



Rolls-Royce

Responsible operations:

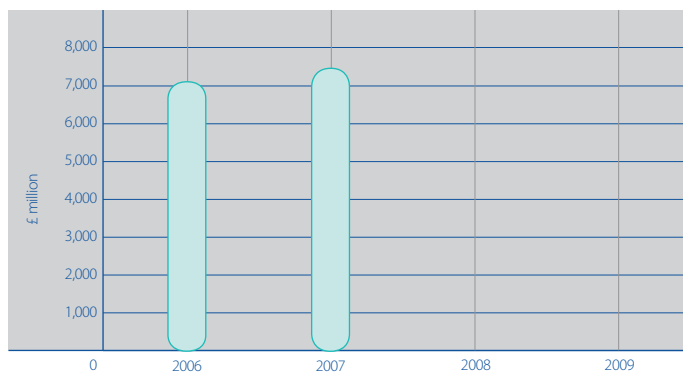
Health, Safety and Environmental performance update for 2007



Our fourth health, safety and environment report 'Responsible Operations', published last year, 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 first year of this new reporting cycle.

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

Group turnover, £ million



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

Energy use data for 2006 has been re-stated to take account of revised natural gas consumption data from two of our business units.

The baseline for solid waste has also been re-stated to take account of revised metal recycling data from one business unit.

2007 Summary

Our approach to health, safety and the environment (HS&E) is first and foremost shaped by the desire to avoid harm to people and the environment. Rolls-Royce operates a risk based management system for HS&E, which through a commitment to continual improvement is seeking world-class levels of performance. To this end, the company sets a range of challenging targets focused on health protection, the prevention of injury and the reduction of the company's environmental impact. Focused improvement programmes support these targets and we are pleased to report that sustained progress continues to be made with all targets met or exceeded.

It is recognised, however, that in our search for excellence, further improvement is necessary. All sites are required to continue to implement appropriate improvement plans, with special attention being paid to the relatively poor performing sites.

There were no fatalities in the Company during 2007 or prosecutions by regulatory authorities for HS&E related issues. However, the UK Health & Safety Executive is currently taking action against the company for two incidents. One of these relates to the disabling of an interlock device on a machine at our Sunderland manufacturing facility. The other issue concerns an incident involving the alleged exposure of agency workers to sand during the decommissioning of a foundry in Derby. The sand contained an additive, which is known to be an irritant. The outcomes of these actions will be reported in our 2008 update. Actions have been taken within the company to avoid reoccurrence of similar incidents.

Rolls-Royce retained its position in the Dow Jones Sustainability World and European Indices for the sixth successive year; an international recognition of being amongst the best in class in global sustainability. Our overall score of 77 per cent represented an improvement of seven per cent on 2006. In addition, the Company again took part 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 (Aerospace & Defence) with an overall score of 93.5 per cent and the award of 'Gold' status. In the Environment Index part of the survey we retained our 'Platinum' status with a score of 98 per cent.

We believe that a strong performance in HS&E is important to our business, to our employees and to those who may be affected by our activities. We are proud of our track record and determined to make further improvements.

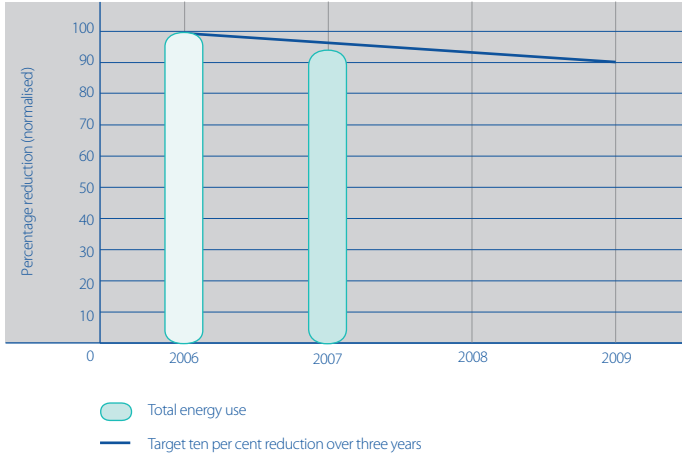


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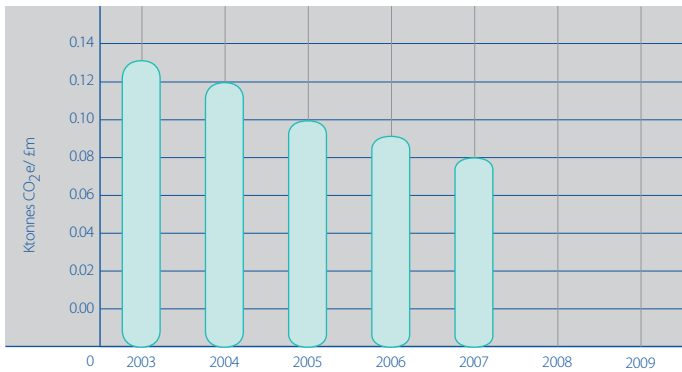
Reduce environmental impact

Energy use



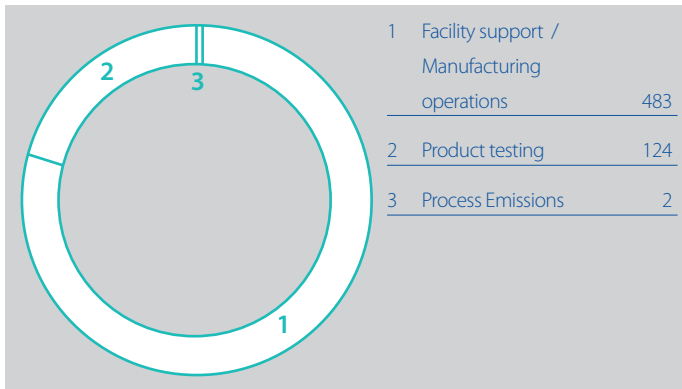
Progress against energy use reduction target 2007-2009 (2006 baseline)

Greenhouse gas emissions



GHG emissions reduction 2003-2007

Greenhouse gas emissions



GHG emissions by type 2007

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).

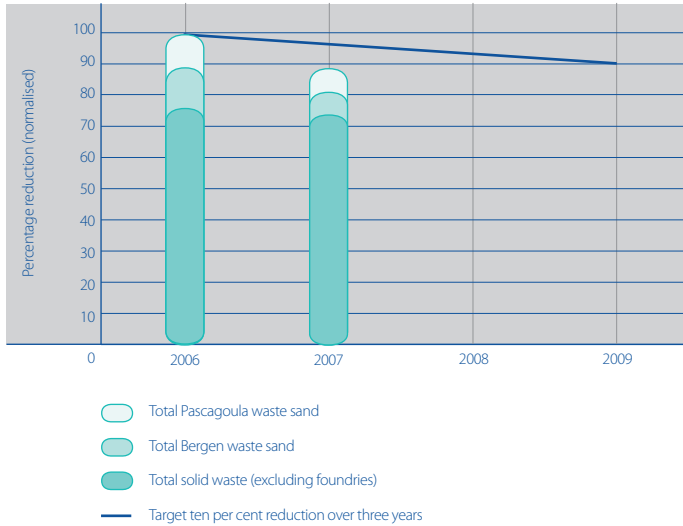
The total amount of energy used by Rolls-Royce worldwide for facility support and manufacturing operations (normalised by turnover) has fallen by 5.5 per cent since 2006 compared with the interim target of 3.3 per cent.

Energy consumption has reduced during 2007 to 1,536 GWh. This relates to an absolute reduction in consumption of 1.8 per cent since 2006. Energy savings continue to be supported by our investment in new facilities, state of the art processing equipment and 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.

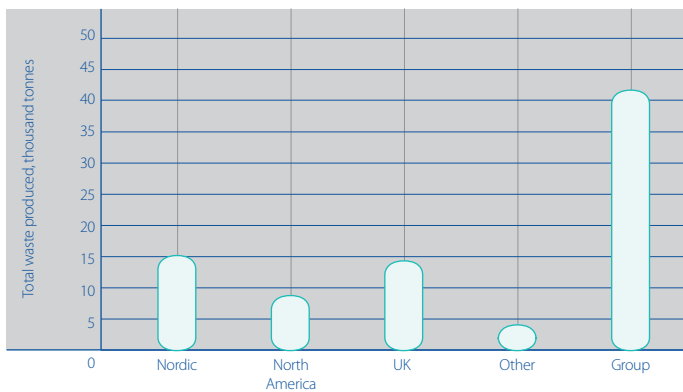
Our greenhouse gas emissions associated with facility support, manufacturing operations and product test continue to show a downward trend. Since 2003 our emissions have decreased by 38 per cent (normalised by turnover).

Total greenhouse gas emissions (absolute) were 609 kilotonnes of carbon dioxide (equivalent) in 2007 compared to 747 kilotonnes in 2003.

Solid waste



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



Solid waste arising by region, 2007

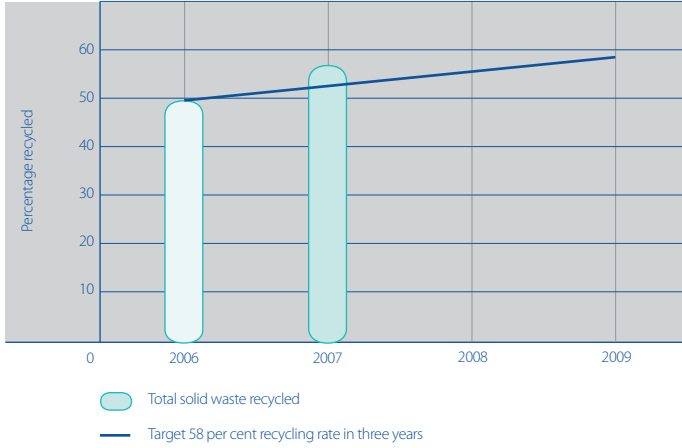
Target – total solid waste

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

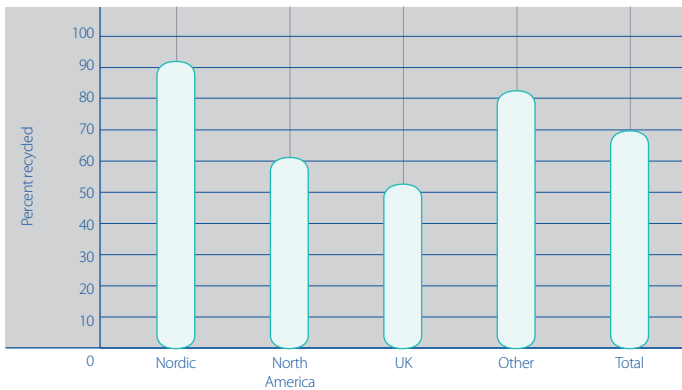
The total amount of solid waste produced by Rolls-Royce worldwide (normalised by turnover) has reduced by 11.8 per cent since 2006 compared with the interim target of 3.3 per cent.

The total amount of solid waste produced by the Company in 2007 was 40,911 tonnes, a significant decrease on the 44,618 tonnes produced in 2006. In 2007 our Foundry in Bergen introduced a sand reclamation plant and as a direct result their waste sand reduced from 6,354 to 3,210 tonnes. A further contribution will be made in 2008. Opportunities for further reductions in waste continue to be explored across the Company.

Recycling



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



Solid waste sent for recycling by region, 2007 (underlying rate excluding foundries)

Target – recycling

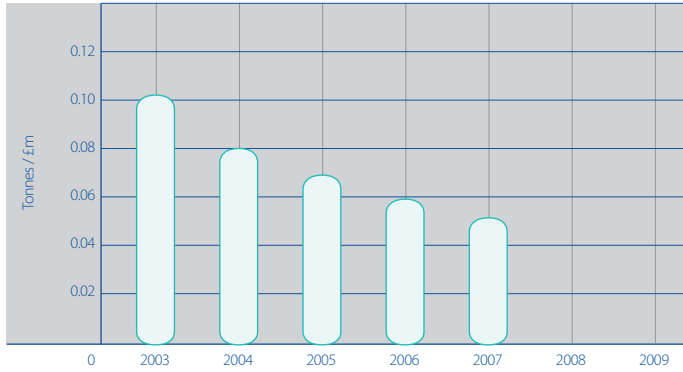
Increase the proportion of solid waste sent for recycling to 58 per cent by the end of 2009.

The amount of solid waste sent for recycling increased in 2007 to 23,238 tonnes. The proportion of solid waste recycled was, at 57 per cent, ahead of the interim target of 52 per cent. Metals accounted for 70 per cent of the total.

Last year we reported a significant shortfall in our targeted recycle rate, particularly as a result of the disposal of two companies that had previously made a substantial contribution. However, as a result of concerted effort in this area we are able to report significant progress during 2007. Examples include a UK-wide initiative to increase segregation of waste in offices and factories and an increasing focus on small volume but high value hazardous wastes.

In the coming year the Company will continue to work on further opportunities for recycling in conjunction with its waste management partners. The Company is also looking into the business case for the installation of a further sand recycling scheme at its foundry in Pascagoula, USA. Such a scheme could divert around 4,000 tonnes per year from landfill.

Hazardous materials phase-out



Solvent use 2003-2007, tonnes / £m

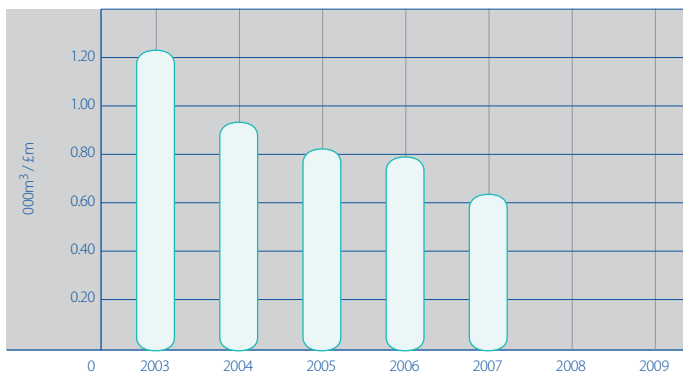
Hazardous materials

The Company has a stated aim of replacing or reducing the use of hazardous substances wherever technically and economically feasible.

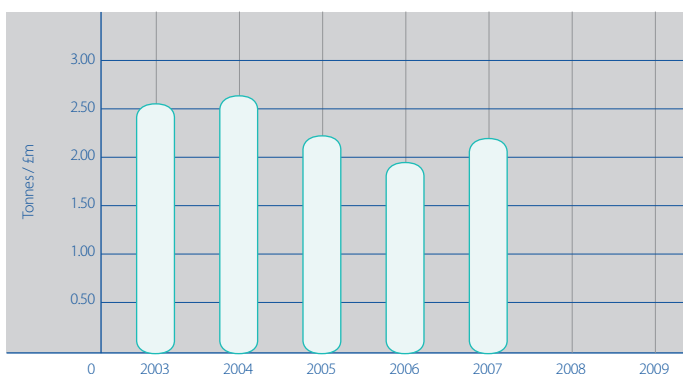
The Company continues to explore the elimination and substitution of materials of concern that are used in manufacture or incorporated into our final products. We have been working since 2005 on the implementation of the EUs new REACH Regulation for the future control and restriction of substances of concern and have been an industry leader in this area.

Organic solvent use has been identified for elimination / substitution for several years and declined further in 2007 to an overall reduction since 2003 of 48 per cent (normalised on turnover). The absolute consumption in 2007 was 387 tonnes and represented a 32 per cent reduction since 2003. This is due to the continued phase out of organic solvent degreasing and the introduction of state of the art cleaning and solvent management systems in our facilities. Businesses continue to set local targets in this area supported by ISO 14001.

Water use and liquid waste



Water use 2003-2007, m³ / £m



Liquid waste 2003-2007, tonnes / £m

Water use and liquid waste

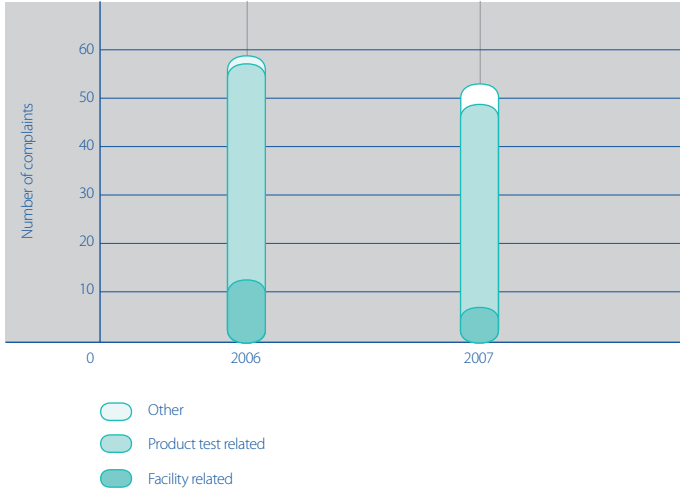
Although not the focus of current company wide targets, water consumption and liquid wastes are subject to local continual improvement programmes within ISO 14001 programmes where appropriate.

Water use in the Company continues to decrease as a result of the introduction of state of the art cleaning and wet processing lines using counter-flow rinsing and extended bath lives. These improvements have facilitated a reduction of 48 per cent since 2003 (normalised by turnover). In 2007 we used 4.7 million m³, an absolute reduction of 31 per cent since 2003.

The amount of liquid waste physically removed from sites (excluding direct discharges to sewers) has increased 14 per cent in absolute terms since 2003 to 16,418 tonnes in 2007. This increase was in excess of the growth of the business due to the progressive move to new factories resulting in exceptional one off disposals and the running of some duplicate facilities. However, we have still seen an overall reduction of 13 per cent since 2003 (normalised by turnover).

Neighbourhood complaints

Neighbourhood complaints



Neighbourhood complaints, 2007

Neighbourhood complaints

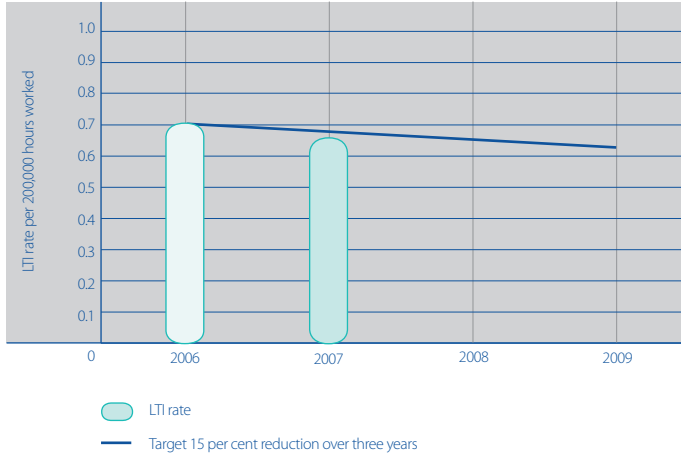
The company continues to see a relatively low number of complaints. A total of 47 complaints (facilities six, product test 41) were received from the public in 2007. Of these 44 were received in the UK and three in Norway.

The largest proportion of complaints (87 per cent) related to gas turbine engine test bed operations at our UK operations in Derby, Hucknall and Bristol. Facility related complaints concerned noise from processing equipment and lighting intrusion.

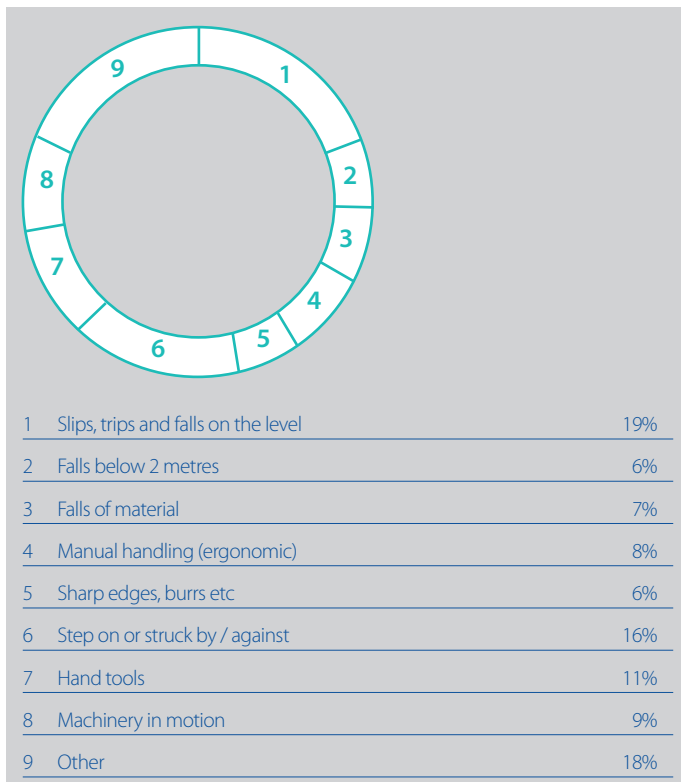
All businesses affected by complaints continue to work closely with local communities and authorities to resolve any concerns. All complaints are investigated. The company is also continuing to make further investment in test bed improvements. In the past year this has included the commissioning of a new state of the art test bed (58 Bed) in Derby, UK (allowing the closure of one of our older test beds) and the transfer of outdoor test facilities from Hucknall, UK to the John C Stennis Space Centre, USA. Both of these investments have led to a reduced noise footprint for engine testing.

Prevent injury

Occupational safety



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



'Over one day' lost-time accident causation, 2007

Target – injury reduction

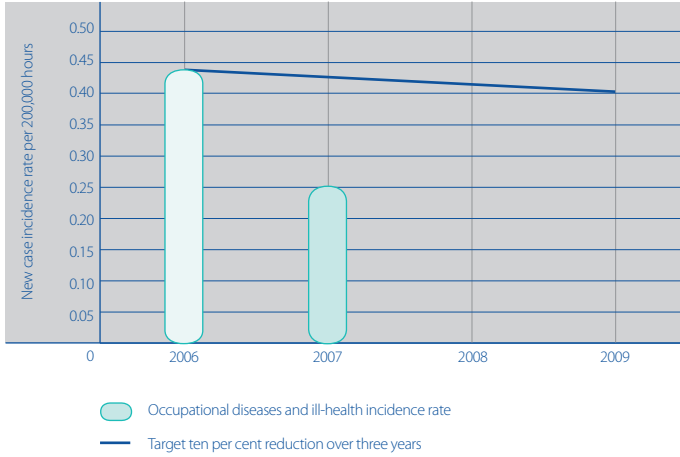
Reduce our Lost Time Injury rate (over one day) by 15 per cent by the end of 2009, relative to 2006 levels.

The Company Lost Time Injury (LTI) rate for 2007 was 0.66 per 200,000 exposure hours. This compares with a rate of 0.70 for the previous year and represents an improvement of 5.5 per cent on 2006 against the interim target of 5 per cent.

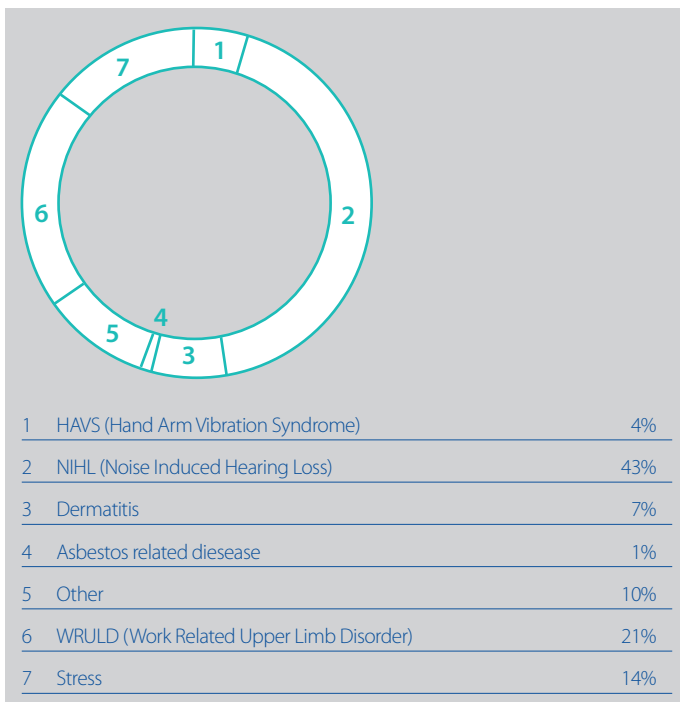
'Slips, trips and falls' now represent the largest (19.3 per cent) accident type followed by 'step on or struck by / against' and 'hand tools'. Company improvement campaigns continue to be focused on the dominant categories and the poorest performers within the group.

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, 2007

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 has reduced by 43 per cent compared to 2006 and an interim target of 3.3 per cent.

The significant decrease observed is partly due to the biennial nature of the surveillance programme and improved data collection from our operations in North America and the Nordic countries.

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 are in place to make further improvements in key areas.



Independent assurance statement

Independent assurance statement by Deloitte & Touche LLP ('Deloitte') to Rolls-Royce plc ('Rolls-Royce') on selected information included in their 'Health, Safety and Environmental (HS&E) performance update for 2007':

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 2007. The assured data include the following:

1 The performance data as stated on pages 2 to 8 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

2 The reported progress against the related 2006 HS&E targets as stated on pages 2 to 8 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: assurance process and standards

Engagement assurance standards

We conducted our work in accordance with the International Standard on Assurance Engagements 3000 (ISAE 3000) issued by the International Auditing and Assurance Standards Board (IAASB) for carrying out assurance engagements on non-financial information.

This is a limited assurance* engagement, which is designed to give a similar level of assurance to that obtained in a review of interim financial information.

Assurance procedures

This standard requires that we review the systems, processes and controls that deliver the selected performance data.

Our work consisted primarily of making inquiries of company personnel and carrying out analytical procedures and sample tests as follows:

- Understanding, analysing and testing on a sample basis the collation, aggregation, validation and reporting of the selected performance data; and
- Reading and analysing the content of the report against the findings of our work, industry HS&E practices and other relevant information and, as necessary, making recommendations for improvement.

The limited assurance* procedures engagement excludes procedures such as testing of source data and is substantially less in scope than a reasonable assurance* engagement. Accordingly we do not provide reasonable assurance on those matters specified in this statement.

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 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 2007 and the progress made on the related 2006 targets. We complied with Deloitte's independence policies, which address and in certain areas exceed the requirements of the International Federation of Accountants Code of Ethics for Professional Accountants.

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
Chartered Accountants
London, 6 May 2008

*The 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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