

Board of directors

at March 1, 2001

Sir Ralph Robins BSc, FREng **Chairman**

Appointed to the Board in 1982. He joined Rolls-Royce in 1955, became Managing Director in 1984, Chief Executive in 1991, and was appointed Chairman in 1992. He is non-executive Chairman of Cable & Wireless plc and a non-executive director of Marks and Spencer plc, Schroders plc and Standard Chartered plc. He is a Fellow of the Royal Academy of Engineering and Chairman of the Defence Industries Council. Age 68.

John E V Rose MA **Chief Executive**

Appointed to the Board in 1992. He joined Rolls-Royce in 1984 and was Managing Director – Aerospace Group from 1995 to 1996 when he was appointed Chief Executive. He is a non-executive director of Reckitt Benckiser plc and of Riggs National Corporation in the USA. He is a Fellow of the Royal Aeronautical Society and a Council Member of The Prince's Trust. Age 48.

Lord Moore of Lower Marsh PC, BSc **Non-executive Deputy Chairman and Senior Independent non-executive director**

Appointed to the Board in 1994 and appointed Deputy Chairman in 1996. He is a non-executive director of Blue Circle Industries Plc, Monitor Inc., Marvin & Palmer Inc., G TECH Corp. and Private Client Bank AG and he is President of the Energy Saving Trust. Age 63.

Peter J Byrom BSc, FCA **Non-executive director**

Appointed to the Board in 1997. He was a director of N M Rothschild & Sons Limited from 1977 to 1996. He is Chairman of Domino Printing Sciences plc and of Molins PLC, and a non-executive director of Peter Black Holdings plc and Wilson Bowden plc. He is a Fellow of the Royal Aeronautical Society. Age 56.

John P Cheffins BSc, Ing **Chief Operating Officer and President – Civil Aerospace**

Appointed to the Board in 2001. He joined Rolls-Royce in 1967, became President, Rolls-Royce (Canada) Limited in 1989, President and Chief Executive Officer of Rolls-Royce Industries Canada Inc. in 1991, Director, Civil Engine Business in 1993, President – Civil Aerospace in 1998 and Chief Operating Officer in 2001. He is a Fellow of the Royal Aeronautical Society and a member of the Quebec Order of Engineers and of the Institute of Electrical Engineers. Age 53.

Colin H Green BSc, FREng **President – Defence Aerospace**

Appointed to the Board in 1996. He joined Rolls-Royce in 1968, became Director – Military Engines in 1989, Executive Vice President – Business Operations Allison Engine Company, Inc. in 1995, Managing Director – Aerospace Group in 1996, Director – Operations in 1998 and was appointed President – Defence Aerospace in 2001. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Aeronautical Society, a Fellow of the Institution of Mechanical Engineers, Council Member of the Society of British Aerospace Companies and Chairman of the UK Council for Electronic Business. Age 52.

James M Guyette BSc **President and Chief Executive Officer of Rolls-Royce North America Inc.**

Appointed to the Board in 1998. He became President and Chief Executive Officer of Rolls-Royce North America Inc., in October 1997. Until 1994 he was Executive Vice President, Marketing and Planning of United Airlines. He serves on the United States National Research Council Aeronautics and Space Engineering Board and he is a director of the Private Bank and Trust Company of Chicago, Illinois. Age 55.

Paul Heiden BSc, ARCS, ACA **Finance Director**

Appointed to the Board in 1997. He joined Rolls-Royce in 1992 and became Finance Director – Aerospace Group later that year and Director – Industrial Businesses in 1997. He was appointed Finance Director in October 1999. He is a non-executive director of Bunzl plc. Age 44.

Sir Robin Nicholson FREng, FRS **Non-executive director**

Appointed to the Board in 1986. Until 1996 he was an executive director of Pilkington plc. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Society and a non-executive director of B.P. plc. He was a member of the UK Government's Council for Science and Technology from its inception in 1993 until 2000. Age 66.

Philip C Ruffles BSc, RDI, FREng, FRS **Director – Engineering and Technology**

Appointed to the Board in 1997. He joined Rolls-Royce in 1961, became Director – Engineering, Aerospace Group in 1991 and Director – Engineering and Technology in 1997. He is a Fellow of the Royal Academy of Engineering, a Fellow of the Royal Society and a Fellow of the Institution of Mechanical Engineers. He is a Council Member of the Royal Aeronautical Society and the Central Laboratory of the Research Councils and is Royal Designer for Industry. Age 61.

Carl G Symon BSc, MSc **Non-executive director**

Appointed to the Board in 1999. He is Vice President of Alliances, IBM EMEA and formerly Chairman and Chief Executive Officer of IBM UK Ltd. He has held a number of senior executive positions with IBM in Latin America, Canada, Asia and the USA. Age 54.

Richard T Turner OBE, BA **Group Marketing Director**

Appointed to the Board in 1992. He joined Rolls-Royce in 1991 having previously been with the Company from 1965 to 1988. He is a Fellow of the Royal Aeronautical Society, a member of the Board of British Trade International and several other government advisory committees. He is a non-executive director of Corus Group plc and Senior plc. Age 58.

Sir John Weston KCMG **Non-executive director**

Appointed to the Board in 1998. During his Diplomatic Service career he has lived and worked in Europe, the USA and Asia. In London he was Deputy Secretary to the Cabinet and Political Director in the Foreign Office. He served as British Ambassador to NATO (1992-5), and subsequently as British Ambassador to the United Nations in New York until July 1998. He is a non-executive director of British Telecommunications plc and also President of the UK-wide Community Foundation Network. Age 63.

Charles Blundell MA **Company Secretary**

He joined Rolls-Royce in 1993 and was appointed Company Secretary in 1995. Age 49.

Membership of principal Board committees:
Audit committee – P J Byrom (Chairman), Lord Moore of Lower Marsh and Sir Robin Nicholson.
Remuneration committee – All non-executive directors (Sir Robin Nicholson, Chairman).
Nominations committee – Sir Ralph Robins (Chairman), J E V Rose and all non-executive directors.

Report of the directors

The directors present their report and the financial statements of the Group for the year ended December 31, 2000.

Principal activities

The Group's principal activities are described in the Company profile on the inside front cover.

Results for the year

The Chairman's statement, the Chief Executive's review and the Finance Director's review describe the year's operations, research and development activities and future prospects.

The directors recommend a final dividend of 5.00p a share. With the interim dividend of 3.00p a share, paid on January 8, 2001, this will make a total dividend of 8.00p a share for the year. Subject to approval of the recommended final dividend by shareholders, the total cost of dividends for 2000 is £126million. If approved, the Company will pay the final dividend on July 2, 2001 to shareholders registered on April 27, 2001.

Employment

The Group's employment policies and practices support its overall business objectives by motivating and developing employees to be responsive to the needs of the business and its customers.

The number of Group employees at the end of the year was 43,700 (1999 49,600). In 2000, 166 graduate trainees and 144 modern apprentices were recruited. In addition, there have been 341 undergraduate students in the Company for training periods of between two and 12 months.

The Group operates an equal opportunities policy. The Group's policy is to provide, wherever possible, employment opportunities and training for disabled people, to care for employees who become disabled and to make the best possible use of their skills and potential.

A particularly strong emphasis has been placed on effective employee communications and there are various forms of employee communication programmes across the Group, each adapted to the particular needs of individual businesses.

The Group consults with employees and their elected representatives on a wide range of topics relating to its overall business objectives. Management and employee representatives hold regular meetings at every location to discuss opportunities and issues of common interest.

Health, safety and environment

The effective management of health, safety and the environment (HS&E) is an integral part of how Rolls-Royce conducts its business and is consistent with its core values of reliability, integrity and innovation. This approach is reflected in the Group HS&E policy and in the role of the HS&E committee, which operates as a sub-committee of the Board, in line with corporate governance principles.

The scope of the environmental steering group was extended in 2000 to cover health, safety and the environment. The role of the steering group is to share best practice and facilitate the implementation of key HS&E initiatives throughout the business.

The Rolls-Royce HS&E management system was developed and disseminated to all Group companies in the course of the year. It builds on the systems already in place and is based on effective risk management. It requires the visible leadership and commitment of management at all levels and the active participation of all employees and contractors in its implementation.

The Group continued to maintain a low level of lost-time injuries over the year, well below the average for the manufacturing sector. The directors regret, however, that an employee died whilst working on a third-party site as a result of being struck by a vehicle driven by a third-party contractor. All such serious incidents are subject to a detailed accident investigation and review by the major incident board. The lessons learnt are then shared across the Group.

Rolls-Royce continues to develop the environmental management systems of its businesses worldwide to meet the requirements of the international standard ISO 14001. By the end of 2000, all the core businesses, which were part of the original programme, had achieved ISO 14001 certification. New businesses joining the Group through acquisition have a target of gaining certification within two years of operation under Rolls-Royce control.

In North America, Rolls-Royce Corporation received a '2000 Governor's Award for Excellence in Pollution Prevention' in recognition of its move from the use of coal to landfill/natural gas in three industrial boilers. This has resulted in a significant reduction in air pollutants and greenhouse gas emissions. In the UK, Compressor Systems received the award 'Vision in Business for the Environment of Scotland', in recognition of the successful integration of environmental objectives into the everyday management of the business.

The Group's nuclear facilities continue to operate under strict control and are overseen by either the Nuclear Installations Inspectorate or the Ministry of Defence. These facilities were also subject to a rigorous health, safety and environmental audit as part of the Group's corporate audit programme. A sub-committee of the Board, details of which are set out on page 27, is responsible for the monitoring of HS&E issues at these facilities.

The environmental performance of Rolls-Royce products has improved significantly. Tools such as 'life cycle analysis' and 'design for the environment' are being developed to evaluate and minimise the environmental impact of our products. As part of a wider programme, materials and processes with potentially undesirable health, safety or environmental consequences have been identified and this information is used in the design of future products.

A valuable initiative during 2000 was the formation of an Environmental Advisory Board (EAB) under the Chairmanship of Sir Robin Nicholson. The role of the EAB is to review and make recommendations on the environmental aspects of the Group's activities, including business, product and operational strategies. The Board includes third-party members, who are respected authorities in their field.

Rolls-Royce has set challenging targets for improving the key environmental impacts of its products and operations. These targets and the progress towards them will be published in our external reports on the environment. The Group aims to produce its second external report on the environment in 2001. It is intended to publish the full report on the Rolls-Royce web site. Copies of a paper report will also be available on written request to the Company Secretary.

Directors

Directors who held office during 2000 are listed on page 24. Mr J P Cheffins was appointed a director of the Company on January 1, 2001.

Under the Company's Articles of Association, one-third of the directors are subject to re-election every year, with each director also being subject to re-election at intervals of not more than three years. Any director appointed during the year is required to retire and seek re-election by the shareholders at the next Annual General Meeting. The directors retiring at this year's Annual General Meeting are Sir Ralph Robins, Sir Robin Nicholson, Mr C H Green and Mr P C Ruffles. As a newly appointed director, Mr J P Cheffins will also retire at the Annual General Meeting. They all offer themselves for re-election.

Corporate governance

The Group is committed to the highest standards of corporate governance. This report (and where appropriate, the Remuneration report) describes how it applies the principles and complies with the provisions of the Combined Code.

Compliance

The Board confirms that in 2000, the Company complied with all the provisions of the Combined Code.

The Board

The Board comprises a chairman, a chief executive, six other executive directors and five non-executive directors. Biographies of the directors appear on page 24.

Lord Moore of Lower Marsh has held the position of non-executive Deputy Chairman since 1996 and is the Company's Senior Independent director. All the non-executive directors are considered by the Board to be independent of management and free of any relationship which could materially interfere with the exercise of their independent judgement. They are appointed by the Board for specified terms on the basis of recommendations put to the Board by the nominations committee.

The Board meets regularly throughout the year. It considers all issues relating to the strategy, direction and future development of the Group. It has a schedule of matters reserved to it for decision, which is regularly updated. The requirement for Board approval on these matters is understood and communicated widely throughout the Group.

To enable the Board to function effectively and the directors to discharge their responsibilities, full and timely access is provided to all relevant information.

There is an agreed procedure for directors to take independent professional advice at the Company's expense. This is in addition to the access every director has to the Company Secretary and to the General Counsel.

The Group Executive

The Group Executive is responsible for the running of the Company within the strategy determined by the Board.

The Group Executive is chaired by Mr J E V Rose – Chief Executive. Its other members are:
Mr J P Cheffins, Chief Operating Officer and President – Civil Aerospace
Mr J Gaskell, President – Energy Business
Mr C H Green, President – Defence Aerospace

Mr J M Guyette, President and Chief Executive Officer of Rolls-Royce North America Inc.
Mr P Heiden, Finance Director
Mr C J Hole, Director of Procurement
Dr S Lanyado, President – Marine Business
Mr J R Rivers, Director – Human Resources
Mr P C Ruffles, Director – Engineering and Technology
Mr R T Turner, Group Marketing Director.

Board committees

The Board has delegated certain powers and duties to Board committees, all of which operate within defined terms of reference.

The *nominations committee* makes recommendations to the Board on the appointment of executive and non-executive directors. The committee is chaired by Sir Ralph Robins and its other members are Mr P J Byrom, Lord Moore of Lower Marsh, Sir Robin Nicholson, Mr J E V Rose, Mr C G Symon and Sir John Weston.

The *remuneration committee's* membership and principal terms of reference are set out in the Remuneration report on pages 30 to 36.

The *audit committee* meets regularly with the external auditors, reviews the Group's annual and interim financial statements and also ensures that appropriate accounting policies and compliance procedures are in place. The committee is chaired by Mr P J Byrom and its other members are Lord Moore of Lower Marsh and Sir Robin Nicholson.

The *risk committee* is accountable for the Company's risk management and for reporting key risks and the associated mitigating actions to the Board. The committee is chaired by Mr J E V Rose and its other members are Mr J P Cheffins, Mr C H Green, Mr J M Guyette, Mr P Heiden and Mr P C Ruffles.

The *health, safety and environment committee* is chaired by Mr J E V Rose and its other members are Mr P J Byrom, Mr C H Green, Mr J M Guyette and Mr P C Ruffles. It is responsible for setting HS&E policy and objectives. Further information on the committee's work in this important area is set out in the Group's environmental report.

The *nuclear propulsion assurance committee* is responsible for the HS&E aspects of the Company's nuclear facilities. It is chaired by Sir Ralph Robins and the other members are Mr P Heiden, Sir Robin Nicholson, Mr J E V Rose and Mr P C Ruffles.

The *community investment committee* is responsible for administering the Company's policy on charitable donations. The committee is chaired by Sir John Weston and its other members are Sir Robin Nicholson and Mr R T Turner.

The Company's annual charitable donations budget is administered by the committee and by regional site committees. The policy the committee follows when considering charitable appeals is set out below:

'As a forward-looking, innovative and global company, Rolls-Royce plc is committed to being a good corporate citizen in its operations throughout the world. The Group's policy on donations is to direct its support primarily to causes with educational, engineering and scientific objectives, as well as to social objectives connected with the Company's business and place in the wider community.'

During 2000, the Company made charitable donations amounting to £371,000. A list of the principal donations made in 2000 is available on written request to the Company Secretary.

The Group made no political contributions in 2000.

Communication with shareholders

The Company attaches considerable importance to the effectiveness of its communication with shareholders. It publishes a concise summary financial statement as well as its full report and accounts and there is a separate environmental report.

There is regular dialogue with individual institutional shareholders as well as general presentations after the interim and preliminary results. All shareholders can gain access to these presentations, as well as to the annual report and other information about the Group, through the Group's web site at <http://www.rolls-royce.com>. They may also attend the Company's Annual General Meeting at which the key business developments during the financial year are highlighted and at which they have an opportunity to ask questions.

Internal controls and risk management

Directors' responsibilities

The directors are responsible for the Group's system of internal control and for reviewing its effectiveness from both a financial and operational perspective. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable but not absolute assurance against material misstatement or loss.

In reviewing the effectiveness of the system of internal control, the Board has taken account of the results of all the work carried out to audit and review the activities of the Group.

There is an on-going process to identify, assess and manage risk. This process is subject to continuous improvement and has been in place throughout the financial year to which these statements apply and up to the date of their approval.

The Board has reviewed the process and has confirmed that it complies with the Turnbull Committee Guidance on Internal Control issued in September 1999. The Board has established a risk committee chaired by the Chief Executive with specific accountability for the system of risk management and for reporting key risks and their associated mitigating actions to the Board. Details of the membership of the committee are set out on page 27.

Organisation

The Group has a clearly defined organisation structure within which operational management have detailed responsibilities and levels of authorisation, supported by written job descriptions and operating manuals. The Group also has a code of business conduct.

The risk management system

Management are responsible for the on-going identification and evaluation of significant risks within their areas of responsibility and the design and operation of suitable controls or mitigation actions. Risks may arise from a variety of internal and external sources. They may be associated with regulation, customer requirements, competitor actions or could result from the capability of the processes we use to execute our business. All risks, irrespective of source, are actioned through the processes operated by our project and functional teams. Management report regularly on their review of risks, and how they are managed, to the risk committee so that the Board can then consider and review these risks in terms of their potential impact.

During 2000, management have carried out a comprehensive risk review at individual business and sector levels and have developed action plans to enhance the business process performance.

Systems of internal control

The general managers of individual businesses are aware of their responsibility to operate systems of internal control which provide reasonable assurance of effective and efficient operations, reliable financial information and reporting and compliance with law and regulation. In addition financial managers are required to acknowledge in writing that their routine financial reporting is based on

reliable data and that their results are properly stated in accordance with Group requirements.

The Group has a comprehensive budgeting system with an annual budget approved by the directors. Revised forecasts for the year are reported at least quarterly. Actual results are reported monthly against budget and variances reviewed. In view of the long-term nature of the business, the Group also prepares, annually, a detailed five-year plan which is reviewed by the directors.

The activities of the Group are subject to review by the risk management organisation and the audit functions of health, safety and environment, the quality management system, engineering and business assurance. These functions operate to work programmes agreed by the appropriate Board member.

In particular, the business assurance function, which works closely with the external auditors, undertakes a financial and operational audit programme agreed by the audit committee and covering all Group activities. The programme includes independent reviews of the systems of internal control and risk management. Findings are reported to the audit committee three times a year.

Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

Payment to suppliers

The Company is guided by the Supply Chain Relationships in Aerospace (SCRIA) initiative. It seeks the best possible terms from suppliers and when entering into binding purchasing contracts, gives consideration to quality, delivery, price and the terms of payment. In the event of disputes, efforts are made to resolve them quickly.

The Company had the equivalent of 56 days purchases outstanding at December 31, 2000, based on the average daily amount invoiced by suppliers during the year.

Share capital

The following have a notifiable interest in the Company's ordinary shares at March 1, 2001:

	% of issued share capital
BMW AG	10.0

Auditors

A resolution to reappoint the auditors, KPMG Audit Plc, and to authorise the directors to determine their remuneration, will be proposed at the Annual General Meeting.

By order of the Board

Charles Blundell, Company Secretary
March 1, 2001