

# DEVELOPING A SUSTAINABLE BUSINESS

As a leading power systems provider we have a fundamental role in meeting the environmental and societal opportunities and challenges that the world faces.

## WHAT MATTERS MOST

Understanding and prioritising the issues that matter most to the Group and our stakeholders enables us to manage our business effectively for the long term. This informs our strategy, approach and reporting. We have policies, processes, targets and governance in place to manage the most important issues.

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- Better power
- Better future
- Better business



## EXTERNAL RECOGNITION

-  **ROBECOSAM Sustainability Award Industry Leader 2016**
-  **ROBECOSAM Sustainability Award Industry Mover 2016**
-  **ROBECOSAM Sustainability Award Gold Class 2016**

**Dow Jones Sustainability Index**  
 We have been awarded Industry Leader, Industry Mover and Gold Class award for the Aerospace and Defense sector in the Dow Jones Sustainability Index. Achieving an overall score of 77, we have been listed in the DJSI World and DJSI Europe indexes.



**CDP Climate Change Index**  
 Our score of 99B in the CDP is our highest to date and has earned us a place in the FTSE 350 Climate Disclosure Leadership Index. This reflects our commitment to continuously improve our environmental performance and disclosure.

## OUR APPROACH

### Better power

#### Helping our customers do more, using less

Our engineering expertise helps us to deliver more efficient products for our customers. Our commitment is to improve continuously the environmental performance of our products and services. Each year we invest over £1.2bn in gross R&D, two thirds of which is aimed at improving environmental performance.

Our environment strategy focuses on three areas: supporting our customers by further reducing the environmental impact of our products and services; developing new technology for future low emissions products; and maintaining our drive to reduce the environmental impact of our business activities.

We work with our customers to ensure optimal performance from our products throughout their operational life. We deliver a broad range of learning solutions, ranging from product operations and maintenance to simulation activities.

We have an extensive range of field service personnel and service operations centres that ensure we have the expertise and equipment available to service our products with minimal disruption.

Our products and services are designed to the highest standards of product safety, and we consistently pursue proactive opportunities for improvement. Product safety and environmental requirements are an integral part of each stage of the product lifecycle.

### Better future

#### Committed to innovation, powering better, cleaner economic growth

Innovation is embedded in all of our products and services and is a key competitive advantage. The skills, knowledge and passion of our workforce help us to innovate and to deliver on behalf of customers. We are working towards creating an environment where everyone can reach their full potential. We encourage diversity, engagement and development.

We are committed to protecting the human rights of our employees. Our Global Human Rights policy sets out this commitment through employment standards covering: employee involvement; diversity and equality; pay and benefits; working hours; forced labour and child labour. Compliance is assessed on a regular basis.

Employee health and wellbeing are the foundation of high performance. We focus our health improvement programmes on key areas in accordance with our risk profile: health risk management; resilience and wellbeing.

A diverse workforce will help ensure our continued success as a global business and contribute towards a better future. More information on our approach to diversity and gender distribution can be found in the Nominations & Governance Committee report, on pages 71 and 72.

We use a variety of channels to communicate with employees and encourage participation and engagement. Our community investment and education outreach programmes are a key component of our employee involvement activities.

### Better business

#### Investing in technology, people and ideas to improve all aspects of performance

We are committed to conducting every aspect of our business to the highest ethical standards and ensuring we are in line with all applicable laws. We have a zero tolerance approach to any form of ethical misconduct, bribery or corruption.

We have a Global Code of Conduct that applies to all employees of Rolls-Royce, our subsidiaries and controlled joint ventures, wherever they are located. We set equivalent standards for our supply chain through our Global Supplier Code of Conduct.

We regard the health and safety of our employees and those working on our premises, or on our behalf, as paramount.

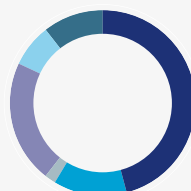
We continue to focus on managing the health and safety risks through risk-based improvement programmes, strengthening leadership and cultural change.

Reducing the environmental impact of our business activities is a key part of our environment strategy. We continue to invest in improving the performance of our operations by reducing energy use, greenhouse gas emissions and waste.

We are committed to optimising material and resource efficiency. We are working to better manage the use of chemicals in our processes and to phase out the use of substances that are considered dangerous to the environment or harmful to health.

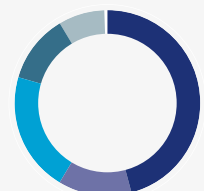
#### Average number of employees per region\*

UK	23,200	Germany	10,700
USA	6,400	Nordic countries	3,800
Canada	1,100	Rest of world	5,300



#### Average number of employees by business unit\*

Civil Aerospace	23,200	Marine	6,000
Defence Aerospace	6,400	Nuclear	4,100
Power Systems	10,600	Other	200



\*Headcount data is calculated in terms of average full-time employees for 2015  
See note 7 Employee information on page 131 for comparative data

# SUSTAINABILITY PERFORMANCE INDICATORS

We launched our dashboard of sustainability performance indicators in 2015, with higher stretching targets base-lined on our 2014 performance.

Better power		
Description	Why we measure it	How we have performed
<p><b>Improving efficiency levels of each generation of the Trent engine family</b> to meet the ACARE Flightpath 2050 goals</p>	<p>The Advisory Council for Aviation Research and Innovation in Europe (ACARE) has set challenging goals for aviation to meet by 2050. These include developing technologies and procedures to:</p> <ul style="list-style-type: none"> <li>Reduce aircraft CO<sub>2</sub> emissions by 75% (per passenger kilometre)</li> <li>Reduce noise by 65%</li> <li>Reduce oxides of nitrogen (NO<sub>x</sub>) by 90%.</li> </ul> <p>This is all relative to a typical new aircraft produced in 2000.</p>	<p>This chart shows the improved efficiency levels of each generation of Trent engine from the Trent 800 onwards.</p>
<p><b>Improving emissions levels of each generation of the MTU Series 4000 C&amp;I engines</b> to meet future emissions regulations</p>	<p>Our MTU Series 4000 C&amp;I engines meet the strictest current regulations for NO<sub>x</sub> and particulates reduction. This is achieved through field-tested and proven technology such as two-stage turbocharging and exhaust gas recirculation. We continue to invest in product R&amp;D to meet future emissions regulations.</p>	<p>This chart shows the improved emissions levels of each generation of the MTU Series 4000 C&amp;I engine.</p>

Better future		
Description	Why we measure it	How we have performed
<p><b>STEM</b> Reach 6 million people through our STEM education programmes and activities by 2020</p>	<p>We aim to inspire future generations in Science, Technology, Engineering and Mathematics (STEM) through education outreach programmes and activities that demonstrate the life-long opportunities that STEM careers can offer.</p>	<p>Our programmes reached 1.6 million people worldwide in 2015, 70% of whom were actively engaged in one or more STEM activity. Many programmes were aimed at groups currently under-represented in engineering careers, reflecting our commitment to encouraging greater diversity in the workplace.</p>
<p><b>Employee wellbeing</b> All sites to achieve our employee health and wellbeing LiveWell accreditation by 2020</p>	<p>Our goal is to enhance the personal health and wellbeing of our people to help them reach their full potential. The Rolls-Royce LiveWell accreditation programme will help to create a culture where healthy choices are encouraged and rewarded, including; smoke-free site policies, healthy food choices and exercise facilities. Sites are also required to establish local employee wellbeing committees with annual objectives.</p>	<p>During 2015, all sites were required to complete an initial LiveWell accreditation gap analysis. One site, Bristol UK, met the criteria for accreditation and was awarded the LiveWell award. The introduction of our Global Smoke Free Campus policy in 2016 will enable more sites to obtain LiveWell accreditation.</p>
<p><b>Employee engagement</b> Ensure our Sustainable Employee Engagement Index is greater than, or equal to, the Global High Performance Norm<sup>1</sup> by 2020</p>	<p>We want all of our employees to be able to perform to their best ability and encourage open collaboration, engagement and involvement.</p>	<p>Our Sustainable Engagement Score declined slightly, from 84 in 2014 to 81 in 2015, as we continue to undergo significant change as a business. As a result, our Executive Leadership Team has committed to and is driving a programme of improvement actions relating to leadership, communication and enablement. These are aimed at improving our work environment and strengthening our climate for success.</p>

<sup>1</sup> Employee Engagement survey, Sustainable Employee Engagement Index and Global High Performance Norm provided independently by Towers Watson

**Better business**

Description	Why we measure it	How we have performed																									
<p><b>Ethics</b> All employees to complete year-on-year Global Code of Conduct certification and mandatory ethics training</p>	Our Global Code of Conduct sets out the ethical principles that underpin our values and the way we do business. It also provides guidance on how to apply these principles in everything we do.	During the year, 100% of our managers have certified that they have access to, understand and will comply with our Global Code of Conduct. Our ethics training continued to require managers to lead ethical discussions around dilemmas with their teams. During 2015, 97% of employees completed dilemma-based training.	<p><b>Ethics employee certification and training (% of employees)<sup>2</sup></b></p> <table border="1"> <caption>Ethics employee certification and training (% of employees)</caption> <thead> <tr> <th>Year</th> <th>Certification</th> <th>Training</th> </tr> </thead> <tbody> <tr> <td>2014 (baseline)</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>2015</td> <td>100%</td> <td>97%</td> </tr> <tr> <td>2016</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>2017</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>2018</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>2019</td> <td>100%</td> <td>100%</td> </tr> <tr> <td>2020 target</td> <td>100%</td> <td>100%</td> </tr> </tbody> </table>	Year	Certification	Training	2014 (baseline)	100%	100%	2015	100%	97%	2016	100%	100%	2017	100%	100%	2018	100%	100%	2019	100%	100%	2020 target	100%	100%
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<p><b>Energy</b> ✓ Reduce energy use in our operations and facilities by 30%, normalised by revenue, by 2020 <small>(excluding product test and development)</small></p>	Understanding our energy use helps us to identify inefficiency and opportunities for improvement across our global operations and activities. Upgrading existing facilities and investing in energy efficient technology helps us to reduce energy consumption and cost.	We continue to invest in energy efficient technology to reduce our energy consumption and cost. Our energy use in 2015 was 112 MWh/£m. This represents a decrease of 3% compared to 2014. We have invested in upgrading lighting systems, variable speed drives and voltage optimisation. We have also introduced more efficient cooling systems.	<p><b>Energy use (MWh/£m)<sup>3</sup></b></p> <table border="1"> <caption>Energy use (MWh/£m)</caption> <thead> <tr> <th>Year</th> <th>Energy use</th> </tr> </thead> <tbody> <tr> <td>2014 (baseline)</td> <td>115</td> </tr> <tr> <td>2015</td> <td>112</td> </tr> <tr> <td>2016</td> <td>75</td> </tr> <tr> <td>2017</td> <td>75</td> </tr> <tr> <td>2018</td> <td>75</td> </tr> <tr> <td>2019</td> <td>75</td> </tr> <tr> <td>2020 target</td> <td>75</td> </tr> </tbody> </table>	Year	Energy use	2014 (baseline)	115	2015	112	2016	75	2017	75	2018	75	2019	75	2020 target	75								
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<p><b>GHG emissions<sup>4</sup></b> ✓ Reduce greenhouse gas (GHG) emissions in our operations and facilities by 50%, absolute, by 2025 <small>(excluding product test and development)</small></p>	Investing in renewable energy sources and other opportunities to reduce our GHG emissions reduces cost and mitigates risk associated with energy price volatility.	Our total GHG emissions for 2015, excluding product test and development, was 455 ktCO <sub>2</sub> e. This represents an 8% reduction from 2014. We continue to drive energy efficiency and have developed a number of low carbon and renewable energy projects across our global facilities. These include combined heat and power, tri-generation power systems and solar.	<p><b>Absolute GHG emissions (ktCO<sub>2</sub>e)<sup>3</sup></b></p> <table border="1"> <caption>Absolute GHG emissions (ktCO<sub>2</sub>e)</caption> <thead> <tr> <th>Year</th> <th>GHG emissions</th> </tr> </thead> <tbody> <tr> <td>2014 (baseline)</td> <td>500</td> </tr> <tr> <td>2015</td> <td>455</td> </tr> <tr> <td>2016</td> <td>250</td> </tr> <tr> <td>2017</td> <td>250</td> </tr> <tr> <td>2018</td> <td>250</td> </tr> <tr> <td>2019</td> <td>250</td> </tr> <tr> <td>2020</td> <td>250</td> </tr> <tr> <td>2025 target</td> <td>250</td> </tr> </tbody> </table>	Year	GHG emissions	2014 (baseline)	500	2015	455	2016	250	2017	250	2018	250	2019	250	2020	250	2025 target	250						
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<p><b>Waste</b> Reduce total solid and liquid waste in our operations and facilities by 25%, normalised by revenue, by 2020</p>	We recognise that improving the environmental performance of our operations contributes to profitable growth. The four principal waste streams that contribute to our waste production are: recyclable solid wastes; liquid wastes sent for disposal; recyclable metals; and solid wastes sent for landfill.	We have seen a modest reduction in the amount of waste that we dispose of from our sites. Our total solid and liquid waste, normalised by revenue, was 4.31 t/£m in 2015. This represents a 3% reduction compared to 2014. New programmes launched in 2015 and continuing into 2016 are expected to accelerate waste reduction across our global operations.	<p><b>Total solid and liquid waste (t/£m)<sup>3</sup></b></p> <table border="1"> <caption>Total solid and liquid waste (t/£m)</caption> <thead> <tr> <th>Year</th> <th>Waste</th> </tr> </thead> <tbody> <tr> <td>2014 (baseline)</td> <td>4.5</td> </tr> <tr> <td>2015</td> <td>4.31</td> </tr> <tr> <td>2016</td> <td>3.4</td> </tr> <tr> <td>2017</td> <td>3.4</td> </tr> <tr> <td>2018</td> <td>3.4</td> </tr> <tr> <td>2019</td> <td>3.4</td> </tr> <tr> <td>2020 target</td> <td>3.4</td> </tr> </tbody> </table>	Year	Waste	2014 (baseline)	4.5	2015	4.31	2016	3.4	2017	3.4	2018	3.4	2019	3.4	2020 target	3.4								
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<p><b>Recycling</b> Zero waste to landfill in our operations and facilities, by 2020 <small>(excluding hazardous waste)</small></p>	We are committed to both increasing our recycling rates and achieving zero waste to landfill from our manufacturing and office facilities. We are concentrating on the recycling of metals and packaging. Hazardous waste will continue to be managed in a safe and controlled manner.	The amount of waste sent to landfill has increased from 6,700 tonnes in 2014 to 7,200 tonnes in 2015. This is due in part to an increase in waste from our Power Systems business and improved waste reporting across the Group. Since 2009, we have reduced our waste to landfill by 3,000 tonnes and remain confident that more sites will achieve zero waste to landfill.	<p><b>Waste to landfill (000 tonnes)<sup>3</sup></b></p> <table border="1"> <caption>Waste to landfill (000 tonnes)</caption> <thead> <tr> <th>Year</th> <th>Waste to landfill</th> </tr> </thead> <tbody> <tr> <td>2014 (baseline)</td> <td>7</td> </tr> <tr> <td>2015</td> <td>7.2</td> </tr> <tr> <td>2016</td> <td>0</td> </tr> <tr> <td>2017</td> <td>0</td> </tr> <tr> <td>2018</td> <td>0</td> </tr> <tr> <td>2019</td> <td>0</td> </tr> <tr> <td>2020 target</td> <td>0</td> </tr> </tbody> </table>	Year	Waste to landfill	2014 (baseline)	7	2015	7.2	2016	0	2017	0	2018	0	2019	0	2020 target	0								
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<p><b>Safety</b> ✓ Reduce total reportable injury (TRI) rate to 0.3 per 100 employees by 2020, to achieve first quartile performance</p>	We are dedicated to providing a safe and healthy place of work for all our employees, contractors and visitors to our facilities and wherever they may work on our behalf.	Our TRI rate deteriorated in 2015 to 0.82, compared to 0.64 in 2014. This is primarily due to the inclusion of Power Systems data and improved reporting of safety incidents across the Group. We continue to focus our improvement programmes on high consequence activities in accordance with our risk profile, for example electrical safety and process safety management.	<p><b>TRI rate (per 100 employees)<sup>3</sup></b></p> <table border="1"> <caption>TRI rate (per 100 employees)</caption> <thead> <tr> <th>Year</th> <th>Rest of Group</th> <th>Power Systems</th> </tr> </thead> <tbody> <tr> <td>2014 (baseline)</td> <td>0.64</td> <td>0</td> </tr> <tr> <td>2015</td> <td>0.3</td> <td>0.52</td> </tr> <tr> <td>2016</td> <td>0.3</td> <td>0</td> </tr> <tr> <td>2017</td> <td>0.3</td> <td>0</td> </tr> <tr> <td>2018</td> <td>0.3</td> <td>0</td> </tr> <tr> <td>2019</td> <td>0.3</td> <td>0</td> </tr> <tr> <td>2020 target</td> <td>0.3</td> <td>0</td> </tr> </tbody> </table>	Year	Rest of Group	Power Systems	2014 (baseline)	0.64	0	2015	0.3	0.52	2016	0.3	0	2017	0.3	0	2018	0.3	0	2019	0.3	0	2020 target	0.3	0
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<p><b>Suppliers</b> All suppliers aligned to our own ambitions: all suppliers agree adherence to the Global Supplier Code of Conduct by 2016</p>	Our Global Supplier Code of Conduct sets out the minimum standards of behaviour and practices we require of our suppliers. We work to align them to our own ambitions in ethics, and support suppliers in managing their energy and waste, and in completing submissions to the CDP.	We released a revision to our Global Supplier Code of Conduct at the start of 2015. Our terms of business now include agreement to the Code, which makes our compliance expectations clear. 75% of our suppliers have now contractually agreed adherence. We plan to launch strategic supplier monitoring programmes in 2016.	<p><b>Suppliers agreed adherence to the Global Supplier Code of Conduct (%)</b></p> <table border="1"> <caption>Suppliers agreed adherence to the Global Supplier Code of Conduct (%)</caption> <thead> <tr> <th>Year</th> <th>Adherence</th> </tr> </thead> <tbody> <tr> <td>2015</td> <td>75%</td> </tr> <tr> <td>2016 target</td> <td>100%</td> </tr> </tbody> </table>	Year	Adherence	2015	75%	2016 target	100%																		
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<sup>2</sup> 2015 certification by managers only

<sup>3</sup> 2014 data has been restated to reflect the inclusion of Power Systems

<sup>4</sup> Regulatory GHG emissions data detailed on page 180

✓ Limited external assurance provided by Bureau Veritas, using the assurance standards ISAE 3000 and ISAE 3410, over the energy, GHG, and TRI data as indicated. More information detailed on page 175

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