



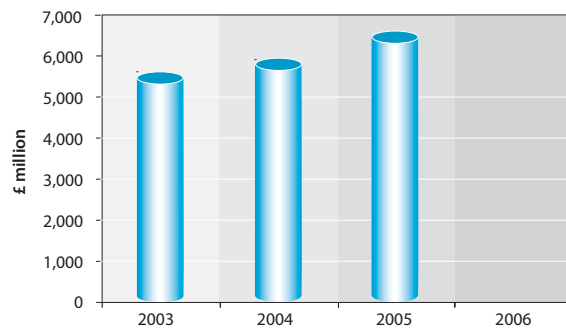
Powering a better world

Our operations and the environment, health and safety –
2005 update



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

Unless otherwise stated, absolute data is provided. Environmental data is normalised by financial turnover. Some data from 2003-2004 has been restated to take account of data errors identified during assurance work; these do not however have a material affect on reported progress.



Company turnover, £ million

2005 Highlights

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 were the sector leader with a score of 95.5 per cent and were judged to have demonstrated 'outstanding performance' in the categories of environmental management and environmental impact.

In the 2005 Business in the Environment (BiE) index we were again placed first in our sector and this year first in our economic group. With a score of 99 per cent we retained our position in the 'Premier League' of companies. In 2005 the company's sustained environmental performance was also recognised by the BitC 'Big Tick' award.

Global Purchasing received a Corporate Responsibility award from the Chartered Institute of Purchasing and Supply for recent work on the closed loop recycling of titanium in our operations and the supply chain.

There were no fatalities in the company in 2005 or prosecutions by regulatory authorities for health, safety and environment (HS&E) related issues.

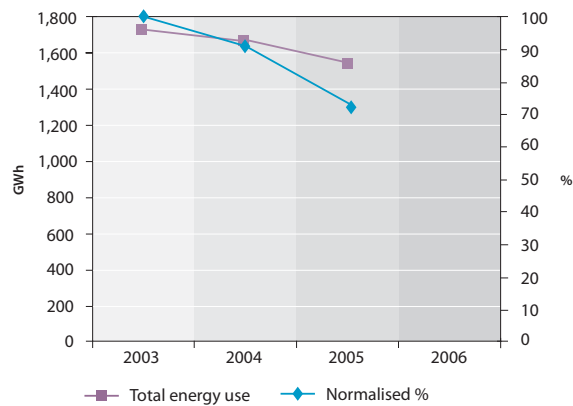
Four formal warnings and two enforcement notices were issued in the UK and North America by environmental regulatory authorities. In addition three formal warnings and three enforcement notices were issued in the same countries related to health and safety issues. Corrective actions have since been completed.

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 worldwide now totalling 64. The company is also offering help and encouragement to its suppliers to implement accredited third party certified management systems.

[Good progress also continues to be made in our overall HS&E performance as outlined in the following sections](#)



Energy



Energy use for facility support and manufacturing operations, GWh

Target – energy consumption

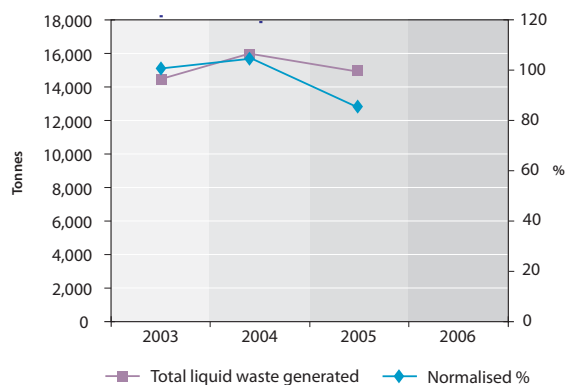
Reduce the amount of energy consumed by 9 per cent by the end of 2006, relative to 2003 levels (normalised on turnover)

The total amount of energy used by Rolls-Royce worldwide for facility support and manufacturing operations (normalised against turnover) has fallen by 25.4 per cent since 2003 compared with an interim target of 6 per cent.

Overall energy consumption in 2005 fell to 1,532GWh. This relates to an absolute reduction in consumption of 12.8 per cent since 2003. Energy reduction continues to be supported by our investment in new facilities, state-of-the-art processing equipment and energy awareness programmes. These reductions are also an essential part of our ongoing commitments under various Climate Change agreements.

Greenhouse gas emissions associated with facility support and manufacturing operations (excluding product testing) reduced further in 2005 to 451 kilotonnes of carbon dioxide (equivalent) compared with 479 in 2004 and 551 in 2003 (an overall reduction of 18.3 per cent).

Liquid waste



Liquid waste, tonnes

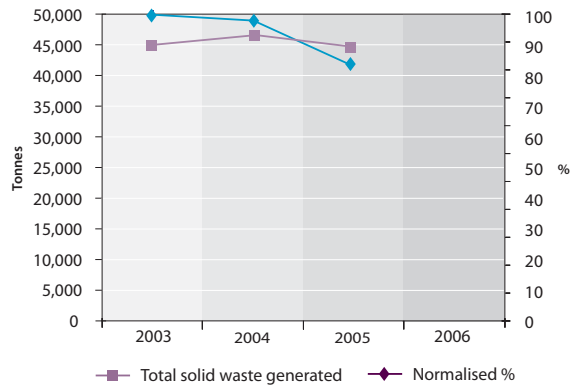
Target – liquid waste

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

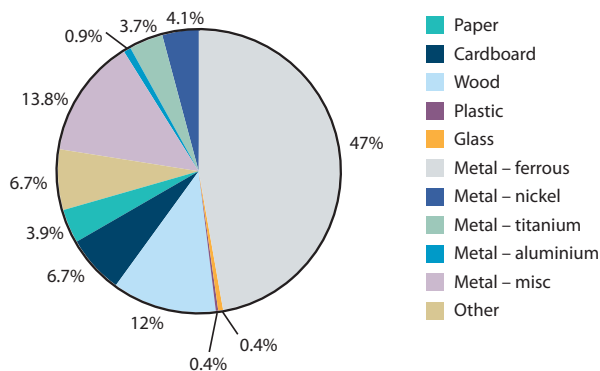
The total amount of liquid waste produced by Rolls-Royce worldwide (normalised against turnover) has fallen by 12.6 per cent since 2003 compared with an interim target of 4.7 per cent.

The total amount of liquid waste sent off site for disposal by the company in 2005 (excluding waste discharged to sewers) was 14,689 tonnes, a decrease on the 15,649 tonnes produced in 2004. This reduction has been realised following the completion of some recent new builds and further improvements in wet processing operations.

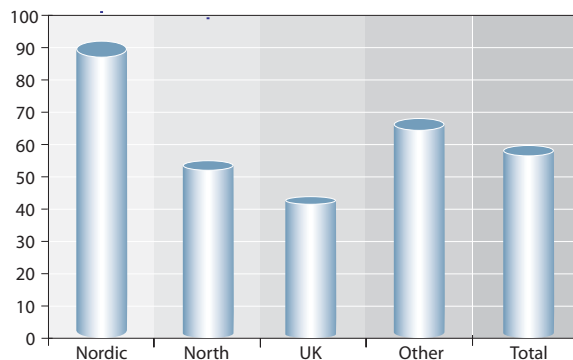
Solid waste



Solid waste sent for disposal, tonnes



Solid waste sent for recycling, tonnes



Solid waste recycling rates by region, percentage

(underlying regional rates excluding foundry sand waste in our operations at Bergen, Norway and Pascagoula, USA)

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)

The total amount of solid waste produced by Roll-Royce worldwide (normalised against turnover) has reduced by 14.8 per cent since 2003 compared with an interim target of 5.3 per cent

The total amount of solid waste produced by the company in 2005 was 44,216 tonnes, a slight decrease on the 46,904 tonnes produced in 2004. This is a significant improvement set against a background of on-going site rationalisation. Opportunities for further reductions in waste continue to be explored.

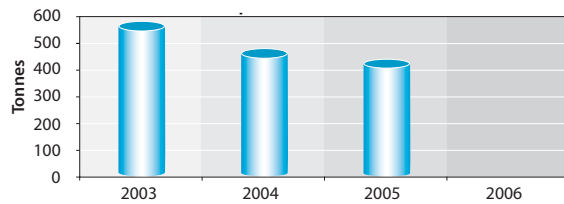
Target – recycling

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

The amount of solid waste sent for recycling reduced in 2005 to 19,283 tonnes. The proportion of waste recycled was, at 43.6 per cent, significantly below the interim target of 53.3 per cent. Excluding foundry sand the underlying recycle rate is 61 per cent. Metals accounted for 70 per cent of the total.

Until this last year the company has shown a sustained improvement in the recycling of solid waste. However, two recent changes to the business have had a significant effect; the closure of the Light Alloy Foundry in Derby has removed 2,400 tonnes of recycled sand and the sale of Vickers Pressings has removed around 3,300 tonnes of recycled metal from the recycling total. In addition, several businesses have seen smaller reductions due to the loss of local markets for recycling. During 2006 the company will focus its efforts in this area to encourage further opportunities with its waste management partners for recycling. The company also plans to install a sand reclamation plant at its foundry in Bergen, Norway.

Hazardous materials



Solvent use, tonnes

Hazardous materials phase-out

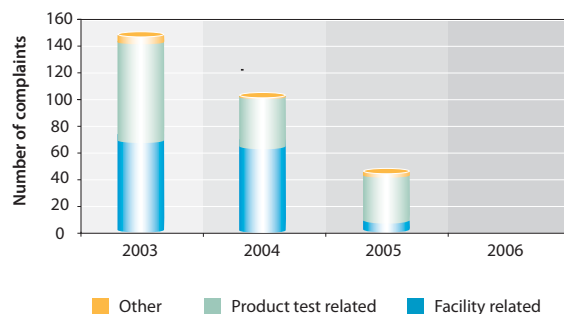
Hazardous substances should be replaced or reduced wherever technically and economically feasible

The company continues to explore the elimination and substitution of materials of concern, both used in manufacture and in our final products. In 2005 work also began on assessing the implications of the proposed EU REACH Regulation on the future control of substances.

Organic solvent use has been identified for elimination / substitution for several years and declined further in 2005 to 421 tonnes compared with 478 tonnes in 2004 and 570 tonnes in 2003 (an overall reduction of 26 per cent).

This is due to the continued phase out of solvent degreasing and the introduction of state-of-the-art cleaning and solvent management systems in our facilities.

Neighbourhood complaints

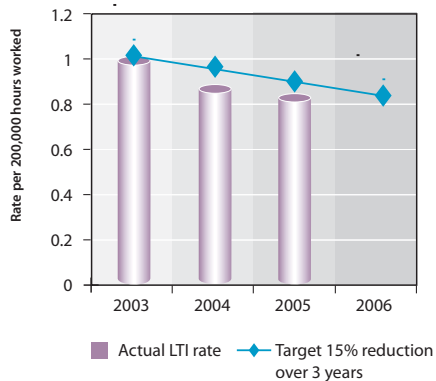


Number of complaints

A total of 45 complaints (facilities 6, product test 38, other 1) were received in 2005 compared with 103 in 2004 and 145 in 2003; a reduction of 56 per cent on 2004. This was largely due to the resolution of community concerns relating to odour at the Ross Ceramics facility at Peasehill (Derbyshire, UK). Complaints were received from operations in the UK (39), Norway (2) and North America (4). The largest proportion of complaints (84 per cent) in 2005 related to gas turbine engine test bed operations mainly at our UK operations in Derby and Bristol. Facility related complaints concerned noise from processing equipment and construction plant linked to factory new builds.

All businesses affected by complaints have continued to work closely with local communities and authorities to resolve concerns. The company is also continuing to invest in test bed improvements aimed at further reductions in emissions.

Occupational safety



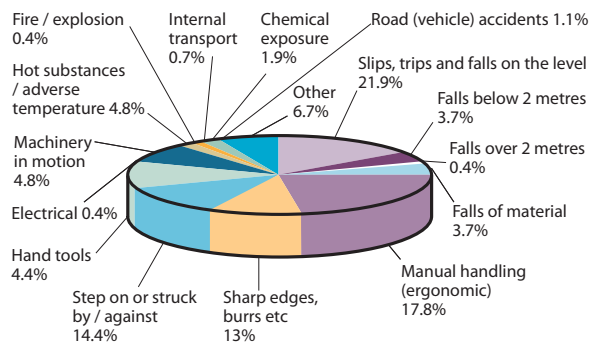
Target – injury reduction

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 2005 was 0.83 per 200,000 hours. This represents an improvement of 18 per cent on 2003 against an interim target of 10 per cent.

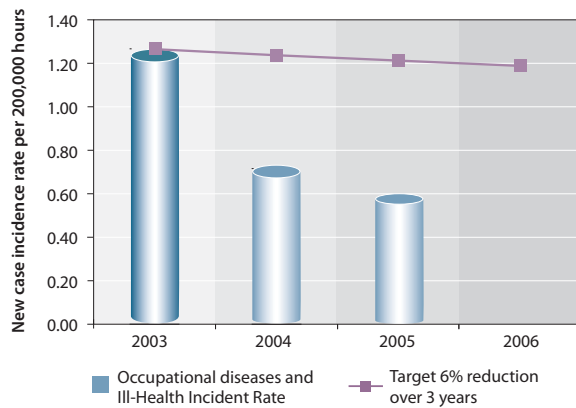
Slips, trips and falls now represent the largest (22 per cent) accident type leading to LTIs having replaced Manual Handling (18 per cent). A campaign to focus on improvement in performance with respect to manual handling has been very successful with the number of cases now being reported having fallen by 39 per cent compared to the baseline of 2003.

LTIs per 200,000 hours worked



'Over one day' lost-time accident causation

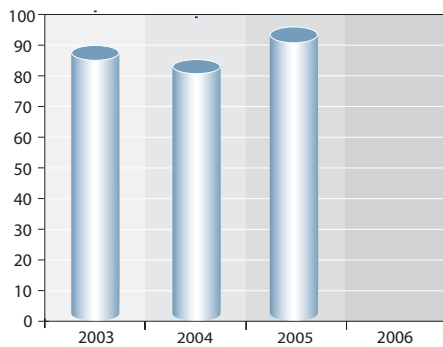
Occupational health



Occupational disease / ill-health incidence rate



Work-related injury and ill-health absence rate



Health surveillance of populations at risk

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, relative to 2003

The incident rate (new cases per 200,000 hours worked) of occupational illness / disease has reduced by 52.1 per cent compared to 2003 and an interim target of 4 per cent.

The 2003 position was influenced by the reporting of Noise Induced Hearing Loss (NIHL) data from our UK Energy operations for the first time and excluding this data the improvement to 2005 reduces to 41.8 per cent.

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, relative to 2003

The number of days lost per 100,000 employees for work-related injury and ill-health has shown a significant reduction of 21 per cent compared to the 2003 base line and an interim target of 6.6 per cent.

Workplace controls along with surveillance programmes and active attendance management have contributed to this improvement.

Target – health surveillance

Achieve 100 per cent health surveillance of populations at risk

The performance target of 100 per cent health surveillance of those at risk from NIHL and Hand Arm Vibration Syndrome (HAVS) has improved to 96 per cent overall. For NIHL the improvement was from 81.5 per cent in 2004 to 95.5 per cent and for HAVS was from 91.8 per cent to 96.6 per cent. This has resulted from improved management of the health surveillance programmes.

Independent assurance report to Rolls-Royce Group plc on certain information included in the Group Environment Health & Safety 2005 Report

We have been engaged by the Board of Directors to perform limited assurance¹ procedures on Rolls-Royce Group plc ('Rolls-Royce') Environment Health & Safety 2005 Update report ('The EHS Update')

Scope of assurance work

- The subject matters selected for this assurance engagement are the following:
 - Selected Environment Health & Safety performance data as stated on pages 2 to 6:

Environment	Occupational Health and Safety
Energy consumption (GWh)	Occupational disease and ill health incident (rate per 200,000 hours worked)
Liquid waste (tonnes)	Work related injury and ill health absence (days lost rate per 100,000 employees)
Solid waste (tonnes)	Lost time injury (rate per 200,000 hours worked)
Recycled solid waste (tonnes)	

- The reported progress against the related 2006 EHS targets as stated on pages 2 to 6.

- For each of these subject matters, our approach has been to understand and test on a sample basis the processes undertaken by Rolls-Royce to collate, aggregate, validate and report them in the EHS Update.

Conclusions

Based on the work described in this report:

- Nothing has come to our attention that causes us to believe that the selected EHS performance data above is materially misstated; and
- Nothing has come to our attention that causes us to believe that the reported progress against the related 2006 EHS targets is materially misstated.

Assurance standard and procedures

- We conducted our assurance work in accordance with the International Standards on Assurance Engagements 3000 (ISAE 3000) issued by the International Auditing and Assurance Standards Board (for further information see www.ifac.org).
- This standard requires that we review the systems, processes and controls that deliver the information in the areas of the report specified above. Our work consisted primarily of making inquiries of company personnel and carrying out analytical procedures and sample tests at Group and a sample of business units of the gathering and reporting processes relating to the specified EHS 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 assurance¹ engagement.

Responsibilities of directors and independent accountants

- The Directors are responsible for the preparation of the 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 2005 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.



Deloitte & Touche LLP, London, United Kingdom, April 2006

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.



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