



Rolls-Royce

Responsible operations:

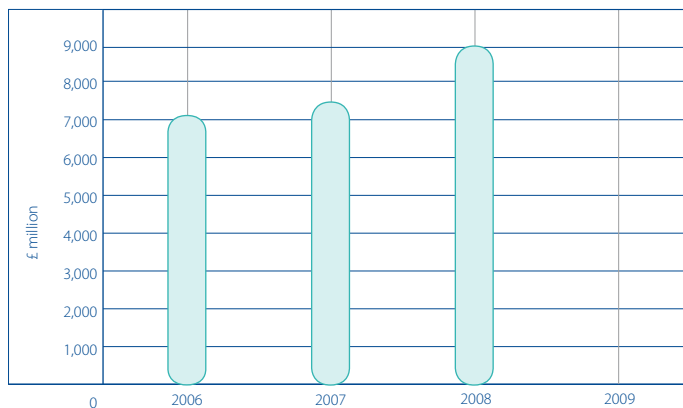
Health, Safety and Environment performance update for 2008



Our fourth health, safety and environment report 'Responsible operations', published in 2007, set a new range of challenging global targets to be achieved over a three year period (2007-2009). This report highlights the progress that has been made in the second year of this reporting cycle.

This update contains both absolute and in the case of environmental key performance indicators, normalised data (based on annual Group financial turnover).

Group turnover, £ million



Note: Greenhouse gas emission data for 2006 (the baseline year) and 2007 has been re-stated to take account of new guidance from the UK Government on CO₂ conversion factors.

Energy use data for 2007 has also been re-stated to take account of revised natural gas consumption data from one of our business units.

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2008 Summary

The Group believes a strong performance in health, safety and environment (HS&E) is important to our business, to our employees and to those who may be affected by our activities. It is also synonymous with good business performance. Our stated vision is to be known for the excellence of our HS&E performance and we aim to have world-class levels of performance across all Rolls-Royce sites. These aspirations are supported by a comprehensive strategy and initiatives endorsed by the Group Executive including the setting of challenging targets focused on health promotion, the prevention of injury and the reduction of the company's environmental impact. Focused improvement programmes, including pro-active support to any poorer performing sites, support these targets and we are pleased to report again that sustained progress continues to be made with all targets exceeded.

There were no fatalities to company employees in 2008. However, it is with regret that we report the death of a contractor whilst working for a construction company on a new test facility at our Energy business in Mount Vernon, Ohio.

The UK Health & Safety Executive has prosecuted the company for two incidents and preventative actions have already been taken to avoid reoccurrence of similar incidents in the future. One incident related to the disabling of a safety interlock device by a machine operator in our Sunderland (UK) manufacturing facility during 2007. The second involved the exposure of agency workers to sand during the decommissioning of a foundry in Derby (UK) during 2005; the sand contained an additive which is known to be an irritant.

All the Group's businesses have third party certification to the environmental management system standard ISO 14001, and our comprehensive Corporate HS&E audit programme assesses the implementation of the HS&E management system across all businesses on a rolling audit basis. This year, audits took place in the UK, US, Canada and Brazil across all business sectors. In addition, an independent audit of compliance with COSHH (Control of Substances Hazardous to Health) took place at several UK facilities.

The Group has recently committed to a programme of third party certification to OHSAS 18001, the standard for Occupational Health and Safety management systems, across all businesses by 2012. This will provide independent assessment across all elements of our HS&E management system that are supported by a comprehensive range of company International Standards.

Dow Jones Sustainability (World and European) Indexes

Rolls-Royce has retained its position in the Dow Jones Sustainability (World and European) Indexes for the seventh consecutive year. Achieving first position in the Aerospace and Defence sector during 2008 confirms the Group's position amongst the best in class for addressing a range of sustainability issues.



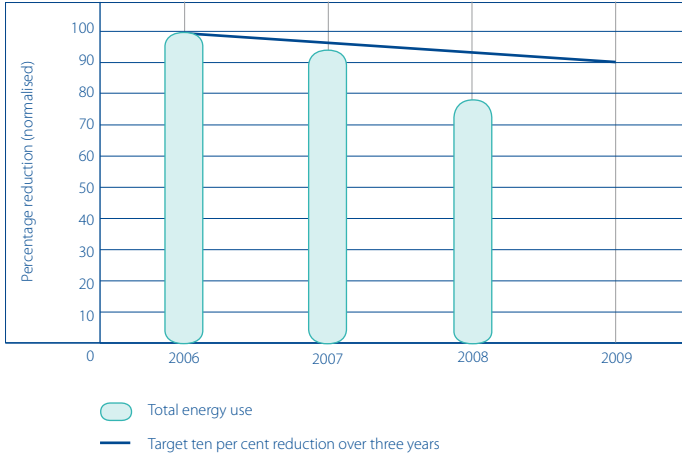
BitC Corporate Responsibility Index

In the 2008 Business in the Community Corporate Responsibility Index, Rolls-Royce achieved Gold status.



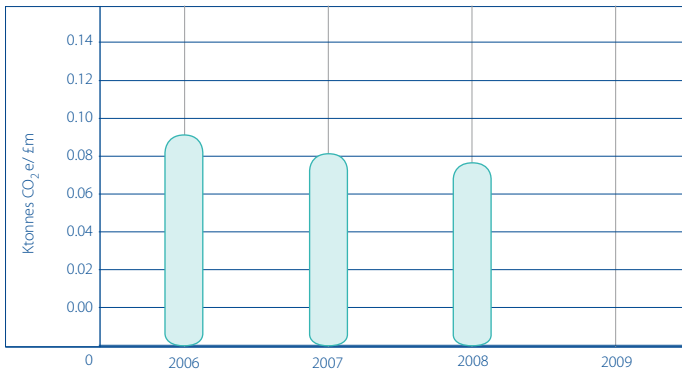
Reduce environmental impact

Energy use



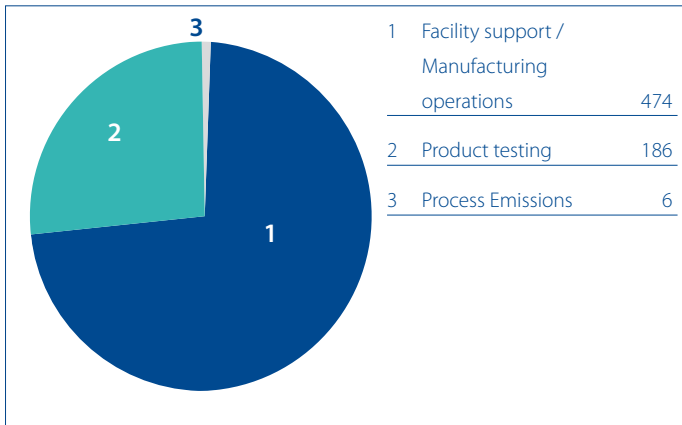
Progress against energy use reduction target 2007-2009 (2006 baseline)

Greenhouse gas emissions



GHG emissions reduction 2006-2008

Greenhouse gas emissions



GHG emissions by type 2008

Target – energy consumption

Reduce the amount of energy consumed by ten per cent by the end of 2009, relative to 2006 levels (normalised by turnover).

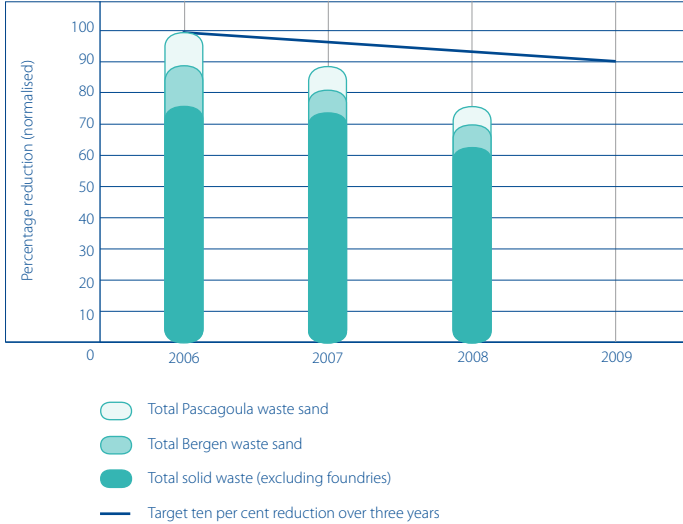
The total amount of energy used by Rolls-Royce worldwide for facility support and manufacturing operations (normalised by turnover) has fallen by 23 per cent since 2006 compared with the interim target of 6.6 per cent.

Energy consumption has reduced during 2008 to 1499 GWh compared to 1543 GWh in 2006. This relates to an absolute reduction in consumption of 2.9 per cent since 2006. Energy savings continue to be supported by our investment in new energy efficient facilities and state of the art processing equipment as well as ongoing energy awareness programmes. These savings are also an essential part of our ongoing commitments under various Climate Change agreements: UK Emissions Trading Scheme, EU Emissions Trading Scheme and the US Chicago Climate Exchange greenhouse gas emissions trading scheme.

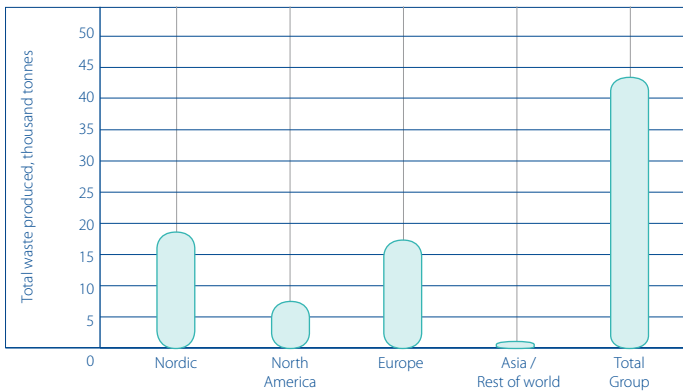
Our total greenhouse gas emissions associated with facility support, manufacturing operations and product test continue to show a downward trend. Total greenhouse gas emissions (absolute) were 665 kilotonnes of carbon dioxide (equivalent) compared to 649 kilotonnes in 2006. This reflects our increased business activity and a significantly increased level of product testing (up from 128 kilotonnes of carbon dioxide in 2007 to 186 kilotonnes in 2008).

Greenhouse gas emissions (absolute) from our facilities alone have decreased from 498 kilotonnes carbon dioxide (equivalent) in 2006 to 474 kilotonnes in 2008, a reduction of 4.8 per cent.

Solid waste



Progress against solid waste reduction target 2007-2009 (2006 baseline)



Solid waste arising by region 2008

Target – total solid waste

Reduce the annual production of solid waste by ten per cent by the end of 2009, relative to 2006 levels (normalised by turnover).

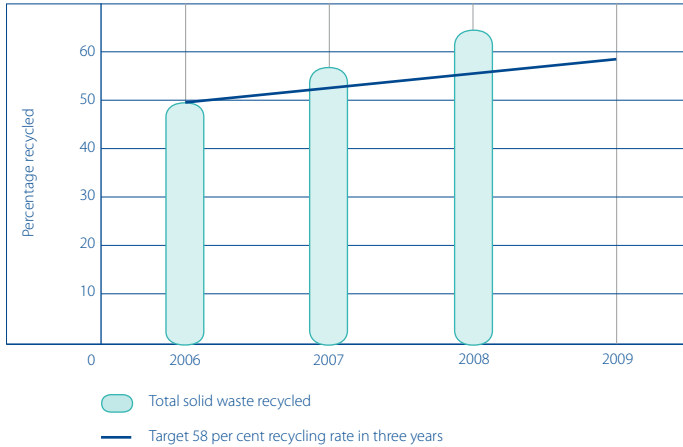
The total amount of solid waste produced by Rolls-Royce worldwide (normalised by turnover) has reduced by 24 per cent since 2006 compared with the interim target of 6.6 per cent.

The total amount of solid waste produced by the company in 2008 was 43,117 tonnes, a 3.4 per cent decrease on the 44,618 tonnes produced in 2006.

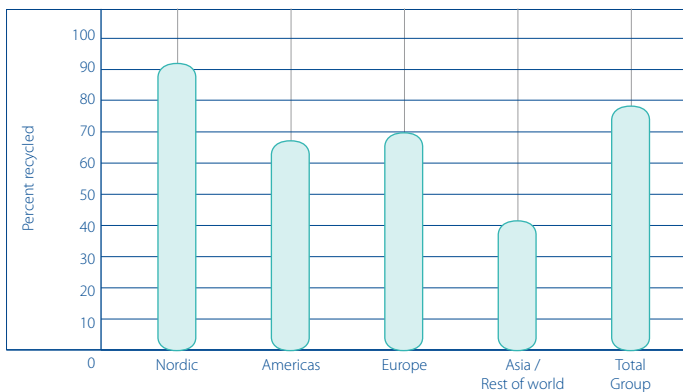
Our overall waste reduction continues to be supported by local schemes including the previously reported sand reclamation plant installed at our foundry in Bergen.

Opportunities for further reductions in waste continue to be explored across the company and this is being facilitated in the UK via a new company Waste Forum.

Recycling



Progress against solid waste recycling target 2007-2009 (2006 baseline)



Solid waste sent for recycling by region 2008 (underlying percentage recycling rate excluding foundries)

Target – recycling

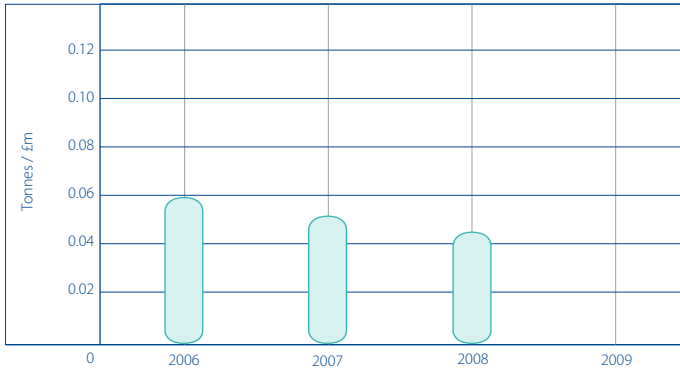
Increase the proportion of solid waste sent for recycling to 58 per cent by the end of 2009.

The amount of solid waste sent for recycling increased significantly in 2008 to 27,287 tonnes (compared to 21,967 tonnes in 2006). The proportion of waste recycled was, at 63 per cent, ahead of the interim target of 55 per cent. Metals accounted for 59 per cent of the total amount of waste recycled.

The sustained improvements beyond target are due to a concerted effort to increase the segregation of waste in offices and factories and a continued focus on small volume but high value hazardous wastes. We also continue to explore and identify new recycling routes for waste historically sent for landfill, for example ceramic shell waste from our foundry in Derby is now being reused as an aggregate.

In the coming year the company will continue to work on further opportunities for recycling in conjunction with its waste management partners.

Hazardous materials phase-out



Solvent use 2006-2008

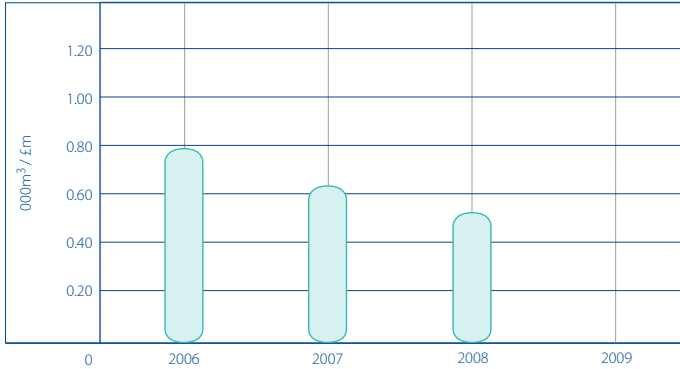
Hazardous materials phase-out

The company is continuing to support programmes aimed at replacing or reducing the use of hazardous substances wherever technically and economically feasible.

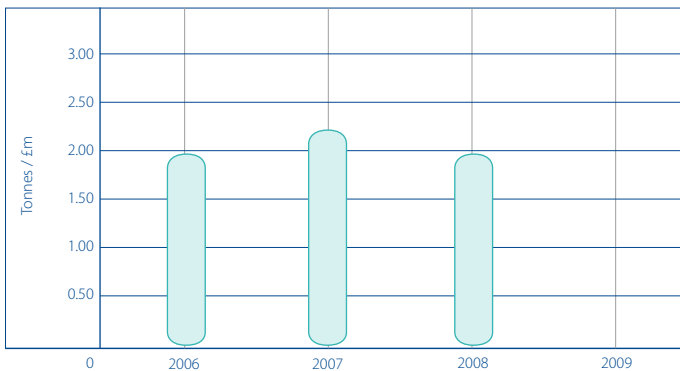
The company continues to explore the elimination and substitution of materials of concern, used in manufacture and incorporated into our final products. This work is closely linked to our implementation of the European Union's REACH Regulation (for the future control and restriction of substances of concern). The company has taken a leading position in this area and in 2008 this included supporting a global agreement across the aviation sector on standards for the declaration and targeting of substances of very high concern (SVHCs).

Organic solvent use continues to be targeted for elimination / substitution and declined further in 2008 to an overall reduction since 2006 of 26 per cent (normalised by turnover). The absolute consumption in 2008 was 390 tonnes and represented a 6 per cent reduction since 2006. Reductions have been facilitated by the introduction of state of the art cleaning and solvent management systems in our facilities. Businesses continue to set local reduction targets in this area supported by ISO 14001.

Water use and liquid waste



Water use 2006-2008



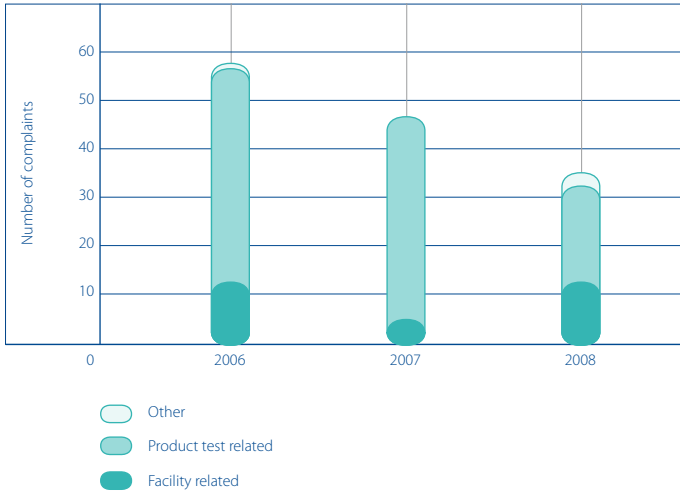
Liquid waste 2006-2008

Water use and liquid waste

Although not the focus of current company-wide targets, water consumption and liquid wastes are subject to local continual improvement programmes within ISO 14001 programmes where appropriate.

Water use in the company has declined significantly in recent years as a result of site rationalisation and the introduction of modern cleaning and wet processing lines using counter-flow rinsing and extended bath lives. This has realised a 35 per cent reduction since 2006 (normalised by turnover). In 2008 we used 4.6 million m³, an absolute reduction of 17 per cent since 2006.

The amount of liquid waste physically removed from sites (excluding direct discharges to sewers) has increased 26 per cent in absolute terms since 2006 to 17,188 tonnes in 2008. This increase was in excess of the growth of the business due to the ongoing progressive move to new factories resulting in exceptional one off disposals and the running of some duplicate facilities. The amount of waste removed has remained similar to 2006 when normalised by turnover.



Neighbourhood complaints 2008

Neighbourhood complaints

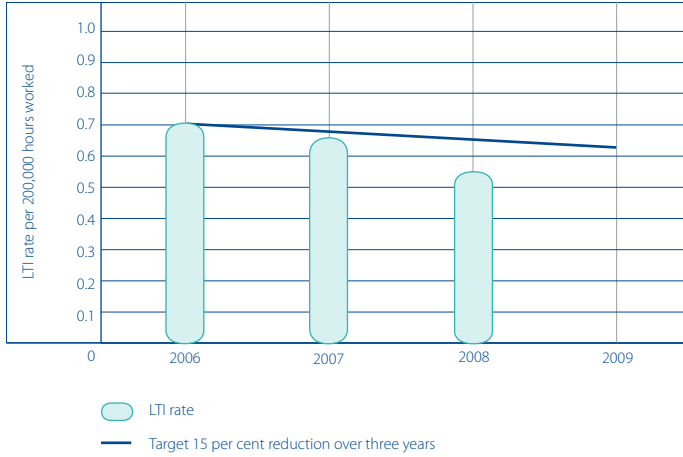
The company continues to see a relatively low number of complaints. A total of 35 complaints (facilities six, product test 27, other two) were received from the public in 2008 compared to 48 in 2007. Of these 27 were received in the UK.

The largest proportion of complaints (77 per cent) related to noise and occasionally odour from our gas turbine engine test bed operations in Derby, Bristol, Indianapolis and Oberursel. Facility related issues concerned minor disturbance to neighbouring sites, litter and lighting intrusion.

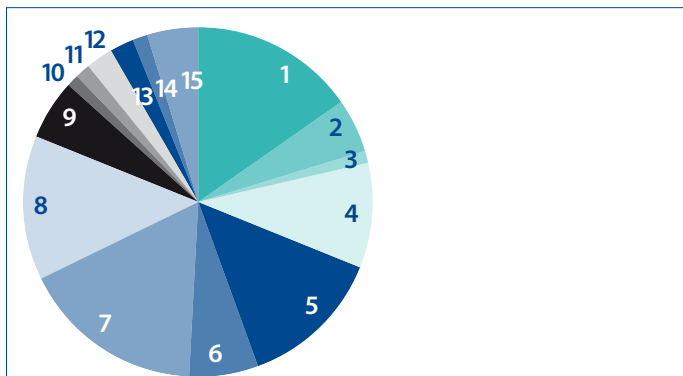
All businesses affected by complaints continue to work closely with local communities and authorities to resolve any concerns. The company is also continuing to make investment in test bed improvements including the recent commissioning of a new outdoor test facility at Stennis, USA with a reduced noise impact.

Prevent injury

Occupational safety



Progress against Lost Time Injury rate reduction target 2007-2009 (2006 baseline)



1	Slips, trips and falls on the level	15.3%
2	Falls below 2 metres	5.1%
3	Falls over 2 metres	1.0%
4	Falls of material	9.7%
5	Manual handling (ergonomic)	13.3%
6	Sharp edges, burrs etc	6.6%
7	Step on or struck by / against	16.8%
8	Hand tools	13.3%
9	Machinery in motion	5.6%
10	Electrical	1.0%
11	Hot substances / adverse temperature	1.5%
12	Internal transport	2.6%
13	Chemical exposure	2.0%
14	Road (Vehicle) Accidents	1.5%
15	Other	4.7%

'Over one day' lost-time accident causation 2008

Target – injury reduction

Reduce our Lost Time Injury rate (over one day) by 15 per cent by the end of 2009, relative to 2006 levels.

The company Lost Time Injury (LTI) rate for 2008 was 0.55 per 200,000 exposure hours, compared with 0.66 in 2007. This represents an improvement of 22 per cent on 2006 compared with the interim target of 10 per cent.

The largest categories of lost time accidents in 2008 were 'step on or struck by / against' (16.8 per cent), 'slips, trips and falls on the level' (15.3 per cent) followed by 'hand tools' and 'manual handling' (both 13.3 per cent).

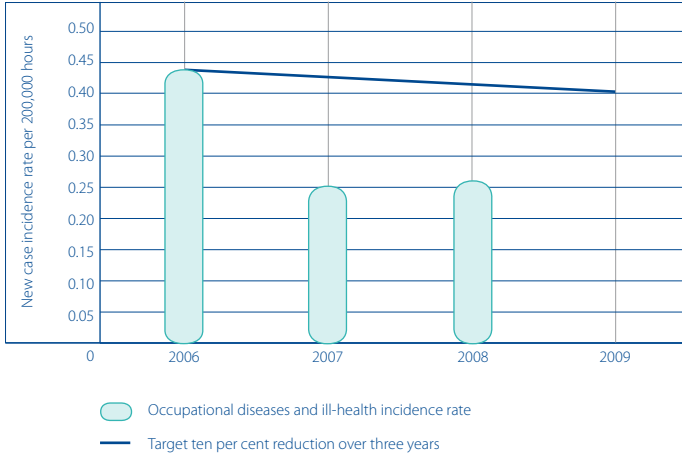
The company has also seen a significant reduction in the number of 'reportable' injuries with a rate of 1.15 (per 200,000 exposure hours) in 2008 compared with 1.42 in 2006; an improvement of 18 per cent.

Reportable injuries includes lost time injuries, medical treatment and restricted work cases.

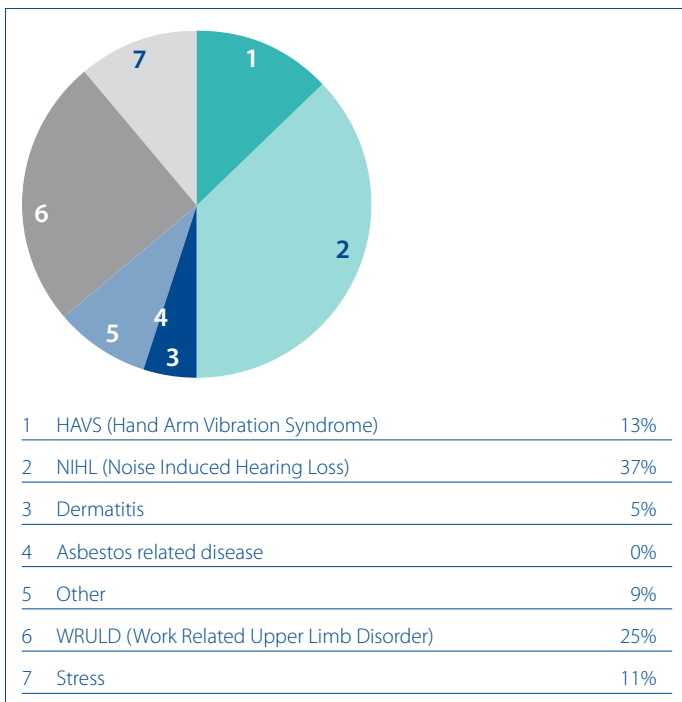
Company improvement campaigns continue to be focused on the poorest performing sites within the Group.

Protect health

Occupational health



Progress against occupational disease / work related ill-health incidence rate reduction target 2007-2009 (2006 baseline)



Breakdown of occupational disease / ill-health 2008

Target – incidence rate

Reduce the incidence rate of occupational diseases and other work related ill-health by ten per cent by the end of 2009, relative to 2006.

The incidence rate (new cases per 200,000 hours worked) of occupational illness / disease for 2008 was 0.26 compared with 0.44 in 2006. This represents an improvement of 41 per cent compared to 2006. This was against our interim target of 6.6 per cent.

The significant decrease observed in 2007 was partly due to the biennial nature of the surveillance programme and improved data collection from our operations in North America and the Nordic countries. However, 2008 has seen a sustained improvement in the incidence rate.

Noise Induced Hearing Loss (NIHL) remains the largest occupational illness / disease category although there has been a decrease in the number of new cases. Programmes continue to be developed to make further improvements in key areas, especially related to NIHL and HAVS (Hand Arm Vibration Syndrome).



Assurance statement

Independent assurance statement by Deloitte LLP to Rolls-Royce plc on their Health, Safety and Environmental (HS&E) performance update for 2008

What we looked at: scope of our work

Rolls-Royce plc engaged us to perform limited assurance* procedures on selected environmental, health and safety performance data for the year ended 31 December 2008. The assured data include the following:

1 The following performance data as stated on pages 3 to 10 and below:

Environment

- Energy consumption (GWh)
- Solid waste (tonnes)
- Recycled solid waste (tonnes).

Health and Safety

- Lost time injury rate
- Occupational disease and ill-health incidence rate
- Reportable injury rate.

2 The reported progress against the following related 2006 HS&E targets as stated on pages 3 to 10 and below:

- 10 per cent reduction in energy consumed (normalised by financial turnover)
- 10 per cent reduction in solid waste (normalised by financial turnover)
- 58 per cent recycle rate of solid waste by the end of 2009
- Reduce the incident rate of occupational diseases and other work related ill-health by 10 per cent
- 15 per cent reduction in lost time injury rate (over one day).

What we did: basis of our assurance work and our assurance procedures

We carried out limited assurance in accordance with the International Standards on Assurance Engagements 3000 (ISAE 3000). To achieve limited assurance ISAE 3000 requires that we review the processes and systems used to compile the areas on which we provide assurance. It does not include detailed testing of source data or the operating effectiveness of processes and internal controls. This provides less assurance and is substantially less in scope than a reasonable assurance* engagement.

The evaluation criteria used for our assurance are the Rolls-Royce definitions and basis of reporting as described at: www.rolls-royce.com/cr

Considering the risk of material error; a multidisciplinary team of corporate responsibility and assurance specialists planned and performed our work to obtain all the information and explanations we considered necessary to provide sufficient evidence to support our assurance conclusion. Our work was planned to mirror the Rolls-Royce own Group level compilation processes, tracing how data for each indicator within our assurance scope was collected, collated and validated by Group head office and included in the report.

*The levels of assurance 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

What we found: our conclusions

Based on the work we performed, nothing has come to our attention that causes us to believe that the selected HS&E performance data or the reported progress against the 2006 HS&E targets selected are materially misstated.

Responsibilities of directors and independent accountants

- The directors are responsible for the preparation of the Group Health, Safety and Environment Performance Update, including the choice of targets and the implementation and execution of systems to collect required data for health & safety and environmental data.
- Our responsibility is to independently express a conclusion on the performance data for the year 2008 and the progress made on the related 2006 targets.
- We performed the engagement in accordance with Deloitte's independence policies, which cover all of the requirements of the International Federation of Accountants (IFAC) Code of Ethics and in some cases are more restrictive. We confirm to Rolls-Royce plc that we have maintained our independence and objectivity throughout the year, including the fact that there were no events or prohibited services provided which could impair that independence and objectivity in the provision of this engagement.
- This report is made solely to Rolls-Royce plc 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 plc for our work, for this report, or for the conclusions we have formed.

Deloitte LLP
Chartered Accountants
London, 15 May 2009



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VCOM c50258 May 2009