Group 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 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 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 Shares from the Scheme Effective Date and will continue to be honoured by the US Depository.

Rolls-Royce Holdings Shares can be held in certificated or uncertificated form. Definitive share certificates for the Rolls-Royce Holdings Shares of Rolls-Royce Group Shareholders who held their Rolls-Royce Group 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 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 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 Shares in a CREST account, Rolls-Royce Holdings 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 Shares under the CREST system. Application will be made for the Rolls-Royce Holdings Shares to be admitted to CREST with effect from Admission. Accordingly, settlement of transactions in Rolls-Royce Holdings Shares following Admission may take place within the CREST system. CREST is a voluntary system and holders of Rolls-Royce Holdings Shares who wish to receive and retain share certificates will be able to remove their Rolls-Royce Holdings Shares from the CREST system following the Scheme becoming effective.

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

All instructions, mandates, elections and communication preferences then 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 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.

9. 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 the Scheme Circular.

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 Shares registered in their name at that time.

9.1 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 the Scheme Circular.

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 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 Shares; and
 - (vii) the amendments to the terms of the SIP and the PSP.

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.

9.2 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 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 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 the Scheme Circular.

It is also particularly important for Rolls-Royce Group Shareholders 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.

9.3 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.

9.4 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.

10. 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 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 Shares will be equivalent to the corresponding authorities currently granted to the directors of Rolls-Royce Group.

PART 13

ADDITIONAL INFORMATION

1. INCORPORATION AND SHARE CAPITAL

- 1.1 The Company was incorporated and registered in England and Wales on 10 February 2011 as a private company limited by shares under the Act with the name Rolls-Royce Holdings Limited and with the registered number 7524813.
- 1.2 On 8 March 2011 the Company was re-registered as a public limited company with the name Rolls-Royce Holdings plc and the Articles were adopted.
- 1.3 The Company's registered office and principal place of business is at 65 Buckingham Gate, London SW1E 6AT and its telephone number is +44 20 7222 9020.
- 1.4 The principal laws and legislation under which the Company operates and the Rolls-Royce Holdings Shares have been created are the Act and regulations made thereunder.
- 1.5 The share capital history of the Company is as follows:
- 1.5.1 on incorporation the share capital of the Company was £3.00 divided into 2 Rolls-Royce Holdings Shares of 150 pence each.
- 1.5.2 on 7 March 2011, in accordance with a member's written resolution passed on the same date, the Company issued 50,000 redeemable preference shares of £1 each paid up as to one quarter of their nominal value.
- 1.6 It is anticipated that, prior to the Scheme Effective Date, the following resolutions will be passed by the members of the Company in general meeting:
- 1.6.1 the Directors be authorised, for 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 the resolution is passed to allot new Rolls-Royce Holdings Shares:
- (a) up to a nominal value of £2,850,000,000 as required for the purposes of the Scheme;
 - (b) up to a nominal value of £124,811,895 representing approximately one third of the total issued ordinary share capital of the Company following the Rolls-Royce Holdings Reduction of Capital; and
 - (c) in the case of a rights issue, up to a nominal value of £249,623,790 representing approximately two thirds of the total issued ordinary share capital of the Company following the Rolls-Royce Holdings Reduction of Capital,
- and each authority in this paragraph 1.6.1 shall be additional to, and without prejudice to, any other authority in this paragraph 1.6.1 and the unexercised portion of any other authorities and powers granted to the Directors.
- 1.6.2 the Directors be authorised for a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the annual general meeting of the Company or 18 months after the date on which the resolution is passed to allot Rolls-Royce Holdings Shares otherwise than to the holders of Rolls-Royce Holdings Shares in proportion to their existing holdings and to the holders of other equity securities if required by the rights of those securities or, if the Board considers it necessary, as permitted by the rights of those securities up to a nominal value of £18,721,784 (on the basis that the Rolls-Royce Holdings Reduction of Capital becomes effective).
- 1.6.3 the Company be generally and unconditionally authorised to make market purchases (within the meaning of Section 693(4) of the Act) of its shares, subject to the following conditions:
- (a) the maximum aggregate number of Rolls-Royce Holdings Shares authorised to be purchased is 187,217,843, representing 10 per cent. of the Company's issued ordinary share capital immediately following Admission;
 - (b) the minimum price (exclusive of expenses) which may be paid for a Rolls-Royce Holdings Share is 20 pence (being the nominal value of a Rolls-Royce Holdings Share following the Rolls-Royce Holdings Reduction of Capital);

- (c) the maximum price (exclusive of expenses) which may be paid for each Rolls-Royce Holdings Share is the higher of:
 - (i) an amount equal to 105 per cent. of the average of the middle market quotations for the Rolls-Royce Holdings Shares as derived from the London Stock Exchange 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 a Rolls-Royce Holdings Share and the highest current independent bid for a Rolls-Royce Holdings 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.

1.6.4 the Company be authorised in accordance with the Articles to call general meetings on 14 clear days' notice.

1.6.5 the Directors of the Company be 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 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 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 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 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.

1.6.6 the Company and any company which is or becomes its subsidiary during the period in which the authority remains valid be 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 a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the annual general meeting of the Company or 18 months after the date on which the 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.

1.7 Immediately prior to the publication of this document, the issued share capital of the Company was £50,003, comprising two Rolls-Royce Holdings Shares of 150 pence each, (both of which were fully paid or credited as fully paid) and 50,000 redeemable preference shares of £1 each (all of which are paid up to one quarter of their nominal value).

- 1.8 Save as disclosed above and in paragraphs 3 and 4 below:
- 1.8.1 no share or loan capital of the Company has, within three years of the date of this document, been issued or agreed to be issued, or is now proposed to be issued, fully or partly paid, either for cash or for a consideration other than cash, to any person;
- 1.8.2 no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of any such company; and
- 1.8.3 no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.
- 1.9 The Company will be subject to the continuing obligations of the FSA with regard to the issue of shares for cash. The provisions of section 561(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Act) apply to the issue of shares in the capital of the Company except to the extent such provisions have been disapplied as referred to in paragraph 1.6.2 above.

2. MEMORANDUM AND ARTICLES OF ASSOCIATION

The Articles are available for inspection at the address specified in paragraph 23 of this Part 13 "Additional Information – Documents available for inspection".

The Articles include provisions to the following effect:

2.1 Share rights

Subject to the provisions of the Act, and without prejudice to any rights attached to any existing shares or class of shares, any share may be issued with such rights or restrictions as the Company may by ordinary resolution determine or, subject to and in default of such determination, as the Board shall determine.

The Board may issue shares which are to be redeemed or are liable to be redeemed at the option of the Company or the holder. Subject to the Articles and to the Act, the unissued shares of the Company (whether forming part of the original or any increased capital) are at the disposal of the Board.

The Company may form non-cumulative redeemable preference shares of 0.1 pence each ("Rolls-Royce Holdings C Shares"). The Company shall have the right as often as the Board considers appropriate to offer to redeem (at their nominal value of 0.1 pence and together with any accrued and unpaid C preferential dividends thereon) any or all of the Rolls-Royce Holdings C Shares allotted or in issue. In addition, the Company may redeem all of the Rolls-Royce Holdings C Shares in issue (whether or not with the consent of the holders of the Rolls-Royce Holdings C Shares) for their nominal value of 0.1 pence each together with any accrued but unpaid dividends thereon, if at any time: (i) the aggregate number of Rolls-Royce Holdings C Shares in issue is less than 10 per cent. of the aggregate number of Rolls-Royce Holdings C Shares in issue on and prior to that time; or (ii) the Board determines that in connection with a capital restructuring of the Company, the insertion of a new holding company above the Company or an acquisition by or merger of the Company, it is in the best interests of the Company, to redeem all the Rolls-Royce Holdings C Shares in issue.

One special rights non-voting share of £1 in the capital of the Company (the "New Special Share") may only be issued to, held by and transferred to the Secretary of State for Business, Innovation and Skills (or the Secretary of State for any ministry that succeeds the Department for Business, Innovation and Skills), a Minister of the Crown or any person acting on behalf of the Crown. Where there is any amendment, or removal, or alteration to the Articles which constitutes a variation of the rights attaching to the New Special Share, such amendment, or removal, or alteration shall only be effective with the consent in writing of the holder of the New Special Share. The board shall not exercise its powers to make, amongst other things, any disposal of the Nuclear Business of the Company without the consent in writing of the holder of the New Special Share.

2.2 Voting rights

Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at any general meeting unless all moneys presently payable by him in respect of shares in the Company have been paid.

If at any time the Board is satisfied that any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under section 793 of the Act and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made

a statement which is false or inadequate in a material particular, then the board may, in its absolute discretion at any time thereafter by notice to such member direct that, in respect of the shares in relation to which the default occurred, the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

The holders of the Rolls-Royce Holdings C Shares shall not be entitled in respect of their holdings of such shares to receive notice of any general meeting of the Company or to attend, speak or vote at any such general meeting except any general meeting at which a resolution to wind up the Company is to be considered, in which case the holders of the Rolls-Royce Holdings C Shares shall have the right to attend the general meeting and shall be entitled to speak and vote only on such resolution.

The holder of the New Special Share shall be entitled to receive notice of and to attend and speak at any general meeting or any meeting of any class of shareholders of the Company but the New Special Share shall carry no right to vote nor any other rights at any such meeting.

2.3 Payments to shareholders and other distributions

Rolls-Royce Holdings is expected to make payments to shareholders in the form of C Shares by way of return of capital rather than pay cash dividends. The holders of the Rolls-Royce Holdings C Shares shall be entitled to, in priority to any payment of a dividend to the holders of ordinary shares, to be paid a non-cumulative preferential dividend, such dividend to be paid half-yearly in arrears. As was the case in relation to Rolls-Royce Group C Shares, the holders of Rolls-Royce Holdings C Shares may, during any redemption period stipulated by the Company, elect to redeem C Shares at their nominal value of 0.1 pence plus any accrued and unpaid dividends thereon. Such Rolls-Royce Holdings C Shareholders may also elect to reinvest the cash proceeds of the C Share redemption in Rolls-Royce Holdings Shares through the Company's C Share Reinvestment Plan ("CRIP").

Holders of Rolls-Royce Holdings C Shares who do not elect to redeem their C Shares will continue to hold such C Shares subject to the terms of the Articles.

All redemption amounts which are unclaimed for a period of 12 years from the date when the redemption became due for payment shall be forfeited and shall revert to the Company.

However, Rolls-Royce Holdings may pay cash dividends at some point in the future if the Board decides it is in the best interests of Rolls-Royce Holdings. In such event, and subject to the provisions of the Act, the Company may by ordinary resolution declare dividends in accordance with the respective rights of the members, but no dividend shall exceed the amount recommended by the Board. Except as otherwise provided by the rights attached to shares, all dividends shall be declared and paid according to the amounts paid up on the shares on which the dividend is paid, but no amount paid on a share in advance of the date on which a call is payable shall be treated for these purposes as paid on the share.

Subject to the provisions of the Act, the Board may pay interim dividends if it appears to the Board that they are justified by the profits of the Company available for distribution.

The Board may also pay, at intervals determined by it, any dividend payable at a fixed rate if it appears to the Board that the profits available for distribution justify the payment. If the Board acts in good faith it shall not incur any liability to the holders of shares conferring preferred rights for any loss they may suffer by the lawful payment of an interim dividend on any shares having deferred or non-preferred rights.

No dividend or other moneys payable in respect of a share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

The Board may, if authorised by an ordinary resolution of the Company, offer any holder of shares the right to elect to receive shares, credited as fully paid, by way of scrip dividend instead of cash in respect of the whole (or some part, to be determined by the Board) of all or any dividend.

Any dividend which has remained unclaimed for 12 years from the date when it became due for payment shall, if the Board so resolves, be forfeited and cease to remain owing by the Company.

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under general law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings. A liquidator may, with the sanction of a special resolution and any other sanction required by the Insolvency Act 1986, divide among the members in specie the whole or any part of the assets of the Company and may, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members.

2.4 Variation of rights

Rights attached to any class of shares (other than rights attaching to the New Special Share which may only be removed, amended or altered with the consent on writing of the Special Shareholder or unless otherwise provided by the terms of the allotment of the shares of that class) may be varied or abrogated with the written consent of the holders of three quarters in nominal value of the issued shares of the class, or the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

2.5 Lien and forfeiture

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. The Company may sell, in such manner as the Board determines, any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 clear days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Board may from time to time make calls on the members in respect of any moneys unpaid on their shares. Each member shall (subject to receiving at least 14 clear days' notice) pay to the Company the amount called on his shares. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the board may give the person from whom it is due not less than 14 clear days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

2.6 Transfer of shares

A member may transfer all or any of his certificated shares by an instrument of transfer in any usual form or in any other form which the Board may approve. An instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer:

- 2.6.1 is lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
- 2.6.2 is in respect of one class of share only; and
- 2.6.3 is in favour of not more than four transferees.

If the Board refuses to register a transfer of a share in certificated form, it shall send the transferee notice of its refusal within two months after the date on which the instrument of transfer was lodged at the Transfer Office, being the place where the register of members is situate for the time being.

No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to a share.

Subject to the provisions of the Regulations, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

2.7 United Kingdom control

It is a cardinal principle that the Company should be and remain under United Kingdom control. The Articles support this principle by imposing a limit on the percentage of the issued share capital of the Company in which a Foreign Person may be interested. Where the aggregate number of Foreign-held Shares in which any Foreign Person is interested is equal to or more than the Individual Foreign Shareholding Limit, the Company shall serve a notice on such Foreign Person requiring them to dispose of such shares as is necessary such that they no longer hold an interest in Foreign-held Shares equal to or more than the Individual Foreign Shareholding Limit.

"Corporation under Foreign Control" means any corporation (other than a Foreign Corporation, as defined below): (a) of which one third or more of the directors (or persons occupying the position of directors by whatever name called) are Foreign Individuals or Foreign Corporations or are accustomed to act in accordance with the suggestions, instructions or directions of Foreign Individuals or Foreign Corporations, each as defined below; and (b) of which shares carrying more than 30 per cent. of the votes which are ordinarily eligible to be cast on a poll at general meetings of the corporation are for the time being held by Foreign Individuals or Foreign Corporations.

“Foreign-held Share” means any share in which a Foreign Person is interested.

“Foreign Corporation” means (a) any corporation other than a corporation which is incorporated under the laws of any part of, and which has its principal place of business and central management and control in, the United Kingdom; (b) a government or government department or government agency or body other than of the United Kingdom or any part thereof; and (c) any municipal, local, statutory or other authority or any undertaking or body established in any country other than the United Kingdom.

“Foreign Individual” means any individual who is not a British citizen, a British Dependent Territories citizen or a British Overseas citizen by virtue of the British Nationality Act 1981.

“Foreign Person” means a Foreign Individual, a Foreign Corporation or a Corporation under Foreign Control.

“Individual Foreign Shareholding Limit” means 15 per cent. of the aggregate of the votes attaching:

- (i) to share capital of all classes (taken as a whole) of shares and capable of being cast on a poll; and
- (ii) to any other shares in respect of which the board has made a determination under the Articles that, whilst the share only carries a right to vote on a poll at general meetings of the Company only in specified circumstances does not carry a present right to vote at any general meeting of the Company, it still constitutes a Foreign-held share.

2.8 Alteration of share capital

The Company may by ordinary resolution increase, consolidate or, subject to the Act, sub-divide its share capital.

2.9 Purchase of own shares

Subject to the Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price (whether at par or above or below par).

2.10 General meetings

The Board shall convene and the Company shall hold general meetings as annual general meetings in accordance with the requirements of the Act. The Board may call general meetings whenever and at such times and places as it shall determine.

2.11 Directors

2.11.1 Appointment of Directors

Unless otherwise determined by ordinary resolution, the number of Directors shall be not less than two nor more than 20 in number. Directors may be appointed by ordinary resolution of Shareholders or by the Board.

2.11.2 Nationality of Directors

No person may be appointed to the office of chief executive or chairman unless he is a British citizen, a US citizen or an EU citizen.

Where the chief executive is a British citizen, no person may be appointed to the office of chairman unless he is a British citizen, an EU citizen or a US citizen; and

Where the chief executive is an EU citizen or a US citizen, no person may be appointed to the office of chairman unless he is a British citizen.

No person may be appointed to the office of director of the Company if, immediately following such appointment, the number of the directors of the Company who are not British citizens would exceed one half of the total number of the directors of the Company for the time being.

2.11.3 No share qualification

A Director shall not be required to hold any shares in the capital of the Company in order to qualify as a director of the Company.

2.11.4 *Retirement of Directors*

At every annual general meeting all the Directors at the date of the notice convening the annual general meeting shall retire from office. A retiring Director shall be eligible for re-election.

2.11.5 *Remuneration of Directors*

The emoluments of any Director holding executive office for his services as such shall be determined by the Board, and may be of any description.

The ordinary remuneration of the Directors for their services shall not exceed such maximum as the Company may from time to time by ordinary resolution determine. Such remuneration shall (unless any such resolution otherwise provides) be divisible among the directors as they may agree or, failing agreement, equally (except that any director who shall hold office for part only of the period in respect of which such remuneration is payable shall be entitled only to rank in such division for a proportion of remuneration related to the period during which he has held office).

In addition to any remuneration to which the Directors are entitled under the Articles, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

The Board may provide benefits, whether by the payment of gratuities or pensions or by insurance or otherwise, for any past or present Director or employee of the Company or any of its subsidiary undertakings or any body corporate associated with, or any business acquired by, any of them, and for any member of his family or any person who is or was dependent on him.

2.11.6 *Permitted interests of Directors*

Subject to the provisions of the Act, and provided that he has disclosed to the Board the nature and extent of any material interest of his (unless the circumstances referred to in section 177(5) or section 177(6) of the Act apply, in which case no such disclosure is required), a Director notwithstanding his office:

- 2.11.6.1 may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;
- 2.11.6.2 may act by himself or for his firm in a professional capacity for the Company (otherwise than as auditor), and he or his firm shall be entitled to remuneration for professional services as if he were not a Director;
- 2.11.6.3 may be a director or other officer of, or employed by, or a party to any transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is (directly or indirectly) interested as a shareholder or otherwise or with which he has such relationship at the request or direction of the Company; and
- 2.11.6.4 shall not, by reason of his office, be accountable to the Company for any remuneration or other benefit which he derives from any such office or employment or from any such transaction or arrangement or from any interest in any such body corporate the acceptance, entry into or existence of which has been approved by the Board pursuant to Article 141 of the Articles or which he is permitted to hold or enter into by virtue of paragraph 2.11.6.1, 2.11.6.2 or 2.11.6.3.

2.11.7 *Restrictions on voting*

A Director shall not vote on any resolution of the Board or a committee of the Board concerning a matter in which he has an interest (other than by virtue of his interests in shares or debentures or other securities of, or otherwise in or through, the Company) which can reasonably be regarded as likely to give rise to a conflict with the interests of the Company, unless his interest arises only because the resolution concerns one or more of the following matters:

- 2.11.7.1 the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by him or any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
- 2.11.7.2 the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the Director has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;

- 2.11.7.3 a contract, arrangement, transaction or proposal concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer he is or may be entitled to participate as a holder of securities or in the underwriting or sub-underwriting of which he is to participate;
- 2.11.7.4 a contract, arrangement, transaction or proposal concerning any other body corporate in which he or any person connected with him is interested, directly or indirectly, and whether as an officer, shareholder, creditor or otherwise, if he and any persons connected with him do not to his knowledge hold an interest (as that term is used in sections 820 to 825 of the Act) representing 1 per cent. or more of either any class of the equity share capital (excluding any shares of that class held as treasury shares) of such body corporate (or any other body corporate through which his interest is derived) or of the voting rights available to members of the relevant body corporate (any such interest being deemed for the purpose of this Article to be likely to give rise to a conflict with the interests of the Company in all circumstances);
- 2.11.7.5 a contract, arrangement, transaction or proposal for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and
- 2.11.7.6 a contract, arrangement, transaction or proposal concerning any insurance which the Company is empowered to purchase or maintain for, or for the benefit of, any Directors or for persons who include Directors.

2.11.8 *Borrowing powers*

The Board may exercise all the powers of the Company to borrow money, to guarantee, to indemnify, to mortgage or charge its undertaking, property, assets (present and future) and uncalled capital, and to issue debentures and other securities whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. The Board shall restrict the borrowings of the Company and exercise all voting rights and other rights or powers of control exercisable by the Company in relation to its subsidiary undertakings (if any) so as to secure (so far as regards subsidiary undertakings as by such exercise they can secure) that the aggregate amount for the time being remaining outstanding of all money borrowed by the Group (which expression in this Article means the Company and its subsidiary undertakings for the time being) and for the time being owing to persons other than the Company and its wholly owned subsidiary undertakings shall not, without the sanction of the Company in general meeting, exceed an amount of three thousand million pounds, net of cash beneficially owned by the Company or any of its subsidiary undertakings.

2.11.9 *Indemnity of officers*

Subject to the provisions of the Act, but without prejudice to any indemnity to which the person concerned may otherwise be entitled, every Director or other officer of the Company (other than any person (whether an officer or not) engaged by the Company as auditor) shall be indemnified out of the assets of the Company against any liability incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company, provided that this Article shall be deemed not to provide for, or entitle any such person to, indemnification to the extent that it would cause this Article, or any element of it, to be treated as void under the Act.

3. DIRECTORS' INTERESTS

3.1 On the Scheme becoming effective, assuming that no further Rolls-Royce Group Shares have been purchased by them or issued after 21 March 2011 (being the latest practicable date prior to the publication of this Prospectus), the Directors will have the following beneficial interests in Rolls-Royce Holdings Shares by virtue of the effect of the Scheme on their Rolls-Royce Group Shares. These figures do not include any interests the Directors may have as a result of their participation in the Rolls-Royce Group Share Plans.

<u>Director</u>	<u>Number of Rolls-Royce Group Shares</u>	<u>Number of Rolls-Royce Group C Shares</u>	<u>Number of Rolls-Royce Holdings Shares</u>	<u>Percentage of issued share capital of Rolls-Royce Holdings</u>
Helen Alexander CBE	1,071	68,544	1,071	0.0001
Peter Byrom	220,114	—	220,114	0.0118
Iain C Conn	18,554	—	18,554	0.0010
Peter Gregson	3,621	—	3,621	0.0002
James Guyette	391,653	—	391,653	0.0209
John McAdam	1,236	183,649	1,236	0.0001
John Neill CBE	25,081	350,100	25,081	0.0013
John Rishton	9,546	—	9,546	0.0005
Sir Simon Robertson	41,264	—	41,264	0.0020
Sir John Rose	1,067,798	—	1,067,798	0.0570
Andrew Shilston	604,450	—	604,450	0.0323
Colin Smith	228,629	—	228,629	0.0122
Ian Strachan	11,500	—	11,500	0.0006
Mike Terrett	499,883	—	499,883	0.0267

In addition to their having an interest in Rolls-Royce Group Shares as detailed above, certain of the Directors also have interests in Rolls-Royce Group Shares as at 21 March 2011 as a result of their participation in the Rolls-Royce Group Share Plans. These interests were as follows as at 21 March 2011 (being the latest practicable date prior to the publication of this Prospectus). Upon the Scheme becoming effective, all share awards and options over Rolls-Royce Group Shares will be exchanged for equivalent awards or options, as applicable, over Rolls-Royce Holdings Shares.

Partnership shares held in trust under the SIP⁽¹⁾

<u>Director</u>	<u>Number of Rolls-Royce Group Shares</u>	<u>Number of Rolls-Royce Group C Shares</u>
Sir John Rose	1,704	—
Andrew Shilston	1,703	463,476
Colin Smith	1,704	463,592
Mike Terrett	1,703	463,235

Free shares held in trust under the SIP⁽¹⁾

<u>Director</u>	<u>Number of Rolls-Royce Group Shares</u>	<u>Number of Rolls-Royce Group C Shares</u>
Andrew Shilston	3,381	1,055,552
Colin Smith	3,381	1,055,552

Unrestricted shares held under the SIP⁽¹⁾

<u>Director</u>	<u>Number of Rolls-Royce Group Shares</u>	<u>Number of Rolls-Royce Group C Shares</u>
Sir John Rose	9,727	—
Andrew Shilston	6,288	46,573
Colin Smith	4,066	45,923
Mike Terrett	4,275	46,509

- (1) Under the SIP 'Free shares' and 'Partnership shares' held in trust for more than five years are classified as "Unrestricted" and are no longer subject to income tax or national insurance contributions on withdrawal. 'Unrestricted shares' can be held in Trust under the SIP for as long as the participant remains an employee of the Group.

Share options under the ShareSave Schemes

<u>Director</u>	<u>Plan</u>	<u>Number of options for Rolls-Royce Group Shares</u>	<u>Exercise price</u>	<u>Exercisable dates</u>
Colin Smith	ShareSave	1,233	298p	2011

Share awards granted under the APRA plan⁽¹⁾

<u>Director</u>	<u>Number of Rolls-Royce Group Share awards</u>
James Guyette	51,867
Sir John Rose	123,266
Andrew Shilston	65,338
Colin Smith	44,677
Mike Terrett	59,682

- (1) Under APRA, shares vest after two years. Shares went into trust in 2010 and 2011 at prices of 537.20p and 601.00p respectively.

Conditional awards granted under the PSP⁽¹⁾

<u>Director</u>	<u>Number of Rolls-Royce Group share awards</u>	<u>Performance period</u>	<u>Date of grant</u>	<u>Market price at date of grant</u>
James Guyette	207,845	1/1/09 – 31/12/11	10/3/2009	260.42p
	91,383	1/1/10 – 31/12/12	1/3/2010	544.70p
	82,404	1/1/11 – 31/12/13	9/3/2011	601.50p
	381,632			
John Rishton	174,564	1/1/11 – 31/12/13	9/3/2011	601.50p
	391,675	1/1/09 – 31/12/11	10/3/2009	260.42p
Sir John Rose	191,005	1/1/10 – 31/12/12	1/3/2010	544.70p
	582,680			
Andrew Shilston	211,198	1/1/09 – 31/12/11	10/3/2009	260.42p
	102,993	1/1/10 – 31/12/12	1/3/2010	544.70p
	97,091	1/1/11 – 31/12/13	9/3/2011	601.50p
	411,282			
Colin Smith	148,319	1/1/09 – 31/12/11	10/3/2009	260.42p
	78,025	1/1/10 – 31/12/12	1/3/2010	544.70p
	74,813	1/1/11 – 31/12/13	9/3/2011	601.50p
	301,157			
Mike Terrett	191,998	1/1/09 – 31/12/11	10/3/2009	260.42p
	93,630	1/1/10 – 31/12/12	1/3/2010	544.70p
	91,438	1/1/11 – 31/12/13	9/3/2011	601.50p
	377,066			

- (1) The number of Rolls-Royce Group Shares released will be dependent upon the achievement of the EPS and CPS targets over the three-year performance period. For the 2009 and 2010 grants, if Rolls-Royce Group's TSR is above the median of the FTSE 100 index, the number of shares due to be released to an executive will be increased by between 25 per cent and 50 per cent. This increase is on a straight-line basis between the median and upper-quartile TSR performance in the performance period.

John Rishton, on joining the Group, received a special grant of shares in Rolls-Royce Group at 601.50 pence per share intended to mirror the fair value and vesting profile of the incentives forfeited on resigning from his previous employer, attributed 56 per cent. to performance and 44 per cent. to restricted shares by fair value. These proportions mirror his previous arrangements as detailed below:

<u>Executive Director</u>	<u>Performance related shares</u>	<u>Restricted shares</u>	<u>Total</u>
John Rishton	229,426	202,162	431,588

- 3.2 As at the date of this Prospectus, Rolls-Royce Holdings has no shareholders other than Andrew Shilston (one ordinary share of 150 pence), Tim Rayner (one ordinary share of 150 pence) and Shield Trust Limited (50,000 redeemable preference shares of £1). In so far as is known to the Directors, they are aware of the following interests (within the meaning of Part VI of the Act) (other than interests held by the Directors) which represent, directly or indirectly, 3 per cent. or more of the issued share capital of Rolls-Royce Group on 21 March 2011 (the latest practicable date prior to printing of this document) and which represents the expected principal shareholders in Rolls-Royce Holdings on Admission:

<u>Shareholders</u>	<u>Number of shares held</u>	<u>Percentage of existing issued share capital</u>
AXA S.A.	90,871,211	4.90
BlackRock Inc.	92,993,652	5.02
Invesco Limited	125,903,328	6.91
Legal & General Group plc	73,488,129	3.96

Save as disclosed above, in so far as is known to the Directors, there is no other person who is or will be immediately following Admission, directly or indirectly, interested in 3 per cent. or more of the issued share capital of the Company, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over the Company. The Directors have no knowledge of any arrangements the operation of which may at a subsequent date result in a change of control of the Company. None of the Company's major shareholders have or will have different voting rights attached to the shares they hold in the Company.

- 3.3 Neither any Director nor any 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 the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

- 3.4 There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the Directors or any of the directors of Rolls-Royce Group.

4. DIRECTORS' TERMS OF EMPLOYMENT

- 4.1 The Directors and their functions are set out in Part 7 "Directors and Corporate Governance". The terms of their employment and/or appointment which will apply from Admission are set out below.

It is expected that the remuneration committee of Rolls-Royce Holdings will adopt the same policy in respect of Executive Directors' terms of employment as the current remuneration committee of Rolls-Royce Group.

4.2 Executive Directors

The Rolls-Royce Group remuneration committee's policy is that Executive Directors appointed to the Board are offered notice periods of 12 months. The remuneration committee has in the past recognised, and intends to continue to recognise, that in the case of appointments to the Board from outside the Group, it may be necessary to offer a longer initial notice period, which would subsequently reduce to 12 months after that initial period. The remuneration committee has previously defined a policy, which it intends to continue, on compensation and mitigation to be applied in the event of a UK-based Director's contract being terminated prematurely. In these circumstances, steps are taken to ensure that poor performance is not rewarded. When calculating termination payments, the remuneration committee has previously taken and will continue to take into account a range of factors including the Director's obligation to mitigate his or her own loss.

Executive Directors and senior executives are entitled to a company car or car allowance, private medical insurance and financial counselling. James Guyette is entitled to a housing allowance and the costs of additional housing are met for Mike Terrett.

The following table summarises the terms of the service contracts of the Executive Directors, which, with the exception of Sir John Rose, will continue to govern their employment following Admission.

	<u>Date of contract</u>	<u>Unexpired terms</u>	<u>Notice period (Company)</u>	<u>Notice period (Director)</u>
James Guyette	27 September 1997 ⁽¹⁾	Indefinite	30 days ⁽²⁾	30 days
John Rishton	10 March 2011 ⁽³⁾	12 months	12 months	6 months
Sir John Rose	4 December 1992 ⁽⁴⁾	12 months	12 months	6 months
Andrew Shilston	5 November 2002 ⁽⁵⁾	12 months	12 months	6 months
Colin Smith	1 July 2005	12 months	12 months	6 months
Mike Terrett	31 July 2007 ⁽⁶⁾	12 months	12 months	6 months

(1) Effective from 1 October 1997.

(2) James Guyette has a contract with Rolls-Royce North America Inc. drawn up under the laws of the State of Virginia, US. It provides that, on termination without cause, he is entitled to 12 months' severance pay without mitigation and, in addition, appropriate relocation costs.

(3) Effective from 1 March 2011.

(4) Effective from 1 January 1992.

(5) Effective from 8 November 2002.

(6) Effective from 1 September 2007.

No compensation payment will be made to Sir John Rose on his retirement from the board of directors of Rolls-Royce Group on March 31, 2011. He will receive the deferred elements of his 2009 and 2010 bonuses. He will also retain an interest in the 2009 and 2010 PSP grants. To the extent the performance conditions are satisfied at the end of each three year performance period (ie December 31, 2011 in relation to the 2009 grant and December 31, 2012 in relation to the 2010 grant) he will be entitled to shares, prorated to his service in that performance period.

John Rishton was appointed as an Executive Director with effect from 1 March 2011 and will be appointed as Chief Executive with effect from March 31, 2011 under similar terms and conditions as Sir John Rose. He will be entitled to a base salary of £875,000 and a maximum bonus entitlement of 135 per cent of his base salary which may be increased by 20 per cent to reflect exceptional personal performance. He will also be eligible to receive an annual grant of performance shares under the PSP which would equate to a maximum of 120 per cent of his base salary. The proportion of these shares released after a three year performance period will depend on the extent to which profit, cash and TSR performance conditions are met.

John Rishton will also receive pension and other benefits consistent with standard Rolls-Royce terms and conditions for senior executives. He will be entitled to 12 months notice of termination and required to give six months notice to Rolls-Royce plc. The contract includes mitigation provisions in the event of early termination by Rolls-Royce plc. In addition to his remuneration package he will, on joining Rolls-Royce plc, receive a special grant of shares in Rolls-Royce plc intended to mirror the fair value and vesting profile of the incentives forfeited on resigning from his current employer. The fair value of these shares was assessed as £2.8 million, attributed 56 per cent to performance and 44 per cent to restricted shares. These proportions mirror his existing arrangements.

4.3 Non-executive Directors

The remuneration committee will determine, on behalf of the Board, the remuneration of the Chairman. The Board determines the remuneration of the other Non-executive Directors.

The Chairman and the Non-executive Directors will have letters of appointment rather than service contracts. No compensation will be payable to the Chairman or to any Non-executive Director if their appointment is terminated early.

The following table summarises the terms of appointment of the non-executive directors of Rolls-Royce Group. The directors of Rolls-Royce Group below who are not currently directors of Rolls-Royce Holdings will be appointed prior to Admission on substantially the same terms as are currently in place with respect to their appointments to the board of Rolls-Royce Group.

	<u>Appointment date</u>	<u>Current letter of appointment start date</u>	<u>Current letter of appointment end date</u>
Helen Alexander CBE	1 September 2007	1 September 2010	31 August 2013
Peter Byrom	1 January 1997	1 January 2011	31 December 2011
Iain C Conn	20 January 2005	20 January 2011	19 January 2014
Peter Gregson	1 March 2007	1 March 2010	1 March 2013
John McAdam	19 February 2008	19 February 2011	18 February 2014
John Neill CBE	13 November 2008	13 November 2008	12 November 2011
Sir Simon Robertson	1 January 2005	1 January 2011	31 December 2013
Ian Strachan	19 September 2003	19 September 2009	18 September 2012

The Board will take account of independent market surveys in determining the fees payable to the Chairman and the Non-executive Directors.

The fees payable to the Non-executive Directors will be reviewed periodically by the Board. The current annual fees in respect of appointments to Rolls-Royce Group are shown below.

	(£ 000)
Chairman	370
Other Non-executive Directors	60
Chairman of audit committee	20
Chairman of remuneration committee	15
Chairman of ethics committee	15
Senior independent Director	12

4.4 Save as set out in paragraphs 4.2 and 4.3 above, there are no existing or proposed service agreements or letters of appointment between the Directors and any member of the Group.

4.5 **Directors' Remuneration**

In the year ended 31 December 2010, the aggregate remuneration and benefits to the directors of Rolls-Royce Group who served during 2010, consisting of 14 individuals, was £12.5 million.

In the year ended 31 December 2010, the executive directors of Rolls-Royce Group were remunerated as set out below:

Name	Basic Salary	Cash bonus	Deferred shares⁽¹⁾	Total APRA	Pension payments⁽²⁾	Taxable benefits⁽³⁾	Aggregate emoluments excluding pensions contributions⁽⁴⁾
	(£000)						
James Guyette	506	336	224	560	—	54	1,120
Sir John Rose	864	843	562	1,405	—	30	2,299
Andrew Shilston	559	438	292	730	—	19	1,308
Colin Smith	419	290	194	484	105	19	1,027
Mike Terrett	508	398	265	663	—	99	1,270
Total	<u>2,856</u>	<u>2,305</u>	<u>1,537</u>	<u>3,842</u>	<u>105</u>	<u>221</u>	<u>7,024</u>

- (1) Shares forming part of the bonus under APRA have been valued at the date of award. An investment is expected to be made by March 31, 2011 when the trustee will acquire the required number of shares at the prevailing market price.
- (2) Colin Smith received a cash allowance in lieu of future pension accrual.
- (3) Taxable benefits may include the following: a car or car allowance; private medical insurance and financial counselling. In the case of James Guyette, a housing allowance and appropriate club membership fees. In the case of Mike Terrett, the figure in the above table includes additional housing costs paid on his behalf and the tax charge on that benefit paid by the Company. Amounts charged during the year to UK income tax in respect of the use of chauffeur services provided for the years 2005 to 2010 for Sir John Rose were £46,216. Only the amount for 2010 of £7,210 is included in the taxable benefits column in the above table.
- (4) Details of the Directors' pensions are set out below.
- (5) James Guyette was paid in US dollars translated at £1 = US\$1.543.

The Group's UK pension schemes are funded, registered schemes and were approved under the regime applying until April 5, 2006. They are defined benefit pension schemes providing, at retirement, a pension of up to two thirds of final remuneration, subject to HM Revenue & Customs limits.

Andrew Shilston is a member of the Group's UK pension scheme. He is also a member of the Rolls-Royce Supplementary Retirement Scheme ("RRSRS"). The purpose of the RRSRS is to fund pension provision above the pensionable earnings cap which was imposed on approved pension schemes by the 1989 Finance Act. Membership of the RRSRS is restricted to Executive Directors and to a limited number of senior executives. Employer contributions to the RRSRS during 2010 have been added to the increase in transfer value over 2010 for the registered defined benefit plans, and are therefore included in the figures shown in the final two columns of the first table below.

Sir John Rose opted out of future pension accrual with effect from February 1, 2008 and started to receive his pension immediately. Mike Terrett opted out of future pension accrual with effect from April 1, 2006 and started to receive his pension from November 1, 2009. The transfer value for Mike Terrett as at December 31, 2009 was calculated using market

gilt yields on that date and included cash taken on retirement whereas the transfer value as at December 31, 2010 is the value of benefits in payment calculated using gilt yields applicable on that date. Since starting to receive their pensions, neither Sir John Rose nor Mike Terrett accrue any further pension benefit or allowance in lieu of pension benefit from their ongoing employment with the Group.

Colin Smith opted out of future pension accrual with effect from April 1, 2006. He receives a cash allowance in lieu of future pension accrual. Had he elected to continue to accrue pension the estimated cost of that accrual would be higher than the cash allowance to be paid in lieu.

James Guyette participates in pension plans sponsored by Rolls-Royce North America Inc. He is a member of two defined benefit plans in the US, one qualified and one non-qualified. He accrues a retirement lump sum benefit in both of these plans. The aggregate value of the retirement lump sums accrued in these two plans, and the transfer values of these benefits, are shown in the second table below. In addition, James Guyette is a member of two 401(k) savings plans in the US, one qualified and one non-qualified, to which both he and his employer, Rolls-Royce North America Inc., contribute. He is also a member of an unfunded non-qualified deferred compensation plan in the US, to which his employer makes notional contributions. Employer contributions to these three plans during 2010 have been added to the increase in transfer value over 2010 for the defined benefit plans, and are therefore included in the figures shown in the two columns of the second table below.

The transfer values in the tables below have been calculated on the basis of actuarial advice.

Details of the pension benefits, which accrued over the year in the Group's registered UK defined benefit pension schemes⁽¹⁾ are given below.

Name	Increase in accrued pension year ended 31 Dec 2010	Increase in accrued pension during the year ended 31 Dec 2010 ⁽²⁾	Total accrued pension entitlement at the year ended 31 Dec 2010 ⁽³⁾	Transfer value of accrued pension as at 31 Dec 2010 ⁽⁴⁾	Transfer value as at 31 Dec 2009 of accrued pension at that date ⁽⁴⁾	Increase/decrease in transfer value over 2010 net of the member's own contributions ⁽⁵⁾	Aggregate emoluments excluding pensions contributions ⁽⁵⁾
	(£000) per annum			(£ 000)			
Sir John Rose	3	3	453	8,828	8,542	286	85
Andrewr Shilston	2	2	17	412	354	216	206
Colin Smith	2	2	260	4,467	3,837	630	535
Mike Terrett	1	1	240	4,739	5,188	(449)	16

Name	Increase in accrued retirement lump sum during the year ended 31 Dec 2010	Increase in accrued retirement lump sum during the year ended 31 Dec 2010 ⁽²⁾	Total accrued retirement lump sum entitlement at the year ended 31 Dec 2010 ⁽⁶⁾	Transfer value of accrued retirement lump sum as at 31 Dec 2010	Transfer value as at 31 Dec 2009 of accrued retirement lump sum at that date	Increase in transfer value over 2010 net of the member's own contributions	Transfer value of increase in accrued retirement lump sum over 2010 net of the member's own contributions ⁽⁵⁾
	(£000) per annum			(£ 000)			
James Guyette	93	64	833	833	740	461	432

- (1) Members of the schemes have the option to pay Additional Voluntary Contributions. Neither the contributions nor the resulting benefits are included in the above table.
- (2) This column shows the increase in pension/retirement lump sum during the year ended December 31, 2010 but in this case excluding the effect of inflation.
- (3) The pension entitlement shown is that which would be paid annually on retirement, based on service to the end of the year, or to April 1, 2006 for members with enhanced protection from 'A' day. For Sir John Rose and Mike Terrett, the pension shown is the annual pension in payment at December 31, 2010.
- (4) The transfer values stated represent liabilities of the Rolls-Royce sponsored pension schemes and are not sums paid to the individuals. The transfer values of the accrued pensions as at December 31, 2009 and December 31, 2010 have been calculated on a basis adopted by the Trustee on October 6, 2008 following receipt of actuarial advice. The total transfer value is £19.3 million as of 31 December 2010.
- (5) This column shows the transfer value of the increase in pension/retirement lump sum during the year ended December 31, 2010 excluding the effect of inflation, and net of the member's own contributions.
- (6) The lump sum entitlement shown is that which would be paid on immediate retirement based on service to the end of the year.
- (7) Benefits are translated at £1 = US\$1.566.

In the year ended 31 December 2010, the non-executive directors of Rolls-Royce Group were remunerated as set out below:

	(£ 000)
Helen Alexander CBE	67
Peter Byrom	55
Iain C Conn	65
Peter Gregson	55
John McAdam	55
John Neill CBE	55
John Rishton	69
Sir Simon Robertson ⁽¹⁾	386
Ian Strachan	71
Total	878

(1) Amounts charged during the year to UK income tax in respect of the use of chauffeur services provided for the years 2005 to 2010 for Sir Simon Robertson were £72,788. Only the amount for 2010 of £15,683 is included in the above table.

The Chairman and the Non-executive Directors are not eligible to participate in any of the Group's share schemes, incentive arrangements or pension schemes. A facility is in place which enables Non-executive Directors to use some or all of their fees, after the appropriate statutory deductions, to make market purchases of Rolls-Royce Group Shares on a monthly basis and will enable the purchase of Rolls-Royce Holdings Shares following Admission.

4.6 There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this document.

4.7 Directors' current and past directorships

Set out below are the directorships (unless otherwise stated) held by the Directors and the other directors of Rolls-Royce Group (other than, where applicable, directorships held in the Company and/or in any subsidiaries of the Company), in the five years prior to the date of this document:

<u>Name</u>	<u>Current directorships</u>	<u>Past directorships</u>
Sir Simon Robertson	HSBC Holdings plc Simon Robertson Associates LLP Berry Bros & Rudd Limited The Economist Newspaper Limited The Royal Opera House Covent Garden Limited The Royal Opera House Foundation The Friends of Covent Garden The Royal Opera House Endowment Fund 2000 Universal Specialists Limited Dischma Trust The Eden Trust Ernest Kleinwort Charitable Trust	The Royal Academy Trust International Financial Services London
Sir John Rose	The Eden Trust Education and Employers Taskforce	None
James Guyette	The PrivateBank and Trust Company priceline.com Inc. IAE International Aero Engines AG Williams-Rolls Inc	Alpha Partners Leasing Limited
Andrew Shilston	Alpha Partners Leasing Limited	Cairn Energy plc Capricorn Oil Limited
Colin Smith	The Rolls-Royce Heritage Trust Rolls-Royce Goodrich Engine Control Systems Limited	None
Mike Terrett	Rolls-Royce and Japanese Aero Engines Limited	IAE International Aero Engines AG Alpha Partners Leasing Limited
Iain C Conn	BP p.l.c.	Confucius Institute for Business, London

<u>Name</u>	<u>Current directorships</u>	<u>Past directorships</u>
Helen Alexander CBE	Centrica plc St Paul's Girls' School Incisive Media Holdings Limited	Tate Enterprises Limited The Economist Newspaper Limited Dartford Printing Limited Professional Publishers Association Ltd The Thirty Club of London
Peter Byrom	Domino Printing Sciences plc Stockbridge Limited	AMEC plc Kandahar Ski Club Limited Wilson Bowden PLC Molins plc Musto Limited
Peter Gregson	The Queens University of Belfast Foundation The Universities and Colleges Employers Association University Book Shop Limited	None
John McAdam	United Utilities Group PLC Rentokil Initial plc J Sainsbury plc Sara Lee Corporation Biffa Group Limited	ICI plc
John Neill CBE	Unipart Group of Companies Limited Business in the Community Society of Motor Manufacturers and Traders Limited Vestcave Limited	Royal Mail Holdings plc EW (Holdings) Ltd Charter Limited GP2002 Limited
John Rishton	None	Royal Ahold
Ian Strachan	Xstrata plc Transocean Inc Caithness Petroleum Limited	Reuters Group Limited Johnson Mathey plc

4.8 Within the period of five years preceding the date of this document, none of the Directors or the directors of Rolls-Royce Group:

- (i) has had any convictions in relation to fraudulent offences;
- (ii) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or
- (iii) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

5. EMPLOYEE SHARE PLANS

The following is a summary of the rules of the Rolls-Royce Employee Share Schemes which will be operated following Admission, being the UK ShareSave Plan, the International ShareSave Plan, the DSP, the PSP, the Graduate Scheme and the SIP. All references in this paragraph 5 to the Remuneration Committee and Board are references to the remuneration committee and board of Rolls-Royce plc, save in paragraph 5.4, where such references are to the remuneration committee and board of Rolls-Royce Group. References to the Rolls-Royce plc Group are to Rolls-Royce plc and its consolidated subsidiaries and subsidiary undertakings. References to the Rolls-Royce Group Group are to Rolls-Royce Group and its consolidated subsidiaries and subsidiary undertakings.

5.1 Rolls-Royce UK ShareSave Plan 2011 (the “UK ShareSave Plan”)

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.

(a) Participation

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

(b) Grant of options

Eligible employees may be granted an option to acquire Rolls-Royce Holdings Shares. The option will have a fixed exercise price which may be set at a discount (of up to 20 per cent.) to the market value of the Rolls-Royce Holdings 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 to him/her.

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 Rolls-Royce Holdings 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.

(c) 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.

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

(d) Cessation of employment

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 Rolls-Royce Holdings Shares that may be acquired using the proceeds of the partially completed savings contract, where a participant leaves employment 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 out of the Rolls-Royce plc Group or transfer of the employing business to a person not associated with Rolls-Royce plc.

(e) Source of Shares

Options may be satisfied by way of an issue of Rolls-Royce Holdings Shares or a transfer of existing Rolls-Royce Holdings Shares acquired in the market. No more than an aggregate maximum of ten per cent. of 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 Rolls-Royce Holdings Shares, provided the institutional investor guidelines continue to regard Treasury shares as new issue.

Shares allotted or transferred under the UK ShareSave Plan will rank *pari passu* with Rolls-Royce Holdings 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 Rolls-Royce Holdings Shares.

(f) Corporate events

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.

(g) *Variation of share capital*

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

(h) *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.

(i) *Duration*

If approved, 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.

5.2 Rolls-Royce plc International ShareSave Scheme 2011 (the "International ShareSave Plan")

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 is therefore very similar to the UK ShareSave Plan. 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 below.

(a) *Participation*

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.

(b) *Grant of 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 Rolls-Royce Holdings 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 Rolls-Royce Holdings Shares at the date of settlement. Options to acquire Rolls-Royce Holdings Shares may also be granted, as under the UK ShareSave Plan.

At the end of the savings periods, where SARs have been granted, Rolls-Royce plc must settle these within 30 days using either cash or Rolls-Royce Holdings Shares. Participants are not required to use their savings to exercise the SARs.

(c) *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.

5.3 Deferred Share Plan, also known as APRA (the "DSP")

The DSP is a plan under which certain employees (including executive directors) of Rolls-Royce plc and its subsidiary undertakings, on recommendation by the Remuneration Committee, are required to defer up to forty per cent. of their potential annual cash bonus (the "Notional Bonus") in Rolls-Royce Holdings Shares. Awards of Rolls-Royce Holdings Shares

are made by the Trustee on the recommendation of the Remuneration Committee. The Rolls-Royce Holdings Shares are held in the Trust for two years, with release normally being conditional on the participant remaining in employment within the Group until the end of the period. Only existing Rolls-Royce Holdings Shares are used to satisfy awards under the DSP.

(a) Participation

All employees (including executive directors) of Rolls-Royce plc and its subsidiary undertakings are eligible to participate in the DSP, but participation is at the discretion of the Remuneration Committee.

(b) Grant of awards

The number of Rolls-Royce Holdings Shares subject to an award is determined by dividing the cash value of the Notional Bonus that must be deferred by the average price of Rolls-Royce Holdings Shares in the five dealing days immediately before the award.

(c) Release of awards

A participant becomes absolutely entitled to receive the Rolls-Royce Holdings Shares comprised in his award following the second anniversary of the award date (the "Release Date").

If the Trustee has agreed to waive dividends on the Rolls-Royce Holdings Shares held in the Trust, Rolls-Royce plc may pay to the Trustee (or procure the payment by any Subsidiary of) an amount equal to the cash dividends (gross or net of tax) that would, but for the waiver, have been payable between the date the award is made and the Release Date in respect of the Rolls-Royce Holdings Shares subject to awards held by the Trustee. The Trustee may apply such amounts in purchasing additional Rolls-Royce Holdings Shares and may release such additional Rolls-Royce Holdings Shares to the participant on the Release Date.

(d) Cessation of employment

If a participant ceases to be employed within the Group before the Release Date, other than on resignation, dismissal for gross misconduct or other circumstances justifying a summary dismissal, all of the Rolls-Royce Holdings Shares comprised in his award will be released immediately. In all other cases his award will automatically lapse on such cessation.

(e) Source of Shares

Awards may be satisfied by way of a transfer of existing Rolls-Royce Holdings Shares acquired by the Trustee in the market. No Rolls-Royce Holdings Shares may be issued or transferred from treasury under the DSP.

(f) Corporate events

Awards shall be released immediately in the event of takeover, scheme of arrangement or voluntary winding-up of Rolls-Royce Holdings.

Awards shall not, without the consent of the Remuneration Committee, be realisable if the effect of the scheme of arrangement is to create a new holding company for Rolls-Royce Holdings, such company having substantially the same shareholders and proportionate shareholdings as those of Rolls-Royce Holdings immediately prior to the scheme of arrangement.

(g) Variation of share capital

In the event of any capitalisation, sub-division or consolidation, demerger by Rolls-Royce Holdings of a subsidiary or business to the holders of Rolls-Royce Holdings Shares, the number of Rolls-Royce Holdings Shares subject to awards shall be adjusted by the Trustee to such extent and in such manner as it thinks fit.

(h) Amendments

The Remuneration Committee may at any time amend any provisions of the DSP in any way it thinks fit provided that no amendment shall operate to affect adversely any right already acquired by a participant and all amendments shall be subject to the prior consent of the Trustee.

(i) Duration

The Remuneration Committee reserves the right to terminate the DSP at any time but the rights of existing award holders will not be affected.

5.4 Performance Share Plan (the “PSP”)

Under the PSP, eligible employees may be granted performance-related share awards entitling them, at the end of a three year period, to a number of Rolls-Royce Holdings Shares determined by reference to corporate performance over that period.

Approved PSP awards up to a value of £30,000 may be granted under an HMRC approved appendix (the “Approved Appendix”). Approved awards may not be granted to directors of the Group and must be satisfied out of a transfer of existing Rolls-Royce Holdings Shares.

The PSP may be operated in conjunction with the Trust. Rolls-Royce Group and any relevant subsidiaries may provide sufficient funds, by way of loan or gift, to the Trustee of the Trust to enable it to fulfill its obligations under the PSP. The Trust may acquire Rolls-Royce Holdings Shares required to satisfy awards. Existing Rolls-Royce Holdings Shares may be acquired by the Trustee on the market or Rolls-Royce Holdings Shares may be issued by Rolls-Royce Holdings to the Trustee. Treasury shares may also be used to satisfy awards.

Benefits under the PSP will not be pensionable. The plan will be supervised by the Remuneration Committee.

(a) Participation

The PSP will enable employees of the Rolls-Royce Group Group (including the executive directors other than in relation to awards granted under the Approved Appendix) selected by the Remuneration Committee to be granted awards entitling them to acquire a number of Rolls-Royce Holdings Shares determined by reference to corporate performance over a performance period of three years. The awards may also be granted to employees of associated companies (being companies in which Rolls-Royce Group or any subsidiary has an equity investment of at least 25 per cent.).

(b) Grant of awards

The maximum number of Rolls-Royce Holdings Shares that may be awarded to a participant in any 12 month period will be limited so that the market value of such Rolls-Royce Holdings Shares on the date of grant, as determined by reference to the closing middle-market quotation for a Rolls-Royce Holdings Share as derived from the Official List of the London Stock Exchange averaged over the three dealing days preceding the date of grant, will not exceed 200 per cent. of the participant’s basic salary.

Awards may only be granted during the period of six weeks following the approval of the PSP by shareholders and, afterwards, during the period of six weeks following the announcement by Rolls-Royce Holdings of its results for any period, or on any day on which the Remuneration Committee determines that exceptional circumstances justify a grant.

No payment will be required for the grant of an award. Awards are not transferable and may only be exercised by the person to whom they were granted or their personal representative.

(c) Performance conditions

Vesting of the PSP awards is conditional upon achievement of corporate performance conditions measured over three consecutive financial years commencing with the year of grant. At the date of grant of an award, the Remuneration Committee will set a hurdle target. If the hurdle is not achieved, no part of a PSP award will vest. Provided the hurdle is achieved, the actual number of Rolls-Royce Holdings Shares which vest under the award will be determined by reference to achievement of a cash flow target which will also be set by the Remuneration Committee at the date of grant. In determining the applicable cash flow target, the Remuneration Committee must be satisfied, in its reasonable judgment, that the target is no less challenging to achieve than for the first grant under the PSP made in 2004.

In addition to the above performance conditions, the number of Rolls-Royce Holdings Shares which are delivered to a participant may be increased by 25 per cent if the total shareholder return (TSR) over the performance period exceeds the median of the FTSE 100. For awards to senior executives only, if TSR is equal to or exceeds the twenty fifth percentile of the FTSE 100, the number of Rolls-Royce Holdings Shares will be increased by 50 per cent and for TSR between median and upper quartile, there will be a straight line increase between 25 and 50 per cent.

The Remuneration Committee reserves the right to vary the performance targets as it considers appropriate having regard for any factor which it thinks are relevant.

There will be no retest opportunities for any of the performance measures.

(d) Release of awards

Awards may not generally be realised before the third anniversary of the date of grant.

(e) *Cessation of employment*

If a participant leaves employment before the end of the performance period, his/her award will normally lapse. However, his/her award will continue if the reason for leaving is death, injury, disability, ill-health, his/her employing company ceasing to be a member of the Group or an associated company of Rolls-Royce Group, or the business in which he/she is employed being transferred outside the Group, or any other reason at the Remuneration Committee's discretion. The award may be realised following the third anniversary of the date of grant to the extent that performance conditions have been achieved up to that date and the number of Rolls-Royce Holdings Shares to be released will be pro rated to take account of the proportion of the performance period (measured in complete months) which has elapsed at the date of leaving. The Remuneration Committee may, in exceptional circumstances, permit awards to be realised within a limited period after cessation of employment subject to satisfaction of performance conditions at the date of leaving (but adjusted if the Remuneration Committee considers that the performance conditions would have been met to a greater or lesser extent at the end of the original performance period).

(f) *Source of Shares*

Awards under the Approved Appendix may only be satisfied by a transfer of existing Rolls-Royce Holdings Shares.

All other awards may be granted over unissued or existing Rolls-Royce Holdings Shares, although it is the Remuneration Committee's intention that existing shares will normally be used to satisfy awards. No award may be granted under the PSP if it would cause the number of Rolls-Royce Holdings Shares issued or issuable pursuant to awards and any options granted in the preceding ten years under any share scheme established by Rolls-Royce Holdings (or its predecessors, Rolls-Royce Group and Rolls-Royce plc) to exceed ten per cent. of Rolls-Royce Holdings' issued ordinary share capital at the proposed date of grant. In addition, no award may be granted under the PSP, or any other discretionary share scheme adopted by Rolls-Royce Holdings (or its predecessors, Rolls-Royce Group and Rolls-Royce plc) if it would cause the number of Rolls-Royce Holdings Shares issued or issuable pursuant to awards and options granted in the previous ten years under such schemes to exceed five per cent. of Rolls-Royce Holdings' issued ordinary share capital at the proposed date of grant.

If awards are to be satisfied by a transfer of existing shares, the percentage limits stated above will not apply.

Rolls-Royce Holdings Shares allotted or transferred under the PSP will be equal in all respects with Rolls-Royce Holdings Shares of the same class being in issue (except in respect of entitlements arising prior to the date of exercise). Rolls-Royce Holdings will apply to the UK Listing Authority for the listing of any newly issued Rolls-Royce Holdings Shares.

(g) *Corporate events*

In the event of a takeover, merger, reconstruction or amalgamation of Rolls-Royce Holdings (whether by way of general offer or scheme of arrangement), the awards will become realisable; but the number of Rolls-Royce Holdings Shares a participant may acquire will be determined by reference to the extent that performance conditions had been achieved up to the date of the relevant event (but adjusted if the Remuneration Committee considers that performance conditions would have been met to a greater or lesser extent at the end of the original performance period). The number of Rolls-Royce Holdings Shares released will be pro rated to take account of the proportion of the performance period (measured in complete months) which has elapsed at that time.

In the event of a demerger or voluntary winding up of Rolls-Royce Holdings, the Remuneration Committee in its discretion may determine that awards may be realised early.

Awards shall not, without the consent of the Remuneration Committee, be realisable if the effect of the scheme of arrangement is to create a new holding company for Rolls-Royce Holdings, such company having substantially the same shareholders and proportionate shareholdings as those of Rolls-Royce Holdings immediately prior to the Scheme of Arrangement.

Participants will have no dividend or voting rights in respect of the Rolls-Royce Holdings Shares comprised in their award until they are released to them.

(h) *Variation of share capital*

In the event of any rights or capitalisation issue, subdivision, consolidation, reduction or other variation of Rolls-Royce Holdings' ordinary share capital, or the implementation by Rolls-Royce Holdings of a demerger or payment of a super dividend which would otherwise materially affect the value of the award, the Remuneration Committee may adjust the number of Rolls-Royce Holdings Shares subject to awards.

(i) *Amendments*

The Remuneration Committee or the Board may amend the PSP. However the provisions governing eligibility requirements, equity dilution, individual participation limits and the adjustments that may be made following a rights issue or any other variation of capital cannot be altered to the advantage of eligible employees or participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the PSP, to take account of a change in legislation or developments in the law affecting the PSP, or to obtain, or maintain favourable tax, exchange control or regulatory treatment for participants in the PSP or any member of the Rolls-Royce Group 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 Approved Appendix must be approved by HMRC.

(j) *Duration*

The PSP will terminate on 5 May 2014, being the tenth anniversary of its approval by shareholders, or such earlier time as the Remuneration Committee or the Board may determine, but the rights of existing participants will not be affected by any termination. In the event of termination, no further share awards will be granted.

5.5 Rolls-Royce Graduate Development Share Plan (the “Graduate Scheme”)

The Graduate Scheme is designed to attract the best graduates and to incentivise and retain employees of Rolls-Royce plc and its subsidiaries and joint venture companies who participate in certain graduate programmes.

(a) *Participation*

All employees (excluding executive directors) of the Rolls-Royce plc Group who participate in the Graduate Leadership Programme or the Graduate Technical Excellence Programme (or any other similar programme for graduates) (the “Programme”) are eligible to participate in the Graduate Scheme. In certain circumstances, awards may also be granted to employees of joint venture companies (“JV Employees” and “JV Companies”).

(b) *Grant of awards*

The number of Rolls-Royce Holdings Shares subject to an award is determined by the Remuneration Committee in its absolute discretion.

Following grants to employees of the Rolls-Royce plc Group (but not to JV Employees), Rolls-Royce Holdings Shares are held by the Trustee until their Realisation Date, at which point Rolls-Royce plc procures that the Trustee transfers Rolls-Royce Holdings Shares subject to an award to the participant within 28 days of the Realisation Date.

(c) *Release of awards*

A participant becomes absolutely entitled to receive the Rolls-Royce Holdings Shares comprised in his award following the second anniversary of the award date or such other date as the Remuneration Committee may determine (the “Realisation Date”).

If the Trustee has agreed to waive dividends on the Rolls-Royce Holdings Shares held in the Trust, Rolls-Royce plc may pay to the Trustee (or procure the payment by any Subsidiary of) an amount equal to the cash dividends (gross or net of tax) that would, but for the waiver, have been payable between the date the award is made and the Realisation Date in respect of the Rolls-Royce Holdings Shares. The Trustee or Rolls-Royce plc (as appropriate) may apply such amounts in purchasing additional Rolls-Royce Holdings Shares and may release such additional Rolls-Royce Holdings Shares to the participant on the Realisation Date.

(d) *Cessation of employment*

If a participant ceases to be employed within the Rolls-Royce plc Group or by a JV Company before the Realisation Date for any reason whatsoever, his award will automatically lapse on such cessation.

If a participant ceases to continue on the Programme as a result of not maintaining an acceptable level of performance or removes himself from the Programme (notwithstanding continuing employment in the Rolls-Royce plc Group or in a JV Company), the award will automatically lapse on such cessation.

(e) *Source of Shares*

Rolls-Royce plc will provide or procure that any member of the Rolls-Royce plc Group or any JV Company which employs Graduate Scheme participants provides sufficient monies to enable the Trustee to acquire sufficient Shares to satisfy all such awards in the market. No Shares may be issued or transferred from treasury pursuant to awards granted under the Graduate Scheme.

(f) *Corporate events*

Awards shall be released immediately in the event of takeover, scheme of arrangement or voluntary winding-up of Rolls-Royce Holdings.

Awards shall not, without the consent of the Remuneration Committee, be realisable if the effect of the scheme of arrangement is to create a new holding company for Rolls-Royce Holdings, such company having substantially the same shareholders and proportionate shareholdings as those of Rolls-Royce Holdings immediately prior to the scheme of arrangement.

(g) *Variation of share capital*

In the event of any capitalisation, sub-division or consolidation, demerger by Rolls-Royce Holdings of a subsidiary or business to the holders of Rolls-Royce Holdings Shares, the number of Rolls-Royce Holdings Shares subject to awards shall be adjusted by Rolls-Royce plc to such extent and in such manner as it thinks fit.

(h) *Amendments*

Rolls-Royce plc may make amendments to the Graduate Scheme. However, no amendment may be made which would operate to adversely affect any right already acquired by a participant without such participant's consent.

(i) *Duration*

Rolls-Royce plc reserves the right to terminate the Graduate Scheme at any time but the rights of existing award holders will not be affected.

5.6 Rolls-Royce Share Purchase Plan (the "SIP")

The SIP is an HMRC approved share incentive plan which allows employees to acquire shares on a tax-favoured basis.

(a) *Participation*

All UK tax resident employees of the Rolls-Royce plc Group with such minimum period of service not exceeding 18 months as the Board may determine are eligible to participate in the SIP. All eligible employees must be invited to participate on similar terms.

(b) *Elements of the SIP*

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 cash dividends paid on their Free Shares, Partnership Shares and Matching Shares in further ordinary shares ("Dividend Shares"). Any shares acquired under the SIP must be held in a special trust on a participant's behalf for a minimum period of time. To date Rolls-Royce plc has only operated the Free Share element and Partnership Share element.

(c) *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 Rolls-Royce plc 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.

(d) *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.

(e) *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.

(f) *Dividend Shares*

Employees may be given the opportunity, or may be required to re-invest cash 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.

(g) *Holding Period*

Free Shares and Matching Shares must generally be held in the SIP 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 SIP trust for a minimum period of not less than three years.

(h) *Cessation of employment*

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 SIP in consequence of a change of control.

(i) *Other provisions*

Awards under the SIP may be satisfied using existing shares purchased in the market, treasury shares or newly acquired shares. To the extent that Rolls-Royce Holdings Shares are issued, Rolls-Royce plc will ensure that over any ten year period, no more than 10 per cent. of Rolls-Royce Holdings' ordinary share capital will be issued under the SIP 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 Rolls-Royce Holdings' ordinary share capital (for example, by reason of a bonus issue or a rights issue), participants in the SIP will be entitled to direct the trustee as to what action they wish to be taken in respect of their shares under the SIP, in accordance with the terms of the legislation.

Alterations to the basic structure of the SIP 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 SIP 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.

Shareholder approval for the continued operation of the SIP is being sought at the Annual General Meeting. Assuming that approval is obtained, no awards may be made under the Plan following 6 May 2021, being the tenth anniversary of renewed shareholder approval of the SIP.

6. PENSIONS

Rolls-Royce plc and certain of its associated entities ("participating employers") operate a number of defined benefit and defined contribution pension schemes in the UK and in other jurisdictions where the Group operates.

The issue of Rolls-Royce Holdings Shares will not result in any changes to the provision of retirement benefits. It is intended that the same group employers will continue to operate and participate in the pension schemes. No changes to the provision of retirement benefits will occur as a result of this issue.

Defined benefit schemes

The Group has three main defined benefit schemes in the UK, namely the Rolls-Royce Pension Fund (the "RRPF"), the Rolls-Royce Group Pension Scheme (the "RRGPS") and the Vickers Group Pension Scheme (the "VGPS"). These are all closed to new members. Rolls-Royce plc is the principal employer of RRPF, RRGPS and the VGPS.

For the year to 31 December 2010, Rolls-Royce plc and the participating employers were required to pay contributions of 13.1 per cent. of pensionable salaries to provide for the continued accrual of pension benefits under the RRPF, 12.9 per cent. under the RRGPS and 23.9 per cent. under the VGPS.

Deficit reduction plans have been implemented for the RRPF, RRGPS and the VGPS with an annual contribution across all three schemes of £100.7 million.

Overseas defined benefit schemes operated by the Group are a mixture of funded and unfunded plans.

As at 31 December 2010, the Group had recognised on its balance sheet on an accounting basis a net deficit (after taking account of deferred tax) of £593 million in respect of its defined benefit schemes, an increase of £3 million from the deficit of £590 million recognised in December 2009. Changes in this net position are affected by the assumptions made in valuing the liabilities and the market performance of the assets.

The total amounts accrued by the Group in respect of its UK and overseas pension provision are set out in note 18 to the audited consolidated financial statements in Rolls-Royce Group's 2010 Annual Report.

The Group's pension fund liabilities are partially matched with a portfolio of assets, comprising primarily, in respect of RRPF, RRGPS and the VGPS, of low risk investments in which interest rate and inflation risks are largely hedged and the exposure to equities has been reduced to around 20 per cent. of scheme assets. The primary objective of the investment strategy is to reduce the volatility of the pension schemes to enable greater stability in the funding requirements.

Notwithstanding the arrangements described above, actions by the UK Pensions Regulator or the trustees of the Group's pension schemes or material revisions to the existing pension legislation could result in the Group being required to incur additional costs immediately or in short timeframes, but the Group has no reason to believe that such action will be taken. Any review of the funding of the UK plans described above is not expected to come into effect within the next twelve months.

7. SUBSIDIARIES AND JOINT VENTURES

The Company is the principal holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Company are as follows:

Subsidiaries and subsidiary undertakings

Name	Country of incorporation	Field of activity
Rolls-Royce Group plc	United Kingdom	Holding company
Rolls-Royce plc	United Kingdom	Principal trading company
Optimized Systems and Solutions Limited	United Kingdom	Equipment health management and advanced data management services
Rolls-Royce Fuel Cell Systems Limited	United Kingdom	Development of fuel cell systems
Rolls-Royce International Limited	United Kingdom	International support and commercial information services
Rolls-Royce Leasing Limited	United Kingdom	Engine leasing
Rolls-Royce Marine Electrical Systems Limited	United Kingdom	Marine electrical systems
Rolls-Royce Marine Power Operations Limited	United Kingdom	Nuclear submarine propulsion systems
Rolls-Royce Power Development Limited	United Kingdom	Generation of electricity from independent power projects
Rolls-Royce Power Engineering plc	United Kingdom	Energy and marine systems
Rolls-Royce Total Care Services Limited	United Kingdom	Aero engine aftermarket support services
Tidal Generation Limited	United Kingdom	Development of tidal generation systems
Rolls-Royce Brasil Limitada	Brazil	Industrial gas turbines and aero engine repair and overhaul, energy and marine aftermarket support services
Rolls-Royce Canada Limited	Canada	Industrial gas turbines and aero engine sales, service and overhaul
Rolls-Royce Marine (Shanghai) Limited	China	Manufacture and supply of marine equipment
Rolls-Royce OY AB	Finland	Manufacture of marine winches and propeller systems
Rolls-Royce Civil Nuclear SAS	France	Instrumentation and control systems and life-cycle management for nuclear power plants
Rolls-Royce Technical Support SARL	France	Aero engine project support
Rolls-Royce Deutschland Ltd & Co KG	Germany	Aero engine design, development and manufacture
Nightingale Insurance Limited	Guernsey	Insurance services
Rolls-Royce India Private Limited	India	Diesel engine project management and customer support
Rolls-Royce Operations (India) Private Limited	India	Engineering support services
Europea Microfusioni Aerospaziali S.p.A.	Italy	Manufacture of gas turbine engine castings
Rolls-Royce Marine AS	Norway	Design and manufacture of ship equipment
Scandinavian Electric Holding AS	Norway	Marine electrical systems
Rolls-Royce Singapore Pte Limited	Singapore	Aero engine parts manufacturing and engine assembly and energy and marine aftermarket support services
Rolls-Royce AB	Sweden	Manufacture of marine propeller systems
Data Systems & Solutions LLC	United States	Instrumentation and control systems and life-cycle management for nuclear power plants
Optimized Systems and Solutions Inc.	United States	Equipment health management and advanced data management services
Rolls-Royce Commercial Marine Inc.	United States	Marine aftermarket support services
Rolls-Royce Corporation	United States	Design, development and manufacture of gas turbine engines
Rolls-Royce Crosspointe LLC	United States	Manufacturing facility for aero engine parts
Rolls-Royce Energy Systems Inc.	United States	Energy turbine generator packages
Rolls-Royce Engine Services – Oakland Inc.	United States	Aero engine repair and overhaul
Rolls-Royce Defense Services Inc.	United States	Aero engine repair and overhaul
Rolls-Royce Naval Marine Inc.	United States	Design and manufacture of marine equipment
Seaworthy Systems Inc.	United States	Marine support services

The above companies operate principally in their country of incorporation, and the effective Group interest is 100 per cent, other than Rolls-Royce Fuel Cell Systems Limited, in which the effective Group interest is 80 per cent.

Joint ventures

The following are the principal joint ventures of the Group:

Name	Country of incorporation	Class	% of class held	% of total equity held
Airtanker Holdings Limited <i>Strategic tanker and PFI project</i>	United Kingdom	Ordinary	20	20
Airtanker Services Limited <i>Provision of aftermarket services for strategic tanker aircraft</i>	United Kingdom	Ordinary	22	22
Alpha Partners Leasing Limited <i>Aero engine leasing</i>	United Kingdom	A Ordinary B Ordinary	100 —	50
Composite Technology & Applications Limited <i>Development of aero engine fan blades</i>	United Kingdom	A Ordinary B Ordinary	100 —	51
Genistics Holdings Limited <i>Trailer-mounted field mobile generator sets</i>	United Kingdom	A Ordinary B Ordinary	100 —	50
Rolls-Royce Goodrich Engine Control Systems Limited <i>Development and manufacture of aero engine controls</i>	United Kingdom	Ordinary	50	50
Rolls-Royce Snecma Limited <i>Aero engine collaboration (UK and France)</i>	United Kingdom	A Shares B Shares	— 100	50
Rolls-Royce Turbomeca Limited <i>Aero engine collaboration (UK and France)</i>	United Kingdom	A Shares B Shares	— 100	50
Rolls Wood Group (Repair and Overhauls) Limited <i>Industrial gas turbine repair and overhaul</i>	United Kingdom	A Ordinary B Ordinary	100 —	50
TRT Limited <i>Aero engine turbine blade repair services</i>	United Kingdom	A Ordinary B Ordinary	— 100	49.5
Turbine Surface Technologies Limited <i>Aero engine turbine surface coatings</i>	United Kingdom	A Ordinary B Ordinary	— 100	50
Turbo-Union Limited <i>RB199 engine collaboration (UK, Germany and Italy)</i>	United Kingdom	Ordinary A Shares	40 37.5	40
Xian XR Aero Components Co Limited <i>Manufacturing facility for aero engine parts</i>	China	Ordinary	49	49
EPI Europrop International GmbH <i>A400M engine collaboration (35.5% effective interest)</i>	Germany	Ordinary	28	28
EUROJET Turbo GmbH <i>EJ200 engine collaboration (UK, Germany, Italy and Spain; 39% effective interest)</i>	Germany	Ordinary	33	33
MTU Turbomeca Rolls-Royce GmbH <i>MTR390 engine collaboration (UK, France and Germany)</i>	Germany	Ordinary	33.3	33.3
N3 Engine Overhaul Services Verwaltungsgesellschaft mbH <i>Aero engine repair and overhaul</i>	Germany	Ordinary	50	50
Hong Kong Aero Engine Services Limited <i>Aero engine repair and overhaul</i>	Hong Kong	Ordinary	45	45
International Aerospace Manufacturing Private Limited <i>Manufacture of compressor shrouds, compressor rings, turbine blades and nozzle guide vanes</i>	India	Ordinary	50	50
Techjet Aerofoils Limited <i>Manufacture of compressor aerofoils for gas turbines</i>	Israel	A Ordinary B Ordinary	50 50	50
Advanced Gas Turbine Solutions Sdn Bhd <i>Industrial gas turbine aftermarket services</i>	Malaysia	Ordinary	49	49
International Engine Component Overhaul Pte Limited <i>Aero engine repair and overhaul</i>	Singapore	Ordinary	50	50
Singapore Aero Engine Services Private Limited <i>Aero engine repair and overhaul (39% effective interest)</i>	Singapore	Ordinary	30	30
Industria de Turbo Propulsores SA <i>Aero engine component manufacture and maintenance</i>	Spain	Ordinary	46.9	46.9

<u>Name</u>	<u>Country of incorporation</u>	<u>Class</u>	<u>% of class held</u>	<u>% of total equity held</u>
IAE International Aero Engines AG <i>V2500 engine collaboration (UK, Germany, Japan and United States)</i>	Switzerland	A Shares B Shares C Shares D Shares	100 — — —	32.5
Alpha Leasing (US) LLC, Alpha Leasing (US) (No2) LLC, Alpha Leasing (US) (No4) LLC, Alpha Leasing (US) (No.5) LLC, Alpha Leasing (US) (No.6) LLC, Alpha Leasing (US) (No.7) LLC, Rolls-Royce & Partners Finance (US) LLC, Rolls-Royce & Partners Finance (US) (No.2) LLC <i>Aero engine leasing</i>	United States	Partnerships	50	—
Exostar LLC <i>Business to business internet exchange</i>	United States	Partnership	50	—
GE Rolls-Royce Fighter Engine Team LLC <i>F136 development engine for the Joint Strike Fighter program</i>	United States	Partnership	40	—
Texas Aero Engine Services, LLC <i>Aero engine repair and overhaul</i>	United States	Partnership	50	—
Williams-Rolls Inc. <i>Small aero engine collaboration (UK and US)</i>	United States	Common	15	15

Except as indicated otherwise in the table above, the countries of principal operations of the joint ventures are the country of incorporation. In addition, the Group has one unincorporated joint venture based in the United States, Light Helicopter Turbine Engine Company, which was formed to develop and market jointly the T800 engine and in which the Group has a 50 per cent interest.

8. STATUTORY AUDITORS

The auditors of the Company for the period from incorporation on 10 February 2011 to the present have been KPMG Audit Plc, chartered accountants, whose registered address is at 15 Canada Square, Canary Wharf, London E14 5GL. KPMG Audit Plc have audited the consolidated accounts of Rolls-Royce Group for financial information as at and for the periods ended 31 December 2008, 31 December 2009, and 31 December 2010, in accordance with auditing standards.

9. BORROWINGS

The Group's borrowing facilities are made up of a number of drawn bonds, notes and bank borrowings as well as undrawn bank borrowing facilities. A summary of the main facilities is listed below. The bonds and facilities contain financial and other covenants in line with the Group's financial position and credit rating.

The Group has two sterling public bonds outstanding: £200 million 7.375 per cent. notes due 14th June 2016 (ISIN: XS0112487482) and £500 million 6.75 per cent. notes due 30th April 2019 (ISIN: XS0426014899). Both these bonds were issued under the Group's Euro Medium Term Note programme.

In 2003 the Group issued US\$500 million notes in three tranches in the US private placement market. The first tranche of US\$187 million matured last year. The remaining tranches are US\$230 million 6.38 per cent. notes due in 2013 and US\$83 million 6.55 per cent. notes due in 2015.

The Group has borrowed £200 million from the European Investment Bank at sterling LIBOR plus 27 basis points and is due in 2014. In addition, the Group has an undrawn 7 year facility for £200 million from the European Investment Bank.

The Group has a £250 million undrawn bank revolving credit facility which is supplied by 18 banks. This facility is due to mature in July 2012 and the current borrowing margin would be sterling LIBOR plus 20 basis points.

On 18 March 2011, the Group entered into a £750 million bank revolving credit facility with 3 banks. The facility is due to mature on the first anniversary of the signing date but it can be extended for a further year at the option of the borrower. The borrowing margin is sterling LIBOR plus 60 basis points but this may increase in steps to sterling LIBOR plus 120 basis points if the facility is extended for a further year. At the date of this document, this facility remains undrawn.

10. 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 holding Rolls-Royce Holdings 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 Holdings Shares as an investment (other than under an individual savings account), who are the absolute beneficial owners of their Rolls-Royce Holdings Shares, who have not (and are not deemed to have) acquired their Rolls-Royce Holdings 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 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.

The statements in paragraphs 10.4 and 10.5 apply to all Shareholders, irrespective of their place of residence.

10.1 *Taxation of dividends on Rolls-Royce Holdings Shares*

Rolls-Royce Holdings is expected to make payments to shareholders by issuing and redeeming C Shares rather than by paying cash dividends. The following therefore applies in respect of (a) Rolls-Royce Holdings Shares if the Company reverts to paying cash dividends rather than issuing C Shares and (b) dividends paid on C Shares. The Company is not required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a Shareholder.

An individual Shareholder who is resident for tax purposes in the UK and who receives a dividend from the Company 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 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 Shareholder in full. Where the tax credit exceeds the Shareholder's tax liability the Shareholder cannot claim repayment of the tax credit from HMRC.

An individual UK resident 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 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 Shareholders who are UK resident will be taxed on dividends paid by the Company 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 Shares to UK resident corporate 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. Shareholders within the charge to corporation tax should consult their own professional advisers.

UK resident 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.

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 the Company, although this will depend on the existence and terms of any double taxation convention between the UK and the country in which such Shareholder is resident. A Shareholder resident outside the UK may also be subject to taxation on dividend income under local law. A Shareholder who is resident outside the UK for tax purposes should consult his own tax adviser concerning his tax position on dividends received from the Company.

10.2 *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 the Company 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 Shareholders.

For CGT purposes, the allotment and issue of C Shares by the Company other than the July 2011 C Shares should be treated as a reorganisation of its share capital. Accordingly:

- (a) a Shareholder receiving an entitlement to C Shares should not be regarded as making a disposal of all or part of that Shareholder's existing holding of Rolls-Royce Holdings Shares;
- (b) the C Shares will be treated as the same asset as, and as having been acquired at the same time as, the Shareholder's existing holding of Rolls-Royce Holdings 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 the Company immediately before the issue; and
- (c) on a subsequent disposal (including a redemption) of the whole or part of the New Holding, the 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 the Company*

A payment by the Company to a Shareholder of the nominal value of a C Share on its redemption should not constitute an income distribution of the Company for UK tax purposes. Accordingly:

- (a) no part of the proceeds received by a Shareholder pursuant to the redemption should be an income receipt in that Shareholder's hands for UK tax purposes. Those proceeds will not carry any entitlement to a tax credit; and
- (b) a Shareholder who disposes of the whole or part of that Shareholder's holding of C Shares as part of a redemption may, depending on that 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 paragraph 10.2(c) 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 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 Shareholder in the year of assessment in question, does not exceed the annual exempt amount (currently £10,100);
- (b) 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 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 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 C Shares received), taken on top of the Shareholder's taxable income (and ignoring any other chargeable gains which are taxable in the relevant year of assessment), does exceed that threshold.

For 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) Shareholders may be able to reduce or eliminate a chargeable gain by utilising any unused allowable losses available to them.

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

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

A disposal of Rolls-Royce Holdings Shares by a 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 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 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 his or her return to the UK on a chargeable gain realised on the disposal or part disposal of Rolls-Royce Holdings Shares during the period when he or she 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 Shares.

10.4 *Stamp duty and SDRT*

(i) *Transfers of Rolls-Royce Holdings Shares*

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5) of the amount or value of the consideration given is generally payable on an instrument transferring Shares. An exemption from stamp duty is available on an instrument transferring Shares where the amount or value of the consideration is £1,000 or less, and it is certified on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000. A charge to SDRT will also arise on an unconditional agreement to transfer Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). However, if within six years of the date of the agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for payment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee.

(ii) *Shares held through CREST*

Paperless transfers of Shares within CREST are generally liable to SDRT, rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obliged to collect SDRT on relevant transactions settled within the system. Under the CREST system, no stamp duty or SDRT will arise on a transfer of Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

(iii) *Shares held through Clearance Systems or Depositary Receipt Arrangements*

Under UK law where Shares are issued or transferred (a) to, or to a nominee for, a person whose business is or includes the provision of clearance services or (b) to, or to a nominee or agent for, a person whose business is or includes issuing depositary receipts, stamp duty or SDRT will generally be payable at the higher rate of 1.5 per cent. of the amount or value of the consideration payable or, in certain circumstances, the value of the Shares (rounded up to the next multiple of £5 in the case of stamp duty). This liability for stamp duty or SDRT will strictly be accountable by the depositary or clearance service operator or their nominee, as the case may be, but will, in practice, generally be reimbursed by participants in the clearance service or depositary receipt scheme. Transfers within the clearance service, and transfers of depositary receipts, are then generally made free of SDRT or stamp duty. Clearance services may opt, provided certain conditions are satisfied, for the normal rates of stamp duty or SDRT to apply to issues or transfers of Shares into, and to transactions within, such services instead of the 1.5 per cent. charge generally applying to an issue or transfer of Shares into the clearance service and instead of the exemption from SDRT on transfers of Shares whilst in the service.

Following a European Court of Justice judgment, HMRC have confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on an issue of shares into a clearance service or depositary receipt arrangement within the EU, on the basis that the charge is not compatible with EU law. However, the judgment may have broader application than HMRC currently accept. Anti-avoidance rules have also been enacted with effect from 1 October 2009 in relation to schemes under which shares are issued to an EU depositary receipt system or clearance service without a 1.5 per cent. charge being paid and subsequently transferred to a non-EU depositary receipt system or clearance service. **Accordingly specific professional advice should be sought before paying the 1.5 per cent. SDRT or stamp duty charge in any circumstances.**

Special rules apply to agreements made by, amongst others, intermediaries.

10.5 Inheritance Tax

The Shares will be assets situated in the UK for the purposes of UK inheritance tax. A gift of such assets by, or the death of, an individual holder of such assets may (subject to certain exemptions and reliefs) give rise to a liability to UK inheritance tax even if the holder is neither domiciled in the UK nor deemed to be domiciled there under certain rules relating to long residence or previous domicile. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit.

Special rules also apply to close companies and to trustees of settlements who hold Shares, bringing them within the charge to inheritance tax. Shareholders should consult an appropriate tax adviser if they make a gift or transfer at less than market value or intend to hold any Shares through trust arrangements.

11. 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 Shares for Rolls-Royce Holdings Shares and the substitution of Rolls-Royce Holdings Shares for Rolls-Royce Group Shares underlying the Rolls-Royce ADRs pursuant to the Scheme and to the ownership of Rolls-Royce Holdings Shares and Rolls-Royce ADRs. It addresses only US Holders (as defined below) that exchange Rolls-Royce Group Shares or Rolls-Royce ADRs pursuant to the Scheme, hold their shares or 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) ten 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 discussion is not a substitute for tax advice.

Rolls-Royce Holdings believes and this discussion 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. 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 THE ROLLS-ROYCE HOLDINGS SHARES 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 Shares in connection with the Scheme and owning and disposing of Rolls-Royce Holdings 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 Shares for Rolls-Royce Group Shares held by the US Depository as part of the Scheme will be treated as an exchange by Holders of Rolls-Royce ADRs of Rolls-Royce Group Shares for Rolls-Royce Holdings 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 Shares as long as the US Depository 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 Shares for Rolls-Royce Holdings Shares. A US Holder's basis in Rolls-Royce Holdings Shares will equal its aggregate adjusted tax basis in the Rolls-Royce Group Shares exchanged, and its holding period in the Rolls-Royce Holdings Shares will include the period it held the Rolls-Royce Group Shares. If a US Holder acquired different blocks of Rolls-Royce Group Shares at different times or at different prices, the Holder's basis and holding period in the Rolls-Royce Holdings 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 Shares a statement regarding application of the tax-free reorganisation requirements (including information about the Rolls-Royce Group Shares it exchanged and the Rolls-Royce Holdings 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 Shares in exchange for Rolls-Royce Group Shares would recognise capital gain or loss equal to the difference between (x) the fair market value of the Rolls-Royce Holdings Shares as of the effective date of the exchange and (y) its adjusted tax basis in the Rolls-Royce Group Shares exchanged. Any gain would be long-term gain if the US Holder held the Rolls-Royce Group Shares for more than one year. Any loss would be long-term loss if the US Holder held the Rolls-Royce Group 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 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 Shares equal to their fair market value as of the effective date of the exchange and a holding period for the Rolls-Royce Holdings Shares beginning on the day following the exchange date.

Dividends

US Holders generally must include any dividends paid on Rolls-Royce Holdings Shares in their gross income as ordinary income from foreign sources. Dividends paid in 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 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 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 Shares and the Rolls-Royce Holdings 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 Shares and the Rolls-Royce Holdings 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 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 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 may be required specifically to report the receipt of Rolls-Royce Holdings Shares or Rolls-Royce ADRs in the Scheme. A US Holder also may be required specifically to report a sale or other taxable disposition of the Rolls-Royce Group Shares, Rolls-Royce Holdings Shares or Rolls-Royce ADRs to the 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 Shares or Rolls-Royce ADRs not held through an account with a financial institution to the 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 SHARES UNDER THE HOLDER'S OWN CIRCUMSTANCES.

12. ADR FACILITY

Rolls-Royce Group maintains an unregistered American depository receipt ("ADR") sponsored programme with the Bank of New York Mellon, One Wall Street, New York, New York 10286, the US Depository. Currently, each American Depository Share ("ADS") evidenced by an Rolls-Royce ADR represents five Rolls-Royce Group Shares. On completion of the Scheme, the existing ADR programme will remain in place. The Rolls-Royce Group Shares held by the US Depository will be exchanged for Rolls-Royce Holdings Shares, and each Rolls-Royce ADR will represent five Rolls-Royce Holdings Shares.

13. ENFORCEMENT AND CIVIL LIABILITIES UNDER US FEDERAL SECURITIES LAWS

The Company is a public limited company incorporated under English law. Most of the Directors are citizens of the United Kingdom (or other non-US jurisdictions), and a portion of the Company's assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Directors or to enforce against them in the US courts judgments obtained in US courts predicated upon the civil liability provisions of the US federal securities laws. There is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgments of the US courts, of civil liabilities predicated upon US federal securities laws.

14. SHAREHOLDER PAYMENT POLICY

The Company seeks to maintain a progressive shareholder payment policy and intends to continue Rolls-Royce Group's practice of providing cash returns to shareholders through the issue of C Shares. The proposed final payment to Rolls-Royce Group Shareholders in respect of 2010 is equivalent to 9.60 pence per ordinary share, a 6.7 per cent increase over the 2009 final payment making a total of 16.00 pence per ordinary share for 2010 (2009 15.00 pence; 2008: 14.30 pence). The payment to Rolls-Royce Group Shareholders will, as in 2009, be made in the form of redeemable C Shares which shareholders may either choose to retain or redeem for a cash equivalent.

The final issue of C Shares is due to be made on July 5, 2011 to shareholders on the register of Rolls-Royce Group on April 26, 2011 and the final day of trading with entitlement to C Shares is April 19, 2011. Subject to the Scheme becoming effective, the issue of C Shares scheduled for July 5, 2011 will be made by the Company.

15. LITIGATION

Save as described below, neither the Company nor any other member of the Group is or has been engaged in nor, so far as the Company is aware, has pending or threatened, any governmental, legal or arbitration proceedings which may have, or have had during the 12 months preceding the date of this document, a significant effect on the Company's and/or the Group's financial position or profitability.

In 2010, Rolls-Royce commenced an action in the United States against United Technologies Corporation (UTC), the parent company of Pratt & Whitney, alleging that the GP7200 turbofan engine, UTC's geared turbofan engine, and other UTC turbofan engines infringe the Rolls-Royce swept fan blade patent. A trial is expected to be held in June this year. UTC subsequently commenced proceedings against Rolls-Royce in the United States and in England alleging that Trent 900, Trent 1000 and Trent XWB engines infringe its patent. Judgments in UTC's cases are expected to be handed down between 2012 and 2015.

It is not possible to quantify at this stage the amount of any damages which might be awarded in favour of, or against, Rolls-Royce although an award of damages or the financial effect of other remedies could be material. Rolls-Royce is advised that it has a strong claim against UTC and strong defences in the proceedings brought by UTC.

17. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) are the only contracts which have been entered into by any member of the Group (i) within the two years immediately preceding the date of this document and are, or may be, material to the Group; or (ii) at any time, and contain provisions under which any member of the Group has an obligation or entitlement which is material to the Group as at the date of this document:

On 9 March 2011, Rolls-Royce Group, Daimler AG ("Daimler"), Daimler Vermögens- und Beteiligungsgesellschaft mbH ("DVB") and Vinters International Limited, a subsidiary of Rolls-Royce Group ("Vinters") entered into an investment agreement (the "Investment Agreement") and Rolls-Royce Group, Daimler and Vinters entered into a shareholder agreement (the "Shareholder Agreement") in relation to the formation of a 50/50 joint venture to acquire 100 per cent. of the share capital of Tognum AG (the "Tognum JV"). Tognum AG shareholders will be offered €24 per Tognum AG share in cash representing a total consideration of approximately €3.2 billion, which will be paid on a 50/50 basis. The Investment Agreement governs the terms on which the bid for Tognum AG will be conducted, how Rolls-Royce Group and Daimler will fund the acquisition and what each will contribute to the Tognum JV. Pursuant to this agreement, upon the successful conclusion of the bid for Tognum AG (being the acquisition of at least 50 percent. plus one share of the issued share capital of Tognum AG), Rolls-Royce will contribute its Bergen gas and diesel medium-speed engine business with an estimated value of approximately €400 million to the Tognum JV. The Shareholder Agreement relates to the operation of the Tognum JV. As well as containing the governance arrangements in relation to the Tognum JV in the future, the agreement contains customary termination provisions allowing one party to acquire the other party's interest in the Tognum JV, including in the event of a change of control or insolvency of the other partner. In addition, under certain circumstances, Rolls-Royce Group could be required to acquire Daimler's stake in the Tognum JV. In either case, the price for the relevant interest in the Tognum JV would be the market value of the venture, subject to certain adjustments and the acquisition will be subject to any required regulatory consents or approvals.

On 18 March 2011, Rolls-Royce plc entered into a £750 million facility agreement as borrower with, amongst others, Rolls-Royce Group as guarantor and three banks as arrangers and lenders. The facility agreement allows Rolls-Royce Group to be replaced as guarantor once Rolls-Royce Holdings becomes its shareholder and upon the satisfaction of certain other conditions precedent. The facility is due to mature on the first anniversary of the signing date but it can be extended for a further year at the option of the borrower. The borrowing margin is sterling LIBOR plus 60 basis points but this may increase in steps to sterling LIBOR plus 120 basis points if the facility is extended for a further year. The facility may be used by the borrower for general working capital and corporate purposes. It includes customary representations, undertakings and events of default.

18. RELATED PARTY TRANSACTIONS

Save as described in the audited consolidated financial information of Rolls-Royce Group for the three years ended 31 December 2008, 31 December 2009 and 31 December 2010 incorporated by reference into this document, there are no related party transactions entered into by Rolls-Royce Group, Rolls-Royce Holdings or members of the Group during the financial years ended 31 December 2008, 31 December 2009 and 31 December 2010 and during the period between 1 January 2011 and 21 March 2011 (the latest practicable date prior to printing of this document).

19. WORKING CAPITAL

In the opinion of the Company, the working capital available to the Group is sufficient for the Group's present requirements, that is for at least the next 12 months following the date of this document.

20. NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Rolls-Royce Group since 31 December 2010, the date to which the last audited consolidated accounts of the Group were prepared. Since its incorporation on 10 February 2011, Rolls-Royce Holdings has not traded and there has been no significant change in the financial or trading position of Rolls-Royce Holdings.

21. GENERAL

- 21.1 The fees and expenses relating to the listing of the Rolls-Royce Holdings Shares pursuant to the Scheme, including the FSA's fees, professional fees and expenses and the costs of printing and distribution of documents are estimated to amount to approximately £4 million (including VAT) and are payable by the Company.
- 21.2 Statutory accounts of Rolls-Royce Group have been delivered to the Registrar of Companies for the Company for the period from 1 January 2008 to 31 December 2008 and from 1 January 2009 to 31 December 2009 and will be delivered in respect of the period from 1 January 2010 to 31 December 2010 shortly after approval by the shareholders at the Annual General Meeting. The auditors of Rolls-Royce Group have made reports under the relevant provisions in English companies law in respect of these statutory accounts and each such report was an unqualified report.
- 21.3 On Admission, the Rolls-Royce Holdings Shares will be listed on the premium listing segment of the Official List and admitted to trading on the regulated market of the London Stock Exchange under ISIN GB00B63H8491.

22. CONSENTS

KPMG Audit Plc has given and has not withdrawn its written consent to the inclusion of its report on the profit forecast in Part 14 of this document and has authorised the contents of the part of this document which constitute its report for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

A written consent under the Prospectus Rules is different from a consent filed with the US Securities and Exchange Commission under section 7 of the Securities Act. As the Rolls-Royce Holdings Shares have not and will not be registered under the US Securities Act, KPMG Audit plc has not filed a consent under section 7 of the US Securities Act.

N M Rothschild & Sons Limited 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, N M Rothschild & Sons Limited has not provided legal or taxation advice in relation to the Scheme.

23. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following Admission at the offices of the Company at 65 Buckingham Gate, London SW1E 6AT:

- (a) the Articles;
- (b) all documents incorporated by reference into this document, listed in Part 2 "Presentation of financial and other information – Incorporation of relevant information by reference"; and
- (c) this document.

Dated: 22 March 2011

PART 14

DEFINITIONS AND GLOSSARY

Definitions

The following definitions apply throughout this document unless the context requires otherwise:

“Act”	the Companies Act 2006, as amended;
“Admission”	admission of the Rolls-Royce Holdings 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;
“APRA”	the Rolls-Royce plc Deferred Share Plan also known as DSP;
“Articles”	the memorandum and articles of association of the Company at the date of this document;
“ADR”	an American depositary receipt;
“ADS”	an American depositary share;
“Annual General Meeting”	the 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;
“Board”	the directors of Rolls-Royce Holdings as at the date of this Prospectus and those remaining directors of Rolls-Royce Group, who will, prior to Admission, be appointed as directors of Rolls-Royce Holdings;
“Business Day”	any day other than a Saturday or Sunday on which banks in London, United Kingdom, are open for normal business;
“C Shares”	(i) prior to the Scheme Effective Time, Rolls-Royce Group C Shares; and (ii) after the Scheme Effective Time, Rolls-Royce Holdings C Shares;
“Company”	Rolls-Royce Holdings plc, a public limited company incorporated in England and Wales (registered number 07524813), which, from the Scheme Effective Date, will be the holding company of the Group;
“Companies Act”	the Companies Act 2006, as amended;
“Court”	the High Court of Justice of England and Wales;
“Court Meeting”	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 the Scheme Circular, and any adjournment thereof;
“CPS”	cash flow per share;
“CREST”	the UK-based system for the paperless settlement of trades in listed securities, of which Euroclear UK and Ireland Limited is the operator;
“Directors”	the directors of Rolls-Royce Holdings as at the date of this Prospectus and those remaining directors of Rolls-Royce Group, who will, prior to Admission, be appointed as directors of Rolls-Royce Holdings;
“DSP”	the Rolls-Royce plc Deferred Share Plan, also known as APRA;
“EEA”	the European Economic Area;
“EPS”	earnings per share;

“EU”	the European Union;
“Executive Director(s)”	the executive Director(s) of the Company;
“First Court Hearing”	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;
“First Court Order”	the order of the Court sanctioning the Scheme under Part 26 of the Companies Act and confirming the Rolls-Royce Group reduction of capital;
“Form(s) of Proxy”	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 the Scheme Circular;
“FSA”	the Financial Services Authority of the United Kingdom;
“FSMA”	the Financial Services and Markets Act 2000, as amended from time to time;
“Graduate Scheme”	the Rolls-Royce Graduate Development Share Plan 2008;
the “Group”	(i) prior to the Scheme Effective Time, Rolls-Royce Group and its consolidated subsidiaries and subsidiary undertakings and Rolls-Royce Holdings; and (ii) after the Scheme Effective Time, Rolls-Royce Holdings and its consolidated subsidiaries and subsidiary undertakings (which, from the Scheme Effective Time, includes Rolls-Royce Group);
“HMRC”	HM Revenue and Customs;
“IFRS”	International Financial Reporting Standards, as adopted by the European Union;
“International ShareSave Plan”	the Rolls-Royce plc International ShareSave Plan 2011;
“Listing Rules”	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;
“London Stock Exchange”	London Stock Exchange plc (or any successor body thereto);
“National Storage Mechanism”	the document publication facility made available by the FSA at www.hemscott.com/nsm.do ;
“New Shares”	the ordinary shares in Rolls-Royce Group of 20 pence each to be issued to Rolls-Royce Holdings pursuant to the Scheme;
“New Special Share”	the one special rights non-voting share of £1 in the capital of Rolls-Royce Holdings;
“Non-executive Director(s)”	the non-executive Director(s) of the Company;
“Official List”	the Official List of the FSA;
“Ordinary Resolutions”	the ordinary resolutions which are set out in Part VI of the Scheme Circular, to be proposed to be passed at the Annual General Meeting;
“Overseas Shareholders”	Rolls-Royce Group Shareholders who are resident in, ordinarily resident in, or citizens or nationals of, jurisdictions outside the United Kingdom;
“Proposals”	collectively, the Scheme and the Rolls-Royce Holdings Reduction of Capital;

“Prospectus”	the final prospectus as approved by the FSA as a prospectus prepared in accordance with the Prospectus Rules;
“Prospectus Directive”	the EU Prospectus Directive (2003/71/EC);
“Prospectus Rules”	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;
“PSP”	the Rolls-Royce Group Performance Share Plan;
“Registrar of Companies”	the Registrar of Companies in England and Wales;
“Registrar”	Computershare Investor Services PLC of The Pavilions, Bridgwater Road, Bristol BS13 8AE;
“Resolutions”	the Ordinary Resolutions and the Special Resolutions;
“RIS”	any information service authorised from time to time by the FSA for the purpose of disseminating regulatory announcements;
“RRGPF”	the Rolls-Royce Group Pension Scheme;
“RRPF”	the Rolls-Royce Pension Scheme;
“RRSRS”	the Rolls-Royce Supplementary Retirement Scheme;
“Rolls-Royce”	(i) prior to the Scheme Effective Time, Rolls-Royce Group and its consolidated subsidiaries and subsidiary undertakings and Rolls-Royce Holdings; and (ii) after the Scheme Effective Time, Rolls-Royce Holdings and its consolidated subsidiaries and subsidiary undertakings (which, from the Scheme Effective Time, includes Rolls-Royce Group);
“Rolls-Royce ADR”	an ADR issued by the US Depositary representing: (i) prior to the Scheme Effective Time, the Rolls-Royce Group Shares deposited with the US Depositary; and (ii) after the Scheme Effective Time, the Rolls-Royce Holdings Shares deposited with the US Depositary;
“Rolls-Royce Employee Share Schemes”	the ShareSave Schemes, the DSP, the SIP, the PSP, and the Graduate Scheme;
“Rolls-Royce Group”	Rolls-Royce Group plc, a public limited company incorporated in England and Wales with registered number 04706930;
“Rolls-Royce Group A Ordinary Share”	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;
“Rolls-Royce Group Articles”	the articles of association of Rolls-Royce Group;
“Rolls-Royce Group C Share Redemption Date”	the date on which the compulsory redemption of Rolls-Royce Group C Shares becomes effective, expected to be 6 April 2011;
“Rolls-Royce Group C Shares”	the non-cumulative redeemable preference shares of 0.1 pence each in the capital of Rolls-Royce Group;
“Rolls-Royce Group Group”	Rolls-Royce Group and its consolidated subsidiaries and subsidiary undertakings;

“Rolls-Royce Group Shareholder”	a holder for the time being of Rolls-Royce Group Shares (other than Rolls-Royce Holdings);
“Rolls-Royce Group Shares”	the ordinary shares of 20 pence each in the capital of Rolls-Royce Group excluding, for the avoidance of doubt, the Rolls-Royce Group A Ordinary Share;
“Rolls-Royce Holdings”	Rolls-Royce Holdings plc, a public limited company incorporated in England and Wales (registered number 07524813), which, from the Scheme Effective Date, will be the holding company of the Group;
“Rolls-Royce Holdings C Shares”	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;
“Rolls-Royce Holdings Reduction of Capital”	the proposed reduction of capital of Rolls-Royce Holdings, after the Scheme becomes effective;
“Rolls-Royce Holdings Shareholder”	a holder of Rolls-Royce Holdings Shares from time to time;
“Rolls-Royce Holdings Shares”	(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 20 pence each in the capital of Rolls-Royce Holdings;
“Rolls-Royce Holdings Subscriber Shareholder”	a holder of Rolls-Royce Holdings Subscriber Shares;
“Rolls-Royce Holdings Subscriber Shares”	the two subscriber ordinary shares with a nominal value of 150 pence each in the capital of Rolls-Royce Holdings;
“Rolls-Royce plc Group”	Rolls-Royce plc and its consolidated subsidiaries and subsidiary undertakings;
“Scheme”	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;
“Scheme Circular”	the circular of Rolls-Royce Group dated 22 March 2011 in relation to the Proposals;
“Scheme Effective Date”	the date on which this Scheme becomes effective in accordance with its terms, expected to be 23 May 2011;
“Scheme Effective Time”	the time at which this Scheme becomes effective on the Scheme Effective Date;
“Scheme Record Time”	6.00 p.m. London time on the Business Day immediately preceding the Scheme Effective Date;
“Scheme Shareholder”	a holder of Scheme Shares;
“Scheme Shares”	(i) all Rolls-Royce Group Shares in issue at the date of the Scheme and remaining in issue at the Scheme Record Time; (ii) all additional (if any) Rolls-Royce Group 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 (iii) all further (if any) Rolls-Royce Group 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, excluding the Rolls-Royce Group A Ordinary Share and the Special Share;

“Scheme Voting Record Time”	6.00 p.m. on Wednesday 4 May 2011 or, if the Annual General Meeting or Court Meeting is adjourned, 6.00 p.m. on the day which is two days before the date of such adjourned meeting;
“SDRT”	stamp duty reserve tax;
“SEC”	the US Securities and Exchange Commission;
“Second Court Hearing”	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;
“Second Court Order”	the order of the Court confirming the Rolls-Royce Holdings Reduction of Capital under section 648 of the Companies Act;
“Shareholder”	a holder of Rolls-Royce Holdings Shares from time to time;
“ShareSave Schemes”	the Rolls-Royce Group UK ShareSave Plan 2007 and the Rolls-Royce Group International ShareSave Plan 2007;
“SIP”	the Rolls-Royce plc Share Purchase Plan;
“Special Share”	the one special rights non-voting share of £1 in the capital of Rolls-Royce Group;
“Special Resolutions”	the special resolutions which are set out in Part VI of the Scheme Circular, to be proposed to be passed at the Annual General Meeting;
“Special Shareholder”	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;
“Sponsor”	N M Rothschild & Sons Limited;
“Standards”	the current edition of the Admission and Disclosure Standards produced by the London Stock Exchange;
“Trust”	the Rolls-Royce Group plc Employee Share Trust 2008;
“Trustee”	Halifax EES Trustees International Limited;
“TSR”	total shareholder return;
“United Kingdom” or “UK”	the United Kingdom of Great Britain and Northern Ireland;
“UK Corporate Governance Code”	the UK Corporate Governance Code, published in June 2010 by the Financial Reporting Council;
“UK ShareSave Plan”	the Rolls-Royce plc UK ShareSave Plan 2011;
“United States”, “USA” or “US”	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;
“US Depositary”	The Bank of New York Mellon;
“US Exchange Act”	United States Securities Exchange Act of 1934, as amended from time to time;
“US Securities Act”	United States Securities Act of 1933, as amended from time to time;
“VGP Scheme”	the Vickers Group Pension Scheme.

