

# NOTICE OF 2017 ANNUAL GENERAL MEETING OF ROLLS-ROYCE HOLDINGS PLC



# Rolls-Royce

## THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about the action you should take, you are recommended to seek your own advice from your stockbroker, bank manager, solicitor, accountant or other independent professional adviser duly authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your ordinary shares in Rolls-Royce Holdings plc, you should pass this document and all other enclosures to the stockbroker, bank or other agent through whom the sale or transfer was made for transmission to the purchaser or transferee.

Notice is given that the Annual General Meeting (AGM) of Rolls-Royce Holdings plc (the Company) will be held at Pride Park Stadium, Pride Park, Derby, DE24 8XL, United Kingdom at 11.00am (BST) on Thursday 4 May 2017 for the purpose of transacting the following business:

**To consider and, if thought fit, to pass the proposed resolutions as set out below.**

Voting on these resolutions will be by way of a poll. The Directors believe that the resolutions proposed at the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommend that you vote in favour of them, as they intend to do in respect of their own shareholdings.

## Ordinary resolutions

### RESOLUTION 1 – RECEIPT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE AUDITED FINANCIAL STATEMENTS

That the Strategic report, the Directors' report and the audited Financial statements for the year ended 31 December 2016 be received.

### RESOLUTION 2 – APPROVAL OF THE DIRECTORS' REMUNERATION POLICY

That the Directors' remuneration policy, set out on pages 76 to 82 of the Annual Report 2016, be approved to take effect from the conclusion of the AGM.

### RESOLUTION 3 – APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

That the Directors' remuneration report for the year ended 31 December 2016 be approved.

### RESOLUTIONS 4 TO 14 – ELECTION AND RE-ELECTION OF DIRECTORS

4. That Stephen Daintith be elected as a Director of the Company.
5. That Ian Davis be re-elected as a Director of the Company.
6. That Warren East CBE be re-elected as a Director of the Company.
7. That Lewis Booth CBE be re-elected as a Director of the Company.
8. That Ruth Cairnie be re-elected as a Director of the Company.
9. That Sir Frank Chapman be re-elected as a Director of the Company.
10. That Irene Dorner be re-elected as a Director of the Company.
11. That Lee Hsien Yang be re-elected as a Director of the Company.
12. That Bradley Singer be re-elected as a Director of the Company.
13. That Sir Kevin Smith be re-elected as a Director of the Company.
14. That Jasmin Staiblin be re-elected as a Director of the Company.

### RESOLUTION 15 – RE-APPOINTMENT OF THE AUDITOR

That KPMG LLP be re-appointed as the Company's auditor to hold office until the conclusion of the next general meeting at which financial statements are laid.

### RESOLUTION 16 – AUDITOR'S REMUNERATION

That the Audit Committee, on behalf of the Board, be authorised to agree the auditor's remuneration.

## RESOLUTION 17 – PAYMENT TO SHAREHOLDERS

That the Directors be and are hereby 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 £500m standing to the credit of the Company's merger reserve, capital redemption reserve and/or such other reserves as the Company may legally use in paying up in full at par, up to 500 billion non-cumulative redeemable preference shares in the capital of the Company with a nominal value of 0.1p each (C Shares) having the rights and being subject to the restrictions contained in the Articles of Association of the Company (Articles) from time to time or any other terms and conditions approved by the Directors from time to time;
- b) pursuant to section 551 of the Companies Act 2006 (the Act), to exercise all powers of the Company to allot and issue C Shares credited as fully paid up to an aggregate nominal amount of £500m to the holders of ordinary shares of 20p each in the capital of the Company on the register of members of the Company 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 Company's AGM in 2018 or 15 months after the date on which this resolution is passed (whichever is the earlier) and so that such authority shall be additional to, and without prejudice to, the unexercised portion of any other authorities and powers granted to the Directors, and any resolution passed before the date of passing of this resolution; and
- c) to do all acts and things they may consider necessary or desirable to give effect to this resolution and to satisfy any entitlement to C Shares howsoever arising.

## RESOLUTION 18 – POLITICAL DONATIONS AND EXPENDITURE

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

- a) make donations to political parties and/or independent election candidates;
- b) make donations to political organisations other than political parties; and
- c) incur political expenditure;

## Ordinary resolutions (continued)

during the period commencing on the date of this resolution and ending on the date of the Company's AGM in 2018 or 15 months after the date on which this resolution is passed (whichever is the earlier), provided that in each case any such donations and expenditure made by the Company or by any such subsidiary shall not exceed £25,000 per company and the aggregate of those made by the Company and any such subsidiary shall not exceed £50,000. For the purposes of this resolution, the terms 'political donation', 'political parties', 'independent election candidates', 'political organisation' and 'political expenditure' have the meanings given by sections 363, 364 and 365 of the Act.

### RESOLUTION 19 – APPROVAL OF THE ROLLS-ROYCE LONG-TERM INCENTIVE PLAN

That the Rolls-Royce Long-Term Incentive Plan (the LTIP), the main features of which are summarised in the Appendix to this Notice and the rules of which have been produced to the meeting be approved and that the Directors be authorised to:

- i) Do all acts and things which they may consider necessary or expedient to carry the LTIP into effect.
- ii) Establish schedules to, or further share based plans based on, the LTIP but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under any such schedules or further plans are treated as counting against the limits on individual and overall participation in the LTIP.

## Special resolutions

### RESOLUTION 20 – AUTHORITY TO ALLOT NEW SHARES

That the Directors be and are generally and unconditionally authorised to exercise all powers of the Company to allot shares in the Company or to grant rights to subscribe for or convert any security into shares in the Company:

- a) Up to a nominal amount of £122,588,225 equal to the first section 551 amount as defined in Article 12 of the Articles.
- b) Comprising equity shares up to a nominal amount of £245,176,450 of the second section 551 amount as defined in Article 12 of the Articles.

The prescribed period as defined in Article 12 of the Articles for which the authorities conferred by this resolution are given shall be a period expiring (unless previously renewed, varied or revoked by the Company in general meeting) at the end of the Company's AGM in 2018 or 15 months after the date on which this resolution is passed (whichever is the earlier).

### RESOLUTION 21 – DISAPPLICATION OF PRE-EMPTION RIGHTS

That, subject to the passing of Resolution 20, the Directors be and are generally and unconditionally authorised to allot equity securities (as defined in Section 560(1) of the Act) for cash under the authority provided by Resolution 20 and/or to sell ordinary shares held by the Company as treasury shares for cash as if Section 561 of the Act did not apply to any such allotment or sale, provided that such authority shall be limited to:

- a) a pre-emptive offer; and
- b) otherwise than in connection with a pre-emptive offer, up to a nominal amount of £18,388,234;

such authority to expire at the end of the Company's AGM in 2018 or 15 months after the date on which this resolution is passed (whichever is the earlier).

### RESOLUTION 22 – AUTHORITY TO PURCHASE OWN SHARES

That the Company be and is generally and unconditionally authorised for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of ordinary shares provided that:

- a) the maximum aggregate number of ordinary shares authorised to be purchased is £183,882,337;
- b) the minimum price (exclusive of expenses) which may be paid for an ordinary share is 20p (being the nominal value of an ordinary share);
- c) the maximum price (exclusive of expenses) which may be paid for each ordinary share is the higher of:
  - i) an amount equal to 105% of the average of the middle market quotations for the ordinary shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased; and
  - ii) an amount equal to the higher of the price of the last independent trade of an ordinary share and the highest current independent bid for an ordinary share as derived from the London Stock Exchange Trading System;
- d) this authority shall expire at the end of the Company's AGM in 2018 or 15 months after the date on which this resolution is passed (whichever is the earlier) and a contract to purchase shares under this authority may be made prior to the expiry of this authority, and concluded, in whole or in part, after the expiry of this authority.

### RESOLUTION 23 – ADOPTION OF NEW ARTICLES OF ASSOCIATION

The amended Articles of Association of the Company produced to the meeting and initialled by the Chairman for the purposes of identification be adopted as the Articles of Association of the Company in substitution for, and to the exclusion of, the existing Articles of Association.

#### By order of the Board

#### PAMELA COLES

Company Secretary

24 February 2017

Rolls-Royce Holdings plc  
Registered office:  
62 Buckingham Gate  
London  
SW1E 6AT

T: +44 (0)20 7222 9020  
www.rolls-royce.com

Registered in England and Wales No: 7524813

## Explanation of resolutions

### ORDINARY RESOLUTIONS

Resolutions 1 to 19 will be proposed as ordinary resolutions. For these resolutions to be passed, more than 50% of shareholders' votes cast must be in favour.

### RESOLUTION 1 – RECEIPT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE AUDITED FINANCIAL STATEMENTS

The Directors will present the Strategic report, the Directors' report and the audited Financial statements for the year ended 31 December 2016 to the AGM.

### RESOLUTION 2 – APPROVAL OF THE DIRECTORS' REMUNERATION POLICY

All UK listed companies must seek shareholder approval of their remuneration policy every three years, or earlier if it is proposed that the policy is changed during that period. Our current remuneration policy was approved by shareholders at the 2014 AGM. We are proposing a new Directors' remuneration policy details of which are set out on pages 76 to 82 of the Annual Report.

### RESOLUTION 3 – APPROVAL OF THE DIRECTORS' REMUNERATION REPORT

The Directors' remuneration report is set out on pages 83 to 95 of the Annual Report 2016. It gives details of the Directors' remuneration for the year ended 31 December 2016. The Company's auditor, KPMG LLP, has audited those parts of the report as required by the Companies Act 2006 (the Act). The Auditor's report is on pages 176 to 182 of the Annual Report.

No individual Director's remuneration is dependent on the resolution on the Directors' remuneration report being passed as it is an advisory resolution. However, where a substantial minority of shareholders vote against the Directors' remuneration report, the Company will respond and say how it will address shareholder concerns.

### RESOLUTIONS 4 TO 14 – ELECTION AND RE-ELECTION OF DIRECTORS

The Articles of Association of the Company (the Articles) require that at the AGM all Directors at the date of the Notice of AGM shall retire from office. Stephen Daintith will put himself forward for election by shareholders for the first time at the AGM in 2017. The other Directors will put themselves forward for re-election at the AGM in 2017, with the exception of John McAdam and Colin Smith who will each step down from the Board at the conclusion of the meeting. Biographies of each Director standing for election or re-election are included on pages 8 and 9.

In accordance with the UK Corporate Governance Code (the Code), the Board has reviewed the independence of its Non-executive Directors and, with the exception of Bradley Singer, has determined that each of them remains fully independent of management. Bradley Singer is a partner and chief operating officer of ValueAct, a major shareholder, and therefore is not considered to be an independent Non-executive Director. The Company has in place a relationship agreement to manage any conflicts of interest that arise from his connection to ValueAct. A summary of the relationship agreement is available on the Company's website [www.rolls-royce.com](http://www.rolls-royce.com). The Code states that whilst the Chairman should, on appointment, be independent, thereafter the test of independence is not appropriate in relation to that post. Ian Davis met the Code's independence criteria upon his election as Chairman on 2 May 2013.

### RESOLUTIONS 15 AND 16 – RE-APPOINTMENT OF THE AUDITOR AND AUDITOR'S REMUNERATION

These resolutions propose the re-appointment of KPMG LLP as the Company's auditor and the giving of authority to the Audit Committee, on behalf of the Board, to agree the auditor's

remuneration. Details of the remuneration paid to the auditor in 2016 are shown on page 140 of the Annual Report 2016. The Company carried out a formal audit tender process during 2016 which was led by the Audit Committee. Following the conclusion of this process, the Board proposes the appointment of PricewaterhouseCoopers LLP as the Company's auditor for the financial year commencing 1 January 2018. The appointment is conditional upon achieving shareholder approval at the 2018 AGM and it is proposed that KPMG's tenure will end following the report on the 2017 financial statements at the 2018 AGM.

### RESOLUTION 17 – PAYMENT TO SHAREHOLDERS

The Company issues redeemable C Shares as a method of making payments to shareholders rather than paying a cash dividend. C Shares are not listed on the London Stock Exchange.

The Company proposes to make a bonus issue of 71 C Shares in respect of the 31 December 2016 financial year with a total nominal value of 7.1 pence for each ordinary share. The C Shares will be allotted on 3 July 2017 to shareholders on the register on 28 April 2017 and the C Share ex-entitlement date is 27 April 2017. Together with the interim issue on 4 January 2017 of 46 C Shares for each ordinary share with a total nominal value of 4.6 pence, this is the equivalent of a total annual payment to ordinary shareholders of 11.7 pence for each ordinary share.

As with previous payments, shareholders can continue to redeem their C Shares for cash or reinvest the proceeds in additional ordinary shares using the C Share Reinvestment Plan (CRIP). Shareholders wishing to redeem their C Shares, or else redeem and participate in the CRIP, must ensure that their instructions are lodged with the Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol, BS99 6ZY, United Kingdom no later than 5.00pm on Thursday 1 June 2017. CREST holders must submit their instructions in CREST before 3.00pm on 1 June 2017. Redemption will take place on 5 July 2017.

Further details of C Shares are contained in the shareholder guide which can be obtained from the Registrar, or can be downloaded from the Investors' section of the Company's website [www.rolls-royce.com](http://www.rolls-royce.com).

### RESOLUTION 18 – POLITICAL DONATIONS AND EXPENDITURE

The Company's policy is that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party and the Company has no intention of using this authority for that purpose. However, the Act defines political donations very broadly and so it is possible that normal business activities (such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties, and support for bodies representing the business community in policy review or reform), which might not be thought of as political expenditure in the usual sense, could be captured. Activities of this nature are not designed to support any political party or to influence public support for a particular party and would not be thought of as political donations in the ordinary sense of those words.

Shareholder approval is being sought on a precautionary basis only, to ensure that neither the Company nor any of its subsidiaries commits any technical breach that could arise from the uncertainty generated by the wide definitions contained within the Act. In line with best practice guidelines published by the Association of British Insurers (ABI), this resolution is put to shareholders annually rather than every four years as required by the Act.

### RESOLUTION 19 – APPROVAL OF THE ROLLS-ROYCE LONG-TERM INCENTIVE PLAN

The Company is proposing to adopt a new plan to be known as the Rolls-Royce Long-Term Incentive Plan (the LTIP). The LTIP will replace the Company's existing discretionary free share plans as the principal

## Explanation of resolutions (continued)

plan under which Rolls-Royce makes its discretionary awards to Executive Directors and employees below Board level. The LTIP will also be used to grant buy-out awards where appropriate, to compensate employees on recruitment for loss of incentives on leaving their previous employment. The LTIP is based on the existing performance share plan (PSP) but incorporates certain changes to align it with the proposed Directors' remuneration policy, if approved pursuant to Resolution 2, particularly in relation to the application of holding periods. The LTIP has been simplified and updated for current practice. The Board confirms that all Rolls-Royce share plans will continue to operate strictly within the Investment Association's dilution limits. The main features of the LTIP are summarised in the Appendix to this Notice.

### SPECIAL RESOLUTIONS

Resolutions 20 to 23 will be proposed as special resolutions. For these resolutions to be passed, 75% or more of shareholders' votes cast must be in favour.

#### RESOLUTION 20 – AUTHORITY TO ALLOT NEW SHARES

The directors of a company may only allot shares (or grant rights to subscribe for, or convert any security into, shares) if authorised to do so. Article 9(a) of the Articles authorises the Directors to allot shares up to a maximum nominal amount specified each year. This is called the 'first section 551 amount' in the Articles.

Resolution 20(a) enables the Directors to allot new shares up to a nominal value of £122,588,225 representing approximately one third of the total issued ordinary share capital of the Company as at 24 February 2017\*. This is similar to resolutions passed by shareholders in previous years and is in line with guidance issued by the Investment Association (the IA).

Article 9(b) of the Articles authorises the Directors to allot further shares in the case of a rights issue, in line with guidance issued by the IA. This is called the 'second section 551 amount' in the Articles.

Resolution 20(b) enables the Directors to allot new shares up to a nominal value of £245,176,450 representing approximately two thirds of the total issued ordinary share capital of the Company as at 24 February 2017\*.

As at 24 February 2017\*, the Company did not hold any shares in treasury.

The Directors have no present intention of exercising this authority. However, the Directors believe that this additional authority will allow the Company to retain the maximum possible flexibility (consistent with evolving market practice) to respond to circumstances and opportunities as they arise.

The authorities sought under Resolution 20 shall expire at the end of the Company's AGM in 2018 or 15 months after the date on which the resolution is passed (whichever is the earlier).

#### RESOLUTION 21 – DISAPPLICATION OF PRE-EMPTION RIGHTS

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

It is proposed that the Directors be authorised to allot an amount of new ordinary shares for cash without first offering them to existing shareholders. This amount is equal to 5% of the Company's issued ordinary share capital as at 24 February 2017\*.

In line with best practice, the Company has not issued more than 7.5% of its issued share capital on a non-pro rata basis over the last three years and the Board confirms its intention to follow best practice set out in the Pre-emption Group's Statement of Principles which provides that usage of this authority in excess of 7.5% of the Company's ordinary share capital for cash other than to existing shareholders in any rolling three-year period would not take place without prior consultation with shareholders. This authority shall expire at the end of the Company's AGM in 2018 or 15 months after the date on which this resolution is passed, whichever is the earlier.

#### RESOLUTION 22 – AUTHORITY TO PURCHASE OWN SHARES

This resolution gives the Company authority to buy back its own ordinary shares in the market as permitted by the Act. The Directors believe that, in common with many other listed companies, the Company should obtain from shareholders a general authority to make market purchases of its own ordinary shares on the London Stock Exchange. This resolution specifies the maximum number of shares which may be acquired (up to 10% of the Company's issued ordinary share capital as at 24 February 2017\*) and the minimum and maximum prices at which they may be bought.

On 24 February 2017\* there were options over ordinary shares in the capital of the Company representing 1.02% of the Company's issued ordinary share capital. If the authority to purchase the Company's ordinary shares was exercised in full and those shares were subsequently cancelled, these options would represent 1.13% of the Company's issued and voting ordinary share capital.

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

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

This authority shall expire at the end of the Company's AGM in 2018 or 15 months after the date on which this resolution is passed, whichever is the earlier.

#### RESOLUTION 23 – ADOPTION OF NEW ARTICLES OF ASSOCIATION

Shareholder approval is required to adopt new Articles of Association (the New Articles) which update certain aspects of the Company's current Articles. In particular, the New Articles amend those provisions relating to untraced shareholders.

The current articles allow the Company to sell any shares held by an untraced shareholder and to use the proceeds of such a sale for the purposes of its business, with the former shareholder being listed as a creditor in its accounts. The New Articles will allow the Company to forfeit the net proceeds from such sales, which will immediately afterwards belong to the Company. The Board will be permitted to use the money from the forfeiture in these

\* 24 February 2017 being the latest practicable date prior to the publication of this Notice.

circumstances to fund the Group's community investment and education outreach programmes and for other good causes at the Company's discretion.

A shareholder is currently considered to be an untraced shareholder if at least three dividends have been declared in respect of the shares in question and all dividend warrants and cheques in respect of these shares have remained uncashed during a 12-year period. However, the Company issues redeemable C shares as a method of making payments to shareholders rather than paying a cash dividend. The changes to the Articles will therefore allow a shareholder to be considered as an untraced shareholder if: (a) they do not have an active bank mandate in place with the Company; (b) a 12-year period has passed since post sent to the last known address of that shareholder has been returned undelivered on one or more occasions; and (c) that shareholder has not provided the Company with an updated address. The Company intends to continue its use of a professional asset reunification agent to search for shareholders who have not kept their details up to date.

The changes to the Articles will also allow the Company to calculate the 12-year period by looking at the aggregate time that the relevant shareholder has continuously held shares in the listed Rolls-Royce company from time to time (being the Company from 2011, Rolls-Royce Group plc between 2003 and 2011, and Rolls-Royce plc prior to 2003). A copy of the New Articles including all proposed changes is available for inspection on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com) or at the Company's registered office and will be available for at least 15 minutes prior to and during the AGM.

## Important notes

### ISSUED SHARE CAPITAL AND TOTAL VOTING RIGHTS

As at 24 February 2017\* the issued share capital consisted of 1,838,823,374 ordinary shares of 20p each, 27,701,962,927 C Shares of 0.1p each and one Special Share of £1. At the AGM, voting on the resolutions set out in this Notice will be by way of a poll. Holders of ordinary shares will be entitled to one vote for each ordinary share held. The Special Shareholder (as defined in the Articles) is entitled to receive notice of and to attend and speak, but has no right to vote, at a general meeting. C Shares do not carry the right to receive notice of any general meeting of the Company nor to attend, speak or vote at any general meeting except one at which a resolution to wind up the Company is to be considered. Therefore, the total number of voting rights in the Company as at 24 February 2017\* was 1,838,823,374.

### ENTITLEMENT TO ATTEND AND VOTE

Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, and section 360B(2) of the Act, the Company specifies that only those shareholders on the register of members of the Company as at 6.00pm (BST) on Tuesday 2 May 2017 or, in the event that the AGM is adjourned, on the register of members 48 hours before the time of any adjourned meeting(s), shall be entitled to attend or vote at the AGM in respect of the number of ordinary shares registered in their name at that time. Save in relation to any adjourned meeting(s), changes to entries on the register of members of the Company after 6.00pm (BST) on Tuesday 2 May 2017 shall be disregarded in determining the rights of any person to attend or vote at the AGM.

### VOTING AT THE AGM

Voting on all resolutions will be conducted by way of a poll rather than on a show of hands. On a poll, every member shall have one vote for every ordinary share held.

### VOTE WITHHELD

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

### APPOINTMENT OF A PROXY

Shareholders entitled to attend and vote at the AGM may appoint one or more proxies to attend, speak and vote at the AGM on their behalf instead of them. Appointing a proxy will not preclude shareholders from attending and voting at the AGM, though the proxy appointment will be terminated automatically in such circumstances. You should have received a proxy form with this Notice. You can only appoint a proxy using the procedures set out in these notes and the explanatory notes to the proxy form.

A proxy need not be a shareholder of the Company but must attend the AGM to represent you. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided. If the proxy is being appointed in relation to less than your full voting entitlement, please enter in the box next to the proxy holder's name the number of ordinary shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or, if the proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

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

### PROXY FORM

If you require a replacement, or an additional, proxy form, please contact the Registrar's helpline on +44 (0)370 703 0162 between 08.30am and 5.30pm (BST), Monday to Friday.

### APPOINTMENT OF A PROXY USING THE PAPER FORM

The enclosed proxy form should be completed, signed and sent or delivered to the Registrar in the pre-paid envelope provided, to be received no later than 11.00am (BST) on Tuesday 2 May 2017 or not less than 48 hours before any adjourned meeting at which the person named in the proxy form proposes to vote.

In the case of a shareholder which is a company, a proxy form must be executed under its common seal or signed on its behalf by a duly authorised person or in any other manner authorised by its constitution. Where this proxy form is signed under a power of attorney or other authority, such power or authority (or a notarially certified copy of it) should be enclosed with the proxy form.

### ELECTRONIC APPOINTMENT OF A PROXY

As an alternative to completing the proxy form, you can register your proxy appointment at [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). You will be asked to enter the Control Number, the Shareholder Reference Number (SRN) and Personal Identification Number (PIN) as printed on the proxy form and agree to certain terms and conditions. For an electronic proxy appointment to be valid, it must be received by the Registrar no later than 11.00am (BST) on Tuesday 2 May 2017.

### MULTIPLE PROXIES

You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different ordinary shares. You may not appoint more than one proxy to exercise rights attached to any one ordinary share. To appoint more than one proxy,

\* 24 February 2017 being the latest practicable date prior to the publication of this Notice.

## Important notes (continued)

(an) additional proxy form(s) may be obtained by contacting the Registrar's helpline on +44 (0)370 703 0162 between 08.30am and 5.30pm (BST), Monday to Friday, or you may copy the enclosed proxy form. Please enter in the box next to the proxy holder's name, the number of ordinary shares in relation to which they are authorised to act as your proxy.

### APPOINTMENT OF PROXY BY JOINT SHAREHOLDERS

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

### CHANGING PROXY INSTRUCTIONS

You must submit a new proxy appointment in order to change your proxy instructions. You can either use the hard copy proxy form appointment method or the electronic appointment method set out on page 5. Please note that the cut-off time of 11.00am (BST) on Tuesday 2 May 2017 for receipt of proxy appointments (or not less than 48 hours before any adjourned meeting) also applies in relation to the receipt of amended proxy appointments.

An amended proxy appointment received after the relevant cut-off time will be disregarded. For the avoidance of doubt, any indication of how you wish your proxy to vote contained in your proxy appointment constitutes part of such appointment and, as such, the relevant cut-off time applicable to the receipt of amended proxy appointments also applies to any amendment of any voting instructions given to your proxy by way of your proxy appointment.

Where you have appointed a proxy using the paper proxy form and would like to change the instructions using another paper proxy form, please contact the Registrar. You can speak to the Registrar by calling +44 (0)370 703 0162 between 8.30am and 5.30pm (BST) Monday to Friday or writing to:

Computershare Investor Services PLC  
The Pavilions  
Bridgwater Road  
Bristol BS13 8AE  
United Kingdom

You can also email the Registrar at [webqueries@computershare.co.uk](mailto:webqueries@computershare.co.uk).

If you have voted online you can amend your vote by resubmitting your voting instructions electronically, as described above, via [www.investorcentre.co.uk/eproxy](http://www.investorcentre.co.uk/eproxy). If you submit more than one valid proxy appointment, the last appointment received, before the latest time for the receipt of proxies (as above), will take precedence.

### TERMINATION OF PROXY APPOINTMENT

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

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

- by calling the Registrar's helpline on +44 (0)370 703 0162 between 08.30am and 5.30pm (BST) Monday to Friday.

In either case, the revocation notice must be received by the Registrar at least three hours before the start of the AGM or adjourned meeting at which the vote is to be given. If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

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

### NOMINATED PERSONS

If your shares are held on your behalf by another person and you have been nominated to receive communications from the Company in accordance with section 146 of the Act (Nominated Person), you do not have a right to appoint a proxy. As a Nominated Person, you may have a right under an agreement with the registered shareholder (who nominated you) to be appointed, or to have someone else appointed, as a proxy for the AGM but you cannot yourself appoint a proxy. Alternatively, if you do not have such a right, or do not wish to exercise it, you may have the right under such an agreement to give instructions to the registered shareholder as to the exercise of voting rights.

Nominated Persons should also remember that their main point of contact in terms of their investment in the Company remains the registered shareholder (or the custodian or broker who administers the investment on their behalf). Nominated Persons should continue to contact that shareholder, custodian or broker (and not the Company) regarding any changes or queries relating to the Nominated Person's personal details and interest in the Company (including any administrative matter). The only exception to this is where the Company expressly requests a response from a Nominated Person.

### VOTING THROUGH THE CREST ELECTRONIC PROXY APPOINTMENT SERVICE

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

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear's specifications and must contain the information required for such instruction, as described in the CREST manual. All messages relating to the appointment of a proxy or an instruction to a previously-appointed proxy must be transmitted so as to be received by Computershare Investor Services PLC (Issuer agent ID number 3RA50) by 11.00am (BST) on Tuesday 2 May 2017.

It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members or voting service providers are referred, in particular, to those sections of the CREST manual concerning practical limitations of the CREST system and timings. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

## CORPORATE REPRESENTATIVES

The Companies (Shareholders' Rights) Regulations 2009 allow multiple representatives appointed by the same corporate member to vote in different ways on a poll (provided they do not do so in relation to the same shares).

## AMERICAN DEPOSITARY RECEIPT (ADR) HOLDERS

Registered holders should contact the depository:

J.P. Morgan Chase  
PO Box 64504  
St Paul, MN, 55164-0504  
USA  
Phone: +1 800 990 1135 (from outside the USA +651 453 2128)

If you are a broker or institutional investor, please contact:

J.P. Morgan Depository Receipts  
4 New York Plaza, 12th Floor  
New York, NY 10004  
+1 866 576 2377  
Email: adr@jpmorgan.com

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

## DOCUMENTS AVAILABLE FOR INSPECTION

Shareholders may inspect the following documents at the Company's registered office during normal business hours and from 10.00am (BST) on the date and at the place of the AGM until the meeting closes:

- Executive Directors' service contracts.
- Non-executive Directors' letters of appointment.
- Deeds of indemnities granted to each Director.
- A copy of the Articles and New Articles.
- A copy of the rules of the LTIP.

## BUSINESS AT THE AGM

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

Under section 338A of the Act, shareholders may request the Company to include in the business to be dealt with at annual general meetings any matter (other than a proposed resolution) which may be properly included in the business, provided that it is not defamatory, frivolous or vexatious.

The Company will include such matter if sufficient requests have been received in accordance with section 338A(3) of the Act. This requires a minimum of 100 shareholders who have a right to vote at the AGM and hold shares in the Company on which there has been paid up an average sum, per member, of at least £100, or shareholders representing at least 5% of the total voting rights, to make the request which must be submitted in the manner detailed in section 338A of the Act.

## INFORMATION AVAILABLE ON OUR WEBSITE

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

- The matters set out in this Notice including the total voting rights and number of shares of each class in respect of which shareholders are entitled to exercise voting rights at the AGM, and shareholders' rights to include business to be dealt with at the AGM.
- If applicable, shareholders' statements, resolutions and matters of business received by the Company after the date of this Notice.

## PUBLICATION OF AUDIT CONCERNS ON OUR WEBSITE

Under section 527 of the Act, shareholders have a right to request publication of any concerns that they propose to raise at the AGM relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be submitted to the meeting or any circumstances connected with an auditor of the Company ceasing to hold office since the last AGM.

The Company will publish the statement on its website if sufficient requests have been received in accordance with section 527(2) of the Act. This requires a minimum of 100 shareholders who have a right to vote at the AGM and hold shares in the Company on which there has been paid up an average sum, per member, of at least £100, or shareholders representing at least 5% of the total voting rights, to make the request which must be submitted in the manner detailed in section 527 of the Act. The Company may not require the members requesting any such website publication to pay its expenses in complying with such request.

Where a statement is published, the Company will forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the AGM includes any statement that the Company has been required, under section 527 of the Act, to publish on its website.

## COMMUNICATION

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

- By calling the Registrar's helpline on +44 (0)370 703 0162 between 08.30am and 5.30pm (BST) Monday to Friday.
- By writing to the Registrar, Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom.
- By emailing [webqueries@computershare.co.uk](mailto:webqueries@computershare.co.uk).

## FINANCIAL REPORTING STANDARDS (FRS) 101 – REDUCED DISCLOSURE FRAMEWORK

The Company will, once again, adopt FRS 101 *Reduced Disclosure Framework* for its entity financial statements for the year ending 31 December 2017. A shareholder or shareholders holding in aggregate 5% or more of the total allotted ordinary shares in the Company may serve objections to the use of disclosure exemptions on the Company in writing to its registered office no later than 31 May 2017.

# DIRECTORS' BIOGRAPHIES

## STANDING FOR ELECTION

### Stephen Daintith

Expected to be appointed as Chief Financial Officer in Spring 2017

#### CAREER, SKILLS AND EXPERIENCE

Stephen will join Rolls-Royce from Daily Mail and General Trust plc where he has served on its board of directors since 2011. He was a member of the Euromoney Institutional Investor plc audit committee, and a non-executive director of Zoopla Property Group plc, both of which are associated companies of Daily Mail and General Trust plc. Stephen is a chartered accountant and has held a number of senior positions at News Corporation, British American Tobacco, Forte, the Civil Aviation Authority and PricewaterhouseCoopers. He is currently a non-executive director of 3i Group plc.

Stephen has extensive experience of strategic financial management and he has a deep understanding of international business. His record of achievement in change management is particularly relevant to Rolls-Royce.

## STANDING FOR RE-ELECTION

### Ian Davis, Chairman

Appointed to the Board in March 2013 and as Chairman in May 2013

#### CAREER, SKILLS AND EXPERIENCE

Ian is senior partner emeritus of McKinsey & Company. He was a partner at McKinsey for 31 years until 2010 and served as chairman and worldwide managing director of McKinsey between 2003 and 2009.

He brings significant financial and strategic experience to the Board.

He has worked with and advised global organisations and companies in a wide variety of sectors as well as in the public sector, enabling him to draw on knowledge of diverse issues and outcomes to assist the Board.

His role in the Cabinet Office, from which he stepped down in March 2016, gives him a unique perspective on government affairs.

#### OTHER CURRENT PRINCIPAL ROLES

- BP p.l.c., non-executive director
- Johnson & Johnson Inc., director
- Teach for All Inc., director
- Majid Al Futtaim Holding LLC, director
- McKinsey & Company, senior partner emeritus

### Warren East CBE, Chief Executive

Appointed as an independent Non-executive Director in January 2014, Warren became Chief Executive in July 2015

#### CAREER, SKILLS AND EXPERIENCE

Warren is an engineer by training and had an outstanding record at ARM Holdings plc which he joined in 1994 and where he was CEO from 2001 until 2013. He has a deep understanding of technology and of developing long-term partnerships and has proven strategic and leadership skills in a global business with a strong record of value creation – all of which are relevant to Rolls-Royce particularly as it undergoes a period of transformation.

He is a fellow of the The Institution of Engineering and Technology, a fellow of the Royal Academy of Engineering and a distinguished fellow of BCS, the Chartered Institute for IT. He was awarded a CBE in 2014 for services to the technology industry.

#### OTHER CURRENT PRINCIPAL ROLES

- Dyson James Group Limited, director
- The Institution of Engineering and Technology, trustee

### Lewis Booth CBE, Independent Non-executive Director

Appointed in May 2011

#### CAREER, SKILLS AND EXPERIENCE

Lewis has considerable financial expertise and experience, having been the former executive vice president and chief financial officer for Ford Motor Company. He brings an international perspective, having worked in Europe, Asia, Africa and the US during his 34-year career in the motor industry. After gaining a bachelor of engineering degree with honours in mechanical engineering, Lewis began his career with British Leyland before joining Ford in 1978. He was awarded a CBE in 2012 for services to the UK automotive and manufacturing industries.

#### OTHER CURRENT PRINCIPAL ROLES

- Mondelez International, Inc., director
- Gentherm Inc., director

### Ruth Cairnie, Independent Non-executive Director

Appointed in September 2014

#### CAREER, SKILLS AND EXPERIENCE

A physicist by background, Ruth has strong strategic and commercial experience gained at Royal Dutch Shell Plc where she held a number of senior international roles, most recently as executive vice president strategy and planning, before her retirement in 2014.

Ruth also has significant remuneration committee experience having chaired the remuneration committee at Keller Group plc since April 2012 and as a member of the remuneration committee at Associated British Foods plc. She chairs the POWERful Women initiative, supporting the progression of women to senior positions in the energy sector, and is a strong supporter of our diversity and inclusion initiatives.

#### OTHER CURRENT PRINCIPAL ROLES

- Associated British Foods plc, non-executive director
- Keller Group plc, non-executive director
- POWERful Women, chairman

### Sir Frank Chapman, Independent Non-executive Director

Appointed in November 2011

#### CAREER, SKILLS AND EXPERIENCE

Sir Frank has significant industrial and safety experience, having worked in the oil & gas industry for 38 years including appointments within Royal Dutch Shell plc and BP p.l.c. He has a life-long passion for engineering and innovation and a deep understanding of technology, together with an outstanding record of business achievement. He was chief executive of BG Group plc for 12 years until 2012 and chairman of Golar LNG Ltd from 2014 to 2015. Sir Frank is a fellow of the Royal Academy of Engineering, the Institute of Mechanical Engineers and the Energy Institute. He was knighted in 2011 for services to the oil & gas industry.

#### OTHER CURRENT PRINCIPAL ROLES

- Myeloma UK, vice chairman



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## Irene Dorner, Independent Non-executive Director

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Appointed in July 2015

### CAREER, SKILLS AND EXPERIENCE

Irene has a strong background in risk management and is very familiar with regulatory requirements. She was chief executive officer and president of HSBC, US, until December 2014. Her background in risk management played a key role in strengthening the financial institution's risk processes and she brings this insight as part of her role on our Audit Committee. During a 29-year career at HSBC, she held a number of international roles including leading HSBC in Malaysia and launching its Islamic banking unit. Irene is a passionate advocate of diversity and inclusion and an active supporter of our employee resource groups.

Irene was a consultant at PricewaterhouseCoopers until February 2016. She is also an honorary fellow of St Anne's College, Oxford.

### OTHER CURRENT PRINCIPAL ROLES

- AXA SA, director
- Control Risks International Limited, non-executive director
- OUTFLeadership Advisory Board, member

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## Lee Hsien Yang, Independent Non-executive Director

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Appointed in January 2014

### CAREER, SKILLS AND EXPERIENCE

A Singaporean, Hsien Yang was formerly a member of our International Advisory Board and combines a strong background in engineering with extensive international business experience in our most important growth markets. He was chief executive of Singapore Telecommunications Limited for 12 years until 2007. He served as chairman and non-executive director of Fraser and Neave Limited from 2007 to February 2013. He has significant industrial and financial skills.

### OTHER CURRENT PRINCIPAL ROLES

- Civil Aviation Authority of Singapore, chairman
- The Islamic Bank of Asia Private Limited, chairman
- The Australian and New Zealand Banking Group Limited, director
- General Atlantic LLC and associated funds, special adviser
- Lee Kuan Yew School of Public Policy, member of the board of governors
- INSEAD SE Asia Council, president

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## Bradley Singer, Non-independent Non-executive Director

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Appointed in March 2016

### CAREER, SKILLS AND EXPERIENCE

Brad has an outstanding record as a business leader in the US. He brings with him experience of public companies during periods of change, growth and significant financial outperformance, particularly in the US where Rolls-Royce has important business interests and a significant shareholder base. He has been senior executive vice president and chief financial officer of Discovery Communications, Inc. and chief financial officer and treasurer of American Tower Corp. Before these appointments, he worked as an investment banker at Goldman Sachs. He is a former director of Martha Stewart Living, Omnimedia, Inc., Citizens Communications Corp and Motorola Solutions Inc.

### OTHER CURRENT PRINCIPAL ROLES

- ValueAct Capital Master Fund P.L., partner and chief operating officer
- Posse Foundation, director
- McIntire School Foundation, University of Virginia, trustee

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## Sir Kevin Smith CBE, Senior Independent Non-executive Director

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Appointed in November 2015

### CAREER, SKILLS AND EXPERIENCE

Sir Kevin has extensive industrial leadership experience and a deep knowledge of global engineering and manufacturing businesses, as well as the aerospace industry. He was chief executive officer of GKN plc for nine years until 31 December 2011. Before joining GKN, he spent nearly 20 years with BAE Systems where he held a number of senior executive positions. He joined Uritas Capital in 2012 and served as partner and chairman of its operating advisor group until October 2015, based in Hong Kong. His private equity experience in operation-intensive businesses with Uritas is extremely valuable to Rolls-Royce. He served as a non-executive director of SSE plc between June 2004 and July 2008. He has an honorary fellowship doctorate from Cranfield University, is an honorary fellow of the University of Central Lancashire and a fellow of the Royal Aeronautical Society. He was awarded a CBE in 1997 and was knighted in 2006 for services to industry.

### OTHER CURRENT PRINCIPAL ROLES

- Uritas Capital, senior adviser
- LEK Consulting, European advisory board member
- University of Central Lancashire, industry steering group member

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## Jasmin Staiblin, Independent Non-executive Director

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Appointed in May 2012

### CAREER, SKILLS AND EXPERIENCE

A German national, Jasmin combines a strong background in advanced engineering and deep technology knowledge with extensive international business experience, having worked in Switzerland, Sweden and Australia. She has been the chief executive officer of Alpiq Holding AG since 2013. She held a number of senior positions in the ABB Group becoming chief executive officer of ABB Switzerland from 2006 to December 2012.

### OTHER CURRENT PRINCIPAL ROLES

- Alpiq Holding AG, chief executive officer
- Georg Fischer AG, board member

# APPENDIX – MAIN FEATURES OF THE ROLLS-ROYCE LONG-TERM INCENTIVE PLAN (THE LTIP)

## 1. ADMINISTRATION OF THE LTIP

The LTIP will be administered by the Remuneration Committee of the Board (the Committee). All members of the Committee are Non-executive Directors and are not eligible to participate in the LTIP.

Decisions of the Committee are final and conclusive in all respects.

## 2. ELIGIBILITY

Participants in the LTIP will be selected by the Committee. In the rules of the LTIP, participants will be selected from the group, which will be the Company and its subsidiaries (the Group). In practice, those eligible to participate will be executive directors of the Company and employees of Rolls-Royce plc and its subsidiaries. Those who have given or received notice of termination of employment at the grant date will not be eligible. Awards made to Executive Directors of the Company will comply with the approved Directors' Remuneration Policy in place at the relevant time (Policy), particularly as regards the application of the individual limit, malus, clawback and holding periods.

## 3. AWARDS

An award will take the form of a conditional share award, which is a right to receive ordinary shares in the Company (Shares) for no cost at a specified point in the future. Alternatively, the Committee may decide to grant an award as a conditional right to receive a cash sum for no cost at a specified point in the future linked to the value of a given number of notional Shares.

Awards may be satisfied by the issue of new Shares, the transfer of Shares held in treasury or the purchase of Shares in the market including a transfer by the trustee of an employee benefit trust. Awards will be personal to the participant and may not be transferred, except on death. No payment is required for the grant of an award.

## 4. TIMING

Subject to dealing restrictions, awards may be granted in the six weeks following the date on which the LTIP is approved by shareholders. Thereafter, awards may be granted in the six weeks following the announcement of the Company's results for any period, or shortly after an individual is recruited or promoted or at other times if the Committee considers that exceptional circumstances exist, subject in each case to dealing restrictions. If dealing restrictions prohibit the making of an award, the grant may be delayed until the dealing restrictions cease to apply.

Awards may not be granted after 4 May 2027.

## 5. INDIVIDUAL LIMIT

The aggregate value of Shares over which LTIP awards may be granted to a participant in any financial year is limited:

- (i) for Executive Directors of the Company, to the limits set out in the Policy; and
- (ii) for other employees, to the percentage of the employee's salary which is equivalent to the percentage limit on LTIP awards that can normally be made to the CEO of the Company as set out in the Policy. Under the Policy to be proposed at the Annual General Meeting on 4 May 2017, that limit is 250% of salary. If the Committee decides to grant a 'buyout' award or it determines that exceptional circumstances exist which make it necessary or desirable to grant an award in excess of this limit, the limit may be exceeded.

## 6. PLAN LIMITS

The LTIP will be subject to the following limits:

- (i) on any date, the number of Shares which may be allocated under the LTIP may not, when added to the Shares allocated in the previous 10 years under all employee share plans of the Group, exceed 10% of the issued Shares immediately before that day; and
- (ii) on any date, the number of Shares which may be allocated under the LTIP may not, when added to the Shares allocated in the previous 10 years under all employee share plans established by the Group for the benefit of selected employees, exceed 5% of the of the issued Shares immediately before that day.

For these purposes, Shares will be treated as allocated when rights to acquire them are granted (where they are unissued Shares) and otherwise when they are issued and allotted. Rights which lapse cease to count. No account will be taken of Shares which are acquired by purchase in the market (rather than by subscription). For so long as the Investment Association's Principles of Remuneration require it, treasury shares will count towards these limits.

## 7. VESTING OF AWARDS

Awards will not normally vest until at least three years after grant.

Awards may be granted subject to performance measures or other conditions that must normally be satisfied in order for awards to vest. All LTIP awards granted to Executive Directors of the Company will be subject to performance measures which will determine whether and to what extent an award vests. They will normally be measured over a period of not less than three years and will be measured on one occasion only. There will be no re-testing.

It is intended that the performance measures applicable to awards to be made to Executive Directors of the Company in 2017 will be weighted 60% on CPS, 20% on EPS and 20% on relative TSR (versus FTSE 100 and Global S&P Index, to recognise that the Group is global), as set out in the Policy to be proposed at the Annual General Meeting. The Committee may replace or vary a performance measure or other condition applicable to an award if an event occurs or circumstances arise which cause the Committee to determine that the performance measure or condition has ceased to be appropriate, provided that the replaced or varied performance measure or other condition is not materially less difficult to satisfy than as was intended when originally imposed.

Vesting and/or the release of shares may be delayed due to dealing restrictions or where an investigation is ongoing as to whether an award should be subject to a malus/clawback adjustment. Shares will normally be delivered as soon as reasonably practicable following vesting. Awards will not normally benefit from any additional rights to reflect any dividends paid or C shares issued in place of dividends (dividend equivalents) before Shares are transferred to the participant.

The Committee may decide to satisfy vested awards in whole or in part by paying an equivalent cash amount in lieu of issuing or transferring Shares.

'Buyout' awards may be granted on different terms as to their vesting, to reflect more closely the lost award in respect of which they are being granted, subject to the terms of the Policy in relation to Executive Directors of the Company.

## 8. HOLDING PERIOD

The Committee may determine that a holding period will apply to any award, in which case the participant's award will not vest until at least five years after grant. At present, the intention is that a holding period will only apply to awards made to Executive Directors and the Executive Leadership Team. This may not be the case if the award is a 'buyout' award.

A holding period may apply differently in some jurisdictions where local tax or securities law constraints require it. For example, due to local tax laws, participants in the U.S. will receive their Shares after the end of the performance period, at the start of the holding period, but the Shares will be subject to restrictions on sale and transfer throughout the holding period.

Dividend equivalents will normally accrue to awards during a holding period, payable following vesting.

#### **9. MALUS AND CLAWBACK**

Malus and clawback provisions will normally apply to an LTIP award and, except in the case of 'buyout' awards, will always apply to awards made to Executive Directors of the Company. They will normally apply until at least six years after the grant of the award. Under these provisions, the Committee may reduce the award (malus) and/or claw back amounts in connection with the award (clawback), as appropriate, where it determines that exceptional circumstances exist, including:

- (i) a material misstatement of audited results of the Company or any member of the Group;
- (ii) a serious financial irregularity, which results in the performance measures set no longer being appropriate;
- (iii) an event which has caused material reputational damage to any member of the Group;
- (iv) a material failure of any of the Group's risk management policies;
- (v) a serious breach of the Group's Global Code of Conduct; or
- (vi) the participant having been guilty of gross misconduct.

The Committee may also reduce an award to give effect to a clawback provision contained in any other employee share plan or bonus plan operated by the Group.

#### **10. LEAVING EMPLOYMENT**

If a participant ceases to be employed within the Group for any reason he will normally be entitled to retain any awards which have already vested or which are in a holding period.

If a participant leaves during the holding period, the award will normally remain subject to the holding period and the malus/clawback provisions. There will not be any prorating for time in these circumstances.

If a participant leaves before his award has vested (or, where a holding period applies to an award, before the holding period has started), his award will normally lapse. This will not be the case if he leaves due to death, ill-health (including terminal illness), injury or disability, redundancy, retirement, the sale of the company or business in which the participant works or for any other reason at the Committee's discretion (a Good Leaver). Where a participant is a Good Leaver, his award will normally be reduced pro rata for time and will normally either vest immediately (for awards with no performance measures or holding period) or continue on the normal timetable (for awards with performance measures and/or a holding period). In any case, awards will vest to the extent any applicable performance measures and any other conditions have been satisfied or are deemed to be satisfied if awards will vest early, which may have regard to projected performance over the full period.

Any holding period applicable to an award will normally continue to apply after leaving.

Vesting may be reduced for certain absences from work before the award vests.

#### **11. CHANGE OF CONTROL ETC.**

Special rules apply in the event of a takeover of the Company

(including a person becoming bound or entitled to acquire Shares under UK company law), a compromise or arrangement in connection with the acquisition of shares under UK company law, a voluntary winding up of the Company, and, in its discretion, any other Group events which the Committee believes would affect the value of Shares. Awards in these circumstances will vest to the extent applicable performance measures and any other conditions have been satisfied or are deemed to be satisfied if awards will vest early, which may have regard to projected performance over the full period. Vesting will normally be reduced pro rata for time, unless the event occurs during a holding period.

In the above circumstances, any holding period applicable to an award will fall away.

Alternatively, in some circumstances awards may (and in the case of an internal reorganisation normally will) be exchanged for rights in relation to shares in an acquiring company, which will normally have to be on terms substantially equivalent to those that applied prior to the exchange. For example, in the event of an exchange, any applicable holding period will normally continue to apply.

#### **12. VARIATION OF SHARE CAPITAL**

In the event of any variation in the share capital of the Company, a demerger, special dividend, distribution or any other transaction which will materially affect the value of Shares, the Committee may make an adjustment to the number or class of Shares subject to awards.

#### **13. LISTING/RIGHTS ATTACHING TO SHARES**

All Shares issued under the LTIP will rank equally alongside Shares then in issue. Participants will not be entitled to any voting, dividend or other rights in respect of Shares until the Shares are issued or transferred to them. The Company will apply for the listing of any new Shares issued under the LTIP as soon as practicable after issue.

#### **14. BENEFITS NON-PENSIONABLE**

Benefits under the LTIP are not pensionable benefits.

#### **15. AMENDMENTS AND TERMINATION**

The Committee may at any time change the LTIP in any way, save that any proposed change that is to the advantage of present or future participants and that relates to the provisions governing the persons to or for whom Shares or cash may be provided, the overall and individual limits on the making of awards, the basis for determining participants' entitlement to, and the terms of, Shares or cash provided under the Plan, or the rights of participants in the event of a capitalisation or rights issue, open offer, sub-division or consolidation of shares, reduction of capital or any other variation of capital of the Company, may not be made without the prior approval of shareholders in general meeting.

There is an exception for minor amendments to benefit the administration of the LTIP, to comply with or take account of the provisions of any proposed or existing legislation and/or to obtain or maintain favourable tax, exchange control or regulatory treatment for any member of the Group or any present or future participant.

No alteration may be made that would be to the material disadvantage of any subsisting rights of any participants unless all such disadvantaged participants have been asked for consent to the alteration and a majority of those who respond give their consent.

The Committee may terminate the LTIP at any time, although this will not affect any subsisting rights under the LTIP.

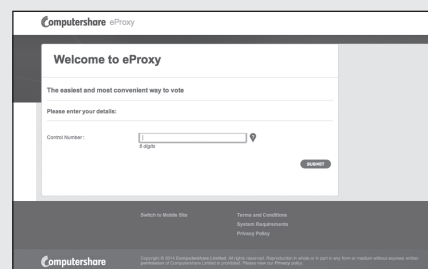
*This summary does not form part of the rules of the LTIP and should not be taken as affecting the interpretation of its detailed terms and conditions. The Board reserves the right to amend or add to the rules of the LTIP up until the time of the Annual General Meeting, provided that such amendments or additions do not conflict in any material respect with this summary.*

## WHY NOT GO ONLINE?

### RECORD YOUR VOTE

Instead of completing the paper proxy form, you can record the appointment of your proxy online. You will be asked to enter the Control Number, Shareholder Reference Number (SRN) and Personal Identification Number (PIN) as printed on the paper proxy form and you will be given a receipt electronically to confirm your vote has been recorded.

[WWW.INVESTORCENTRE.CO.UK/EPROXY](http://WWW.INVESTORCENTRE.CO.UK/EPROXY)



### REGISTER YOUR EMAIL ADDRESS WITH US

If you are able to accept delivery of our Annual Report and Notice of AGM from our website [www.rolls-royce.com](http://www.rolls-royce.com) instead of receiving them in the post, you will not only reduce our printing and distribution costs but will also be helping the environment.

You can register your email address by visiting [www.investorcentre.co.uk](http://www.investorcentre.co.uk) and clicking on the eComms Signup link on the bottom right of the home page.

[WWW.INVESTORCENTRE.CO.UK](http://WWW.INVESTORCENTRE.CO.UK)



### MANAGE YOUR SHAREHOLDING

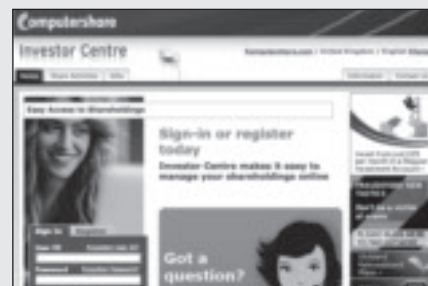
At our Registrar's website you can:

- Set up instructions to have shareholder payments made direct to your bank account.
- Deal in Rolls-Royce shares.
- View your account balance, values and history.
- Change your address.
- View payment history and access tax information.

You will need to quote the Shareholder Reference Number (SRN) as printed on your proxy form to register for this service.

You can also contact the Registrar by calling +44 (0)370 703 0162 between 8.30am and 5.30pm (BST) Monday to Friday or you can write to them at Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS13 8AE, United Kingdom. Email: [webqueries@computershare.co.uk](mailto:webqueries@computershare.co.uk).

[WWW.INVESTORCENTRE.CO.UK](http://WWW.INVESTORCENTRE.CO.UK)



### VISIT OUR WEBSITE

Our website contains a wealth of information about our Group. It has an Investors' section specifically designed to meet the needs of our shareholders and you can register for our news service which will enable you to receive all of our press releases direct to your email address or to your mobile phone.

[WWW.ROLLS-ROYCE.COM](http://WWW.ROLLS-ROYCE.COM)

