

DEFENCE COMPANIES INDEX (DCI) ON ANTI-CORRUPTION AND CORPORATE TRANSPARENCY 2020

FINAL ASSESSMENT

ROLLS ROYCE PLC

The following pages contain the detailed scoring for this company based on publicly available information.

The table below shows a summary of the company's scores per section:

Section	Number of Questions*	Score Based on Publicly Available Information
1. Leadership and Organisational Culture	4	6/8
2. Internal Controls	6	12/12
3. Support to Employees	7	13/14
4. Conflict of Interest	4	7/8
5. Customer Engagement	7	5/14
6. Supply Chain Management	5	7/10
7. Agents, Intermediaries and Joint Ventures	10	12/20
8. Offsets	4	2/8
9. High Risk Markets	4	5/8
10. State-Owned Enterprises	0	N/A
TOTAL		69/102
BAND		B

*This column represents the number of questions on which the company was eligible to receive a score; i.e. where the company did not receive a score of N/A.

1. Leadership and Organisational Culture

Question
1.1. Does the company have a publicly stated anti-bribery and corruption commitment, which is authorised by its leadership?
Score
1
Comments
<p>The company has a publicly stated commitment to high ethical principles, which is reflected in statements from the chief executive and general counsel.</p> <p>However, the company receives a score of '1' because these statements do not specifically mention anti-bribery and corruption.</p>
Evidence
<p>[21] 2017 News Release – Agreements With Investigating Authorities (Document) Accessed 11/06/2020 http://media.investis.com/R/Rolls-Royce/download/2017/press-release/English-external-release.pdf [p.1] NEWS RELEASE</p> <p>17 January 2017</p> <p>ROLLS-ROYCE COMPLETES AGREEMENTS WITH INVESTIGATING AUTHORITIES</p> <ul style="list-style-type: none"> • Agreements reached with UK Serious Fraud Office (SFO), US Department of Justice (DoJ) and Brazilian Federal Prosecution Service (MPF) • Rolls-Royce CEO Warren East declares past behaviour completely unacceptable and reaffirms zero tolerance of business misconduct • All three agreements record Rolls-Royce's co-operation, with the UK agreement specifically noting Rolls-Royce's 'full and extraordinary co-operation' with the SFO • Rolls-Royce will emerge a more trusted, resilient and better managed business <p>Rolls-Royce announces that it has entered into a Deferred Prosecution Agreement (DPA) with the UK's Serious Fraud Office (SFO) with the approval of the President of the Queen's Bench Division (The Right Honourable Sir Brian Leveson) and published by the SFO.</p> <p>Rolls-Royce has also reached a DPA with the US Department of Justice (DoJ) and a Leniency Agreement with Brazil's Ministério Público Federal (MPF).</p> <p>These agreements relate to bribery and corruption involving intermediaries in a number of overseas markets, concerns about which the company passed to the SFO from 2012 onwards following a request from the SFO.</p> <p>These are voluntary agreements, which result in the suspension of prosecution provided that the company fulfils certain requirements, including the payment of a financial penalty. The agreements will result in the total payment of £671m*.</p> <p>Warren East, Chief Executive, Rolls-Royce, said: "The behaviour uncovered in the course of the investigations by the Serious Fraud Office and other authorities is completely unacceptable and we apologise unreservedly for it. This was unworthy of everything which Rolls-Royce stands for, and that our people, customers, investors and partners rightly expect from us."</p> <p>[p.2] "The past practices that have been uncovered do not reflect the manner in which Rolls-Royce does business today. We now conduct ourselves in a fundamentally different way. We have zero tolerance of business misconduct of any sort."</p>

Ian Davis, Chairman, Rolls-Royce added: “We have co-operated fully with the authorities and will continue to do so. The Board has taken extensive action to strengthen ethics and compliance procedures across the company so that high standards of business conduct are embedded as an essential part of the way we do business.”

“We share a determination to see that Rolls-Royce comes out of this episode as a more trusted, resilient and better managed business that ‘wins right’ every time. Our underlying technologies and skills are as strong as ever and we are well positioned in long-term growth markets.”

[22] Anti-Corruption Training Video For Advisors (Webpage)

Accessed 11/06/2020

<https://www.rolls-royce.com/anti-bribery-and-corruption-training-for-advisers>



“Rolls Royce has relationships, vital relationships with third party companies all over the world

[...]

We expect the same high standards of integrity from everybody, as we do from ourselves. That means we have a policy of zero tolerance, zero tolerance to any business misconduct of any kind. I hope this module is useful in bringing that commitment to life”.

[23] Ethics and Compliance Powerpoint Presentation (Document)

Accessed 11/06/2020

https://ourcode.rolls-royce.com/~/-/media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf

[p.5] Tone from the Top

Ensuring our Leaders live our Values

Message from our CEO

Our commitment to conducting business ethically is reinforced by our CEO, Warren East, in the introductory video to Our Code which states as follows:

- We must be able to be proud of the way in which we do business and interact with the outside world and with each other.

- We have worked hard to create an environment where people in Rolls-Royce can work safely and deliver excellence. This helps ensure that we are the company that people really want to work for and really want to work with. It helps keep us strong, sustainable and resilient as a business.
- It is important we all follow the principles embodied in Our Code. They will help us protect the brand and the culture and help us to be the business that we want to be.
- The Rolls-Royce Executive Leadership Team will support people who speak up and we expect our managers to do the same, with no tolerance for retaliation or bullying.

Regular Reinforcement

Our leadership has regularly reinforced our commitment to conduct business ethically and in accordance with our zero tolerance approach to corruption, both internally and externally.

[6] Message from the Chief Executive

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/message-from-coc.pdf>

[p.1] We are all rightly proud of the many excellent products and services that we create, but to be the leading industrial technology company, one whom others follow, we must do more. We must be able to be equally proud of the way in which we do business and interact with the outside world and with each other.

We worked hard to create an environment where people in Rolls-Royce can work safely and deliver excellence. This helps ensure that we're the company that people really want to work for and really want to work with. It helps keep us strong, sustainable and resilient as a business.

Now, I know we all come to work with the right intentions. Sometimes however, we're faced with difficult decisions about how to act in a certain situation. This Code helps us to understand the behaviours expected of everyone and guides us in what to do. It's not overly complex, it's principle based, it's easy to use. We even have a smart phone application to help.

It's important we all follow the principles embodied in this Code. They will help us protect the brand and the culture and help us to be the business that we want to be. That includes, for instance, speaking up. If you see something which is not right or makes you feel uncomfortable, I, and the Executive Leadership Team, will support people who speak up and I expect our managers to do the same, with no tolerance for retaliation or bullying.

Rolls-Royce is a world class business in many ways. We have excellent positions in markets with long term growth trends. We have a fantastic opportunity, so we mustn't ruin it with the wrong behaviour. We have amazing people with ambition to succeed, we have clear values. The Code will help guide behaviours to ensure that we all live up to those values, safeguarding our competitiveness and helping us to win.

Warren East
Chief Executive

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p.2] Message from our Chief Executive Officer

Rolls-Royce is one of the world's leading industrial technology companies, focused on world-class power and propulsion systems. We pioneer cutting-edge technologies that deliver the cleanest, safest and most competitive solutions to meet our planet's vital power needs.

We are committed to maintaining the highest ethical standards, behaviours and compliance. The Rolls-Royce Board and I have made it clear that we will not tolerate improper business conduct of any sort. Our zero tolerance approach applies to our own people, and to our suppliers.

Our Global Supplier Code of Conduct sets out the behaviours, practices and standards we expect to see demonstrated and complied with, all of which are based on our own Rolls-Royce Global Code of Conduct, policies and standards.

In order to do business together, we expect all suppliers to be ethical, responsible and to fully comply with all applicable laws and regulations.

At Rolls-Royce, we have a simple brand promise and set of values – we will operate safely, act with integrity, and be trusted to deliver excellence. We need your support as our suppliers, and that of our broader supply chain, to ensure that together we are able to live up to these promises and continue to be successful together.

Thank you
Warren East
Chief Executive Officer

[2] Our Group Policies

Accessed 07/10/2019

https://www.rolls-royce.com/~/_media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf

[p.3] Introduction

Like all large multinational companies, our shareholders, regulators, customers, suppliers, partners, fellow colleagues and the communities in which we operate expect us to be clear on the values we hold that underpin the type of company we want to be.

Our Group Policies, in conjunction with Our Code, define our values, supporting principles and the expectations we place on all of our people in order to maintain consistent standards across the Group when carrying out particular activities in our day to day work.

The Group Policies form a key part of our Governance Framework. All of them are mandatory, so need to be understood and followed by everyone at Rolls-Royce. By doing so, and helping colleagues do so, we will together ensure that we can be at our best and adhere to our values:

Operate Safely
Trusted to Deliver Excellence
Act with Integrity

Mark Gregory
General Counsel

Question
<p>1.2. Does the company have a comprehensive anti-bribery and corruption policy that explicitly applies to both of the following categories:</p> <p>a) All employees, including staff and leadership of subsidiaries and other controlled entities;</p> <p>b) All board members, including non-executive directors.</p>
Score
2
Comments
<p>The company publishes a clear anti-bribery and corruption policy, which specifically prohibits bribery, payments to public officials, commercial bribery, and facilitation payments. There is evidence that this policy applies to all employees and directors of the company, as well as the staff and leadership of subsidiaries and other controlled entities.</p>
Evidence
<p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf</p> <p>[p.3] IMPORTANT NOTES:</p> <p style="padding-left: 40px;">Breaches of any of the Group Policies are not acceptable and may result in disciplinary action up to and including dismissal.</p> <p>[...]</p> <p style="padding-left: 40px;">Save by expressly agreed exception, these Group Policies apply worldwide. In the event of a conflict between a Group Policy and applicable local laws, local laws shall prevail. In the event there is no conflict between the Group Policy and applicable local laws but the Group Policy imposes a higher standard and/or more onerous requirements than local laws, the higher standard and/or more onerous requirements of the Group Policy shall prevail.</p> <p>[p.25] Anti-Bribery and Corruption</p> <p>A. Policy values We have a zero-tolerance approach to bribery and corruption. We conduct our business honestly, fairly and free from any corruption.</p> <p>B. Principles We do not tolerate bribery and corruption in any form. In most countries where we do business, Facilitation Payments are considered Bribes and are illegal. We do not make Facilitation Payments whether or not they are permitted by local or other laws.</p> <p>The ABC Policies are the following Group Policies and any associated procedures and guidance: (a) this Anti-Bribery and Corruption Policy; (b) Confidential Information Policy; (c) Gifts and Hospitality Policy; (d) Conflict of Interest Policy; (e) Know Your Partner Policy; and (f) Lobbying and Political Support Policy.</p> <p>These set out the minimum requirements that all employees must follow. Where local laws, regulations or rules impose a higher standard, that higher standard must be followed. In addition, each business or function may impose additional requirements.</p> <p>C. Expectations All Employees You must:</p> <ul style="list-style-type: none"> • not give, offer, solicit, extort, request or accept, directly or indirectly, anything that is, or could reasonably be considered as, a Bribe; • not offer or make Facilitation Payments (no matter how small the payments are), grant other advantages to facilitate an action or allow others to offer or make Facilitation Payments on behalf of Rolls-Royce; • report all requests for Bribes or Facilitation Payments to:

- a. your Line Manager; and
- b. a member of the Ethics and Compliance team.

[p.34] Glossary

Bribe: Anything of value including any financial or other advantage given, offered, requested or received in order to improperly influence or reward any act, inaction or decision of any person, including a Government Official or an employee or representative of a State-Owned Company or a director, officer, employee, agent or representative of a Third Party.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.4] A guide to 'At our best: our Code'

Who does it apply to?

All of us. That's all colleagues employed by the Rolls-Royce Group and any subsidiary or joint venture where we have control. We also encourage all our joint ventures and partners to adopt the same high standards.

[p.26] Anti-bribery and corruption

Act with integrity

Principles	We will:
<ul style="list-style-type: none"> • We do not tolerate bribery and corruption in any form. • We never offer, give or accept anything of value that is, or could be seen as, improperly influencing business decisions. • We only appoint partners of known integrity and require that their conduct meets our standards at all times. 	<ul style="list-style-type: none"> • Not give or receive bribes, and will report to the Ethics and Compliance team if we are asked for, or offered, bribes or facilitation payments; • Only offer, or accept, gifts or hospitality allowed within policy; and • Consult our Ethics and Compliance team about any business partners that we engage with to make sure that we are conducting the appropriate due diligence on the partner.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

We have a Global Code of Conduct (Our Code) that applies to all employees of Rolls-Royce, its subsidiaries and controlled joint ventures, wherever they are located.

It sets out the 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. Breaches are not acceptable and will result in the company taking action. This may include disciplinary action up to and including dismissal.

[...]

Anti-bribery and corruption compliance

Our Code includes clear statements regarding our zero tolerance approach to bribery and corruption.

This is supported by our Global Anti-Bribery and Corruption policies, brought together in our Group Policy manual. This provides a framework for our anti-bribery and corruption programme.

The policies contained within this manual apply to all employees and directors of Rolls-Royce, its subsidiaries and controlled joint ventures. Breaches of these policies may result in disciplinary action, up to and including dismissal.

Question
1.3. Does the board or a dedicated board committee provide oversight of the company's anti-bribery and corruption programme?
Score
2
Comments
<p>There is evidence that a designated board committee – the Safety, Ethics and Sustainability Committee – is responsible for oversight of the company’s anti-bribery and corruption programme. According to publicly available documents, this includes reviewing reports from management on the programme’s performance. Although the company does not explicitly mention that this committee reviews the results of internal and external audits of its anti-bribery and corruption programme, the company receives a score of ‘2’ due to significant evidence that it reviews reports on the implementation and progress of ethics policies.</p>
Evidence
<p>[15] Board Governance Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf [p.2]</p> <pre> graph TD Chairman[CHAIRMAN] -.- Board[BOARD] Board -.- NGC[NOMINATIONS AND GOVERNANCE COMMITTEE] Board -.- AC[AUDIT COMMITTEE] Board -.- RC[REMUNERATION COMMITTEE] Board -.- SEC[SAFETY, ETHICS AND SUSTAINABILITY COMMITTEE] Board -.- STC[SCIENCE AND TECHNOLOGY COMMITTEE] Board -.- CEO[CHIEF EXECUTIVE OFFICER] CEO -.- ET[EXECUTIVE TEAM] </pre> <p>[p.4] The agenda of each of the meetings of the Board includes:</p> <p>1.5.1 regular items, such as reports by the Chief Executive Officer or his or her nominee and the Board Committees, including in relation to operating performance, quality updates and safety and ethics;</p> <p>[p.6] The Board’s exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:</p> <p>[p.8] 2.2.5 BOARD COMMITTEES</p> <p>(a) the establishment, membership and chairmanship of the Board Committees, having discussed with and received recommendations from the Nominations and Governance Committee on the membership of the Remuneration</p>

Committee, Audit Committee, Safety, Ethics and Sustainability Committee and Science and Technology Committee;

(b) terms of reference for Board Committees, including amending these as appropriate.

2.2.6 SYSTEMS AND CONTROLS

(a) the Company’s overall internal controls, governance and risk management framework and risk appetite, including a robust assessment of both emerging and principle risks, having received recommendations from the Board Committees;

(b) the effectiveness of the Company’s arrangements for the workforce to raise concerns, in confidence, about possible wrongdoing, ensuring proportionate and independent investigation of such matters and appropriate follow-up action, having received recommendation from the Safety, Ethics and Sustainability Committee;

(c) issues raised through the Ethics Line and the results of investigations into ethical or compliance breaches or allegations of misconduct, having received reports on all such matters from the Safety, Ethics and Sustainability Committee;

[p.23] TERMS OF REFERENCE OF THE SAFETY, ETHICS AND SUSTAINABILITY COMMITTEE

Purpose	To assist the Board in fulfilling its oversight responsibilities in respect of product safety, HS&E (occupational health and safety, process safety, maintenance of facilities, asset integrity, personnel security, the environment and sustainability), ethics and compliance; collectively referred to here as Safety and Ethics.
Membership	A minimum of two Independent Non-Executive Directors.
Chairman	As appointed by the Board.
Quorum	Two members.
Attendees	The Chairman of the Board, the Chief Executive Officer, the General Counsel, the Chief Compliance Counsel - ABC, the Chief People Officer, the Group Chief Engineer and the Heads of Technical and Quality, Product Safety Assurance, Risk and Compliance, Ethics and Engineering may attend all or part of any meeting, at the invitation of the Chairman of the Committee.
Frequency of Meetings	The Committee will meet as and when it is deemed necessary but at least three times a year.

[p.24] Duties

The Committee will:

1. maintain an understanding of and keep under review the Company’s frameworks for the effective governance of Safety and Ethics and the Company’s Safety and Ethics culture. These governance frameworks will include the set of processes and controls the Company uses to define and deliver its goals, including but not limited to: policies, objectives, strategies, plans and programmes, competence, organisational structures, processes, systems and procedures, standards and guidelines in relation to Safety and Ethics;
2. review the development and implementation of changes to the Company’s governance frameworks in relation to Safety and Ethics;
3. agree with management annual programmes of the Safety and Ethics Committee’s oversight work, including but not limited to: (a) progress reports on implementation of annual plans and programmes; (b) routine matters such as considering performance reports; (c) arising short term Safety and Ethics issues of a critical nature; (d)

progress reports from the Environment & Sustainability Committee on the development of the environmental sustainability strategy and the Group's response to related emerging risks and opportunities; and (e) the review of selected elements of the governance framework, likely to be over a cycle of several years;

4. oversee and review annually key policies in relation to Safety and Ethics, including but not limited to: (a) the Global Code of Conduct; (b) anti-bribery and corruption and export controls policies; (c) product safety policies; (d) health, safety and environment policies; (e) sustainability; and (f) the employee security policy;
5. review the Company's compliance with relevant legislation, regulation and recommendations for Safety and Ethics in all of its areas of operation including but not limited to: (a) anti-bribery and corruption and export controls; (b) product safety; (c) health and safety; (d) the environment; and (e) personnel security;
6. refer concerns about possible improprieties in matters of financial reporting to the Audit Committee;
7. ensure appropriate independent internal scrutiny of policies and practices in relation to Safety and Ethics, and where necessary appointing external advisors to conduct an external review;
8. ensure the appropriate training is provided for employees in relation to Safety and Ethics;
9. review the adequacy of the Company's arrangements for its workforce to raise concerns, in confidence, about possible wrongdoing. The Committee must ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. Recommend to the Board any changes in such arrangements;
10. receive reports on issues raised through the Ethics Line, and review the results of investigations into ethical or compliance breaches or allegations of misconduct. Provide regular reports to the Board on all such matters.
13. review remedial actions and lessons learned in relation to material investigations when requested by the Head of Business Ethics, including: (a) reviewing disciplinary action, subject to Rolls-Royce's established disciplinary process; and (b) assessing remedial action taken, giving guidance where necessary;
14. review Key Performance Indicators in relation to Safety and Ethics, including targets in the public domain, and review the Company's progress in measuring and reporting on them;
16. monitor the integrity and effectiveness of the non-financial statements of the Company and any other formal communications relating to the Company's performance in Safety and Ethics; and
17. review and consider any other topics or risks appropriate to the overall remit of the Committee as delegated by the Board to the Committee from time to time.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.68] How the board engages

The Board receives frequent regulatory updates from the General Counsel. Briefings on how the business engages with airworthiness regulators are discussed at the Safety & Ethics Committee. In addition, regular updates are provided to both the Board and the Safety & Ethics Committee on engagement with the SFO, DoJ and other regulators in relation to ethics and compliance improvement programmes. Engagement with the tax authorities and related regulatory landscape is discussed at the Board and the Audit Committee.

[p.96] Safety & Ethics Committee Report

Key highlights

[...]

- Monitoring of compliance with obligations under the DPAs
- Maintaining oversight of the implementation of Lord Gold's recommendations on ethics and compliance
- Overseeing deployment of the enhanced code of conduct (Our Code)

Ethics & compliance

- Review the Group’s compliance with relevant legislation.
- Keep Our Code and anti-bribery and corruption policies under review.
- Support the Board with their review of issues raised through the Ethics Line and other channels including reviewing the results of any investigations into ethical or compliance breaches or allegations of misconduct.

[p.97] Safety & Ethics Committee focus during 2018

Ethics & compliance	<p>Compliance with continuing obligations under the DPAs and implementation of Lord Gold’s recommendations</p> <p>Deployment of Our Code and Group policies</p> <p>Resourcing of ethics and compliance team and effectiveness of compliance officers</p> <p>Embedding of ethics and compliance culture and behaviours. Review of number and nature of concerns raised through the Ethics Line</p> <p>Management of intermediaries including screening, appointments, payments, termination and settlements</p>	<p>Reviewed detailed plans for, and progress on, compliance. Reviewed the second annual report to DoJ.</p> <p>The enhanced code of conduct and simplified suite of Group policies were issued in 2018.</p> <p>The ethics and compliance team is effective.</p> <p>Bullying and harassment were prevalent themes and we will be monitoring the effectiveness of management’s campaigns to address this.</p> <p>The intermediary processes are effective to manage the risks.</p>
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[p.101] Ethics and compliance

Following the DPAs, much of the Committee’s focus in the year has been on overseeing the Group’s ethics and compliance work plans – see Ethics and Compliance report on page 48. This included obligations to the regulators and monitoring progress in implementing the recommendations put forward by Lord Gold in his reports. Lord Gold attended all Committee meetings during the year and updated the Committee on how he has been overseeing and supporting this work, as well as reporting on his particular areas of focus and activities. This included: continuing his engagement with employee focus groups to understand how the ethics and compliance programme is working in practice; monitoring the continuing work to embed the right behaviours and attitudes across the organisation; and assessing the resource needed to drive the programme, both centrally and within the businesses.


The Group’s ethics and compliance workplans were reported to the Committee throughout the year, including monitoring resourcing of the teams across the organisation. We noted the reports of a good level of engagement by ITP Aero as it sought to align to the requirements of the Group’s programme, having joined the Group at the end of 2017.

At each of our meetings during the year, we received an update from the General Counsel on the Group’s continuing dialogue and co-operation with regulators and government agencies. We also received reports and briefings from the head of ethics and compliance on ethics and compliance matters generally.

[...]

The Committee reviews statistics and details of Ethics Line reports at our meetings and in 2018 we observed that bullying and harassment were prevalent themes. This had also been picked up as a theme by Irene Dorner in her role as Employee Champion and brought to the Board’s attention. This warranted a focused response and in December we received a briefing from the Chief People Officer and members of his team, with input from the head of ethics and compliance, on the planned campaign activity to seek to drive out such behaviours. We will review the impact of this activity during 2019.

In autumn 2018, we oversaw the roll-out of our enhanced code of conduct and a suite of refreshed and simplified Group policies combined into one simple manual for employees. The Group’s enhanced code of conduct was developed in digital format including a mobile-enabled app, allowing employees to access it wherever they are, which is of particular benefit to shop floor workers or those in remote locations. The launch of Our Code was supported by new training modules that were subject to mandatory completion during the year, with managers who failed to do so being subject to capped performance reviews. Of the population of several thousand managers required to complete the training, only one failed to do so by the due date without having acceptable grounds for mitigation; a remarkable improvement on previous completion rates for core training modules.

Question
1.4. Is responsibility for implementing and managing the company’s anti-bribery and corruption programme ultimately assigned to a senior executive, and does he or she have a direct reporting line to the board or board committee providing oversight of the company’s programme?
Score
1
Comments
<p>There is evidence that a managerial-level individual – the Head of Ethics and Compliance – has been assigned ultimate responsibility for implementing and managing the company's anti-bribery and corruption programme. This individual has a clear reporting line to the board and there is further evidence of reporting and feedback activities between the Head of Ethics and Compliance and the board as part of the company’s reporting structure.</p> <p>However, the company receives a score of ‘1’ because the Head of Ethics and Compliance is not a senior executive.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.4] Our Structure</p> <p>The programme is run by our Head of Ethics and Compliance who is a member of the Enterprise Leadership Group (ELG) of Rolls-Royce. The ELG comprises of the top 80 senior managers from across Rolls-Royce. The Head of Ethics and Compliance reports to the Rolls-Royce General Counsel, a member of the Executive Committee.</p> <p>The Head of Ethics and Compliance has an independent reporting line to the Chairman of the Safety, Ethics and Sustainability Committee of the Board. The Head of Ethics and Compliance provides regular reports to the Safety, Ethics and Sustainability Committee throughout the year and attends all meetings of the Committee.</p>  <pre> graph TD Board[Board] --- CEO[Chief Executive Officer/ Executive Committee] CEO --- GC[General Counsel] GC --- HEC[Head of Ethics and Compliance] Board -.-> HEC </pre>
<p>[p.6] Risk Assessment Ensuring our programme is fit for purpose</p> <p>Ethics and Compliance Risk Assessment Rolls-Royce undertakes an annual bribery and corruption risk assessment, which informs its anti-bribery and corruption programme and compliance resource. The risk assessment looks at:</p> <ul style="list-style-type: none"> • industry risks (including how competitive the markets we operate in are); • the risks associated with the locations of Rolls-Royce companies and their sales; • routes to market for sales (including the complexity of contractual chains and controls over payments to third parties assisting in sales); • the types of customers we sell to (for example, government customers);

- interactions with government officials;
 - other risks identified as part of the company's enterprise risk management process;
 - culture (based on employee opinion survey results and issues raised via our speak up channels);
 - the breadth of the Ethics and Compliance Team;
- the results of any internal Ethics and Compliance Maturity Reviews (see page 23);
 - the nature and volume of speak up cases;
 - findings from any audits; and
 - its specialist expertise and knowledge of bribery and corruption issues arising in the industry sectors it operates in and in general.

Deep Dive

A deep dive on the ethics and compliance programme was held with the Board in May 2019. The Head of Ethics and Compliance presented on the programme and the current controls designed to prevent and detect corruption risks in Rolls-Royce.

[24] 2019 Annual Report (Document)

Accessed 11/06/2020

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2019/2019-full-annual-report.pdf>

[p.110] Ethics and compliance

The Committee's focus in the year has been on overseeing the Group's ethics and compliance work plans.

[...]

At each of our meetings during the year, we received an update from the General Counsel on the Group's continuing dialogue and co-operation with prosecutors, regulators and government agencies. We also received regular reports and briefings from the head of ethics and compliance.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

We have recruited a team of industry leading experts in ethics and compliance and enlisted the help of Lord Gold. These changes include the appointment of a Head of Ethics and Compliance, as well as dedicated specialist legal, monitoring and employee training support.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.23] TERMS OF REFERENCE OF THE SAFETY, ETHICS AND SUSTAINABILITY COMMITTEE

Purpose	To assist the Board in fulfilling its oversight responsibilities in respect of product safety, HS&E (occupational health and safety, process safety, maintenance of facilities, asset integrity, personnel security, the environment and sustainability), ethics and compliance; collectively referred to here as Safety and Ethics.
Membership	A minimum of two Independent Non-Executive Directors.
Chairman	As appointed by the Board.
Quorum	Two members.
Attendees	The Chairman of the Board, the Chief Executive Officer, the General Counsel, the Chief Compliance Counsel - ABC, the Chief People Officer, the Group Chief Engineer and the Heads of Technical and Quality, Product Safety Assurance, Risk and Compliance, Ethics and Engineering may attend all or part of any meeting, at the invitation of the Chairman of the Committee.
Frequency of Meetings	The Committee will meet as and when it is deemed necessary but at least three times a year.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.68] How the board engages

The Board receives frequent regulatory updates from the General Counsel. Briefings on how the business engages with airworthiness regulators are discussed at the Safety & Ethics Committee. In addition, regular updates are provided to both the Board and the Safety & Ethics Committee on engagement with the SFO, DoJ and other regulators in relation to ethics and compliance improvement programmes. Engagement with the tax authorities and related regulatory landscape is discussed at the Board and the Audit Committee.

[p.101] Ethics and compliance

Following the DPAs, much of the Committee’s focus in the year has been on overseeing the Group’s ethics and compliance work plans – see Ethics and Compliance report on page 48. This included obligations to the regulators and monitoring progress in implementing the recommendations put forward by Lord Gold in his reports. Lord Gold attended all Committee meetings during the year and updated the Committee on how he has been overseeing and supporting this work, as well as reporting on his particular areas of focus and activities. This included: continuing his engagement with employee focus groups to understand how the ethics and compliance programme is working in practice; monitoring the continuing work to embed the right behaviours and attitudes across the organisation; and assessing the resource needed to drive the programme, both centrally and within the businesses.

The Group’s ethics and compliance workplans were reported to the Committee throughout the year, including monitoring resourcing of the teams across the organisation. We noted the reports of a good level of engagement by ITP Aero as it sought to align to the requirements of the Group’s programme, having joined the Group at the end of 2017.

At each of our meetings during the year, we received an update from the General Counsel on the Group’s continuing dialogue and co-operation with regulators and government agencies. We also received reports and briefings from the head of ethics and compliance on ethics and compliance matters generally.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.25] Anti-Bribery and Corruption

Business and Function Leaders
You must ensure that:

[...]

- any possible non-compliance with the ABC Policies within your business or function is reported to the Head of Ethics and Compliance or another member of the Ethics and Compliance team as soon as possible.

2. Internal Controls

Question
2.1. Is the design and implementation of the anti-bribery and corruption programme tailored to the company based on an assessment of the corruption and bribery risks it faces?
Score
2
Comments
<p>There is evidence that the company's risk management system incorporates compliance risk, which includes anti-bribery and corruption factors. Compliance risk assessments are reviewed by the Safety, Ethics and Sustainability Committee (a designated board committee), while the board has overall responsibility for risk management. The company indicates that it uses the risk assessment process to update its internal control framework. There is additional evidence indicating that the results of risk assessments are reviewed by the board on at least an annual basis.</p>
Evidence
<p>[24] 2019 Annual Report (Document) Accessed 11/06/2020 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2019/2019-full-annual-report.pdf [p.50] Our risk and internal control system</p> <p>The Board has established procedures to manage risk and oversee the risk management system (RMS). The Board has also established procedures to determine the nature and extent of the principal and emerging risks the Group is willing to take in order to optimise its commercial opportunities and achieve its long-term strategic objectives. The Audit Committee reviews the Group's internal financial controls which form a subset of the broader set of controls, and also reviews the RMS and its effectiveness.</p> <p>During the year, the Board completed a robust assessment of both our principal and emerging risks. Our RMS is designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.</p> <p>How we manage risk Risks are identified by individuals across all businesses and functions and at many layers of the organisation by considering what could stop us achieving our strategic, operational or compliance objectives or impact the sustainability of our business model. Risk owners assess the risks, likelihood and impact, taking into account current mitigating control activities, identifying where additional activities may be needed to bring the risk within our risk appetite. Risk owners take into account the effectiveness of current mitigating control activities in their assessment, supported by different assurance providers including internal audit.</p> <p>These considerations are recorded using a variety of systems and tools depending on the risk area. Risk owners bring the results of their assessment, current risk status and action plans to business, function and other management review forums as often as is required depending on the nature of the risk, for support, challenge and oversight. These forums include the monthly Executive Team and regular Board and Board committee meetings.</p> <p>During the year, we continued to refine our risk appetite metrics and to use these more systematically in concluding on the effectiveness of mitigating activities. We also continued to strengthen the controls in place over risks at remote sites. Our plans for 2020 include simplification of our risk policies and guidance and additional support for risk owners in assessing the effectiveness of mitigating control activities.</p> <p>Principal risks Our principal risks are identified and managed in the same way. Principal risks are owned by at least one member of the Executive Team and subject to a deep dive at an Executive Team meeting at least once each year, before a review by the Board or a Board committee. The Board has completed a review of the principal risks and concluded that there are no changes in nature except for the elevation of the risk of climate change as described below. A description of all of the principal risks, how we manage them, the main mitigating control activities, the change in status and how these underpin our priorities is set out on pages 51 to 54.</p>

[...]

Our risk and internal control system

Risk Management

Risks facing the business are identified and assessed on a regular basis.

Internal control

Internal controls are designed and deployed to mitigate these risks to an accepted level.

Assurance





Assurance activities assess whether the controls are effective and risks are mitigated to an acceptable level in practice.

[p.51]

2019 Group priorities


- | | |
|-----------------------------|-----------------------------|
| 1 Customers | 2 Technology |
| 3 People and culture | 4 Financial progress |

Change in risk level in 2019

- | | |
|---|---|
|  Increased |  Decreased |
|  Static |  New risk |

[p.52] PRINCIPAL RISK OR UNCERTAINTY HOW WE MANAGE IT KEY CONTROLS CHANGE PRIORITY

[...]

<p>COMPLIANCE</p> <p>Non-compliance by the Group with legislation, the terms of the DPAs or other regulatory requirements in the heavily regulated environment in which we operate (for example, export controls; use of controlled chemicals and substances; anti-bribery and corruption; and tax and customs legislation). This could affect our ability to conduct business in certain jurisdictions and would potentially expose the Group to: reputational damage; financial penalties; debarment from government contracts for a period of time; and suspension of export privileges (including export credit financing), each of which could have a material adverse effect.</p>	<ul style="list-style-type: none"> – Taking an uncompromising approach to compliance. – Operating an extensive compliance programme. Global mandatory policies, processes and training are disseminated throughout the Group and are updated from time to time to ensure their continued relevance, and to ensure that they are complied with, both in spirit and to the letter. – Regular reviews of the strength of relevant teams including the ethics, anti-bribery and corruption, compliance, tax, sustainability and export control teams. – A legal team is in place to manage any ongoing regulatory investigations. – Engaging with all relevant external regulatory authorities. – Implementing a comprehensive REACH compliance programme. This includes ensuring that we and our supply chain are covered by REACH authorisations for a number of chemicals needed for our products, establishing appropriate data systems and processes and working with our suppliers, customers and trade associations. <p>This principal risk is subject to review by the Safety, Ethics & Sustainability Committee.</p>	<ul style="list-style-type: none"> – Governance model – Compliance and export control teams – Governance team – Legal team 	 <div style="border: 1px solid black; padding: 2px; width: 20px; text-align: center; margin: 2px auto;">3</div> <div style="border: 1px solid black; padding: 2px; width: 20px; text-align: center; margin: 2px auto;">4</div>
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[23] Ethics and Compliance Powerpoint Presentation (Document)

Accessed 11/06/2020

https://ourcode.rolls-royce.com/~/-/media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf

[p.6] Risk Assessment

Ensuring our programme is fit for purpose

Ethics and Compliance Risk Assessment

Rolls-Royce undertakes an annual bribery and corruption risk assessment, which informs its anti-bribery and corruption programme and compliance resource. The risk assessment looks at:

- industry risks (including how competitive the markets we operate in are);
 - the risks associated with the locations of Rolls-Royce companies and their sales;
 - routes to market for sales (including the complexity of contractual chains and controls over payments to third parties assisting in sales);
 - the types of customers we sell to (for example, government customers);
 - interactions with government officials;
 - other risks identified as part of the company's enterprise risk management process;
 - culture (based on employee opinion survey results and issues raised via our speak up channels);
 - the breadth of the Ethics and Compliance Team;
-
- the results of any internal Ethics and Compliance Maturity Reviews (see page 23);
 - the nature and volume of speak up cases;
 - findings from any audits; and
 - its specialist expertise and knowledge of bribery and corruption issues arising in the industry sectors it operates in and in general.

Deep Dive

A deep dive on the ethics and compliance programme was held with the Board in May 2019. The Head of Ethics and Compliance presented on the programme and the current controls designed to prevent and detect corruption risks in Rolls-Royce.

[p.7] Risk Assessment Process

In addition to the risk assessments undertaken by the Ethics and Compliance Team, compliance (which includes a number of areas not just ethics and anti-bribery and corruption) is reviewed by the Rolls-Royce Executive Team and the Safety, Ethics and Sustainability Committee of the Board as part of their consideration of our principal risks, as outlined in the Rolls-Royce Annual Report.

This involves ensuring that there are proper mitigation plans and controls in place for risks identified as part of the wider enterprise risk management process. Compliance is identified as one of our principal risks, so is subject to ongoing risk assessment, mitigation and scrutiny at the most senior levels of our organisation.

Development

All risk assessment activity helps the Ethics and Compliance Team establish its programme for the following year, including which sites should receive an Ethics and Compliance Maturity Review (see page 23), what training and communication should be undertaken and/or where to focus resource or a new policy or procedure. This ensures that the programme is sufficiently tailored to the specific risks that Rolls-Royce faces. In addition, specific steps taken as a result of risk assessment findings have included:

- Increasing the size and spread of the Ethics and Compliance Team, including recruiting full-time ethics and compliance personnel in some of our remote (and higher risk) locations.
- Overhauling our approach to the management and oversight of third parties.
- Launching a communication campaign on speaking up with an emphasis on the role that managers have to play in embedding a culture of speaking up.

Identifying Resource

Needs One of the main risks identified by our initial risk assessment work was a lack of ethics and compliance resources in our business. At the start of our work to improve our ethics and compliance programme, we had 20 ethics and compliance professionals, most of whom were based in the UK. We now have over 50 fulltime professionals split between the UK, USA, Mexico, Brazil, Germany, Spain, China, Singapore and India.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.50] Risk management

The Board is responsible for the Group's risk management system (RMS) and internal control systems.

Our RMS is designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

We continue to build risk management into the way we work to help us to make better decisions. It is implemented through a mandated Group-wide risk management policy, including our process, software tools and governance structures. Our risk policy is supported by training and a team of experts. Businesses and functions are accountable for identifying and managing risks in line with this policy.

The Executive Team recently refreshed their principal risks, based on the new organisation structure, strategy and Group priorities.

Business continuity plans are in place to mitigate continuity risks and there has continued to be regular testing of the adequacy of these plans through exercises at every level of our incident management framework.

Joint ventures constitute a large part of the Group's activities. Responsibility for risk and internal controls in joint ventures lies with the managers of those operations. Through Board representation, we seek to align the approach to risk and internal controls with that of the Group. Management and internal audit regularly review the activities of these joint ventures.

Improvements to our risk management system

During the past year we have continued to build and enhance our RMS, specifically:

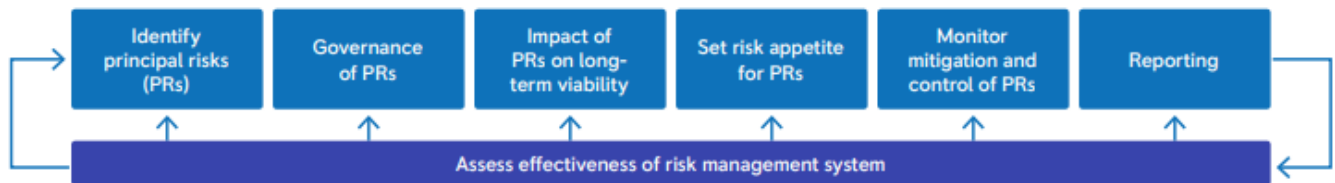
- embedding the improvements to our risk appetite framework, with key early warning metrics being introduced; — launching a refreshed and simplified suite of Group policies, which set the tone by confirming that managing risk effectively is critical to the ongoing success and resilience of the Group;
- introducing a risk assurance programme assessing how effectively the Group-wide RMS has been implemented and providing visibility of where further improvement is needed;
- strengthening focus on assessment and treatment of our safety, compliance and business continuity risks at our remote locations;
- improving our horizon scanning, by uncovering previously hidden risks which commonly arise from external factors, incorrect assumptions or a lack of clear accountability;

- evaluating climate change scenarios; and
- increasing the number of exercises of our incident management framework, focused on our principal risks.

[...]

Management of principal risks

Our risk framework ensures that risks are identified, managed and communicated throughout the Group.



[p.54] Principal risk or uncertainty

Compliance

Non-compliance by the Group with legislation, the terms of the DPAs or other regulatory requirements in the heavily regulated environment in which it operates (for example, export controls; use of controlled chemicals and substances; anti-bribery and corruption; environmental regulations; and tax and customs legislation). This could affect our ability to conduct business in certain jurisdictions and would expose the Group to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and suspension of export privileges (including export credit financing), each of which could have a material adverse effect.

How we manage it

- Taking an uncompromising approach to compliance.
- Operating an extensive compliance programme. Global mandatory policies, processes and training are disseminated throughout the Group and are updated from time to time to ensure their continued relevance, and to ensure that they are complied with, both in spirit and to the letter.
- Regular reviews of the strength of relevant teams including the ethics, anti-bribery and corruption, compliance, tax, sustainability and export control teams.
- A legal team is in place to manage any ongoing regulatory investigations.
- Engaging with all relevant external regulatory authorities.
- Implementing a comprehensive REACH compliance programme. This includes ensuring that we and our supply chain are covered by REACH authorisations for a number of chemicals needed for our products, establishing appropriate data systems and processes and working with our suppliers, customers and trade associations.

This principal risk is subject to review by the Safety & Ethics Committee.

Question
2.2. Is the company’s anti-bribery and corruption programme subject to regular internal or external audit, and are policies and procedures updated according to audit recommendations?
Score
2
Comments
<p>The company states clearly that its entire anti-bribery and corruption programme is subject to regular internal and external audits to ensure the programme is consistent with best practice and the business risks facing the company. This process explicitly includes provisions for continuous improvement. There is also evidence that high-level audit findings are presented to the board’s Audit Committee, with ownership on implementing planned and required changes to the company’s anti-bribery and corruption programme assigned to senior members of the ethics and compliance department or other management areas, as appropriate.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.6] Risk Assessment Ensuring our programme is fit for purpose</p> <p>Ethics and Compliance Risk Assessment Rolls-Royce undertakes an annual bribery and corruption risk assessment, which informs its anti-bribery and corruption programme and compliance resource. The risk assessment looks at:</p> <p>[...]</p> <ul style="list-style-type: none"> • the results of any internal Ethics and Compliance Maturity Reviews (see page 23); • the nature and volume of speak up cases; • findings from any audits; <p>[p.23] Monitoring and Assurance Verifying the effectiveness of our programme</p> <p>Monitoring and Assurance Rolls-Royce subjects its ethics and compliance programme to a regular programme of internal and external review to ensure that it remains fit for purpose, is responding to emerging risks and we implement relevant improvements.</p> <p>Lord Gold From January 2013 to August 2019, Rolls-Royce retained an independent, external expert (Lord Gold) whose role was to oversee our ongoing work to continuously improve the ethics and compliance programme. Lord Gold provided a series of recommendations for areas of improvement that were implemented. He reported directly to the Rolls-Royce Board and had regular interactions with the Head of Ethics and Compliance, General Counsel and wider Rolls-Royce leadership. His role provided ongoing, external monitoring and assurance of the programme.</p> <p>External Audit The external auditors to Rolls-Royce undertake testing and reviews of the ethics and compliance programme on a six-monthly basis as part of their audit work. The scope of this audit work and any findings are included in the Annual Report.</p> <p>Internal Audits Since 2017, the Internal Audit Team (which is independent of the Ethics and Compliance Team) has undertaken a programme of annual audits reviewing the implementation of various anticorruption policies across the company. This has entailed audits of conflicts of interest, gifts and hospitality, offset and the onboarding and management of high risk third parties. Where issues are identified, remediation steps and improvements to the ethics and compliance programme may be required. Ownership of those improvement actions is assigned to senior individuals, either in the Ethics and Compliance Team or in other areas of management as appropriate. The internal</p>

audit programme is overseen by the Audit Committee of the Board which receives updates on trends and issues at a high level and which monitors the completion of audit actions to agreed deadlines.

Ethics and Compliance Maturity Reviews

The Ethics and Compliance Team also undertakes its own monitoring and assurance work in order to test the embedding of the ethics and compliance programme across the group, via “Ethics and Compliance Maturity Reviews” (ECMRs). ECMRs help us to identify those areas where extra support or further training is required and enable us to ensure that the policies are relevant, meaningful and fit for purpose. Typically, they involve a combination of employee interviews and reviews of documentation (such as expense records and customer and supplier data) and training.

[24] 2019 Annual Report (Document)

Accessed 11/06/2020

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2019/2019-full-annual-report.pdf>

[p.109] Ethics and compliance

The Committee’s focus in the year has been on overseeing the Group’s ethics and compliance work plans. More details can be found in the Ethics and Compliance report on page 49. This included obligations to the prosecutors with whom the Company agreed DPAs in January 2017 and ensuring that recommendations put forward by Lord Gold (the Company’s independent compliance adviser) had been implemented. Lord Gold attended the meeting in February to feed back on how he had been overseeing and supporting this work, as well as to report on key activities and areas of focus. He reported that, on recent site visits, he had been able to see how the ethics and compliance programme was working in practice, the right behaviours and attitudes were becoming embedded in the organisation and considerable improvement was evident amongst the teams. Focus remained on ensuring the right level of resource was in place to continue to drive the programme moving forward.

In July, Lord Gold presented his draft report to the Committee which was later submitted to the SFO in line with the August deadline. The report noted the exemplary progress made in improving the Company’s approach to ethics and anti-bribery and corruption compliance. At an ethics deep dive session in April, the three-year ethics and compliance workplan from 2019 to 2021 was presented to the Committee. We noted the progress made in enhancing the ethics and compliance teams in each of the businesses and their improved accountability for ethics and compliance as a result. At each of our meetings during the year, we received an update from the General Counsel on the Group’s continuing dialogue and co-operation with prosecutors, regulators and government agencies. We also received regular reports and briefings from the head of ethics and compliance.

[p.110] The Committee reviews the operation of the speak up procedures at each meeting; this includes statistics, types of cases raised, and the average completion time. In 2018, we observed that bullying and harassment were prevalent themes and in March this year, the Group-wide anti-bullying and harassment campaign was launched as part of the wider care initiative in respect of our people, with the aim of creating an environment where everyone can be at their best. This included mandatory scenario-based training for all employees and leaders, as well as specific training for our people team and trade union employee representatives, as well as regular updates to the Executive Team and ELG. In July, the Committee also undertook a light version of this training so that we could get a better understanding of the impact and benefit it would have on employees. Focus has also been given to the speed at which a resolution is reached once a bullying and harassment case has been raised and, on average, the time taken to close an investigation is 25 days.

[...]

We received a report from the head of ethics and compliance who carried out an independent review of the speak up cases which had been received on the proposed changes to the UK defined benefit pension scheme. The Committee received the report and noted the conclusions, which would be shared with elected representatives of the affected employees and all decision makers. While the report found that there had clearly been some room for improvement, particularly in the way the changes had been communicated, the majority of the concerns raised via the speak up channels were not founded.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.80] Internal audit

The director of internal audit regularly reports to the Committee:

- Quarterly – a dashboard identifying the key trends and findings from internal audit reports, and the resolution of actions agreed.

- Biannually – a detailed update of significant findings and his perspectives on the internal control environment, management responses to underlying root causes and systemic issues.
- Annually – compliance with expenses policies for the directors and the Executive Team; and an internal audit work plan for the following year.
- As required – the results of audits on advisor processes (including payments) and offset and monitoring, as part of the Group's response to the DPAs.

At least once a year, the Committee meets the director of internal audit privately to discuss: the activities, findings and resolution of control weaknesses; progress against the agreed plan; and the resourcing of the department. Specific topics discussed in 2018 included: process and control design; compliance to process; data security and integrity; project management; and accountability. I also meet the director of internal audit before each meeting and on an ad-hoc basis throughout the year, as do other members of the Committee.

We continue to focus on the nature and number of issues raised by internal audit and the time to complete the related actions. While we are pleased to observe a continued reduction in the time to complete actions, we noted that the underlying root causes remain largely unchanged. These areas will be a focus for the improved systems and processes being designed to achieve the restructuring plans. The future work plan is developed to focus on the key risks facing the business. We monitor changes during the course of the year.

We considered and reviewed the effectiveness of the Group's internal audit function, including resources, plans and performance as well as the function's interaction with management. There has been increased turnover in resource in the second half of 2018 and we discussed plans to maintain sufficient resource.

Based on the reports and discussion, we are satisfied that the scope, extent and effectiveness of internal audit work are appropriate for the Group and that there is an appropriate plan for ensuring that this continues to be the case, particularly through the restructuring activities.

Question
2.3. Does the company have a system for tracking, investigating and responding to bribery and corruption allegations or incidents, including those reported through whistleblowing channels?
Score
2
Comments
<p>There is evidence that the company commits to investigating incidents and that there is a specific procedure in place to deal with whistleblowing cases. This procedure covers the whole investigation process from receipt to outcome, and it is clear that information on each investigation is documented. Additionally, the company states that investigations are conducted by subject matter experts or independent managers, and commits to providing feedback to whistleblowers. The Safety, Ethics and Sustainability Committee regularly receives reports on issues raised through the company’s whistleblowing line and reviews the results of investigations.</p>
Evidence
<p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf [p.32] B. Principles</p> <p>It is vital that all employees and stakeholders are able to act as our first line of defence by speaking up when they see, suspect or become aware of breaches of any of the Group Policies or unethical behaviour.</p> <p>All concerns raised are taken seriously and Rolls-Royce is committed to ensuring that all matters raised are appropriately investigated, to the extent that this is possible.</p> <p>For concerns raised to a member of your Ethics and Compliance team, a Local Ethics Adviser or via the Rolls-Royce Ethics Line (“the Ethics Line”), we aim to conclude investigations within 60 calendar days.</p> <p>C. Expectations</p> <p>Line Managers, Subject Matter Experts and Local Ethics Advisers</p> <p>If an employee or stakeholder raises an ethical concern to you or asks an ethical question, you should ensure that it is given priority and resolved in a timely manner.</p> <p>[...]</p> <p>The Ethics Line</p> <p>The Ethics Line is managed by an external company to ensure anonymity and when a concern or question is received, it is sent to the Ethics and Compliance team who will deal with it appropriately. The Ethics and Compliance team does not have a team of investigators and so investigations are typically done by subject matter experts or independent managers supported by HR.</p> <p>The role of the Ethics and Compliance team is to have oversight of the concern and ensure it is investigated appropriately. The Ethics and Compliance team will provide feedback to the reporter once the investigation has concluded.</p> <p>For anonymous Reports, the Ethics Line system has an anonymous message board facility, which allows the Ethics and Compliance team to communicate with reporters.</p> <p>Due to the confidential nature of investigations, the reporter should not expect to receive detailed feedback on the findings.</p> <p>[8] Rolls Royce Ethics Line. Common Questions and Answers. (webpage) Accessed 07/10/2019 https://secure.ethicspoint.com/domain/media/en/gui/17304/faq.html</p>

What happens when I ask a question?

When you ask a question it will be directed to the Business Ethics Team at Rolls-Royce who will provide a response back through the Ethics Line.

[...]

How do I use the Ethics Line?

The Ethics Line has two methods of intake. The first is by toll-free telephone number, which is staffed 24 hours a day, seven days a week, every day of the year. When you call, a professionally trained EthicsPoint intake specialist will guide you through a series of questions designed to identify the relevant details of your question or concern. We encourage you to give your name and contact information and the intake specialist will note that information. If you choose to remain anonymous, EthicsPoint will make no effort to trace the call or take steps to learn your identity. If you choose to identify yourself when you contact the Ethics Line, Rolls-Royce will make every reasonable effort to hold your name in confidence during the investigation or follow up.

At the conclusion of the call, the intake specialist will summarise the information you have submitted and make any changes necessary to make sure that you are satisfied with the accuracy of your question or concern. Rolls-Royce has established toll-free numbers in countries where the company operates. Multilingual operators are available so that callers can ask questions or raise concerns in their own language.

The second option is to use the web intake portal system. The intake portal is available anywhere that you have access to the internet. The intake portal asks you for the same types of relevant details about your question or concern as the telephone-based system. Again, if you choose to remain anonymous, EthicsPoint will make no attempt to track your web address or otherwise identify you.

Like the telephone-based system, the web intake portal system is available 24 hours a day, seven days a week, every day of the year. You may access it from any computer that has an internet connection.

What happens when I raise a concern?

Whether made by telephone or by the web, all concerns are reviewed promptly by a professionally trained EthicsPoint intake specialist. A report is then sent to the Rolls-Royce Business Ethics Team that supports the region to which the concern relates.

The Rolls-Royce Business Ethics Team is notified so that they can begin to investigate and address your concern. A prompt and thorough investigation will be conducted. Appropriate remedial action will be taken to address breaches of the Code of Conduct or our policies. Those responsible for following up on your matter are professionals who are trained to handle the issue with the greatest possible discretion.

All reports are entered into a database for record keeping and case management purposes. If you have documents, recordings, photos, or video, you may also send these to EthicsPoint, and they will become part of the report case file.

[...]

Should I identify myself?

If you choose to identify yourself in raising your concern, the company will make every reasonable effort to hold your name in confidence during the investigation. Many investigations can be more quickly and effectively completed when the reporter is identified because it allows company investigators to follow up directly with the reporter.

[...]

What if my boss or other managers are involved in a concern? Won't they get the report and start a cover-up?

Only a very select number of Rolls-Royce personnel have access to these reports. The EthicsPoint system and distribution protocols are designed so any individuals named in the report are not notified about or granted access to reports in which they have been named.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.6] The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:

[p.8] (b) the effectiveness of the Company's arrangements for the workforce to raise concerns, in confidence, about possible wrongdoing, ensuring proportionate and independent investigation of such matters and appropriate follow-up action, having received recommendation from the Safety, Ethics and Sustainability Committee;

(c) issues raised through the Ethics Line and the results of investigations into ethical or compliance breaches or allegations of misconduct, having received reports on all such matters from the Safety, Ethics and Sustainability Committee;

[p.24] Duties

The [Safety, Ethics and Sustainability] Committee will:

[...]

9. review the adequacy of the Company's arrangements for its workforce to raise concerns, in confidence, about possible wrongdoing. The Committee must ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. Recommend to the Board any changes in such arrangements;

10. receive reports on issues raised through the Ethics Line, and review the results of investigations into ethical or compliance breaches or allegations of misconduct. Provide regular reports to the Board on all such matters.

[...]

13. review remedial actions and lessons learned in relation to material investigations when requested by the Head of Business Ethics, including: (a) reviewing disciplinary action, subject to Rolls-Royce's established disciplinary process; and (b) assessing remedial action taken, giving guidance where necessary;

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.96] Safety & Ethics Committee Report
Ethics & compliance

[...]

- Support the Board with their review of issues raised through the Ethics Line and other channels including reviewing the results of any investigations into ethical or compliance breaches or allegations of misconduct.

[p.101] The Committee reviews statistics and details of Ethics Line reports at our meetings and in 2018 we observed that bullying and harassment were prevalent themes.

Question
2.4. Does the company have appropriate arrangements in place to ensure the quality of investigations?
Score
2
Comments
<p>There is evidence that the company assures itself of the quality of both its internal and whistleblowing investigations. Whistleblowing reports are initially handled by an independent external party whose staff receive specialist training; reports are then passed to internal investigations teams, which are generally managed by subject matter experts or independent managers supported by human resources. The company also states that internal investigations are handled to the same standards as whistleblowing cases, and it utilises specialist in-house investigators or specialist investigators. The company's Safety, Ethics and Sustainability Committee reviews the company's procedures for investigations and recommends any changes to the board on an ongoing basis, at least annually. Additionally, the company has a process for handling complaints about the investigations process, which are escalated to either the company's Head of Ethics and Compliance, General Counsel or the Chairman of the Safety, Ethics and Sustainability Committee.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.19] Speak Up Raising Concerns and Queries</p> <p>Local Ethics Advisers (LEAs) LEAs are our network of employees in a variety of functions and positions across Rolls-Royce who take on the role in addition to their existing job. They are there to help employees find an answer to, or deal with, an ethical concern or question on a confidential and anonymous basis should the employee prefer to do so. There are currently over 150 LEAs appointed throughout the company. LEAs are provided with regular training throughout the year. As part of our Speak Up Campaign in 2019, we created a pack for LEAs to help them promote their roles.</p> <p>Ethics Line The Ethics Line is an independently managed telephone hotline and web portal which allows employees and external third parties to raise concerns or ask questions on a confidential and anonymous basis. Each contact is referred to the Ethics and Compliance Team to determine the next steps which may include sending the contact to a relevant subject matter expert to conduct an investigation, with oversight from the Ethics and Compliance Team. Investigations may not always be necessary or possible for a number of reasons, including where the issue has already been thoroughly investigated previously, insufficient information was provided to enable any sort of investigation and where there are legal restrictions preventing Rolls-Royce from being able to investigate the matter. However, the starting point is always that an investigation should be conducted.</p> <p>[p.20] Handling Cases All internal investigations related to ethics and compliance are subject to the same process and expectations whether they were the result of issues raised via the Ethics Line or issues brought to the direct attention of the Ethics and Compliance team (for example, as a result of incidents or direct approaches). Once an investigation has been concluded, the Ethics and Compliance Team will review to ensure that the investigation was sufficiently thorough and will feed back to the reporter. We set a target of 60 days for the completion of investigations into speak up cases. More complex investigations are handled by specialist, trained internal investigators or, sometimes, with support from external lawyers or forensic experts.</p> <p>Investigations Monitoring Group Some investigations require a higher level of oversight due to the significant risks they create, and we have established a committee of senior subject matter experts to provide this oversight for such cases. The committee, known as the Investigations Monitoring Group, ensures that such investigations are appropriately resourced and managed. The Investigations Monitoring Group includes senior representatives from the Ethics and Compliance Team, Human Resources, Security, Legal and Internal Audit. Those asked to support investigations overseen by the Investigations Monitoring Group have been provided with detailed, modular training to develop the skills and</p>

knowledge required for such investigations. This training has covered areas such as data privacy, interviewing techniques and IT forensic techniques.

[p.21] Complaints about an investigation

All employees have the right to raise complaints to the Head of Ethics and Compliance, or the General Counsel, or the Chairman of the Safety, Ethics and Sustainability Committee of the RollsRoyce plc Board

Root Cause Analysis

Root cause analysis is also conducted on all substantiated cases in order to ensure that appropriate remedial action is taken to prevent further similar misconduct. This is overseen by the Ethics and Compliance Team to ensure consistency and to enable trend analysis and a case cannot be closed until the root cause analysis has been completed.

Board Level Oversight

The Head of Ethics and Compliance provides regular, formal reports to the Safety, Ethics and Sustainability Committee of the Board throughout the year in relation to investigations through a combination of statistics and more detailed information on more serious cases. This enables a regular consideration at the most senior level of the company as to whether our procedures, resources and training for investigators are sufficient.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.32] B. Principles

For concerns raised to a member of your Ethics and Compliance team, a Local Ethics Adviser or via the Rolls-Royce Ethics Line ("the Ethics Line"), we aim to conclude investigations within 60 calendar days.

C. Expectations

It should not be necessary for you to raise your concern or ask a question by more than one of the channels set out above. Furthermore, these speak up channels are not a route of appeal if an employee is dissatisfied with the outcome from another process.

The Ethics Line

[...]

The Ethics Line is managed by an external company to ensure anonymity and when a concern or question is received, it is sent to the Ethics and Compliance team who will deal with it appropriately. The Ethics and Compliance team does not have a team of investigators and so investigations are typically done by subject matter experts or independent managers supported by HR.

[8] Rolls Royce Ethics Line. Common Questions and Answers (webpage)

Accessed 07/10/2019

<https://secure.ethicspoint.com/domain/media/en/gui/17304/faq.html>

Who operates the Ethics Line?

The Ethics Line is operated by EthicsPoint, an independent company. EthicsPoint's independence from Rolls-Royce is designed to give employees an added level of comfort and security that their reports will remain confidential.

[...]

How do I use the Ethics Line?

The Ethics Line has two methods of intake. The first is by toll-free telephone number, which is staffed 24 hours a day, seven days a week, every day of the year. When you call, a professionally trained EthicsPoint intake specialist will guide you through a series of questions designed to identify the relevant details of your question or concern.

[...]

What happens when I raise a concern?

Whether made by telephone or by the web, all concerns are reviewed promptly by a professionally trained EthicsPoint intake specialist. A report is then sent to the Rolls-Royce Business Ethics Team that supports the region to which the concern relates.

The Rolls-Royce Business Ethics Team is notified so that they can begin to investigate and address your concern. A prompt and thorough investigation will be conducted. Appropriate remedial action will be taken to address breaches of the Code of Conduct or our policies. Those responsible for following up on your matter are professionals who are trained to handle the issue with the greatest possible discretion.

What if my boss or other managers are involved in a concern? Won't they get the report and start a cover-up?

Only a very select number of Rolls-Royce personnel have access to these reports. The EthicsPoint system and distribution protocols are designed so any individuals named in the report are not notified about or granted access to reports in which they have been named.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.6] The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:

[p.8] (b) the effectiveness of the Company's arrangements for the workforce to raise concerns, in confidence, about possible wrongdoing, ensuring proportionate and independent investigation of such matters and appropriate follow-up action, having received recommendation from the Safety, Ethics and Sustainability Committee;

(c) issues raised through the Ethics Line and the results of investigations into ethical or compliance breaches or allegations of misconduct, having received reports on all such matters from the Safety, Ethics and Sustainability Committee;

[p.24] The [Safety, Ethics and Sustainability] Committee will:

[...]

9. review the adequacy of the Company's arrangements for its workforce to raise concerns, in confidence, about possible wrongdoing. The Committee must ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. Recommend to the Board any changes in such arrangements;

10. receive reports on issues raised through the Ethics Line, and review the results of investigations into ethical or compliance breaches or allegations of misconduct. Provide regular reports to the Board on all such matters.

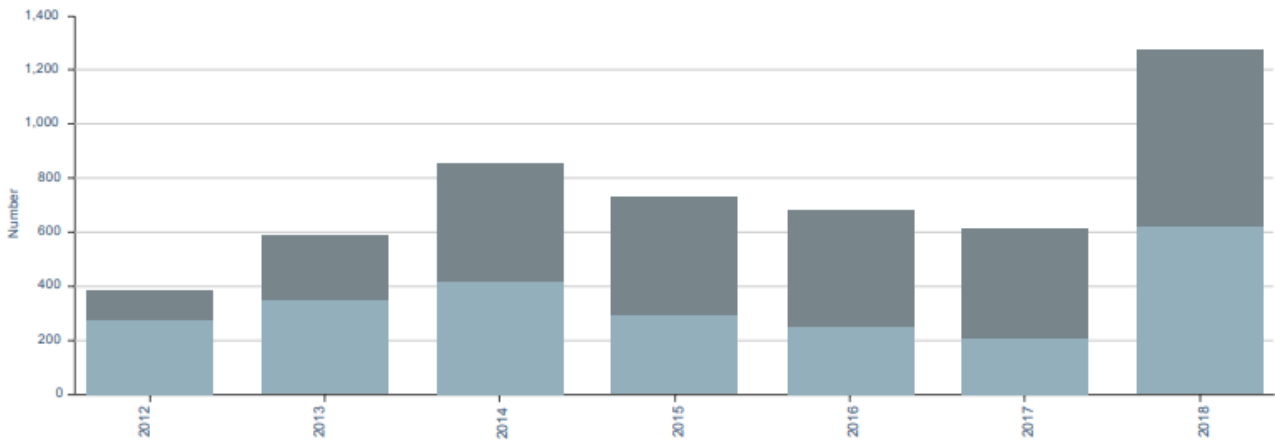
[...]

13. review remedial actions and lessons learned in relation to material investigations when requested by the Head of Business Ethics, including: (a) reviewing disciplinary action, subject to Rolls-Royce's established disciplinary process; and (b) assessing remedial action taken, giving guidance where necessary;

Question
2.5. Does the company's investigative procedure include a commitment to report material findings of bribery and corruption to the board and any criminal conduct to the relevant authorities?
Score
2
Comments
<p>There is evidence that the company's Safety, Ethics and Sustainability Committee refers reports on potential incidents and anti-bribery and corruption issues, raised through direct and whistleblowing channels, to the board. The company additionally states that its Head of Ethics and Compliance is responsible for evaluating investigation findings and disclosing criminal offences to relevant authorities if necessary.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.21] Disclosures For serious cases highlighting potentially illegal behaviour, one of the first assessments that the Head of Ethics and Compliance makes is whether or not it is necessary to make a disclosure to one or more regulators or prosecutors about the alleged misconduct.</p> <p>[15] Board Governance Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf [p.6] The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:</p> <p>[p.8] (b) the effectiveness of the Company's arrangements for the workforce to raise concerns, in confidence, about possible wrongdoing, ensuring proportionate and independent investigation of such matters and appropriate follow-up action, having received recommendation from the Safety, Ethics and Sustainability Committee;</p> <p>(c) issues raised through the Ethics Line and the results of investigations into ethical or compliance breaches or allegations of misconduct, having received reports on all such matters from the Safety, Ethics and Sustainability Committee;</p> <p>[p.23] TERMS OF REFERENCE OF THE SAFETY, ETHICS AND SUSTAINABILITY COMMITTEE</p> <p>[p.24] Duties</p> <p>The Committee will:</p> <p>[...]</p> <p>9. review the adequacy of the Company's arrangements for its workforce to raise concerns, in confidence, about possible wrongdoing. The Committee must ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action. Recommend to the Board any changes in such arrangements;</p> <p>10. receive reports on issues raised through the Ethics Line, and review the results of investigations into ethical or compliance breaches or allegations of misconduct. Provide regular reports to the Board on all such matters.</p> <p>[...]</p> <p>13. review remedial actions and lessons learned in relation to material investigations when requested by the Head of Business Ethics, including: (a) reviewing disciplinary action, subject to Rolls-Royce's established disciplinary process; and (b) assessing remedial action taken, giving guidance where necessary;</p>

Question
2.6. Does the company publish high-level results from incident investigations and disciplinary actions against its employees?
Score
2
Comments
<p>The company publishes high-level data on ethical or bribery and corruption-related incidents and investigations involving company employees. There is evidence that this information is published on an annual basis and covers the number of reports received through internal channels and through the company’s whistleblowing channel. The company additionally publishes data on the number of investigations launched and disciplinary actions taken related to breaches of the company’s code of conduct.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.18] Speak Up Raising Concerns and Queries</p> <p>Facts and Figures</p> <p>738 concerns raised in 2019 via our Ethics Line, our Local Ethics Advisers and directly to members of the Ethics and Compliance Team.</p> <p>135 case increase compared with 2018.</p> <p>[p.19] Facts and Figures</p> <p>738 new cases raised in 2019</p> <p>432 required an investigation to be resolved.</p> <p>[p.20] Facts and Figures</p> <p>80% of our cases were closed within our 60 day target in 2019.</p> <p>[p.22] Sanctions and Discipline</p> <p>Where investigations highlight potential breaches of the ethics and compliance programme, this may lead to disciplinary action being taken. The Ethics and Compliance Team works closely with our Global Employee Relations and Compliance Team to provide counsel and ensure the consistent application of disciplinary procedures in relation to all employee-related breaches of Our Code.</p> <p>Facts and Figures</p> <p>85 employees left Rolls-Royce for reasons related to breaches of Our Code in 2019.</p> <p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf [p.48] We have a zero tolerance approach to misconduct of any kind, and will take disciplinary action, up to and including dismissal, in the event of a breach. In 2018, 59 employees (2017: 65 employees) left the Group for reasons related to breaches of Our Code.</p> <p>[13] Number of ethics line contacts Accessed 07/10/2019 https://www.rolls-royce.com/sustainability/performance/data-charts.aspx</p>

Number of Ethics Line contacts



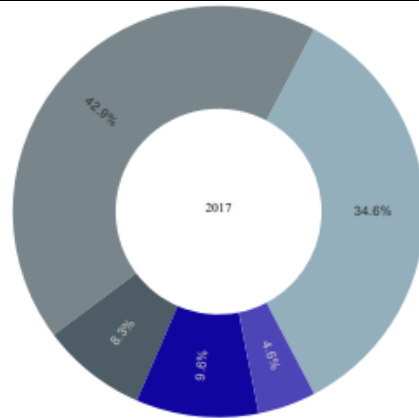
Questions		Number
Year / Quarter		Value
2012		275
2013		350
2014		416
2015		290
2016		255
2017		205
2018		617

Concerns		Number
Year / Quarter		Value
2012		108
2013		238
2014		434
2015		439
2016		428
2017		404
2018		656

[14] Ethics line contacts by category

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/performance/data-charts.aspx>



Questions		Number
Year / Quarter		Value
2014		416
2015		290
2016		255
2017		205

Working together		Number
Year / Quarter		Value
2014		262
2015		284
2016		276
2017		254

Running our company		Number
Year / Quarter		Value
2014		78
2015		79
2016		75
2017		49

Conducting our business		Number
Year / Quarter		Value
2014		68
2015		51
2016		57
2017		57

Our place in the world		Number
Year / Quarter		Value
2014		26
2015		25
2016		20
2017		27

3. Support to Employees

Question
3.1. Does the company provide training on its anti-bribery and corruption programme to all employees across all divisions and geographies, and in all appropriate languages?
Score
2
Comments
<p>There is evidence that the company provides ethics and compliance training to all of its employees worldwide. The company states that, in 2018, this training focused on its Code of Conduct, which includes the company's anti-bribery and corruption policy as well as the whistleblowing options available to employees. There is evidence that employees receive mandatory training on an annual basis, and that this applies to all employees in all jurisdictions in which the company operates.</p>
Evidence
<p>[1] Ethics and compliance (webpage) Accessed 07/10/2019 https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/ We have introduced new mandatory ethics training for all our employees around the world and offer a combination of online and face to face training. Our managers are encouraged to make conversations about ethics and compliance a regular event in their team meetings and are supported with training materials such as example dilemmas that they can discuss using the techniques they have learned. Mandatory training is carried out annually.</p> <p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.4] We must make sure</p> <p>[...]</p> <p>We complete mandatory training;</p> <p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf [p.101] The launch of Our Code was supported by new training modules that were subject to mandatory completion during the year, with managers who failed to do so being subject to capped performance reviews. Of the population of several thousand managers required to complete the training, only one failed to do so by the due date without having acceptable grounds for mitigation; a remarkable improvement on previous completion rates for core training modules.</p> <p>[12] Our suppliers and partners (webpage) Accessed 07/10/2019 https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/ All our purchasing and supplier-facing employees are required to undertake training on the role and significance of our Global Supplier Code of Conduct.</p>

Question
<p>3.2. Does the company provide tailored training on its anti-bribery and corruption programme for at least the following categories of employees:</p> <p>a) Employees in high risk positions, b) Middle management, c) Board members.</p>
Score
1
Comments
<p>There is evidence that the company requires employees in high risk positions to undertake dedicated training on anti-bribery and corruption, with refresher training every two years.</p> <p>However, there is no evidence that board members and middle managers receive anti-bribery and corruption training tailored to their roles.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf</p> <p>[p.5] Equipping our Managers with the Tools they need We recognise that it is not just important for our senior leadership to set the right tone, but that this needs to be repeated and reinforced by managers throughout the organisation. Therefore, we have also issued a series of Leadership Expectations in respect of the our core values: Trusted to Deliver Excellence, Act with Integrity, and Operate Safely through which Rolls-Royce encourages all of its managers to be role models for ethical conduct. Further ethics and compliance modules are included in our leadership training at the various levels of the organisation. In addition to our regular training and communication (see page 17) which is often manager-led, we provide monthly dilemmas and real-life case studies that managers can use to start a conversation about ethics and compliance in their team meetings.</p> <p>[p.17] Compliance Training In addition, annual compliance training is provided to employees via elearning modules. This training typically focuses on a specific area of compliance; the most recent topics covered have included:</p> <ul style="list-style-type: none"> • facilitation payments; • conflicts of interest; and • gifts and hospitality. <p>For those employees with a higher risk of exposure to corruption matters (based on a combination of seniority, role and location), face-to-face anti-corruption training is provided every two years in addition to the annual e-Learning. The training is interactive and often involves the use of case studies for discussion. The training is tailored to ensure the case studies used are particularly relevant to the audience. For 2019 the main topic covered was around confidential information. This was the chosen topic due to the various monitoring activities of our programme which indicated that this was an area that required focus. Our leaders are also required to certify annually that they have read Our Code, understand how it applies to their role and will comply with it.</p> <p>All training has various feedback mechanisms to help us ensure it is effective and improved as required.</p> <p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf</p> <p>[p.48] Those employees who have a higher likelihood of exposure to potential bribery and corruption, due for example to their work location or role type, are required to complete dedicated training. This year's training focused on gifts and hospitality.</p> <p>[p.101] The launch of Our Code was supported by new training modules that were subject to mandatory completion during the year, with managers who failed to do so being subject to capped performance reviews. Of the population</p>

of several thousand managers required to complete the training, only one failed to do so by the due date without having acceptable grounds for mitigation; a remarkable improvement on previous completion rates for core training modules.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

We have introduced new mandatory ethics training for all our employees around the world and offer a combination of online and face to face training. Our managers are encouraged to make conversations about ethics and compliance a regular event in their team meetings and are supported with training materials such as example dilemmas that they can discuss using the techniques they have learned. Mandatory training is carried out annually.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.38] A typical induction programme will provide newly appointed Directors the following introductions to the Group:

1.1 Operation of the Board and governance facilitated by the Chairman and Company Secretary, to include:

[...]

- (g) the Global Code of Conduct;
- (h) the Company's internal controls framework;
- (i) key policies and procedures including ABC Compliance, Ethics and Export Controls;

[12] Our suppliers and partners (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

All our purchasing and supplier-facing employees are required to undertake training on the role and significance of our Global Supplier Code of Conduct.

Question
3.3. Does the company measure and review the effectiveness of its anti-bribery and corruption communications and training programme?
Score
2
Comments
<p>There is evidence that the company measures the efficacy of its anti-bribery and corruption communications and training programme and that the company also uses the results of such reviews to modify and update specific parts of its training and communications programme. The company publishes data on the number of personnel trained and completion rates, as well as the number of reports received through the company’s whistleblowing line. There is evidence that this information is gathered on an annual basis and is reviewed by the internal audit department.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.7] Risk Assessment Ensuring our programme is fit for purpose</p> <p>[...]</p> <p>Development All risk assessment activity helps the Ethics and Compliance Team establish its programme for the following year, including which sites should receive an Ethics and Compliance Maturity Review (see page 23), what training and communication should be undertaken and/or where to focus resource or a new policy or procedure. This ensures that the programme is sufficiently tailored to the specific risks that Rolls-Royce faces.</p> <p>In addition, specific steps taken as a result of risk assessment findings have included:</p> <p>[...]</p> <ul style="list-style-type: none"> • Launching a communication campaign on speaking up with an emphasis on the role that managers have to play in embedding a culture of speaking up. <p>[p.17] The training is interactive and often involves the use of case studies for discussion. The training is tailored to ensure the case studies used are particularly relevant to the audience. For 2019 the main topic covered was around confidential information. This was the chosen topic due to the various monitoring activities of our programme which indicated that this was an area that required focus. Our leaders are also required to certify annually that they have read Our Code, understand how it applies to their role and will comply with it. All training has various feedback mechanisms to help us ensure it is effective and improved as required.</p> <p>Effectiveness of our communications & training Examples of how we measure our effectiveness include:</p> <ul style="list-style-type: none"> • Direct feedback on training modules • Direct feedback on each communication posted on our intranet is available through a comment functionality • Various metrics from other areas of the programme including speak up statistics, conflict of interest reporting and gifts and hospitality reporting • Results from Ethics and Compliance Maturity Reviews • Usage and readership levels from various communication tools • Comments within our all employee opinion survey <p>[p.23] Monitoring and Assurance Rolls-Royce subjects its ethics and compliance programme to a regular programme of internal and external review to ensure that it remains fit for purpose, is responding to emerging risks and we implement relevant improvements.</p> <p>[...]</p>

Ethics and Compliance Maturity Reviews

The Ethics and Compliance Team also undertakes its own monitoring and assurance work in order to test the embedding of the ethics and compliance programme across the group, via “Ethics and Compliance Maturity Reviews” (ECMRs). ECMRs help us to identify those areas where extra support or further training is required and enable us to ensure that the policies are relevant, meaningful and fit for purpose. Typically, they involve a combination of employee interviews and reviews of documentation (such as expense records and customer and supplier data) and training.

[11] Basis of Reporting

Accessed 07/10/2019

https://www.rolls-royce.com/~/_media/Files/R/Rolls-Royce/documents/sustainability/Reporting%20approach/basis-of-reporting-2015-2020-march-2017.pdf

[p.2]

Data	Target	Definition	Scope and boundary	Units
STEM	Reach 6 million people through the Rolls-Royce STEM education programme and activities by 2020.	Number of people reached defined as aware of our contribution or involvement.		Number of people
Employee wellbeing	All sites to achieve Rolls-Royce employee health and wellbeing LiveWell accreditation by 2020.	Internal site accreditation programme with Bronze, Silver and Gold award levels.	All sites with more than 50 employees participate.	Number of sites
Employee engagement	Ensure our Sustainable Employee Engagement Index is greater or equal to the Global High Performance Norm by 2020.	Global annual employee opinion survey provided by Towers Watson.		Survey score
Ethics	All employees to complete year-on-year Global Code of Conduct certification and mandatory Ethics training	Employees defined as all employees of Rolls-Royce and its wholly owned subsidiaries.	Defined by the Ethics team and will vary depending on activity.	% of in scope employees

[p.6] Ethics

Target

All employees to complete year-on-year Global Code of Conduct certification and mandatory Ethics training.

Definitions

“Employees” refers to all employees of Rolls-Royce and its wholly owned subsidiaries. This includes employees on fixed term contracts and Directors but excludes contractors and agency workers.

“Mandatory” refers to any training activity that we require employees to complete on an annual basis.

Scope and boundary

The definition of in scope will vary depending on the certification or training activity. This is defined by the Ethics Team for each activity.

Any employee who is absent from work due to long-term sickness, maternity or other extended leave, for the period over which the activity is required to be completed is considered out of scope.

Units

Data is presented as a percentage completion rate, calculated as follows:

$$\text{Completion rate (\%)} = \frac{\text{Number of employees who have completed the activity}}{\text{Number of employees in scope for the activity}} \times 100$$

Collection process

All certification and mandatory ethics training data is stored on the Rolls-Royce Learning Management System (LMS) or equivalent system.

Employees who have regular access to the LMS are required to confirm that they have completed all certification and mandatory ethics training activities using the LMS.

Alternative processes may be put in place to record participation in certification and training activities for employees who do not have access to the LMS. Data collected in this way will be uploaded to the LMS so that a full record of all certification and mandatory ethics training can be maintained.

Data quality

The systems, processes and competencies related to these targets are also subject to assurance from the Internal Audit function.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

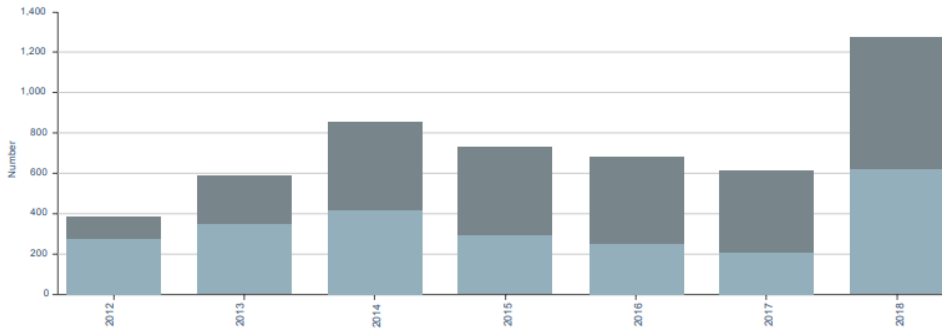


[13] Number of ethics line contacts

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/performance/data-charts.aspx>

Number of Ethics Line contacts



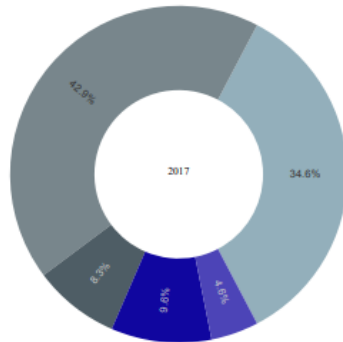
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Concerns		Number
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2014		434
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[14] Ethics line contacts by category

Accessed 07/10/2019

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Questions		Number
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2015		290
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Working together		Number
Year / Quarter		Value
2014		262
2015		284
2016		276
2017		254

Running our company		Number
Year / Quarter		Value
2014		78
2015		79
2016		75
2017		49

Conducting our business		Number
Year / Quarter		Value
2014		68
2015		51
2016		57
2017		57

Our place in the world		Number
Year / Quarter		Value
2014		26
2015		25
2016		20
2017		27

Question
3.4. Does the company ensure that its employee incentive schemes are designed in such a way that they promote ethical behaviour and discourage corrupt practices?
Score
2
Comments
<p>There is evidence that the company's incentive schemes for employees are designed to promote ethical behaviour and discourage corrupt practices. The company indicates that managers who fail to complete training on the company's Code of Conduct are subject to capped performance reviews. The remuneration policy for directors outlined in the company's Annual Report indicates that a breach of the Code of Conduct will result in a penalty and there is also evidence indicating that executive and manager remuneration is subject to ethical conduct appraisal. Additionally, the company states that it does not offer bonuses based on purely financial targets for sales roles.</p>
Evidence
<p>[24] 2019 Annual Report (Document) Accessed 11/06/2020 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2019/2019-full-annual-report.pdf [p.96] Individual performance</p> <p>Executive Directors have 20% of their bonus based on achievement of their personal objectives. Personal performance objectives are set at the beginning of the year and are aligned with the Group's internal strategic priorities. For Executive Directors, these have included:</p> <ul style="list-style-type: none"> — deliver Group revenue, profit and cash, in line with the budget, with specific focus on cash costs and free cash flow; — accelerate progress on diversity and HSE against agreed objectives and metrics; — drive M&A disposals, in particular ensuring a successful completion of the Commercial Marine disposal; — continue to drive the Group restructuring programme, delivering a further 1,500 in headcount reductions and a run rate of £300m by the end of 2019; — drive performance through our values and behaviours, leading by example with a strong focus on safety, diversity & inclusion and the highest ethical and professional standards; <p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.22] Reward and Discipline How we encourage the right behaviours</p> <p>Measuring Performance Managers at Rolls-Royce are measured not only on what they do but how they do it. 50% of a manager's performance rating is dependent on our values & behaviours, i.e. how an individual achieves their objectives, not just what they achieve. In turn, this impacts on a manager's pay and bonus opportunity. We do not operate any bonus plans based on an employee specific role (for example, sales incentive bonuses for our employees in sales roles). Another example of how we encourage ethical conduct is via the annual "Trusted to Deliver Excellence Awards", which celebrate outstanding performance. Nominated projects are explicitly assessed against both what they deliver and how they do it (including integrity and creating trust).</p> <p>Consequences of Non-Compliance Since 2018, managers who fail to complete any part of their annual mandatory training can have their performance grade affected because of this. This usually is a U rating, that is the lowest rating an individual can receive and it means that the employee is not eligible for a bonus for that year. Since this was introduced, the mandatory training has included training on ethics, conflicts of interest, gifts and hospitality, data privacy and export control. In accordance with local legal frameworks and agreements, in some countries we operate in, information and consultation is required before this can be fully implemented.</p> <p>Sanctions and Discipline</p>

Where investigations highlight potential breaches of the ethics and compliance programme, this may lead to disciplinary action being taken. The Ethics and Compliance Team works closely with our Global Employee Relations and Compliance Team to provide counsel and ensure the consistent application of disciplinary procedures in relation to all employee-related breaches of Our Code.

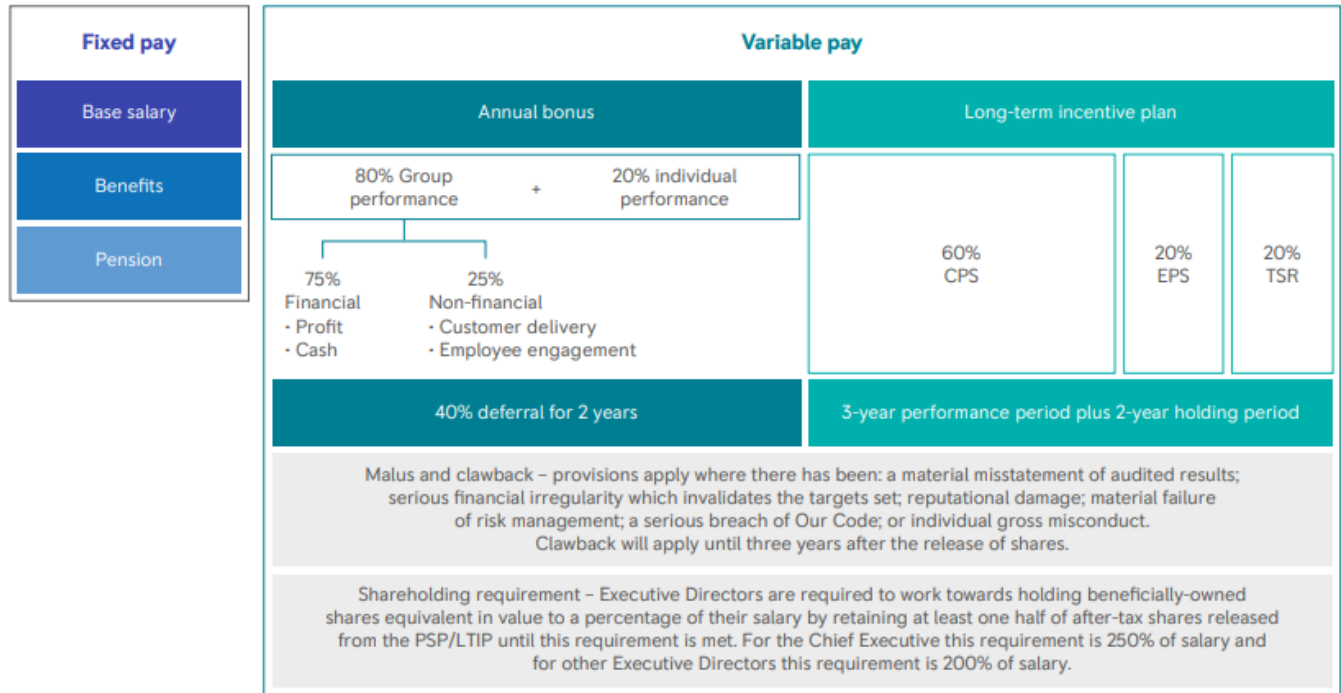
[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.85]

Summary of our remuneration policy



[p.101] The launch of Our Code was supported by new training modules that were subject to mandatory completion during the year, with managers who failed to do so being subject to capped performance reviews. Of the population of several thousand managers required to complete the training, only one failed to do so by the due date without having acceptable grounds for mitigation; a remarkable improvement on previous completion rates for core training modules.

Question
3.5. Does the company commit to and assure itself that it will support and protect employees who refuse to act unethically, even when it might result in a loss of business?
Score
2
Comments
<p>The company publishes a clear commitment to support employees who refuse to act unethically even when doing so results in lost business. There is also further evidence that the company assures itself of employees' confidence in this commitment through monitoring of reporting data and employee interviews.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf</p> <p>[p.3] Introduction Our Values and Behaviours As set out in our Global Code of Conduct ("Our Code") our value of acting with integrity means that we do the right thing all the time. We act with integrity and follow the law. We live up to all of our ethical principles and we demonstrate this by being true to ourselves, and showing honesty and good judgement in all we do.</p> <p>It is also important that we operate in accordance with our behaviours which are to pursue collaboration, seek simplicity, embrace agility and be bold. At Rolls-Royce, we are not only judged by what we do, but how we do it.</p> <p>To truly be at our best, we expect our employees and those working with us or for us (such as suppliers or contractors) to demonstrate those values and behaviours every day.</p> <p>Employees will always be supported for upholding our values and behaviours and our zero tolerance approach to bribery and corruption even if sometimes that means we may lose business or suffer another disadvantage. We assure ourselves of this commitment through our monitoring activities (see page 23) and continuous analysis of our speak up channels (see page 18). This document provides an overview of the approach that RollsRoyce takes to ethics and anti-corruption compliance.</p> <p>[p.23] Monitoring and Assurance Verifying the effectiveness of our programme Monitoring and Assurance Rolls-Royce subjects its ethics and compliance programme to a regular programme of internal and external review to ensure that it remains fit for purpose, is responding to emerging risks and we implement relevant improvements.</p> <p>[...]</p> <p>Ethics and Compliance Maturity Reviews The Ethics and Compliance Team also undertakes its own monitoring and assurance work in order to test the embedding of the ethics and compliance programme across the group, via "Ethics and Compliance Maturity Reviews" (ECMRs). ECMRs help us to identify those areas where extra support or further training is required and enable us to ensure that the policies are relevant, meaningful and fit for purpose. Typically, they involve a combination of employee interviews and reviews of documentation (such as expense records and customer and supplier data) and training.</p>

Question
3.6. Does the company have a clear policy of non-retaliation against whistleblowers and employees who report bribery and corruption incidents?
Score
2
Comments
<p>The company promotes a clear policy of non-retaliation against both whistleblowers and employees who report bribery and corruption incidents, which explicitly applies to all employees across the organisation, including those employed by the group as third parties, suppliers and joint venture partners. There is additional evidence that the company assures itself of employees' confidence in this commitment through monitoring of incident reporting data.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.21] Retaliation Rolls-Royce has a strict policy of non-retaliation against individuals who raise concerns in good faith as set out in our Speak Up Policy. We monitor reporting rates across our locations to look for any suggestions that this may be connected to a fear of retaliation. Employees are also encouraged to report any concerns about retaliation via our normal speak up channels. Of the 738 cases received in 2019, only six were in relation to alleged retaliation.</p> <p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.4] Who does it apply to?</p> <p>All of us. That's all colleagues employed by the Rolls-Royce Group and any subsidiary or joint venture where we have control. We also encourage all our joint ventures and partners to adopt the same high standards.</p> <p>[...]</p> <p>We must make sure</p> <p>[...]</p> <p>We treat those who speak up with fairness and without prejudice;</p> <p>[p.7] Retaliation</p> <p>We can ask questions and raise concerns without fear of retaliation. Retaliation against anyone who speaks up is not acceptable at Rolls-Royce and could result in disciplinary action.</p> <p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf [p.32] Speak Up</p> <p>A. Policy values</p> <p>Rolls-Royce is committed to having an environment where employees can raise concerns and ask questions without fear of retaliation.</p> <p>[...]</p>

Retaliation against individuals who speak up about genuine concerns is not accepted and should be reported by one of the methods outlined above.

Line Managers, Subject Matter Experts and Local Ethics Advisers

If an employee or stakeholder raises an ethical concern to you or asks an ethical question, you should ensure that it is given priority and resolved in a timely manner.

[8] Rolls Royce Ethics Line. Common Questions and Answers. (webpage)

Accessed 07/10/2019

<https://secure.ethicspoint.com/domain/media/en/gui/17304/faq.html>

What is the Ethics Line?

The Rolls-Royce Ethics Line is a service provided by the company that allows anyone — employees, customers, suppliers, or members of the general public — to ask questions, raise concerns, or follow up on questions or concerns about ethical issues which they have already raised.

[...]

Why do we have an Ethics Line?

Rolls-Royce is committed to creating and maintaining an environment where you can ask questions and raise concerns about business ethics without fear of retaliation.

[...]

Can I get in trouble for using the Ethics Line?

No. The Ethics Line is provided for your use and protection. Retaliation against anyone who raises an ethical concern in good faith is not acceptable and such behaviour will be taken seriously and investigated. Anyone who engages in retaliation will be disciplined.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

Encouraging speaking up

We encourage all employees and stakeholders not to hesitate in raising ethical questions or concerns.

[...]

This service is also available for use by third parties, such as our customers, suppliers and members of the community.

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p.11] 5.3 Supplier ethical concerns

We speak up about anything that concerns us or that is not in line with the principles set out in this Code without fear of retaliation and we expect our suppliers to do the same. Retaliation against anyone who speaks up is not acceptable.

Suppliers can raise questions or concerns by speaking to your Rolls-Royce contacts or via the Rolls-Royce Ethics Line, anonymously if required. Concerns may be raised either online or via telephone.

Question
3.7. Does the company provide multiple whistleblowing and advice channels for use by all (e.g. employees and external parties), and do they allow for confidential and, wherever possible, anonymous reporting?
Score
2
Comments
<p>There is evidence that the company has multiple channels to report instances of suspected corrupt activity and seek advice on the company's anti-bribery and corruption programme. Channels are sufficiently varied to allow the employee to raise concerns across the management chain and to a relevant external body. These channels allow for confidential and, wherever possible, anonymous reporting. They are available and accessible to all employees in all jurisdictions where the company operates, including those employed by the group as third parties, suppliers and joint venture partners, and in all relevant languages.</p>
Evidence
<p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~/-/media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.7] Speak up</p> <p>We should always assume positive intent, that is, expect that other people are trying to create a good outcome for all of us. That way we can have open and positive conversations. We need to be open-minded to approaches from other people who have ideas, questions or concerns, even if they are about our own actions or behaviours.</p> <p>When we are open and take responsibility for doing the right thing, we all do better and succeed together. So let's create the kind of workplace where we strive to achieve the highest standards of integrity and professionalism and ensure we encourage each other to speak up.</p> <p>Speaking up isn't just about calling out things we believe are wrong; it's about recognising what's good, and suggesting how to make things better.</p> <p>We speak up if we...</p> <ul style="list-style-type: none"> • Have ideas to simplify and improve the way we work; • Witness, are aware of, or subject to anything we believe is bullying, harassment or discrimination, or any other inappropriate behaviour; • Appreciate the contribution of others; • Suspect bribery, corruption, fraud or facilitation of tax evasion or other criminal offences; • Can help others to achieve results; • Have any concerns about possible health and safety, quality, product safety or reliability issues; • See positive or negative examples of the shadows we cast; • Believe we have received or divulged information we are not entitled to have or share; • Can suggest how to reduce waste; • Have any concerns about how personal data is being handled; • Can share knowledge or best practice to improve our business; • Have any suspicions or allegations of anticompetitive behaviour; • Make a mistake, knowing we will be treated fairly; • Receive suspicious enquiries from anyone who might be trying to gain unauthorised access to our goods, software or technology; • Are concerned about any other breaches of laws; and • Identify risks that could affect us in achieving our objectives. <p>Questions and concerns</p> <p>Whenever we have a question or concern, our manager is the first person to turn to. If we can't do that then we contact someone with expertise in the matter. It might also help to talk to an employee representative such as a member of a works council or a union. There may also be local reporting systems we can use. We can speak to a Local Ethics Adviser or raise our questions or concerns through the Rolls-Royce Ethics Line.</p>

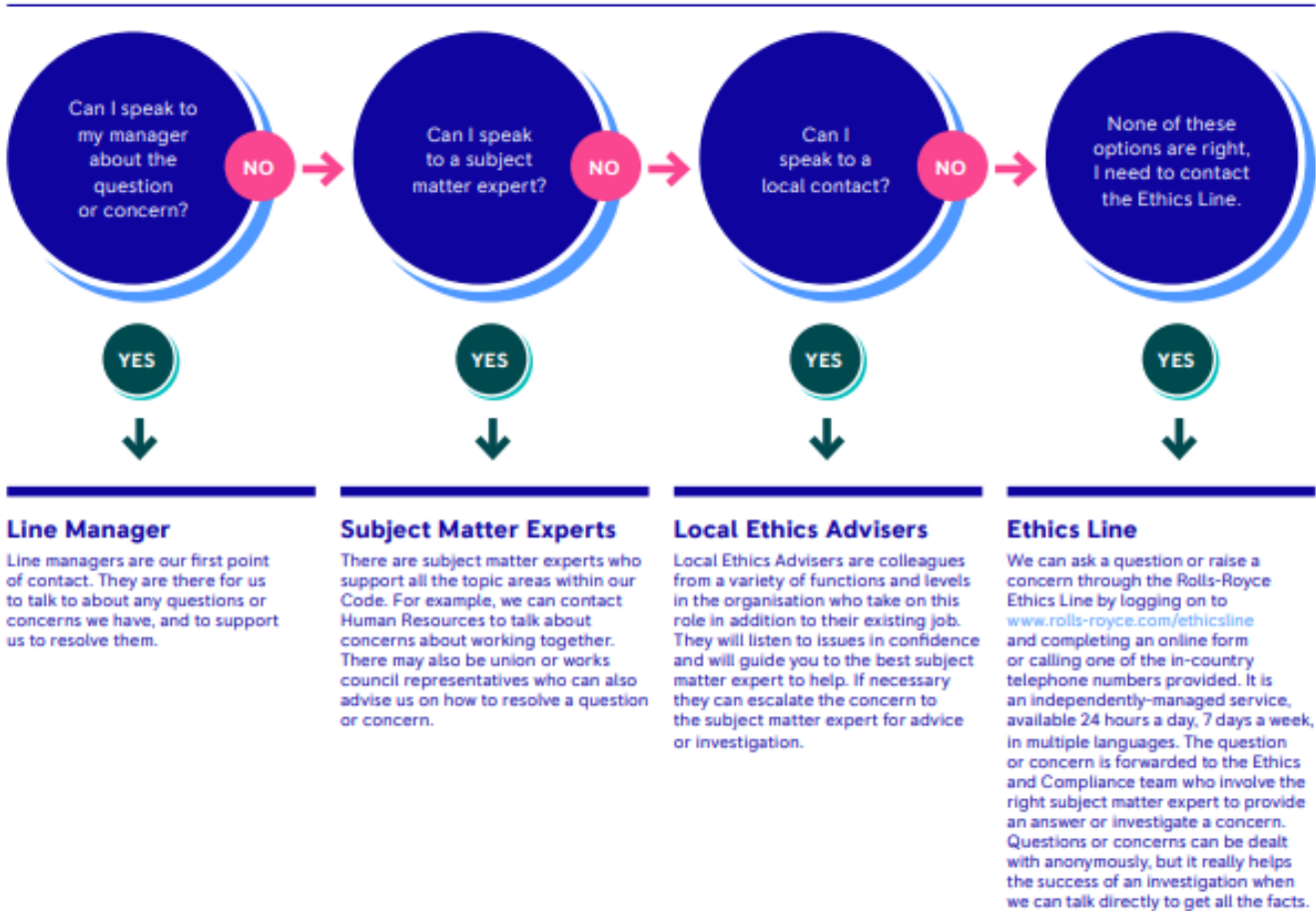
The most important thing is to speak up and talk to someone who can help. If we are approached by a colleague wanting help we will try to help each other find the right place or person to get an answer.

Look at the Speak Up Policy to see how concerns are dealt with and what we can expect to happen when we raise a concern.

[p.8]

How do I speak up?

If you can't deal with a dilemma yourself then please speak up. This is what you can do.



[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

Encouraging speaking up

We encourage all employees and stakeholders not to hesitate in raising ethical questions or concerns. We have four main channels for employees to raise questions:

Line Managers:

We encourage our employees that their first point of contact should be their manager

Subject Matter Experts (SME):

Employees can get advice from a Subject Matter Expert on a specific topic, for example, Legal, HR, TU/ Works Council Reps.

Local Ethics Advisers (LEA):

Is a local point of contact at our main sites around the world, who can provide guidance to help employees find an answer to their question or help resolve an ethical concern.

Rolls-Royce Ethics Line:

Is an independently managed, confidential online and telephone service available 24 hours a day, 7 days a week in multiple languages, which employees can use to ask a question or raise a concern.

Raising ethical concerns

We encourage all employees and stakeholders not to hesitate in raising ethical questions or concerns.

We have four main channels for employees to raise questions; speaking to their line manager; speaking to a subject matter expert; speaking to their Local Ethics Advisor; or raising a question via our Ethics Line.

The Rolls-Royce Ethics Line is an independently managed, confidential online and telephone service available 24 hours a day, 7 days a week in multiple languages, which employees can use to ask a question or raise a concern.

This service is also available for use by third parties, such as our customers, suppliers and members of the community. All questions and concerns are registered by the independent organisation, then passed to the Rolls-Royce Ethics and Compliance team for a response, and if appropriate, an investigation.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.32] Speak Up

A. Policy values

Rolls-Royce is committed to having an environment where employees can raise concerns and ask questions without fear of retaliation.

B. Principles

It is vital that all employees and stakeholders are able to act as our first line of defence by speaking up when they see, suspect or become aware of breaches of any of the Group Policies or unethical behaviour.

All concerns raised are taken seriously and Rolls-Royce is committed to ensuring that all matters raised are appropriately investigated, to the extent that this is possible.

For concerns raised to a member of your Ethics and Compliance team, a Local Ethics Adviser or via the Rolls-Royce Ethics Line ("the Ethics Line"), we aim to conclude investigations within 60 calendar days.

C. Expectations

All Employees, and Stakeholders

You are encouraged to raise ethical concerns or ask ethical questions via one of our four main channels:

- a. your Line Manager;
- b. a subject matter expert (for example, your local HR Manager, Ask HR, a member of the Ethics and Compliance team or the Export Control teams). There may also be union or works council representatives who can also advise you on how to resolve a question or concern;
- c. Local Ethics Advisers; and
- d. the Ethics Line.

It should not be necessary for you to raise your concern or ask a question by more than one of the channels set out above. Furthermore, these speak up channels are not a route of appeal if an employee is dissatisfied with the outcome from another process.

Retaliation against individuals who speak up about genuine concerns is not accepted and should be reported by one of the methods outlined above.

Line Managers, Subject Matter Experts and Local Ethics Advisers

If an employee or stakeholder raises an ethical concern to you or asks an ethical question, you should ensure that it is given priority and resolved in a timely manner.

If you are unsure how to deal with the concern or question, you should contact the Ethics and Compliance team for further guidance or consult the Ethics Toolkit for Managers which contains further guidance on what to do when someone speaks up to you.

The Ethics Line

The Ethics Line is a service which allows employees and other stakeholders to raise ethical concerns or ask ethical questions confidentially and anonymously (if they wish) in their own language via the telephone or an online form.

The Ethics Line is managed by an external company to ensure anonymity and when a concern or question is received, it is sent to the Ethics and Compliance team who will deal with it appropriately. The Ethics and Compliance team does not have a team of investigators and so investigations are typically done by subject matter experts or independent managers supported by HR.

The role of the Ethics and Compliance team is to have oversight of the concern and ensure it is investigated appropriately. The Ethics and Compliance team will provide feedback to the reporter once the investigation has concluded.

For anonymous Reports, the Ethics Line system has an anonymous message board facility, which allows the Ethics and Compliance team to communicate with reporters.

Due to the confidential nature of investigations, the reporter should not expect to receive detailed feedback on the findings.

There are robust controls in place to protect the privacy of individuals who use the Ethics Line. All our employees are required to handle any personal data, including that within Ethics Line reports, in line with the Global Data Privacy Policy and associated guidance.

[7] Rolls Royce Ethics Line (webpage)

Accessed 07/10/2019

<https://secure.ethicspoint.com/domain/media/en/gui/17304/index.html>



Welcome to the Rolls-Royce Ethics Line

We are committed to creating and maintaining an environment where you can ask questions and raise concerns about business ethics without fear of retaliation. Please, never hesitate to seek guidance on these matters. It is better to ask a question or raise a concern at an early stage than to let the situation get worse. If you have a question on business ethics or on the laws and regulations that apply where you work, the first point of contact is your manager. Functional specialists can also give advice on issues relevant to their expertise, for example, Human Resources or Finance. We also encourage you to use this service as a resource to ask questions or raise concerns.

[8] Rolls Royce Ethics Line. Common Questions and Answers. (webpage)

Accessed 07/10/2019

<https://secure.ethicspoint.com/domain/media/en/gui/17304/faq.html>

What is the Ethics Line?

The Rolls-Royce Ethics Line is a service provided by the company that allows anyone — employees, customers, suppliers, or members of the general public — to ask questions, raise concerns, or follow up on questions or concerns about ethical issues which they have already raised.

Who operates the Ethics Line?

The Ethics Line is operated by EthicsPoint, an independent company. EthicsPoint's independence from Rolls-Royce is designed to give employees an added level of comfort and security that their reports will remain confidential.

Why do we have an Ethics Line?

Rolls-Royce is committed to creating and maintaining an environment where you can ask questions and raise concerns about business ethics without fear of retaliation. Like many large companies, Rolls-Royce provides the Ethics Line as an optional service for employees to ask questions or raise concerns about issues related to our Code of Conduct. Although most questions and concerns can be easily and promptly resolved by discussing them with your manager, the Ethics Line provides an additional way to get help should you feel uncomfortable asking questions or expressing concerns to management. The Ethics Line is not intended to replace conversations between employees and their managers, but rather to provide an additional resource to employees.

If I see something that concerns me, shouldn't I just raise it with my manager, security, or human resources and let them deal with it?

When you observe behaviour you believe breaches our Code, we expect you to raise it. Ideally, you should bring any concerns forward to your manager or other members of the management team. But we know that there may be circumstances when you are not comfortable raising the issue in this manner. It is for such circumstances we have partnered with EthicsPoint.

[...]

How do I use the Ethics Line?

The Ethics Line has two methods of intake. The first is by toll-free telephone number, which is staffed 24 hours a day, seven days a week, every day of the year. When you call, a professionally trained EthicsPoint intake specialist will guide you through a series of questions designed to identify the relevant details of your question or concern. We encourage you to give your name and contact information and the intake specialist will note that information. If you choose to remain anonymous, EthicsPoint will make no effort to trace the call or take steps to learn your identity. If you choose to identify yourself when you contact the Ethics Line, Rolls-Royce will make every reasonable effort to hold your name in confidence during the investigation or follow up.

At the conclusion of the call, the intake specialist will summarise the information you have submitted and make any changes necessary to make sure that you are satisfied with the accuracy of your question or concern. Rolls-Royce has established toll-free numbers in countries where the company operates. Multilingual operators are available so that callers can ask questions or raise concerns in their own language.

The second option is to use the web intake portal system. The intake portal is available anywhere that you have access to the internet. The intake portal asks you for the same types of relevant details about your question or concern as the telephone-based system. Again, if you choose to remain anonymous, EthicsPoint will make no attempt to track your web address or otherwise identify you.

Like the telephone-based system, the web intake portal system is available 24 hours a day, seven days a week, every day of the year. You may access it from any computer that has an internet connection.

[...]

Should I identify myself?

If you choose to identify yourself in raising your concern, the company will make every reasonable effort to hold your name in confidence during the investigation. Many investigations can be more quickly and effectively completed when the reporter is identified because it allows company investigators to follow up directly with the reporter.

May I remain anonymous?

In all countries except those that prohibit anonymous reporting, you may choose to remain anonymous. Although it may be easier in many cases to address your issue by having you identify yourself, you are not required to do so. If you choose to remain anonymous, no effort will be made by either EthicsPoint or Rolls-Royce to identify you.

What if my boss or other managers are involved in a concern? Won't they get the report and start a cover-up?

Only a very select number of Rolls-Royce personnel have access to these reports. The EthicsPoint system and distribution protocols are designed so any individuals named in the report are not notified about or granted access to reports in which they have been named.

[9] Additional Ways for Employees to Raise a Concern

Accessed 07/10/2019

<https://secure.ethicspoint.com/domain/media/en/gui/17304/additional.pdf>

[p.1] Rolls-Royce is committed to creating and maintaining an environment in which employees may freely raise questions about ethical issues. If you have a concern, including that something illegal or unethical is taking place in the workplace, and you have a genuine belief that the concern is valid, you should raise it in good faith.

All employees are encouraged to report any actual or suspected breaches of the Code of Conduct and our policies. Concerns should be raised if there is a genuine suspicion of a breach and investigations by the employee are not required. Concerns can be raised through a number of different internal channels, including:

- your line manager; or
- the appropriate subject matter expert, using the relevant and existing channels that include:
 - o your Human Resources (HR) representative;
 - o your Health, Safety & Environment (HS&E) representative; o Chief Audit Engineer for the Sector;
 - o your Export Control representative;
 - o your Compliance Officer;
 - o Business Ethics team or your local Ethics representative;
 - o Internal Audit; o Corporate Security; and
 - o Legal;

It may often be possible to resolve questions and concerns locally with line management and this option should be pursued where it is appropriate to do so.

NOTES:

- Reporting must comply with applicable local laws. For instance, employees in France and Sweden are, in the majority of cases, only permitted to report their concerns locally. In such instances, you should refer your concerns to your HR representative or appropriate Works Council Representative. Employees are also encouraged to consult local operating procedures, where they exist, for guidance on how to report incidents in the country involved.

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p.11] 5. Supplier commitment

5.1 Communication Suppliers must make the Rolls-Royce Global Supplier Code of Conduct available to employees in the business language of the company.

Suppliers are encouraged to make their employees aware of the Rolls-Royce Ethics Line, as detailed below.

5.3 Supplier ethical concerns

We speak up about anything that concerns us or that is not in line with the principles set out in this Code without fear of retaliation and we expect our suppliers to do the same. Retaliation against anyone who speaks up is not acceptable.

Suppliers can raise questions or concerns by speaking to your Rolls-Royce contacts or via the Rolls-Royce Ethics Line, anonymously if required. Concerns may be raised either online or via telephone.

The following website contains a full list of worldwide telephone numbers for reporting concerns, or alternatively you can use the online system also provided at: www.rolls-royce.com/ethicsline

4. Conflict of Interest

Question
4.1. Does the company have a policy defining conflicts of interest – actual, potential and perceived – that applies to all employees and board members?
Score
2
Comments
<p>The company formally addresses conflicts of interest as a corruption risk and has a clear policy and procedure which defines conflicts, including those actual, potential and perceived. The policy is outlined in the company’s Code of Conduct, which applies to all employees and board members, including those of subsidiaries and other controlled entities. The company’s policy documents make reference to conflicts of interest concerning employee and government relationships, financial interests and outside employment.</p>
Evidence
<p>[25] Conflict of Interest Guidance (Document) Accessed 12/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/guidance-conflict_of_interest.pdf [p.1] Global Conflict of Interest Guidance</p> <p>This guidance note contains examples which highlight where conflicts of interest may arise in various contexts. The examples are meant to provide guidance, but cannot cover every possible situation that may arise. It is your responsibility to read, understand and apply the Conflict of Interest Policy (contained in the Group Policies Manual) correctly, and to seek further guidance if you need it.</p> <p>Ultimately, a determination of whether a conflict of interest exists and whether proposed mitigations are appropriate, resides with Rolls-Royce, not the employee concerned, so, if there is any possibility that the situation might be considered a conflict of interest, it must be reported. Even if a conflict of interest has been discussed between an individual and their line manager, it must be formally declared via the reporting process detailed in the Conflict of Interest Policy. Failure to report can harm Rolls-Royce and may result in disciplinary action, up to and including dismissal.</p> <p>Outside employment, business activities and temporary assignments/secondments You have a duty to fulfil the responsibilities of your role at Rolls-Royce. Additional employment or business activities outside Rolls-Royce may compromise your ability to do so. Typically, this may be because that outside employment or business activity directly conflicts with the interests of RollsRoyce. However, it is just as important to consider whether that outside employment or business activity takes up so much of your time that it prevents you from dedicating sufficient time to your work at Rolls-Royce.</p> <p>Unless you have the prior, written approval of your business Ethics and Compliance team and have made a formal conflict of interest declaration, you must not work for, or provide any services to, a competitor or potential competitor, customer or supplier of Rolls-Royce, other than as part of an official secondment (i.e. a temporary assignment to work for another business, such as a customer, on behalf of Rolls-Royce) or similar arranged and approved by Rolls-Royce. Employees on secondment (either on a full-time or part-time basis) must be aware of the possibility of conflicts of interest between their responsibilities as an employee of Rolls-Royce and their role as a secondee/temporary assignee.</p> <p>Examples of where a conflict of interest could arise from outside employment or business activities include:</p> <ul style="list-style-type: none"> • Working for a customer of Rolls-Royce on a part-time basis to fit in around your Rolls-Royce contractual hours or shifts; • Setting up a business which seeks to supply Rolls-Royce with parts whilst continuing to be employed by Rolls-Royce; • Offering consultancy services to a competitor or potential competitor of Rolls-Royce;

[p.2] • Providing consultancy services to another business during your Rolls-Royce contractual hours of employment; and

• When your outside employment or business activities prevent you from being able to work the hours which you are contractually required to work by Rolls-Royce.

You must discuss with your line manager any work you undertake which is in addition to your employment with Rolls-Royce that may cause a conflict of interest, including unpaid, voluntary, charitable or honorary work.

Ownership and financial interests

You must not influence a Rolls-Royce decision to place business with a company in which you, your partner or any of your family members own or control more than 2%, or such lower level of financial interest that might influence or appear to influence your judgement. Rolls-Royce may place business with such a company or other entity only if you have not influenced its decision to do so, but you may still need to complete a conflict of interest report if the circumstances suggest that there may be a conflict of interest. You must not have a financial interest in any competitors of Rolls-Royce if that interest might influence or appear to influence your judgment.

Directorships and trusteeships

Employees who are directors of Rolls-Royce group companies must declare if they are a director or trustee of another company or entity external to Rolls-Royce to their line manager, the Governance team and the Ethics and Compliance team. Except where your appointment relates to a Rolls-Royce joint venture or subsidiary, such a directorship is not permissible if it is with a company which may be considered a competitor of Rolls-Royce.

Rolls-Royce joint ventures and subsidiaries

Any Rolls-Royce employee who serves on the board of a Rolls-Royce joint venture company is acting as a director of, and has a responsibility to, that joint venture. Employees must be aware of the possibility of conflicts of interest between their responsibilities as a director of a joint venture, their role as an employee and the interests of Rolls-Royce as a shareholder in the joint venture. Employees who have roles with more than one joint venture should also consider whether there are any conflicts of interest between those roles. Further guidance can also be found in the Ethics and Compliance Joint Venture Toolkit found on the Ethics and Compliance Engine Room pages.

[p.3] Relationships with suppliers, customers and other third parties

Developing and maintaining relationships with suppliers, customers and other business partners is vital to our business. However, relationships which become too cosy/informal or friendly might not be in the best interests of Rolls-Royce. You must not foster a relationship with any supplier, customer, competitor or other business partner of Rolls-Royce that compromises your ability to conduct business in the best interests of Rolls-Royce in an objective manner. Conflicts of interest may also arise if you have family (including in-laws) or personal friends working for suppliers, customers, competitors or other business partners.

Examples of such conflicts of interest include:

- A long standing supplier participating in a tender requests information or favourable treatment in the tender from the Rolls-Royce account manager who has worked with that supplier for a considerable period of time;
- A Rolls-Royce employee approving the invoices of a supplier where her husband is the key account manager for the supplier;
- The brother of a Rolls-Royce employee working on a sales campaign is one of the key customer contacts and will be involved in the engine selection process;
- A Rolls-Royce employee taking up an advisory role or similar with an organisation (for example, a government or academic institution) that Rolls-Royce has a relationship with; and
- An individual approving a donation to a charity which they are involved in the running of.

You must regularly assess your relationships with suppliers and customers and discuss with your line manager any that may cause a conflict of interest.

Working with family members and personal friends

The Conflict of Interest Policy does not prevent family members and personal friends from working together at Rolls-Royce. However, in certain situations, this can give rise to conflicts of interest which must be avoided or appropriately mitigated, declared and managed. The recruitment, management and development of Rolls-Royce employees must be free from any conflict of interest. Unless such conflict of interest has been appropriately declared and suitable mitigations have been put in place, you must not directly supervise, carry out performance appraisals of, be involved with deciding any form of remuneration for, or participate in any selection activity involving, a family member or personal friend or any person you are in a relationship with.

Examples of where a conflict of interest could arise in this context include:

- A father supervising his son. The father's duties include signing off his son's timesheets;
- [p.4] • An individual reporting into a line manager who reports into his sister-in-law;
- An employee starting a romantic relationship with his line manager;
- An individual involved in the recruitment or promotion of a close, personal friend; and
- A husband and wife holding senior positions within separate teams but where their duties mean that they regularly interact when carrying out their respective duties.

Key things to consider if you work alongside a family member or personal friend include:

- Does one of the individuals have any direct or indirect influence over the day-to-day management, pay and conditions or performance management of the other?
- Could the relationship cause the judgment of one or both of them to be potentially impaired in matters relating to work?
- Could the relationship distract one or both of them from doing the job they are employed to do for Rolls-Royce?

You must discuss with your line manager any situations where you feel that a conflict of interest could arise from any relationships with other Rolls-Royce employees.

Company assets

You are responsible for the proper use of Rolls-Royce assets. On some occasions it may be appropriate to use Rolls-Royce assets for non-Rolls-Royce business, for example to support a charitable or educational activity. Any such use must be approved by your line manager. Rolls-Royce assets must not be used for personal gain or benefit or for a political purpose.

[26] Conflict of Interest Declaration Form (Webpage)

Accessed 15/06/2020

https://rollsroyceplclrn.ethicspointvp.com/custom/rollsroyceplclrn/forms/cois/form_data.asp

Conflict of Interest Report

Introduction

As confirmed in our Code, we seek to avoid Conflicts of Interest. However, where Conflicts of Interest occur, we manage them in accordance with the relevant Conflict of Interest Policy by making appropriate reports to our management and the Ethics and Compliance team (using this form) and abiding by the suggested actions to help resolve or manage the Conflict of Interest.

A Conflict of Interest is any relationship (personal or professional), influence or activity that may impair, or appear to impair, the ability of employees to:

- make fair and objective decisions when performing their jobs; or
- act in the best interests of the company.

If you or your line manager are unsure if an actual, potential or perceived Conflict of Interest exists, examples and guidance can be found in the policies tab above. If you require further guidance, please contact a member of your business Ethics & Compliance team.

Before submitting this form, you must have disclosed and discussed the Conflict of Interest with your line manager. What will happen with the information submitted?

The details of your submission can only be accessed by authorised users and will be shared on a strictly need to know basis. You may be contacted for additional information by a member of the Ethics & Compliance team, who may also suggest additional or alternative mitigations or actions.

[...]

Select the type of existing or potential Conflict of Interest you wish to report.

Select One

Directorships and trusteeships

For example, you are a board member of another company or entity external to Rolls-Royce (including joint ventures).

Employment of current or former Government Officials

Our definition of a Government Official can be found in the policies section above.

Employment of family members and personal friends

In certain situations, the employment of family members and personal friends can give rise to a conflict of interest. Working with family members and personal friends is not prohibited, but appropriate action should be taken to ensure that Conflicts of Interest are either avoided or appropriately mitigated and managed. It is important that the recruitment, management and development of employees must be free from any Conflict of Interest.

For example, unless such Conflict of Interest has been appropriately declared and any suitable mitigations have been put in place, you must not directly supervise, carry out performance appraisals of, be involved with deciding any form of pay and benefits for, or participate in any selection activity involving, a family member or personal friend or any person you are in a relationship with.

Outside Employment and/or Secondment

For example, you have a second job or other outside employment which has the potential to prevent you from being able to fulfil your role with Rolls-Royce.

Ownership, Investments and Financial Interests outside Rolls-Royce

For example, you own shares in a supplier which might influence or appear to influence your judgment. You should not have an economic interest in any competitors or potential competitors of Rolls-Royce if doing so might influence or appear to influence your judgment.

Relationship with supplier, customer or other third party

For example, you have a family member who is a key contact at a supplier, customer or other business partner or you have developed a close, informal or friendly relationship with a supplier, customer or other business partner having worked together for a long period of time which could give the appearance that it compromises your ability to conduct business in the best interests of Rolls-Royce.

Other

It is not possible to cover every possible conflict of interest situation which may arise in the above categories. You should select Other, where none of the above categories apply.

Details

Provide as much information as possible regarding this Conflict of Interest (for example, details of your role, how it arose or could arise, how it was identified). If you have supporting documents or emails which contain relevant background you can attach these below.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.4] Who does it apply to?

All of us. That's all colleagues employed by the Rolls-Royce Group and any subsidiary or joint venture where we have control. We also encourage all our joint ventures and partners to adopt the same high standards.

[p.20] Conflicts of interest

Principles

- We avoid any situation where conflicts of interest might be seen as influencing our business decisions or behaviour, or which might stop us from acting in the best interests of Rolls-Royce.
- If we believe there is, or might be, a conflict of interest, we speak up.
- We work within all laws and regulations relating to the employment or engagement of current or former military and civilian government personnel, customers and competitors.

- We comply with all relevant insider dealing and market abuse legislation

We will:

- Tell our manager about actual or potential conflicts of interest so that they can be managed;
- Not provide any services in a personal capacity to any actual or potential competitor, supplier, customer or other business partner, unless given approval in advance;
- Not place ourselves in a position where we manage or have the ability to influence business decisions relevant to a customer, supplier or other business partner in which we, a family member or close personal friend has a substantial interest;

What happens when

Q My partner works for a company that supplies us with equipment. Recently I have been made responsible for managing contracts and buying services from this company. I feel a bit uncomfortable about it, should I ask for a transfer?

A You're right to be aware of the risk, as it could be a conflict of interest, depending on your partner's role in the company. Don't do anything until you've explained this to your manager or spoken with the Ethics and Compliance team, as it may just be a case of reporting the connection.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

We have a Global Code of Conduct (Our Code) that applies to all employees of Rolls-Royce, its subsidiaries and controlled joint ventures, wherever they are located. It sets out the 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. Breaches are not acceptable and will result in the company taking action. This may include disciplinary action up to and including dismissal.

[...]

Our Code includes clear statements regarding our zero tolerance approach to bribery and corruption. This is supported by our Global Anti-Bribery and Corruption policies, brought together in our Group Policy manual. This provides a framework for our anti-bribery and corruption programme.

The policies contained within this manual apply to all employees and directors of Rolls-Royce, its subsidiaries and controlled joint ventures. Breaches of these policies may result in disciplinary action, up to and including dismissal.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.3] Save by expressly agreed exception, these Group Policies apply worldwide.

[p.17] Conflict of Interest

A. Policy values

We avoid any situation where conflicts of interest might be seen as influencing our business decisions or behaviour, or which might stop us from acting in the best interests of Rolls-Royce.

B. Principles

We seek to avoid Conflicts of Interest but, where they occur, we manage them by making appropriate reports to our management and the Ethics and Compliance team and abiding by the suggested actions to help resolve or manage the Conflict of Interest.

C. Expectations

All Employees

You must:

- seek to avoid any Conflict of Interest. When an actual or potential Conflict of Interest situation arises you must:
 - a. report the situation promptly to your Line Manager;
 - b. take steps to remove or mitigate the Conflict of Interest after discussion with your Line Manager; and
 - c. complete a Conflict of Interest Report and submit it to the Ethics and Compliance team. And
- abide by laws and regulations relating to the engagement of current or former Government Officials.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.3] 1.3 Directors' interests

Directors must avoid any conflict or apparent conflict of interest with Rolls-Royce. The Board is responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Where conflicts arise the Board is also responsible for ensuring that in dealing with them all applicable laws, regulations and the UK Corporate Governance Code are complied with.

[p.6] The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:

[p.7] (q) conflicts of interest involving Directors or significant (holders of 10% or more) shareholders, to include both authorisation and any conditions attached;

[16] Memorandum and Articles of Association

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/investors/debt-securities/rr-plc-memorandum-of-association.pdf>

[p.26] DIRECTORS' INTERESTS

[p.27] The directors may (whether at the time of the giving of the authorisation or subsequently) make any such authorisation subject to any limits or conditions it expressly imposes but such authorisation is otherwise given to the fullest extent permitted. The directors may vary or terminate any such authorisation at any time.

For the purposes of the Articles, a conflict of interest includes a conflict of interest and duty and a conflict of duties, and interest includes both direct and indirect interests.

99. Provided that he has disclosed to the directors the nature and extent of his interest (unless the circumstances referred to in section 177(5) or section 177(6) of the Companies Act 2006 apply, in which case no such disclosure is required) a director notwithstanding his office:

(a) may be a party to, or otherwise interested in, any transaction or arrangement with the Company or in which the Company is otherwise (directly or indirectly) interested;

(b) may act by himself or his firm in a professional capacity for the Company (otherwise than as Auditor) and he or his firm shall be entitled to remuneration for professional services as if he were not a director;

(c) may be a director or other officer of, or employed by, or a party to a transaction or arrangement with, or otherwise interested in, any body corporate in which the Company is otherwise (directly or indirectly) interested.

Question
4.2. Are there procedures in place to identify, declare and manage conflicts of interest, which are overseen by a body or individual ultimately accountable for the appropriate management and handling of conflict of interest cases?
Score
2
Comments
<p>There is evidence that the company has procedures to identify, declare and manage conflicts of interest, including actual, potential and perceived conflicts. Employees are required to submit conflict of interest reports to the Ethics and Compliance team, which reviews the reports and oversees the process. The company has additional procedures in place for members of its board of directors, and states that disciplinary measures will apply if these policies are breached. The company additionally publishes a statement that all employee and board member declarations of actual and potential conflicts of interest are recorded in a dedicated register that is accessible to members of the company's Ethics and Compliance Team.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.8] Our Policies</p> <p>In addition to Our Code, Rolls-Royce has a suite of policies, procedures and guidance governing areas relevant to ethics and compliance as follows:</p> <p>[...]</p> <ul style="list-style-type: none"> • Conflict of Interest Policy and Guidance <p>[p.9] Conflicts of Interest Ethics and compliance is also incorporated into the recruitment process.</p> <p>New candidates are asked about potential conflicts of interest as part of that process. If the candidate does ultimately join RollsRoyce then they are required to formally register that conflict of interest using our conflict of interest declaration form.</p> <p>All declarations are maintained on a central register and reviewed (and followed up where necessary) by the appropriate member of the Ethics and Compliance Team.</p> <p>[26] Conflict of Interest Declaration Form (Webpage) Accessed 15/06/2020 https://rollsroyceplclrn.ethicspointvp.com/custom/rollsroyceplclrn/forms/cois/form_data.asp Conflict of Interest Report</p> <p>Introduction</p> <p>As confirmed in our Code, we seek to avoid Conflicts of Interest. However, where Conflicts of Interest occur, we manage them in accordance with the relevant Conflict of Interest Policy by making appropriate reports to our management and the Ethics and Compliance team (using this form) and abiding by the suggested actions to help resolve or manage the Conflict of Interest.</p> <p>A Conflict of Interest is any relationship (personal or professional), influence or activity that may impair, or appear to impair, the ability of employees to:</p> <ul style="list-style-type: none"> ▪ make fair and objective decisions when performing their jobs; or ▪ act in the best interests of the company.

If you or your line manager are unsure if an actual, potential or perceived Conflict of Interest exists, examples and guidance can be found in the policies tab above. If you require further guidance, please contact a member of your business Ethics & Compliance team.

Before submitting this form, you must have disclosed and discussed the Conflict of Interest with your line manager. What will happen with the information submitted?

The details of your submission can only be accessed by authorised users and will be shared on a strictly need to know basis. You may be contacted for additional information by a member of the Ethics & Compliance team, who may also suggest additional or alternative mitigations or actions.

[...]

Select the type of existing or potential Conflict of Interest you wish to report.

Select One

Directorships and trusteeships

For example, you are a board member of another company or entity external to Rolls-Royce (including joint ventures).

Employment of current or former Government Officials

Our definition of a Government Official can be found in the policies section above.

Employment of family members and personal friends

In certain situations, the employment of family members and personal friends can give rise to a conflict of interest. Working with family members and personal friends is not prohibited, but appropriate action should be taken to ensure that Conflicts of Interest are either avoided or appropriately mitigated and managed. It is important that the recruitment, management and development of employees must be free from any Conflict of Interest.

For example, unless such Conflict of Interest has been appropriately declared and any suitable mitigations have been put in place, you must not directly supervise, carry out performance appraisals of, be involved with deciding any form of pay and benefits for, or participate in any selection activity involving, a family member or personal friend or any person you are in a relationship with.

Outside Employment and/or Secondment

For example, you have a second job or other outside employment which has the potential to prevent you from being able to fulfil your role with Rolls-Royce.

Ownership, Investments and Financial Interests outside Rolls-Royce

For example, you own shares in a supplier which might influence or appear to influence your judgment. You should not have an economic interest in any competitors or potential competitors of Rolls-Royce if doing so might influence or appear to influence your judgment.

Relationship with supplier, customer or other third party

For example, you have a family member who is a key contact at a supplier, customer or other business partner or you have developed a close, informal or friendly relationship with a supplier, customer or other business partner having worked together for a long period of time which could give the appearance that it compromises your ability to conduct business in the best interests of Rolls-Royce.

Other

It is not possible to cover every possible conflict of interest situation which may arise in the above categories. You should select Other, where none of the above categories apply.

Details

Provide as much information as possible regarding this Conflict of Interest (for example, details of your role, how it arose or could arise, how it was identified). If you have supporting documents or emails which contain relevant background you can attach these below.

[...]

Provide as much detail as possible regarding the mitigations which have been put in place/actions which have been agreed to remove or mitigate the Conflict of Interest following the discussion with the relevant line manager. If no mitigations/actions were agreed please state this.

[...]

Has this Conflict of Interest been previously reported?

- Yes
- No
- Unknown

Acknowledgment

- I have disclosed this Conflict of Interest to, and agreed the actions/mitigations with my line manager
- The information contained in this form is true and accurate to the best of my knowledge and belief.
- I will comply with the mitigations and actions which have been agreed and will notify my line manager if there are any changes in the circumstances or if I feel that the mitigations are no longer appropriate or effective.

[25] Conflict of Interest Guidance (Document)

Accessed 12/06/2020

https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/guidance-conflict_of_interest.pdf

[p.1] Global Conflict of Interest Guidance

This guidance note contains examples which highlight where conflicts of interest may arise in various contexts. The examples are meant to provide guidance, but cannot cover every possible situation that may arise. It is your responsibility to read, understand and apply the Conflict of Interest Policy (contained in the Group Policies Manual) correctly, and to seek further guidance if you need it.

Ultimately, a determination of whether a conflict of interest exists and whether proposed mitigations are appropriate, resides with Rolls-Royce, not the employee concerned, so, if there is any possibility that the situation might be considered a conflict of interest, it must be reported. Even if a conflict of interest has been discussed between an individual and their line manager, it must be formally declared via the reporting process detailed in the Conflict of Interest Policy. Failure to report can harm Rolls-Royce and may result in disciplinary action, up to and including dismissal.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.20] Conflicts of interest

We will:

- Tell our manager about actual or potential conflicts of interest so that they can be managed;
- Not provide any services in a personal capacity to any actual or potential competitor, supplier, customer or other business partner, unless given approval in advance;
- Not place ourselves in a position where we manage or have the ability to influence business decisions relevant to a customer, supplier or other business partner in which we, a family member or close personal friend has a substantial interest;

What happens when

Q My partner works for a company that supplies us with equipment. Recently I have been made responsible for managing contracts and buying services from this company. I feel a bit uncomfortable about it, should I ask for a transfer?

A You're right to be aware of the risk, as it could be a conflict of interest, depending on your partner's role in the company. Don't do anything until you've explained this to your manager or spoken with the Ethics and Compliance team, as it may just be a case of reporting the connection.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

Breaches are not acceptable and will result in the company taking action. This may include disciplinary action up to and including dismissal.

[...]

The policies contained within this manual apply to all employees and directors of Rolls-Royce, its subsidiaries and controlled joint ventures. Breaches of these policies may result in disciplinary action, up to and including dismissal.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.3] Breaches of any of the Group Policies are not acceptable and may result in disciplinary action up to and including dismissal.

[p.17] Conflict of Interest

B. Principles

We seek to avoid Conflicts of Interest but, where they occur, we manage them by making appropriate reports to our management and the Ethics and Compliance team and abiding by the suggested actions to help resolve or manage the Conflict of Interest.

C. Expectations

All Employees

You must:

- seek to avoid any Conflict of Interest. When an actual or potential Conflict of Interest situation arises you must:
 - a. report the situation promptly to your Line Manager;
 - b. take steps to remove or mitigate the Conflict of Interest after discussion with your Line Manager; and
 - c. complete a Conflict of Interest Report and submit it to the Ethics and Compliance team. And
- abide by laws and regulations relating to the engagement of current or former Government Officials.

Line Managers

Line Managers are responsible for assessing and managing any actual or potential Conflict of Interest situations in their team.

You must:

- look for any actual or potential Conflicts of Interest which exist in your team or in the wider area of the business where you work; and
- assess any Conflicts of Interest that you become aware of and determine if an actual or potential Conflict of Interest exists.

If an actual or potential Conflict of Interest exists you must:

- a. determine the best course of action to resolve, manage, or eliminate the actual or potential Conflict of Interest, after consulting with a member of the Ethics and Compliance team;
- b. review and approve the Conflict of Interest Report before it is submitted to the Ethics and Compliance team; and
- c. review on an annual basis any reported Conflicts of Interest to ensure they continue to be managed appropriately. Any changes should be reported to the Ethics and Compliance team.

Conflicts of Interest Reports

The Ethics and Compliance team will review all Conflict of Interest Reports submitted, respond to acknowledge it or provide additional recommendations and send a copy to your Sector Ethics and Compliance Officer for their awareness.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.3] 1.3 Directors' interests

Directors must avoid any conflict or apparent conflict of interest with Rolls-Royce. The Board is responsible for ensuring that there are rules in place to avoid conflicts of interest by Board members. Where conflicts arise the Board is also responsible for ensuring that in dealing with them all applicable laws, regulations and the UK Corporate Governance Code are complied with.

[p.6] The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:

[p.7] (q) conflicts of interest involving Directors or significant (holders of 10% or more) shareholders, to include both authorisation and any conditions attached;

[16] Memorandum and Articles of Association

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/investors/debt-securities/rr-plc-memorandum-of-association.pdf>

[p.26] DIRECTORS' INTERESTS

98. For the purposes of section 175 of the Companies Act 2006, the directors may authorise any matter proposed to them in accordance with these Articles which would, if not so authorised, involve a breach of duty by a director under that section, including, without limitation, any matter which relates to a situation in which a director has, or can have, an interest which conflicts, or possibly may conflict, with the interests of the Company. Any such authorisation will be effective only if:

(a) any requirement as to quorum at the meeting at which the matter is considered is met without counting the director in question or any other interested director; and

(b) the matter was agreed to without their voting or would have been agreed to if their votes had not been counted.

[p.27] The directors may (whether at the time of the giving of the authorisation or subsequently) make any such authorisation subject to any limits or conditions it expressly imposes but such authorisation is otherwise given to the fullest extent permitted. The directors may vary or terminate any such authorisation at any time.

Question
4.3. Does the company have a policy and procedure regulating the appointment of directors, employees or consultants from the public sector?
Score
1
Comments
<p>There is some evidence that the company has a policy that addresses the risks associated with the employment of directors, employees or consultants from the public sector. The company states that recent government officials are not permitted to be involved in activities which may give the company an undue advantage. The company states that all new hires, including those from the public sector are required to submit a conflict of interest disclosure.</p> <p>However, the company receives a score of '1' because its policy does not describe specific controls to assess and regulate the employment of current or former public officials, such as requiring a 12-month cooling off period before employment discussions can begin or controls preventing new public sector recruits from representing the company to their former organisation.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.10] Conflicts of Interest</p> <p>Ethics and compliance is also incorporated into the recruitment process.</p> <p>New candidates are asked about potential conflicts of interest as part of that process. If the candidate does ultimately join RollsRoyce then they are required to formally register that conflict of interest using our conflict of interest declaration form.</p> <p>All declarations are maintained on a central register and reviewed (and followed up where necessary) by the appropriate member of the Ethics and Compliance Team.</p> <p>[...]</p> <p>Recruiting former public officials</p> <p>When recruiting former public officials, we abide by the applicable rules and regulations relevant to the territory and the circumstances of that recruitment.</p> <p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.15] Working with our customers, suppliers, partners and communities Principles <ul style="list-style-type: none"> If we employ people who have recently worked for government, a competitor or a customer we will not involve them in sales activities if that might give us an unfair advantage. </p> <p>[p.20] Conflicts of interest Principles <ul style="list-style-type: none"> We work within all laws and regulations relating to the employment or engagement of current or former military and civilian government personnel, customers and competitors. </p> <p>What happens when</p> <p>Q In my role, I have often dealt with military customers. One of them has asked me if he could get a job with Rolls-Royce after he leaves the armed forces. He has the right kind of skills for us, so can I help him?</p>

A It's possible that any conversation about jobs with us would be seen as offering a benefit to a customer and trying to influence a decision. There are also laws and regulations in many countries about employing former military personnel which we have to follow. So do not discuss any employment opportunities with him, but suggest he looks at the recruitment areas of the Rolls-Royce website.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.17] Conflict of Interest

All Employees

You must:

- seek to avoid any Conflict of Interest. When an actual or potential Conflict of Interest situation arises you must:
 - a. report the situation promptly to your Line Manager;
 - b. take steps to remove or mitigate the Conflict of Interest after discussion with your Line Manager; and
 - c. complete a Conflict of Interest Report and submit it to the Ethics and Compliance team. And
- abide by laws and regulations relating to the engagement of current or former Government Officials

Question
4.4. Does the company report details of the contracted services of serving politicians to the company?
Score
2
Comments
The company publishes a statement that it does not contract serving politicians due to the risk of potential conflicts of interest.
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.16] Serving Politicians</p> <p>Rolls-Royce does not engage currently serving politicians to support its business activities given the potential for the appearance of possible conflicts of interest.</p>

5. Customer Engagement

5.1 Contributions, Donations and Sponsorships

Question
5.1.1. Does the company have a clearly defined policy and/or procedure covering political contributions?
Score
0
Comments
<p>The company publishes a statement that it prohibits corporate political contributions, however, it indicates that it does have a Political Action Committee in the US. It therefore receives a score of '0'.</p>
Evidence
<p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf [p.31] Rolls-Royce does not prefer one political party over another and Rolls Royce does not make Political Donations to political parties or related organisations.</p> <p>[...]</p> <p>Political Support Activity</p> <p>All employees, and anyone acting on behalf of Rolls-Royce contemplating Political Support must seek advice from the relevant Government Relations team to ensure compliance with local laws and regulations.</p> <p>Occasionally, we get involved in activities, not connected to our business activities, involving the political community, such as political figures visiting our sites. Employees should always seek advice from the relevant Government Relations team before approving such activities.</p> <p>Our general principle is to decline invitations for political comment and, if there is any doubt, employees should consult the relevant Government Relations team for advice.</p> <p>Personal Political Support</p> <p>Employees must not make any Political Donations on behalf of Rolls-Royce.</p> <p>Certain Rolls-Royce employees in the United States have a right to organise Political Action Committees. Rolls-Royce will comply with all laws and regulations governing such Political Action Committees.</p> <p>All employees who take time out of work (not as annual leave or vacation or other personal time off) to carry out Personal Political Support must obtain approval from their Line Manager and keep a record of the time spent providing that Personal Political Support. That record must be submitted each year by 31 December to the relevant Government Relations team for the purpose of ensuring that Rolls-Royce has not breached its shareholder resolution to not make Political Donations above a certain limit.</p> <p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.17] When working with our communities – we will:</p> <ul style="list-style-type: none"> • Not use the company's funds or assets for political donations <p>[p.31] Lobbying and political support</p>

- We do 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.
- Our business has no preference for one political party over another.
- If we want to, we can take part in personal political activity or make personal political donations, outside Rolls-Royce, in our own time and using our own resources, except where existing local agreements or law dictates otherwise.

We will:

- Not use our business time or resources for personal political activities, without specific prior authorisation.

[15] Board Governance

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf>

[p.6] The Board's exclusive powers, authorities and discretions, which have not currently been delegated, include making or approving the following:

[p.9] (b) political donations

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.202] Political donations

The Company's policy is that it does not, directly or through any subsidiary, make what are commonly regarded as donations to any political party. However, the Act defines political donations very broadly and so it is possible that normal business activities, such as sponsorship, subscriptions, payment of expenses, paid leave for employees fulfilling certain public duties and support for bodies representing the business community in policy review or reform, which might not be thought of as political expenditure in the usual sense, could be captured. Activities of this nature would not be thought of as political donations in the ordinary sense of those words. The resolution to be proposed at the AGM, authorising political donations and expenditure, is to ensure that the Group does not commit any technical breach of the Act.

[p.203] During the year, expenses incurred by Rolls-Royce North America, Inc. in providing administrative support for the Rolls-Royce North America political action committee (PAC) was US\$111,961 (2017: US\$118,104). PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act. The PAC is independent of the Group and independent of any political party.

The PAC funds are contributed voluntarily by employees and the Group cannot affect how they are applied, although under US law, the business expenses are paid by the employee's company. Such contributions do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at this year's AGM to renew the authority given at the 2018 AGM.

Question
5.1.2. Does the company publish details of all political contributions made by the company and its subsidiaries, or a statement that it has made no such contribution?
Score
0
Comments
The company does not publish information about the recipients of the donations made by its PAC.
Evidence
<p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf [p.202] Political donations</p> <p>[p.203] During the year, expenses incurred by Rolls-Royce North America, Inc. in providing administrative support for the Rolls-Royce North America political action committee (PAC) was US\$111,961 (2017: US\$118,104). PACs are a common feature of the US political system and are governed by the Federal Election Campaign Act. The PAC is independent of the Group and independent of any political party.</p> <p>The PAC funds are contributed voluntarily by employees and the Group cannot affect how they are applied, although under US law, the business expenses are paid by the employee’s company. Such contributions do not count towards the limits for political donations and expenditure for which shareholder approval will be sought at this year’s AGM to renew the authority given at the 2018 AGM.</p>

Question
5.1.3. Does the company have a clearly defined policy and/or procedure covering charitable donations and sponsorships, whether made directly or indirectly, and does it publish details of all such donations made by the company and its subsidiaries?
Score
1
Comments
<p>There is evidence that the company has a policy and procedure covering both charitable donations and sponsorships. The company’s definition of charitable contributions includes financial donations, as well as employee time and in-kind gifts, and it provides a list of legitimate reasons for making these types of contributions. There is clear evidence that the company’s policy on charitable contributions and sponsorships includes specific controls to prevent bribery and corruption, such as Ethics and Compliance Officer approval, due diligence on beneficiaries and detailed record keeping.</p> <p>However, the company receives a score of ‘1’ because – despite stating in its ‘Our Group Policies’ document that it reports this information on its website – there is no publicly available evidence that the company publishes details of its global contributions.</p>
Evidence
<p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf [p.9] Charitable Contributions & Social Sponsorships</p> <p>A. Policy values</p> <p>As a large multinational company we have a responsibility to conduct business to the very highest ethical standards and build positive relationships with the communities around us.</p> <p>Charitable Contributions and Social Sponsorships help us to do this, and should be viewed as part of the way we do business. They help support our company strategy and future success by:</p> <ul style="list-style-type: none"> • helping us to attract, recruit and retain the best people with the right skills from diverse backgrounds, particularly by investing in the skills we need; • giving us opportunities to engage with our people beyond their day job; • providing opportunities for our people to develop their skills and behaviours as well as having a positive impact in our communities; and • helping to inform our customers, investors and other stakeholders about the kind of company we are. <p>However it is important to recognise that improper or excessive Charitable Contributions or Social Sponsorships can be a form of bribery or corruption, which is prohibited under Our Code and by law. Any incidents of bribery and corruption involving, or relating to, Rolls-Royce will damage our reputation and potentially threaten our ability to continue to do business. All employees have a personal responsibility for protecting our reputation and living up to our values.</p> <p>This policy sets out our strategy for making Charitable Contributions and Social Sponsorships which always have a social outcome. Please note that Charitable Contributions and Social Sponsorships may take the form of a financial contribution, but can also include Employee Time and Gifts-in-Kind.</p> <p>The reasons for making this type of contribution may be socially or commercially motivated and examples include:</p> <ul style="list-style-type: none"> • presence at an industry event which is also open to the public - commercially motivated, yet has a social outcome • presence at an industry event which is raising money for a charitable cause - socially motivated but has a business benefit • sponsorship of a not-for-profit organisation - may be either socially or commercially motivated, but is usually considered to have a social outcome

- donations to local charities and community groups - socially motivated and support our social business objectives

Commercial sponsorships which have no social dimension are beyond the scope of this policy. Please contact the relevant marketing team or publishing, brand and advertising communications for advice.

B. Principles

Areas we support

We direct our support for Charitable Contributions and Social Sponsorships within one or more of the following four areas:

- Education and skills With a focus on Science, Technology, Engineering and Mathematics (STEM) which are key to our future success;
- Environment Adding value, and a social dimension, to the company's environment strategy;
- Social investment Making a positive difference in the communities where we operate;
- Arts, culture and heritage Contributing to cultural vibrancy in the places where we are based. Any proposals which fall outside of these areas of support require authorisation from our Group Charitable Contributions and Sponsorship Committee (GCCSC).

[p.10] C. Expectations

Key Considerations

Any Charitable Contributions or Social Sponsorships we offer or give must:

- be a legitimate, justified Charitable Contribution or Social Sponsorship and never in exchange for obtaining an inappropriate advantage or benefit;
- be offered or given in an open manner. Support must not be given to, or for the benefit of, an individual, unless approved by the GCCSC;
- not influence or appear to influence the independence of the giver or receiver of the Charitable Contribution or Social Sponsorship;
- be reasonable in value and frequency and not be considered offensive or inappropriate;
- be in compliance with all laws, rules and regulations and in accordance with the receiving party's own compliance rules;
- be approved in advance by your Line Manager and, where it includes a financial contribution, also be approved in advance by your Ethics and Compliance Officer;
- not be deliberately structured as an arrangement specifically in order to avoid approval requirements in this policy (for example, it should not be given in a personal capacity); and
- not give rise to an actual or potential Conflict of Interest (see the Conflicts of Interest Group Policy). Where a potential or actual conflict of interest exists as a result of a connection and/or relationship with the receiver, this must be mitigated and disclosed in accordance with the Global Conflicts of Interest Policy.

Beneficiary and ABC checks and approvals

Before offering or giving a Charitable Contribution or Social Sponsorship, you should make reasonable efforts to satisfy yourself that the beneficiary will use our contributions for social benefit. You must:

- only support registered charities and non-profit making organisations;
- only support organisations which reflect our own values and behaviours;
- check publicly available information about the beneficiary;
- check with other current supporters about the beneficiary's work;
- ask your Ethics and Compliance Officer to carry out any appropriate due diligence checks on the proposed beneficiary, where the Charitable Contribution or Social Sponsorship includes a financial contribution;
- comply with the requirements of the Gifts and Hospitality Group Policy, where the Charitable Contribution or Social Sponsorship includes a Gift in Kind

Reporting and record keeping

All approved Charitable Contributions and Social Sponsorships must be recorded using the Global Social Contributions Tool. The information submitted will:

- help us to report our annual global contributions on our website
- contribute towards our global STEM reach target
- allow us to carry out internal and external benchmarking
- create the visibility and transparency that is both expected and required.

Records of contributions requested and approved should be kept according to the advice of your Ethics and Compliance team.

Remember that contributions include Employee Time and Gifts in Kind, as well as financial contributions, and that ALL contributions must be reported.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.17] When working with our communities – we will:

Make sure that all charitable contributions and social sponsorships, which may be given in time and gifts-in-kind as well as money:

- sit comfortably within our policy and have been approved and reported;
- are legitimate, appropriate and proportionate;
- can't be interpreted as trying to influence the giver or the receiver (e.g. be seen as bribes) and
- Not use the company's funds or assets for political donations

5.2 Lobbying

Question
5.2.1 Does the company have a policy and/or procedure covering responsible lobbying?
Score
1
Comments
<p>There is evidence that the company has a policy and procedure on lobbying which applies company-wide to all employees, board members and third parties engaged in lobbying on the company’s behalf. The company recognises lobbying as a corruption risk and defines lobbying broadly and states that anyone undertaking lobbying activities on behalf of the company must first undergo risk-based due diligence and also act with honesty, integrity and transparency. There is also evidence that all lobbying activities require prior authorisation and oversight from the Government Relations team. The company indicates that it only contracts one external party for lobbying services.</p> <p>However, the company receives a score of ‘1’ because it does not provide any further guidelines on the behaviours that constitute ‘responsible’ lobbying, beyond compliance with local laws, regulations and the company’s own policies.</p>
Evidence
<p>[27] Global Know Your Partner Procedures (Document) Accessed 15/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf [p.1] 1.0 Introduction</p> <p>1.1 These mandatory Global Know Your Partner (“KYP”) Procedures support the KYP Policy within the Group Policies Manual (see Appendix 1 for excerpt). The purpose of both the KYP Policy and these procedures is to ensure that we at Rolls-Royce know who our Partners are, what they do for us, and what bribery and corruption risk they may pose to the Company. Prosecutors around the world may hold Rolls-Royce responsible for a Partner’s bribery or corrupt action, where that Partner is seen to be acting on our behalf.</p> <p>Therefore, we will only engage and transact with Partners of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.</p> <p>2.0 Applicability, Scope and Responsibilities</p> <p>2.1 These procedures describe the mandatory minimum requirements for appointing, managing, monitoring, amending, renewing or terminating any Partner relationship, and apply to all Third Parties other than those listed in paragraph 4.3 below.</p> <p>2.2 These procedures apply to all Employees of Rolls-Royce plc and its wholly-owned subsidiaries (“Rolls-Royce” or the “Company”), unless stated otherwise. Individual businesses may supplement these procedures with any additional requirements they wish to put in place. In addition, where local laws, regulations or rules impose greater restrictions, those greater restrictions must be followed.</p> <p>[p.16]</p>

ROLLS-ROYCE GROUP POLICIES

Know Your Partner

A. Policy values

We will only engage and transact with Third Parties of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

It is a Third Party's work, not its title, which is important.

B. Principles

For legal and reputational reasons, Rolls-Royce needs to know who it is doing business with. This policy is designed to help us assess the potential ABC risks posed by Third Parties we deal with

C. Expectations

All Employees

For certain Third Parties that we deal with, due diligence must be undertaken. The due diligence required varies depending on the type of Third Party. Details on what due diligence is required can be found in the Know Your Partner Procedures (found on the [Ethics and Compliance Engine Room pages](#)).

For each Third Party there should be an individual (the "Proposer") who is assigned overall responsibility for ensuring that the requirements of the Know Your Partner Procedures are followed. This should be an employee involved with the management of the relationship with the Third Party (for example, the customer relationship manager).

[p.17] Appendix 2 - Glossary

[...]

Lobbying Activity: Activity to influence the actions, policies or decisions of Government Officials, other than activity in support of specific sales or business development activities.

[23] Ethics and Compliance Powerpoint Presentation (Document)

Accessed 11/06/2020

https://ourcode.rolls-royce.com/~/-/media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf

[p.11] Policy and Procedures including Due Diligence

Third Parties

Our Expectations of Business Partners

Rolls-Royce expects the third parties it deals with to demonstrate the same commitment to conducting business ethically and in accordance with its commitment to anti-corruption.

Due Diligence

The Rolls-Royce Know Your Partner Policy and Procedures provide employees with a framework to do this and set the levels of due diligence, approval and ongoing monitoring required for all third parties with which we deal. The Know Your Partner Procedures incorporate a risk assessment that risk rates third parties based on the following factors:

- The type of service or activity undertaken by the third party on behalf of Rolls-Royce;
- The country of incorporation of the third party;
- The territory(ies) in which the third party will be providing services to Rolls-Royce;
- Whether the third party will be interacting with public officials, directly or indirectly, in connection with Rolls-Royce business (for example, lobbyists); and

- The method by which the third party will be paid (for example, commission, sales bonus, profit share, discount, rebate or success fee).

Higher Risk Third Parties

Higher risk third parties would typically include lobbyists, distributors, agents/ intermediaries, suppliers of logistics services (such as freight forwarders and customs brokers) and visa agents. These third parties are subject to stringent due diligence on both the third parties and their ultimate beneficial owners and require senior level approval.

[p.16] Policy and Procedures including Due Diligence Lobbying and Political Activity

Approach to Lobbying

We have a Lobbying and Political Support Policy which provides a framework for how we engage in political activity, supported by our other group policies governing anti-bribery and corruption, conflicts of interest and gifts and hospitality. The majority of our lobbying activity is conducted by Rolls-Royce employees who are subject to the full requirements of our ethics and compliance programme. We engage in some lobbying activities in the USA, the EU and Canada. These activities are mainly conducted via Rolls-Royce employees and our activities are listed in accordance with the requirements of the lobbying registers in those jurisdictions.

[...]

External Representation

We only engage one external party to support our lobbying activities and this entity has been subject to our Know Your Partner due diligence and monitoring procedures.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.31] Lobbying and Political Support

A. Policy Values

Rolls-Royce is committed to ensuring that any Lobbying Activity or Political Support is done in compliance with all laws and regulations and our zero-tolerance approach to bribery and corruption.

B. Principles

Any Third Party conducting Lobbying Activity must be approved under the Know Your Partner Policy.

All employees and anyone acting on behalf of Rolls-Royce engaged in Lobbying Activity or Political Support must act with honesty, integrity and transparency at all times.

C. Expectations

Lobbying Activity

All employees and anyone acting on behalf of Rolls-Royce contemplating Lobbying Activity or has taken part in Lobbying Activity must seek advice from the relevant Government Relations team to ensure compliance with local laws and regulations and, where relevant, lobbying registers.

The information provided by any employee or Third Party in their Lobbying Activity must be transparent, factually correct and fairly represented.

[p.34] Glossary

[p.35] Third Party: Any entity or individual other than Rolls-Royce, its wholly-owned subsidiaries and Joint Ventures.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.31] Lobbying and political support

Act with integrity

Principles

- We carry out lobbying activities with governments and elected political representatives so that we can communicate with them about things that affect our business.
- When authorised to lobby on behalf of our business, we stay within all applicable laws and behave with integrity, honesty and transparency in all dealings with governments, their agencies and elected political representatives.

We will:

- Engage in lobbying on behalf of our business only after authorisation from the Government Relations team in our region; and, if required in our country, after appropriate registration; and
- Not use our business time or resources for personal political activities, without specific prior authorisation.

Lobbying is activity to influence the actions, policies, or decisions of government ministers, officials, regulators and elected political representatives.

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p.10] 4.6 Lobbying and political support

Our principles:

We are committed to undertaking any lobbying activities in compliance with all applicable laws, and to behaving ethically in all our interactions with governments, agencies and their representatives.

What this means for our suppliers:

Suppliers must undertake any and all lobbying activities in compliance with all applicable laws.

Suppliers are expected to behave ethically in all interactions with governments, their agencies and representatives.

[12] Our suppliers and partners (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

Government engagement

Governments are often our customers and are also key to ensuring our ability to operate in country. We work to build strategic relationships with host governments in our key market countries.

The EU and national governments set the legislative and policy framework within which our business must be conducted.

They are a potential source of funding and support for research and technology, research and development, manufacturing, education and training initiatives, as well as for certain capital projects. On occasion they also provide support or sponsor our partners, suppliers and competitors.

We are committed to undertaking any lobbying activities in compliance with all applicable laws, and to behave ethically in all our interactions with governments, their agencies and representatives.

All lobbying and engagement activities are conducted in line with the principles set out in our Global Code of Conduct. We do not make any corporate contributions or donations to political parties or causes, as outlined in our Global Code of Conduct.

Rolls-Royce is registered in the EU's Transparency register. Rolls-Royce North America is registered under the federal Lobbying Disclosure Act. Certain employees have qualified as "lobbyists" under the Act and are consequently listed as such on the company's registration.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

We have a Global Code of Conduct (Our Code) that applies to all employees of Rolls-Royce, its subsidiaries and controlled joint ventures, wherever they are located. It sets out the 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. Breaches are not acceptable and will result in the company taking action. This may include disciplinary action up to and including dismissal.

[...]

Our Code includes clear statements regarding our zero tolerance approach to bribery and corruption. This is supported by our Global Anti-Bribery and Corruption policies, brought together in our Group Policy manual. This provides a framework for our anti-bribery and corruption programme.

The policies contained within this manual apply to all employees and directors of Rolls-Royce, its subsidiaries and controlled joint ventures. Breaches of these policies may result in disciplinary action, up to and including dismissal.

Question
5.2.2 Does the company publish details of the aims and topics of its public policy development and lobbying activities it carries out?
Score
1
Comments
<p>The company publishes limited details of the topics on which it lobbies.</p> <p>However, the information disclosed lacks supporting details of the aims and significant topics or the activities that were carried out.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.16] Policy and Procedures including Due Diligence Lobbying and Political Activity</p> <p>[...]</p> <p>We engage in some lobbying activities in the USA, the EU and Canada. These activities are mainly conducted via Rolls-Royce employees and our activities are listed in accordance with the requirements of the lobbying registers in those jurisdictions. For example, in the USA, Rolls-Royce performs lobbying activities on the federal and state levels and we abide by all applicable federal and state statutes (i.e. the Lobby Disclosure Act of 1995). Detailed information on our lobbyists, our expenditures and our lobbying topics are regularly disclosed on two public websites sponsored by the United States Congress: https://www.senate.gov/legislative/Public_Disclosure/LDA_report_s.htm and https://lobbyingdisclosure.house.gov/</p> <p>Fields of interest regarding EU policies have included: Climate Action; Competition; Customs; Economy, Finance and the Euro; Education and Training; Employment and Social Affairs; Energy; Environment; Foreign Affairs and Security Policy; Research and innovation; Taxation; Trade; and Transport.</p> <p>Rolls-Royce is also a member of various industry associations, some of which may be involved with making representations on behalf of their members in relation to specific topics or industries Examples of these industry associations include:</p> <ul style="list-style-type: none"> • Aerospace & Defence Industries Association of Europe • Confederation of British Industry – EU Committee • Euromot • European Association of Corporate Treasurers • European Aviation Club • EFFRA • European Business Initiative on Taxation (EBIT) • Cogen Europe • European Round Table of Industrialists (ERT) • European Engine Power Plants Association (EUGINE) • Future of Occupational Pensions in Europe (FOPE) <p>[12] Our suppliers and partners (webpage) Accessed 07/10/2019 https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/ Government engagement</p> <p>Governments are often our customers and are also key to ensuring our ability to operate in country. We work to build strategic relationships with host governments in our key market countries.</p>

The EU and national governments set the legislative and policy framework within which our business must be conducted.

They are a potential source of funding and support for research and technology, research and development, manufacturing, education and training initiatives, as well as for certain capital projects. On occasion they also provide support or sponsor our partners, suppliers and competitors.

We are committed to undertaking any lobbying activities in compliance with all applicable laws, and to behave ethically in all our interactions with governments, their agencies and representatives.

All lobbying and engagement activities are conducted in line with the principles set out in our Global Code of Conduct. We do not make any corporate contributions or donations to political parties or causes, as outlined in our Global Code of Conduct.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.31] Lobbying and political support

Principles

- We carry out lobbying activities with governments and elected political representatives so that we can communicate with them about things that affect our business.

Question
5.2.3 Does the company publish full details of its global lobbying expenditure?
Score
0
Comments
The company does not publish any details about its global lobbying expenditure on its website.
Evidence
No evidence found.

5.3 Gifts and Hospitality

Question
<p>5.3.1 Does the company have a policy and/or procedure on gifts and hospitality to ensure they are bona fide to prevent undue influence or other corruption?</p>
Score
2
Comments
<p>There is evidence that the company has a policy on the giving and receipt of gifts and hospitality with clear procedures designed to ensure that such promotional expenses are not used as vehicles for bribery and corruption. This policy establishes financial limits, along with an approval procedure, for the different types of promotional expense that employees may encounter. The policy also explicitly addresses the risks associated with gifts and hospitality given to and/or received from public officials by specifying different financial thresholds and approval procedures. The company's policy includes a clear statement that all gifts and hospitality above certain thresholds are recorded in a dedicated register or central depository that is accessible to the Ethics and Compliance team.</p>
Evidence
<p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.26] What happens when...</p> <p>Q I get on very well with an external business contact. Can I take them out for a meal after a meeting?</p> <p>A You may be able to have the meal if that is appropriate – for example, you are continuing your business discussion. But it is important that it should not be viewed as inappropriately influencing them. The Gifts and Hospitality Policy has details of the financial limits and when you need to get approval, as well as more general guidance on when it may not be appropriate to give or receive gifts or hospitality.</p> <p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf [p.26] Gifts and Hospitality</p> <p>A. Policy values We only offer Gifts and Hospitality (G+H) in an open and transparent way and subject to appropriate limits and approvals and our G+H is never illegal.</p> <p>B. Principles Rolls-Royce recognises that (G+H) may be an appropriate business practice. However, improper or excessive G+H (which includes travel and accommodation) can be a form of bribery or corruption.</p> <p>C. Expectations Offering, giving or receiving G+H</p> <p>Any G+H you offer, give or receive in connection with Rolls-Royce business must:</p> <ul style="list-style-type: none"> • be given as a legitimate, justified business courtesy and never in exchange for obtaining an inappropriate advantage or benefit; • be given in an open way; • not create an expectation that you or Rolls-Royce will give, or receive, something in return; • be in good faith and reasonable in value and frequency; • be compliant with any applicable laws, rules and regulations. Where relevant, it must also be compliant with the UK Ministry of Defence guidance and any other such guidance issued by other defence authorities; • be paid for by the most senior Rolls-Royce employee involved with the G+H (when giving G+H); • be expensed in accordance with the appropriate business expense policies and procedures (when giving G+H);

- be approved in writing in advance (where approval is required by this policy). If advance approval is not possible then approval must be requested as soon as possible and, in any event, not more than 30 days after the G+H. In addition, when submitting your G+H Report, you must explain why advance approval was not obtained. Gifts you offer or give that require approval under this policy must always be approved in advance;
- not influence or appear to influence the independence of the giver or receiver of the G+H;
- not be provided to a customer when Rolls-Royce is bidding for a contract, or be accepted from a supplier when they are bidding for a contract, if those receiving the G+H have some influence on the contract decision and the timing and/or wider circumstances could be perceived to suggest that the decision being made could be influenced by the G+H received, unless the G+H takes the form of basic refreshments provided as a business courtesy;
- not be cash (or cash equivalents such as vouchers, gift cards, credit cards or credit notes);
- not be, or give the appearance of being, lavish, offensive or inappropriate (for example, adult entertainment); and
- not be in the form of per diem or daily allowances or payments (unless with the prior, written approval of your Sector Ethics and Compliance Officer which will only be provided if there is a legitimate government directive requiring such payments).

All Employees

You must:

- not deliberately structure an arrangement in order to avoid the requirements of this policy;
- not offer, give or accept tickets to entertainment, cultural or sporting events without both the giver and receiver attending; and
- not offer or give to, or accept from, a business contact of Rolls-Royce any G+H in your personal capacity in order to avoid the requirements of this policy.

[p.27] The financial thresholds opposite apply to the G+H as a whole, not each separate element of it (for example, a meal followed by a sporting event must be treated as one G+H event and the G+H will be the total spent on both elements combined).

Business Presidents and Executive Leadership Team members may delegate their approval requirements to appropriate member(s) of their first line, provided that this is communicated to the Ethics and Compliance team. Details of any authorised delegations can be found on the Ethics and Compliance Engine Room homepage. However, nobody can approve their own G+H and G+H approval must always be provided by a more senior employee than the individual seeking approval.

When approving G&H requests, approvers must be satisfied that the proposed G&H does not contravene any of the expectations set out above and in particular must be satisfied that the timing and/or wider circumstances could not be perceived to suggest that any decision could be influenced by the G+H.

G+H reports

Where you are required to create a G+H Report:

- you must enter the G+H Report on the register found on the Ethics and Compliance Engine Room pages and send evidence of the required approvals to compliance.operations@rolls-royce.com within 30 days of the G+H;
- when Rolls-Royce has given G+H, the G+H Report must be created in the name of the most senior employee involved;
- each employee receiving G+H that requires a G+H Report must create a G+H Report in their own name; and
- you must not include any government classified or restricted information in a G+H Report. If you are not sure if you are permitted to include details of a programme or individual in your G+H Report, contact a member of the Legal team.

Type of G+H	Financial thresholds	Approval	G+H Report
G+H in the form of business refreshments given to a Government Official or employee or representative of a State-Owned Company	Under £20	No specific approvals	No G+H Report
	Over £20	See approval and reporting requirements below	
All other G+H given to a Government Official or employee or representative of a State-Owned Company	£100 or less	Line Manager approval	✓
	Over £100	Business President/ELT approval.	✓
G+H to a spouse, partner or person without a business connection (financial limit applies to the couple).	£200 or less	Line Manager approval	✓
	Over £200	Business President/ELT approval.	✓
G+H given that is required by a contract, in particular travel, accommodation and basic refreshments (for example, as part of a site or factory visit or training programme).	£200 or less	Sector Ethics <u>and</u> Compliance Officer approval and Line Manager approval.	✓
	Over £200	Sector Ethics <u>and</u> Compliance Officer approval and Business President approval.	✓
All other G+H given or received.	Under £100	No specific approvals	No G+H Report
	£100 to £200	Line Manager approval	✓
	Over £200	Senior Manager or Business President/ELT approval.	✓

6. Supply Chain Management

Question
6.1. Does the company require the involvement of its procurement department in the establishment of new supplier relationships and in the oversight of its supplier base?
Score
2
Comments
<p>Based on publicly available information, there is evidence that the company requires the involvement of specialist procurement teams in the establishment and oversight of its supplier base. There is also evidence that these teams are the main department involved in the establishment of all supplier relationships. There is additionally evidence that the company assures itself of proper procedures practiced by its procurement teams by way of an audit at least every three years.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.12] Supplier Management The onboarding of new suppliers (regardless of value) and oversight of existing suppliers is overseen by dedicated Procurement teams. The Procurement teams also conduct ongoing monitoring to look for any expenditure that is committed to outside of this process. In addition, purchasing (including adherence to procurement processes) is an area that is subject to regular audits by our Internal Audit team (at least every three years).</p> <p>[19] Supplier FAQs (webpage) Accessed 07/10/2019 https://suppliers.rolls-royce.com/GSPWeb/appmanager/gsp/guest?_nfpb=true&_windowLabel=supplierdocuments_2&supplierdocuments_2_actionOverride=%2Fcom%2Frollsroyce%2Fgsp%2Fportlets%2Fsupplierdocuments%2FshowPageContent&supplierdocuments_2subPageURLPath=Supplier+FAQs&supplierdocuments_2pageURLPath=FAQs&supplierdocuments_2bgflag=1 How does my company become a supplier to Rolls-Royce? Rolls-Royce recognises the importance of its supply chain and suppliers in delivering long term benefits to our customers. To this end the company has purchasing policies aimed at establishing and maintaining world-class supply chains for all products and services it buys, through the development and deployment of comprehensive commodity strategies. The commodity strategies are produced by multi-functional teams in direct response to defined business and customer needs and provide long term supply chain direction and the basis on which all sourcing decisions are made. The Commodity Leader within Procurement/ plays an important role in this process through their detailed knowledge of suppliers' capabilities and suitability within the strategy.</p> <p>[12] Our suppliers and partners (webpage) Accessed 07/10/2019 https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/ Our global sourcing process assesses potential new supplier's ability to deliver to Rolls-Royce standards. This includes an assessment of the supplier's manufacturing capability, financial stability, and ability to deliver on time and for the right price. We also review and consider potential new suppliers' ability to adhere to our Global Supplier Code of Conduct, prior to entering contractual negotiations.</p> <p>[...]</p> <p>We expect our suppliers to be ethical, responsible and to fully comply with all applicable laws and regulations.</p>

Our Global Supplier Code of Conduct sets out the behaviours, practices and standards we expect to see demonstrated and complied with, all of which are based on our own Rolls-Royce Global Code of Conduct, policies and standards.

Compliance with our Global Supplier Code of Conduct is mandated through our General Conditions of Purchase. All suppliers are contractually committed to adhere to this Supplier Code, or an agreed alternative. In the event that a supplier wishes to adhere to their own Code of Conduct we will review and ensure alignment between our Supplier Code and the supplier's proposed alternative.

We prioritise suppliers for compliance assessment and monitoring in accordance with their risk profile. We take into account the nature of the relationship between Rolls-Royce and the supplier, the supplier's geographical location, and the goods or service they provide.

Question		
6.2 Does the company conduct risk-based anti-bribery and corruption due diligence when engaging or re-engaging with its suppliers?		
Score		
1		
Comments		
<p>There is evidence that the company has formal procedures to conduct risk-based due diligence when engaging its suppliers. The company states that the level of due diligence varies depending on the level of risk presented by the third party. In instances where red flags identified over the course of the due diligence process cannot be mitigated, the company states that it may terminate the relationship.</p> <p>However, the company receives a score of '1' because it is not clear whether these checks include establishing the ultimate beneficial ownership of the supplying company. There is also no evidence to indicate how frequently due diligence is undertaken and whether this is repeated at least every two years or whenever there is a change in the business relationship.</p>		
Evidence		
<p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.15] Principles</p> <ul style="list-style-type: none"> When seeking new suppliers and partners we conduct appropriate due diligence. We take steps to only choose suppliers and partners whose values and business behaviour meet high ethical standards. <p>[p.26] Anti-bribery and corruption Act with integrity</p> <table border="1" style="width: 100%;"> <tr> <td style="width: 50%; vertical-align: top;"> <p>Principles</p> <ul style="list-style-type: none"> We do not tolerate bribery and corruption in any form. We never offer, give or accept anything of value that is, or could be seen as, improperly influencing business decisions. We only appoint partners of known integrity and require that their conduct meets our standards at all times. </td> <td style="width: 50%; vertical-align: top;"> <p>We will:</p> <ul style="list-style-type: none"> Not give or receive bribes, and will report to the Ethics and Compliance team if we are asked for, or offered, bribes or facilitation payments; Only offer, or accept, gifts or hospitality allowed within policy; and Consult our Ethics and Compliance team about any business partners that we engage with to make sure that we are conducting the appropriate due diligence on the partner. </td> </tr> </table>	<p>Principles</p> <ul style="list-style-type: none"> We do not tolerate bribery and corruption in any form. We never offer, give or accept anything of value that is, or could be seen as, improperly influencing business decisions. We only appoint partners of known integrity and require that their conduct meets our standards at all times. 	<p>We will:</p> <ul style="list-style-type: none"> Not give or receive bribes, and will report to the Ethics and Compliance team if we are asked for, or offered, bribes or facilitation payments; Only offer, or accept, gifts or hospitality allowed within policy; and Consult our Ethics and Compliance team about any business partners that we engage with to make sure that we are conducting the appropriate due diligence on the partner.
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<p>[2] Our Group Policies Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf [p.28] Know Your Partner</p> <p>A. Policy Values We will only engage and transact with Third Parties of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times. It is a Third Party's work, not its title, which is important.</p> <p>B. Principles For legal and reputational reasons, Rolls-Royce needs to know who it is doing business with. This policy is designed to help us assess the potential ABC risks posed by Third Parties we deal with</p> <p>C. Expectations</p> <p>All Employees</p>		

For certain Third Parties that we deal with, due diligence must be undertaken. The due diligence required varies depending on the type of Third Party. Details on what due diligence is required can be found in the Know Your Partner Procedures.

For each Third Party there should be an individual (the “Proposer”) who is assigned overall responsibility for ensuring that the requirements of the Know Your Partner Procedures are followed. This should be an employee involved with the management of the relationship with the Third Party (for example, the customer relationship manager).

It is the responsibility of anybody interacting with the Third Party to look for Red Flags and, if any are found, to report these to a member of the Ethics and Compliance team as soon as possible. The existence of a Red Flag does not automatically mean that Rolls-Royce must not engage, or must cease dealing with, the Third Party, but any Red Flags must be investigated and resolved without delay. The exact nature of any resolution will depend on the circumstances surrounding each Red Flag.

Proposers

You must ensure that the requirements relating to due diligence and ongoing monitoring detailed in the Know Your Partner Procedures are followed.

Representations on the use of certain types of Third Parties (for example Integrity Pacts)

Some customers and government bodies require that we provide representations regarding certain types of Third Parties (in particular agents, consultants, distributors and other intermediaries (“Intermediaries”)) that we retain, use or plan to use in a particular territory.

Any contract, terms and conditions, bidding document or any other document that contains a representation regarding the use of Intermediaries (for example, an integrity pact) must be reviewed and approved by your Sector Ethics and Compliance Officer before the contract/ document is signed.

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p.6] 3.1 Working with customers, suppliers, partners and communities

Our principles:	What this means for our suppliers:
[...] When seeking new suppliers and partners we conduct thorough due diligence. We take steps to only choose suppliers and partners whose values and business behaviour meet high ethical standards.	Suppliers must only engage with employees, agents, intermediaries, consultants, representatives, distributors, teaming partners, contractors, suppliers, consortia and joint venture partners who meet ours and your standards with regard to reputation and conduct.

[12] Our suppliers and partners (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

In addition, all new and existing suppliers, as well as customers, joint venture partners and other third-parties, are subject to screening assessments through the Dow Jones Risk and Compliance Platform on sanctions, watch-lists and adverse media reports.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.48] Our due diligence is dependent on the level of risk that a particular third party presents, and may include verification visits, screening, interviews and obtaining reports from specialist providers. This year we have conducted a number of external audits on some of our highest-risk third parties.

Question					
6.3 Does the company require all of its suppliers to have adequate standards of anti-bribery and corruption policies and procedures in place?					
Score					
2					
Comments					
<p>There is evidence that the company requires all of its suppliers to abide by its Global Supplier Code of Conduct, which prohibits bribery and facilitation payments, and covers conflicts of interest, gifts and hospitality, and whistleblowing. Compliance with the Global Supplier Code of Conduct is a contractual requirement although companies may also adhere to their own Code of Conduct, provided it is aligned to the same principles. The company states that it includes audit and termination rights in its contracts with suppliers to ensure their compliance.</p>					
Evidence					
<p>[10] Global Supplier Code of Conduct Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf [p.4] 1 Introduction</p> <p>We set high standards for the way we do business. This Global Supplier Code of Conduct (the Code) sets out minimum standards of behaviour and practices we require from our suppliers. We expect our suppliers to adhere to this Code, in addition to the provisions of any commercial terms agreed between Rolls-Royce plc and the supplier.</p> <p>In the event that local law, regulation or rules impose stricter requirements than this Code, suppliers must comply with those requirements.</p> <p>1.1 Purpose</p> <p>The Code specifies the minimum standards of behaviour Rolls-Royce requires of our suppliers. The requirements identified in the Code are based on the principles of the Rolls-Royce Global Code of Conduct, and are mandated through the Rolls-Royce General Conditions of Purchase.</p> <p>The purpose of the Code is to communicate Rolls-Royce’s requirements and expectations to the global supply chain; it is freely available to view and can be downloaded from www.rolls-royce.com.</p> <p>Suppliers are required to adhere and comply with the principles set out in this document.</p> <p>1.2 Content, scope and applicability</p> <p>The Code is applicable to all suppliers and partners who supply product or services related to Rolls-Royce contracts or purchase orders.</p> <p>[p.6] 3.1 Working with customers, suppliers, partners and communities</p> <table border="1"> <thead> <tr> <th>Our principles:</th> <th>What this means for our suppliers:</th> </tr> </thead> <tbody> <tr> <td> [...] <ul style="list-style-type: none"> When seeking new suppliers and partners we conduct thorough due diligence. We take steps to only choose suppliers and partners whose values and business behaviour meet high ethical standards. </td> <td> <ul style="list-style-type: none"> Suppliers must only engage with employees, agents, intermediaries, consultants, representatives, distributors, teaming partners, contractors, suppliers, consortia and joint venture partners who meet ours and your standards with regard to reputation and conduct. </td> </tr> </tbody> </table> <p>[...]</p> <p>3.2 Conflicts of interest</p>		Our principles:	What this means for our suppliers:	[...] <ul style="list-style-type: none"> When seeking new suppliers and partners we conduct thorough due diligence. We take steps to only choose suppliers and partners whose values and business behaviour meet high ethical standards. 	<ul style="list-style-type: none"> Suppliers must only engage with employees, agents, intermediaries, consultants, representatives, distributors, teaming partners, contractors, suppliers, consortia and joint venture partners who meet ours and your standards with regard to reputation and conduct.
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<p>Our principles: We avoid any situation where conflicts of interest might be seen as influencing our business decisions or behaviour, or might stop us from acting in the best interests of Rolls-Royce. If we believe there is, or might be, a conflict of interest, we speak up.</p>	<p>What this means for our suppliers: Suppliers must conduct your business free from conflicts of interest or mitigate appropriately any such conflicts if they arise.</p>
<p>[p.8] 4. Act with integrity</p> <p>High standards of ethical behaviour and compliance with laws and regulations are essential to protecting the reputation and long-term success of our business. We expect suppliers to behave ethically, to comply with legal and industry requirements and seek to implement best practice in their industries.</p> <p>4.1 Anti-bribery and corruption</p>	
<p>Our principles: We do not tolerate bribery and corruption in any form. We never offer, give or accept anything of value that is, or could be seen as, improperly influencing business decisions.</p>	<p>What this means for our suppliers: Suppliers must conduct your business honestly, fairly and free from any bribery or corruption. Suppliers must only offer gifts or hospitality in an open and transparent way and your gifts or hospitality must never be illegal. Where gifts or hospitality are offered, these should not be intended or interpreted as an attempt to improperly influence business decisions. Suppliers must not offer or make facilitation payments.</p>
<p>[p.10] 4.6 Lobbying and political support</p>	
<p>Our principles: We are committed to undertaking any lobbying activities in compliance with all applicable laws, and to behaving ethically in all our interactions with governments, agencies and their representatives.</p>	<p>What this means for our suppliers: Suppliers must undertake any and all lobbying activities in compliance with all applicable laws. Suppliers are expected to behave ethically in all interactions with governments, their agencies and representatives.</p>
<p>[p.11] 5. Supplier commitment</p> <p>5.1 Communication Suppliers must make the Rolls-Royce Global Supplier Code of Conduct available to employees in the business language of the company. Suppliers are encouraged to make their employees aware of the Rolls-Royce Ethics Line, as detailed below.</p> <p>5.2 Code adherence Suppliers must conform to all aspects of the Rolls-Royce Global Supplier Code of Conduct, as mandated through the Rolls-Royce General Conditions of Purchase. Rolls-Royce reserves the right to audit against compliance to this Supplier Code of Conduct. Suppliers are expected to ensure that documentation is kept that demonstrates compliance with this Code; Rolls-Royce may request access to that documentation at any time. Rolls-Royce may also request access to supplier sites for audit purposes. Rolls-Royce reserves the right to terminate contracts in the event of material breach of the principles set out in the Code.</p>	

Suppliers are required to disseminate these expectations throughout their own supply chain and incorporate the principles set out in this document as part of routine sustainable business practices.

5.3 Supplier ethical concerns

We speak up about anything that concerns us or that is not in line with the principles set out in this Code without fear of retaliation and we expect our suppliers to do the same. Retaliation against anyone who speaks up is not acceptable.

Suppliers can raise questions or concerns by speaking to your Rolls-Royce contacts or via the Rolls-Royce Ethics Line, anonymously if required. Concerns may be raised either online or via telephone.

The following website contains a full list of worldwide telephone numbers for reporting concerns, or alternatively you can use the online system also provided at: www.rolls-royce.com/ethicsline

We encourage suppliers to provide a similar anonymous service for raising ethical concerns.

[12] Our suppliers and partners (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

Our global sourcing process assesses potential new supplier's ability to deliver to Rolls-Royce standards. This includes an assessment of the supplier's manufacturing capability, financial stability, and ability to deliver on time and for the right price. We also review and consider potential new suppliers' ability to adhere to our Global Supplier Code of Conduct, prior to entering contractual negotiations.

[...]

We expect our suppliers to be ethical, responsible and to fully comply with all applicable laws and regulations.

Our Global Supplier Code of Conduct sets out the behaviours, practices and standards we expect to see demonstrated and complied with, all of which are based on our own Rolls-Royce Global Code of Conduct, policies and standards.

Compliance with our Global Supplier Code of Conduct is mandated through our General Conditions of Purchase. All suppliers are contractually committed to adhere to this Supplier Code, or an agreed alternative. In the event that a supplier wishes to adhere to their own Code of Conduct we will review and ensure alignment between our Supplier Code and the supplier's proposed alternative.

We prioritise suppliers for compliance assessment and monitoring in accordance with their risk profile. We take into account the nature of the relationship between Rolls-Royce and the supplier, the supplier's geographical location, and the goods or service they provide.

[18] Application Guide

Accessed 07/10/2019

<https://suppliers.rolls-royce.com/GSPWeb/ShowProperty?nodePath=/BEA%20Repository/Global%20Supplier%20Portal/Section%20DocLink%20Lists/Terms%20of%20business/Main/Column%201/Section%201/Documents/Application%20guide/file>

[p.1] The information provided below identifies the terms and conditions which apply to Orders placed by RollsRoyce companies based on the Order creation date.

[p.4] "19. ETHICS

19.1 The Supplier represents, warrants and undertakes to the Buyer that neither it nor its Affiliates, directors, employees, representatives nor any other person acting on its or their behalf have engaged, or will engage, in any conduct which was or would be an offence under any of the ABC Laws (whether or not the Supplier is subject to that ABC Law).

19.2 The Supplier represents, warrants and undertakes to the Buyer that neither it nor its Affiliates, directors, employees, representatives nor any other person acting on its or their behalf have authorised, offered, promised, paid or otherwise given, or will authorise, offer, promise, pay or otherwise give, any Inappropriate Inducement.

19.3 The Supplier will, comply in full with, and acknowledges receipt of, the Rolls-Royce Global Supplier Code of Conduct, as in force from time to time.

[...]

““ABC Laws” means the United Kingdom Bribery Act 2010, the United States Foreign Corrupt Practices Act 1977 (15 U.S.C. Section 78dd-1, et. seq.), as amended, and any other laws relating to anti-bribery and corruption matters applicable to the subject matter of the Contract.

“Government Official” means any person who would constitute either: (i) a "foreign public official" as defined in the UK Bribery Act 2010; or (ii) a "foreign official" as defined in the United States Foreign Corrupt Practices Act (15 U.S.C. Section 78dd-1, et. seq.), as amended

[p.5] “Inappropriate Inducement” means any payment or thing of value or any financial or other advantage to or for the use or benefit of:

- a) any Government Official; or
- b) any director, officer, employee, agent or representative of any commercial organisation or private individual; or
- c) any other person, entity or third party intermediary while knowing or having reason to know that all or any portion of such payment, thing of value or advantage would be offered, promised, paid or given to any of the persons described in sub-paragraphs (i) to (ii) above,

for the purpose of influencing any act or decision of any such person, including a decision to do or omit to do any act in violation of the duty of such person in order to obtain or retain business, secure any improper advantage or obtain any licence, permit, approval, certificate or clearance.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.48] Our Code sets out the behaviours and principles we expect each of our people to demonstrate. It also provides guidance on how to apply these principles in our daily activities through real life examples.

[...]

We flow these commitments to our suppliers through our Supplier Code of Conduct, which was also reviewed during the year. All suppliers are contracted to adhere to this, or to a mutually agreed alternative.

Question
6.4 Does the company ensure that its suppliers require all their sub-contractors to have anti-corruption programmes in place that at a minimum adhere to the standards established by the main contractor?
Score
2
Comments
<p>There is evidence that the company takes steps to ensure that its sub-contractors have adequate anti-bribery and corruption programmes in place and that the substance of its anti-corruption and bribery programme and standards is communicated throughout the supply chain. The company makes a clear statement that sub-contractors should follow the principles set out in its Supplier Code of Conduct and recommends that suppliers establish supply chain management processes to integrate the requirements of this code.</p>
Evidence
<p>[10] Global Supplier Code of Conduct Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf</p> <p>[p.4] Suppliers are expected to cascade these principles to their own suppliers in order to ensure alignment across the supply chain. This may involve the establishment of supply chain management processes that integrate the requirements of this Code.</p> <p>[p.11] Suppliers are required to disseminate these expectations throughout their own supply chain and incorporate the principles set out in this document as part of routine sustainable business practices.</p>

Question
6.5 Does the company publish high-level results from ethical incident investigations and disciplinary actions against suppliers?
Score
0
Comments
There is no evidence that the company publishes any data on ethical or anti-bribery and corruption investigations relating to its suppliers, or the associated disciplinary actions.
Evidence
No evidence found.

7. Agents, Intermediaries and Joint Ventures

7.1 Agents and Intermediaries

Question
7.1.1 Does the company have a clear policy on the use of agents?
Score
2
Comments
<p>There is evidence that the company has a policy covering the use of agents and third parties, which extends to agents engaged by its suppliers and other entities acting on behalf of the company. The company’s policy stipulates various controls to mitigate the corruption risks presented by agents. These controls include: activity reporting procedures for agents, mandatory anti-corruption training, requirements for senior sign off, due diligence and ongoing monitoring of activities. The policy also commits to establishing that the use of agents is, in each case, necessary to perform a legitimate business function.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.11] Policy and Procedures including Due Diligence Third Parties</p> <p>Our Expectations of Business Partners Rolls-Royce expects the third parties it deals with to demonstrate the same commitment to conducting business ethically and in accordance with its commitment to anti-corruption.</p> <p>Due Diligence The Rolls-Royce Know Your Partner Policy and Procedures provide employees with a framework to do this and set the levels of due diligence, approval and ongoing monitoring required for all third parties with which we deal.</p> <p>The Know Your Partner Procedures incorporate a risk assessment that risk rates third parties based on the following factors:</p> <ul style="list-style-type: none"> • The type of service or activity undertaken by the third party on behalf of Rolls-Royce; • The country of incorporation of the third party; • The territory(ies) in which the third party will be providing services to Rolls-Royce; • Whether the third party will be interacting with public officials, directly or indirectly, in connection with Rolls-Royce business (for example, lobbyists); and • The method by which the third party will be paid (for example, commission, sales bonus, profit share, discount, rebate or success fee). <p>Higher Risk Third Parties Higher risk third parties would typically include lobbyists, distributors, agents/ intermediaries, suppliers of logistics services (such as freight forwarders and customs brokers) and visa agents.</p> <p>These third parties are subject to stringent due diligence on both the third parties and their ultimate beneficial owners and require senior level approval. The approval may be subject to a variety of conditions including:</p> <ul style="list-style-type: none"> • Ethics and Compliance Team approval of payments • Limits on activities (product type and geography) • Refreshing the due diligence within accelerated timescales (for example, 1 or 2 years) • In-depth audits supported by external lawyers and forensic experts • Monitoring by our own teams

- Appointment of commercial contract monitors
- Requirement for regular activity reports from third party
- Limits on commission rates and discounts payable to the third party

[p.12] Ongoing Monitoring

Rolls-Royce expects its third parties to sign up to antibribery and corruption commitments as part of their contracts with Rolls-Royce. The commitments provide a framework for ethical business and allow Rolls-Royce to terminate those contracts in the event of breaches.

For higher risk third parties, the contracts include audit rights (which we exercise on rotation), a commitment from the third party to implement its own ethics and compliance programme, an agreement from the third party to take part in training provided by Rolls-Royce and a requirement to inform us of changes in ultimate beneficial ownership. As part of our ongoing monitoring, some third parties will also be required to submit to performance review and to provide written reports on their activities. The Ethics and Compliance Team is required to approve all payments to the highest risk third parties.

Training our Third Parties

For high risk business partners, such as agents and distributors, copies of policies and training are provided during site visits to those business partners conducted as part of our due diligence. Online training has also been made available for business partners which is tailored to them and talks about their role and our expectations of them from an ethics and compliance perspective. For certain types of business partners, training is provided in person during business partner conferences. For other partners the principles of the Rolls-Royce approach to combating corruption are covered in our Supplier Code of Conduct or the “Rolls-Royce Ethics and Compliance Expectations for our Partners” document.

Higher Risk Third Parties

To assist third parties that need to improve their ethics and compliance programmes, we have developed an Anti-Bribery and Corruption Compliance Programme Guidance document which sets out the basic elements Rolls-Royce expects its high risk third parties to have in their own compliance programmes. It provides practical guidance on what steps those third parties can take to improve their own approaches to ethics and compliance.

[27] Global Know Your Partner Procedures (Document)

Accessed 15/06/2020

https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf

[p.1] 1.0 Introduction

1.1 These mandatory Global Know Your Partner (“KYP”) Procedures support the KYP Policy within the Group Policies Manual (see Appendix 1 for excerpt). The purpose of both the KYP Policy and these procedures is to ensure that we at Rolls-Royce know who our Partners are, what they do for us, and what bribery and corruption risk they may pose to the Company. Prosecutors around the world may hold Rolls-Royce responsible for a Partner’s bribery or corrupt action, where that Partner is seen to be acting on our behalf.

Therefore, we will only engage and transact with Partners of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

2.0 Applicability, Scope and Responsibilities

2.1 These procedures describe the mandatory minimum requirements for appointing, managing, monitoring, amending, renewing or terminating any Partner relationship, and apply to all Third Parties other than those listed in paragraph 4.3 below.

2.2 These procedures apply to all Employees of Rolls-Royce plc and its wholly-owned subsidiaries (“Rolls-Royce” or the “Company”), unless stated otherwise. Individual businesses may supplement these procedures with any additional requirements they wish to put in place. In addition, where local laws, regulations or rules impose greater restrictions, those greater restrictions must be followed.

[p.2] 4.0 Who is a Partner?

4.1 All Third Parties that Rolls-Royce deals with other than those listed in paragraph 4.3 below are considered Partners and are subject to the requirements of these procedures. If you are unsure if a Third Party is subject to these procedures, contact your business Ethics and Compliance Team (see Appendix 3 for contact details).

4.2 Where a business seeks to engage a Third Party that is excluded from these procedures, it must ensure that all other requirements of any other policy or procedure are met. This may include, for example, complying with Finance, Export Control, Procurement, Human Resources, M&A, or Charitable Donations & Social Sponsorship procedures, following other customer due diligence procedures, and ensuring the relevant ABC Clauses are included in the contract.

[p.3] 7.0 Step 1 - ABC Risk Assessment

7.1 Before conducting the ABC Risk Assessment, the Proposer should:

7.1.1 Check to see if there is an existing relationship or contract with the Partner;

7.1.2 Check with their business Ethics and Compliance Team to confirm whether there are any restrictions on engaging the prospective Partner. If the prospective Partner appears on the Company's Blocklist, the Proposer may not proceed further.

7.1.3 Review the Export Control Destination Specific Policies and consult with their Export Control Manager as needed.

7.1.4 Check whether the Partner is incorporated in or has a nominated bank account in a territory that is listed by the European Union as a non-cooperative jurisdiction, and if so, seek advice from the Tax team prior to appointing the Partner.

7.2 If there are no unresolved issues from the checks conducted at paragraph 7.1, the Proposer must use the ABC Risk Assessment (see links in Appendix 3) to assess the Partner's ABC Risk Level, which is based on the following factors:

7.2.1 The type of service or activity to be undertaken by the Partner, including whether the Partner interacts with End Customers on behalf of Rolls-Royce;

7.2.2 The location of the Partner's business (or, for individuals, the Partner's residence);

7.2.3 The territory(ies) in which the Partner will be providing services to Rolls-Royce;

7.2.4 Whether the Partner will be interacting with Government Officials, directly or indirectly, in connection with Rolls-Royce business;

7.2.5 The method by which the Partner will be paid (e.g., commission, sales bonus, profit share, discount, rebate or success fee); and

7.2.6 The presence of any Red Flags (see Appendix 5) in connection with the Partner.

7.3 The ABC Risk Assessment will generate an ABC Risk Level of Low, Medium or High. The Proposer must then conduct due diligence according to the ABC Risk Level as described in Step 2.

7.4 For Medium or High ABC Risk Partners, the Proposer must contact their business Ethics and Compliance Team before proceeding. The business Ethics and Compliance Team will determine whether the Partner has worked with Rolls-Royce previously or is engaged by another business and will consult with that other business's Ethics and Compliance Team to assess the scope and applicability of any due diligence that has already been conducted.

[p.4] 7.5 Where the nature of the relationship with a Partner materially changes, including where there is a substantive contract amendment bearing on any of the factors noted in paragraphs 7.2.1 – 7.2.6 above, or a contract renewal or change in control of the Partner, a new ABC Risk Assessment must be conducted to determine whether the Partner's ABC Risk Level has changed. Where the ABC Risk Level has increased, further due diligence may be required corresponding to the new ABC Risk Level (see Step 2).

[p.6] 8.4 High ABC Risk Partners

8.4.1 The business Ethics and Compliance Team oversees the due diligence process for High ABC Risk Partners.

8.4.2 The Proposer and the business Ethics and Compliance Team must ensure Step 1 and paragraphs 8.3.1 – 8.3.5 above are completed, followed by the additional steps stated in this section, with the exception that the High ABC Risk DDQ (Appendix 8) is sent to the Partner instead of the Medium ABC Risk DDQ.

8.4.3 Upon receipt, the Proposer must forward the Partner’s response to the DDQ to their business Ethics and Compliance Team for review. It is the Proposer’s responsibility to ensure the DDQ response is complete and that the Partner has included all required documentation listed on the DDQ.

8.4.4 The Proposer must prepare and submit a business case to their business Ethics and Compliance Team, stating the basis and rationale for using the Partner instead of either Rolls-Royce internal resources or a different Partner (see template at Appendix 10).

8.4.5 At any time, the business Ethics and Compliance Team may request further documentation from the Partner or the Proposer.

[p.7] 9.0 Step 3 – Prepare a Mitigation Plan 9.1 The chart below summarises mitigation action requirements as described further in this section.

Mitigation Actions	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Rolls-Royce Supplier Code of Conduct	Discretionary	✓	✓
Expectations for our Partners document	Not required	✓	✓
ABC training video for Partners	Not required	✓	✓
Annual Compliance Certification	Not required	✓	✓
Implement appropriate ABC Compliance Policies	Not required	Not required	✓
Annual Performance Review	Not required	Discretionary	✓
Quarterly Reporting	Not required	Not required	Discretionary
Face-to-Face ABC Training	Not required	Not required	Discretionary
Exercising Audit Rights	Not required	Not required	Discretionary
Payment approval by business Ethics and Compliance Team	Not required	Not required	Discretionary

[p.8] 10.0 Step 4 - Approval

10.1 For Low ABC Risk Partners, no additional approvals are required where there are no unresolved Red Flags, sanctions or export control-related hits. The Proposer may proceed directly to contracting (Step 5).

10.2 For Medium ABC Risk Partners, the Proposer may only proceed to contracting (Step 5) when the Chief Ethics and Compliance Officer (or his or her delegate) has approved the Partner and agreed a Mitigation Plan.

10.3 For High ABC Risk Partners, the KYPC will review the Application and determine whether to:

10.3.1 Stop the process and reject the Partner (or advise the Proposer to exit the relationship if it is an existing Partner, see Step 7 below);

10.3.2 Decrease the Partner’s ABC Risk Level to Medium or Low, and document the rationale for the decision;

10.3.3 Undertake further due diligence;

10.3.4 Undertake any other course of action recommended by the GBS Head of ABC Compliance Operations; or

10.3.5 Approve the Partner and determine any required mitigation actions (Step 3).

10.4 Where the KYPC cannot reach 100% consensus on a course of action, the issue must be escalated to either the business President (for commercial issues) or the Rolls-Royce Group Head of Ethics and Compliance (for compliance issues) for further consideration. The Chief Ethics and Compliance Officer for the business shall determine the escalation route.

10.5 Once the Partner has been approved, the business Ethics and Compliance Team will inform the Proposer of the approval and agree the Mitigation Plan. The business Ethics and Compliance Team will also promptly inform a Proposer when the KYPC has rejected a Partner.

10.6 Once the KYPC has approved a Partner, the Proposer may proceed to contracting (Step 5). The Proposer must complete any actions prior to contracting where required by the Mitigation Plan.

[p.9] 11.0 Step 5 - Contracting

11.1 All Partner contracts must accurately record:

11.1.1 The nature of the relationship between Rolls-Royce and the Partner, including the precise nature of the activities to be undertaken and payment to made; and

11.1.2 Any mandatory actions from the Mitigation Plan that are appropriate to include in the contract.

[p.28] Appendix 10 - Business Case for Partners

Introduction

Before completing this Business Case you (the Proposer) should refer to the Rolls-Royce Global Know Your Partner (“KYP”) Procedures which can be found on the Rolls-Royce Ethics and Compliance Engine Room page. Ethical Standards for engaging Partners

1. Throughout the application and renewal process, you will be required to demonstrate that there is a strong business case for engaging or retaining the Partner. The business case must provide:

- a. a description of the process by which the proposed Partner was identified and selected for appointment;
- b. a clear justification for using the Partner over existing Rolls-Royce resources or a Partner already under contract, including a description of the Partner’s qualifications and expertise;
- c. a full description of the Rolls-Royce products to be sold and/or the services to be provided, and identify the potential customers the Partner’s work will assist in winning business from; and
- d. a compelling justification for the specific compensation proposed (considering compensation paid to other Partners in the market in question), including a “value for money” assessment justifying the proposed level of remuneration for the work to be performed.

Note that just because Rolls-Royce stands to potentially receive a large amount of money under a customer contract, it does not mean that RollsRoyce will receive value for any amount paid to the Partner.

[p.34] Appendix 13 – Medium or High ABC Risk Partner Annual Performance Review

Introduction

The Partner Performance Review must be completed by the Proposer, as required by the Mitigation Plan (see Appendix 9 of the Global Know Your Partner Procedures).

As noted in section 9.3 of the Global Know Your Partner Procedures, annual performance reviews are required for all High ABC Risk Partners and may be required for Medium ABC Risk Partners at the discretion of the Ethics and Compliance Team. You may choose to document the Partner Performance Review in the form below or it could be incorporated into any existing performance review processes that is already established within your business, as long as it is properly documented and also covers Ethics and Compliance (see section 3 below).

Where practical, the review should be completed following a face-to-face meeting with the Partner. Where a Partner provides services to more than one function within a Business, the Proposers must work together to complete one Partner Performance Review for the Partner for that Business.

[p.36]

Section 3 – Contractual Performance

3.1	<p>Describe how the Partner has performed against the services as specified in its contract(s), for example:</p> <ul style="list-style-type: none"> • Has the partner delivered the contracted services to the expectations of Rolls-Royce; • Has the Partner operated in accordance with its contract(s); • Has the partner met its reporting requirements (where applicable); and • Has the partner been responsive to Rolls-Royce queries / requirements? 	
3.2	Contractual Performance Assessment	<input type="checkbox"/> Acceptable <input type="checkbox"/> Requires Improvement <i>(list actions to be taken below)</i>

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.28] Know Your Partner

A. Policy Values

We will only engage and transact with Third Parties of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times. It is a Third Party's work, not its title, which is important.

B. Principles

For legal and reputational reasons, Rolls-Royce needs to know who it is doing business with. This policy is designed to help us assess the potential ABC risks posed by Third Parties we deal with

C. Expectations

All Employees

For certain Third Parties that we deal with, due diligence must be undertaken. The due diligence required varies depending on the type of Third Party. Details on what due diligence is required can be found in the Know Your Partner Procedures.

[...]

Proposers

You must ensure that the requirements relating to due diligence and ongoing monitoring detailed in the Know Your Partner Procedures are followed.

Representations on the use of certain types of Third Parties (for example Integrity Pacts)

Some customers and government bodies require that we provide representations regarding certain types of Third Parties (in particular agents, consultants, distributors and other intermediaries (“Intermediaries”)) that we retain, use or plan to use in a particular territory.

Any contract, terms and conditions, bidding document or any other document that contains a representation regarding the use of Intermediaries (for example, an integrity pact) must be reviewed and approved by your Sector Ethics and Compliance Officer before the contract/ document is signed.

[p.34] Glossary

[p.35] Third Party: Any entity or individual other than Rolls-Royce, its wholly-owned subsidiaries and Joint Ventures.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.26] Q We need to use an intermediary to run an important negotiation, and I have someone lined up, but there’s no time to get approvals. The deal is the important thing, isn’t it?

A No. You cannot use an intermediary that is not approved through the Rolls-Royce due diligence process. Don’t start to negotiate without a valid, approved contract in place, and ensure the person you had in mind does not act on behalf of Rolls-Royce. Contact your Sector Ethics and Compliance Officer for help.

[12] Our suppliers and partners (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

In addition, all new and existing suppliers, as well as customers, joint venture partners and other third-parties, are subject to screening assessments through the Dow Jones Risk and Compliance Platform on sanctions, watch-lists and adverse media reports.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.48] Our due diligence is dependent on the level of risk that a particular third party presents, and may include verification visits, screening, interviews and obtaining reports from specialist providers. This year we have conducted a number of external audits on some of our highest-risk third parties.

[p.97] Safety & Ethics Committee focus during 2018

Area of focus	Matters considered	Outcome
Ethics & compliance	[...] Management of intermediaries including screening, appointments, payments, termination and settlements	[...] The intermediary processes are effective to manage the risks.

[p.101] We continued to keep the level and nature of adviser engagements under review following a significant reduction in 2017 and were notified of any claims received during the year from any advisers who had been terminated in the past.

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p. 6] What this means for our suppliers:

Suppliers must only engage with employees, agents, intermediaries, consultants, representatives, distributors, teaming partners, contractors, suppliers, consortia and joint venture partners who meet ours and your standards with regard to reputation and conduct.

Question
7.1.2 Does the company conduct risk-based anti-bribery and corruption due diligence when engaging or re-engaging its agents and intermediaries?
Score
1
Comments
<p>There is evidence that the company has formal procedures to conduct risk-based anti-bribery and corruption due diligence prior to engaging and re-engaging with all third parties. Due diligence on agents is repeated at least every three years. There is further evidence that all agents and highest risk intermediaries are subject to enhanced due diligence, which is repeated every one or two years. There is also evidence that the company will not engage, or will terminate an agent agreement if a risk identified in the due diligence process cannot be mitigated.</p> <p>However, the company states that high risk third parties are subject to due diligence every three years and not at least every two years and/or when there is a significant change in the business relationship.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.11] Due Diligence The Rolls-Royce Know Your Partner Policy and Procedures provide employees with a framework to do this and set the levels of due diligence, approval and ongoing monitoring required for all third parties with which we deal. The Know Your Partner Procedures incorporate a risk assessment that risk rates third parties based on the following factors:</p> <ul style="list-style-type: none"> • The type of service or activity undertaken by the third party on behalf of Rolls-Royce; • The country of incorporation of the third party; • The territory(ies) in which the third party will be providing services to Rolls-Royce; • Whether the third party will be interacting with public officials, directly or indirectly, in connection with Rolls-Royce business (for example, lobbyists); and • The method by which the third party will be paid (for example, commission, sales bonus, profit share, discount, rebate or success fee). <p>Higher Risk Third Parties Higher risk third parties would typically include lobbyists, distributors, agents/ intermediaries, suppliers of logistics services (such as freight forwarders and customs brokers) and visa agents.</p> <p>These third parties are subject to stringent due diligence on both the third parties and their ultimate beneficial owners and require senior level approval. The approval may be subject to a variety of conditions including:</p> <ul style="list-style-type: none"> • Ethics and Compliance Team approval of payments • Limits on activities (product type and geography) • Refreshing the due diligence within accelerated timescales (for example, 1 or 2 years) • In-depth audits supported by external lawyers and forensic experts • Monitoring by our own teams • Appointment of commercial contract monitors • Requirement for regular activity reports from third party • Limits on commission rates and discounts payable to the third party <p>[27] Global Know Your Partner Procedures (Document) Accessed 15/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf [p.1] 1.0 Introduction</p> <p>1.1 These mandatory Global Know Your Partner (“KYP”) Procedures support the KYP Policy within the Group Policies Manual (see Appendix 1 for excerpt). The purpose of both the KYP Policy and these procedures is to</p>

ensure that we at Rolls-Royce know who our Partners are, what they do for us, and what bribery and corruption risk they may pose to the Company. Prosecutors around the world may hold Rolls-Royce responsible for a Partner’s bribery or corrupt action, where that Partner is seen to be acting on our behalf.

Therefore, we will only engage and transact with Partners of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

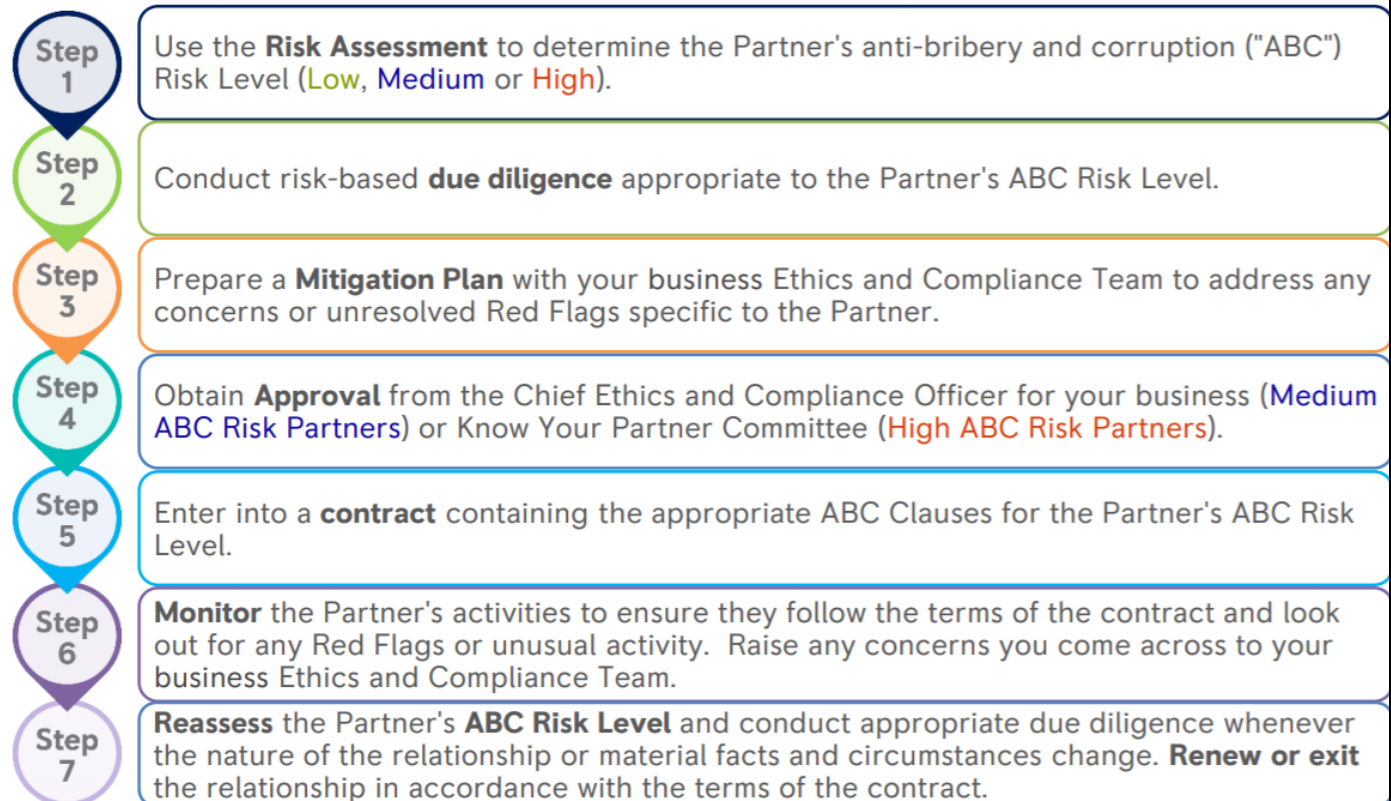
2.0 Applicability, Scope and Responsibilities

2.1 These procedures describe the mandatory minimum requirements for appointing, managing, monitoring, amending, renewing or terminating any Partner relationship, and apply to all Third Parties other than those listed in paragraph 4.3 below.

2.2 These procedures apply to all Employees of Rolls-Royce plc and its wholly-owned subsidiaries (“Rolls-Royce” or the “Company”), unless stated otherwise. Individual businesses may supplement these procedures with any additional requirements they wish to put in place. In addition, where local laws, regulations or rules impose greater restrictions, those greater restrictions must be followed.

3.0 Global Know Your Partner Procedures – Seven-Step Overview

These procedures can be summarized in seven basic steps:



[p.2] 4.0 Who is a Partner?

4.1 All Third Parties that Rolls-Royce deals with other than those listed in paragraph 4.3 below are considered Partners and are subject to the requirements of these procedures. If you are unsure if a Third Party is subject to these procedures, contact your business Ethics and Compliance Team (see Appendix 3 for contact details).

[p.3] 7.0 Step 1 - ABC Risk Assessment

7.1 Before conducting the ABC Risk Assessment, the Proposer should:

7.1.1 Check to see if there is an existing relationship or contract with the Partner;

7.1.2 Check with their business Ethics and Compliance Team to confirm whether there are any restrictions on engaging the prospective Partner. If the prospective Partner appears on the Company's Blocklist, the Proposer may not proceed further.

7.1.3 Review the Export Control Destination Specific Policies and consult with their Export Control Manager as needed.

7.1.4 Check whether the Partner is incorporated in or has a nominated bank account in a territory that is listed by the European Union as a non-cooperative jurisdiction, and if so, seek advice from the Tax team prior to appointing the Partner.

7.2 If there are no unresolved issues from the checks conducted at paragraph 7.1, the Proposer must use the ABC Risk Assessment (see links in Appendix 3) to assess the Partner's ABC Risk Level, which is based on the following factors:

7.2.1 The type of service or activity to be undertaken by the Partner, including whether the Partner interacts with End Customers on behalf of Rolls-Royce;

7.2.2 The location of the Partner's business (or, for individuals, the Partner's residence);

7.2.3 The territory(ies) in which the Partner will be providing services to Rolls-Royce;

7.2.4 Whether the Partner will be interacting with Government Officials, directly or indirectly, in connection with Rolls-Royce business;

7.2.5 The method by which the Partner will be paid (e.g., commission, sales bonus, profit share, discount, rebate or success fee); and

7.2.6 The presence of any Red Flags (see Appendix 5) in connection with the Partner.

7.3 The ABC Risk Assessment will generate an ABC Risk Level of Low, Medium or High. The Proposer must then conduct due diligence according to the ABC Risk Level as described in Step 2.

7.4 For Medium or High ABC Risk Partners, the Proposer must contact their business Ethics and Compliance Team before proceeding. The business Ethics and Compliance Team will determine whether the Partner has worked with Rolls-Royce previously or is engaged by another business and will consult with that other business's Ethics and Compliance Team to assess the scope and applicability of any due diligence that has already been conducted.

[p.4] 7.5 Where the nature of the relationship with a Partner materially changes, including where there is a substantive contract amendment bearing on any of the factors noted in paragraphs 7.2.1 – 7.2.6 above, or a contract renewal or change in control of the Partner, a new ABC Risk Assessment must be conducted to determine whether the Partner's ABC Risk Level has changed. Where the ABC Risk Level has increased, further due diligence may be required corresponding to the new ABC Risk Level (see Step 2).

8.0 Step 2 – Conduct Risk-Based Due Diligence

8.1 The table below provides a high-level overview of the due diligence requirements and responsibilities for Low, Medium and High ABC Risk Partners. Mandatory due diligence requirements may in certain circumstances be waived by the Chief Ethics and Compliance Officer. Optional due diligence requirements will be at the discretion of the business Ethics and Compliance Team (see paragraphs 8.3 and 8.4 below).

Due Diligence Requirements	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Dow Jones Screening on Partner	Proposer	Proposer	Proposer
Send out Partner Due Diligence Questionnaire	Not required	Proposer	Proposer
Review Partner Due Diligence Questionnaire Responses	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Dow Jones Screening (additional key individuals)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Media screening (Factiva and internet research)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Business case	Not required	Optional	Proposer
Request further documentation from the Partner	Not required	Optional	Business Ethics and Compliance Team
Commission External Due Diligence Report	Not required	Optional	Business Ethics and Compliance Team
Telephone or in-person interview /or site visit	Not required	Optional	Business Ethics and Compliance Team

8.2 Low ABC Risk Partners

8.2.1 The Proposer (or their Dow Jones User) must create a profile for the Partner and conduct anti-bribery screening using the Dow Jones Risk and Compliance software (“Dow Jones”) (see Appendix 6 for further guidance).

8.2.2 Dow Jones will generate anti-bribery screening results identifying potential Red Flags (see Appendix 5).

8.2.3 The Proposer must review and resolve any Red Flags generated by Dow Jones using the guidance set out in the Dow Jones Screening Guide (Appendix 6). The Proposer must escalate any unresolved Red Flags to their business Ethics and

[p.5] Compliance Team for review and determination of next steps, which may include preparation of a Mitigation Plan before approval.

8.2.4 Dow Jones screening is required in addition to any required export control screening for the Partner. However, if the Dow Jones screening identifies any potential sanctions or export control-related hits that are not clearly false positives, the Proposer must escalate them to their Export Control Manager.

8.2.5 Where there are no unresolved Red Flags, sanctions or export control-related hits, the Proposer can proceed directly to contracting (see Step 5).

8.3 Medium ABC Risk Partners

8.3.1 For Medium ABC Risk Partners, the Proposer should ensure Step 1 and paragraphs 8.2.1 – 8.2.4 above are completed, followed by the additional requirements stated in this section.

8.3.2 Where there are no unresolved Red Flags, sanctions or export control-related hits, the Proposer must send the Partner the Medium ABC Risk Due Diligence Questionnaire (“DDQ”) (Appendix 7) by email, copying their business Ethics and Compliance Team inbox (see Appendix 3 for contact details).

8.3.3 Upon receipt, the Proposer must forward the Partner's response to the DDQ to their business Ethics and Compliance Team for review. It is the Proposer's responsibility to ensure the DDQ response is complete, and that the Partner has included an organisational chart showing its ownership structure.

8.3.4 Following receipt of the DDQ response, the business Ethics and Compliance Team must, at a minimum, undertake the following due diligence checks:

8.3.4.1 Conduct Dow Jones screening for any additional key individuals identified in the DDQ response;

8.3.4.2 Undertake news media screening of both the entity and key individuals identified in the DDQ response using Dow Jones Factiva (see Appendix 6); and

8.3.4.3 Conduct internet-based research on the Partner, including without limitation a Google search (or equivalent) and reviewing the Partner's website.

8.3.5 In addition, the business Ethics and Compliance Team must ensure that the Partner entity and any key individuals identified in the DDQ response are set up for periodic rescreening by Dow Jones (see Step 6).

8.3.6 After reviewing the DDQ response and the results of the due diligence checks above, the business Ethics and Compliance Team may conduct further due diligence in its discretion, including any or all of the following:

8.3.6.1 Request further documentation from the Partner;

8.3.6.2 Request the Proposer to prepare a business case for engaging the Partner (Appendix 10);

8.3.6.3 Commission an external due diligence report from a specialist Third Party provider. The scope of the due diligence report will depend on the risk level, availability of information in the territory, and specific Red Flags identified; and/or

8.3.6.4 Conduct a telephone or in-person interview with the Partner's key personnel.

8.3.7 Upon completion of all due diligence steps, the Chief Ethics and Compliance Officer (or his or her delegate) must consider the available information and any Red Flags identified to determine whether to:

[p.6] 8.3.7.1 Stop the process and reject the Partner (or advise the Proposer to exit the relationship if it is an existing Partner, see Step 7);

8.3.7.2 Increase or decrease the Partner's ABC Risk Level to Low or High, and document the rationale for the decision (note that further due diligence may be required if the Risk Level is increased); or

8.3.7.3 Approve the Partner and determine any required mitigation actions (see Step 4).

8.3.8 If the Chief Ethics and Compliance Officer believes that a Partner risk-assessed as High ABC Risk should be downgraded to Medium or Low ABC Risk, he or she may request approval from the KYPC to downgrade the Partner. This request may be made prior to completion of all required High ABC Risk due diligence steps and does not require the preparation of a formal KYPC Application discussed in paragraph 8.4.7 below.

8.3.9 Once the Chief Ethics and Compliance Officer (or his or her delegate) has approved a Partner and agreed a Mitigation Plan (if any) with the Proposer, the Proposer can proceed to contracting (see Step 5).

8.4 High ABC Risk Partners

8.4.1 The business Ethics and Compliance Team oversees the due diligence process for High ABC Risk Partners.

8.4.2 The Proposer and the business Ethics and Compliance Team must ensure Step 1 and paragraphs 8.3.1 – 8.3.5 above are completed, followed by the additional steps stated in this section, with the exception that the High ABC Risk DDQ (Appendix 8) is sent to the Partner instead of the Medium ABC Risk DDQ.

8.4.3 Upon receipt, the Proposer must forward the Partner's response to the DDQ to their business Ethics and Compliance Team for review. It is the Proposer's responsibility to ensure the DDQ response is complete and that the Partner has included all required documentation listed on the DDQ.

8.4.4 The Proposer must prepare and submit a business case to their business Ethics and Compliance Team, stating the basis and rationale for using the Partner instead of either Rolls-Royce internal resources or a different Partner (see template at Appendix 10).

8.4.5 At any time, the business Ethics and Compliance Team may request further documentation from the Partner or the Proposer.

8.4.6 Upon receipt of the Partner’s response to the DDQ, the business Ethics and Compliance Team must:

8.4.6.1 Commission an external due diligence report from a specialist Third Party provider. The scope of the due diligence report will depend on the risk level, availability of information in the territory, and specific Red Flags identified; and

8.4.6.2 Conduct a telephone or in-person interview with the Partner’s key personnel or a site visit to the Partner’s place of business. The Chief Ethics and Compliance Officer may waive any of these requirements in his or her discretion but must document the rationale for any such waiver.

8.4.7 Upon completion of all the due diligence steps and taking into consideration all the information gathered and any Red Flags identified, the Chief Ethics and Compliance Officer will submit to the KYPC a written report evaluating the High ABC Risk Partner and recommending a Mitigation Plan (the “Application”).

8.5 Refreshing Due Diligence on Existing Partners

[p.7] 8.5.1 The due diligence process described above must be repeated either just prior to contract renewal or at the following interval periods, whichever occurs first:

8.5.1.1 Low ABC Risk Partners: every 5 years from date of contract execution.

8.5.1.2 Medium ABC Risk Partners: every 4 years from date of contract execution.

8.5.1.3 High ABC Risk Partners: every 3 years from date of contract execution.

8.5.2 The Chief Ethics and Compliance Officer may waive the due diligence procedures in whole or in part for a contract renewal but must document the rationale for the waiver.

9.0 Step 3 – Prepare a Mitigation Plan 9.1 The chart below summarises mitigation action requirements as described further in this section.

Mitigation Actions	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Rolls-Royce Supplier Code of Conduct	Discretionary	✓	✓
Expectations for our Partners document	Not required	✓	✓
ABC training video for Partners	Not required	✓	✓
Annual Compliance Certification	Not required	✓	✓
Implement appropriate ABC Compliance Policies	Not required	Not required	✓
Annual Performance Review	Not required	Discretionary	✓
Quarterly Reporting	Not required	Not required	Discretionary
Face-to-Face ABC Training	Not required	Not required	Discretionary
Exercising Audit Rights	Not required	Not required	Discretionary
Payment approval by business Ethics and Compliance Team	Not required	Not required	Discretionary

9.2 Low ABC Risk Partners

9.2.1 The Proposer should consult with their business Ethics and Compliance Team and/or Export Control Manager regarding any Red Flags identified to assess whether specific mitigation actions are appropriate.

9.3 Medium and High ABC Risk Partners

9.3.1 The business Ethics and Compliance Team (in coordination with the KYPC for High ABC Risk Partners) will determine a Mitigation Plan to address Partner-specific risks and any unresolved Red Flags (see Appendix 9).

9.3.1.1 The Mitigation Plan must specify the required mitigation actions, the person(s) responsible for the actions, and a timeline for completion.

9.3.1.2 The Mitigation Plan may include actions to be taken prior to any contract taking effect or actions to be taken after the execution of the contract.

9.3.1.3 The Mitigation Plan must require the Proposer to send the Partner electronic copies of the Rolls-Royce Supplier Code of Conduct, Rolls-

[p.8] Royce's Expectations for our Partners document, and a link to the ABC training video for Partners. The business Ethics and Compliance Team may waive this requirement where appropriate based on the Partner relationship.

9.3.1.4 The Mitigation Plan must require the Partner to complete a compliance certification at least annually, asserting its compliance with all relevant ABC Laws and with all ABC representations and warranties within its contract (see Appendices 11 and 12).

9.3.1.5 For High ABC Risk Partners, the Mitigation Plan must require the Partner to adopt and implement appropriate ABC compliance policies and procedures. This may be required for Medium ABC Risk Partners at the discretion of the Chief Ethics and Compliance Officer.

9.3.1.6 For High ABC Risk Partners, performance reviews must be completed at least annually, or more frequently when required by the KYPC. This may be required for Medium ABC Risk Partners at the discretion of the Chief Ethics and Compliance Officer (see Appendix 13).

9.3.2 The Chief Ethics and Compliance Officer (in coordination with the KYPC for High ABC Risk Partners) may choose to implement any of the following additional mitigation actions (the below is not intended to be an exhaustive list):

9.3.2.1 Require the Partner to produce quarterly or annual activity reports;

9.3.2.2 Provide face-to-face ABC training for Partner staff;

9.3.2.3 Limit the scope of work or type of activity within the contract;

9.3.2.4 Exercise contractual audit rights; and/or

9.3.2.5 Mandate Partner payment pre-approval by the business Ethics and Compliance Team.

9.3.3 The business Ethics and Compliance Team will agree the Mitigation Plan with the Proposer, who will be responsible for overall execution and updating of the Mitigation Plan. The Proposer must report any actions that are not completed on time to the Chief Ethics and Compliance Officer for escalation to the KYPC.

10.0 Step 4 - Approval

10.1 For Low ABC Risk Partners, no additional approvals are required where there are no unresolved Red Flags, sanctions or export control-related hits. The Proposer may proceed directly to contracting (Step 5).

10.2 For Medium ABC Risk Partners, the Proposer may only proceed to contracting (Step 5) when the Chief Ethics and Compliance Officer (or his or her delegate) has approved the Partner and agreed a Mitigation Plan.

10.3 For High ABC Risk Partners, the KYPC will review the Application and determine whether to:

10.3.1 Stop the process and reject the Partner (or advise the Proposer to exit the relationship if it is an existing Partner, see Step 7 below);

10.3.2 Decrease the Partner's ABC Risk Level to Medium or Low, and document the rationale for the decision;

10.3.3 Undertake further due diligence;

10.3.4 Undertake any other course of action recommended by the GBS Head of ABC Compliance Operations; or

10.3.5 Approve the Partner and determine any required mitigation actions (Step 3).

10.4 Where the KYPC cannot reach 100% consensus on a course of action, the issue must be escalated to either the business President (for commercial issues) or the Rolls-Royce Group Head of Ethics and Compliance (for compliance issues) for further consideration. The Chief Ethics and Compliance Officer for the business shall determine the escalation route.

10.5 Once the Partner has been approved, the business Ethics and Compliance Team will inform the Proposer of the approval and agree the Mitigation Plan. The business Ethics and Compliance Team will also promptly inform a Proposer when the KYPC has rejected a Partner.

10.6 Once the KYPC has approved a Partner, the Proposer may proceed to contracting (Step 5). The Proposer must complete any actions prior to contracting where required by the Mitigation Plan.

[p.10] 12.0 Step 6 - Partner Monitoring

12.1 All Proposers should become familiar with possible Red Flags identified in connection with a Partner relationship (see Appendix 5). The Proposer must also ensure that others who engage with the Partner under the contract that the Proposer is responsible for also know about possible Red Flags and the need to report any identified Red Flags to their Line Manager, the Proposer, or business Ethics and Compliance Team.

12.2 The Proposer should ensure regular contact with the Partner and escalate any concerns or Red Flags (see Appendix 5) to their Line Manager and/or business Ethics and Compliance Team.

12.3 Once a Partner profile is created in Dow Jones, the Partner will be automatically screened against watch lists, sanctions, regulatory findings, relevant negative news or other relevant negative intelligence.

12.4 The business Ethics and Compliance Team will be notified at least monthly of any new Dow Jones alerts. Where a Red Flag is raised, the business Ethics and Compliance Team will notify the Proposer and work with them to take appropriate action to mitigate the risk identified (including referral to the Export Control Manager where relevant).

13.0 Step 7 - Renewal or Exiting a Partner Relationship

13.1 Where the business seeks to continue a Partner relationship, the Proposer must repeat Steps 1-4, including refreshing due diligence as described in paragraph 8.5, prior to entering into a new contract.

13.2 Where a decision has been made to terminate a contract early for a Low or Medium ABC Risk Partner relationship, it must be done in accordance with the terms of the Partner contract. If there are any potential legal disputes between the Rolls-Royce business and the Partner, the Proposer must consult with their Legal Counsel, and take competition law advice from GBS Competition Law Counsel.

13.3 Where a decision has been made to terminate a High ABC Risk Partner relationship early, the Proposer must consult with their business Ethics and Compliance Team and GBS Competition Law Counsel. The Proposer must also, both in case of early termination or non-renewal/expiration of a contract, prepare a memorandum and submit it for review by the business Ethics and Compliance Team (see template at Appendix 14).

[p.12] It is our practice not to retain High ABC Risk Partners on contracts that exceed three years. Among other things, this allows a regular review of the Partner's performance and an assessment as to whether the services are still in line with our business strategy.

[p.16]

It is the responsibility of anybody interacting with the Third Party to look for Red Flags and, if any are found, to report these to a member of the Ethics and Compliance team as soon as possible. The existence of a Red Flag does not automatically mean that Rolls-Royce must not engage, or must cease dealing with, the Third Party, but any Red Flags must be investigated and resolved without delay. The exact nature of any resolution will depend on the circumstances surrounding each Red Flag.

[p.21] Appendix 5 – Red Flags

Red flags are indicators, or warning signs, of potential bribery and corruption issues. You must not ignore Red Flags, and should report them to your Line Manager, the Proposer, or the business Ethics and Compliance Team. The following are examples of common Red Flags. This list is not exhaustive, and you need to look out for anything which indicates that things may not be right.

Issues relating to the Third Party's reputation

- A history or reputation for corruption, or representation by the Third Party of other companies with a questionable reputation.
- Any reluctance by the Third Party to accept the Company's standard anti-bribery and corruption contractual clauses.

[List of red flags continues]

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.48] Our due diligence is dependent on the level of risk that a particular third party presents, and may include verification visits, screening, interviews and obtaining reports from specialist providers. This year we have conducted a number of external audits on some of our highest-risk third parties.

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.28] Know Your Partner

A. Policy Values

We will only engage and transact with Third Parties of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times. It is a Third Party's work, not its title, which is important.

B. Principles

For legal and reputational reasons, Rolls-Royce needs to know who it is doing business with. This policy is designed to help us assess the potential ABC risks posed by Third Parties we deal with

C. Expectations

All Employees

For certain Third Parties that we deal with, due diligence must be undertaken. The due diligence required varies depending on the type of Third Party. Details on what due diligence is required can be found in the Know Your Partner Procedures.

For each Third Party there should be an individual (the "Proposer") who is assigned overall responsibility for ensuring that the requirements of the Know Your Partner Procedures are followed. This should be an employee

involved with the management of the relationship with the Third Party (for example, the customer relationship manager).

It is the responsibility of anybody interacting with the Third Party to look for Red Flags and, if any are found, to report these to a member of the Ethics and Compliance team as soon as possible. The existence of a Red Flag does not automatically mean that Rolls-Royce must not engage, or must cease dealing with, the Third Party, but any Red Flags must be investigated and resolved without delay. The exact nature of any resolution will depend on the circumstances surrounding each Red Flag.

Proposers

You must ensure that the requirements relating to due diligence and ongoing monitoring detailed in the Know Your Partner Procedures are followed.

Representations on the use of certain types of Third Parties (for example Integrity Pacts)

Some customers and government bodies require that we provide representations regarding certain types of Third Parties (in particular agents, consultants, distributors and other intermediaries ("Intermediaries")) that we retain, use or plan to use in a particular territory.

Any contract, terms and conditions, bidding document or any other document that contains a representation regarding the use of Intermediaries (for example, an integrity pact) must be reviewed and approved by your Sector Ethics and Compliance Officer before the contract/ document is signed.

[p.34] Glossary

[p.35] Third Party: Any entity or individual other than Rolls-Royce, its wholly-owned subsidiaries and Joint Ventures.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.26] Q We need to use an intermediary to run an important negotiation, and I have someone lined up, but there's no time to get approvals. The deal is the important thing, isn't it?

A No. You cannot use an intermediary that is not approved through the Rolls-Royce due diligence process. Don't start to negotiate without a valid, approved contract in place, and ensure the person you had in mind does not act on behalf of Rolls-Royce. Contact your Sector Ethics and Compliance Officer for help.

[12] Our suppliers and partners (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

In addition, all new and existing suppliers, as well as customers, joint venture partners and other third-parties, are subject to screening assessments through the Dow Jones Risk and Compliance Platform on sanctions, watch-lists and adverse media reports.

Question
7.1.3 Does the company aim to establish the ultimate beneficial ownership of its agents and intermediaries?
Score
1
Comments
<p>There is evidence that the company asks agents to disclose their beneficial ownership to the company, and it independently verifies this information, as part of its due diligence processes. It does so at least every three years, but for higher risk agents every one or two years. The company states that higher risk third parties are contractually required to inform the company of any beneficial ownership changes. There is also evidence that the company will review and potentially terminate an agent relationship if ultimate beneficial ownership cannot be established or if the ownership structure is seen to present too great a corruption risk.</p> <p>However, there is no evidence that the company verifies beneficial ownership information for all agents at least every two years and/or when there is a significant change in the business relationship.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.11] Due Diligence The Rolls-Royce Know Your Partner Policy and Procedures provide employees with a framework to do this and set the levels of due diligence, approval and ongoing monitoring required for all third parties with which we deal. The Know Your Partner Procedures incorporate a risk assessment that risk rates third parties based on the following factors:</p> <ul style="list-style-type: none"> • The type of service or activity undertaken by the third party on behalf of Rolls-Royce; • The country of incorporation of the third party; • The territory(ies) in which the third party will be providing services to Rolls-Royce; • Whether the third party will be interacting with public officials, directly or indirectly, in connection with Rolls-Royce business (for example, lobbyists); and • The method by which the third party will be paid (for example, commission, sales bonus, profit share, discount, rebate or success fee). <p>Higher Risk Third Parties Higher risk third parties would typically include lobbyists, distributors, agents/ intermediaries, suppliers of logistics services (such as freight forwarders and customs brokers) and visa agents.</p> <p>These third parties are subject to stringent due diligence on both the third parties and their ultimate beneficial owners and require senior level approval.</p> <p>[p.12] Ongoing Monitoring Rolls-Royce expects its third parties to sign up to antibribery and corruption commitments as part of their contracts with Rolls-Royce. The commitments provide a framework for ethical business and allow Rolls-Royce to terminate those contracts in the event of breaches. For higher risk third parties, the contracts include audit rights (which we exercise on rotation), a commitment from the third party to implement its own ethics and compliance programme, an agreement from the third party to take part in training provided by Rolls-Royce and a requirement to inform us of changes in ultimate beneficial ownership.</p> <p>[27] Global Know Your Partner Procedures (Document) Accessed 15/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf [p.1] 1.0 Introduction</p> <p>1.1 These mandatory Global Know Your Partner (“KYP”) Procedures support the KYP Policy within the Group Policies Manual (see Appendix 1 for excerpt). The purpose of both the KYP Policy and these procedures is to</p>

ensure that we at Rolls-Royce know who our Partners are, what they do for us, and what bribery and corruption risk they may pose to the Company. Prosecutors around the world may hold Rolls-Royce responsible for a Partner’s bribery or corrupt action, where that Partner is seen to be acting on our behalf.

Therefore, we will only engage and transact with Partners of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

2.0 Applicability, Scope and Responsibilities

2.1 These procedures describe the mandatory minimum requirements for appointing, managing, monitoring, amending, renewing or terminating any Partner relationship, and apply to all Third Parties other than those listed in paragraph 4.3 below.

2.2 These procedures apply to all Employees of Rolls-Royce plc and its wholly-owned subsidiaries (“Rolls-Royce” or the “Company”), unless stated otherwise. Individual businesses may supplement these procedures with any additional requirements they wish to put in place. In addition, where local laws, regulations or rules impose greater restrictions, those greater restrictions must be followed.

[p.3] 7.0 Step 1 - ABC Risk Assessment

[p.4] 8.0 Step 2 – Conduct Risk-Based Due Diligence

8.1 The table below provides a high-level overview of the due diligence requirements and responsibilities for Low, Medium and High ABC Risk Partners. Mandatory due diligence requirements may in certain circumstances be waived by the Chief Ethics and Compliance Officer. Optional due diligence requirements will be at the discretion of the business Ethics and Compliance Team (see paragraphs 8.3 and 8.4 below).

Due Diligence Requirements	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Dow Jones Screening on Partner	Proposer	Proposer	Proposer
Send out Partner Due Diligence Questionnaire	Not required	Proposer	Proposer
Review Partner Due Diligence Questionnaire Responses	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Dow Jones Screening (additional key individuals)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Media screening (Factiva and internet research)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Business case	Not required	Optional	Proposer
Request further documentation from the Partner	Not required	Optional	Business Ethics and Compliance Team
Commission External Due Diligence Report	Not required	Optional	Business Ethics and Compliance Team
Telephone or in-person interview /or site visit	Not required	Optional	Business Ethics and Compliance Team

[p.5] 8.3 Medium ABC Risk Partners

8.3.1 For Medium ABC Risk Partners, the Proposer should ensure Step 1 and paragraphs 8.2.1 – 8.2.4 above are completed, followed by the additional requirements stated in this section.

8.3.2 Where there are no unresolved Red Flags, sanctions or export control-related hits, the Proposer must send the Partner the Medium ABC Risk Due Diligence Questionnaire (“DDQ”) (Appendix 7) by email, copying their business Ethics and Compliance Team inbox (see Appendix 3 for contact details).

8.3.3 Upon receipt, the Proposer must forward the Partner’s response to the DDQ to their business Ethics and Compliance Team for review. It is the Proposer’s responsibility to ensure the DDQ response is complete, and that the Partner has included an organisational chart showing its ownership structure.

8.3.4 Following receipt of the DDQ response, the business Ethics and Compliance Team must, at a minimum, undertake the following due diligence checks:

8.3.4.1 Conduct Dow Jones screening for any additional key individuals identified in the DDQ response;

8.3.4.2 Undertake news media screening of both the entity and key individuals identified in the DDQ response using Dow Jones Factiva (see Appendix 6);

[p.6] 8.4 High ABC Risk Partners

8.4.1 The business Ethics and Compliance Team oversees the due diligence process for High ABC Risk Partners.

8.4.2 The Proposer and the business Ethics and Compliance Team must ensure Step 1 and paragraphs 8.3.1 – 8.3.5 above are completed, followed by the additional steps stated in this section, with the exception that the High ABC Risk DDQ (Appendix 8) is sent to the Partner instead of the Medium ABC Risk DDQ.

8.4.3 Upon receipt, the Proposer must forward the Partner’s response to the DDQ to their business Ethics and Compliance Team for review. It is the Proposer’s responsibility to ensure the DDQ response is complete and that the Partner has included all required documentation listed on the DDQ.

8.4.4 The Proposer must prepare and submit a business case to their business Ethics and Compliance Team, stating the basis and rationale for using the Partner instead of either Rolls-Royce internal resources or a different Partner (see template at Appendix 10).

8.4.5 At any time, the business Ethics and Compliance Team may request further documentation from the Partner or the Proposer.

8.4.6 Upon receipt of the Partner’s response to the DDQ, the business Ethics and Compliance Team must:

8.4.6.1 Commission an external due diligence report from a specialist Third Party provider. The scope of the due diligence report will depend on the risk level, availability of information in the territory, and specific Red Flags identified; and

8.4.6.2 Conduct a telephone or in-person interview with the Partner’s key personnel or a site visit to the Partner’s place of business. The Chief Ethics and Compliance Officer may waive any of these requirements in his or her discretion but must document the rationale for any such waiver.

8.4.7 Upon completion of all the due diligence steps and taking into consideration all the information gathered and any Red Flags identified, the Chief Ethics and Compliance Officer will submit to the KYPC a written report evaluating the High ABC Risk Partner and recommending a Mitigation Plan (the “Application”).

8.5 Refreshing Due Diligence on Existing Partners

[p.7] 8.5.1 The due diligence process described above must be repeated either just prior to contract renewal or at the following interval periods, whichever occurs first:

8.5.1.1 Low ABC Risk Partners: every 5 years from date of contract execution.

8.5.1.2 Medium ABC Risk Partners: every 4 years from date of contract execution.

8.5.1.3 High ABC Risk Partners: every 3 years from date of contract execution.

8.5.2 The Chief Ethics and Compliance Officer may waive the due diligence procedures in whole or in part for a contract renewal but must document the rationale for the waiver.

[p.8] 10.0 Step 4 - Approval

10.1 For Low ABC Risk Partners, no additional approvals are required where there are no unresolved Red Flags, sanctions or export control-related hits. The Proposer may proceed directly to contracting (Step 5).

10.2 For Medium ABC Risk Partners, the Proposer may only proceed to contracting (Step 5) when the Chief Ethics and Compliance Officer (or his or her delegate) has approved the Partner and agreed a Mitigation Plan.

10.3 For High ABC Risk Partners, the KYPC will review the Application and determine whether to:

10.3.1 Stop the process and reject the Partner (or advise the Proposer to exit the relationship if it is an existing Partner, see Step 7 below);

10.3.2 Decrease the Partner's ABC Risk Level to Medium or Low, and document the rationale for the decision;

[p.9] 11.3 Contracts for Medium and High ABC Risk Partners must be executed within six months of the Partner's approval by the Chief Ethics and Compliance Officer or KYPC. Where the time elapsed exceeds six months, the due diligence process must be renewed if not waived by the Chief Ethics and Compliance Officer (any such waiver must be documented). The scope of the due diligence renewal will be determined by the Chief Ethics and Compliance Officer or KYPC as appropriate.

11.4 Where there is a substantive contract amendment bearing on any of the factors noted in paragraphs 7.2.1 – 7.2.6 above, or if a Medium or High ABC Risk Partner's ownership changes, a new ABC Risk Assessment must be conducted. Where the ABC Risk Level has increased, further due diligence will be required corresponding to the new ABC Risk Level (see Step 2).

[p.10] 11.5 For High ABC Risk Partners, all material contract amendments, including but not limited to change of country or extension to territory, change of ownership, payment terms, or changes to termination or ABC Clauses, must be approved by the Chief Ethics and Compliance Officer, who may escalate to the KYPC when appropriate.

12.0 Step 6 - Partner Monitoring

12.1 All Proposers should become familiar with possible Red Flags identified in connection with a Partner relationship (see Appendix 5). The Proposer must also ensure that others who engage with the Partner under the contract that the Proposer is responsible for also know about possible Red Flags and the need to report any identified Red Flags to their Line Manager, the Proposer, or business Ethics and Compliance Team.

12.2 The Proposer should ensure regular contact with the Partner and escalate any concerns or Red Flags (see Appendix 5) to their Line Manager and/or business Ethics and Compliance Team.

12.3 Once a Partner profile is created in Dow Jones, the Partner will be automatically screened against watch lists, sanctions, regulatory findings, relevant negative news or other relevant negative intelligence.

12.4 The business Ethics and Compliance Team will be notified at least monthly of any new Dow Jones alerts. Where a Red Flag is raised, the business Ethics and Compliance Team will notify the Proposer and work with them to take appropriate action to mitigate the risk identified (including referral to the Export Control Manager where relevant).

[p.16]

It is the responsibility of anybody interacting with the Third Party to look for Red Flags and, if any are found, to report these to a member of the Ethics and Compliance team as soon as possible. The existence of a Red Flag does not automatically mean that Rolls-Royce must not engage, or must cease dealing with, the Third Party, but any Red Flags must be investigated and resolved without delay. The exact nature of any resolution will depend on the circumstances surrounding each Red Flag.

[p.21] Appendix 5 – Red Flags

Red flags are indicators, or warning signs, of potential bribery and corruption issues. You must not ignore Red Flags, and should report them to your Line Manager, the Proposer, or the business Ethics and Compliance Team. The following are examples of common Red Flags. This list is not exhaustive, and you need to look out for anything which indicates that things may not be right.

[...]

Any lack of clarity, missing information or strange behaviour by the Third Party

[...]

- Due diligence reveals that the Third Party is a shell company or has some other unorthodox corporate structure.

[p.22] Links to customers or Government Officials

[...]

- The Third Party is (a) an active or retired Government Official or (b) owned at least in part by a Government Official.

Question
7.1.4 Does the company’s anti-bribery and corruption policy apply to all agents and intermediaries acting for or on behalf of the company, and does it require anti-bribery and corruption clauses in its contracts with these entities?
Score
2
Comments
The company states that all agents and third parties must adhere to standards equivalent to standards equivalent to the company’s Anti-Corruption Policy. According to publicly available evidence, all agents and intermediaries are subject to anti-bribery and corruption clauses in their contracts, which include clear audit rights and termination rights to detect, control and prevent breaches.
Evidence
<p>[5] At our Best: our Code Accessed 07/10/2019 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf [p.4] A guide to ‘At our best: our Code’</p> <p>Who does it apply to?</p> <p>All of us. That’s all colleagues employed by the Rolls-Royce Group and any subsidiary or joint venture where we have control. We also encourage all our joint ventures and partners to adopt the same high standards.</p> <p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.11] Policy and Procedures including Due Diligence Third Parties</p> <p>Our Expectations of Business Partners Rolls-Royce expects the third parties it deals with to demonstrate the same commitment to conducting business ethically and in accordance with its commitment to anti-corruption.</p> <p>[...]</p> <p>Higher Risk Third Parties Higher risk third parties would typically include lobbyists, distributors, agents/ intermediaries, suppliers of logistics services (such as freight forwarders and customs brokers) and visa agents. These third parties are subject to stringent due diligence on both the third parties and their ultimate beneficial owners and require senior level approval.</p> <p>The approval may be subject to a variety of conditions including:</p> <ul style="list-style-type: none"> • Ethics and Compliance Team approval of payments • Limits on activities (product type and geography) • Refreshing the due diligence within accelerated timescales (for example, 1 or 2 years) • In-depth audits supported by external lawyers and forensic experts • Monitoring by our own teams • Appointment of commercial contract monitors • Requirement for regular activity reports from third party <p>[p.12] Ongoing Monitoring Rolls-Royce expects its third parties to sign up to antibribery and corruption commitments as part of their contracts with Rolls-Royce. The commitments provide a framework for ethical business and allow Rolls-Royce to terminate those contracts in the event of breaches. For higher risk third parties, the contracts include audit rights (which we exercise on rotation), a commitment from the third party to implement its own ethics and compliance programme, an</p>

agreement from the third party to take part in training provided by Rolls-Royce and a requirement to inform us of changes in ultimate beneficial ownership. As part of our ongoing monitoring, some third parties will also be required to submit to performance review and to provide written reports on their activities. The Ethics and Compliance Team is required to approve all payments to the highest risk third parties.

[27] Global Know Your Partner Procedures (Document)

Accessed 15/06/2020

https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf

[p.1] 1.0 Introduction

1.1 These mandatory Global Know Your Partner (“KYP”) Procedures support the KYP Policy within the Group Policies Manual (see Appendix 1 for excerpt). The purpose of both the KYP Policy and these procedures is to ensure that we at Rolls-Royce know who our Partners are, what they do for us, and what bribery and corruption risk they may pose to the Company. Prosecutors around the world may hold Rolls-Royce responsible for a Partner’s bribery or corrupt action, where that Partner is seen to be acting on our behalf.

Therefore, we will only engage and transact with Partners of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

2.0 Applicability, Scope and Responsibilities

2.1 These procedures describe the mandatory minimum requirements for appointing, managing, monitoring, amending, renewing or terminating any Partner relationship, and apply to all Third Parties other than those listed in paragraph 4.3 below.

[p.7] 9.0 Step 3 – Prepare a Mitigation Plan

9.1 The chart below summarises mitigation action requirements as described further in this section.

Mitigation Actions	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Rolls-Royce Supplier Code of Conduct	Discretionary	✓	✓
Expectations for our Partners document	Not required	✓	✓
ABC training video for Partners	Not required	✓	✓
Annual Compliance Certification	Not required	✓	✓
Implement appropriate ABC Compliance Policies	Not required	Not required	✓
Annual Performance Review	Not required	Discretionary	✓
Quarterly Reporting	Not required	Not required	Discretionary
Face-to-Face ABC Training	Not required	Not required	Discretionary
Exercising Audit Rights	Not required	Not required	Discretionary
Payment approval by business Ethics and Compliance Team	Not required	Not required	Discretionary

[p.8] 9.3.2 The Chief Ethics and Compliance Officer (in coordination with the KYPC for High ABC Risk Partners) may choose to implement any of the following additional mitigation actions (the below is not intended to be an exhaustive list):

- 9.3.2.1 Require the Partner to produce quarterly or annual activity reports;
- 9.3.2.2 Provide face-to-face ABC training for Partner staff;
- 9.3.2.3 Limit the scope of work or type of activity within the contract;
- 9.3.2.4 Exercise contractual audit rights;

[p.9] 11.0 Step 5 – Contracting

11.1 All Partner contracts must accurately record:

11.1.1 The nature of the relationship between Rolls-Royce and the Partner, including the precise nature of the activities to be undertaken and payment to made; and

11.1.2 Any mandatory actions from the Mitigation Plan that are appropriate to include in the contract.

11.2 The Partner contract must in all cases include the relevant ABC Clauses corresponding to the Partner's ABC Risk Level as set out in Appendices 11 (Low and Medium ABC Risk) and 12 (High ABC Risk).

11.2.1 Where a Low or Medium ABC Risk Partner seeks to negotiate the ABC Clauses, the Proposer should refer to Appendix 11 for guidance or seek assistance from their Legal Team.

11.2.2 Where a High ABC Risk Partner seeks to negotiate the ABC Clauses, the Proposer should seek assistance from their Legal Team. However, the Chief Ethics and Compliance Officer must approve any material deviation from the required ABC Clauses.

11.3 Contracts for Medium and High ABC Risk Partners must be executed within six months of the Partner's approval by the Chief Ethics and Compliance Officer or KYPC. Where the time elapsed exceeds six months, the due diligence process must be renewed if not waived by the Chief Ethics and Compliance Officer (any such waiver must be documented). The scope of the due diligence renewal will be determined by the Chief Ethics and Compliance Officer or KYPC as appropriate.

11.4 Where there is a substantive contract amendment bearing on any of the factors noted in paragraphs 7.2.1 – 7.2.6 above, or if a Medium or High ABC Risk Partner's ownership changes, a new ABC Risk Assessment must be conducted. Where the ABC Risk Level has increased, further due diligence will be required corresponding to the new ABC Risk Level (see Step 2).

[p.10] 11.5 For High ABC Risk Partners, all material contract amendments, including but not limited to change of country or extension to territory, change of ownership, payment terms, or changes to termination or ABC Clauses, must be approved by the Chief Ethics and Compliance Officer, who may escalate to the KYPC when appropriate.

12.0 Step 6 - Partner Monitoring

12.1 All Proposers should become familiar with possible Red Flags identified in connection with a Partner relationship (see Appendix 5). The Proposer must also ensure that others who engage with the Partner under the contract that the Proposer is responsible for also know about possible Red Flags and the need to report any identified Red Flags to their Line Manager, the Proposer, or business Ethics and Compliance Team.

12.2 The Proposer should ensure regular contact with the Partner and escalate any concerns or Red Flags (see Appendix 5) to their Line Manager and/or business Ethics and Compliance Team.

12.3 Once a Partner profile is created in Dow Jones, the Partner will be automatically screened against watch lists, sanctions, regulatory findings, relevant negative news or other relevant negative intelligence.

12.4 The business Ethics and Compliance Team will be notified at least monthly of any new Dow Jones alerts. Where a Red Flag is raised, the business Ethics and Compliance Team will notify the Proposer and work with them to take appropriate action to mitigate the risk identified (including referral to the Export Control Manager where relevant).

13.0 Step 7 - Renewal or Exiting a Partner Relationship

13.1 Where the business seeks to continue a Partner relationship, the Proposer must repeat Steps 1-4, including refreshing due diligence as described in paragraph 8.5, prior to entering into a new contract.

13.2 Where a decision has been made to terminate a contract early for a Low or Medium ABC Risk Partner relationship, it must be done in accordance with the terms of the Partner contract. If there are any potential legal

disputes between the Rolls-Royce business and the Partner, the Proposer must consult with their Legal Counsel, and take competition law advice from GBS Competition Law Counsel.

13.3 Where a decision has been made to terminate a High ABC Risk Partner relationship early, the Proposer must consult with their business Ethics and Compliance Team and GBS Competition Law Counsel. The Proposer must also, both in case of early termination or non-renewal/expiration of a contract, prepare a memorandum and submit it for review by the business Ethics and Compliance Team (see template at Appendix 14).

[p.34] Appendix 11 - Contracting with Low and Medium ABC Risk Partners

[COMMERCIALLY SENSITIVE OR CONFIDENTIAL]

Appendix 12 - Contracting with High ABC Risk Partners

[COMMERCIALLY SENSITIVE OR CONFIDENTIAL]

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p. 28] Know Your Partner

A. Policy values

We will only engage and transact with Third Parties of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

It is a Third Party's work, not its title, which is important.

B. Principles

For legal and reputational reasons, Rolls-Royce needs to know who it is doing business with. This policy is designed to help us assess the potential ABC risks posed by Third Parties we deal with

[10] Global Supplier Code of Conduct

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf>

[p. 4] 1.2 Content, scope and applicability

The Code is applicable to all suppliers and partners who supply product or services related to Rolls-Royce contracts or purchase orders.

Suppliers are expected to cascade these principles to their own suppliers in order to ensure alignment across the supply chain. This may involve the establishment of supply chain management processes that integrate the requirements of this Code.

Question
7.1.5 Does the company ensure that its incentive schemes for agents are designed in such a way that they promote ethical behaviour and discourage corrupt practices?
Score
1
Comments
<p>The company addresses and highlights incentive structures for agents, namely commissions payments, as a factor in bribery and corruption risk. The company states that in some cases it will impose restrictions on agents' payments and incentive structures, including a threshold on commissions. The company states that its Ethics and Compliance Team must approve all payments to agents. The company states that it will only pay agents into local bank accounts, unless there are exceptional mitigating circumstances, in which it requires approval from the Ethics and Compliance Team.</p> <p>However, the company receives a score of '1' because there is no evidence that the company imposes a threshold on the payment of sales commissions in all agent agreements, and there is no evidence the company requires that remuneration to agents is paid in stage payments.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.11] Policy and Procedures including Due Diligence Third Parties</p> <p>Due Diligence The Rolls-Royce Know Your Partner Policy and Procedures provide employees with a framework to do this and set the levels of due diligence, approval and ongoing monitoring required for all third parties with which we deal. The Know Your Partner Procedures incorporate a risk assessment that risk rates third parties based on the following factors:</p> <ul style="list-style-type: none"> • The type of service or activity undertaken by the third party on behalf of Rolls-Royce; • The country of incorporation of the third party; • The territory(ies) in which the third party will be providing services to Rolls-Royce; • Whether the third party will be interacting with public officials, directly or indirectly, in connection with Rolls-Royce business (for example, lobbyists); and • The method by which the third party will be paid (for example, commission, sales bonus, profit share, discount, rebate or success fee). <p>Higher Risk Third Parties Higher risk third parties would typically include lobbyists, distributors, agents/ intermediaries, suppliers of logistics services (such as freight forwarders and customs brokers) and visa agents. These third parties are subject to stringent due diligence on both the third parties and their ultimate beneficial owners and require senior level approval.</p> <p>The approval may be subject to a variety of conditions including:</p> <ul style="list-style-type: none"> • Ethics and Compliance Team approval of payments • Limits on activities (product type and geography) • Refreshing the due diligence within accelerated timescales (for example, 1 or 2 years) • In-depth audits supported by external lawyers and forensic experts • Monitoring by our own teams • Appointment of commercial contract monitors • Requirement for regular activity reports from third party • Limits on commission rates and discounts payable to the third party <p>[p.12] The Ethics and Compliance Team is required to approve all payments to the highest risk third parties.</p>

[27] Global Know Your Partner Procedures (Document)

Accessed 15/06/2020

https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf

[p.3] 7.0 Step 1 - ABC Risk Assessment

7.1 Before conducting the ABC Risk Assessment, the Proposer should:

[...]

7.1.4 Check whether the Partner is incorporated in or has a nominated bank account in a territory that is listed by the European Union as a non-cooperative jurisdiction, and if so, seek advice from the Tax team prior to appointing the Partner.

7.2 If there are no unresolved issues from the checks conducted at paragraph 7.1, the Proposer must use the ABC Risk Assessment (see links in Appendix 3) to assess the Partner’s ABC Risk Level, which is based on the following factors:

[...]

7.2.5 The method by which the Partner will be paid (e.g., commission, sales bonus, profit share, discount, rebate or success fee);

[p.6] 8.4 High ABC Risk Partners 8.4.1 The business Ethics and Compliance Team oversees the due diligence process for High ABC Risk Partners.

[...]

8.4.7 Upon completion of all the due diligence steps and taking into consideration all the information gathered and any Red Flags identified, the Chief Ethics and Compliance Officer will submit to the KYPC a written report evaluating the High ABC Risk Partner and recommending a Mitigation Plan (the “Application”).

[p.7] 9.0 Step 3 – Prepare a Mitigation Plan

9.1 The chart below summarises mitigation action requirements as described further in this section.

Mitigation Actions	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Rolls-Royce Supplier Code of Conduct	Discretionary	✓	✓
Expectations for our Partners document	Not required	✓	✓
ABC training video for Partners	Not required	✓	✓
Annual Compliance Certification	Not required	✓	✓
Implement appropriate ABC Compliance Policies	Not required	Not required	✓
Annual Performance Review	Not required	Discretionary	✓
Quarterly Reporting	Not required	Not required	Discretionary
Face-to-Face ABC Training	Not required	Not required	Discretionary
Exercising Audit Rights	Not required	Not required	Discretionary
Payment approval by business Ethics and Compliance Team	Not required	Not required	Discretionary

[...]

9.3.2 The Chief Ethics and Compliance Officer (in coordination with the KYPC for High ABC Risk Partners) may choose to implement any of the following additional mitigation actions (the below is not intended to be an exhaustive list):

[...]

9.3.2.5 Mandate Partner payment pre-approval by the business Ethics and Compliance Team.

[p.10] 11.5 For High ABC Risk Partners, all material contract amendments, including but not limited to change of country or extension to territory, change of ownership, payment terms, or changes to termination or ABC Clauses, must be approved by the Chief Ethics and Compliance Officer, who may escalate to the KYPC when appropriate.

[p.11] 14.0 Prohibited and Restricted Arrangements

14.1 The following types of arrangements with any Partner are prohibited by Rolls-Royce (“Prohibited Arrangements”):

Prohibition	Explanation
Misrepresentation relating to the actual date that the contract was signed	Signatures must be accurately dated. An incorrect date, either earlier or later than the actual date of signature, must not be used.
Personal bank accounts	Rolls-Royce will not make payments to a personal account of a director, shareholder, beneficial owner, employee or other individual associated with a Partner except where the Partner is a sole unincorporated trader. Rolls-Royce will only make payments into accounts in the name of the Partner.
Gratuitous payments and tips	Rolls-Royce does not permit gratuitous payments or tips to Partners.
Payment by cash or by way of equity investment or loans	Rolls-Royce will not make payment to a Partner by way of cash, equity investment or loans. If a Partner requests such a payment it should be reported immediately to the Chief Ethics and Compliance Officer.

14.2 Some arrangements involving a Partner may give the appearance of being improper but may in fact be permissible; these are known as “Restricted Arrangements.”

14.2.1 Express written permission from the Chief Ethics and Compliance Officer (for Low and Medium ABC Risk Partners) or the KYPC (for High ABC Risk Partners) is required prior to entering into a Partner relationship that qualifies as a Restricted Arrangement. Permission will only be granted in exceptional circumstances and the approver will document the rationale for such permission or refusal.

14.2.2 The following types of arrangements are Restricted Arrangements:

Restriction	Explanation
[...]	[...]
Upfront payments and payments in advance (High and Medium ABC Risk Partners only)	Rolls-Royce will not make any upfront payments or payments in advance of work being completed either directly or by way of a loan to be deducted from future fees.

[p.21] Appendix 5 – Red Flags

Red flags are indicators, or warning signs, of potential bribery and corruption issues. You must not ignore Red Flags, and should report them to your Line Manager, the Proposer, or the business Ethics and Compliance Team. The following are examples of common Red Flags. This list is not exhaustive, and you need to look out for anything which indicates that things may not be right.

[p.22] Issues relating to payments and bank accounts

- The Third Party is incorporated in or has nominated a bank account in a territory that is listed from time to time by the EU as a non-cooperative jurisdiction. Where a Third Party is incorporated in or has a nominated bank account in such a territory, advice must always be sought from the Tax team on any tax risks associated with the proposed transaction.
- The Third Party seeks to have payments made to:
 - o multiple bank accounts, or have one amount split into multiple payments to the same or different bank accounts;
 - o entities other than the entity engaged as a Third Party (for example, to personal bank accounts of directors or to a shell company); or
 - o bank accounts outside the relevant territory, country of incorporation or place of business of the Third Party.

Rolls-Royce will only make payments in exceptional circumstances to bank accounts outside the territory in which the Third Party is incorporated or operates (or in the case of an individual, resides), or the territory where the Third Party will provide services. In such cases, the proposed bank account must be verified by Finance.

- The Third Party makes requests for:
 - o increases in remuneration outside of the contract renewal process;
 - o "urgent" payments (especially if just prior to the anticipated award of a contract or a payment due under an existing contract) or for unusually high commissions or payments;
 - o payment of any amounts "up-front" (including by way of a loan to be repaid out of future remuneration);
 - o payment in cash or cheque or by way of an equity investment;
 - o non-standard descriptions/narratives on electronic transfers; o a payment, gift or charitable contribution for the Third Party or for another; or
 - o a commission or payment that is excessive or above the going rate.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.97] Safety & Ethics Committee focus during 2018

Area of focus	Matters considered	Outcome
Ethics & compliance	[...] Management of intermediaries including screening, appointments, payments, termination and settlements	[...] The intermediary processes are effective to manage the risks.

Question
7.1.6 Does the company publish details of all agents currently contracted to act with and on behalf of the company?
Score
0
Comments
The company does not publish any details of the agents currently contracted to act for and/or on behalf of the company.
Evidence
No evidence found.

Question
7.1.7 Does the company publish high-level results from incident investigations and sanctions applied against agents?
Score
0
Comments
There is no evidence that the company publishes any data on ethical or bribery and corruption-related investigations, incidents or the associated disciplinary actions involving agents.
Evidence
No evidence found.

7.2 Joint Ventures

Question
7.2.1 Does the company conduct risk-based anti-bribery and corruption due diligence when entering into and operating as part of joint ventures?
Score
1
Comments
<p>There is evidence that the company has formal procedures to conduct risk-based anti-bribery and corruption due diligence prior to entering all joint venture partnerships. Evidence indicates that the due diligence process includes checks on the ultimate beneficial ownership of the partner company, and that joint ventures operating in high risk markets or with high risk partners, such as state-owned enterprises, are subject to enhanced due diligence.</p> <p>However, the company receives a score of '1' because it is unclear how frequently due diligence is repeated and whether this is at least every two years.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.13] Policy and Procedures including Due Diligence Mergers and Acquisitions (M&A)</p> <p>M&A Risk Assessment The Ethics and Compliance Team is involved with all M&A activity, including new acquisitions, disposals and joint ventures. Ethics and compliance due diligence is conducted on all acquisitions, investments and joint venture partners and the approval of the Head of Ethics and Compliance is required before the M&A can proceed. The due diligence is risk-based and takes into account key risk indicators including:</p> <ul style="list-style-type: none"> • the location of the target, joint venture and/or joint venture partner(s); • the location(s) in which the target or joint venture will operate (including locations of sales); • the nature of the business of the target or joint venture; • government exposure (such as a target or joint venture partner that is state-owned, reliance on government approvals/licences and exposure to government customers); and • the size of the acquisition or investment (both in real terms financially and in terms of the percentage stake that RollsRoyce will acquire). <p>M&A Due Diligence Typically, the due diligence involves obtaining:</p> <ul style="list-style-type: none"> • detailed information on the target (or joint venture partner), including who its ultimate beneficial owners are, and on its current approach to ethics and compliance; • a due diligence report from a corporate intelligence provider on the target (or joint venture partner); and • interviews of relevant representatives of the target (or joint venture partner) conducted by the Ethics and Compliance Team. Rolls-Royce will (and has) abandoned proposed acquisitions due to concerns raised during due diligence about apparent unethical practices of targets. <p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf [p.48] Our due diligence is dependent on the level of risk that a particular third party presents, and may include verification visits, screening, interviews and obtaining reports from specialist providers. This year we have conducted a number of external audits on some of our highest-risk third parties. We also conduct extensive due diligence before entering into joint ventures, and are working with our existing joint ventures to enhance their own ethics and compliance programmes.</p> <p>[12] Our suppliers and partners (webpage) Accessed 07/10/2019</p>

<https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/>

In addition, all new and existing suppliers, as well as customers, joint venture partners and other third-parties, are subject to screening assessments through the Dow Jones Risk and Compliance Platform on sanctions, watch-lists and adverse media reports.

Question
7.2.2 Does the company commit to incorporating anti-bribery and corruption policies and procedures in all of its joint venture partnerships, and does it require anti-bribery and corruption clauses in its contracts with joint venture partners?
Score
2
Comments
<p>There is evidence that the company's Code of Conduct includes anti-bribery and corruption provisions as well as a prohibition on facilitation payments, and applies to its controlled joint ventures. The company also states that it will work with other joint venture partners to adopt the same requirements. The company states that it will only enter into joint ventures if anti-bribery and corruption clauses are included in the contract, which include clear audit and termination rights to detect, control and prevent breaches.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.8] Our Policies</p> <p>In addition to Our Code, Rolls-Royce has a suite of policies, procedures and guidance governing areas relevant to ethics and compliance as follows:</p> <ul style="list-style-type: none"> • Anti-Bribery and Corruption Policy (which also covers facilitation payments) • Confidential Information Policy (which covers the appropriate use of third party information) • Gifts and Hospitality Policy • Conflict of Interest Policy and Guidance • Know Your Partner Policy and Procedures (setting out the requirements for the due diligence and management of external business partners) • Lobbying and Political Support Policy • Speak Up Policy • Charitable Donations and Social Sponsorships Policy • Offset Procedures <p>[p.13] Post Acquisition As soon as possible post acquisition, we conduct extensive ethics and compliance audits of new acquisitions (typically utilising external lawyers or forensic experts) to ensure any potential areas of risk not identified during due diligence are picked up. All new acquisitions are integrated fully into the Rolls-Royce ethics and compliance programme in accordance with a structured plan involving the implementation of the Rolls-Royce policies, the delivery of training, due diligence on third parties and the implementation of the Rolls-Royce speak up channels.</p> <p>[p.14] Ethics and Compliance Programme The Rolls-Royce ethics and compliance programme is appropriately implemented in all majority-owned joint ventures. For all other joint ventures or investments, Rolls-Royce works closely with its joint venture partners to embed ethics and compliance programmes that reflect the principles of the RollsRoyce programme. In some instances, those joint ventures have adopted the RollsRoyce programme in full, whilst in others the programme may be that of a joint venture partner or a bespoke programme for the joint venture.</p> <p>Joint Venture Agreements All new joint venture agreements include ethics and anti-bribery and corruption representations and undertakings and a requirement for the joint venture partners to support and assist the implementation of an ethics and anticorruption programme within the joint venture.</p> <p>Joint venture partners are also asked to sign up to the "Rolls-Royce Ethics and Compliance Expectations for our Partners" document. Rolls-Royce reserves the right to exit a joint venture if the joint venture partner does not demonstrate an appropriate level of commitment to ethics and compliance.</p>

[p.23] Ethics and Compliance Maturity Reviews

The Ethics and Compliance Team also undertakes its own monitoring and assurance work in order to test the embedding of the ethics and compliance programme across the group, via “Ethics and Compliance Maturity Reviews” (ECMRs). ECMRs help us to identify those areas where extra support or further training is required and enable us to ensure that the policies are relevant, meaningful and fit for purpose. Typically, they involve a combination of employee interviews and reviews of documentation (such as expense records and customer and supplier data) and training.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.4] Who does it apply to?

All of us. That’s all colleagues employed by the Rolls-Royce Group and any subsidiary or joint venture where we have control. We also encourage all our joint ventures and partners to adopt the same high standards.

[p.26] Anti-bribery and corruption

Act with integrity

Principles	We will:
<ul style="list-style-type: none"> We do not tolerate bribery and corruption in any form. We never offer, give or accept anything of value that is, or could be seen as, improperly influencing business decisions. We only appoint partners of known integrity and require that their conduct meets our standards at all times. 	<ul style="list-style-type: none"> Not give or receive bribes, and will report to the Ethics and Compliance team if we are asked for, or offered, bribes or facilitation payments; Only offer, or accept, gifts or hospitality allowed within policy; and Consult our Ethics and Compliance team about any business partners that we engage with to make sure that we are conducting the appropriate due diligence on the partner.

[1] Ethics and compliance (webpage)

Accessed 07/10/2019

<https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/>

We have a Global Code of Conduct (Our Code) that applies to all employees of Rolls-Royce, its subsidiaries and controlled joint ventures, wherever they are located. It sets out the 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. Breaches are not acceptable and will result in the company taking action. This may include disciplinary action up to and including dismissal.

[...]

Our Code includes clear statements regarding our zero tolerance approach to bribery and corruption. This is supported by our Global Anti-Bribery and Corruption policies, brought together in our Group Policy manual. This provides a framework for our anti-bribery and corruption programme.

The policies contained within this manual apply to all employees and directors of Rolls-Royce, its subsidiaries and controlled joint ventures. Breaches of these policies may result in disciplinary action, up to and including dismissal.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.48] Our due diligence is dependent on the level of risk that a particular third party presents, and may include verification visits, screening, interviews and obtaining reports from specialist providers. This year we have conducted a number of external audits on some of our highest-risk third parties. We also conduct extensive due diligence before entering into joint ventures, and are working with our existing joint ventures to enhance their own ethics and compliance programmes.

Question
7.2.3 Does the company commit to take an active role in preventing bribery and corruption in all of its joint ventures?
Score
2
Comments
<p>The company explicitly commits to take an active role in preventing bribery and corruption in all of its joint ventures. There is clear evidence to support the company's commitment, by way of specialist training and ethics and compliance resources and guidance that the company provides for employees of joint ventures, as well as submitting the joint venture's anti-corruption procedures to a regular audit and review process.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf</p> <p>[p.13] Post Acquisition As soon as possible post acquisition, we conduct extensive ethics and compliance audits of new acquisitions (typically utilising external lawyers or forensic experts) to ensure any potential areas of risk not identified during due diligence are picked up. All new acquisitions are integrated fully into the Rolls-Royce ethics and compliance programme in accordance with a structured plan involving the implementation of the Rolls-Royce policies, the delivery of training, due diligence on third parties and the implementation of the Rolls-Royce speak up channels.</p> <p>[p.14] Training Training is provided to Rolls-Royce employees who are joint venture directors covering their duties as directors (which refers to the Rolls-Royce anti-corruption policies) and the expectations on joint venture directors to maintain appropriate oversight of joint ventures and escalate potential anti-corruption issues to the Ethics and Compliance Team. In addition, an Ethics and Compliance Joint Venture Toolkit has also been issued within Rolls-Royce which provides further guidance to Rolls-Royce employees who either work at joint ventures or are directors of joint ventures</p> <p>Ongoing Monitoring and Oversight The Ethics and Compliance Team maintains regular contact with joint ventures and joint venture partners as part of the ongoing oversight of their activities. This oversight includes ethics and compliance reviews, regular calls and meetings on ethics and compliance topics and the delivery of training by the Rolls-Royce Ethics and Compliance Team to joint venture personnel. Joint ventures are subject to the monitoring and assurance activity detailed on page 23, including internal audit reviews and Ethics and Compliance Maturity Reviews.</p> <p>[p.23] Ethics and Compliance Maturity Reviews The Ethics and Compliance Team also undertakes its own monitoring and assurance work in order to test the embedding of the ethics and compliance programme across the group, via "Ethics and Compliance Maturity Reviews" (ECMRs). ECMRs help us to identify those areas where extra support or further training is required and enable us to ensure that the policies are relevant, meaningful and fit for purpose. Typically, they involve a combination of employee interviews and reviews of documentation (such as expense records and customer and supplier data) and training.</p> <p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf</p> <p>[p.48] Our due diligence is dependent on the level of risk that a particular third party presents, and may include verification visits, screening, interviews and obtaining reports from specialist providers. This year we have conducted a number of external audits on some of our highest-risk third parties. We also conduct extensive due diligence before entering into joint ventures, and are working with our existing joint ventures to enhance their own ethics and compliance programmes.</p>

8. Offsets

Question
8.1 Does the company explicitly address the corruption risks associated with offset contracting, and is a dedicated body, department or team responsible for oversight of the company's offset activities?
Score
1
Comments
<p>There is evidence that the company recognises corruption risks associated with offset contracting, and the company also has a dedicated department, the Corporate Offset Group, which oversees all the company's offset obligations. There is evidence that this department is involved, at least partially, in the establishment and oversight of all the company's offset obligations throughout the project lifecycle. The company states that this department works alongside the company's Ethics and Compliance Team to scope and mitigate corruption risks.</p> <p>However, there is no evidence that all employees within the Corporate Offset Group receive tailored anti-bribery and corruption training based on the potential corruption risks associated with offsets.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.15] Offset</p> <p>General Approach As a first-tier supplier, rather than a prime contractor, Rolls-Royce has limited exposure to offset. Nonetheless, we have Offset Procedures which are designed to ensure that the anti-corruption risks associated with offset are properly managed. Our general approach to offset is to first explore options for satisfying offset through activities that are complementary to our normal business activities. This substantially reduces the corruption risks and helps to ensure the longer term viability of our offset projects. The majority of our offset obligations are satisfied in this way.</p> <p>Offset Team Within Rolls-Royce there is a dedicated offset team whose role is to ensure that Rolls-Royce delivers on its offset obligations. This team is responsible for developing offset plans, agreeing them with customers and monitoring offset projects from start to finish, working with a dedicated member of the Ethics and Compliance team to manage anti-corruption risks. The team is entirely independent of the Rolls-Royce businesses to ensure it is not subject to any commercial pressures which could create possible risks when the company is deciding how to deliver on its offset obligations. No offset projects can be undertaken without the involvement and approval of the Offset team.</p> <p>[28] Global Offset Procedures (Document) Accessed 17/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/offset_procedures.pdf [p.1] Introduction</p> <p>Offset has traditionally been required in the defence sector, but is now often also required in other sectors for procurement by governments or government-owned or –controlled businesses. Our ability to deliver cost-effective Offset can be a commercial advantage. These Procedures assume a working knowledge of Offset and the circumstances that may give rise to an Offset obligation. You should contact the Corporate Offset Group for further training and support. You can find all of the forms referred to in these Procedures on the Corporate Offset Group intranet pages.</p> <p>Common Terms The following definitions apply to these Procedures.</p>

Offset: Where Rolls-Royce is obliged to generate work or create capability or economic value in an end customer's country as a result of local legal requirements or the contract to supply (directly or indirectly) that end customer. Some countries call this industrial participation, industrial collaboration or similar, but any arrangement of the type set out above is subject to these Procedures.

Corporate Offset Group: The Rolls-Royce team in GBS with primary responsibility for supporting Offset work.

[p.2] 1. Planning

1.1 You must engage the Corporate Offset Group at the earliest opportunity. They will advise on the Offset policy of the purchasing government and provide guidance on potential Offset Projects.

1.2 Where Rolls-Royce is a sub-contractor to a customer with its own Offset obligations, unless agreed contractually, Rolls-Royce is not obliged to provide any support to that customer to satisfy its Offset obligations. There is a value in any Offset support Rolls-Royce provides to a customer and the Corporate Offset Group may be able to assist with realising that value.

1.3 Approval must be obtained from the Corporate Offset Group before any commitments are made relating to the provision of Offset support or the delivery of Offset.

1.4 The Corporate Offset Group will advise on the potential business risks relating to the Offset and make a recommendation as to the budget/contingency needed to fulfil it. The Corporate Offset Group will ensure the involvement of the Ethics and Compliance team, where required, to assess the anti-bribery and corruption risks.

[p.3] 1.7 The Corporate Offset Group will programme manage all Offset, including the consolidation, presentation and negotiation with the party to whom the commitment has been given. The Corporate Offset Group will manage and co-ordinate all Offset related dialogue with the Offset Authority and/or with the customer.

1.8 Subject to the necessary approvals, the responsibility for implementing Offset Projects falls to the relevant Rolls-Royce business for Direct Offset and to the Corporate Offset Group for Indirect Offset.

[p.4] 6. Preparation and Execution of Contracts

The contract(s) relating to the Offset obligation should be managed in accordance with the table below and any additional Business-specific requirements.

<p>Main contract under which the Offset obligation arises</p> <p>Input on Offset language must be obtained from the Corporate Offset Group. Contract management and delivery and funding of the Offset are the responsibility of the relevant Rolls-Royce business supported by the Corporate Offset Group.</p>
<p>Offset Project contracts, agreements with Offset Authorities or agreements relating to Offset Credit Banking, Offset Credit Trading or Offset Abatement</p> <p>Drafting, negotiation and contract management is the responsibility of the Corporate Offset Group with input from the Ethics and Compliance team.</p>

7. Monitoring and Assurance

For all Offset, an appropriate risk should be inserted in the relevant project risk register to track progress with meeting the Offset obligation, penalties for failure and mitigating actions.

8. Recordkeeping

8.1 The Corporate Offset Group maintains a record of each Offset Project from concept to delivery/close-out, including a note of why a matter did not proceed if it does not proceed.

8.2 The Ethics and Compliance team maintains a record of documents created during the due diligence and approval process.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.80] Internal audit

The director of internal audit regularly reports to the Committee:

- Quarterly – a dashboard identifying the key trends and findings from internal audit reports, and the resolution of actions agreed.
- Biannually – a detailed update of significant findings and his perspectives on the internal control environment, management responses to underlying root causes and systemic issues.
- Annually – compliance with expenses policies for the directors and the Executive Team; and an internal audit work plan for the following year.
- As required – the results of audits on advisor processes (including payments) and offset and monitoring, as part of the Group's response to the DPAs.

[5] At our Best: our Code

Accessed 07/10/2019

<https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf>

[p.26] Anti-bribery and corruption

[...]

Additional Guidance
Offset Policy

Question
8.2 Does the company conduct risk-based anti-bribery and corruption due diligence on all aspects of its offset obligations, which includes an assessment of the legitimate business rationale for the investment?
Score
1
Comments
<p>There is evidence that the company has formal procedures in place to conduct risk-based anti-bribery and corruption due diligence on its offset obligations. There is evidence indicating that due diligence on all offset obligations includes checks on beneficial ownership. The company states that for all offset obligations it conducts assurance of the legitimacy of the investment. The company states that it continuously monitors offset projects for signs of risk, business misconduct and corruption and that due diligence is repeated when there is a significant change in the business relationship or nature of the partner. Due diligence is otherwise repeated every three to five years, depending on the risk profile of the project.</p> <p>However, the company receives a score of '1' because there is no evidence that its due diligence procedures include a review of potential conflicts of interest associated with brokers or beneficiaries.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.15] Policy and Procedures including Due Diligence Offset</p> <p>[...]</p> <p>Due Diligence Offset partners are subject to risk-based due diligence in accordance with the requirements of our Know Your Partner Procedures. There is an additional approval process in place for offset. For all offset projects this requires the preparation of a written business case setting out why a specific offset project and/or partner is being proposed.</p> <p>[28] Global Offset Procedures (Document) Accessed 17/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/offset_procedures.pdf [p.1] Introduction Offset has traditionally been required in the defence sector, but is now often also required in other sectors for procurement by governments or government-owned or –controlled businesses. Our ability to deliver cost-effective Offset can be a commercial advantage. These Procedures assume a working knowledge of Offset and the circumstances that may give rise to an Offset obligation.</p> <p>You should contact the Corporate Offset Group for further training and support. You can find all of the forms referred to in these Procedures on the Corporate Offset Group intranet pages. Common Terms The following definitions apply to these Procedures.</p> <p>[...]</p> <p>Direct Offset: An Offset Project that involves Rolls-Royce sub-contracting work that would typically be in its control, remit and areas of expertise that relates to the subject matter of the contract that gave rise to the obligation.</p> <p>High Risk Offset: Any Offset that does not satisfy the definition of Low Risk Offset or is otherwise designated as high risk by the Corporate Offset Group or the Ethics and Compliance team.</p> <p>Indirect Offset: All Offset Projects other than Direct Offset. Low Risk Offset: Any Offset Project that:</p>

- Is work, activity or a contract that is part of normal Rolls-Royce business (such as placing new business with an approved supplier); or
- is delivered entirely through Rolls-Royce’s own resources (such as Rolls-Royce employees providing training); or
- involves the transfer of knowhow or the grant of a licence to a third party.

If there are any Red Flags (Appendix 1), then the Ethics and Compliance team must be consulted.

[p.3] 2. Due Diligence

Due diligence must be conducted on all Offset Partners (other than wholly-owned Rolls-Royce companies) to ensure their business and role in the Offset is clear and fully understood. They must be financially robust and willing to be transparent, ethical and compliant with all applicable laws and regulations. The due diligence requirements are set out in the Know Your Partner Policy and Procedures. Offset Partners supporting Low Risk Offset should be treated as Low ABC Risk Partners (as defined in the Know Your Partner Procedures). For High Risk Offset, the Ethics and Compliance team will advise on the appropriate due diligence for the Offset Partner.

3. Offset form

For High Risk Offset, the Offset form found on the Corporate Offset Group intranet pages must be completed and submitted for approval in accordance with paragraph 5 below. The Corporate Offset Group and a member of the Ethics and Compliance team will assist with completing the Offset form, but it must be signed by the representative of the business proposing the Offset Project. No Offset Project can be committed to, or commenced, without these approvals.

[...]

5. Approvals The following approvals of the Offset Project are required in writing in advance.

Business or Function Approval		
Business or Function Area	High Risk Offset	Low Risk Offset
Business or Function with Offset obligation	Know Your Partner Committee	SVP or Functional Head
Corporate Offset Group	Director of Offset and Countertrade	GBS VP Industrial Participation

[p.5] Appendix 1 - Offset Red Flags

The following list shows matters that should be considered as part of an assessment of whether there may be a risk of corrupt or unethical conduct. This list is not exhaustive.

Issues relating to the Offset Partner’s reputation

- A history or reputation for corruption, or dealings of the Offset Partner with other companies with a questionable reputation.
- Any reluctance by the Offset Partner to accept the Company’s standard anti-bribery and corruption contractual clauses.
- Any indication that the Offset Partner has been debarred or is ineligible to contract with any customer (including governments).
- Any indication that the Offset Partner has committed an Export Control violation, including a violation of the US International Traffic in Arms Regulations.

Issues relating to the Offset Partner’s capability

- Uncertainty as to whether the Offset Partner is suitably qualified or resourced for the work.
- The Offset Partner is located outside the relevant territory and/or has no significant business presence within the relevant territory.
- Lack of a clear business case for appointing the Offset Partner or any refusal to provide full details of what the Offset Partner will do or has done.
- Unauthorised use of subcontractors to perform the services under the contract.

Any lack of clarity, missing information or strange behaviour by the Offset Partner

- Arrival of the Offset Partner on the scene just before the award of a contract.
- A lack of evidence of work performed.
- Any statements that certain amounts of money will be needed to "seal the deal", "get the business" or for a poorly specified purpose (e.g., to "make arrangements") or that the Offset Partner can circumvent or "expedite" normal business or bid processes.
- Any attempt by the Offset Partner to keep its involvement secret or avoid disclosure of its identity or its engagement as an Offset Partner.
- Any request from the Offset Partner to prepare or execute false or inaccurate documentation.
- Any indication that information has been deliberately omitted from written communications to or from the Offset Partner (for example, statements like "I think it best if we discuss what was said at the meeting - I don't want to put it in writing").
- Due diligence reveals that the Offset Partner is a shell company or has some other unorthodox corporate structure.
- Any indication that the Offset Partner has obtained or used unauthorised Confidential Information (as defined in the Group Policy Manual).

[p.6] Links to customers or government officials

- Any indication that the Offset Partner has been recommended by a government official or by a representative of the customer.
- The Offset Partner is (a) an active or retired government official or (b) owned, at least in part, by a government official.

Issues relating to payments and bank accounts

- The Offset Partner is incorporated in or has nominated a bank account in a territory that is listed from time to time by the EU as a non-cooperative jurisdiction. Where an Offset Partner is incorporated in or has a nominated bank account in such a territory, advice must always be sought from the Tax team on any tax risks associated with the proposed Offset Project.
- The Offset Partner seeks to have payments made to:

o multiple bank accounts, or have one amount split into multiple payments to the same or different bank accounts;
 o entities other than the entity engaged as an Offset Partner (for example, to personal bank accounts of directors or to a shell company); or
 o bank accounts outside the relevant territory, country of incorporation or place of business of the Offset Partner. Rolls-Royce will only make payments in exceptional circumstances to bank accounts outside the territory in which the Offset Partner is incorporated or operates (or in the case of an individual, resides), or the territory where the Offset Partner will provide services. In such cases, the proposed bank account must be verified by Finance.

- The Offset Partner makes requests for:

o Increases in remuneration outside of the contractual renewal process;
 o "urgent" payments (especially if just prior to the anticipated award of a contract or a payment due under an existing contract) or for unusually high commissions or payments;
 o payment of any amounts "up-front" (including by way of a loan to be repaid out of future remuneration);
 o payment in cash or cheque or by way of an equity investment;
 o non-standard descriptions/narratives on electronic transfers;
 o a payment, gift or charitable contribution for the Offset Partner or for another; or
 o a commission or payment that is excessive or above the going rate.

Offset-specific red flags

- Any Offset requirement which exceeds 100% of the customer contract value when an appropriate justification of such weighting cannot be provided.
- Ambiguity in the Offset value mechanisms.
- Any Offset Project that does not appear to be compliant with relevant Offset regulations.

[27] Global Know Your Partner Procedures (Document)

Accessed 15/06/2020

https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf

[p,1] 1.0 Introduction

1.1 These mandatory Global Know Your Partner (“KYP”) Procedures support the KYP Policy within the Group Policies Manual (see Appendix 1 for excerpt). The purpose of both the KYP Policy and these procedures is to ensure that we at Rolls-Royce know who our Partners are, what they do for us, and what bribery and corruption risk they may pose to the Company. Prosecutors around the world may hold Rolls-Royce responsible for a Partner’s bribery or corrupt action, where that Partner is seen to be acting on our behalf. Therefore, we will only engage and transact with Partners of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times.

2.0 Applicability, Scope and Responsibilities

2.1 These procedures describe the mandatory minimum requirements for appointing, managing, monitoring, amending, renewing or terminating any Partner relationship, and apply to all Third Parties other than those listed in paragraph 4.3 below.

2.2 These procedures apply to all Employees of Rolls-Royce plc and its wholly-owned subsidiaries (“Rolls-Royce” or the “Company”), unless stated otherwise. Individual businesses may supplement these procedures with any additional requirements they wish to put in place. In addition, where local laws, regulations or rules impose greater restrictions, those greater restrictions must be followed.

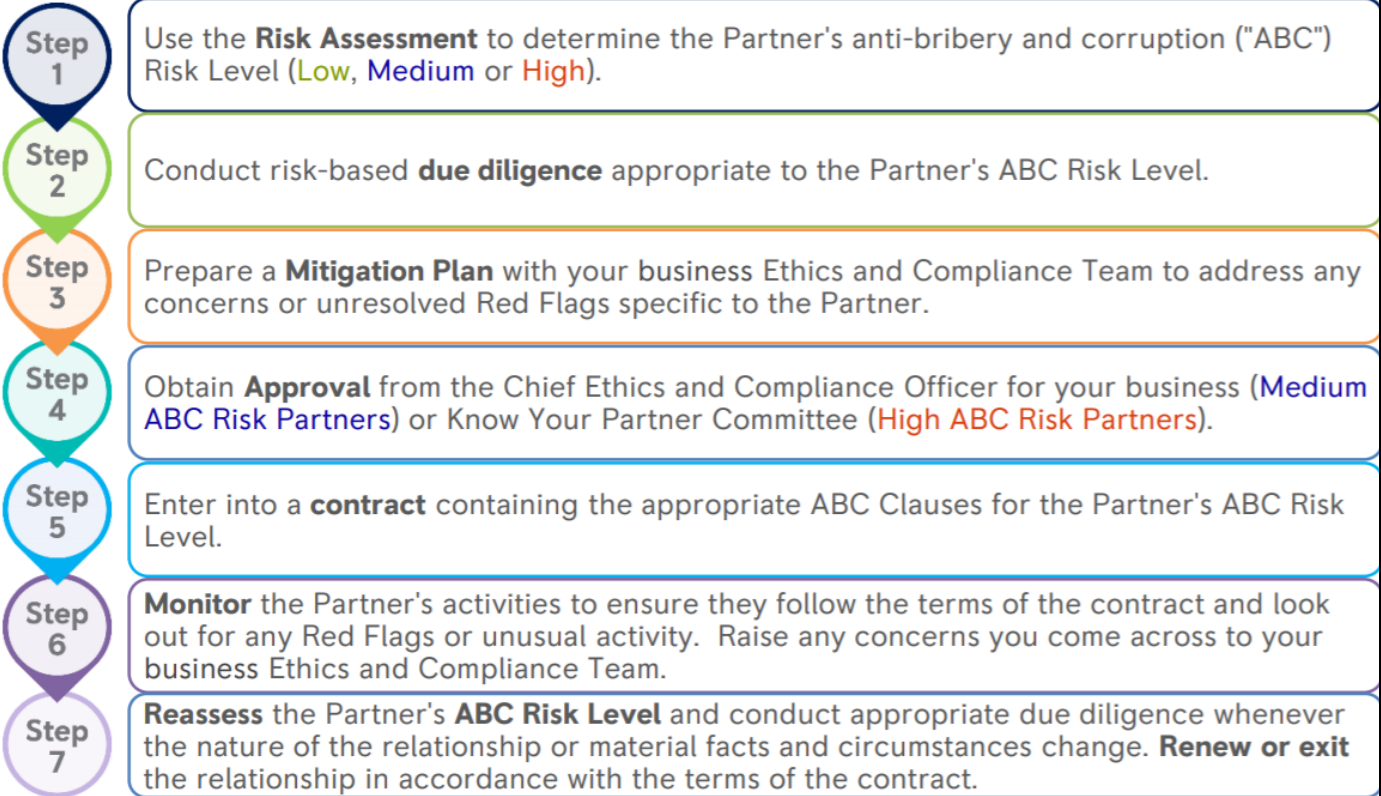
2.3 The Rolls-Royce Group Head of Ethics and Compliance has overall responsibility for these procedures and is responsible for setting common standards for their implementation and management. Business Presidents and managers must allocate sufficient resources to ensure these procedures are fully implemented in their areas of responsibility.

2.4 Employees who are directors on boards of Joint Ventures should encourage the Joint Venture to adopt these procedures as a model or use a similar policy.

2.5 Capitalised terms used in these procedures shall have the meanings set out in the Group Policies Manual and Glossary in Appendix 2.

3.0 Global Know Your Partner Procedures – Seven-Step Overview

These procedures can be summarized in seven basic steps:



[p.3] 7.0 Step 1 - ABC Risk Assessment

7.1 Before conducting the ABC Risk Assessment, the Proposer should:

7.1.1 Check to see if there is an existing relationship or contract with the Partner;

7.1.2 Check with their business Ethics and Compliance Team to confirm whether there are any restrictions on engaging the prospective Partner. If the prospective Partner appears on the Company's Blocklist, the Proposer may not proceed further.

7.1.3 Review the Export Control Destination Specific Policies and consult with their Export Control Manager as needed.

7.1.4 Check whether the Partner is incorporated in or has a nominated bank account in a territory that is listed by the European Union as a non-cooperative jurisdiction, and if so, seek advice from the Tax team prior to appointing the Partner.

7.2 If there are no unresolved issues from the checks conducted at paragraph

7.1, the Proposer must use the ABC Risk Assessment (see links in Appendix 3) to assess the Partner's ABC Risk Level, which is based on the following factors:

7.2.1 The type of service or activity to be undertaken by the Partner, including whether the Partner interacts with End Customers on behalf of Rolls-Royce;

7.2.2 The location of the Partner's business (or, for individuals, the Partner's residence);

7.2.3 The territory(ies) in which the Partner will be providing services to Rolls-Royce;

7.2.4 Whether the Partner will be interacting with Government Officials, directly or indirectly, in connection with Rolls-Royce business;

7.2.5 The method by which the Partner will be paid (e.g., commission, sales bonus, profit share, discount, rebate or success fee); and

7.2.6 The presence of any Red Flags (see Appendix 5) in connection with the Partner.

7.3 The ABC Risk Assessment will generate an ABC Risk Level of Low, Medium or High. The Proposer must then conduct due diligence according to the ABC Risk Level as described in Step 2.

7.4 For Medium or High ABC Risk Partners, the Proposer must contact their business Ethics and Compliance Team before proceeding. The business Ethics and Compliance Team will determine whether the Partner has worked with Rolls-Royce previously or is engaged by another business and will consult with that other business’s Ethics and Compliance Team to assess the scope and applicability of any due diligence that has already been conducted.

[p.4] 7.5 Where the nature of the relationship with a Partner materially changes, including where there is a substantive contract amendment bearing on any of the factors noted in paragraphs 7.2.1 – 7.2.6 above, or a contract renewal or change in control of the Partner, a new ABC Risk Assessment must be conducted to determine whether the Partner’s ABC Risk Level has changed. Where the ABC Risk Level has increased, further due diligence may be required corresponding to the new ABC Risk Level (see Step 2).

8.0 Step 2 – Conduct Risk-Based Due Diligence

8.1 The table below provides a high-level overview of the due diligence requirements and responsibilities for Low, Medium and High ABC Risk Partners. Mandatory due diligence requirements may in certain circumstances be waived by the Chief Ethics and Compliance Officer. Optional due diligence requirements will be at the discretion of the business Ethics and Compliance Team (see paragraphs 8.3 and 8.4 below).

Due Diligence Requirements	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Dow Jones Screening on Partner	Proposer	Proposer	Proposer
Send out Partner Due Diligence Questionnaire	Not required	Proposer	Proposer
Review Partner Due Diligence Questionnaire Responses	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Dow Jones Screening (additional key individuals)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Media screening (Factiva and internet research)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Business case	Not required	Optional	Proposer
Request further documentation from the Partner	Not required	Optional	Business Ethics and Compliance Team
Commission External Due Diligence Report	Not required	Optional	Business Ethics and Compliance Team
Telephone or in-person interview /or site visit	Not required	Optional	Business Ethics and Compliance Team

8.2 Low ABC Risk Partners

8.2.1 The Proposer (or their Dow Jones User) must create a profile for the Partner and conduct anti-bribery screening using the Dow Jones Risk and Compliance software (“Dow Jones”) (see Appendix 6 for further guidance).

8.2.2 Dow Jones will generate anti-bribery screening results identifying potential Red Flags (see Appendix 5).

8.2.3 The Proposer must review and resolve any Red Flags generated by Dow Jones using the guidance set out in the Dow Jones Screening Guide (Appendix 6). The Proposer must escalate any unresolved Red Flags to their business Ethics and

[p.5] Compliance Team for review and determination of next steps, which may include preparation of a Mitigation Plan before approval.

8.2.4 Dow Jones screening is required in addition to any required export control screening for the Partner. However, if the Dow Jones screening identifies any potential sanctions or export control-related hits that are not clearly false positives, the Proposer must escalate them to their Export Control Manager.

8.2.5 Where there are no unresolved Red Flags, sanctions or export control-related hits, the Proposer can proceed directly to contracting (see Step 5).

[Procedures relating to Medium Risk Partners not included because the Global Offset Procedures states that offset partners are treated as either low or high risk partners]

[p.6] 8.4 High ABC Risk Partners

8.4.1 The business Ethics and Compliance Team oversees the due diligence process for High ABC Risk Partners.

8.4.2 The Proposer and the business Ethics and Compliance Team must ensure Step 1 and paragraphs 8.3.1 – 8.3.5 above are completed, followed by the additional steps stated in this section, with the exception that the High ABC Risk DDQ (Appendix 8) is sent to the Partner instead of the Medium ABC Risk DDQ.

8.4.3 Upon receipt, the Proposer must forward the Partner’s response to the DDQ to their business Ethics and Compliance Team for review. It is the Proposer’s responsibility to ensure the DDQ response is complete and that the Partner has included all required documentation listed on the DDQ.

8.4.4 The Proposer must prepare and submit a business case to their business Ethics and Compliance Team, stating the basis and rationale for using the Partner instead of either Rolls-Royce internal resources or a different Partner (see template at Appendix 10).

8.4.5 At any time, the business Ethics and Compliance Team may request further documentation from the Partner or the Proposer.

8.4.6 Upon receipt of the Partner’s response to the DDQ, the business Ethics and Compliance Team must:

8.4.6.1 Commission an external due diligence report from a specialist Third Party provider. The scope of the due diligence report will depend on the risk level, availability of information in the territory, and specific Red Flags identified; and

8.4.6.2 Conduct a telephone or in-person interview with the Partner’s key personnel or a site visit to the Partner’s place of business. The Chief Ethics and Compliance Officer may waive any of these requirements in his or her discretion but must document the rationale for any such waiver.

8.4.7 Upon completion of all the due diligence steps and taking into consideration all the information gathered and any Red Flags identified, the Chief Ethics and Compliance Officer will submit to the KYPC a written report evaluating the High ABC Risk Partner and recommending a Mitigation Plan (the “Application”).

8.5 Refreshing Due Diligence on Existing Partners

[p.7] 8.5.1 The due diligence process described above must be repeated either just prior to contract renewal or at the following interval periods, whichever occurs first:

8.5.1.1 Low ABC Risk Partners: every 5 years from date of contract execution. 8.5.1.2 Medium ABC Risk Partners: every 4 years from date of contract execution.

8.5.1.3 High ABC Risk Partners: every 3 years from date of contract execution.

8.5.2 The Chief Ethics and Compliance Officer may waive the due diligence procedures in whole or in part for a contract renewal but must document the rationale for the waiver.

[p.10] 12.0 Step 6 - Partner Monitoring

12.1 All Proposers should become familiar with possible Red Flags identified in connection with a Partner relationship (see Appendix 5). The Proposer must also ensure that others who engage with the Partner under the contract that the Proposer is responsible for also know about possible Red Flags and the need to report any identified Red Flags to their Line Manager, the Proposer, or business Ethics and Compliance Team.

12.2 The Proposer should ensure regular contact with the Partner and escalate any concerns or Red Flags (see Appendix 5) to their Line Manager and/or business Ethics and Compliance Team.

12.3 Once a Partner profile is created in Dow Jones, the Partner will be automatically screened against watch lists, sanctions, regulatory findings, relevant negative news or other relevant negative intelligence.

12.4 The business Ethics and Compliance Team will be notified at least monthly of any new Dow Jones alerts. Where a Red Flag is raised, the business Ethics and Compliance Team will notify the Proposer and work with them to take appropriate action to mitigate the risk identified (including referral to the Export Control Manager where relevant).

[p.21] Appendix 5 – Red Flags

[This section repeats the same information as presented in the Global Offset Procedures document]

[2] Our Group Policies

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf>

[p.28] Know Your Partner

A. Policy Values

We will only engage and transact with Third Parties of known integrity who will not expose Rolls-Royce to unacceptable reputational or legal risks and require that their conduct meets our standards at all times. It is a Third Party's work, not its title, which is important.

[...]

For certain Third Parties that we deal with, due diligence must be undertaken. The due diligence required varies depending on the type of Third Party. Details on what due diligence is required can be found in the Know Your Partner Procedures.

For each Third Party there should be an individual (the "Proposer") who is assigned overall responsibility for ensuring that the requirements of the Know Your Partner Procedures are followed. This should be an employee involved with the management of the relationship with the Third Party (for example, the customer relationship manager).

It is the responsibility of anybody interacting with the Third Party to look for Red Flags and, if any are found, to report these to a member of the Ethics and Compliance team as soon as possible. The existence of a Red Flag does not automatically mean that Rolls-Royce must not engage, or must cease dealing with, the Third Party, but any Red Flags must be investigated and resolved without delay. The exact nature of any resolution will depend on the circumstances surrounding each Red Flag.

Proposers

You must ensure that the requirements relating to due diligence and ongoing monitoring detailed in the Know Your Partner Procedures are followed.

Representations on the use of certain types of Third Parties (for example Integrity Pacts)

Some customers and government bodies require that we provide representations regarding certain types of Third Parties (in particular agents, consultants, distributors and other intermediaries (“Intermediaries”)) that we retain, use or plan to use in a particular territory.

Any contract, terms and conditions, bidding document or any other document that contains a representation regarding the use of Intermediaries (for example, an integrity pact) must be reviewed and approved by your Sector Ethics and Compliance Officer before the contract/ document is signed.

[p.34] Glossary

[p.35] Third Party: Any entity or individual other than Rolls-Royce, its wholly-owned subsidiaries and Joint Ventures.

Question
8.3 Does the company publish details of all offset agents and brokers currently contracted to act with and/or on behalf of the company?
Score
0
Comments
The company does not publish any details of the offset agents, brokers or consultancy firms currently contracted to act with and on behalf of the company.
Evidence
No evidence found.

Question
8.4 Does the company publish details about the beneficiaries of its indirect offset projects?
Score
0
Comments
The company does not publish any details of its offset obligations and/or contracts.
Evidence
No evidence found.

9. High Risk Markets

Question
9.1 Does the company have enhanced risk management procedures in place for the supply of goods or services to markets or customers in countries identified as at a high risk of corruption?
Score
2
Comments
<p>The company acknowledges the corruption risks associated with operating in different markets, and there is evidence that it has a risk assessment process in place to account for these specific risks, with clear risk management procedures in place. The results of risk assessments have a direct impact on business decisions and inform the development and implementation of additional controls. The company provides examples of such possible controls.</p>
Evidence
<p>[23] Ethics and Compliance Powerpoint Presentation (Document) Accessed 11/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At_our_best_approach.pdf [p.6] Risk Assessment Ensuring our programme is fit for purpose</p> <p>Ethics and Compliance Risk Assessment Rolls-Royce undertakes an annual bribery and corruption risk assessment, which informs its anti-bribery and corruption programme and compliance resource. The risk assessment looks at:</p> <ul style="list-style-type: none"> • industry risks (including how competitive the markets we operate in are); • the risks associated with the locations of Rolls-Royce companies and their sales; • routes to market for sales (including the complexity of contractual chains and controls over payments to third parties assisting in sales); <p>[p.7] Risk Assessment Process</p> <p>In addition to the risk assessments undertaken by the Ethics and Compliance Team, compliance (which includes a number of areas not just ethics and anti-bribery and corruption) is reviewed by the Rolls-Royce Executive Team and the Safety, Ethics and Sustainability Committee of the Board as part of their consideration of our principal risks, as outlined in the Rolls-Royce Annual Report. This involves ensuring that there are proper mitigation plans and controls in place for risks identified as part of the wider enterprise risk management process. Compliance is identified as one of our principal risks, so is subject to ongoing risk assessment, mitigation and scrutiny at the most senior levels of our organisation.</p> <p>[...]</p> <p>Identifying Resource Needs One of the main risks identified by our initial risk assessment work was a lack of ethics and compliance resources in our business. At the start of our work to improve our ethics and compliance programme, we had 20 ethics and compliance professionals, most of whom were based in the UK. We now have over 50 fulltime professionals split between the UK, USA, Mexico, Brazil, Germany, Spain, China, Singapore and India.</p> <p>[27] Global Know Your Partner Procedures (Document) Accessed 15/06/2020 https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf [p.3] 7.0 Step 1 - ABC Risk Assessment</p> <p>7.1 Before conducting the ABC Risk Assessment, the Proposer should: 7.1.1 Check to see if there is an existing relationship or contract with the Partner;</p>

7.1.2 Check with their business Ethics and Compliance Team to confirm whether there are any restrictions on engaging the prospective Partner. If the prospective Partner appears on the Company's Blocklist, the Proposer may not proceed further.

7.1.3 Review the Export Control Destination Specific Policies and consult with their Export Control Manager as needed.

7.1.4 Check whether the Partner is incorporated in or has a nominated bank account in a territory that is listed by the European Union as a non-cooperative jurisdiction, and if so, seek advice from the Tax team prior to appointing the Partner.

7.2 If there are no unresolved issues from the checks conducted at paragraph 7.1, the Proposer must use the ABC Risk Assessment (see links in Appendix 3) to assess the Partner's ABC Risk Level, which is based on the following factors:

7.2.1 The type of service or activity to be undertaken by the Partner, including whether the Partner interacts with End Customers on behalf of Rolls-Royce;

7.2.2 The location of the Partner's business (or, for individuals, the Partner's residence);

7.2.3 The territory(ies) in which the Partner will be providing services to Rolls-Royce;

7.2.4 Whether the Partner will be interacting with Government Officials, directly or indirectly, in connection with Rolls-Royce business;

7.2.5 The method by which the Partner will be paid (e.g., commission, sales bonus, profit share, discount, rebate or success fee); and

7.2.6 The presence of any Red Flags (see Appendix 5) in connection with the Partner.

7.3 The ABC Risk Assessment will generate an ABC Risk Level of Low, Medium or High. The Proposer must then conduct due diligence according to the ABC Risk Level as described in Step 2.

7.4 For Medium or High ABC Risk Partners, the Proposer must contact their business Ethics and Compliance Team before proceeding. The business Ethics and Compliance Team will determine whether the Partner has worked with Rolls-Royce previously or is engaged by another business and will consult with that other business's Ethics and Compliance Team to assess the scope and applicability of any due diligence that has already been conducted.

[p.4] 7.5 Where the nature of the relationship with a Partner materially changes, including where there is a substantive contract amendment bearing on any of the factors noted in paragraphs 7.2.1 – 7.2.6 above, or a contract renewal or change in control of the Partner, a new ABC Risk Assessment must be conducted to determine whether the Partner's ABC Risk Level has changed. Where the ABC Risk Level has increased, further due diligence may be required corresponding to the new ABC Risk Level (see Step 2).

8.0 Step 2 – Conduct Risk-Based Due Diligence

8.1 The table below provides a high-level overview of the due diligence requirements and responsibilities for Low, Medium and High ABC Risk Partners. Mandatory due diligence requirements may in certain circumstances be waived by the Chief Ethics and Compliance Officer. Optional due diligence requirements will be at the discretion of the business Ethics and Compliance Team (see paragraphs 8.3 and 8.4 below).

Due Diligence Requirements	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Dow Jones Screening on Partner	Proposer	Proposer	Proposer
Send out Partner Due Diligence Questionnaire	Not required	Proposer	Proposer
Review Partner Due Diligence Questionnaire Responses	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Dow Jones Screening (additional key individuals)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Media screening (Factiva and internet research)	Not required	Business Ethics and Compliance Team	Business Ethics and Compliance Team
Business case	Not required	Optional	Proposer
Request further documentation from the Partner	Not required	Optional	Business Ethics and Compliance Team
Commission External Due Diligence Report	Not required	Optional	Business Ethics and Compliance Team
Telephone or in-person interview /or site visit	Not required	Optional	Business Ethics and Compliance Team

[p.7] 9.0 Step 3 – Prepare a Mitigation Plan

9.1 The chart below summarises mitigation action requirements as described further in this section.

Mitigation Actions	Low ABC Risk Partners	Medium ABC Risk Partners	High ABC Risk Partners
Rolls-Royce Supplier Code of Conduct	Discretionary	✓	✓
Expectations for our Partners document	Not required	✓	✓
ABC training video for Partners	Not required	✓	✓
Annual Compliance Certification	Not required	✓	✓
Implement appropriate ABC Compliance Policies	Not required	Not required	✓
Annual Performance Review	Not required	Discretionary	✓
Quarterly Reporting	Not required	Not required	Discretionary
Face-to-Face ABC Training	Not required	Not required	Discretionary
Exercising Audit Rights	Not required	Not required	Discretionary
Payment approval by business Ethics and Compliance Team	Not required	Not required	Discretionary

[p.8] 10.0 Step 4 - Approval

10.1 For Low ABC Risk Partners, no additional approvals are required where there are no unresolved Red Flags, sanctions or export control-related hits. The Proposer may proceed directly to contracting (Step 5).

10.2 For Medium ABC Risk Partners, the Proposer may only proceed to contracting (Step 5) when the Chief Ethics and Compliance Officer (or his or her delegate) has approved the Partner and agreed a Mitigation Plan.

10.3 For High ABC Risk Partners, the KYPC will review the Application and determine whether to:

10.3.1 Stop the process and reject the Partner (or advise the Proposer to exit the relationship if it is an existing Partner, see Step 7 below);

10.3.2 Decrease the Partner's ABC Risk Level to Medium or Low, and document the rationale for the decision;

[p.9] 10.3.3 Undertake further due diligence;

10.3.4 Undertake any other course of action recommended by the GBS Head of ABC Compliance Operations; or

10.3.5 Approve the Partner and determine any required mitigation actions (Step 3).

[p.21] Appendix 5 – Red Flags

Red flags are indicators, or warning signs, of potential bribery and corruption issues. You must not ignore Red Flags, and should report them to your Line Manager, the Proposer, or the business Ethics and Compliance Team. The following are examples of common Red Flags. This list is not exhaustive, and you need to look out for anything which indicates that things may not be right.

[p.22] Issues relating to payments and bank accounts

- The Third Party is incorporated in or has nominated a bank account in a territory that is listed from time to time by the EU as a non-cooperative jurisdiction. Where a Third Party is incorporated in or has a nominated bank account in such a territory, advice must always be sought from the Tax team on any tax risks associated with the proposed transaction.

[17] Annual Report 2018

Accessed 07/10/2019

<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.50] Risk management

The Board is responsible for the Group's risk management system (RMS) and internal control systems.

Our RMS is designed to identify and manage, rather than eliminate, the risk of failure to achieve business objectives and to provide reasonable, but not absolute, assurance against material misstatement or loss.

We continue to build risk management into the way we work to help us to make better decisions. It is implemented through a mandated Group-wide risk management policy, including our process, software tools and governance structures. Our risk policy is supported by training and a team of experts. Businesses and functions are accountable for identifying and managing risks in line with this policy.

The Executive Team recently refreshed their principal risks, based on the new organisation structure, strategy and Group priorities.

Business continuity plans are in place to mitigate continuity risks and there has continued to be regular testing of the adequacy of these plans through exercises at every level of our incident management framework.

Joint ventures constitute a large part of the Group's activities. Responsibility for risk and internal controls in joint ventures lies with the managers of those operations. Through Board representation, we seek to align the approach to risk and internal controls with that of the Group. Management and internal audit regularly review the activities of these joint ventures.

Improvements to our risk management system

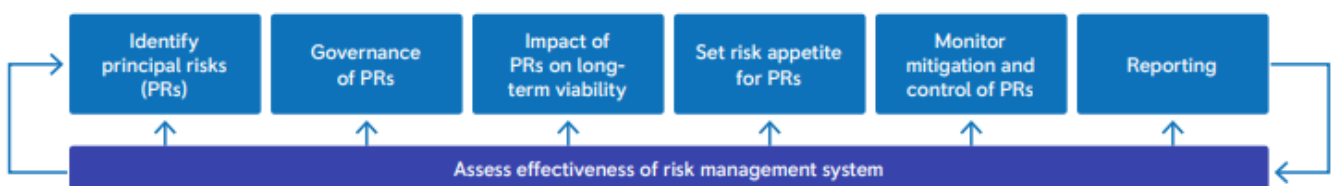
During the past year we have continued to build and enhance our RMS, specifically:

- embedding the improvements to our risk appetite framework, with key early warning metrics being introduced;
- launching a refreshed and simplified suite of Group policies, which set the tone by confirming that managing risk effectively is critical to the ongoing success and resilience of the Group;
- introducing a risk assurance programme assessing how effectively the Group-wide RMS has been implemented and providing visibility of where further improvement is needed;
- strengthening focus on assessment and treatment of our safety, compliance and business continuity risks at our remote locations;
- improving our horizon scanning, by uncovering previously hidden risks which commonly arise from external factors, incorrect assumptions or a lack of clear accountability;
- evaluating climate change scenarios; and
- increasing the number of exercises of our incident management framework, focused on our principal risks.

[...]

Management of principal risks

Our risk framework ensures that risks are identified, managed and communicated throughout the Group.



[p.54] Principal risk or uncertainty

Compliance

Non-compliance by the Group with legislation, the terms of the DPAs or other regulatory requirements in the heavily regulated environment in which it operates (for example, export controls; use of controlled chemicals and substances; anti-bribery and corruption; environmental regulations; and tax and customs legislation). This could affect our ability to conduct business in certain jurisdictions and would expose the Group to potential: reputational damage; financial penalties; debarment from government contracts for a period of time; and suspension of export privileges (including export credit financing), each of which could have a material adverse effect.

How we manage it

- Taking an uncompromising approach to compliance.
- Operating an extensive compliance programme. Global mandatory policies, processes and training are disseminated throughout the Group and are updated from time to time to ensure their continued relevance, and to ensure that they are complied with, both in spirit and to the letter.
- Regular reviews of the strength of relevant teams including the ethics, anti-bribery and corruption, compliance, tax, sustainability and export control teams.
- A legal team is in place to manage any ongoing regulatory investigations.
- Engaging with all relevant external regulatory authorities.
- Implementing a comprehensive REACH compliance programme. This includes ensuring that we and our supply chain are covered by REACH authorisations for a number of chemicals needed for our products, establishing appropriate data systems and processes and working with our suppliers, customers and trade associations.

This principal risk is subject to review by the Safety & Ethics Committee.

Question

9.2 Does the company disclose details of all of its fully consolidated subsidiaries and non-fully consolidated holdings (associates, joint ventures and other related entities)?

Score

1

Comments

The company publishes a list of its subsidiaries in its Annual Report, which includes the percentage ownership of each entity. This list covers fully consolidated and non-fully consolidated holdings, including any associates, joint ventures and other related entities. The list includes information on the registered addresses of each entity.

However, the company does not list the subsidiaries' countries of operation. Supporting information on the company's website provides information on the country of operation for only some of the entities listed in the annual report.

Evidence

[17] Annual Report 2018
 Accessed 07/10/2019
<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>

[p.178]

SUBSIDIARIES

As at 31 December 2018, the companies listed below and on the following pages are indirectly held by Rolls-Royce Holdings plc except Rolls-Royce Group plc which is 100% directly owned by Rolls-Royce Holdings plc. The financial year end of each company is 31 December unless otherwise indicated.

Company name	Address	Class of shares	% of class held
Aeromarine America, Inc.	M&H Agent Services, Inc., 1850 North Central Avenue, Suite 2100, Phoenix, Arizona 85004, United States	Common	100
Aeromarine Mediterranean Limited	7 Industrial Estate, Hal Far, Birzebbuga, BBG 3000, Malta	Ordinary	100
Aerospace Transmission Technologies GmbH**	Adelheidstrasse 40, D-88046, Friedrichshafen, Germany	Capital Stock	50
Amalgamated Power Engineering Limited *	Derby ¹	Deferred Ordinary	100 100
Bergen Engines AS	Hordvikneset 125, N-5108, Hordvik, Bergen 1201, Norway	Ordinary	100
Bergen Engines Bangladesh Private Limited	Green Granduer, 6th Floor, Plot no.58 E, Kamal Ataturk Avenue Banani, C/A Dhaka, 1213, Bangladesh	Ordinary	100
Bergen Engines BV	Werfdijk 2, 3195HV Pernis, Rotterdam, Netherlands	Ordinary	100
Bergen Engines Denmark A/S	Ostre Havnepromenade 9000 Ålborg, Denmark	Ordinary	100
Bergen Engines India Private Limited ³	52-b, 2nd Floor, Okhta Industrial Estate, Phase III, New Delhi 110020, India	Ordinary	100
Bergen Engines Limited	Derby ¹	Ordinary	100
Bergen Engines PropertyCo AS	Hordvikneset 125, N-5108, Hordvik, Bergen 1201, Norway	Ordinary	100
Bergen Engines S.L.	Calle Dinamarca s/n (esquina Calle Alemania), Poligono Industrial de Constanti, 43120 Constanti, Tarragona, Spain	Social Participation	100
Bergen Engines S.r.l.	Via Castel Morrone 13, 16161, Genoa, Italy	Social Capital	100
Bristol Siddeley Engines Limited *	Derby ¹	Ordinary	100
Brown Brothers & Company Limited	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, KY11 9JT, Scotland	Ordinary	100
C.A. Parsons & Company Limited *	Derby ¹	Ordinary	100
Data Systems & Solutions, LLC	Wilmington ²	Partnership (no equity)	100
Derby Specialist Fabrications Limited *	Derby ¹	Ordinary	100
Europa Microfusioni Aerospaziali S.p.A.	Zona Industriale ASI, 83040 Morra de Sanctis, Avellino, Italy	Ordinary	100
Heaton Power Limited *	Derby ¹	Ordinary	100
Industria de Tuberias Aeronauticas México S.A. de C.V.	Acceso IV, No.6B, Zona Industrial Benito Juárez, Querétaro, 76120, Mexico	Class A	100
Industria de Tuberias Aeronauticas S.A.U.	Pabellón Industrial, Torrelarragoiti, Parcela 5H, Naves 7 a 10, Zamudio, Vizcaya, Spain	Ordinary	100
Industria de Turbo Propulsores S.A.	Parque Tecnológico Edificio 300, 48170 Zamudio, Vizcaya, Spain	Ordinary	100
ITP Engines UK Limited	The Whittle Estate, Cambridge Road, Whetstone, Leicester, LE8 6LH, England	Ordinary	100
ITP Externals India Private Ltd	Plot 60/A, IDA Gandhi Nagar, Hyderabad, 500037, India	Ordinary	100
ITP Externals S.L.U.	Pabellón Industrial, Poligono Ugaldeguren I, PIIIA, Pab 1-2 Zamudio, Vizcaya, Spain	Ordinary	100
ITP Ingeniería y Fabricación S.A. de C.V.	Acceso IV, No.6D, Zona Industrial Benito Juárez, Querétaro, 76120, Mexico	Class A Class B	100 100
ITP México Fabricación S.A. de C.V.	Acceso IV, No.6, Zona Industrial Benito Juárez, Querétaro, 76120, Mexico	Fixed capital B Variable capital B	100 100
ITP México S.A. de C.V.	Acceso IV, No.6, Zona Industrial Benito Juárez, Querétaro, 76120, Mexico	Fixed capital B Variable capital B	100 100
ITP Next Generation Turbines S.L.U.	Parque Tecnológico Edificio 300, 48170 Zamudio, Vizcaya, Spain	Ordinary	100
John Thompson Cochran Limited *	Taxiway, Hillend Industrial Estate, Dalgety Bay, Dunfermline, Fife, KY11 9JT, Scotland	6% Cumulative Preference Ordinary	100 100
Kamewa AB *	Box 1010, S-68129, Kristinehamn, Sweden	Ordinary	100
Kamewa do Brazil Equipamentos Maritimos Limitada (in liquidation)	401 Rua Visconde de Pitaja 433, Rio de Janeiro, Brazil	Quotas	100
Kamewa Holding AB *	Box 1010, S-68129, Kristinehamn, Sweden	Ordinary	100
Karl Maybach-Hilfe GmbH	Maybachplatz 1, 88045, Friedrichshafen, Germany	Capital Stock	100
MTU Africa (Proprietary) Limited	36 Marconi Street, Montague Gardens, Cape Town, 7441, South Africa	Capital Stock	100

* Dormant entity.
 ** Though the interest held is 50%, the Company controls the entity (see note 1 accounting policies) and, as a result, consolidates the entity and records a non-controlling interest.
¹ Moor Lane, Derby, DE24 8BJ, England.
² Corporation Service Company, 251 Little Falls Drive, Wilmington, Delaware 19808, United States.

[list continues over five pages]

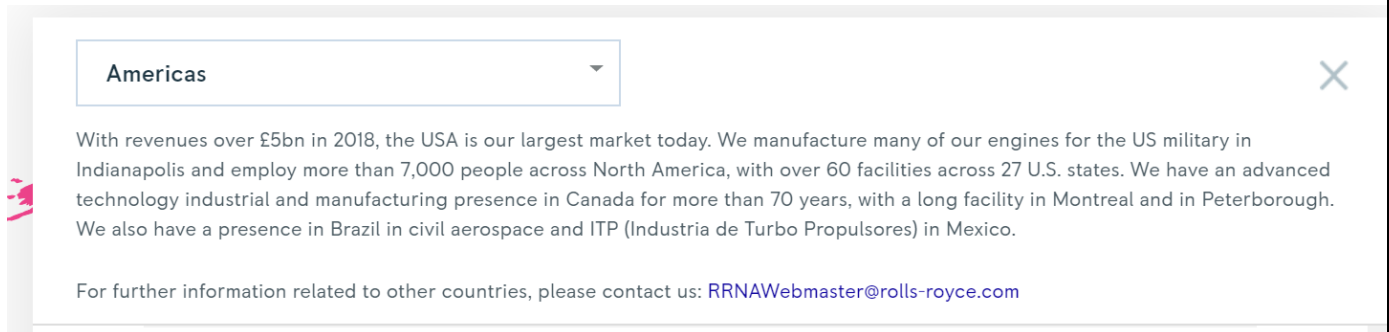
[29] Where We Operate – Americas (Webpage)

Accessed 17/06/2020

<https://www.rolls-royce.com/about/where-we-operate.aspx>

Where we operate

We have customers in over 150 countries, and operate in more than 50 countries worldwide, including the following locations:



Americas

With revenues over £5bn in 2018, the USA is our largest market today. We manufacture many of our engines for the US military in Indianapolis and employ more than 7,000 people across North America, with over 60 facilities across 27 U.S. states. We have an advanced technology industrial and manufacturing presence in Canada for more than 70 years, with a long facility in Montreal and in Peterborough. We also have a presence in Brazil in civil aerospace and ITP (Industria de Turbo Propulsores) in Mexico.

For further information related to other countries, please contact us: RRNAWebmaster@rolls-royce.com

Find us

Rolls-Royce North America
 1875 Explorer Street, Suite 200
 Reston,
 VA 20190

Site links

[+1 70 3834 1700](tel:+17038341700)
RRNAWebmaster@rolls-royce.com

Overview

The United States is a key operational region for Rolls-Royce. We've been working in the U.S. for more than 100 years and today we employ nearly 6,000 people across 27 states. In the past five years, we've invested over \$1 billion, enabling us to expand and develop a number of state-of-the-art facilities, including Crosspointe in Virginia and a \$600 million modernization program in Indianapolis, Indiana.

The U.S. is home to many components of our civil aerospace business. Within the country, we have key manufacturing and repair sites, suppliers, partners, and customers. In 2016, we opened our Civil Aerospace Customer Service Centre – Americas in Washington, D.C. This centre helps support our airline customers across North and South America, delivering innovative data services, coordinating operational planning and leading customer account management. Our Cypress, California facility is dedicated to research and development of ceramic matrix composite (CMC) materials and processes for use in next generation aircraft engine components. The U.S. Department of Defence is our largest defence customer in the world.

We provide world-class products and services to help our military troops power their missions around the world. Many of our defence aerospace products are designed, engineered, manufactured and assembled in Indianapolis – our largest facility in the U.S.

Rolls-Royce provides a wide range of services to the nuclear industry including engineering, software and data solutions, maintenance optimisation, supply chain services, field services and instrumentation & control. In 2014, Rolls-Royce acquired MTU America, a brand under its Rolls-Royce Power Systems business. MTU is a supplier of diesel engines for off-highway applications, headquartered near Detroit, Michigan with major manufacturing facilities in Aiken, South Carolina and Mankato, Minnesota.

Purdue University, Virginia Tech and the University of Virginia are part of the Rolls-Royce University Technology Centre (UTC) partnership. We also have research programmes at other universities, including Georgia Tech, Iowa State University and the University of Illinois. UTCs and university research programmes allow Rolls-Royce to develop long-term research and technology programmes. Creating a UTC provides each party with mutual benefits

through the funding of fundamental, collaborative research to advance key aerospace technologies critical to Rolls-Royce.

[30] Where We Operate – South Asia (Webpage)

Accessed 17/06/2020

<https://www.rolls-royce.com/about/where-we-operate.aspx>

Where we operate

We have customers in over 150 countries, and operate in more than 50 countries worldwide, including the following locations:

South Asia

We have a growing presence in South Asia, with one of our main hubs in India. Our engineering centres in Bengaluru and Pune are examples of our long-term commitment to strengthen our distinguished legacy and play a major role in helping develop India's capabilities. We also operate in other countries such as Bangladesh, Sri Lanka...

For further information related to other countries, please contact us: InCommunications@Rolls-Royce.com

India

Find us

Rolls-Royce India Limited

2nd Floor, West Tower

Birla House

25 Barakhamba Road

New Delhi-110001, India

[+91 11 2335 7118](tel:+911123357118)

InCommunications@Rolls-Royce.com

[Site link](#)

Overview

Rolls-Royce has been present in India for over 85 years and more than 1,000 employees. Today, as an investor, a high-skills employer and a supplier of power systems across aerospace, nuclear and power systems, we are developing a high-value stream of activities in India.

Rolls-Royce engines power over 50% of widebody flights to and from India on international routes. We have an Aerospace Engineering Centre, located in Bangalore, that provides engineering capability for new product design, development and manufacturing as well as supports the service and repair engineering activities for the existing Rolls-Royce engine fleet.


We have a long-standing relationship with the Indian Armed Forces started when we powered the first flight of the Indian Military. Today over 750 Rolls-Royce engines of 10 engine types are powering Indian Military aircraft.

Our Power Systems business comprising of MTU and Bergen Engines provide power for ships, power generation, heavy land, rail and defence vehicles and the oil and gas industry.

Today, our belief in India's skilled talent is enabling us to grow our engineering footprint, invest in skills and local partnerships, build world-class digital, manufacturing and supply chain capabilities and embrace future opportunities.

India is home of one of our R² Data Labs, where we deliver the technological solutions required to meet India's growth and help shape the future of Rolls-Royce in all the different business sectors.

[The Where We Operate section of the company's website provides information on the country of operation for certain entities by region. The information, however, lacks precise country of operation information for each individual entity.]

Question									
9.3 Does the company disclose its beneficial ownership and control structure?									
Score									
2									
Comments									
The company is publicly-listed on the London Stock Exchange and therefore automatically receives a score of '2'.									
Evidence									
<p>[20] Financial Times Markets Data (webpage) Accessed 21/10/2019 https://markets.ft.com/data/equities/tearsheet/summary?s=RR.:LSE</p>  <p>[17] Annual Report 2018 Accessed 07/10/2019 https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf [p.200] On 31 December 2018, the Company's issued share capital comprised of:</p> <table border="1"> <tr> <td>1,895,710,451</td> <td>Ordinary shares</td> <td>20p each</td> </tr> <tr> <td>29,071,130,784</td> <td>C Shares</td> <td>0.1p each</td> </tr> <tr> <td>1</td> <td>Special Share</td> <td>£1</td> </tr> </table> <p>The ordinary shares are listed on the London Stock Exchange.</p>	1,895,710,451	Ordinary shares	20p each	29,071,130,784	C Shares	0.1p each	1	Special Share	£1
1,895,710,451	Ordinary shares	20p each							
29,071,130,784	C Shares	0.1p each							
1	Special Share	£1							

Question

9.4 Does the company publish a percentage breakdown of its defence sales by customer?

Score

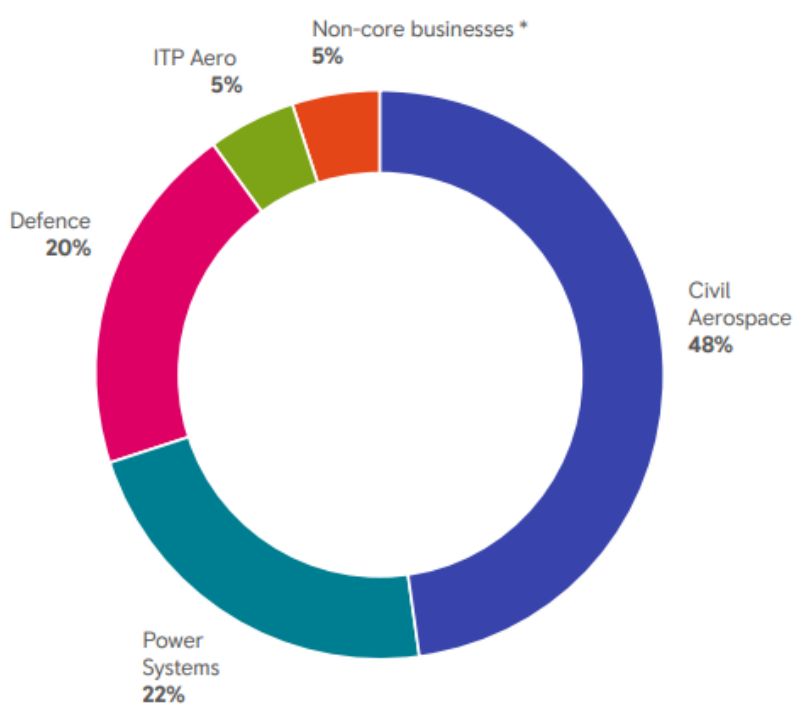
0

Comments

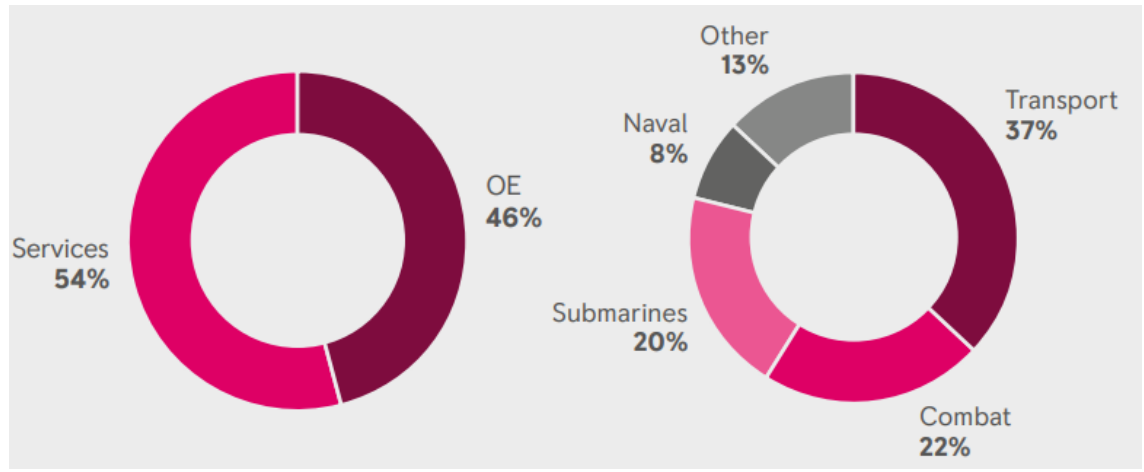
There company does not publish information regarding its main defence sales by customer. Although the company disaggregates its defence sales from other business segments, it does not provide any information on its customers.

Evidence

[17] Annual Report 2018
 Accessed 07/10/2019
<https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf>
 [p.2] Underlying revenue mix in 2018



[p.34] Defence
 Underlying revenue mix



10. State-Owned Enterprises (SOEs)

Question
10.1 Does the SOE publish a breakdown of its shareholder voting rights?
Score
N/A
Comments
N/A
Evidence

Question
10.2 Are the SOE's commercial and public policy objectives publicly available?
Score
N/A
Comments
Evidence

Question
10.3 Is the SOE open and transparent about the composition of its board and its nomination and appointment process?
Score
N/A
Comments
Evidence

Question
10.4 Is the SOE's audit committee composed of a majority of independent directors?
Score
N/A
Comments
Evidence

Question
10.5 Does the SOE have a system in place to assure itself that asset transactions follow a transparent process to ensure they accord to market value?
Score
N/A
Comments
Evidence

List of Evidence & Sources

No	Type (Webpage or Document)	Name	Download Date	Link
01	Webpage	Ethics and compliance	07/10/2019	https://www.rolls-royce.com/sustainability/ethics-and-compliance.aspx#/
02	Document	Our Group Policies	07/10/2019	https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/group-policies-manual.pdf#page=25
03	Document	Our Code. Quick Reference Guide	07/10/2019	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/rr-code-grq-en-may%202018.pdf
04	Webpage	Anti-bribery and corruption	07/10/2019	https://ourcode.rolls-royce.com/act-with-integrity/anti-bribery-and-corruption.aspx#additional-guidance
05	Document	At our Best: our Code	07/10/2019	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/languages-pdf/english-holding-page.pdf
06	Document	Message from the Chief Executive	07/10/2019	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/message-from-coc.pdf
07	Webpage	Rolls Royce Ethics Line	07/10/2019	https://secure.ethicspoint.com/domain/media/en/gui/17304/index.html
08	Webpage	Rolls Royce Ethics Line. Common Questions and Answers.	07/10/2019	https://secure.ethicspoint.com/domain/media/en/gui/17304/faq.html
09	Document	Additional Ways for Employees to Raise a Concern	07/10/2019	https://secure.ethicspoint.com/domain/media/en/gui/17304/additional.pdf
10	Document	Global Supplier Code of Conduct	07/10/2019	https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/2016%20Global%20Supplier%20Code%20of%20Conduct%20interactive%20June.pdf
11	Document	Basis of Reporting	07/10/2019	https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/sustainability/Reporting%20approach/basis-of-reporting-2015-2020-march-2017.pdf
12	Webpage	Our suppliers and partners	07/10/2019	https://www.rolls-royce.com/sustainability/customers-and-suppliers.aspx#/
13	Webpage	Number of ethics line contacts	07/10/2019	https://www.rolls-royce.com/sustainability/performance/data-charts.aspx
14	Webpage	Ethics line contacts by category	07/10/2019	https://www.rolls-royce.com/sustainability/performance/data-charts.aspx
15	Document	Board Governance	07/10/2019	https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/about/board-governance-inc-matters-reserved-for-board-and-its-committees-tor.pdf
16	Document	Memorandum and Articles of Association	07/10/2019	https://www.rolls-royce.com/~media/Files/R/Rolls-

				Royce/documents/investors/debt-securities/rr-plc-memorandum-of-association.pdf
17	Document	Annual Report 2018	07/10/2019	https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2018/2018-full-annual-report.pdf
18	Document	Application Guide	07/10/2019	https://suppliers.rolls-royce.com/GSPWeb/ShowProperty?nodePath=/BEA%20Repository/Global%20Supplier%20Portal/Section%20DocLink%20Lists/Terms%20of%20business/Main/Column%201/Section%201/Documents/Application%20guide//file
19	Webpage	Supplier FAQs	07/10/2019	https://suppliers.rolls-royce.com/GSPWeb/appmanager/gsp/guest?nfpb=true&_windowLabel=supplierdocuments_2&supplierdocuments_2_actionOverride=%2Fcom%2Frollsroyce%2Fgsp%2Fportlets%2Fsupplierdocuments%2FshowPageContent&supplierdocuments_2subPageURLPath=Supplier+FAQs&supplierdocuments_2pageURLPath=FAQs&supplierdocuments_2bgflag=1
20	Webpage	Financial Times Markets Data	21/10/2019	https://markets.ft.com/data/equities/tearsheet/summary?s=RR.:LSE
21	Document	2017 News Release – Agreements With Investigating Authorities	11/06/2020	http://media.investis.com/R/Rolls-Royce/download/2017/press-release/English-external-release.pdf
22	Webpage	Anti-Corruption Training Video For Advisors	11/06/2020	https://www.rolls-royce.com/anti-bribery-and-corruption-training-for-advisers
23	Document	Ethics and Compliance Powerpoint Presentation	11/06/2020	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/At our best approach.pdf
24	Document	2019 Annual Report	11/06/2020	https://www.rolls-royce.com/~media/Files/R/Rolls-Royce/documents/annual-report/2019/2019-full-annual-report.pdf
25	Document	Conflict of Interest Guidance	12/06/2020	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/guidance-conflict_of_interest.pdf
26	Webpage	Conflict of Interest Declaration Form	15/06/2020	https://rollsroyceplclrn.ethicspointvp.com/custom/rollsroyceplclrn/forms/cois/form_data.asp
27	Document	Global Know Your Partner Procedures	15/06/2020	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/know_your_partner_procedures.pdf
28	Document	Global Offset Procedures	17/06/2020	https://ourcode.rolls-royce.com/~media/Files/R/Rolls-Royce-COC/documents/supporting-documents/offset_procedures.pdf
29	Webpage	Where We Operate – Americas	17/06/2020	https://www.rolls-royce.com/about/where-we-operate.aspx
30	Webpage	Where We Operate – South Asia	17/06/2020	https://www.rolls-royce.com/about/where-we-operate.aspx

