

Environmental, Social & Governance Newsletter

July 2018



Pamela Coles, Company Secretary

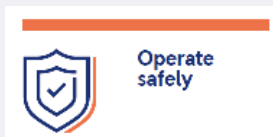
“ Welcome to the first ESG newsletter. We feel it is important to keep in touch this year as the business embarks on a more fundamental restructuring programme with a refreshed leadership team. I am also very pleased to update you on progress made against many milestones we set out in the Annual Report, including progress towards our Diversity & Inclusion (D&I) targets, environmental strategy and another successful Meet the Board event in May 2018. ”



Continuing with our Ethics and Compliance programme

As a company, we know we need to be at our best, make the right decisions and work in the right way, guided by our values and behaviours. To ensure we are continuing to strengthen our approach to ethics and compliance and to ensure our approach is appropriate to the organisation while undergoing a significant transformation, we launched our new values and principles in May 2018. We will also publish a revised Global Code of Conduct later in 2018.

There are three core values at the heart of Rolls-Royce – Operate safely; Trusted to Deliver Excellence; Act with integrity. These values go hand in hand with our behaviours: Pursue collaboration, Seek simplicity, Embrace agility and Be bold. Together they guide the way we work, especially when it comes to helping us do the right thing.



Our Principles:

- Health, Safety & Environment
- Product Safety
- Quality and Product Assurance



Our Principles:

- Working with our customers, suppliers, partners and communities
- Working together
- Conflict of interest
- Data privacy
- Safeguarding our resources
- Accurate business records



Our Principles:

- Anti-bribery and corruption
- Preventing the facilitation of tax evasion
- Export control and import obligations
- Respecting the confidential information of others
- Competition and anti-trust
- Lobbying and political support
- Protecting our brand & reputation

Environment & Sustainability Committee

So that we can increase our focus on environmental and sustainability issues, we have created a new executive-level Environment & Sustainability Committee.

The Committee provides strategic focus on environmental and sustainability issues at the highest level of the Company; chaired by our Chief Technology Officer, its membership includes the Company Chairman and Company Secretary. The Committee also enjoys external expertise from Professor Sir John Beddington (University of Oxford), who chairs our independent Environmental Advisory Board.

The Committee will meet twice yearly and its remit includes: environment and sustainability related strategy; policy; approach to and progress against our key performance indicators. We have now held the first meeting and we are excited to see this new Committee develop and mature over the coming months.

Progress towards our environmental strategy

We have a long-standing commitment to reducing the environmental impacts of our products, services and operations.

As a leading industrial technology company, our activities have a profound effect on society and the environment.

We recognise we have an irrefutable role in addressing the risks and opportunities associated with climate change.

Our approach is prioritised by where we have the biggest impact, informed by science and endorsed by our Environmental Advisory Board.

We focus on three key areas, embedded within our governance framework:

1. reducing the environmental impact of our products and services;
2. developing new technology and capability for future low emissions products and services; and
3. continually reducing the impact of our operations, facilities and business activities.

Hybrid and electrification will deliver a step change in environmental and emissions performance.

As showcased at the Farnborough Airshow, we are building on our strong engineering heritage to develop core electrical and hybrid technologies, such as EVTOL. These technologies will contribute to the decarbonisation of aviation and industry goals to reduce CO₂ per passenger km by 75% by 2050. They will also help to reduce dependency on carbon-intensive fossil fuels.

We have also partnered with Airbus and Siemens to develop the E Fan X, a full-scale hybrid-electric technology demonstrator, due to fly in 2020.

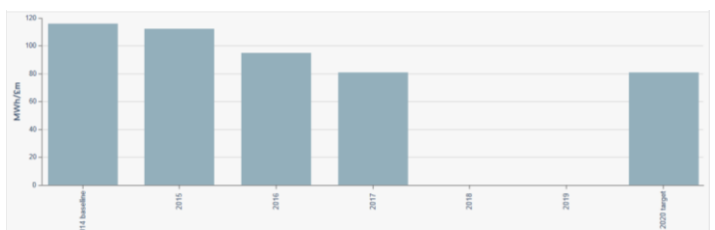


In addition, we are investing in data capabilities and digitalisation that will enhance product efficiency and performance.

Meeting our energy reduction target

We have met our energy reduction targets three years early, through continued investment in energy efficiency improvements and strengthened financial performance.

We set an ambitious target to reduce energy consumption from our operations and facilities by 30% by 2020, normalised by revenue, and have already exceeded this. We are now in the process of developing longer-term targets to replace these.



We have reduced our global energy use from 116 MWh/£m in 2014 to 81 MWh/£m in 2017.

Diversity & Inclusion (D&I)

We are committed to drive towards a culture based on 'Care' at Rolls-Royce; whereby we create a working environment where each of us is able to be at our best. We believe it is through our people that we fulfil our potential, achieve our vision and execute our strategy.

Greater accountability in our three empowered businesses.

Through our restructuring process we will create three empowered businesses and each business will assume greater accountability for D&I and the resources to drive their initiatives. Each business has formed a D&I governance group, involving key stakeholders such as Trade Unions and Employee Resource Groups, to drive their D&I plans and activities. Additionally, all Executive Leadership Team members have made personal D&I commitments for 2018.

Earlier this year, we launched a new D&I strategy with global targets to help us measure our progress.

The business D&I governance groups will feed into our Group D&I Council, the membership of which is being revised to align to our new structure and which will become more action orientated.

We are developing a more coherent and comprehensive suite of D&I targets, at all levels and broader than just gender, to include some longer-term (2025) bold aspirational goals. We therefore see our 2020 commitments as a waypoint but by no means the final destination. With quarterly measurement of progress against targets, combined with reporting of diversity insights, we will be able to identify and focus targeted action on challenging areas.

IDAHOBIT day – 17th May 2018



Solihull, UK

Employees from facilities in the UK, US and Germany came together to support International Day against Homophobia, Biphobia and Transphobia (IDAHOBIT), to help promote a working environment where everyone can be themselves and be at their best.

Employee wellbeing

We are committed to creating workplaces which support employee wellbeing and motivate our people to lead healthier lifestyles.

A key component of wellbeing is good mental health. In May, our CEO, Warren East, and Group People Director, Harry Holt, signed the Time to Change pledge on behalf of Rolls-Royce. This pledge shows our commitment to changing the way we think and act about mental health in the workplace, and to making sure our people who may experience mental health problems are properly supported.

Building a strong HSE culture

We continue to build a strong Health, Safety and Environment (HSE) culture, where everyone in the business understands HSE risks and can apply that understanding to every action and decision they make.

To support this we have launched a HSE leadership training programme for all managers and their teams, as well as an e-learning course for all employees. Our Executive Leadership Team and Board were the first to complete this leadership programme, and make personal HSE commitments for 2018.

In March we launched our HSE Life-saving rules. 10 simple rules for all employees to follow, no matter what their job is or where they work. These are a simple guide to help employees stay safe every day and are supported by our HSE management system and control standards.

Our HSE priorities for the remainder of the year include: simplifying our HSE processes, with the aim of strengthening governance and accountability for HSE risks; undertaking a deep dive of our higher-hazard activities; and launching an updated HSE policy.

Meet the Board event in Derby – May 2018

The Board is committed to engaging in the best possible way with our employees and we are seeking new ways to do just that.

We listened to feedback from the 2017 Meet the Board event and held more informal discussions and facilitated breakout sessions on key topics: culture; strategy; and technology. This event was once again a great success with a very active set of sessions and lively debates with over 150 employees.

A number of key themes emerged including: the Company's vision for the future; Brexit; restructuring; diversification; retention of skills; small modular reactor strategy; flexibility; Trent 1000; innovation; talent; and diversity & leadership.

The Board took away a number of key messages which included that, Rolls-Royce:

- must secure cash flow which will allow us to invest and secure the Company's long-term future;
- should continue to improve the culture, but that this change will not happen overnight and that all of us are responsible for helping to drive this change;
- needs to continue to retain talent and develop our younger employees, who are the future of the Company; and
- needs to translate the great talent we have into a more effective and profitable business.



Board Apprentice Programme

2017 Programme

19 participants over a nine-month programme.

The aim: to provide coaching and board experience to a diverse group of emerging leaders selected from the Group's talent pool, each assigned to a Board or executive committee. Demonstrating our commitment to their career progression and development as leaders within the organisation.

The programme:

- Orientation meeting with an overview from Directors of what it means to be on a board;
- Early career conversations with members of the senior leadership team;
- Board member masterclasses, learning about the careers of our Board members and their experience on the Rolls-Royce Board;
- Opportunity to network with other candidates
- Attendance and shadowing of Board committees;
- Networking with our Board and executives.

2018 Programme

6 participants over an eighteen-month programme.

Lessons learnt:

- Effective programme induction, setting expectations and clear responsibilities;
- Include more time for the apprentices to network and learn from one another; and
- More briefing for Board members and other stakeholders on their role in the programme.

Building on the programme through:

- All participants will have Executive Leadership sponsorship;
- Each person will attend a key Board Committee and other key committees when possible;
- Each participant will be mentored by two Board members.

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For more information on our approach to sustainability please visit our website at:

www.rolls-royce.com/sustainability