



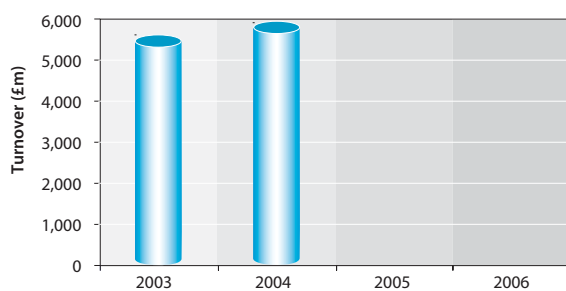
Powering a better world

Our operations and the environment, health and safety –
2004 update



Our third environment report, published in 2004, set a new range of challenging global operational targets to be achieved over a three-year period (2004-2006). This update highlights the progress that has been made in the first year of this cycle. A further update on progress will be provided in 2006 followed by a more comprehensive report in 2007.

Unless otherwise stated, absolute data is provided. Where normalised data is presented, financial turnover has been used as the reference.



Company turnover, £ million

2004 Highlights

There were no fatalities in the company in 2004 or prosecutions for HS&E related issues. Three formal warnings and one abatement notice was issued by environmental regulatory authorities and three improvement notices related to health and safety issues. Corrective actions have since been completed.

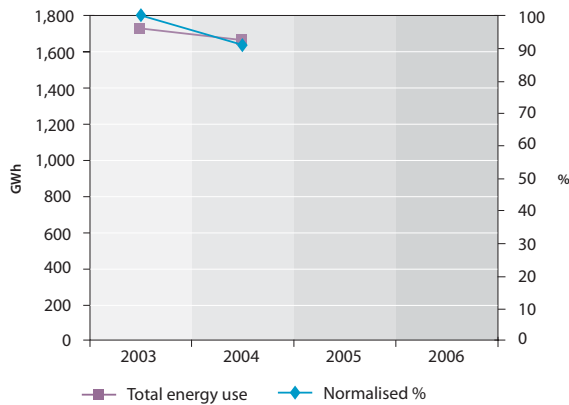
Rolls-Royce retained its position in the Dow Jones Sustainability Index, an international recognition of being amongst the best in class in this area. The Company also took part again in the Business in the Community (BitC) Corporate Responsibility Index (CRI), which includes health and safety as well as environment and other corporate responsibility issues. We achieved ninth place with a score of 94 per cent outperforming both the sector and individual average score in every category. In the 2004 Business in the Environment Index (BiE), we were again placed first in our sector with a score of 99 per cent and also entered the 'Premier League' of companies.

Almost all of the Company's operations are now certified to the International Standard for Environmental Management Systems ISO 14001 with the number of certificates awarded now totalling 56.

Good progress also continues to be made in our overall HS&E performance (as follows).



Energy



Energy use for facility support and manufacturing operations, GWh

Target – energy consumption

Reduce the amount of energy consumed by 9 per cent by the end of 2006, relative to 2003 levels (normalised on turnover).

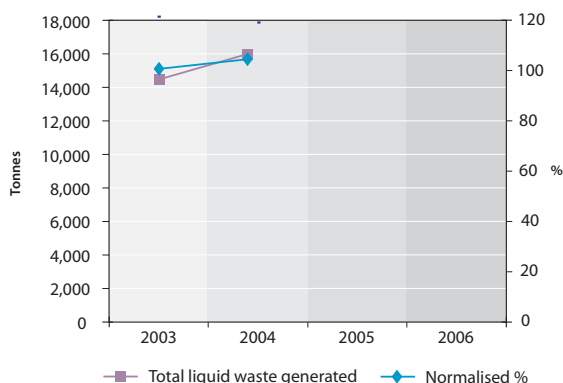
Overall energy consumption in 2004 fell to 1,663 GWh for facility support and manufacturing operations.

The total amount of energy used by Rolls-Royce worldwide (normalised against turnover) has fallen by 9.3 per cent since 2003 compared with an annual target of 3 per cent.

This relates to an absolute reduction in consumption of 4.6 per cent. These achievements are as a result of ongoing energy reduction and awareness programmes. Significant and ongoing investment in new facilities is also expected to make an increasing contribution to the efficient use of energy. These energy reductions are also an essential part of our commitments under various Climate Change agreements.

Greenhouse gas emissions associated with facility support and manufacturing operations (excluding product testing) reduced further in 2004 to 479 kilotonnes carbon equivalent compared to 551 in 2003 (a reduction of 13 per cent).

Liquid waste



Liquid waste, tonnes

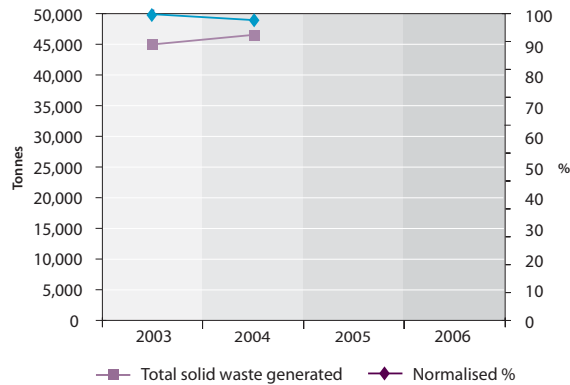
Target –liquid waste

Reduce the annual production of liquid waste by 7 per cent by the end of 2006, relative to 2003 levels (normalised on turnover).

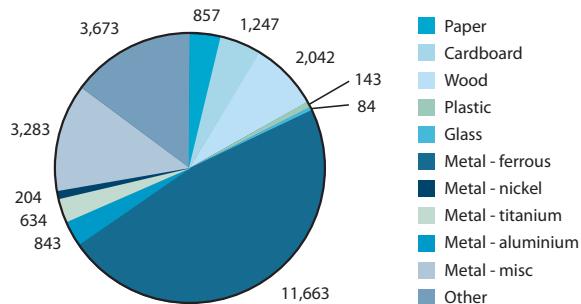
The total amount of liquid waste produced by the Company in 2004 (excluding waste discharged to sewers) was 15,649 tonnes, a slight increase on the 14,360 tonnes produced in 2003. The normalised data shows a 3.7 per cent increase in liquid waste produced compared to 2003 and an annual targeted reduction of 2.3 per cent. Again, some of this increase is attributable to factory relocation / redevelopment programmes and a one-off disposal of fuel following an incident at our Bristol site.

The targeted reduction in liquid waste is expected to remain a challenging target for businesses, especially as a result of the operation of dual facilities where the transfer of operations to new facilities is taking place. However, the increasing movement of the company away from chemical machining to hard chip machining is an example of an area that will contribute to liquid waste reduction.

Solid waste



Solid waste sent for disposal, tonnes



Solid waste sent for recycling, tonnes

Target – total solid waste

Reduce the annual production of waste by 8 per cent by the end of 2006, relative to 2003 levels (normalised on turnover).

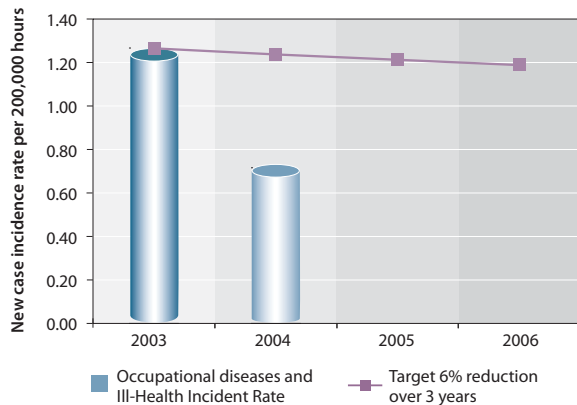
Total solid waste production has increased in absolute terms from 44,608 tonnes in 2003 to 46,702 tonnes in 2004. When normalised against turnover solid waste production has only marginally improved on 2003, by 0.4 per cent, and is currently behind the annual target of 2.7 per cent. Part of this is due to additional disposals arising from several factory relocation / redevelopment programmes. Opportunities to reduce waste streams will continue to be explored aimed at meeting this challenging target.

Target – recycling

Increase the proportion of waste sent for recycling or recovery to 55 per cent by the end of 2006

Solid waste recycling increased from 22,347 tonnes in 2003 to 24,674 tonnes in 2004, with metals accounting for 67 per cent of the total. The proportion that is sent for recycling has increased again this year to 52.8 per cent and has exceeded the annual target of 51.7 per cent. This is despite a number of businesses having to report reduced recycle rates due to errors established during the validation of previous data.

Occupational health

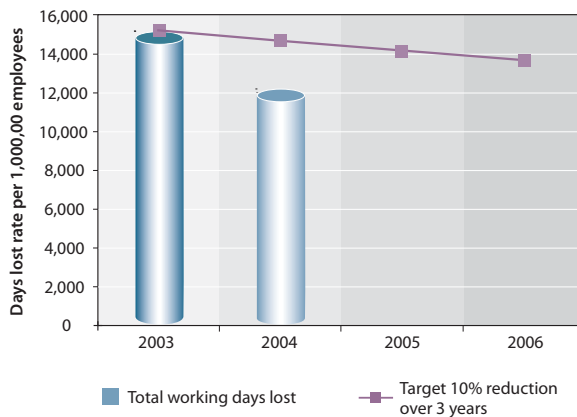


Target – incident rate and days lost

Reduce the incident rate of occupational diseases and other work related ill health by 6 per cent by the end of 2006

The total number of new cases of occupational illness / disease and work related ill health reduced from 380 in 2003 to 226 in 2004. The incidence rate per 200 000 hours worked improved from 1.19 in 2003 to 0.73 in 2004. This represents a 39 per cent improvement against the annual target of a 2 per cent reduction. The 2003 position was influenced by the first time reporting of NIHL data from our UK Energy operations and excluding this data the improvement in 2004 reduces to 26 per cent.

Occupational disease / ill-health incidence rate

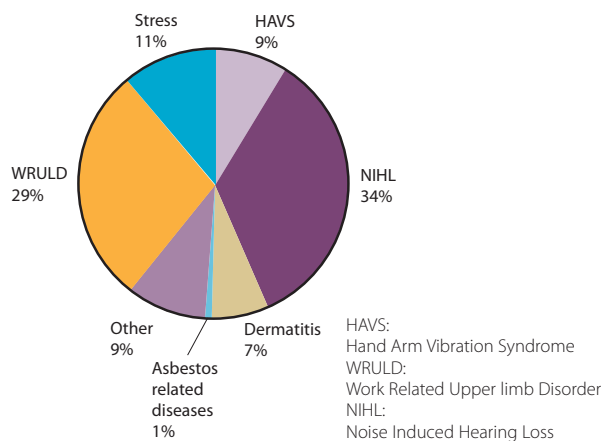


Reduce the total number of working days lost per 100,000 employees for work related injury and ill health by 10 per cent by the end of 2006

The number of days lost for work-related injury and ill-health has shown a significant reduction. This is the result of a combination of better workplace controls, earlier detection through surveillance programmes and active attendance management. There was a 19.7 per cent improvement compared with 2003 against an annual target of 3.3 per cent.

The worldwide percentage absence figure was 2.5 per cent, down from 2.7 per cent in 2003.

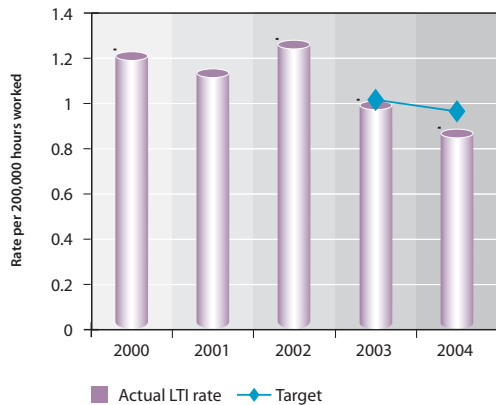
Work-related injury and ill-health absence rate



Noise Induced Hearing Loss remains the largest single disease category. A joint initiative on hearing conservation was launched in 2004 by Occupational Hygiene and Occupational Health, which will continue in 2005.

Occupational illness / disease by category

Occupational safety



Target – injury reduction

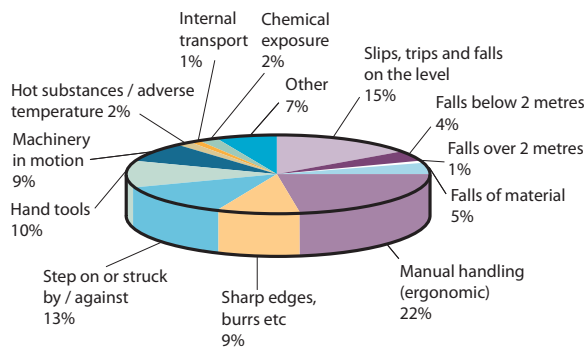
Reduce lost time injuries by 15 per cent by the end of 2006, relative to 2003 levels

The Company Lost Time Injury (LTI) rate for 2004 was 0.89 per 200,000 hours and has shown an improvement of 12 per cent on 2003 against an annual target of 5 per cent.

Whilst manual handling still represents the largest accident type (22 per cent) there has been an 18 per cent reduction in manual handling injuries during the past year.

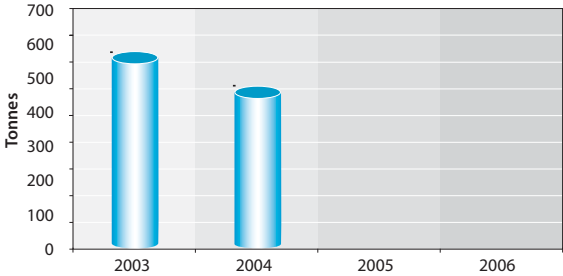
Manual handling is the subject of a major improvement project that will continue in 2005.

LTIs per 200,000 hours worked



'Over one day' lost-time accident causation

Hazardous materials



Solvent use, tonnes

Hazardous materials phase-out

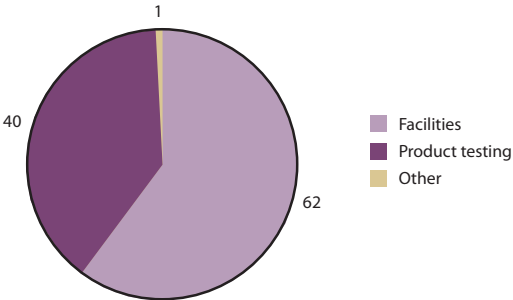
Implement strategies to phase out the use of asbestos, cadmium, chromium VI and solvents.

Work in 2004 included the support of a project to replace silver coatings with alternatives providing both technical benefits and the removal of hazards related to the chemical application processes.

An LCA (Life Cycle Analysis) project was also used to demonstrate that 'chip forming' has lower environmental impacts through minimised chemical use and the maximisation of recycling of removed material.

Solvent use has continued to decline with 478 tonnes used in 2004 compared to 570 tonnes in 2003 (a reduction of 16 per cent). This is mainly due to the use of improved solvent management systems and the rationalisation of remaining vapour degreasers.

Neighbourhood complaints



Number of complaints

A total of 103 complaints were received in 2004 compared with 145 in 2003. The largest proportion related to facilities with 79 per cent of the complaints directed at ongoing odour and noise issues at the Ross Ceramics facility at Peasehill (Derbyshire, UK). The facility has been actively working during the year with the local authority and specialist consultants to resolve local concerns relating to the operation of kilns at the site to manufacture ceramic cores.

Product related complaints (39 per cent of the total) related to smoke, odour and noise. The largest number of such complaints came from Bristol where 11 out of the 23 received were from one household. The testing of the MT30 by the Marine business was responsible for some of these complaints and has resulted in a £250,000 project to reduce the test bed noise.

All businesses affected by complaints have continued to maintain an ongoing dialogue with local community representatives to discuss related concerns.

Independent assurance statement

We have been engaged by the Board of Directors to perform limited assurance procedures on the following subject matters:

- The performance data for energy consumption, hazardous liquid waste, solid waste, recycled solid waste and lost time injury; and
- The progress against the related 2006 targets.

Responsibilities of directors and independent accountants

The Directors are responsible for the preparation of the Rolls-Royce Group Report, including the choice of targets and the implementation and execution of systems to collect required data for environmental and health & safety data. Our responsibility is to independently express a conclusion on the performance data for the year 2004 and the progress made on the related 2006 targets.

This report is made solely to Rolls-Royce in accordance with our engagement letter. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an assurance report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Rolls-Royce for our work, for this report, or for the conclusions we have formed.

Basis of conclusions

We carried out limited assurance¹ procedures in accordance with International Standard on Assurance Engagements 3000 (ISAE3000) on the disclosures in the 'Powering a better world' 2004 update relating to above defined subject matters. This standard requires that we plan and perform the work to obtain limited assurance as to whether:

- The performance data for energy consumption, hazardous liquid waste, solid waste, recycled solid waste and lost time injury is fairly stated; and
- The progress against the related 2006 targets is fairly stated.

A limited assurance engagement is primarily limited to inquiries of company personnel and analytical procedures together with tests at Group and a sample of business units of the operation of gathering and reporting processes relating to the specified performance data and targets. We were not required to carry out substantive testing of the data and therefore our report provides less assurance than a reasonable assurance engagement.

Conclusions

In our opinion, based on the work described in this report:

- Nothing has come to our attention that causes us to believe that the performance data for energy consumption, liquid waste, solid waste, recycled solid waste and lost time injury are materially misstated; and
- Nothing has come to our attention that causes us to believe that the progress against the related 2006 targets is materially misstated.

Deloitte & Touche LLP, London, April 2005

¹The levels of assurance engagement are defined in ISAE 3000. A reasonable level of assurance is similar to the audit of financial statements; a limited level of assurance is similar to the review of a six-monthly interim financial report.