



ROLLS-ROYCE plc
65 Buckingham Gate, London SW1E 6AT
Fax: 071-233 1733, Telex: 918091
Telephone: 071-222 9020

From the Chairman's Office

July 30, 1992

Mr Nigel Peace
Secretary
Committee on the Financial Aspects of Corporate
Governance
PO Box 433
Moorgate Place
London EC2P 2BJ

Dear Mr Peace:

CADBURY REPORT
- COMMENTS FROM ROLLS-ROYCE plc

Corporate Governance is a difficult subject and we welcome the Committee's report. We have reviewed our procedures and debated the Report in our own Board in detail.

Our principal concern is that an effect of the report could be divisively to distinguish between the responsibilities of executive and non-executive directors. Accordingly, we suggest that the final report should distinguish clearly between the following three issues:

1. Misbehaviour/Fraud and Other Illegal Acts

Misbehaviour should be dealt with by law, not by codes or guidelines, so that management, directors and outside agencies know what they are:

- responsible for
- entitled to ask to see
- protected against

/.....

[RWH:BD14005]

Mr Nigel Peace

July 30, 1992

2. Effective Management

We see no reason to distinguish between the responsibilities of executive and non-executive directors in the capacity of director.

Whilst we welcome guidelines in the areas we identify in the attached note, we are opposed to the Committee's proposal that a Board should report in the Report and Accounts on whether a company complies or not because:

- the standards would tend to the lowest common denominator;
- what makes sense in some industries or sizes of business may not in others;
- alterations to standards would be difficult to achieve;
- special exemptions would be necessary for commercially sensitive information.

In particular we would like to see more focus on how best to:

- integrate and thus enable non-executive directors to contribute effectively to a company's activities;
- provide access for non-executive directors to both information and management;
- ensure that proper levels of authority are identified and dealt with within the Board's organisation and committee structure and in authority delegated by it; and
- ensure that directors are mindful of and discharge their legal responsibilities, having access to independent legal advice where necessary through the Company Secretary.

/.....

Mr Nigel Peace

July 30, 1992

3. Board and Senior Management Remuneration, and Contracts

This should be relatively straightforward. It is in shareholders' interests that Companies attract and retain the best management.

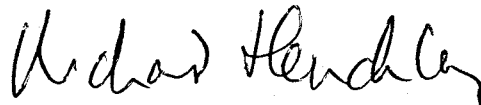
We agree that the method of establishing a proper balance between the interests of shareholders and employees should be openly available, as should the results of the action taken.

Accordingly we support disclosure of how decisions in this area are made, what they are and how the decision making process compares with Stock Exchange guidelines.

It seems to us that a valuable opportunity has been lost to describe the best practices for making effective use of non-executive directors by involvement with the Company's activities on a personal or collective basis. This is likely to be of more benefit to shareholders than a "supervisory" role which could prove to be divisive.

Our comments on the proposals in more detail are attached.

Yours sincerely,



PP Lord Tombs of Brailes

ROLLS-ROYCE plc
COMMENTS ON DRAFT CADBURY REPORT

THE BOARD

Non-Executive Directors

In our view distinctions between the responsibilities of executive and non-executive directors, save in relation to remuneration, are both divisive and, for example, in the case of decision making through a two tier board, a sham. We see no reason why a non-executive director should be inherently more objective or, why as individuals or as a group, their powers and responsibilities should be different.

The benefit of a non-executive director is the experience he brings to bear. Thus the composition of a Board and any committee of it and responsibilities concerned should reflect the qualities required to do the job most effectively.

Directors' Training/Independent Advice

In our view directors should be chosen for the qualities they bring to the Board. Training should be optional.

They should be clear about their legal responsibilities and have such access to independent legal advice, at the Company's expense, as necessary.

In our case, the Company Secretary will be the conduit to independent advice for quality control and confidentiality reasons (but only disclosing who has had access to what advice with permission from the person who has sought the advice).

Board Structure and Procedures, Delegated Authorities

The Board should delegate authorities clearly to committees and management. Inherent in such delegation is a system of forecasting, decision making and reporting.

Nomination Committees

We see little point in setting up a special committee for what should be an infrequent exercise. The Board should decide on who its members should be.

Audit Committee

We support the specimen terms of reference, but not the proposal that members should be exclusively non-executive directors although that will be the case in our Audit Committee in due course.

Directors' and Senior Management Remuneration/
Remuneration Committees

We support the Committee's recommendation that the Remuneration Committee should consist of non-executive directors but not that the Chairman of the Committee should respond to questions at the AGM. That is the task of the Board Chairman.

The maximum duration of contracts should be a matter for Company Law, as it is now.

Reporting Practice and Auditing

Reporting practice should be a matter of law. We are unenthusiastic about declaring the basis of going concern assumptions and qualifications in the Report and Accounts. In our view the provisions of the Insolvency Act and the requirement for auditors to comment as to whether accounts provide a true and fair view of a Company's affairs are more than adequate if properly applied.