

ANTI-BRIBERY AND CORRUPTION COMPLIANCE PROGRAMME GUIDANCE

FOR ROLLS-ROYCE GROUP THIRD PARTIES



Anti-Bribery and Corruption Compliance Programme Guidance ("Guidance") for Rolls-Royce Third Parties

1. Overview

Rolls-Royce (R-R) has a zero-tolerance approach to bribery and corruption. We conduct our business honestly, fairly and free from any corruption. R-R will only engage and transact with Third Parties of known integrity who will not expose R-R to unacceptable reputational or legal risks and whose conduct meets our standards at all times. In accordance with R-R commitment to ethical business practices, R-R expects its Third Parties to develop and implement an effective anti-bribery and corruption compliance programme.

This document has been developed to provide you with **guidance** as to what R-R expects a third party to have as an anti-bribery and corruption compliance programme. It also includes a checklist in **Appendix 1** which is designed to provide further guidance as to R-R's expectations in respect of how the basic elements of an anti-bribery and corruption compliance programme should be implemented.

This Guidance should not be interpreted as a mandatory or comprehensive list of requirements. Further this Guidance is not legal advice and you must take your own advice on what constitutes an appropriate anti-bribery and compliance programme for your business and in your jurisdiction.

R-R does not give any representation, express or implied, as to whether this Guidance will be sufficient to enable you to develop and implement an effective anti-bribery and corruption compliance programme that effectively mitigates all of the bribery and corruption risks your business faces. You will hold harmless R-R, its related companies, shareholders, employees, officers and directors in the event that you implement a programme in reliance on this Guidance and subsequently suffer any loss as a result of any actual or alleged bribery and corruption related to your business.

2. Anti-Bribery and Corruption Compliance Programme areas for consideration

a. Code of Conduct

A Code of Conduct is the cornerstone of an effective anti-bribery and corruption compliance programme. It affirms the company's commitment to conducting business in an honest and ethical manner and sets expectations regarding acceptable employee behaviour. A Code of Conduct for a company describes its mission, values and expected behaviours of its employees.

A Code of Conduct may be a standalone document or it can be included within another document, such as an Employee Handbook.

To address anti-bribery and corruption risks specifically, the Code of Conduct should at a minimum include the following basic elements:

- Clearly state who must follow the Code of Conduct. For example, where the business is a company it could state:

This Code of Conduct applies to all of the [Company's] directors, officers, and employees.

- Articulate the business expectation that **all employees must act ethically and in compliance with all applicable laws.**

For example:

The [Company] expects its directors, officers, employees, and agents [if applicable] to comply with applicable laws [insert applicable laws] and to maintain the highest ethical standards of business conduct.

- Identify **disciplinary actions** for failure to follow the Code of Conduct.

For example:

Failure to follow the Code of Conduct can result in disciplinary action, up to and including termination of employment.

Some of the other areas which you might consider as part of a Code of Conduct are:

Business Responsibilities

- Customer, Supplier, and Vendor Relationships and Confidentiality
- Government Contracting, Transactions, and Relations
- Government Reporting, Inquiries, Investigations, and Litigation
- Accurate Records, Reporting and Financial Recordkeeping/ Management/ Document Retention
- Fraud
- Expense Reimbursement and Time Reporting
- Gifts, Entertainment, Gratuities, Favours and Other Items of Value to/from Customers, Suppliers, Vendors, Contractors, Government Employees
- Political Contributions and Activity: Lobbying, Holding Office, and Finance
- Property and the use of Company Resources
- Security, including Computer and Network Security (Information Security)
- Computer Software and Hardware, Internet and Intranet
- Email and Voicemail (Communications Systems)
- Industrial Espionage and Sabotage

Laws and regulations

- Health and Safety
- Export/Import Laws
- Money Laundering
- Antitrust/Competitive Information/Fair Competition

Other

- Honesty and Trust
- Conflicts of Interest
- Confidential and Proprietary Information
- Social Responsibility
- Diversity and Inclusion
- Privacy
- Communications

R-R recognise that Third Parties may already have a Code of Conduct or Employee Handbook in place which addresses some of the areas discussed above. However, you may wish to review whether all areas have been fully considered. **Please note the examples are for your review and consideration. It is not expected, nor is it sufficient, for you to simply copy and paste these into your compliance materials. You are responsible for the drafting, implementation and training of a compliance framework at your company.**

b. Policies

i. Anti-Bribery and Corruption Policy

An Anti-Bribery and Corruption Policy (“Policy”) is a key pillar of an effective compliance programme. Such a Policy should include, but not necessarily be limited to, the following elements:

- General prohibition on government and commercial bribery.

For example:

[Company name], and its directors, officers, employees, and agents are prohibited from giving, offering, promising, authorising, requesting, or accepting the provision of “anything of value” to a “government official” or any other person, directly or indirectly, with the intent to obtain or retain any business or any other advantage.

- Definitions of key terms under the U.K. Bribery Act, the U.S. Foreign Corrupt Practices Act (“FCPA”), and other applicable local anti-corruption laws. For example, you should at a minimum define the following terms in your Policy:

“Government official” includes officers and employees, regardless of rank, of local, state, provincial, and national governments; member of a ruling or royal family; government-owned or -controlled companies; sovereign wealth funds; public international organisations, such as the United Nations or World Bank; and foreign political parties as well as candidates for public office.

“Anything of value” includes not only cash and cash equivalents, but anything with tangible or intangible value, such as gifts, travel, entertainment, accommodations, a charitable contribution, or a paid or unpaid internship.

“Business or Advantage” includes winning new business or obtaining a contract extension, but it can also include other less commonly considered benefits, such as reduction in taxes, tolerance of non-compliance with applicable rules, or other favours or preferential treatment.

ii. Hospitality, gifts and travel

[Guidance on business hospitality, gifts, and travel for government customers.](#)

The provision of gifts, meals and entertainment, and travel to government customers is a particularly high-risk area from an anti-bribery and corruption standpoint.

TIP
As you draft your policies, remember that a “government official” is defined broadly under anti-bribery and corruption laws. For example, an employee of a wholly or partially state-owned entity (e.g. a state-owned airline) is considered a government official. (See earlier definition for more detail.)

As there could be an increased risk of bribery and corruption associated with government officials, some businesses choose to include a blanket prohibition on the provision of gifts, hospitality, and travel to them so that it limits potential exposure. You may consider this as an appropriate approach for your business.

If your business does interact with government officials, and it is unavoidable that your employees will be providing some hospitality to them (e.g. your employee may invite a government official, such as an employee of a state-owned company, to a routine business lunch). Generally, such expenses are permitted, if they meet certain requirements.

For example:

- For **meals and entertainment**, such requirements include, but are not limited to, the following:

Business hospitality expenses must have a **valid business purpose** and be **reasonable** in light of such business purpose and frequency. The expenses should also be **proportionate** so that they are not lavish or excessive, and should not be offered with the expectation of receiving something in return. The meals and entertainment should be allowed under the laws of the government official’s country.

- **Gifts** should be of a token value (e.g., company-branded merchandise, such as a hat or pen).

The gift should be legal in the jurisdiction in which it is given, and should be given in a transparent manner with knowledge of the official’s government agency. **Cash or cash equivalents (such as gift cards or certificates) are not permitted. Gifts to the government official’s spouse or family members are prohibited as well.**

TIP

One issue that often causes confusion for employees is whether something is considered a gift or business hospitality. For example, if an employee invites a customer to a sporting event, it could be considered either a gift or entertainment depending on whether this employee attends the event with the customer. If an employee attends the event, this would be considered a business hospitality/entertainment expense. If an employee provides tickets to the customer, but does not attend the event, this would be considered a gift.

When you draft guidance for your employees about the rules that apply to gifts and business hospitality for government officials, you should consider clarifying this issue, so that your employees know what rules apply in certain situations.

- **Travel** for government officials can only be provided if it is directly related to the promotion or demonstration of your company's products or services, or related to the execution of a contract. Expenses beyond what is reasonably necessary for the business purpose, including lavish accommodations or expenses for spouses or other family members, should be prohibited. Cash per diems or daily allowances should also be prohibited.

All the expenses above should be supported by receipts.

All the expenses should be paid for by the most senior person present at the event or giving the gift to prevent someone signing off an expense in which they were involved.

- **Cash advances** to employees for these and other expenses should be avoided, if possible, in all situations. If a cash advance is required, for example, due to poor electronic banking facilities in the territory then detailed receipts should be obtained.

Other important issues to consider are:

- whether to require pre-approval for all expenses involving government officials,

- whether to introduce thresholds for approvals,
- who the designated approvers would be, and
- how the pre-approval and expense reimbursement process would work.

These considerations are very business specific, and factors to take into account include the number of employees you have, the volume of government business you undertake and whether you have operations in high-risk jurisdictions.

Guidance on hospitality, gifts, and travel for commercial customers.

Many countries, including the United Kingdom and the United States, have laws prohibiting commercial bribery. As a result, many companies also decide to implement certain controls concerning the provision of gifts, hospitality, and travel to their private/commercial customers.

The considerations are similar to those of government officials and include:

- whether to require pre-approval for all expenses involving commercial customers,
- whether to introduce thresholds for approvals,
- who the designated approvers would be, and
- how the pre-approval and expense reimbursement process would work.

R-R expects its Third Parties not to exceed its financial thresholds in relation to gifts and hospitality when undertaking work for or on behalf of R-R.

iii. Facilitation payments

A facilitation payment is defined as a small payment to a low-level government employee to expedite or secure performance of a routine, non-discretionary governmental action, such as obtaining utility services or clearing customs. Facilitation payments are never permitted for purposes of influencing a discretionary action or to obtain business.

The R-R Group prohibits facilitation payments and your policies should reflect this approach to business or activity performed in relation to R-R.

iv. Charitable and Political contributions

Your Policy should provide guidance on whether charitable and political contributions are permitted (including procedures). Many companies require pre-approval from their General Counsel/Legal Department, Chief Financial Officer (“CFO”), or another executive for such expenses. An effective Anti-Bribery and Corruption Policy clearly articulates the procedures employees should follow with regards to charitable and political contributions.

TIP

Note that charitable donations requested by a government official or an organisation affiliated with a government official or a government official’s spouse or another family member raise bribery and corruption risks and warrant extra scrutiny.

v. Provision on record-keeping

You may wish to consider including provision which specifies the duty of your employees to keep accurate records in your Policy.

Employees must help to ensure that financial books and business records (which include virtually all forms of business documentation) accurately and fairly reflect, in reasonable detail, all transactions and dispositions of assets. No undisclosed or unrecorded fund or asset may be established or maintained for any purpose. No employee shall participate in falsifying any accounting or other business record, and all employees must respond fully and truthfully to any questions from internal or independent auditors.

vi. Raising ethics or compliance-related concerns

An effective Policy includes information on how employees can raise ethics or compliance-related questions and concerns.

Some businesses have anonymous hotlines and/or email addresses dedicated for such reports. Other companies (particularly smaller companies, which may not have sufficient resources to pay for a hotline) direct employees to raise such concerns with another department at the company (such as Legal or Human Resources).

You may also report an issue or concern about unethical behaviour at R-R, its suppliers or customers, including anything illegal, at www.rolls-royce.com/ethicsline

TIP

Note that it is often insufficient to simply tell employees that there is an open-door policy when it relates to such issues. For example, an employee might be hesitant to raise an issue with his or her manager because that manager may be involved in the suspected wrongdoing, or an employee may be nervous to report something non-anonymously to an executive for fear of retaliation. To address the employees’ concerns and to ensure that your company is informed of any potential compliance-related issues, include a statement on non-retaliation in your Code of Conduct or Anti-Bribery and Corruption Policy, and think creatively about controls you can implement for employees to report concerns anonymously.

You should periodically review and update your Policy to make sure it is up-to-date with any new legal developments. There is no prescribed frequency for doing so and some companies review and revise their Policy annually, while others do so every couple of years and whenever there are new legal developments or new policies/procedures warranting inclusion in the Policy.

c. Communicating policies and requirements to employees

Having robust policies in place is only the first step in building your compliance framework. Ensuring that your **employees are aware** of the policies, and **understand your requirements** is an essential aspect in making your anti-bribery and corruption programme effective. Below are a few basic steps you should consider implementing to achieve this objective:

- Distribution of Relevant Policies to Employees: Distribute (a) your Code of Conduct, Anti-Bribery and Corruption Policy, and any other relevant policies to all new hires during onboarding and (b) any new and revised policies to current employees.
- Certifications: Require certain categories of employees (e.g., executive, management, finance, sales, etc.) to acknowledge the receipt of and certify to compliance with the company's Code of Conduct and Anti-Bribery and Corruption Policy annually.
- Anti-Bribery and Corruption Training: Introduce regular mandatory Code of Conduct and Anti-Bribery and Corruption Training. The format of training and the way it is delivered should be tailored to the structure and size of your business. For example, you may consider conducting training in person or by video conference/webinar. The frequency of such training varies but it typically ranges from annually to every couple of years depending on the Adviser size and risk level.

- “Tone from the Top”: Although such statements are included in the Code of Conduct and Anti-Bribery and Corruption Policy, it is also important for senior executives or individuals within your business to reinforce the importance of conducting business honestly and ethically (so-called “tone from the top”). For example, the Chief Executive Officer (“CEO”) or Managing Director could consider circulating an email to all employees referencing the Code of Conduct/the Anti-Bribery and Corruption Policy, and reiterating the business commitment to compliance. It will also be appropriate for managers to remind sales people that targets are only to be achieved by ethical means and that no bribery or trading in inappropriately obtained confidential information or other similar unethical or illegal trading practices will ever be acceptable.

TIP

Companies approach such communications differently but you should consider circulating such an email or letter at least annually. For example, if your company plans to conduct its annual Code of Conduct/Anti-Bribery and Corruption training, your CEO could circulate a communication reiterating the company's commitment to ethical business practices along with a reminder about the training programme being offered.

- Keep Records of Certifications and Training Attendance: Designate a dedicated business function (e.g., Human Resources) to collect and maintain employee certifications and training attendance records.
- Effective discipline: It is very important that your employees feel that there will be consequences for breaching these policies and therefore it is essential that you take appropriate disciplinary action against any employees breaching these policies.

There is no one single approach to communicate your policies to employees, and you should consider your business profile in determining what would constitute the most effective approach for your business.

d. Third-party programme

If your business works with third parties, such as sales agents, consultants, distributors, finders, customs agents, logistic providers or other similar third parties in high-risk jurisdictions, you should **strongly consider** implementing a third-party compliance programme. From an anti-corruption risk perspective, it is important to thoroughly check and monitor your third parties. This is because third parties may be carrying out activities as a representative of your business or at least will be perceived to others as being associated with your business.

Additionally, you may still be liable under applicable anti-bribery laws even if you do not have direct knowledge or give direction/authorisation to a third party to make an improper payment. For example, if your employee becomes aware of red flags relating to a specific deal (e.g., high commission or margin not justified for business reasons, vague references to “incentives,” etc.) and fails to follow up on these red flags, you may still be held liable for the misconduct. ‘Closing your eyes’ does not mean you can avoid liability.

When implementing a third-party programme other issues to consider are:

- Determining the appropriate level of due diligence;
- Inclusion of anti-bribery and corruption representations and warranties clauses in your contracts; and
- Ongoing monitoring of third-party relationships.

R-R recommends that you engage your own legal and compliance counsel to assess your risks in this area, and implement the necessary controls to ensure compliance with applicable laws.

e. Ongoing monitoring and regular review of compliance risks

As your business grows and evolves it is expected that the compliance risks you face will also change. Therefore, conducting regular reviews of your compliance risks, and implementing procedures for ongoing monitoring to ensure that your compliance programme is functioning effectively is important.

Ongoing monitoring can include finance personnel periodically reviewing a selection of expense reimbursement submissions to ensure compliance with your gifts and business hospitality guidelines. For businesses with internal audit capabilities, audits which review and test anti-bribery and corruption controls may also be appropriate. If you do not have an internal audit department you might consider employing a forensic accountant to do some proactive analysis of your accounting system for any indicators of fraud or corruption.

3. Summary

R-R takes its commitment to compliance very seriously, and only seeks to do business with Third Parties who share the same ethical values. This Guidance document is designed to provide a useful guide to you, as you continue to develop, revise, and implement your anti-bribery and corruption compliance programme.

Please remember that the compliance risks you face depend on a variety of factors which are specific to your business and include (but are not limited to) your business size and structure, business model, customer base, and the jurisdictions where you do business. We would therefore suggest that you consider hiring your own legal or compliance counsel to assist you

with the development and implementation of compliance policies and procedures to ensure these are effective for your company.

Having a “paper” programme that simply incorporates the elements discussed above is insufficient. What really matters is how **effective** your compliance programme is at addressing risks relevant to your business, educating your employees on proper business practices and legal requirements, and putting procedures into place to prevent and detect any potential misconduct.



Appendix 1: Checklist

The brief checklist below is designed to assist you with the implementation of the basic elements of an anti-bribery and corruption compliance programme.

- Do you have a Code of Conduct?
- Do you have an Anti-Bribery and Corruption Policy? Have you determined how often you will review and revise this Policy? Who is responsible for review and revisions to this Policy?
- Does your Anti-Bribery and Corruption Policy include prohibitions on government and commercial bribery? Does it contain relevant definitions?
- Have you developed guidelines on gifts, business hospitality, and travel for government officials? Where are those guidelines documented? How can your employees access them?
- Have you developed guidelines on gifts, business hospitality, and travel for commercial customers? Where are those guidelines documented? How can your employees access them?
- Have you developed and implemented procedures for pre-approval and/or expense reimbursement for such expenses? Are your employees aware of these requirements? How did you/will you communicate these requirements to your employees?
- Have you developed procedures for distributing relevant policies to your employees? Which department is responsible for distribution of these materials?
- Do you have a mechanism for employees to report compliance-related questions or concerns? How are employees informed about this mechanism?
- Are you implementing regular anti-bribery and corruption certifications? Which categories of employees will be required to certify? Do you have a form that your employees will be expected to sign? Which department is responsible for distributing these certifications, collecting them, and keeping track of signatures?
- Do you have a plan for your Anti-Bribery and Corruption training? How often will such trainings take place? What format will they take? What categories of employees will be required to attend? Who will be responsible for creating content? Which department will be responsible for organising trainings and collecting attendance records? How will new hires receive training?
- Will your CEO or another senior executive send periodic communications regarding your company's commitment to compliance? What form will they take? Frequency?
- Have you reviewed your third parties? Have you considered whether you need a third-party compliance programme based on the types of third parties that your company works with?
- Have you considered what procedures you can put into place to test whether your compliance programme is working?



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