

Report from Sir Simon Robertson Chairman of the nominations committee



My first priority is to ensure that Rolls-Royce has a strong leadership team.

During 2010, the nominations committee was required to find a suitable successor to Sir John Rose as Chief Executive. Following a search process with the assistance of independent consultants, the committee unanimously agreed that John Rishton, who had already served as a non-executive director for the previous four years, had all of the necessary qualities to make a success of that role. John Rishton became Chief Executive at the beginning of April 2011 on John Rose's retirement.

During 2011, Andrew Shilston expressed his wish to retire as Finance Director at the end of the year. The committee believed strongly that the new Finance Director should know the business well and therefore ideally would be an existing employee. Mark Morris is an outstanding individual, having served the Group ably for many years across many disciplines, latterly as the Group Treasurer. Following leadership evaluations conducted independently by Korn Ferry and Egon Zehnder, the nominations committee recommended Mark's appointment, which was announced in September 2011. Mark was invited to attend Board meetings from the date of the announcement as part of his induction before formally taking up the post on January 1, 2012.

In addition, the committee recommended the recruitment of two new independent non-executive directors. An independent consultant, MWM Boardroom Consulting LLP, was appointed to conduct the search. The committee recommended a person of the highest calibre in Lewis Booth, the Chief Financial Officer of Ford Motor Company. Lewis was appointed to the Board on May 25, 2011 and, after the publication of the interim results in 2011, took over the chairmanship of the audit committee from Ian Strachan, who had taken over the role on an acting basis from John Rishton.

The second non-executive search conducted by MWM in the year was to find a non-executive who could fulfil a role as chairman of a new safety committee which the Board intends to form in 2012. We selected Sir Frank Chapman who has spent over 37 years in the oil and gas industry, the last 11 years as Chief Executive of BG Group (formerly British Gas plc). Frank joined the Board on November 10, 2011 and has an extensive engineering and technological background, and experience in a safety conscious industry.

During the year, the committee considered the tenure of office of the existing non-executive directors and discussed, at length, plans for an orderly succession to ensure the necessary skill sets continued to be represented on the Board, reflecting the increasing range and geographical spread of activities carried out by the Group.

The committee also invited the executive directors to attend one of its meetings in 2011 to discuss detailed succession plans for the executive directors and the GLT. The committee considered carefully arrangements to ensure that those executives identified as potential successors would receive suitable development opportunities to broaden their experience.

Following the publication of the Davies Report, the committee spent some considerable time looking at the composition of the Board and opportunities to increase diversity on the Board in its widest sense by considering a number of potential non-executives of high calibre who could clearly bring an additional dimension to Board debate. Rolls-Royce continues to be committed to developing a diverse workforce and equal opportunities for all, improving diversity at all levels of leadership and to making appointments based on merit at the most senior levels of our organisation. As already noted, the development of a diverse workforce and equal opportunities is governed through our Global Diversity and Inclusion Steering Group, membership of which includes Board directors and senior executives. We expect to make demonstrable progress in this area by 2015.

In support of our executive succession planning process, we continue to participate in the FTSE 100 Cross Company Mentoring Programme, the objective of which is to increase the pool of eligible senior female candidates for UK Board positions. We have also issued guidance to executive search companies outlining the importance of diverse candidate short lists.

In the autumn of 2011, JCA Partners LLP conducted a Board review which took the form of a facilitated self-evaluation by the Board. The review included confidential, unattributable, one-on-one interviews with each Board member, the incoming Finance Director and the HR Director which covered corporate governance, Board effectiveness, strategy development, risk management and Board and committee organisation, composition, operation and dynamics. All Board members unanimously agreed that the Board was working as an effective whole. The Board reviewed the way it had operated during the Qantas incident and conducted a thorough 'lessons learnt' exercise. Following the arrival of a new Chief Executive, and Finance Director, the Board is reviewing future key performance indicators and areas for discussion, which will enable it to assess how the agreed Group strategy is being executed. The Board is reviewing the committee structure to optimise its focus on safety. Also, the nominations committee will give increased focus to long-term succession planning for both executives and Board members.

The principal role of the committee is to consider, and recommend for approval to the Board, the appointment of suitable persons as directors of the Company and to lead the process for such appointments. The committee is also responsible for reviewing and overseeing senior management development to ensure orderly succession planning at, and immediately below, Board level. The full terms of reference for the committee are available on the Group's website at www.rolls-royce.com.

During 2011, the committee met three times and details of the members who attended can be found in the table on page 43.

In addition to the work described above, the committee also carried out the following tasks during the year:

- reviewed its terms of reference;
- considered the independence of the non-executive directors;
- agreed to extend the terms of office of Peter Byrom and John Neill;
- dealt with the authorisation of potential conflicts of interest, reviewed such authorisations previously agreed by the Board and recommended their renewal;
- upon the resignation of the Company Secretary, recommended the appointment of an Acting Company Secretary;
- considered time commitments of non-executive directors who had declared additional directorships; and
- considered the content of this report.

In conclusion, I would like to confirm that my first priority as chairman of the nominations committee and of the Board is to ensure that Rolls-Royce has a strong leadership team and it follows that the committee will continue to review, recommend and appoint the most able and appropriate candidates.

Sir Simon Robertson

Chairman of the nominations committee