

### The business case for corporate responsibility

Corporate responsibility is a fundamental part of the Group's business strategy. It is not conducted as a separate and self-contained activity, but is integral to the business. This is because we see corporate responsibility as making a key contribution to the success of Rolls-Royce in the markets in which we operate. We believe that conducting business in an ethical and responsible manner creates competitive advantage through:

- attracting and retaining the best people;
- building goodwill and maintaining successful working relationships with customers, suppliers and governments; and
- supporting the global communities in which our employees live and work.

The Group's values of reliability, integrity and innovation are embedded in our Global Code of Business Ethics. This provides a framework for our stakeholder relationships worldwide, the strength of which helps to shape the Group's reputation.

With around 39,000 employees in more than 50 countries, our strongest contribution to society is the wealth generated by the thousands of highly skilled jobs we provide worldwide.

### Governance

Each area of corporate responsibility has its own governance process or managing committee, and each is led by a member of the Board or Group Executive. These include:

- the ethics committee, consisting exclusively of independent non-executive directors;
- the health, safety and environment committee, chaired by the Chief Executive;
- the Environment Council, chaired by the Director – Engineering and Technology;
- the Environmental Advisory Board, chaired by a senior academic from the Massachusetts Institute of Technology;
- the Global Council, chaired by the Director – Human Resources;
- the Global Diversity Steering Group, chaired by the Chief Operating Officer; and
- the Group community investment and sponsorship committee, chaired by the Chief Executive.

Individual subject matter expertise is reviewed by the Corporate Responsibility Steering Group, which reports to the Board. This group comprises the Director – Human Resources, Director – Public Affairs, Director of Risk and the General Counsel and Company Secretary. In addition, the corporate responsibility risk register uses the Group risk process to identify the potential risks and opportunities, as well as mitigation plans to address these risks. Additional information can be found in the principal risks and uncertainties section on pages 21 to 24.

External recognition

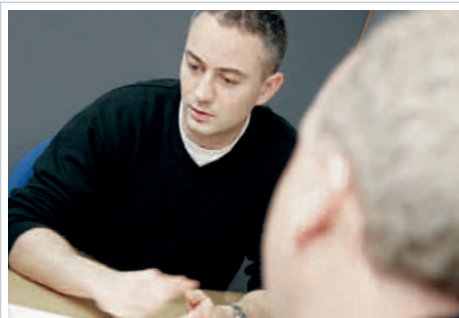
Rolls-Royce is ranked in a number of external indices which benchmark corporate responsibility performance, see below:

 <b>ENVIRONMENT INDEX 2007</b>	<b>BitC BiE Index</b> In the 2008 Business in the Environment Index, Rolls-Royce was once again awarded Platinum status and maintained first position in the Aerospace and Defence sector.
 <b>CORPORATE RESPONSIBILITY INDEX 2007</b>	<b>BitC Corporate Responsibility Index</b> In the 2008 Business in the Community Corporate Responsibility Index, Rolls-Royce achieved Gold status.
 <b>Dow Jones Sustainability Indexes</b> <small>Member 2008/09</small>	<b>Dow Jones Sustainability (World and European) Indexes</b> 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 among the best in class for addressing a range of sustainability issues.

Rolls-Royce has a long history of being a responsible business. We are committed to building on our track record and our obligation to behave responsibly.

## Our approach

Our approach to corporate responsibility is concentrated on four areas of activity:



### Business ethics

High ethical standards are at the heart of the way we do business. Ethical behaviour preserves and enhances our corporate reputation and we support a climate that empowers all of our employees to 'do the right thing'.



### Health, safety and the environment (HS&E)

With its heritage of technological and engineering excellence, Rolls-Royce is well placed to help society address the problems of climate change and energy security. We also believe that good HS&E performance is synonymous with good business performance and we aim to be recognised widely for the excellence of our HS&E performance.



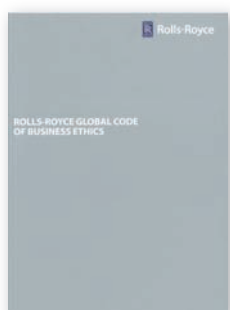
### Employees

We aim to create an inclusive working environment that attracts and retains the best people, enhances their flexibility, capability and motivation, and encourages them to be involved, continuously improving performance. In doing so we deliver on the commitment to all of our stakeholders of being trusted to deliver excellence.



### Society

Rolls-Royce has a firm, long-standing commitment to the communities in which we operate around the world. Sustained investment in communities makes a positive difference and delivers tangible benefits to our business. Corporate responsibility is also a key enabler in delivering our supply chain strategy globally.



#### Global code of business ethics

The code has been circulated to employees and is available in 16 different languages.



#### Confidential reporting line and website

A section on the Group intranet is dedicated to supporting business ethics and includes a confidential reporting procedure.

## Business ethics

The Board believes strongly that the Group's business should be conducted in a way that reflects the highest ethical standards. During 2008, we formed an ethics committee consisting exclusively of independent non-executive directors. The committee will provide a focus for development of the Group's global ethics strategy, our approach to business ethics and the management of ethical and reputational risk. Further details of the committee and its principal terms of reference can be found on page 69.

#### Global code of business ethics

Rolls-Royce has a global code of business ethics which sets out the principles for employees to follow when conducting business and guidance to achieve the required standards. The code is available in 16 languages and can be viewed on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com).

#### Training and awareness programme

To ensure the code is embedded, we started a tiered training programme in 2008 that will continue during 2009. The programme includes face-to-face workshops that will be delivered to around 3,700 resource managers across the Group, including 1,200 trained in 2008. These sessions aim to increase awareness of the importance of ethical behaviour while equipping managers with the necessary tools to enable onward communication to their teams and to deal appropriately with ethics related issues or questions. Employee briefings will also be undertaken during 2009.

#### Confidential reporting line and website

An independently operated and confidential ethics reporting facility is available worldwide so employees can raise issues or concerns regarding business conduct outside of the normal management chain. This facility includes telephone numbers and an external website. Rolls-Royce staff can call any one of 30 telephone numbers in countries across the world to report any concerns they may have with regard to business conduct. Calls are made in total confidence and outside the normal management chain, being handled independently by the LRN – EthicsPoint partnership. The ethics committee monitors cases reported, the management of cases and the results from any investigations undertaken.



#### HS&E performance

The Group places great emphasis on good HS&E performance.



#### Third-party certification

We are committed to a programme of third-party certification for Occupational Health and Safety management systems across all our businesses by 2012.

## Health, safety and the environment (HS&E)

The Group believes that good HS&E performance is synonymous with good business performance. Our stated vision is to be recognised widely for the excellence of our HS&E performance and we aim to have world-class levels of performance across Rolls-Royce sites. These aspirations are supported by a comprehensive strategy and initiatives endorsed by the Group Executive.

### HS&E management

The Group's arrangements for HS&E governance and management systems implementation are detailed in our Policy & Management Arrangements booklet available on [www.rolls-royce.com](http://www.rolls-royce.com). We believe that all cases of work related ill health, injuries and environmental incidents are avoidable.

A full review of the HS&E organisation has been completed during 2008. Improvements aim to increase both the efficiency and effectiveness of HS&E and include the appointment of regional HS&E directors, the development of shared services and the recruitment of high calibre HS&E professionals.

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 businesses. 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 of the elements of our HS&E management systems. Both the ISO 14001 and the OHSAS 18001 international standards are supported within the Group by a comprehensive range of global standards and include pertinent areas such as risk management.

We operate three sites in the UK which together manufacture, test and support nuclear reactor cores for Royal Navy submarines. The Company Nuclear Propulsion Assurance Committee monitors the performance of these sites regularly to ensure that the highest standards of health and safety are maintained and that processes are robust and fit for purpose.

The Group's contribution to developing best practice through third-party collaboration continues to grow. We are taking a leading industry role in REACH, the latest EU chemicals regulation, and continue to work with other companies, trade bodies, sectors and regulators to prepare for implementation.

Efforts have been focused on raising awareness within our supply chain, such that appropriate arrangements for compliance and business continuity, including the targeting of any future 'substances of very high concern', are introduced well ahead of deadlines. Within the aviation sector we have helped the development and launch of international standards for the phased declaration of substances in 'articles' supplied to us to facilitate future REACH compliance and, where required, industry-wide substitution programmes.

We continue to participate and meet our ongoing commitments under various climate change agreements such as the UK Emissions Trading Scheme, the EU Emissions Trading Scheme and the US Chicago Climate Exchange greenhouse gas emissions trading scheme.

#### Operational performance

To achieve our vision we continue to implement robust processes in order to deliver against a number of key objectives and targets by the end of 2009. These are detailed in our latest progress report 'Responsible Operations', which is available on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com). We are already making good progress against these targets across all of our operations and have plans in place to sustain this improving performance.

Our data collection and reporting is subject to independent assurance and recommendations for improvement by Deloitte LLP.

In summary, our 2007-2009 objectives and targets are to:

#### Protect health -10%

Target: Reduce the incident rate of occupational diseases and other work-related ill health by ten per cent by the end of 2009

#### Prevent injury -15%

Target: Achieve a 15 per cent reduction in the lost-time injury rate (over one day) by the end of 2009

#### Reduce environmental impact -10%

Target 1: Achieve a ten per cent reduction in energy consumed (normalised by financial revenues) by the end of 2009

#### -10%

Target 2: Achieve a ten per cent reduction in solid waste (normalised by financial revenues) by the end of 2009

#### 58%

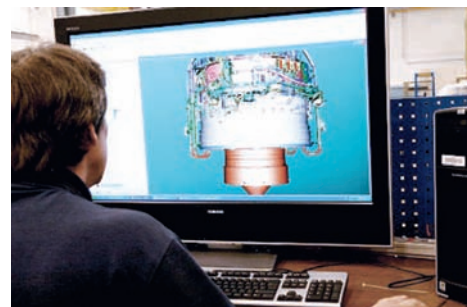
Target 3: Achieve a 58 per cent recycle rate of solid waste by the end of 2009.

There were no fatalities in the Group during 2008. It is with regret that we report the death of a contractor while working for a construction company on a new facility at our energy business in Mount Vernon, Ohio. The UK Health & Safety Executive has prosecuted the Group for two incidents during the year and preventative actions have already been taken to avoid reoccurrence of similar incidents in the future. One incident related to the disabling of an interlock device by a machine operator in our Sunderland (UK) manufacturing facility. The second involved the exposure of agency workers to sand during the decommissioning of a foundry in Derby (UK). The sand contained an additive which is known to be an irritant.



#### Environment campaign

The Group is committed to continuous improvement in its environmental performance.



#### EFE programme

Rolls-Royce has a leading role in the Environmentally Friendly Engine research programme.

### Product environmental performance

Rolls-Royce has a heritage of environmental innovation which means the Group is well placed to help society address the problems of climate change and energy security. We are determined to play a significant role in overcoming these challenges.

The priority we attach to the environment is reflected in the profile of our research and development expenditure, investing more than £800 million every year of which at least two-thirds is directed at reducing the environmental impact of our products and operations.

Thanks to our technological expertise, we have significantly reduced the fuel consumption of our civil engines since the first jet airliners entered into service along with substantial reductions in smoke and noise. For example, the Trent 1000 engine is 25 per cent more efficient than the first RB211 engine.

The Trent 900 and 1000 engines, for the Airbus A380 and Boeing 787 respectively, and in future the Trent XWB for the Airbus A350 XWB, help us make progress towards meeting our ACARE (Advisory Council for Aeronautics Research in Europe) goal of a 15-20 per cent reduction in engine fuel burn by 2020 compared to 2000 levels.

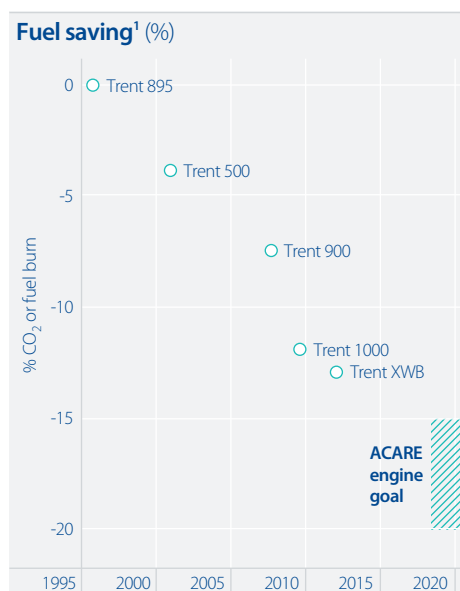
We are taking a leading role in research, including the Environmentally Friendly Engine (EFE), a joint Government, industry and university programme, aimed at improving the environmental performance of an aero engine. In 2008, the European Commission approved the launch of the Clean Sky, Joint Technology Initiative, in which Rolls-Royce will lead a €400 million engine research programme over the next seven years.

Environmental performance is fundamental across all of our businesses. For example, in the marine sector, our market leading Azipull thrusters use 16 per cent less fuel than conventional thrusters. This means that ships use less energy resulting in lower emissions.

The Group is investing in other renewable energy sources such as tidal power, working in partnership with the UK Energy Technologies Institute. In addition, we are working with fuel companies to ensure that future biofuels meet our requirements, with the important caveats that they are sustainable, do not compete with the growth of food crops and are used in the most effective way to maximise the reduction in greenhouse gas emissions.

Nuclear power will represent an important component of future low-carbon electricity generation, sitting alongside renewables and other measures. In 2008, Rolls-Royce established a new civil nuclear business unit in response to the opportunities presented by future expansion of civil nuclear power.

The Group believes that technology must be applied on an industrial scale, through companies such as Rolls-Royce with its global reach, to achieve significant reductions in emissions to address climate change. The Group's report on environmental performance, 'Powering a better world', is available on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com).



<sup>1</sup> SFC: fuel consumption normalised for engine power  
ACARE: Advisory Council for Aeronautics Research in Europe



#### Employee engagement

The Group is committed to a programme of surveys to monitor and improve engagement with employees.



#### Global Council

Our Global Council meets twice a year and includes employee representatives from around the world.

## Employees

At the end of 2008, Rolls-Royce employed 38,900 permanent staff in over 50 countries.

The long life cycle of the Group's products makes it imperative that we have a skilled workforce that is committed to delivering excellence to customers over the long term. To achieve this, we aim to create an inclusive working environment that attracts and retains the best people, enhances their flexibility, capability and motivation, and encourages them to be involved, resulting in improving performance.

### Engaging employees

In 2005, we formed a Global Council to improve consultation and employee engagement. This meets twice a year and involves over 40 employee representatives or delegates from around the world with senior management from each business and function. In addition, an executive committee of eight elected delegates meets regularly throughout the year to support regular dialogue and timely consultation between council meetings. In 2008, full council meetings were held in Berlin (Germany) and Derby (UK).

In 2008, we conducted the annual Corporate Storyboard, an interactive Group-wide briefing on corporate direction and performance. Delivered face-to-face to all employees globally, the storyboard ensures all employees across the business have a good understanding of the Group's key objectives and the individual contribution each can make. The initiative builds on the success of the first Strategy Storyboard, which was widely welcomed by our employees.

During 2008, our Employee Engagement Survey was redesigned and incorporated into a two-year rolling global engagement programme. This will improve our ability to test, identify necessary actions and better understand employees' level of engagement across the organisation and will be vital in signalling the areas to focus on to improve engagement within the organisation. The new survey was launched in January 2009.

Rolls-Royce provides competitive pay and benefits in all its locations and actively encourages share ownership by offering ShareSave plans to all employees. Our employees have currently committed around £105 million to these plans. In the UK, statutory arrangements enable employees to receive part of their annual bonus in shares and to make monthly share purchases from their salary.



#### Attracting employees in Asia

We continue to make good progress in attracting employees in Asia.



#### Encouraging diversity

Rolls-Royce is committed to developing a diverse workforce.

#### Encouraging diversity

The Group is committed to developing a diverse workforce and equal opportunities for all. This includes encouraging more women and people from minority backgrounds to pursue engineering careers. During 2008, we recruited graduates for our worldwide graduate programme from 32 nationalities and apprentices in the UK and Germany for our apprentice programme from nine nationalities. Our global governance framework for diversity includes a senior executive Global Diversity Steering Group that provides leadership and shapes strategic direction.

In Asia we continue to make good progress in attracting the highest quality leadership talent. Several key management roles in Asia have provided the opportunity to recruit new senior local management. As the demand signal for early career high potential talent strengthens in the region, we have also engaged with several universities in China, India and Singapore to encourage students to apply for our graduate recruitment and development programme.

Launched in 2006, our UK Women's Network continues to grow, focusing on personal and professional skills development as well as providing support through networking and mentoring frameworks.

Our policy is to provide, wherever possible, employment training and development opportunities for disabled people. We are committed to supporting employees who become disabled during employment and to helping disabled employees make the best possible use of their skills and potential.

#### Learning and development

2008 was a year of transformation for Learning and Development. A new global Centre of Excellence, staffed by experienced professionals, supports businesses with the identification of strategic training priorities together with the design and procurement of new development initiatives.

The implementation of 'My Learning', a global customised Learning Management System, enables us to define behavioural and technical competencies by role and align learning and development to competency profiles resulting in a more focused, speedier and personalised training service.

We continue to develop our delivery of face-to-face and online learning for our employees. During 2008, we have provided 3,400 days of leadership training, 39,000 hours of online learning and 4,600 days of engineering systems training. We continue to deliver global programmes such as business ethics training, delivered to 1,200 senior leaders in 2008, and the Corporate Storyboard rollout to employees using trained facilitators.

#### Resourcing and deployment

The creation of a new global Centre of Excellence for Resourcing and Deployment consolidates our approach to strategic workforce planning, recruitment and performance management and the development of employee capability.

We pursue professional depth and capability across all of our functions and the Centre of Excellence spreads best practice globally, primarily through development cell activity.

Development cells are regular forums held with senior leadership teams through which we manage our leadership succession and individual career development. Discussions are directly aligned to the development of resourcing plans which identify the need for managerial, MBA, graduate and apprentice resourcing requirements.

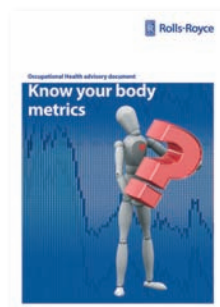
During 2008, we recruited 141 graduates and 233 apprentices and technicians worldwide and an additional 278 students were employed on short-term training projects in the UK and North America. We remain in the upper quartile of The Times Top 100 Graduate Employers' survey and have moved to first position for engineering companies. Over 400 employees have benefited from financial support and time off work to attend further education programmes at local colleges and universities, and we provided £460,000 to finance this type of learning. Overall we have invested £30 million in the education, training and professional development of employees during the year.

### Health and wellbeing

The Group is committed to promoting best practice in occupational health and now provides professional expertise through highly regarded outsourced providers. The primary objective of the Group's occupational health strategy remains a culture of prevention rather than cure.

The strategy maintains four key areas of focus:

- screening and surveillance;
- rehabilitation;
- health promotion; and
- education.



**'Know your body metrics' health promotion campaign**  
Produced to raise awareness and understanding of cardiovascular risk factors.

We have demonstrated good progress against our screening and surveillance targets. These are detailed in our report 'Responsible Operations', published in April 2007 which is available on the Group's website at [www.rolls-royce.com](http://www.rolls-royce.com).

791 employees in our operations functions completed the Health Risk assessment pilot programme. The greatest return from this tool was encouraging the majority who were at low risk to maintain their health and wellbeing.

An 'Owners Handbook' health manual produced in conjunction with the Men's Health Forum was issued to all employees in 2007 and 2008. This covered all aspects of general lifestyle and wellbeing for both men and women.

A 'Know your body metrics' health promotion campaign was rolled out in 2007 and carried on into 2008 to raise awareness and understanding of cardiovascular risk factors. Over 3,000 employees have been screened at travelling wellness booths. This has been our most successful campaign to date during which 14 per cent were referred onward as the result of cholesterol levels and five per cent for glucose levels.

An anonymous online questionnaire found that the 'Owners Handbook' and the 'Know your body metrics' booklet were rated as 'good to excellent' by more than 80 per cent of respondents. Some 45 per cent said they had made beneficial lifestyle changes as a result of the information.

A pilot programme in one of our business units is taking place with the Sainsbury Centre for Mental Health based on the successful Australian programme entitled 'beyondblue', designed to help managers to identify depression in the workplace by involving them in a series of management training and awareness sessions. A health promotion campaign on sleep and fatigue was also undertaken in the autumn of 2008.



**'Owners Handbook' health manual**  
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## Society

### Suppliers

The Group sets and manages rigorous performance standards for suppliers through its quality system, Supplier Advanced Business Relationships (SABRe). This includes a supplier code of conduct, which is complemented by the Group's purchasing code of conduct that ensures suppliers and employees work together consistently.

The Group continues to foster productive supplier relationships which:

- deliver mutual business benefits;
- minimise the environmental impact of business operations;
- encourage the highest standards of ethical behaviour; and
- promote human rights.

The expansion of sourcing in Asia and the Americas continues, along with supplier training and the sharing of best practice. During 2008, we expanded our supplier training programme by 25 per cent.

Promotion of 'lean' techniques and waste elimination continues, such as our drive to reduce packaging waste. We have also run a pilot programme, engaging 30 suppliers, which has identified significant environmental benefits which we will continue to develop.

Continuing our success in recycling metals within our manufacturing facilities, including 1,250 tonnes in 2008, we are now working with our suppliers to support them in recycling their waste metals. We have also introduced metal recycling opportunities as a consideration in our sourcing decision process.

Building on internal success, we have conducted trials with 11 suppliers to embed process basics such as HS&E, visual management and workplace organisation. Self-assessment allows suppliers to create programmes to improve their performance and the feedback has been very encouraging.

Rolls-Royce supports the voluntary MoD Charter on Sustainable Procurement. The Charter defines sustainable procurement as meeting demand for goods, services, works and utilities in a way that achieves value for money with minimal adverse impacts on the environment and society. We will monitor progress over the coming years across all elements of the maturity matrix, one of which is engaging suppliers.

The use of e-business conferencing has doubled during 2008, improving global co-working particularly in the area of supply chain management.

Local sourcing policies reflect government regulations, such as in the US where particular rules towards working with small and disadvantaged businesses apply.

### Community investment

The Group has a long-standing commitment to supporting its local communities.

Community investment is an intrinsic part of the way we do business, supporting the Group's strategy and future success, particularly in the areas of:

- recruitment and retention of employees, particularly by investing in the science skills we need;
- employee engagement, by encouraging a sense of loyalty, pride and motivation about our organisation;
- development of professional and personal skills such as teamwork, leadership, adaptability and ethical behaviour; and
- reputation, by building proactive and mutually beneficial relationships in the communities in which we operate.

During 2008, we conducted our fifth global survey of community contributions, including cash, employee time and gifts in kind, using the London Benchmarking Group model. The Group's total contributions across all these areas amounted to approximately £6.8 million.

### Donations and sponsorship

The Group's charitable donations policy is to 'directly support causes primarily relating to educational, engineering and scientific objectives, as well as social objectives connected with the Group's business and place in the wider community.' The Group's charitable donations amounted to £1.6 million, of which £1.1 million were made in the UK. These included support for Community Foundations, The Prince's Trust and Help for Heroes. Elsewhere, Rolls-Royce made charitable donations of £300,000 in North America, £100,000 in Germany and £100,000 in other regions. These donations included support for the work of United Way in North America and for the victims of the earthquake in China, among others.



Prince's Trust



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#### Science Prize

The Rolls-Royce Science Prize continues to attract entries from schools all over the UK.

A further £2.7 million was contributed in sponsorships and educational programmes, including the Smithsonian National Air and Space Museum in North America, the Brandenburg Summer Festival in Germany, and sponsorship of the Cub Scout Scientist Badge in the UK.

The Group has a stated policy of working closely with governments and institutions to highlight the many career opportunities that science and engineering can offer.

Our flagship education programme, the Rolls-Royce Science Prize, recognises excellent and innovative science teaching in the UK and Northern Ireland. This year's winner, St Anne's Primary School in Antrim, Northern Ireland, received a total of £20,000 for their project on the treatment and uses of water. In all, £120,000 was awarded to 59 schools to improve science teaching and learning.

During 2008, the Science Prize programme was extended through the sponsorship of Project ENTHUSE. This project will provide free professional development courses to teachers in the UK through the National Science Learning Centre.

#### Employee time

Employee time contributed during 2008 is estimated at a value of at least £1.7 million, with more than 4,000 employees participating in activities such as community projects and team building activities with societal benefits.

A number of employees in the UK, North America and Germany completed a substantial community project as part of their personal development. Over 150 employees took part in 15 projects during the year, which are recognised at the Group's Annual Learning and Development Awards.

A UK project with arts partner sinfonia VIVA was awarded the Arts & Business People Development Award 2008, which recognised our innovative approach to managing business change through an arts-based programme for team building.

#### Employee giving

In addition to the Group's own contributions, Rolls-Royce finances the administration of a Payroll Giving Scheme for UK employees, enabling them to make tax-free donations to their chosen charities. During 2008, employees gave almost £444,000 to more than 350 charitable causes of their choice. The scheme is recognised as Gold Award standard by the UK Government's Payroll Giving Quality Mark, with approximately 16 per cent of employees participating in the scheme. In North America, employees have contributed £172,000 directly from payroll to good causes through the United Way scheme, a percentage of which is matched by the Group.

#### In-kind support

The Group also supports community and educational organisations with in-kind donations, including places on Group training courses and the loan of engines and components.