

ROLLS-ROYCE PLC

UK SHARESAVE PLAN 2011

**As approved by the shareholders of Rolls-Royce
Holdings plc on [6 May 2011]**

HMRC Reference: [●]



FRESHFIELDS BRUCKHAUS DERINGER

1. DEFINITIONS

Associated Company has the meaning given to those words by paragraph 47 of Schedule 3 to ITEPA 2003;

the Board means the board of directors of the Company or a duly authorised committee thereof;

Bonus Date means in relation to an Option:

(a) where the Option is linked to a three year Savings Contract, the earliest date on which the bonus is payable under the Savings Contract (that is, after making 36 monthly contributions); or

(b) where the Option is linked to a five year Savings Contract under which the Option Holder has elected to receive the five year bonus, the earliest date on which the five year bonus is payable under that Savings Contract (that is, after making 60 monthly contributions); or

(c) where the Option is linked to a five year Savings Contract under which the Option Holder has elected to receive the seven year bonus, the earliest date on which the seven year bonus is payable under that Savings Contract (that is, the second anniversary of the payment of the five year bonus which is paid after 60 monthly contributions);

the Company means Rolls-Royce plc;

Control has the meaning given to it in section 995 of the Income Tax Act 2007;

Eligible Employee any employee or director who is eligible to participate in the Plan under the provisions of rule 2.2;

Full Time not less than twenty five hours per week (excluding meal breaks);

Holding Company means any holding company of a company within the meaning of section 1159 and schedule 6 of the Companies Act 2006;

ITEPA 2003 means the Income Tax (Earnings and Pensions) Act 2003; and expressions not otherwise defined in this Plan have the same meanings as they have in Schedule 3;

ITTOIA 2005 means the Income Tax (Trading and Other Income) Act 2005;

Key Feature means any provision of the Plan which is necessary in order to meet the requirement of Schedule 3;

Market Value means, on any day, the average of the middle market quotations of a Share as derived from the Stock Exchange Daily Official List for the three immediately preceding dealing days;

Option a right granted under the Plan to acquire Shares;

Option Holder any individual who holds a subsisting Option (or, where the context permits, the legal personal representatives of a deceased Option Holder);

Option Price the price per Share payable on the exercise of an Option as determined under rule 4.6;

Participating Company means the Company or any Subsidiary to which the Board has resolved that this Plan shall for the time being extend and any Related Company to which the Board has with the approval of HM Revenue and Customs resolved that this Plan shall for the time being extend;

the Plan means this Plan as amended from time to time

Pricing Day the day stated in an invitation to apply for an option as being the day by reference to which the Market Value of a Share is determined for the purposes of fixing the Option Price;

Redundancy the meaning given to that word in the Employment Rights Act 1996;

Related Company means a company which is not under the control of any single person, but is under the control of two persons, one of them being the Company;

Reorganisation a “reorganisation” for the purposes of sections 127 to 131 of the Taxation of Chargeable Gains Act 1992;

Rolls-Royce Group plc means the Holding Company of the Company;

Rolls-Royce Holdings plc means the Holding Company of Rolls-Royce Group plc;

the Rolls-Royce Group the Company, its Subsidiaries, any Associated Company or any Related Company which is a Participating Company;

Savings Contract means a contract under a certified SAYE savings arrangement within the meaning of section 703(1) of the ITTOIA 2005 which has been approved by an officer of HM Revenue and Customs for the purposes of Schedule 3;

Schedule 3 Schedule 3 to the ITEPA 2003;

Shares means fully paid Ordinary Shares of 20p each in Rolls-Royce Holdings plc which comply with the conditions in paragraphs 18 to 22 of Schedule 3;

Share Option Scheme means any employee share option scheme established by the Company;

Specified Age means age 60, which shall be the specified age for the purposes of the Plan within the meaning of paragraph 31 of Schedule 3;

the Statutory Minimum the minimum monthly subscription permitted for the time being under the Savings Contract in accordance with paragraph 25(3)(b) of Schedule 3;

The Stock Exchange means the London Stock Exchange plc or any successor body thereto;

Subsidiary any subsidiary of the Company within the meaning of section 1159 and schedule 6 of the Companies Act 2006 over which the Company has Control.

1.1 For the purposes of these Rules, the length of an employee’s period of employment, and whether that employment has been continuous, shall be determined in accordance with Chapter I of Part XIV of the Employment Rights Act 1996 as though these Rules were an enactment.

1.2 Where the context permits the singular shall include the plural and vice versa and the masculine shall include the feminine.

1.3 References to any Act shall include any statutory modification, amendment or re-enactment thereof.

2. GRANT OF OPTIONS

2.1 The Board may, in its absolute discretion, not more than twice in each calendar year invite all Eligible Employees to apply for Options at the Option Price.

2.2 Any employee or Full-Time director of a Participating Company, who (i) has earnings from that employment or office that meet (or would meet if there were any) the requirements set out in paragraphs 6(2)(c) and 6(2)(ca) of Schedule 3 to ITEPA 2003 and has not less than twelve months' continuous employment with one or more companies in the Rolls-Royce Group on a date when invitations to apply for Options are issued is eligible to join the Plan on that occasion, unless he is excluded by paragraph 11 of Schedule 3 or has given, or been given, notice to terminate his contract of employment: Provided that the Board may, in its absolute discretion, on any occasion when invitations to apply for options are issued (a) impose a requirement of a different period (being a period such that the Date of Grant referred to in rule 2.6 cannot fall more than five years after its commencement) of continuous employment with a Participating Company and/or (b) in relation to named directors or employees or defined categories of directors or employees of a company or companies in a Participating Company, waive the continuous employment requirement or the requirement that the director or employee have earnings from that office or employment that meet (or would meet if there were any) the requirements set out in paragraphs 6(2)(c) and 6(2)(ca) of Schedule 3 to ITEPA 2003 and/or (c) nominate any director of a Participating Company who, at the Invitation Date, is not a Full-Time director as eligible to participate in the Plan in respect of any one or more grants of Options.

Invitations for Options

2.3 Invitations shall be issued, if at all, within a period of six weeks beginning with the date on which this Plan is approved by HM Revenue and Customs under Schedule 3 or the dealing day next following from the date on which Rolls-Royce Holdings plc announces its results for any period. Provided that:

- (i) invitations may be issued at any other time when the circumstances are considered by the Board to be sufficiently exceptional to justify the giving of an invitation; and
- (ii) an invitation may be issued within the period of 14 days before the date of publication of Rolls-Royce Holdings plc's interim report or preliminary results, but only on the basis that the Pricing Day will be a day after the said date of publication.

2.4 (a) Subject to the specific provisions contained in the Plan, the form, manner and timing of invitations to apply for Options, the determination of the Pricing Day, the number of Shares in respect of which invitations are made on any date, and whether the Options will be three, five or seven-year Options, shall be at the absolute discretion of the Board. Each invitation shall state the Pricing Day for any options to be granted on that occasion and (i) where the Pricing Day precedes the date of the invitation, the Option Price, or (ii) where the Pricing Day does not precede the date of the invitation, the discount (if any) to be applied in fixing the Option Price. Where the Pricing Day

does not precede the date of the invitation, provided a mechanism exists by which the Option Price will be determined by the Date of Grant, the invitation may invite applications by reference to amounts of monthly savings.

- (b) The Pricing Day -
 - (i) may be a day falling after the date of the invitation; but
 - (ii) except where invitations are issued pursuant to paragraph (i) of the proviso to rule 2.3, shall be a day after the date of announcement referred to in rule 2.3.
- (c) The Pricing Day shall -
 - (i) except where invitations are issued pursuant to paragraph (i) of the proviso to rule 2.3, fall within a six week period referred to in rule 2.3; and
 - (ii) where invitations are issued pursuant to paragraph (i) of rule 2.3, shall fall before the date of the invitation; and
 - (iii) if it falls before the date of the invitation, be the fifth business day before the date of the invitation.

Application for Options

2.5 If an Eligible Employee wishes to apply for an Option he must, within such period (which shall not be less than 14 days) after the date of the invitation as is stated in the invitation, deliver to the Company a form of application on the terms of the Plan together with a duly completed and signed application for a Savings Contract. An Eligible Employee must state on the form of application whether he wishes to apply for a 3-year Option, a 5-year Option or a 7-year Option (if available, as determined by the Board) and in the absence of such a statement he shall be deemed to have stated that he wishes to enter into a 5 year option. For this purpose:-

- (a) a 3-Year Option is an option in connection with which a three year Savings Contract is to be made and in respect of which that repayment is to be taken as including a bonus other than the maximum bonus;
- (b) a 5-Year Option is an option in connection with which a five year Savings Contract is to be made and in respect of which that repayment is to be taken as including a bonus other than the maximum bonus; and
- (c) a 7-Year Option is an option in connection with which a five year Savings Contract is to be made and in respect of which that repayment is to be taken as including the maximum bonus.

Grant of Options

Following the receipt by the Company of valid forms of application the Board may subject to rules 2.6 and 2.7, on a single date (the ***Date of Grant***), which shall not be later than the thirtieth day after the Pricing Day or the forty second day where the scaling-down procedure in rule 2.7 is operated, procure the grant of all (but not some of) the Options for which application has been made on that occasion by Eligible Employees (provided that they comply with the conditions of eligibility in rule 2.2 on the Date of Grant and provided further that no grant of an Option shall be made at any time which would offend against the Model

Code for Securities Transactions by Directors of Listed Companies issued by The Stock Exchange or any rules or statements issued by the Company therewith): Provided that if, on any occasion, the date of the invitations precedes the Pricing Day an Eligible Employee whose application for an option has been received by the Company on or before the Pricing Day may, by notice in writing delivered to the Company after the Pricing Day but before the Date of Grant, withdraw his application. As soon as practicable thereafter, the Board shall procure the issue of an option certificate to each Eligible Employee who has been granted an Option.

2.6 The Board may, in its sole discretion, treat late applications as valid unless they are received after the Date of Grant.

Scaling Down

2.7 If valid applications are received for Options over a number of Shares in excess of that which the Board has determined to make available on a particular occasion they may be accepted only in the following manner (Provided that if the excess referred to above is less than ten per cent of the number of Shares that the Board resolved to make available on that occasion pursuant to rule 2.4 then the Board shall, subject to the overriding limits set out in rule 3.1 have a discretion to procure the grant of Options over the full number of Shares in respect of which applications were received):

- (a) Subject to (b) below, the monthly subscription stipulated in each application for an option related to a monthly subscription in excess of the Statutory Minimum shall be scaled down by multiplying each such monthly subscription by the same fraction, and rounding the product up to the next whole pound or (if greater) the Statutory Minimum, so that Options will be granted over a number of Shares which is less than, or equal to, that which the Board has determined to make available on that occasion.
- (b) If, following the application of the procedure set out in (a) above, insufficient Shares are being made available to satisfy all applications for Options, the applicants who are to receive options shall be selected by lot, and each successful applicant shall receive an option linked to a Savings Contract with a monthly subscription of the Statutory Minimum.

3. LIMITS

3.1 No Option shall be granted if the result of that grant would be that the aggregate number of Shares that could be issued on the exercise of that Option and any other Options granted at the same time, when added to the number of Shares that-

- (i) could be issued on the exercise of any other subsisting share options granted during the preceding ten years under any Share Option Scheme (including the Plan), and
- (ii) have been issued on the exercise of any share options granted under any Share Option Scheme (including the Plan) during the preceding ten years, and
- (iii) have been issued during the preceding ten years under any profit sharing or other share incentive scheme

would exceed 10 per cent of the ordinary share capital of Rolls-Royce Holdings plc for the time being in issue.

3.2 Reference in this rule 3 to the issue of Shares shall, for the avoidance of doubt, mean the issue and allotment (but not transfer) of Shares. For so long as it is institutional shareholders' best practice, treasury Shares shall count as newly issued Shares.

3.3 For the purpose of applying the above limit following the *Schemes of Arrangement* (see rule 3.6 below) the share capital of the Company is to be equated with the share capital of Rolls-Royce Group plc and Rolls-Royce Holdings plc and the definition of *Shares* (see rule 3.6 below) will cause both exercises prior to the Schemes of Arrangement and grants after the Schemes of Arrangement to be counted.

3.4 No individual may be granted an Option over such a number of Shares that the granting of such option and the entry into the necessary related Savings Contract would result in the infringement of rule 3.6.

3.5 No Eligible Employee may be granted an Option if the monthly contributions under the related Savings Contract, when added to the sum of his monthly contributions being made under any other certified SAYE savings arrangements linked to approved SAYE option schemes would exceed £250 (or such other maximum amount as is for the time being permitted under the legislation relating to approved savings-related share option schemes and approved by a resolution of the Board) and when aggregated with the amount of his monthly contributions under any other Savings Contract linked to this Plan does not exceed any maximum amount determined by the Board.

3.6 For the purposes of this rule 3 only:

- (a) the **2003 Scheme of Arrangement** means the scheme of arrangement of Rolls-Royce plc under section 425 of the Companies Act 1985, effective 23 June 2003, which introduced the Company as a new Holding Company for the Rolls-Royce Group;
- (b) the **2011 Scheme of Arrangement** means the scheme of arrangement under Part 26 of the Companies Act 2006 effective [23 May 2011], which introduced a new Holding Company for Rolls-Royce Group plc (together with the 2003 Scheme of Arrangement, the *Schemes of Arrangement*); and
- (c) the definition of *Shares* means
 - (i) prior to the 2003 Scheme of Arrangement, fully paid Ordinary Shares of 20p each in the Company which comply with the conditions in paragraphs 18 to 22 of Schedule 3;
 - (ii) following the 2003 Scheme of Arrangement and prior to the 2011 Scheme of Arrangement, fully paid Ordinary Shares of 20p each in Rolls-Royce Group plc which comply with the conditions in paragraphs 18 to 22 of Schedule 3; and
 - (iii) following the 2011 Scheme of Arrangement, fully paid Ordinary Shares of 20p each in Rolls-Royce Holdings plc which comply with the conditions in paragraphs 18 to 22 of Schedule 3.

4. TERMS OF SAVINGS CONTRACTS AND OPTIONS

4.1 Subject to the limits in rule 3.6 and to the provisions of rule 4.4, the monthly contribution under an Eligible Employee's Savings Contract shall be that monthly sum (not being less than the Statutory Minimum) which the Eligible Employee has elected to save.

4.2 The relevant sum shall be deducted from pay by monthly, four-weekly, fortnightly or weekly payroll deduction as appropriate.

4.3 If an Option Holder misses monthly contributions under the Savings Contract, the date on which a bonus would otherwise be payable under the Savings Contract shall be deferred by the number of months for which contributions are missed: Provided that if more than six monthly contributions are missed the Savings Contract shall terminate and the Option shall lapse.

4.4 If the procedure set out in rule 2.7 is implemented on any occasion the monthly contributions under Savings Contracts which Eligible Employees have specified in their applications shall, where necessary, be scaled down to such sums in whole pounds as appropriate (but not being less than the Statutory Minimum) so that the proceeds of repayment of each Savings Contract will equal, as nearly as possible, but not be less than the aggregate Option Price of the Shares subject to the related Option and the Board shall be authorised to amend the applications for Savings Contracts as necessary.

4.5 The Savings Contract shall be personal to the Eligible Employee and, regardless of the terms of the option, any savings arising under it shall be the property of the Eligible Employee concerned.

4.6 (a) The Option Price shall be determined by the Board, but shall be not less than the higher of (i) the nominal value of a Share (unless the Option is an option to acquire shares by transfer) and (ii) 80 per cent of the Market Value of a Share on the Pricing Day.

(b) If paragraph (a) above does not apply, the price shall not be less than 80% of the market value (within the meaning of Part VIII of the Taxation of Chargeable Gains Act 1992) of shares of that class, as agreed in advance for the purposes of this Plan with the Shares and Assets Valuation Division of HM Revenue and Customs, on the relevant day.

4.7 The number of Shares covered by an option shall be determined by dividing the sum due under the related Savings Contract (inclusive of the appropriate bonus) on the Bonus Date by the Option Price and rounding the resulting number down to the nearest whole Share: Provided that where, under the terms of the Scheme, the Option is exercised before the Bonus Date, the maximum number of Shares that may be acquired shall be limited to the number that can be acquired at the Option Price out of the proceeds of repayment of the Savings Contract at the time the Option is exercised (ignoring the repayment of any contribution the due date for payment of which falls more than one month after the date on which repayment is made).

4.8 (a) Save as provided in rules 4.8(b)(i) to (iv), 4.8(c) and 5, an Option may only be exercised during the six months following the Bonus Date.

(b) Where an Option Holder ceases to hold the office or employment by virtue of which he is eligible to participate in the Plan before the expiry of six months after the Bonus Date:

- (i) on retirement at the Specified Age or at any other age at which he is bound to retire under his contract of employment or because of Redundancy, injury or disability, he may exercise any outstanding Options within six months of the date on which employment ceased, failing which exercise the Options shall

lapse automatically: Provided that the Options may not be exercised more than six months following the relevant Bonus Date;

- (ii) on his death, any outstanding Options may be exercised by his legal personal representatives within twelve months of death, or, if death occurred within six months after the Bonus Date, within twelve months after the Bonus Date, failing which exercise the Options shall lapse automatically;
- (iii) on (aa) his employing company ceasing to be under the Control of the Company, or (bb) the business (or part of a business) to which the office or employment by virtue of which he is eligible to participate in the Plan relates being transferred to a person who is neither an Associated Company of the Company nor a company over which the Company has Control, he may exercise any outstanding Options within six months of the date on which cessation occurred, failing which exercise the Options shall lapse automatically: Provided that the Options may not be exercised more than six months following the relevant Bonus Date;
- (iv) for any reason other than one of those mentioned in (i), (ii) or (iii) above, he may exercise in the normal way any outstanding Options the Bonus Date for which fell on or before the date on which cessation occurred; Provided that the Options may not be exercised more than 6 months after the earlier of the Option Holder ceasing to hold the office or employment and the relevant Bonus Date.

For the purposes of this rule 4.8(b) an Option Holder shall not be treated as ceasing to hold the office or employment by virtue of which he is eligible to participate in the Plan until (x) he ceases to hold an office or employment in the Company or any company over which the Company has Control or any Associated Company of the Company or any Related Company which is a Participating Company or (y) being a female employee who is absent from work wholly or partly because of pregnancy or confinement, she ceases to be entitled to exercise her right to return to work.

- (c) Where an Option Holder does not retire on attaining the Specified Age he may exercise his options within six months of attaining that age: Provided that the Options may not be exercised more than six months following the relevant Bonus Date.
- (d) If, at the Bonus Date, an Option Holder holds an office or employment with a company which is not a Participating Company but which is an Associated Company or a company of which the Company has control, he may exercise his options within 6 months of the Bonus Date.
- (e) An Option Holder may exercise his option on one occasion only, in whole or (provided the aggregate Option Price of the Shares over which it is exercised is not less than £100) in part, by giving notice in writing to the Company (or to such other person who granted the Option), in the form prescribed by the Board specifying the number of Shares in respect of which the Option is being exercised and enclosing payment in full of the aggregate Option Price of those Shares. In the case of an Option under which Shares are to be transferred, the Company shall receive the Option Price as agent for the person holding the Shares which are to be transferred to the Option Holder (or if that person has granted the Option, he shall receive it on his own account).

- (f) Notwithstanding any other provision of the Plan, an Option Holder shall not be entitled to exercise an Option if at the time in question he is ineligible to participate in the Plan by virtue of paragraph 11 of Schedule 3.
- (g) Save as provided in rule 4.8, an Option may only be exercised by a person who is at that time a director or employee of the Rolls-Royce Group.

4.9 Every Option granted hereunder shall be personal to the Option Holder and, except to the extent necessary to enable a personal representative to exercise the option following the death of an Option Holder, neither the Option nor the benefit thereof may be transferred, assigned, charged or otherwise alienated. Any transfer of an Option otherwise than as permitted under this rule 4.9 shall cause the Option to lapse.

5. CHANGE IN CONTROL ETC.

5.1 If at any time any person obtains Control of Rolls-Royce Holdings plc as a result of making:

- (a) a general offer to acquire the whole of the issued ordinary share capital of Rolls-Royce Holdings plc which was made on a condition such that if it was satisfied the person making the offer would have Control of Rolls-Royce Holdings plc; or
- (b) a general offer to acquire all the Shares;

all outstanding Options may be exercised within six months of the time when the offeror has obtained Control of Rolls-Royce Holdings plc and any condition subject to which the offer is made has been satisfied failing which exercise the Options shall, unless the end of the said six month period falls within such a period as is mentioned in rule 5.2, lapse automatically: Provided that an Option may not be exercised more than six months after the relevant Bonus Date. For the purposes of this rule 5.1 a person shall be deemed to have acquired Control of Rolls-Royce Holdings plc if he and others acting in concert with him have together obtained Control of it.

5.2 If any person becomes bound or entitled to acquire shares in Rolls-Royce Holdings plc under sections 974 to 982 of the Companies Act 2006, Options may be exercised at any time when that person remains so bound or entitled, failing which exercise the Options shall lapse automatically: Provided that an Option may not be exercised more than six months after the relevant Bonus Date.

5.3 If under Part 26 of the Companies Act 2006 the court sanctions a compromise or arrangement proposed for the purposes of, or in connection with, a scheme for the reconstruction of Rolls-Royce Holdings plc or its amalgamation with any other company or companies, any outstanding Option may be exercised within six months of the Court sanctioning the compromise or arrangement failing which exercise an option shall lapse automatically: Provided that an Option may not be exercised more than six months after the relevant Bonus Date.

5.4 If any company (the “acquiring company”):-

- (a) obtains Control of Rolls-Royce Holdings plc as a result of making:-
 - (i) a general offer to acquire the whole of the issued ordinary share capital of Rolls-Royce Holdings plc which is made on a condition such that if it is

satisfied the acquiring company will have Control of Rolls-Royce Holdings plc, or

- (ii) a general offer to acquire all the shares in Rolls-Royce Holdings plc which are of the same class as the shares which may be acquired by the exercise of Options; or
- (b) obtains Control of Rolls-Royce Holdings plc in pursuance of a compromise or arrangement sanctioned by the court under Part 26 of the Companies Act 2006; or
- (c) becomes bound or entitled to acquire shares in Rolls-Royce Holdings plc under sections 974 to 982 of that Act,

any Option Holder may at any time within the appropriate period (which expression shall be construed in accordance with paragraph 38(3) of Schedule 3), by agreement with the acquiring company, release any option which has not lapsed (“the old option”) in consideration of the grant to him of an option (“the new option”) which (for the purposes of that paragraph) is equivalent to the old option but relates to shares in a different company (whether the acquiring company itself or some other company falling within paragraph 18(b) or (c) of Schedule 3) (“the new grantor”).

5.5 The new option shall not be regarded for the purposes of rule 5.4 as equivalent to the old option unless the conditions set out in paragraph 39 of Schedule 3 are satisfied, and in relation to the new option the provisions of the Plan shall be construed as if:-

- (a) the new option were an option granted under the Plan at the same time as the old option;
- (b) in rules 4.8(e), 5,6,7,8,9, 10 and 12, as though the expression “the Company”, referred to the new grantor;
- (c) references to the Board in rules 4.8(e), 6, 7 and 12 were references to the board of directors of the new grantor,
- (d) the Saving Contract made in connection with the old option had been made in connection with the new option;
- (e) the Bonus Date in relation to the new option was the same as that in relation to the old option;
- (f) Rules 10 and 12(b) were omitted.

5.6 Rules 5.4 and 5.5 shall apply in respect of any change of circumstances within the terms of rule 5.4 above affecting the new grantor as if references to the Option were references to the new option as it related to the shares in the new grantor and as if references to Shares were references to the new shares in respect of which the new option was granted.

5.7 If a resolution for a voluntary winding-up of Rolls-Royce Holdings plc is passed then, unless the winding up is for the purposes of a Reorganisation or reconstruction which makes certified Provision outside the terms of the Plan for the compensation of Option Holders or the grant of new options to them, any outstanding Option may be exercised within six months of the passing of the resolution, failing which exercise an Option shall lapse automatically: Provided that an Option may not be exercised more than six months after the relevant Bonus Date.

6. ADJUSTMENT OF OPTIONS

6.1 In the event of any Reorganisation of the share capital of Rolls-Royce Holdings plc, the Option Price and the number of Shares comprised in an option may be adjusted in such manner as the Board may determine and such decision of the Board shall be final and binding on the Option Holder and the Company: Provided always that:

- (a) an adjustment under this Rule may have the effect of reducing the price at which Shares may be acquired by the exercise of an Option to less than their nominal value, but (where the Option is an option to subscribe for Shares) only if and to the extent that the Board shall be authorised to capitalise from the reserves of Rolls-Royce Holdings plc a sum equal to the amount by which the nominal value of the Shares in respect of which the Option is exercised exceeds the price at which the same may be subscribed for and to apply such sum in paying up such amount of such Shares; and so that on exercise of any Option in respect of which such a reduction shall have been made the Board shall capitalise such sum (if any) and apply the same in paying up such amount as aforesaid;
- (b) if the Board so determine, no adjustment shall be made pursuant to this rule unless and until the Auditors shall have reported in writing to the Board that such adjustment is in their opinion fair and reasonable;
- (c) no adjustment shall be made pursuant to this rule without the prior approval of the Board of HM Revenue and Customs; and
- (d) no adjustment shall be made pursuant to the rule which would increase the aggregate Option Price under any Option.

7. ALLOTMENT OR TRANSFER OF SHARES ON EXERCISE OF OPTIONS

7.1 Within 30 days after an Option has been exercised by any person, there shall be allotted to him (or a nominee for him) or, as appropriate, transferred to him (or a nominee for him) the number of Shares in respect of which the Option has been exercised, unless:-

- (a) the Board considers that the issue or transfer of the Shares would not be lawful in all relevant jurisdictions; or
- (b) a Participating Company, which is a non-UK Subsidiary, is obliged to account for any tax (in any jurisdiction) for which the person in question is liable by virtue of the exercise of the Option, or would suffer a disadvantage if it were not to account for that tax, in which case the Participant must comply with any such arrangements specified by the Company for the payment of any taxation including the sale by the Company)(or a person nominated by the Company) on the Participant's behalf of such number of the Shares allotted or transferred to the Participant on exercise of his Option which will satisfy such tax liability.

7.2 The Company shall (unless the Shares are to be issued in uncertificated form) as soon as practicable deliver (or procure the delivery of) to the Option Holder a definitive share certificate or other evidence of title in respect of such Shares.

8. RIGHTS ATTACHING TO SHARES ALLOTTED PURSUANT TO OPTIONS

8.1 All Shares allotted pursuant to the exercise of any Option shall, as to voting, dividend, transfer and other rights, including those arising on a liquidation of Rolls-Royce

Holdings plc, rank pari passu in all respects and as one class with the Shares in issue save as regards any rights attaching to such Shares by reference to a record date prior to the date of allotment.

8.2 Any Shares acquired on the exercise of Options shall be subject to the articles of association of Rolls-Royce Holdings plc from time to time in force.

9. MISCELLANEOUS

9.1 Rolls-Royce Holdings plc shall at all times keep available for issue sufficient authorised but unissued Shares to permit exercise of all unexercised Options under which Shares may be allotted or shall otherwise procure that Shares are available for transfer in satisfaction of the exercise of Options.

9.2 Any notice or other communication under or in connection with this Plan may be given by personal delivery or by sending it by post, in the case of a company to its registered office, and in the case of an individual to his last known address, or, where he is a director or employee of the Company or a Subsidiary or a Related Company, either to his last known address or to the address of the place of business at which he performs the whole or substantially the whole of the duties of his office or employment.

10. LISTING

The Company shall procure, at its expense, the application for and use its best endeavours to obtain listing for, and permission to deal on The Stock Exchange in Shares allotted pursuant to the exercise of any Option.

11. LOSS OF OFFICE

If any Option Holder shall cease to be an Eligible Employee for any reason he shall not be entitled by way of compensation for loss of office or otherwise howsoever to any sum or other benefit to compensate him for the loss of any rights under the Plan and by applying for an Option he shall be deemed irrevocably to have waived any right or entitlement to such sum or other benefit.

12. POWERS OF THE BOARD

The decision of the Board shall be final and binding in all matters relating to the Plan and it may at any time discontinue the grant of further Options or amend any of the provisions of the Plan in any way it thinks fit: Provided that:

- (a) Subject to rule 12(b) below, the Board may at any time alter or add to all or any of the provisions of this Plan in any respect, provided that no alteration or addition to a Key Feature shall be made at a time when this Plan is approved by HM Revenue and Customs under Schedule 3 without the prior approval of HM Revenue and Customs;
- (b) no amendment may be made for the benefit of Eligible Employees or Option Holders to rules 2.2, 2.4, 2.5, 2.7, 3, 4, 5, 6, 7, 8, or 13 without the prior approval of the Company in general meeting;
- (c) Rule 12(b) above shall not apply to any minor alteration or addition to benefit the administration of this Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants, the Company or any Subsidiary or Related Company.

- (d) without prejudice to any provision of the Plan which provides for the lapse of an Option, the Board may not cancel an Option unless the Option Holder agrees in writing to such cancellation;
- (e) except as herein provided, the Board shall not make any amendment other than pursuant to rule 12(c) that would materially prejudice the interests of existing Option Holders except with such prior consent or sanction of Option Holders as would be required under the provisions for the alteration of class rights contained in the articles of association of the Company for the time being if the Shares to be allotted on the exercise of the outstanding Options constituted a separate but single class of shares (or two or more classes of shares according to their respective Dates of Grant, as the Board may consider appropriate) and such shares were entitled to such rights.

13. DURATION OF THE PLAN

Notwithstanding any other provision in the Plan, no Option may be granted under the Plan later than ten years after 2 May 2007.

14. GOVERNING LAW

The rules of the Plan and any non-contractual obligations arising out of or in connection with these rules shall be governed by and construed in accordance with English Law and the English courts shall have exclusive jurisdiction in relation to all disputes arising out of or in connection with the rules of the Plan.

SCHEDULE

US TAXPAYERS

This Schedule shall apply to US Taxpayers.

Notwithstanding anything to the contrary contained in the Plan (or any Schedule to the Plan), no Option may be exercised later than 2.5 calendar months after the end of the Taxable Year in which the Option first becomes exercisable, provided that the Option shall lapse on the date it would have lapsed had this rule not applied. The rules of the Plan shall be interpreted accordingly.

For the purposes of this Schedule:

1. Taxable Year means the 12 month period in respect of which the Option Holder is obliged to pay US Tax or, if it would result in a longer period, the 12 month period in respect of which Option Holders' employing company is obliged to pay tax.
2. US Taxpayer means a person who is subject to taxation under the tax rules of the United States of America.

APPENDIX

1. The sole purpose of this Appendix, which forms part of the Plan approved by HMRC under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003, is to ensure that the status of the Plan as an employees' share scheme (as defined in section 1166 of the Companies Act 2006) (*ESS*) is not prejudiced as a result of grants of options to employees of joint venture companies (being companies which are not subsidiaries for the purposes of section 1159 and schedule 6 of the Companies Act 2006) but which are eligible to participate in the Plan by virtue of the definition of Participating Company and Related Company).

2. Any Option granted to Eligible Employees who are employed by a Related Company that is a Participating Company (*JV Employees*):

- (a) shall be deemed to be granted under this Appendix. However, the rules of the Plan shall apply in full to Options;
- (b) shall be deemed to be granted outside the ESS which constitutes the remainder of the Plan, with the result that various exemptions accorded to options granted under an ESS shall not apply to such options.