

## **DEFERRED PROSECUTION AGREEMENT**

Rolls-Royce Plc and Rolls-Royce Energy Systems Inc. (together "Rolls-Royce") by its undersigned representatives pursuant to authority granted by its Board of Directors, and the Director of the Serious Fraud Office ("the SFO") enter into this Deferred Prosecution Agreement (the "Agreement"). This Agreement comes into force on the day when the Court makes a declaration pursuant to Schedule 17, section 8(1) and (3) of the Crime and Courts Act 2013.

The terms and conditions of this Agreement are as follows:

### **The Indictment and Acceptance of Responsibility**

1. Rolls-Royce agrees that the SFO will prefer an Indictment numbered U20170036 ("the Indictment").
2. Rolls-Royce agrees that the Statement of Facts is true and accurate to the best of its knowledge and belief.
3. In the event of it becoming necessary for the SFO to pursue the prosecution that is deferred by this Agreement, the Statement of Facts will be treated as an admission by Rolls-Royce of the facts stated therein under section 10 of the Criminal Justice Act 1967 in any criminal proceedings brought against Rolls-Royce for the alleged offence contained in the Indictment.

### **Term of the Agreement**

4. This Agreement is effective from the date on which the Court makes a declaration under Schedule 17, Section 8(1) and (3) of the Crime and Courts Act 2013 until the earlier of:
  - a. 17 January 2022; and
  - b. a date after 17 January 2021 on which the SFO, following a reasonable request from Rolls-Royce, confirms in writing to Rolls-Royce that the Agreement has concluded (such confirmation not to be unreasonably withheld or delayed taking into account the purpose of Rolls-Royce's remaining obligations (if any) under this Agreement)

(the "Term").

### **Scope of Agreement**

5. These terms do not provide any protection against prosecution for conduct not disclosed by Rolls-Royce prior to the date on which the Agreement comes into force and nor does it

provide protection against prosecution for any future criminal conduct committed by Rolls-Royce. In addition these terms do not provide any protection against prosecution of any present or former officer, director, employee or agent of Rolls-Royce.

### **Deferred Prosecution**

6. In consideration of:
  - (i) The past and future cooperation of Rolls-Royce as described in part A below and
  - (ii) Rolls-Royce's disgorgement of profit of £258,170,000 and
  - (iii) Rolls-Royce's payment of a financial penalty of £239,082,645 and
  - (iv) Rolls-Royce's payment of costs of £13,000,000 (TBC) and
  - (v) Rolls-Royce, at its own expense, agreeing to complete the actions required at part F below.

The SFO agrees that, subject to the Court's approval of the Agreement, the Indictment should on being preferred immediately be suspended for the Term of the Agreement.

7. The SFO further agrees that if Rolls-Royce fully complies with all its obligations under this Agreement or the Agreement as varied with approval of the Court, the SFO will not continue the prosecution against Rolls-Royce upon the Indictment and at the conclusion of the Term the Agreement will expire. Within 30 days of this Agreement's expiration the SFO will give notice to the Court and to Rolls-Royce that the proceedings under the Indictment are to be discontinued.
8. After the expiry of the Agreement the SFO may institute fresh proceedings if the SFO believes that during the course of negotiations of the Agreement Rolls-Royce provided inaccurate, misleading or incomplete information to the SFO and Rolls-Royce knew, or ought to have known, that the information was inaccurate, misleading or incomplete.

### **Terms**

#### **A. Co-operation**

9. Rolls-Royce shall retain in England and Wales all material gathered as part of its internal investigation and intermediary review for the Term of the Agreement. This provision does not amend or derogate from sections 2 (16) and (17) of the Criminal Justice Act 1987 nor any other statutory or common law obligation.

10. Rolls-Royce shall cooperate fully and honestly with the SFO in relation to any prosecution brought by the SFO in respect of any conduct under investigation or pre investigation by the SFO at any time during the Term of this Agreement, subject to applicable law and regulations.
11. At the reasonable request of the SFO, Rolls-Royce shall also cooperate with other domestic or, consistent with local law and practice, foreign law enforcement and regulatory authorities and agencies, as well as the Multilateral Development Banks (“MDBs”), in any investigation or prosecution of any of its present or former officers, directors, employees, agents, and consultants, or any other third party, in any and all matters relating to the conduct which is the subject of the Indictment and described in the Statement of Facts.
12. Rolls-Royce agrees that its cooperation pursuant to paragraph 10 shall include, but not be limited to, the following:
  - a) disclosure of all information and material in its possession, custody or control, which is not protected by a valid claim of legal professional privilege or any other applicable legal protection against disclosure, in respect of its activities and those of its present and former directors, employees, agents, consultants, contractors and sub-contractors.
  - b) use of its best efforts to make available for interview, as requested by the SFO, present or former officers, directors, employees, agents and consultants of Rolls-Royce.
13. Nothing in paragraphs 9 to 11 is intended to derogate from Rolls-Royce's legal rights to raise any defences or assert affirmative claims in civil, regulatory and criminal proceedings in other fora or jurisdictions relating to the matters set out in the Statement of Facts.

#### **B. Disgorgement of Profits**

14. The SFO and Rolls-Royce agree that £258,170,000 is the amount of profit gained as a result of the alleged offences described in the Indictment and Statement of Facts. Therefore Rolls-Royce agrees to disgorge this amount, as set out at paragraph 16 below, and to pay this amount to the SFO for onward transmission to the Consolidated Fund, and failure to do so will constitute a breach of this Agreement. Subject to any finding of bad faith on the part of the SFO, payment of the disgorgement of profits is final and shall not be refunded.

#### **C. Payment of a Financial Penalty**

15. The SFO and Rolls-Royce agree that Rolls-Royce will pay a financial penalty to the SFO, as set out at paragraph 16, for onward transmission to the Consolidated Fund in the amount of £239,082,645, and failure to do so will constitute a breach of this Agreement. Subject to any

finding of bad faith on the part of the SFO, payment of the financial penalty is final and shall not be refunded.

**D. Payment Terms in respect of Disgorgement and Financial Penalty**

16. Rolls-Royce will, subject to paragraph 18, pay the disgorgement and financial penalty in four instalments as prescribed below:

- a. £119 million payable by 30 June 2017
- b. £100 million payable by 31 January 2019
- c. £130 million payable by 31 January 2020
- d. £148, 252,645 by 31 January 2021

17. Rolls-Royce will pay simple interest on the dates prescribed above at an annual rate of 80 basis points over GBP 6m LIBOR on any amount of disgorgement or financial penalty unpaid calculated from 30 June 2017 until full payment is made.

18. At the sole discretion of the SFO late payment of any instalment including any interest thereon by up to 30 days will not constitute a breach of this agreement but will be subject to additional interest at the prevailing rate applicable to judgement debts in the High Court.

19. The SFO is not precluded from arguing in any future prosecution that the Court should impose a higher disgorgement or financial penalty.

20. Rolls-Royce agrees that no tax deduction will be sought in the UK or elsewhere in connection with the payment of this disgorgement, financial penalty or any instalment thereof including interest.

**E. Costs**

21. The SFO and Rolls-Royce agree that Rolls-Royce will pay the reasonable costs of the SFO's investigation and of entering into this Agreement in the amount of £13 million to the SFO. Rolls-Royce will pay this sum to the SFO subject to paragraph 22 within ten (10) days of the Court's declaration under Schedule 17 section 8(1) and (3) of the Crime and Courts Act 2013 and failure to do so will constitute a breach of this Agreement. The payment of costs is final and shall not be refunded.

22. At the sole discretion of the SFO late payment of the SFO's costs by up to 30 days will not constitute a breach of this agreement but will be subject to interest at the prevailing rate applicable to judgement debts in the High Court.

23. The SFO is not precluded from arguing in any future prosecution that the Court should impose a higher costs order.
24. Rolls-Royce acknowledges that no tax deduction may be sought in the United Kingdom or elsewhere in connection with the payment of any part of this costs order.

**F. Compliance Programme**

25. The SFO acknowledges that Lord Gold was retained by Rolls-Royce in January 2013 to conduct an independent review of the approach of Rolls-Royce to anti-bribery and corruption compliance. In the course of his retainer Lord Gold has produced the following interim reports in respect of risk areas identified in Rolls-Royce and recommendations for change:
  - a. First Interim Report dated 10 June 2013; and
  - b. Second Interim Report dated 18 December 2014.
26. Rolls-Royce will use best endeavours to procure from Lord Gold the Third Interim Report by 31 March 2017.
27. Rolls-Royce will at its own expense:
  - a. Within five (5) days of its completion and delivery to Rolls-Royce, provide a copy of Lord Gold's Third Report to the SFO.
  - b. Within three (3) months of completion and delivery to Rolls-Royce of the Third Report, as directed by Lord Gold, produce a written plan to implement recommendations contained in the Third Report and any outstanding recommendations contained in the First and Second Interim Reports (the "Implementation Plan") and begin a period of executing the Implementation Plan ("the Implementation Period").
  - c. Within five (5) days of its completion, provide a copy of the Implementation Plan to the SFO.
  - d. In the event that the following risk areas are not addressed in the Third Report, request recommendations from Lord Gold in respect of:
    - i. Rolls-Royce's offer or agreement to provide "concessions" in the form of cash or credits, or through any other means, directly or indirectly to customers;

- ii. the geographical distribution, number and professional competence of Rolls-Royce compliance employees;
  - iii. the tailoring of compliance training to meet jurisdictional risks; and
  - iv. the effective anti-bribery and corruption policies, procedures and controls of Rolls-Royce Power Systems.
- e. Within six (6) months of the commencement of the Implementation Period, add to the Implementation Plan and begin to execute recommendations in respect of the additional risk areas set out above at paragraph 27 d. (i)-(iv).
- f. Within twenty-four (24) months of commencement of the Implementation Period, complete to the satisfaction of Lord Gold the actions contained in the Implementation Plan, or have sustainment plans in place to address to the satisfaction of Lord Gold the actions contained in the Implementation Plan, including those added pursuant to paragraph 27 e. above.
- g. Within four (4) months of the completion of the Implementation Plan to the satisfaction of Lord Gold, use best endeavours to procure from Lord Gold a final report to Rolls-Royce and the SFO in respect of the execution of the Implementation Plan (the "Final Report").
28. In compliance with the above provisions Rolls-Royce represents that from the date of this Agreement it will continue to review its internal controls, policies and procedures regarding compliance and if necessary and appropriate Rolls-Royce will adopt new or modify existing controls, policies and procedures in order to ensure it complies with all applicable anti-corruption laws.
29. The ultimate responsibility for identifying, assessing and addressing risks remains with the Board of Directors of Rolls-Royce.
30. Rolls-Royce will permit Lord Gold and his associates access to any such material they reasonably request in order to collect the relevant information to fulfil their function.
31. Rolls-Royce will permit Lord Gold to co-operate generally with the SFO as requested by it.
32. If Lord Gold resigns or is unable to fulfil his obligations, Rolls-Royce shall notify the SFO immediately. A replacement selected by Rolls-Royce must be approved by the SFO. The terms of this Agreement shall apply to the replacement.

33. Rolls-Royce agrees that it will not employ or engage Lord Gold or his associated entities for a period of not less than two (2) years from the date of the delivery of the Final Report.
34. Implementation of additional controls, policies and procedures shall not be construed in any future proceedings as providing an automatic statutory defence, immunity or amnesty in respect of conduct occurring subsequent to their implementation. Nothing in this paragraph is intended to derogate from Rolls-Royce's legal rights to raise that implementation as part of any defences, or for it to assert affirmative claims, in civil, regulatory and criminal proceedings relating to the independent review conducted under this Agreement or the matters set out in the Statement of Facts.

### **Breach of the Agreement**

35. Subject to paragraph 36 below, if, during the Term of this Agreement, the SFO believes that Rolls-Royce has failed to comply with any of the terms of this Agreement, the SFO may make a breach application to the Court. In the event that the Court terminates the Agreement the SFO may make an application for the lifting of the suspension of the indictment associated with the DPA and thereby reinstitute criminal proceedings.
36. In the event that the SFO believes that Rolls-Royce has failed to comply with any of the terms of this Agreement the SFO agrees to provide Rolls-Royce with written notice of such alleged failure prior to commencing proceedings resulting from such failure. Rolls-Royce shall, within fourteen (14) days of receiving such notice, have the opportunity to respond to the SFO in writing to explain the nature and circumstances of the failure, as well as the actions Rolls-Royce has taken to address and remedy the situation. The SFO will consider the explanation in deciding whether to make an application to the Court.

### **Sale or merger of Rolls-Royce**

37. Rolls-Royce agrees that in the event that, during the Term of this Agreement, it sells, merges or transfers all or substantially all of its business operations as they exist at the date of this Agreement, whether such sale is an asset sale, merger or transfer it shall include in any contract for sale, merger or transfer a provision binding the purchaser or successor to the obligations described in this Agreement.

### **Public statements**

38. Rolls-Royce agrees that it shall not make, and it shall not authorise its present or future lawyers, officers, directors, employees, agents, its parent company, sister companies, subsidiaries or shareholders or any other person authorised to speak on Rolls-Royce's behalf to make, any public statement contradicting the matters described in the Statement

of Facts. This paragraph does not apply to any statement made by any present or former director, officer, employee or agent of Rolls-Royce in the course of any criminal or civil proceedings instituted against or by the said individual. Nothing in this paragraph is intended to derogate from Rolls-Royce's legal rights to raise any defences or assert affirmative claims in civil, regulatory and criminal proceedings in other fora or jurisdictions relating to matters set out in the Statement of Facts.

**Warranty**

39. Rolls-Royce warrants that:

- i. the information provided to the prosecutor throughout the DPA negotiations and upon which the DPA is based does not knowingly contain inaccurate, misleading or incomplete information relevant to the conduct Rolls-Royce has disclosed to the SFO.
- ii. it will notify the SFO and provide where requested any documentation or other material that it becomes aware of whilst this Agreement is in force which it knows or suspects would have been relevant to the offences particularised in the draft indictment.

40. Rolls-Royce agrees to its legal advisors (Slaughter and May and Debevoise & Plimpton LLP) providing a warranty in the same terms as paragraph 39.i above.

**Consent**

Agreed

For Rolls-Royce PLC: .....

Name:

Position:

Dated day of January 2017



For the Serious Fraud Office: .....

Name: David Green, CB QC,

Position: Director

Dated    day of January 2017

