

SUSTAINABILITY

Our strategy is to create a sustainable business, through our focus on customer, innovation and profitable growth. Our commitment is to continually improve the environmental performance of our products and services. With our customer at its heart, our strategy will deliver ‘Better power, a Better future and a Better business’.

Sustainability

Better power

Helping our customers do more using less.

Better future

We are committed to innovation: powering better, cleaner, economic growth that creates value for customers, employees, investors, suppliers and wider society.

Better business

We invest in technology, people and ideas to improve all aspects of our performance and to drive profitable growth. Building on today’s achievements to meet the business challenges of the future.

Better power

Helping our customers do more using less.

Each of our customer-facing segments provides services and customer operation solutions to improve the effectiveness of our equipment. In each of our markets, we are focused on reducing fuel consumption and emission levels. Find out more by visiting www.rolls-royce.com.

Improving the environmental performance of our products

Rolls-Royce has a strong track record of reducing emissions through significant investment in technology. In 2013, we invested £1,118 million in R&D, of which around two-thirds is aimed at reducing the environmental impact of our products and services.

In Civil aerospace, The Advisory Council for Aviation Research and Innovation in Europe (ACARE) has set challenging goals for aviation to meet by 2050. These include reducing aircraft CO₂ emissions by 75 per cent (per passenger kilometre); reducing noise by 65 per cent; and reducing oxides of nitrogen (NO_x) by 90 per cent, all relative to a typical new aircraft produced in 2000.

The Trent XWB is the world’s most efficient turbofan aero engine flying today. The low noise technology built into the Trent 1000 makes it the quietest engine on the Boeing 787 Dreamliner, which itself has half the noise level of the corresponding previous generation aircraft.

In Defence aerospace, we have worked with the US Air Force to complete the final testing of the Series 3.5 enhancement of the T56 engine, providing fuel savings of up to ten per cent in addition to improved performance and reliability.

In Marine, our Environship design together with our advanced propulsion systems can reduce CO₂ emissions by up to 40 per cent compared to conventional diesel-powered vessels. The Environship concept was awarded the Green Ship Technology Award this year.

Our Civil Nuclear portfolio makes a significant contribution to future low carbon electricity generation. We are strongly positioned to support growth in this industry.

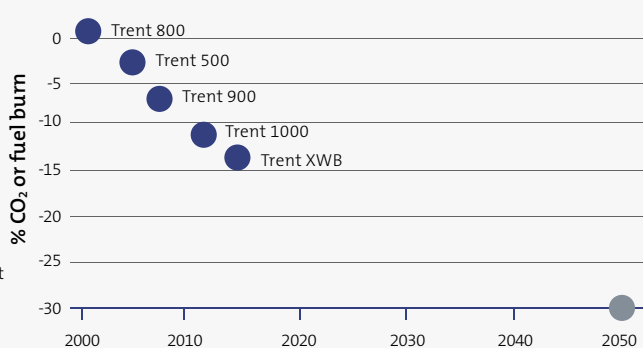
CO₂ (Engine)

ACARE Target:

75% overall reduction in CO₂ per passenger kilometre 30% engine contribution (Rolls-Royce engine long-term goals).

● Trent family

● ACARE flightpath 2050 target





Carbon Disclosure Project

The Rolls-Royce 2013 carbon disclosure score of 85 is our highest score to date. This, along with our performance band 'B' rating, demonstrates our commitment to continually improving our environmental performance.

MEMBER OF
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM

Dow Jones Sustainability Index

Rolls-Royce has been listed for the 12th consecutive year. We achieved an overall score of 67 in 2013, above average in all areas within the aviation and defence sector.



Left to right: Sarah Armstrong (Rolls-Royce), Ella Jakubowska and Sir Trevor McDonald at the TARGETjobs Female Undergraduate of the Year 2013 awards.

Better future

We are committed to innovation: powering better, cleaner economic growth that creates value for customers, employees, investors, suppliers and wider society.

Our people

Our culture fosters innovation, collaboration and continuous improvement. Developing strong people management and leadership skills alongside our technical expertise helps ensure that our employees are engaged and understand the wider role they play in the Group's success. We work actively to attract young people to Science, Technology, Engineering and Mathematics (STEM) subjects.

Content and figures do not include Rolls-Royce Power Systems AG, unless indicated.

In 2013, we recruited 2,530 experienced professionals to support the growth of our business. Our graduate programme is expanding, we recruited 379 graduates through our global programmes, an increase of 21 per cent from 2012. Our graduate population is becoming more representative of the diverse and global company we are working in, with this year's graduates representing 32 nationalities and coming from 97 universities. Our apprenticeship programme has been running for over 100 years. At any one time we have over 1,000 apprentices around the world.

| Average number of employees | 2012 | 2013* |
|-----------------------------|---------------|---------------|
| By region | | |
| United Kingdom | 22,800 | 24,800 |
| Rest of the world | 20,000 | 30,400 |
| Total | 42,800 | 55,200 |
| By sector | | |
| Civil aerospace | 21,500 | 23,400 |
| Defence aerospace | 7,800 | 7,900 |
| Marine | 8,800 | 9,200 |
| Energy | 3,700 | 4,000 |
| Power Systems | 1,000 | 10,700 |
| Total | 42,800 | 55,200 |

* Includes Rolls-Royce Power Systems AG.

We retained our title as 'The most popular graduate recruiter – Engineering, Designs and Manufacture' in the UK TARGETjobs Awards for the fourth year running. Our position has also risen in the 'Times Top 100 Graduate Employers' rankings and in the 'Guardian UK 300' survey.

Employee involvement

Employee engagement is critical to our success. We use a variety of channels to communicate with our employees. We have well-established frameworks for managing employee and trade union/employee representative participation which include formal information and consultation arrangements. Our incentive schemes and all-employee share plans make sure that every employee has the opportunity to share in our success. We encourage our employees to improve their knowledge and enhance their careers by providing meaningful training and development. In 2013, we supported 49,600 employees, customers and suppliers through our learning management system. Learning investment for 2013 was £39.7 million and a total of 272,000 training course completions were delivered during the year.

Human rights

Our human rights policy sets out our commitment to respect the human rights of our employees through core labour standards regarding employee involvement,

diversity and equality, pay and benefits, working hours, forced labour and child labour. We set equivalent standards for our supply chain through our Supplier Code of Conduct.

Diversity and inclusion

A diverse workforce will help ensure our continued success as a global business and contribute towards a better future. We continue to face challenges in increasing diversity across the organisation and are working with our leadership teams to raise awareness of the need for change. Over recent years we have seen increased levels of diversity in both our early career pipeline and high potential pool, with females making up 26 per cent of our UK graduate intake in 2013 and 29 per cent of our graduate intake into countries outside the UK. Females are 24 per cent of our high potential population as compared to 15 per cent of our general population.

This year, Rolls-Royce sponsored the UK Female Undergraduate of the Year 2013 awards. The winner, Ella Jakubowska, accepted a place on our Customer Management Graduate Programme.

| Headcount by gender* | Full-time equivalents at 31 December 2013 |
|----------------------|---|
| Male | 46,975 |
| Female | 8,225 |
| Total | 55,200 |

* Includes Rolls-Royce Power Systems AG.

| Senior managers by gender* | |
|----------------------------|-----|
| Male | 188 |
| Female | 11 |

* Includes Rolls-Royce Power Systems AG.

| Board directors by gender | |
|---------------------------|----|
| Male | 10 |
| Female | 2 |

We give full and fair consideration to applications for employment made by disabled people and also support employees who become disabled during employment, helping them make the best use of their skills and potential.

SUSTAINABILITY

Community investment

We are committed to conducting business to the highest standards and building positive relationships within the communities where we operate. In 2013, our total contribution was £8 million. We actively work with schools and universities to increase interest and encourage diversity amongst those taking STEM subjects, and to broaden the career aspirations of individuals from under-represented groups.

Working with governments

National governments are often our customers and we aim to build strategic relationships with governments in our key markets.

National governments and the EU also set the legislative and policy framework for doing business and they are a potential source of funding and support for research and technology (R&T), R&D, manufacturing, education and training initiatives, as well as for certain capital projects.

We engage in dialogue to align our own business needs with the political, social, economic, industrial and commercial requirements of national governments and the EU.

In 2013, we have worked with the UK Government on the development and implementation of the Aerospace Growth Partnership; in EU Affairs, we have focused on the Horizon 2020 EU funding programme; and in North America we focused on defence appropriations and policy issues.

Globally, we are members of national industry bodies and trade associations that represent our sector and Group interests. In the UK we are members of the Confederation of British Industry (CBI) and AeroSpace, Defence and Security (ADS); in North America the Aerospace Industries Association, Organisation for International Investment and the US Chamber of

Commerce; in Brussels on EU affairs we belong to The AeroSpace and Defence Industries Association of Europe (ASD) and EU Turbines, amongst others; and globally we are members of local Chambers of Commerce in our countries of operation.

Rolls-Royce does not make corporate contributions or donations to political parties or to any organisations, think-tanks, academic institutions or charities closely associated to a political party or cause, as outlined in our Global Code of Conduct.

Better business

We invest in technology, people and ideas to improve all aspects of our performance and to drive profitable growth. Building on today's achievements to meet the business challenges of the future.

Ethics

We have made a strong commitment to improving our ethical performance in line with building a better business.

You will have read in the Chief Executive's review on pages 6 and 7, about Lord Gold's review, the SFO investigation, and the publication of our new Global Code of Conduct. We have also introduced a confidential Ethics Line which is available 24 hours a day, where individuals can ask questions or raise concerns. You can read more on these topics in the ethics committee report on pages 49 and 50. We are also refreshing our Supplier Code of Conduct for deployment in 2014. Compliance with the code will continue to be monitored through our regular supplier audits.

The Group continues to be an active participant in ethical initiatives of the European and US aerospace and defence business sectors. We are a signatory to the 'Common Industry Standards' which were drawn up by ASD and aim to promote and enhance integrity practices among its members.

The Group is also a member of the International Forum on Business Ethical Conduct's (IFBEC) Steering Committee. This organisation includes leading US and European companies in the aerospace and defence sectors and aims to promote responsible and ethical business behaviours through the Global Principles of Business Ethics.

Improving operational performance

Improving the environmental performance of our operations contributes to profitable growth. We have set a three-year target to reduce energy consumption by ten per cent by the end of 2015, with 2012 as the baseline year excluding product test and development and normalised by revenue.

Our energy use increased slightly in 2013, reflecting our increased levels of activity, but we are on track to reduce our overall emissions of greenhouse gases. We continue to invest in improvements to our facilities. Our total spend in 2013 amounted to almost £3 million on projects, including upgrades to compressed air systems, lighting systems and controls, and additional energy monitoring capability in our plants and offices. We are seeking to make wider use of more sustainable energy sources, where cost effective and practical to do so.

Our business segments have third-party accredited certification to the environmental management systems standard ISO 14001. In addition, we have maintained our focus on requiring key suppliers to become certified to ISO 14001. For further information on how we work with suppliers please visit www.rolls-royce.com/sustainability.



UK Prime Minister David Cameron meets Colin Smith CBE, Director – Engineering and Technology, and some of our apprentices at the Apprentice Academy, Derby, UK.

We are helping to lead the way on REACH (Registration, Evaluation and Authorisation of Chemicals) regulations and have submitted the first ever REACH Authorisation application. This is in the final stages of the approval process with the European Chemicals Agency and European Commission. Additionally, we continue to work with our suppliers to assist them in meeting their own obligations with a focus on the managed reduction and phase out of the use of targeted substances that are hazardous to health and dangerous to the environment.

Through our active participation in the International Aerospace Environment Group we are also helping to introduce new standards to facilitate efficient data sharing across the aerospace supply chain. This focuses on the uses of hazardous substances (in both manufacturing processes and included in our products) and related substitution and phase out programmes.

Greenhouse gas emissions

In 2013, our total greenhouse gas (GHG) emissions from our facilities, processes, product test and development was 520 kilotonnes carbon dioxide equivalent (ktCO₂e). This represents a reduction of nine per cent compared with 572 ktCO₂e in 2009 (see table). This reduction has been achieved, despite a growth in our global facilities footprint. We have introduced a longer term GHG target over ten years, aimed at reducing emissions by 17 per cent by the end of 2022 (baselined at 2012), excluding product test and development.

The figures in the table do not include emissions associated with Rolls-Royce Power Systems AG. We expect to integrate this subsidiary into our reporting process during 2014. Power generation relates to the operation of commercial gas-fired power stations.

| Total GHG emissions (ktCO ₂ e) | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|------------|------------|------------|------------|-------------|
| Direct emissions – facilities, processes, product test and development (Scope 1) | 215 | 236 | 229 | 213 | 218 |
| Indirect emissions – facilities, processes, product test and development (Scope 2) | 357 | 365 | 346 | 337 | 302 |
| Total for facilities, processes, product test and development | 572 | 601 | 575 | 550 | 520 |
| Direct emissions – power generation to grid (Scope 1) | | | | | 56 |
| Indirect emissions – power generation to grid (Scope 2) | | | | | 3 |
| Total for facilities, processes, product test and development, and power generation to grid | | | | | 579 |
| Normalised (by revenue) emissions ratio for facilities, processes, product test and development (ktCO₂e/£m) | | | | | 0.04 |

We have used the GHG Protocol Corporate Accounting and Reporting Standard (revised edition) data gathered to fulfil our requirements under the Carbon Reduction Commitment (CRC) Energy Efficiency scheme, and the UK Government's GHG reporting guidance as the basis of our methodology and source of emissions factors for Company reporting for 2013. Further details on our methodology can be found within our 'Basis of Reporting', available at www.rolls-royce.com/sustainability.

Safety

We are committed to continually improving the standards of health and safety in the workplace. We have steadily improved performance over previous years. In 2013, there were no fatalities or significant injuries and we achieved a 17 per cent reduction in the Total Reportable Injury (TRI) rate from 0.54 in 2012 to 0.45 TRIs per 100 employees. Over the longer term, we have reduced the TRI rate by 37 per cent since 2009. We have set a new target to reduce TRIs per 100 employees by 15 per cent by 2015 (baselined at 2012).

We continue to analyse high-potential incidents and each of them is investigated at business segment level, with some also included in Group level assessment. The number of high-potential incidents has declined slightly from previous years and the number of 'near misses' reported has significantly increased. The increased level of near miss reporting reflects greater risk

awareness, overall proactive reporting, risk based investigation and other improvements. These contribute to both TRI and high potential incident reductions.

Throughout the year, we continued several global safety improvement plans. The Electrical and Process Safety programmes included site reviews and training and tools for ensuring efficient implementation of control measures. Reviews have also been carried out on the use and control of exposure to a number of chemicals newly regulated under the REACH regulations. These reviews confirmed that our controls are suitable and that they ensure occupational exposures and releases to the environment are within limits set by the new requirements.

Health

The current incidence of occupational illness stands at 0.86 cases per 1,000 employees. The leading causes of illness are noise-induced hearing loss, work-related upper limb disorders and stress. This reflects our global health risk profile and provides the focus for our health improvement activities.

Following a prosecution in the UK by the Health and Safety Executive for one case of Hand-Arm Vibration Syndrome (HAVS), independent advice was sought from the UK Health and Safety Laboratory and we are continuing to strengthen our management of HAVS.