



Rolls-Royce®

ROLLS-ROYCE GROUP MALUS AND CLAWBACK POLICY

Table of Contents

- 1. Meaning of words used 1
- 2. General 2
- 3. Triggers and periods 2
- 4. Effect of Malus and Clawback 4
- 5. Malus and Clawback process 5
- 6. Other terms 6

Rolls-Royce Group Malus and Clawback Policy

1. Meaning of words used

1.1 General

In this Policy:

“All-Employee Plan” means the Rolls-Royce SharePurchase Plan, the Rolls-Royce plc UK Sharesave Plan 2011, the Rolls-Royce UK Sharesave Plan, the Rolls-Royce plc International Sharesave Plan 2011, the Rolls-Royce International Sharesave Plan and the Rolls-Royce Global Employee Share Purchase Plan;

“Award” means:

- (i) any option or award, being a right to be paid cash or to acquire shares (including where such shares are acquired upfront subject to forfeiture and/or restrictions), which is granted pursuant to a Plan; and/or
- (ii) a discretionary bonus that may become payable in cash pursuant to a Plan, other than an award granted under an All-Employee Plan;

“Board” means the board of directors of the Company or a committee duly authorised by it;

“Business Day” means a day on which the London Stock Exchange (or, if the Board determines, any other stock exchange on which the Company’s shares are traded) is open for the transaction of business;

“Clawback” means the recovery of amounts relating to Policy Awards that have been Settled;

“Company” means Rolls-Royce Holdings plc (registered in England and Wales under number 07524813);

“Conduct Assessment Group” means one or more individuals with the delegated responsibilities and powers set out in section 5 (Malus and Clawback process);

“Group” means the Company and its Subsidiaries, and **“Member of the Group”** will be understood accordingly;

“Malus” means the reduction, cancellation and/or forfeiture of Policy Awards that have not yet been Settled;

“Participant” means an individual to whom a Policy Award has been granted (or, after death, an individual’s personal representatives);

“Plan” means any incentive plan or discretionary bonus arrangement operated by any Member of the Group;

“Policy” means the policy constituted by these provisions and any schedules and known as the Rolls–Royce Group Malus and Clawback Policy, as amended from time to time;

“Policy Award” means any Award which, under its terms, has been specified to be subject to this Policy;

“Settlement Date” means the date on which an Award is settled by the payment of cash and/or the delivery of shares, as determined in accordance with the terms applicable to the Award, and **“Settled”** will be understood accordingly;

“**Trigger Event**” means the Board determining that one or more of the circumstances set out in section 3.1 (Triggers) has occurred at any time; and

“**UK**” means United Kingdom.

1.2 Interpretation

In this Policy, the singular includes the plural and the plural includes the singular. References to any enactment or statutory requirement will be understood as references to that enactment or requirement as amended or re-enacted and they include any subordinate legislation made under it.

2. General

2.1 Background

This Policy sets out the terms of the Malus and Clawback provisions operated by the Group.

The Group operates this Policy to manage risks and to ensure that inappropriate behaviour or conduct is not rewarded and to comply with the Group’s regulatory obligations.

2.2 Acceptance of the Policy

Participants will either expressly accept the terms of this Policy or, by accepting a Policy Award (whether deemed or express acceptance), will be deemed to have accepted the terms of this Policy.

2.3 Availability of the Policy

A copy of this Policy will be made available to Participants and to the individuals who are offered a Policy Award. If a Participant has any questions, or would like to discuss any aspect of this Policy, the local People Partner should be contacted in the first instance.

2.4 Operation of the Policy

The Board will be responsible for determining whether, and to what extent, Malus and/or Clawback operate. All determinations or decisions of the Board are final and binding in all respects. The Board has absolute discretion whether or not, and how, to exercise any discretion given to it by this Policy. If any question or dispute arises as to the interpretation of this Policy, the decision of the Board will be conclusive.

2.5 Participant co-operation

A Participant will provide all information, documents and/or undertakings and/or take any actions as the Board may reasonably request in order to carry out the terms of this Policy.

3. Triggers and periods

3.1 Triggers

The Board may decide to apply Malus and/or Clawback to a Policy Award where there is reasonable evidence (in the opinion of the Board and based on such evidence as it decides is appropriate):

3.1.1 of misconduct (including reckless negligent or wrongful actions) injurious to the business, reputation or integrity of the Group or any Member of the Group, by the Participant;

3.1.2 that the Participant has acted in a way which has materially damaged, or is likely to materially damage, the reputation of the Group or any Member of the Group, or has brought, or is likely to bring, the Group or any Member of the Group into material disrepute in any way;

- 3.1.3 that the information and/or calculation that is relied upon by the Board to determine the value of any cash and/or shares to which such Policy Award relates is found to be materially incorrect, mistaken or misrepresented to the advantage of the Participant;
- 3.1.4 that there has been a material failure of any of the Group's risk management policies;
- 3.1.5 that a serious breach of the Group's Global Code of Conduct has occurred;
- 3.1.6 that there has been a breach of, or inadequate response to, a significant HSE or other environmental issue;
- 3.1.7 that there has been a material misstatement of the Group's or any Member of the Group's or business unit's financial statements or audited results;
- 3.1.8 that there has been a serious financial irregularity in relation to any Member of the Group;
- 3.1.9 that the Group or any Member of the Group suffers a material downturn in its financial performance or that there has been an event that has a material negative impact on the value of the Group or any Member of the Group;
- 3.1.10 that the Participant has failed to adequately manage and/or supervise another or others which has led to one of the circumstances in this section 3.1 (Triggers) occurring in relation to that other or those others; or
- 3.1.11 that any other circumstances have arisen or existed which justify it, where the Board considers the circumstances to be similar in nature or effect to any of sections 3.1.1 to 3.1.10 above.

3.2 Period for Malus

Policy Awards will be subject to the operation of Malus if there is a Trigger Event at any time from the date on which the Policy Award is granted until the Settlement Date.

3.3 Period for Clawback

Policy Awards will be subject to the operation of Clawback if there is a Trigger Event at any time:

- 3.3.1 where the Settlement Date is before the third anniversary of grant, from the Settlement Date until the end of the period of three years following grant for Policy Awards granted under the Rolls-Royce Incentive Plan or the Rolls-Royce plc Deferred Share Bonus Plan; or
- 3.3.2 where the Settlement Date is before the sixth anniversary of grant, from the Settlement Date until the end of the period of six years following grant for Policy Awards granted under the Rolls-Royce Long Term Incentive Plan; or
- 3.3.3 within such other period specified by the Board at the time of grant of the Policy Award.

3.4 Extension of Clawback period

The Board may extend the relevant period referred to in section 3.3 (Period for Clawback) where any Member of the Group or any applicable regulatory authority (including an overseas regulatory authority outside of the UK) has commenced an investigation into facts or events which the Board considers could potentially lead to the operation of Clawback. If the Board exercises this right to extend the Clawback period for a Policy Award, Clawback may be operated in respect of the Policy Award if there is a Trigger Event at any time during the extended Clawback period.

4. Effect of Malus and Clawback

4.1 Effect of Malus

If the Board decides to operate Malus in respect of a Policy Award, the Policy Award will lapse, be reduced, be cancelled and/or be forfeited to the extent determined by the Board.

4.2 Clawback recovery

If the Board decides to operate Clawback in respect of a Policy Award, it has the right to (or to procure that another person will):

- 4.2.1 lapse, reduce, cancel or forfeit cash or shares which may be or otherwise become due to the Participant in relation to any Award; and/or
- 4.2.2 reduce the amount of any future Award to be granted to the Participant; and/or
- 4.2.3 forfeit, in whole or in part, cash or shares being held on behalf of the Participant in any retention arrangement in connection with any Plan (other than in connection with an award granted under an All-Employee Plan); and/or
- 4.2.4 make a deduction from any payment otherwise due to the Participant, to the extent permitted by law; and/or
- 4.2.5 claim repayment of an amount directly from the Participant (in cash or shares) which the Participant must repay on receipt of a written request.

4.3 Extent of Clawback recovery

Clawback will be operated to the extent of such amounts and on such terms as the Board determines. The extent to which Clawback is operated must not exceed the aggregate gross value (as determined by the Board) of the Policy Award (including any benefits received, such as dividend equivalents or dividends in connection with the Policy Award or the underlying shares).

4.4 Payments in shares

Where a Participant is required to make a payment in the form of shares:

- 4.4.1 the Participant will cease to have any rights in respect of the shares;
- 4.4.2 the beneficial title to the shares will immediately transfer to the Company or such other person as the Board specifies;
- 4.4.3 the legal title to the shares will be transferred to the Company, or such other person as the Board specifies, as soon as possible, and the Participant will enter into such documents and take all actions that the Company requires to effect or facilitate the transfer; and
- 4.4.4 the Board may require the Participant to appoint a person to act as the Participant's agent and/or attorney to effect any transfers or take any actions required in respect of the shares.

4.5 Timing for payment

Where a Participant is required to make a payment, the Participant must make the payment within 30 days of the Participant being notified in writing of the amount due.

4.6 Different groups and individuals

The extent to which Malus and/or Clawback is applied may vary between different groups or individuals identified, including in relation to the same event and/or similar Policy Awards.

4.7 Selection of Policy Awards

Where a Participant has more than one Policy Award, the Board will determine the particular Policy Award(s) in relation to which the Malus and/or Clawback relates.

5. Malus and Clawback process

5.1 Conduct Assessment Group

The Board may (but is not required to) appoint the Conduct Assessment Group to:

5.1.1 identify and review circumstances where it believes the operation of Malus and/or Clawback should be considered by the Board, in accordance with the criteria specified in section 3.1 (Triggers) above; and

5.1.2 make recommendations to the Board regarding whether Malus and/or Clawback should be operated.

5.2 Powers of the Conduct Assessment Group

Any Conduct Assessment Group may:

5.2.1 investigate;

5.2.2 gather evidence; and

5.2.3 request, obtain and review sufficient information,

to enable it to carry out the role and functions specified in section 5.1 (Conduct Assessment Group).

5.3 Individual representations

If the Conduct Assessment Group and/or the Board considers that Malus and/or Clawback may be operated in respect of one or more of a Participant's Policy Awards, the Participant will be informed as soon as practicable. The Participant will receive a summary of the reasons why the Conduct Assessment Group or the Board (as appropriate) determines that the operation of Malus and/or Clawback may be appropriate.

Upon receipt of this communication, the Participant will be given the opportunity to respond in writing within a reasonable time, as specified by the Conduct Assessment Group or the Board (as appropriate). Any representations made by the individual will be taken into consideration as appropriate before the Conduct Assessment Group makes its recommendation under section 5.1 (Conduct Assessment Group) or the Board makes its determination under section 5.4 (Determination by the Board) (as appropriate).

5.4 Determination by the Board

The Board will determine whether, and to what extent, Malus and/or Clawback should be operated taking into account all relevant factors.

Where a Conduct Assessment Group is appointed, a determination made by the Board under this section 5.4 (Determination by the Board) will follow an investigation and recommendation from the Conduct Assessment Group.

5.5 Communication of operation of Malus and/or Clawback

The details of any operation of Malus and/or Clawback will be communicated to an affected Participant in writing setting out the extent to which Malus and/or Clawback operates and the reasons for such operation.

5.6 Exception to communications

The Board will not be obliged to inform the Participant or to provide a summary of reasons under either sections 5.3 (Individual representations) or 5.5 (Communication of operation of Malus and/or Clawback) while it considers this would breach any laws or regulations that may apply or give rise to significant issues to any Member of the Group, including but not limited to disclosure of commercially sensitive information.

6. Other terms

6.1 Currency conversions

Any conversion of money into different currencies (whether notional or actual) when operating this Policy will be done at a time and rate of exchange that the Board determines.

No Member of the Group will be liable for any loss due to movements in currency exchange rates or conversion or money transfer charges.

6.2 Notices

Any notice or other communication required under this Policy will be given in writing, which may include electronic means.

Any notice or other communication to be given to a Participant may be delivered by electronic means (including by email), personally delivered or sent by ordinary post to such address as the Board reasonably considers appropriate.

Any notice or other communication to be given to the Company or its agents may be delivered or sent to its registered office or such other place and by such means as the Board or the Company's agents may specify and notify to Participants.

Notices or other communications:

- 6.2.1 sent electronically will be deemed to have been received immediately (if sent during usual business hours) or at the opening of business on the next Business Day (if sent outside usual business hours);
- 6.2.2 that are personally delivered will be deemed to have been received when left at the relevant address (if left during usual business hours) or at the opening of business on the next Business Day (if left outside usual business hours); and
- 6.2.3 sent by post will be deemed to have been received 24 hours after posting to a UK address or 3 days after posting to an address outside the UK,

unless there is evidence to the contrary.

All notices or communications to be given to Participants are given and sent at the risk of the addressee. No Member of the Group has any liability in respect of any notice or communication given or sent, nor need they be concerned to see that the addressee actually receives it.

6.3 Dealing restrictions

Each person will have regard to dealing restrictions when operating, interpreting, administering and/or taking any other action in relation to this Policy.

For the purposes of this section 6.3 (Dealing restrictions), “dealing restrictions” means any internal or external restrictions on dealings or transactions in securities.

6.4 Liability for loss

This section 6.4 (Liability for loss) applies during a Participant’s employment and after the termination of a Participant’s employment, whether or not the termination is lawful.

A Participant will have no claim or right of action in respect of any decision, omission or discretion which may operate to the disadvantage of the Participant.

No Participant has any right to compensation or damages for any loss (actual or potential) in relation to the application of this Policy, including any loss in relation to:

- 6.4.1 any loss or reduction of rights or expectations in connection with this Policy in any circumstances (including lawful or unlawful termination of employment);
- 6.4.2 any exercise of a discretion or a decision taken in relation to a Policy Award or to this Policy, or any failure or delay to exercise a discretion or take a decision; or
- 6.4.3 the operation, suspension, termination or amendment of this Policy.

6.5 Third party rights

Except as otherwise expressly stated to the contrary, nothing in this Policy confers any benefit, right or expectation on any persons other than a Participant or Member of the Group. No third party has any rights under the UK Contracts (Rights of Third Parties) Act 1999 (or any similar local legislation in an overseas jurisdiction), to enforce any term of this Policy.

6.6 Amendment

The Board can amend the terms of this Policy at any time. If, in the opinion of the Board, an amendment is detrimental to a Participant, the Company will notify the Participant of the change.

6.7 Provisions of this Policy

If any provision of this Policy is held to be invalid, illegal or unenforceable for any reason by any court with jurisdiction then, for the purposes of that jurisdiction only:

- 6.7.1 such provision will be deleted; and
 - 6.7.2 the remaining provisions will continue in full force and effect,
- unless the Board determines otherwise.

6.8 Conflicts

In the event of any discrepancy between this Policy and the provisions of a Plan applicable to an Award, this Policy will prevail.

6.9 Language

Where there is any conflict between the terms of the English version of this Policy and a version in any other language, the English language version will prevail.

6.10 Governing law and jurisdiction

The laws of England and Wales govern this Policy. The courts of England and Wales have exclusive jurisdiction in respect of any disputes arising in connection with this Policy.