

Report from Ian Strachan Chairman of the ethics committee



Conducting our business in accordance with the highest ethical standards is critical to the long-term success, profitability and prosperity of Rolls-Royce.

The ethics committee was formed in 2008 and consists exclusively of independent non-executive directors. During 2011, the committee met three times and details of its membership and attendance can be found in the table on page 43. The Director of Risk, who had executive responsibility for ethics during the year, attended the meetings as did the General Counsel and Company Secretary. The Chairman of the Board, the Chief Executive, the Head of Business Ethics and the Chief Compliance Officer were also invited to attend meetings of the committee on a regular basis.

Responsibilities

The Board believes strongly that the Group's business should be conducted in a way that reflects the highest ethical standards and established the ethics committee to:

- review compliance with the Group's Global Code, which sets out the principles and rules to be followed by employees when conducting business;
- review recommendations on ethical matters made by external regulatory authorities, or other bodies, and make recommendations to the Board about whether these should be applied to the Group; and
- monitor reports on issues raised through the Group's confidential reporting line and review the results of any subsequent investigations.

The full terms of reference for the committee are available on the Group's website at www.rolls-royce.com.

The work of the committee during 2011

During the year, the committee received reports on the ethics and compliance programmes which continued the extensive activity undertaken in 2010. Reports were received on the following key topics:

Anti-bribery and corruption (ABC) compliance programme

In 2011, the Group reviewed its policies and procedures ahead of the introduction of the UK Bribery Act (the Act). This work included updating the Group's policies covering gifts and hospitality, as well as third party intermediaries and other related areas. The Company also created a compliance organisation, led by a Chief Compliance Officer, to oversee the introduction of the new procedures and to ensure staff received appropriate training. The Group was fully compliant with the new Act upon its introduction on July 1, 2011.

Use of third party intermediaries

At each meeting, the committee received reports upon the Group's use of third party intermediaries. The committee ensures that agreements with intermediaries are subject to strict and continual review. These reviews cover matters such as payments to intermediaries, their qualifications and the business case behind the necessity for their use.

Global Code and supporting policies

At the July and November 2011 meetings, the committee reviewed the Global Code, issued in 2009. Following internal and external scrutiny of its quality, which demonstrated that it continued to represent best-in-class standards, it was decided that the Global Code would not require a major update in 2012.

Nevertheless, the committee agreed that continued training and communications should take place to ensure the Global Code maintained a high profile across the organisation. New and updated policies in support of the Global Code were reviewed and endorsed. These included policies covering 'whistle-blowing', conflicts of interest and competitive intelligence. These policies, supported by appropriate training and communications activity, became effective during the year.

Confidential helpline reports

At each meeting the committee received reports on calls made to the confidential reporting line ('Tell Us') and the helpline ('Ask Us'). These reports summarised the trends in the numbers of contacts, including analysis by category of geographical spread and the outcomes of the investigations undertaken. Information on the nature of the higher risk cases was also reviewed.

Global Principles of Business Ethics for the Aerospace and Defence Industry

At its February 2011 meeting, the committee agreed that Rolls-Royce should sign a statement of the Global Principles of Business Ethics for the Aerospace and Defence Industry. As a signatory, the Group has committed to follow programmes and policies that foster ethical business conduct. More information about the Global Principles can be found at www.ifbec.info.

The committee believes that Rolls-Royce maintains an environment in which all employees understand the standards of behaviour expected of them and feel able to report any suspected breaches of the Global Code and that conducting business in accordance with the highest ethical standards is critical to the long-term success, profitability and prosperity of Rolls-Royce.

Ian Strachan

Chairman of the ethics committee