

From Sir Ralph Robins  
CHAIRMAN



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Room 2142  
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A handwritten signature in black ink, appearing to read 'Dear Derek,'.

**REVIEW OF THE ROLE AND EFFECTIVENESS OF NON-EXECUTIVE  
DIRECTORS: A CONSULTATION PAPER**

Thank you for the opportunity of giving our views on your important enquiry into the role and effectiveness of non-executive directors.

Your consultation paper covers a wide range of issues and rather than responding to each question individually, I have set out below Rolls-Royce's views under the major headings contained in the paper.

Background

As I am sure you are aware, Rolls-Royce plc is a FTSE 100 company with a significant international dimension. It has a Board of twelve directors, five of whom are non-executives. On my retirement from the Board, the Company will additionally have a non-executive Chairman. All the current non-executives are independent of management and free of any relationship that could materially interfere with the exercise of their independent judgement.

As stated on page 25 of our most recent Report and Accounts, the Company has complied fully with the terms of the Combined Code. So far as the non-executive directors are concerned, the Board appoints them for specific terms on the basis of recommendations put to it by the Nominations Committee. Since 1996, the Company has had a senior independent non-executive director who is also the Deputy Chairman. Non-executive directors participate actively in Board strategy discussions, including attending longer meetings arranged specifically for this purpose.

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With the increasingly global nature of the larger UK plcs, it is arguable that an insufficient number of non-executive directors have an international background. We believe that your enquiry should explore ways of attracting a greater proportion of non-UK executives to serve as non-executive directors.

Do existing structures and procedures facilitate effective performance by non-executive directors?

Existing structures are generally appropriate but we would like to draw your enquiry's attention to the following points:

- (a) The time commitment and responsibilities for non-executive directors can be considerable and their remuneration must be commensurate to this if talented individuals with many other calls on their time are to be attracted. The Boards of large plcs are likely to have a significant number of sub-committees on which non-executives will be expected to serve. In the case of Rolls-Royce, for example, these include the Audit Committee, the Remuneration Committee, the Nominations Committee, the Health, Safety and Environment Committee, the Environmental Advisory Board, the Community Investment Committee and the Nuclear Propulsion Assurance Committee, all of which have non-executive director membership. It is questionable whether the current remuneration structure for non-executive directors, as applied across the FTSE 100 companies, adequately compensates them for the time commitment required and for the increasing risks which they face in fulfilling what has become a highly demanding role. We very much hope that your enquiry will take a view on what is an appropriate balance between providing adequate remuneration for non-executive directors and maintaining their continuing independence.
- (b) There have been suggestions in some quarters that regulations should be introduced defining the minimum amount of time which a non-executive director should devote to the affairs of the Board on which he or she serves. Rolls-Royce would be very much opposed to the introduction of such a requirement. The demands faced by non-executive directors will inevitably vary from company to company and from year to year depending on the extent of corporate activity. To introduce a fixed minimum level of commitment would therefore be inappropriate and would have the effect of deterring many from taking up non-executive director positions, particularly those who are also serving as executive directors in other companies. We very much hope, therefore, that your enquiry will conclude that regulation in this