



Global Offset Procedures

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. 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.

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 with primary responsibility for supporting Offset work.

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.

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.

Indirect Offset: All Offset Projects other than Direct Offset.

Low Risk Offset: Any Offset Project that:

- 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.

Offset Authority: A government entity tasked with defining, implementing and administering a country's Offset policy or activities.

Offset Credits: A value assigned by an Offset Authority to Offset work undertaken by Rolls-Royce.

Offset Credit Banking: Any proposed arrangement with an Offset Authority that may allow Rolls-Royce to earn Offset Credits in advance of Rolls-Royce entering a formal contract containing an Offset commitment.

Offset Credit Trading: The purchase, sale or transfer by Rolls-Royce of Offset Credits in an arrangement that involves a third party outside of the Rolls-Royce group.

Offset Partner: An entity or individual with whom it is intended that Rolls-Royce will contract in order to discharge an Offset obligation or who otherwise provides assistance with Offset. An Offset Partner may in some circumstances be an existing supplier or even a Rolls-Royce business.

Offset Project: Any project or transaction intended to satisfy all or part of an Offset obligation.

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.
- 1.5 The relevant Rolls-Royce business is responsible for identifying all potential Direct Offset activities to satisfy the obligation (with the assistance of the Corporate Offset Group if necessary). Where it is unable to identify sufficient Direct Offset to completely fulfil the Offset commitment, the Corporate Offset Group will seek to identify Indirect Offset opportunities to fulfil the balance of the commitment.
- 1.6 All funding (including funding for due diligence costs) will be provided by the relevant Rolls-Royce business and all liabilities and costs of any failure to satisfy the Offset obligation will be borne by the relevant Rolls-Royce business.

- 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.

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.

4. Data Privacy

As due diligence involves the collection, processing and retention of personal data, this must always be treated with regard to privacy legislation and the Global Data Privacy Policy. Any personal data must be accurate, up-to-date, not excessive, not retained for longer than necessary and kept securely, whether the personal data is electronic or hard copy. If any individual requests access to the personal data we hold on them they are entitled to see it (unless an exemption applies). Rolls-Royce has a process for actioning such requests that must be followed. Further information and guidance on handling personal data can be found on the Global Data Privacy intranet pages and via contacting data.privacy@rolls-royce.com.

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
Ethics and Compliance team	Know Your Partner Committee	Business Head of Ethics and Compliance or Director, Ethics and Compliance
Business or Function with Offset obligation		SVP or Functional Head
Corporate Offset Group	Director of Offset and Countertrade	VP Industrial Participation

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.

Main contract under which the Offset obligation arises
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.
Offset Project contracts, agreements with Offset Authorities or agreements relating to Offset Credit Banking, Offset Credit Trading or Offset Abatement
Drafting, negotiation and contract management is the responsibility of the Corporate Offset Group with input from the Ethics and Compliance team.

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.

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).

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:
 - multiple bank accounts, or have one amount split into multiple payments to the same or different bank accounts;
 - entities other than the entity engaged as an Offset Partner (for example, to personal bank accounts of directors or to a shell company); or
 - 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:
 - Increases in remuneration outside of the contractual renewal process;
 - "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;
 - payment of any amounts "up-front" (including by way of a loan to be repaid out of future remuneration);
 - payment in cash or cheque or by way of an equity investment;
 - non-standard descriptions/narratives on electronic transfers;
 - a payment, gift or charitable contribution for the Offset Partner or for another; or
 - 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.

Document control - for internal use only

STATUS	Final
VERSION NUMBER/FINAL	Version 5
EFFECTIVE DATE	1 January 2022
NEXT SCHEDULED REVIEW	January 2023
SPONSOR	General Counsel
OWNER	Director of Offset and Countertrade
AUTHOR	Ethics and Compliance Counsel
SUPERSEDES VERSION	Version 4 (1 January 2021)
SCOPE	All employees globally, subsidiaries and JVs (except ITP Aero and Rolls-Royce Power Systems which have their own policies)

© 2022 Rolls-Royce plc

The information in this document is the property of Rolls-Royce plc and may not be copied, communicated to a third party, or used for any purpose other than that for which it is supplied, without the express written consent of Rolls-Royce plc.