

THE PROVIDENT FINANCIAL EXECUTIVE SHARE OPTION SCHEME 2006

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THE RULES OF THE PROVIDENT FINANCIAL EXECUTIVE SHARE OPTION SCHEME 2006

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PART I

1. INTERPRETATION AND CONSTRUCTION

1.1 Definitions

In this Scheme, the following expressions have the meanings shown next to them:

Act - Income Taxes (Earnings and Pensions) Act 2003;

Announcement Date - any date on which the Company announces its results to the Stock Exchange;

Board - the board of directors of the Company or a committee appointed by it;

Committee - the Remuneration Committee of the Board;

Company – Provident Financial plc registered in England with No. 668987;

Control - the meaning given to it in section 840 (*Meaning of "control" in certain contexts*) of ICTA;

Dealing Day - a day on which the Stock Exchange is open for business;

Eligible Executive - any employee or a director who is eligible to take part in the Scheme according to Rule 2 (*Eligibility*);

Exercise Period - the period of seven years starting with the third anniversary of the Grant Date unless the Grantor sets a different period at the time of grant. The different period may not begin earlier than the third anniversary, nor end later than the day before the tenth anniversary, of the Grant Date;

Exercise Price - the price payable to buy a Share on the exercise of an Option;

Grant Date - the date on which an Option is granted;

Grantor - the Company for Options granted or to be granted by the Company and the Trustee for Options granted or to be granted by the Trustee;

Group:

- for the purposes of Rule 8 (*Leaving employment*) only, the Company and its Subsidiaries together with any other company of which not less than 20% of the equity share capital (within the meaning of section 744 (*Expressions used generally in this Act*) of the Companies Act 1985) is beneficially owned (directly or indirectly) by the Company and its Subsidiaries and which the Committee has resolved for the time being shall be treated as a member of the Group; and
- for all other purposes, the Company and its Subsidiaries,

and the expression **member of the Group** will be construed accordingly;

Holding Company - the same meaning as in section 736 (*"Subsidiary", "holding company" and "wholly-owned subsidiary"*) of the Companies Act 1985;

ICTA – the Income and Corporation Taxes Act 1988;

NIC Liability - a liability to pay national insurance contributions (or their equivalent outside the United Kingdom), taxes or duties on the exercise of an Option or on an Option becoming exercisable;

Option - a right to buy Shares granted under this Scheme;

Participant - the holder of an Option or, after his death, his personal representative;

Participating Employer - the Company and/or any Subsidiary of the Company;

Performance Target - the target or targets for an Option set under Rule 3.4 (*Performance Targets and other conditions*) as changed from time to time under Rule 3.5 (*Changing the Performance Targets and other conditions*);

Rules - the rules of this Scheme;

Scheme - this scheme including any schedule to the Rules;

Share - a fully-paid ordinary share in the capital of the Company;

Stock Exchange - London Stock Exchange plc or any recognised investment exchange for the purposes of the Financial Services and Markets Act 2000 which may take over the function of the London Stock Exchange plc;

Subsidiary - the same meaning as in section 736 (*"Subsidiary", "holding company" and "wholly-owned subsidiary"*) of the Companies Act 1985;

Trustee - the trustee of any employee benefit trust set up for the benefit of employees of the Group;

UK Listing Authority - the Financial Services Authority acting in its capacity as the competent authority for the purposes of Part VI of the Financial Services and Markets Act 2000 or such other person as is from time to time appointed to be the competent authority for the purposes of that Act;

Unvested Option - any Option, or (as the case may be) that part of an Option, which is not a Vested Option; and

Vested Option - subject to Rule 8.2 (*Meaning of Vested Option in Rule 8*), an Option, or (as the case may be) that part of an Option, in respect of which the Performance Target has been met and the Exercise Period has started.

1.2 Construction of the Rules

Any reference in the Scheme:

- to the singular includes the plural and vice versa;
- to the masculine includes the feminine; and
- to an enactment includes that enactment as for the time being amended or re-enacted.

1.3 Governing law

Unless the Rules say otherwise, this Scheme and any Option granted under it are governed by English law.

1.4 The sub-schemes

The Scheme is divided into the following two sub-schemes:

Part I - The Unapproved part;

Part II - The UK Inland Revenue approved part.

1.5 Administration

Unless the Rules say otherwise, the Committee will administer the Scheme.

1.6 Disputes

The Committee's decision on the construction of the Rules and on any disputes arising under the Scheme is final and binding on all persons.

2. ELIGIBILITY

A person is eligible to be granted an Option at the discretion of the Committee if he is an employee of a Participating Employer.

If the employee is also a director of any member of the Group he is not eligible to be granted an Option unless he is required to spend substantially all of his working time on his duties to the Group.

3. GRANTING OPTIONS

3.1 Restrictions on grant

The Committee must make sure:

- that the limits in Rules 4 (*Individual limit*) and 5 (*Scheme limits*) are not exceeded;

- that Options are not granted after 16 May, 2016; and
- that the Scheme is not operated at any time, or in any circumstances, when to do so would breach the Criminal Justice Act 1993, the Company's code of practice on dealings in shares and securities, the Listing Rules of the UK Listing Authority or any other applicable laws or regulations.

3.2 Procedure on grant

Whenever it decides to operate the Scheme, the Committee must decide who is to be the Grantor of an Option. If the Grantor is to be the Trustee, the Committee must obtain the Trustee's agreement beforehand. The Trustee may not grant an Option without the agreement of the Committee.

The Grantor may invite Eligible Executives to apply for Options or it may grant Options without issuing invitations. If the Grantor invites an Eligible Executive to apply for an Option, it must give him at least seven days in which to apply.

3.3 Timing of grant

Options may be granted as follows:

- in the six weeks following the date on which the Scheme is approved by the Company in general meeting;
- in the six weeks following any Announcement Date;
- when, or shortly after, an Eligible Executive first becomes employed by a member of the Group;
- when, or shortly after, an Eligible Executive is promoted to a position which qualifies him to receive an Option or an increased level of Options; and
- at other times if the Committee considers that exceptional circumstances exist.

An Option may not be granted on a date which would result in the Dealing Day used to work out the minimum Exercise Price coming before the most recent Announcement Date.

3.4 Performance Targets and other conditions

The Committee must make each Option subject to a Performance Target. The Committee may also impose other conditions. The Performance Target and the other conditions must be objective.

In particular, but without limitation, an Option may be granted on terms that the Participant must agree to bear the cost of some or all of any NIC Liability either by reimbursing the person otherwise liable or by entering into an election to transfer the NIC Liability to himself.

Except where the Rules specify otherwise, the Performance Target must be measured over a period of not less than three years beginning either with the Grant Date or with the start of the Company's financial year in which the Option is granted.

Unless the Committee specify a different Performance Target at the Grant Date the Performance Target in the attached schedule shall apply.

3.5 Changing the Performance Targets and other conditions

The Committee may change the Performance Target or the other conditions in any of the following circumstances:

- if there is any change in the Company's capital;
- if the terms of the Performance Target or the other conditions allow it; or
- if any event or series of events happens as a result of which the Committee considers it fair and reasonable to make the change.

The power to change includes the power both to adjust and to impose a new objective Performance Target or different objective conditions. The change must not, however, have the effect, in the opinion of the Committee, of making the Performance Target or the other conditions either materially easier or materially more difficult to achieve than it was or they were when the Option was granted.

The Company must tell each Participant of any change in the Performance Target or other conditions which apply to his Option.

3.6 Trustee's agreement to the Performance Targets and other conditions

In any case where the Grantor is the Trustee, the Committee must obtain the Trustee's agreement before setting or changing the Performance Target or the other conditions.

3.7 Exercise Price

The Committee must set the Exercise Price. It may not be less than the market value (see below) of a Share on the Dealing Day immediately before the relevant date (see below). In the case of an Option to subscribe for Shares, the Exercise Price may not be less than the nominal value of a Share on the Grant Date.

The **market value** of a Share on any day is the closing middle market price of a Share, as quoted in the Daily Official List of the Stock Exchange.

The **relevant date** is the Grant Date or, if the invitation (if any) specifies the Exercise Price, the date of the invitation.

3.8 Deed of grant

On the Grant Date, the Grantor must execute a deed of grant in favour of each recipient of an Option. The deed of grant may be in favour of more than one recipient. If so, it will be retained by the Grantor but the Grantor must make it (or the relevant part of it) available for inspection by each recipient. As soon as practicable after the Grant Date, the Grantor must give each recipient written details of his Option. The

deed of grant and the written details given to each recipient must state the Exercise Price, the full terms of the Performance Target and any additional conditions applicable to the Option.

4. INDIVIDUAL LIMIT

4.1 General

Except as set out below, each Option must be limited, and must therefore take effect, so that the total Exercise Price of that Option, when added to the total exercise price of options (see Rule 4.2) granted to the individual in the same financial year of the Company does not exceed one times' the individual's pay (see Rule 4.2). In circumstances where the first grant of options is being made to an Eligible Executive who has been recruited externally, the Committee may apply a limit of twice the individual's pay.

4.2 Meaning of pay and options

In Rule 4, the **pay** of a Participant on any date is the annual rate of his basic salary (excluding bonuses, commissions and benefits in kind) from all members of the Group on that date.

In Rule 4, a Participant's **options** are all of the options to buy Shares granted to him under a discretionary employee share scheme other than a long-term incentive scheme. A **long-term incentive scheme** is a scheme under which a participant is granted Shares, or rights to obtain Shares, for which he does not have to pay more than a nominal amount. The terms **discretionary** and **employee share scheme** have the meanings given to them in Rule 5.

5. SCHEME LIMITS

5.1 General

The Committee must make sure that the number of newly issued Shares over which Options to subscribe are granted on any date does not exceed either of the limits set out in Rule 5.3 or 5.4.

5.2 Meaning of terms used in Rule 5

In Rule 5:

- an **award** means any right to acquire or receive Shares whether conditional or unconditional;
- a **discretionary** scheme is a scheme in which those taking part are senior employees and directors chosen at the discretion of the body administering the scheme;
- an **employee share scheme** means any scheme for employees of the Group which has been approved by the Company in general meeting;
- **equity share capital** has the same meaning as in section 744 (*Expression used generally in this Act*) of the Companies Act 1985;
- the word **issue** means the allotment and issue of Shares forming part of the authorised but unissued share capital of the Company; derivative expressions will be construed accordingly;

- no account will be taken of Shares acquired by an employee or former employee (or the personal representatives of such a person) where the Shares are acquired for a price equal to their market value at or about the date of acquisition;
- subject to the following point, no account will be taken of an award if and to the extent that the Committee considers that it will be satisfied by the transfer of existing Shares; and
- any Shares issued or remaining issuable to the trustee of any trust which were used or which are to be used to satisfy awards granted under an employee share scheme must be treated as having been issued or as remaining issuable in respect of those awards unless the Shares were acquired by the trustee pursuant to a rights issue or other opportunity offered to the trustee in respect of shares held by it and acquired otherwise than by subscription.

5.3 10% in 10 years for all schemes

The limit for this Rule is 10% of the number of shares comprised in the Company's equity share capital on the day before the Grant Date, less the total number of:

- Shares issued in respect of awards granted within the previous 10 years under any employee share scheme;
- Shares remaining issuable in respect of awards granted on the same date or within the previous 10 years under any employee share scheme; and
- Shares issued on the same date or within the previous 10 years under any employee share scheme otherwise than in respect of an award.

5.4 5% in 10 years for discretionary schemes

The limit for this Rule is 5% of the number of shares comprised in the Company's equity share capital on the day before the Grant Date, less the total number of:

- Shares issued in respect of awards granted within the previous 10 years under any discretionary employee share scheme;
- Shares remaining issuable in respect of awards granted on the same date or within the previous 10 years under any discretionary employee share scheme; and
- Shares issued on the same date or within the previous 10 years under any discretionary employee share scheme otherwise than in respect of an award.

6. RESTRICTIONS UPON EXERCISE

6.1 General

Rule 6 overrides the other Rules except where otherwise stated.

6.2 End of Exercise Period

An Option will lapse at the end of the Exercise Period.

6.3 Lapsing of Options

If an Option (or a part of an Option) lapses under any Rule, it (or as the case may be, the relevant part) may not be exercised subsequently under any other Rule.

6.4 Meeting the Performance Targets and other conditions

The Committee must determine whether and to what extent an Option has become a Vested Option according to the Performance Target. If and to the extent that, according to that target, the Option does not become, and is not subsequently capable of becoming, a Vested Option, it will forthwith lapse.

Except as otherwise stated in the Rules, a Participant may not exercise his Option:

- unless it is a Vested Option; and
- except in accordance with any other conditions imposed under Rule 3.4 (*Performance Targets and other conditions*) as changed under Rule 3.5 (*Changing the Performance Targets and other conditions*).

6.5 Share dealing code

A Participant may not exercise his Option during a restricted period. A **restricted period** is any time when the buying or selling of securities by a director or employee of the Company would breach the Company's code of practice on dealings in shares and other securities. This restriction applies even if the Participant is not at that time forbidden by the code from buying or selling securities.

This restriction does not, however, apply if the Participant is given permission to exercise his Option:

- in the case of a Participant who is bound by that code, in accordance with the procedures laid down in the code; and
- in the case of any other Participant, by the Company Secretary or such other person as the Committee may nominate for this purpose.

7. EXERCISE OF AN OPTION

7.1 Exercise during the Exercise Period

A Participant may exercise his Vested Option during the Exercise Period. He may not exercise an Option either:

- before the start of the Exercise Period except where either Rule 8 (*Leaving employment*) or Rule 9 (*Change of Control and liquidation*) applies; or

- after the end of the Exercise Period.

Where an Option is exercisable, it may be exercised in whole or in part and from time to time.

7.2 Method of exercise

To exercise his Option, a Participant must give written notice to the Company. As soon as reasonably practicable after receipt of the notice, the Company must tell the Trustee if the Trustee is the Grantor. The notice of exercise must be in such form, and be accompanied by such other documents, as the Company may decide. The Participant must also comply with Rules 7.8 and 7.9.

7.3 Payment of the Exercise Price

The Exercise Price must be paid at the same time as the notice to exercise an Option is given. Alternatively, the Participant may enter into any arrangements that the Company may approve for the payment of the Exercise Price in cash.

7.4 Time of exercise

Unless the Company and the Participant agree a later date, the time and date of exercise of an Option will be the time and date on which the notice of exercise, complete in all material respects, is received by the Company.

7.5 Allotment or transfer of Shares

Within 30 days of the date of exercise of an Option, the Company must either:

- allot and issue the number of Shares stated in the notice of exercise; or
- arrange for the transfer of those Shares,

to the Participant or to someone else chosen by the Participant.

The Company's obligation under this Rule is, however, subject to:

- any necessary consents or approvals as may be required by any competent authority having first been obtained;
- the Participant having complied with the terms of the Option; and
- Rules 7.8 and 7.9.

7.6 Rights of new Shares issued

Any new Shares issued on the exercise of an Option must rank equally in all respects with other Shares then in issue except for rights which attach to Shares by reference to a record time or date prior to the time or date of issue.

7.7 Listing

The Company must apply to the UK Listing Authority to have any new Shares issued under the Scheme admitted to the Official List and to the Stock Exchange for permission to trade in those Shares. The Company need not do so, however, if the Shares are not traded on the Stock Exchange. If the Shares are traded on any other stock exchange, the Company must also apply to have the Shares admitted to trading on that exchange.

7.8 Withholding obligations

This Rule applies if the Board considers that:

- a Participant may be liable to tax, duties, social security contributions or other amounts on the exercise of his Option and/or on his Option becoming exercisable; and
- any other person may have to make a payment to the appropriate authorities on account of that liability.

The Participant must either pay that person the amount which it needs to pay (or has paid) the appropriate authorities or agree to other arrangements approved by the Company. If he does not do so within such period as is specified by the Company, then, to the extent necessary to make sure that the Participant complies with his obligations, the Participant will be deemed to have exercised his Option, authorised the disposal of a sufficient number of the Shares issuable or transferable upon the exercise to comply with such obligation and the payment of the net proceeds of sale to that person. The remaining Shares will then be allotted and issued or transferred to the Participant.

7.9 NIC Liability

This Rule applies if the Option has been granted subject to a condition that the Participant must reimburse any person for some or all of the NIC Liability arising on the exercise of his Option or on his Option becoming exercisable or if the Participant has subsequently agreed to do so or if he has entered into an election to transfer some or all of that NIC Liability to himself.

The Participant must either pay that person the amount which it needs to pay (or has paid) the appropriate authorities or agree to other arrangements approved by the Company. If he does not do so within such period as is specified by the Company, then, to the extent necessary to make sure that the Participant complies with his obligations, he will be deemed to have exercised his Option, authorised the disposal of the Shares issuable or transferable upon the exercise and the payment of the net proceeds of sale to that person.

8. LEAVING EMPLOYMENT

8.1 Meaning of ceasing to be employed within the Group

For the purposes of Rule 8, but subject to the rest of this Rule, a Participant is to be treated as ceasing to be employed within the Group when he is no longer employed by any company which is a member of the Group. For the avoidance of doubt, a Participant will cease to be employed by a member of the Group if the company by which he is employed ceases to be a member of the Group.

If a Participant is away from work because of pregnancy or confinement or another absence approved by the Board for this purpose, the Participant will be treated for the purposes of Rule 8 as continuing to be employed within the Group unless and until the Committee is satisfied that there is no longer any reasonable expectation that the Participant will return to work.

8.2 Meaning of Vested Option

This Rule applies if:

- a Participant ceases to be employed within the Group holding an Option which, at that time, is an Unvested Option; and
- his employment ends after the end of the period over which the Performance Target would be measured and before the date on which the Committee determines whether and to what extent the Option has become a Vested Option by reference to that period.

Any reference in Rule 8 to a Vested Option includes any such Option if and to the extent that it becomes a Vested Option according to the Performance Target.

8.3 Death of a Participant

This Rule applies if a Participant dies:

- whilst employed within the Group; or
- after having ceased to be employed within the Group but holding an Option which has not lapsed.

The personal representative of the Participant may exercise:

- any Vested Option of the Participant; and
- any Unvested Option of the Participant which was exercisable at the date of the Participant's death under Rule 8.6,

in the period of 12 months starting with the date of the Participant's death and at the end of that period the Option will lapse.

If the Participant dies holding an Unvested Option which is not exercisable at the date of his death, that Option will become exercisable on a time pro rated basis to reflect the number of complete months in the Performance Period which had expired on the date of death, (irrespective of whether the Performance Target has been satisfied). Where the Option is exercisable the personal representative of the Participant may exercise the Option in the 12 months starting with the date of the Participant's death and at the end of that period the Option will lapse.

8.4 Leaving employment - special circumstances - Vested Options

This Rule applies if a Participant's employment within the Group ends because of any of the following and, at that time, he holds a Vested Option:

- his ill-health, injury or disability;
- his redundancy within the meaning of the Employment Rights Act 1996;
- his retirement at or after the date on which he is bound to retire in accordance with his contract of employment;
- his early retirement with the consent of the Company as a result of which he is entitled to an immediate pension from a pension scheme of the Company in respect of his employment or would be so entitled if he were a member of such a pension scheme;
- the company by which he is employed ceases to be a member of the Group; or
- the undertaking, or part of the undertaking, in which he works is transferred to a transferee which is not a member of the Group.

The Participant may exercise his Vested Option (if any) in the period of 12 months starting with the date his employment ends and at the end of that period the Vested Option will lapse unless (i) the Participant dies during that period in which case Rule 8.3 will apply or (ii) Rule 9.4 applies.

8.5 Leaving employment - other reasons - Vested Options

This Rule applies if:

- a Participant gives notice to end his employment;
- a Participant is given notice to end his employment; or
- a Participant's employment otherwise ends without notice,

and as a result the Participant will cease to be employed within the Group. It does not apply, however, if either of Rules 8.3 or 8.4 apply.

The Participant's Vested Option (if any) will lapse 30 days after the employment ends unless the Committee decides otherwise. In the meantime, the Participant may not exercise his Vested Option without the consent of the Committee.

If the Committee decides to allow the Participant to exercise his Vested Option, it must decide:

- whether the Participant may exercise all or part only of his Vested Option; and
- the period within which the Vested Option must be exercised which may not (except in the case of the Participant's subsequent death) end more than 12 months after the employment ends.

The Vested Option will lapse at the end of the period (if any) specified by the Committee unless the Participant dies during that period in which case Rule 8.3 will apply.

8.6 Leaving Employment - Unvested Options

This Rule applies if a Participant's employment within the Group ends for any reason other than his death and, at the time, he holds an Unvested Option. In the case of retirement at or after normal retirement age it only applies, however, to an Option which the Participant has held for at least 12 months on the date of his retirement; if the Option has been held for less than 12 months on such date then it will lapse.

The Participant's Unvested Option will lapse 30 days after the employment ends unless the Committee decides otherwise. If the Committee decides otherwise, it may allow the Participant to exercise such part of his Unvested Option as becomes a Vested Option at the end of the Performance Period (but time pro rated to reflect the number of complete months in the Performance Period which has expired by the date of cessation) within the period of 12 months starting with the date, if any, on which it becomes a Vested Option.

At the end of the period (if any) allowed for the exercise of the Participant's Option it will lapse unless the Participant dies during that period in which case Rule 8.3 will apply.

If it has not lapsed earlier under this Rule, the Participant's Unvested Option will lapse at the date on which it is no longer possible for the Performance Target to be met.

8.7 Exercise before employment ends

This Rule applies in any case where the Committee believes that a Participant's employment within the Group will end and he will be entitled or allowed to exercise his Option under Rule 8.5. The Committee may allow the Participant to exercise his Option in the 30 days immediately before the date on which the Committee believes that his employment will end.

9. CHANGE OF CONTROL AND LIQUIDATION

9.1 Change of Control

This Rule applies if any person (either alone or together with any person acting in concert with him):

- gets Control of the Company; or
- already having Control of the Company makes a general offer to acquire all of the Shares other than those which are already owned by him and/or any person acting in concert with him.

Subject to the rest of this Rule a Participant may exercise any Vested Option in the six months after the date of the change of Control or, as the case may be, the date the offer is made.

However, if, as a result of getting Control or of making the offer, the person becomes entitled to give a notice under section 429 (*Rights of offeror to buy out minority shareholders*) of the Companies Act 1985 to the Company's Shareholders, each Vested Option will lapse 30 days after the date on which that notice

is given unless it is exchanged (whether before or after the end of that period) for a new option under Rule 10 (*Substitute options following change of Control*).

9.2 Scheme of arrangement

This Rule applies, subject to Rule 9.4, where, under section 425 (*Power of company to compromise with creditors and members*) of the Companies Act 1985, the court approves a compromise or arrangement between the Company and its Shareholders.

Each Participant may exercise a Vested Option during such period as the Committee may decide. The period may not start before the date upon which the compromise or arrangement is approved by the court nor end later than six months after the date upon which it becomes effective. At the end of that period, each Option will lapse unless exchanged (whether before or after the end of that period) for a new option under Rule 10 (*Substitute options following change of Control*).

9.3 Liquidation

Subject to the rest of this Rule, each Option will lapse if an effective, resolution is passed, or an order is made, for the Company to be wound up unless it is exchanged (whether before or after the passing of that resolution) for a new option under Rule 10 (*Substitute options following change of Control*).

If a resolution is passed for the Company to be wound up voluntarily, each Participant may exercise his Vested Option in the period of 60 days after the resolution is passed. At the end of that period, each Option will lapse unless it is exchanged (whether before or after the passing of that resolution) for a new option under Rule 10 (*Substitute options following change of Control*).

Where a Participant exercises his Option according to this Rule, he will be entitled to share in the Company's assets in the same way as he would have been entitled to had the Shares been registered in his name before the resolution was passed.

9.4 Overriding provision

Notwithstanding the earlier provisions of this Rule or any other Rule, if:

- there is an arrangement whether implemented by the events referred to in this Rule 9 or otherwise (including, without limitation, a demerger by way of dividend) which will mean that either:
 - (i) the Company will be under the Control of another company; or
 - (ii) the Company's businesses will be separated so that they are owned by two or more companies; and
- in the case of (i) above, the persons who own Shares in the Company immediately before the change of Control will immediately afterwards own more than 75% of the shares in that other company or in the case of (ii) above, the persons who own Shares in the Company immediately before the separation own more than 75% of the shares in each of the relevant companies immediately after the separation; and

- Participants are to be offered substitute options (with or without performance targets) whether under Rule 10 (*Substitute options following change of Control*) or otherwise,

then the Committee may at its absolute discretion determine that Participants who hold Unvested Options may not exercise those Options.

9.5 Vested Options

For the purposes of this Rule 9 any Unvested Option shall as a result of any event in Rules 9.1, 9.2 or 9.3 become a Vested Option to the extent that:

- (i) the Performance Target is satisfied on the basis of its application from the start of the Performance Period to the relevant event (or such earlier date as the Committee may choose for ease of administration in measuring the Performance Target); and
- (ii) the relevant number of shares is time pro-rated using the formula

$$A \times \frac{B}{36}$$

where A equals the number of Shares which are the subject of the Option based on the extent to which the Performance Target is satisfied and B equals the number of complete months in the Performance Period which have elapsed by the date of the relevant event.

Provided, however, that the Committee may in its discretion, having given full consideration to the performance over the shortened period, decide that the Options should be exercisable to a greater extent.

10. SUBSTITUTE OPTIONS FOLLOWING CHANGE OF CONTROL

10.1 Application

Rule 10 applies if a company (the **acquiring company**):

- gets Control of the Company as a result of making a general offer to buy the whole of the issued share capital of the Company which is made on a condition which, if met, will give the acquiring company Control of the Company; or
- gets Control of the Company as a result of making a general offer to buy all the Shares; or
- gets Control of the Company as a result of a compromise or arrangement approved by the court under section 425 (*Power of company to compromise with creditors and members*) of the Companies Act 1985; or
- becomes bound or entitled to acquire shares in the Company under sections 428 to 430F (*Takeover offers*) of the Companies Act 1985.

The acquiring company's offer need not extend to shares which are already owned by it, its Holding Company or by its Subsidiaries or those of its Holding Company.

10.2 Release of Options

A Participant may release his Option (the **old option**) in return for the grant to him of another option (the **new option**) if all of the following conditions are met:

- the acquiring company agrees to the release and grant;
- the release and grant happen within the appropriate period (see Rule 10.3); and
- the new option is over shares in the acquiring company or some other company falling within paragraph 16(b) or 16(c) of schedule 4 to the Act.

10.3 Period for release

The appropriate period is:

- where the acquiring company gets Control as a result of an offer, the period of six months after the date when it gets Control of the Company and any condition subject to which the offer is made is met or waived;
- where the acquiring company gets Control as a result of a compromise or arrangement, the period of six months after the date on which the court approves the compromise or arrangement; and
- where the acquiring company becomes bound or entitled to buy shares under sections 428 to 430F (*Takeover offers*) of the Companies Act 1985, the period during which the acquiring company remains so bound or entitled.

10.4 Deemed release

If:

- a Participant does not exercise an old option within the period allowed by Rule 9 (*Change of Control and liquidation*): or
- a Participant is not allowed to exercise his old option because it is an Unvested Option,

and the old option would otherwise lapse under that Rule, the Committee may determine that the Participant will be deemed to have agreed to the release of his old option in return for the grant of a new option under this Rule.

10.5 Consequences of release

If a Participant is granted a new option under Rule 10:

- the new option will be exercisable in the same way as the old option;
- the Rules will apply to the new option as if references to Shares were references to the Shares in respect of which the new option is granted; and
- the Rules (other than Rules 2 (*Eligibility*), 3 (*Granting Options*), 4 (*Individual limits*), 5 (*Scheme limits*) and 13.3 (*Power of Change - limitations*)) will apply to the new option as if references to the Company (including any such references as occur in expressions which are defined in Rule 1 and are used in those Rules) were references to the company in respect of whose shares the new option is granted.

However, Rule 6.4 (*Meeting Performance Targets and other conditions*) will not apply to the new option unless it has been granted subject to a performance target and/or other conditions.

11. VARIATION OF CAPITAL

11.1 General

Rule 11 applies if there is a variation in the share capital of the Company or in such other circumstances as the Board considers appropriate.

11.2 Adjustment of Options

Subject to the rest of Rule 11, the Board may adjust each Option in any way that it thinks appropriate. The Board's decision will be final. In the case of Options granted by the Trustee, the Board must, however, get the Trustee's agreement beforehand.

The adjustment may be to any or all of the nominal amount and the number of Shares under the Option and the Exercise Price. The adjustment must, however, be on the basis that, so far as possible, there is no material change to the total Exercise Price of the Option.

For the avoidance of doubt, the Board may adjust an Option which has been exercised but in respect of which Shares have not yet been either allotted and issued or transferred.

11.3 Restriction on adjustment

The Board may not reduce the Exercise Price of an unissued Share to below its nominal value unless and to the extent permitted under the Companies Act 1985 and the Company's articles of association.

11.4 Notification of adjustment

The Company must tell each Participant of any adjustment to his Option as soon as possible after the Board's decision.

12. GENERAL

12.1 Availability of authorised capital

The Company must keep available enough unissued share capital for all Options which are to be met by the issue of new Shares.

12.2 Non-transferability of Options

An Option is personal to the Participant and his personal representatives. It will lapse immediately if:

- the Participant transfers it or creates any interest in it in favour of any third party; or
- a bankruptcy order is made in respect of him or any similar event occurs under the laws of any country other than England.

12.3 Relationship to contract of employment

Participation in the Scheme is a matter entirely separate from, and does not affect, a Participant's pension rights or terms of employment.

If a Participant ceases to be entitled to exercise his Option because his employment ends (whether fairly, unfairly, lawfully or wrongfully) or for any other reason, he will not be entitled to any compensation by reference to the rights granted to, or the benefits capable of being received by, him under the Scheme.

12.4 Notices and circulars to shareholders

The Company need not give Participants copies of any documents sent by the Company to its shareholders. However, the Company must give Participants written notice of any events which entitle them to exercise their Options under Rule 9 (*Change of Control and liquidation*).

12.5 Costs

The Company must pay the costs of preparing and running the Scheme. It may, however, require Participating Employers to share the costs on such a basis as the Board considers fair.

12.6 Notices to Eligible Executives and Participants

Any notice under the Scheme to an Eligible Executive or Participant may be given personally or through the internal post or by sending it by post, e-mail or facsimile to the address or number given by that person.

Where a notice or document is sent to an Eligible Executive or Participant by post it will be treated as being received 72 hours after it was put into the post properly addressed and stamped. In all other cases, the notice or document will be treated as received when it is given.

All notices and documents given or sent to Eligible Executives or Participants will be given or sent at the risk of the addressee. Neither the Company nor any of its Subsidiaries nor the Grantor has any liability

in respect of any notice or document given or sent, nor any obligation to check that the addressee actually receives it.

12.7 Notices to the Company and the Trustee

A person may give notice to the Company, the Committee, the Board or the Trustee by delivering it to, or sending it to, the Company at its registered office marked for the attention of the Company Secretary. The Company may make other arrangements to receive notices including (without limitation) facsimile or e-mail. Unless otherwise agreed by the Company, a notice will only be effective once it is received by the Company.

13. CHANGING AND ENDING THE SCHEME

13.1 Power of change - general

Subject to the limitations in Rule 13.3, the Committee may change the Scheme in any way.

13.2 Power of change - sub-schemes

In exercise of the power of change, the Committee may create additional sub-schemes including, without limitation, a sub-scheme into which participants will be granted share appreciation rights which will entitle them to a cash payment calculated by returns to the growth in value of shares.

13.3 Power of change - limitations

Subject to the exceptions in Rule 13.4, the approval of the Company in general meeting must be obtained before making any change to the advantage of employees or Participants to the following provisions:

- Rule 2 (*Eligibility*);
- Rule 3.4 (*Performance Targets and other conditions*);
- Rule 3.5 (*Changing the Performance Targets and other conditions*);
- Rule 3.7 (*Exercise Price*);
- Rule 4 (*Individual limit*);
- Rule 5 (*Scheme limits*);
- Rule 6 (*Restrictions upon exercise*);
- Rule 7.6 (*Rights of new Shares issued*);
- Rule 8 (*Leaving employment*);
- Rule 9 (*Change of Control and liquidation*);

- Rule 10 (*Substitute options following Change of Control*);
- Rule 11 (*Variation of capital*);
- Rule 12.2 (*Non-transferability of Options*); and
- Rule 13 (*Changing and ending the scheme*).

Subject to the exceptions in Rule 13.4, no change to the Scheme may be made which would affect adversely any of the subsisting rights of a Participant except either with his written consent or with the consent of most of the Participants affected by the change.

13.4 Power of change - exceptions

The Committee may change the Scheme to take account of any changes to the Act or other relevant law.

The Committee may change the Scheme to get or keep favourable tax, exchange control or regulatory treatment for Participants or any member of the Group.

The Committee may make minor changes to the Scheme to ease its administration or to correct clerical errors.

13.5 Notification of changes

The Company must tell a Participant about any change which affects his rights.

13.6 Ending the Scheme

The Board may end the Scheme at any time in which case no further Options will be granted. In all other respects, the Scheme will remain in force.

PART II

14. GENERAL

This Part sets out the terms of the terms of the UK Revenue approved part.

The terms of this Part are the terms set out in Part I modified as follows. In the event of any conflict between this Part and Part I, the provisions of this Part will apply.

The following Rules do not apply to this Part:

- Rule 1.4 (*The sub-schemes*);
- Rule 7.9 (*NIC Liability*);
- Rule 8.7 (*Exercise before employment ends*); and
- Rule 13.2 (*Power of change - sub-schemes*);

15. DEFINITIONS

For the purposes of this Part:

- a Participating Employer is the Company and any Subsidiary of the Company of which the Company has Control and which has been nominated by the Committee as a Participating Employer; and
- a Share must meet the conditions of paragraphs 16 to 20 (inclusive) of schedule 4 to the Act.

16. ELIGIBILITY

An Option may not be granted:

- to a person if it would breach the rule in paragraph 9 of Schedule 4 to the Act (*persons who within the previous 12 months have had a material interest in certain closely controlled companies*); or
- to a director of any member of the Group unless he is required to spend at least 25 hours a week (excluding meal breaks) on his duties to the Group.

17. GRANT OF OPTIONS

17.1 No grant until Revenue approval

An Option may not be granted under this Part until it has been approved by the Inland Revenue under the Act.

17.2 Period between invitation and grant

In any case where the Option is granted in response to an invitation, the period between the grant of the Option and the Dealing Day used to work out the minimum Exercise Price must not exceed 30 days.

17.3 Performance Target and additional conditions

An Option granted under this Part may not be subject to an additional condition which requires the Participant to bear the cost of any NIC Liability.

The power under Rule 3.5 (*Changing the Performance Target and additional conditions*) may (i) only be used if an event or series of events happen as a result of which the Committee considers it fair and reasonable to make a change and (ii) may not be exercised to change the Performance Target or the additional conditions in a way which would make the Performance Target or the additional conditions either easier or more difficult to achieve than it was, or they were, when the Option was granted. This power may not be used to impose a new Performance Target or different objective conditions but can be used to adjust and change any relevant Performance Target or additional condition.

17.4 Exercise Price

The Exercise Price may only be determined as mentioned in Rule 3.7 (*Exercise Price*) if the Shares are quoted in the Daily Official List of the London Stock Exchange plc. If not, the Exercise Price must not be less than an amount equal to the market value (determined in accordance with Part VIII of the Taxation of Chargeable Gains Act 1992) of a Share on the Date of Grant and agreed on or before that date by the Inland Revenue Shares Valuation Division for the purposes of this Part.

18. INDIVIDUAL LIMIT

Each Option granted under this Part must be limited, and must therefore take effect, so that it does not exceed the limit required by the Act. The limit required by the Act is that the total market value of the shares which a Participant may buy on the exercise of all of his subsisting options must not exceed or further exceed the amount specified in paragraph 6 of schedule 4 to the Act (currently £30,000).

For these purposes:

- market value has the same meaning as in Part VIII (*Supplemental*) of the Taxation of Chargeable Gains Act 1992;
- the market value of any shares will be calculated at the date on which the option in respect of them was granted or at such earlier time as may have been agreed with the Inland Revenue; and
- a Participant's options are those granted to him under any share option scheme approved under Schedule 4 to the Act and set up by the Company or any associated company (within the meaning of paragraph 35 of Schedule 4 to the Act) of the Company.

19. EXERCISE OF AN OPTION

A person (whether a Participant or his personal representative) may not exercise an Option if this would breach the rule in paragraph 9 (*persons who within the previous 12 months have had a material interest in certain closely controlled companies*) of schedule 4 to the Act.

Upon exercise of an Option, the Shares may be issued and allotted, or transferred, to another person at the Participant's request but only if that other person is the Participant's nominee.

Any arrangements under Rule 7.3 (*Payment of Exercise Price*) for the payment of the Exercise Price in cash approved by the Company must also be approved by the Inland Revenue.

The period specified by the Company in Rule 7.8 (*Withholding Obligations*) shall be 7 days.

20. LEAVING EMPLOYMENT

Rule 8.4 (*Leaving employment - special reasons - Vested Options*) applies to Unvested Options as it applies to Vested Options.

Any discretion vested in the Committee under Rules 8.2 (*Leaving employment - special reasons - Vested Options*), Rule 8.4 (*Leaving employment - special reasons - Vested Options*), Rule 8.5 (*Leaving employment – other reasons – Vested Options*) and Rule 8.6 (*Leaving Employment – Unvested Options*) must be exercised fairly and reasonably.

21. SUBSTITUTE OPTIONS FOLLOWING CHANGE OF CONTROL

So far as Rule 10 (*Substitute Options following change of Control*) is concerned:

- Rule 10.4 (*Deemed release*) will not apply;
- any new option must be over shares which meet the conditions of paragraphs 16 to 20 (inclusive) of schedule 9 to the Act;
- the total exercise price of the new option must be equal to the total Exercise Price of the old option or is otherwise agreed in advance by the Inland Revenue; and
- the total market value of the Shares under the old option immediately before the release must be equal to the total market value of the shares under the new option immediately after the release. Alternatively, the terms of the release and grant must have been approved in advance by the Inland Revenue. For this purpose, **market value** has the same meaning as in Part VIII (*Supplemental*) of the Taxation of Chargeable Gains Act 1992.

22. VARIATION OF CAPITAL

The Board may only make an adjustment in accordance with Rule 11 (*Variation of capital*) if there is a variation of the share capital of the Company.

The Board must obtain the prior approval of the Inland Revenue to any adjustment.

23. CHANGES

For so long as it is intended that this Part be approved under the Act:

- no change to this Part will have effect unless it has been approved by the Inland Revenue; and
- no change to Part I will have effect in relation to this Part unless it has been approved by the Inland Revenue.

The Company must immediately tell the Inland Revenue of any change to this Part or of any change to Part I which affects this Part.

The Committee may not change this Part without the approval of the Company in general meeting if a change to the corresponding provision in Part I would require such approval.

SCHEDULE: PERFORMANCE TARGET

1. Until such time as the Committee determines otherwise in accordance with Rule 3.5 of the Scheme the following minimum performance target shall apply as a condition to the exercise of any Option granted under the Scheme.
2. The performance target is determined at the Accounts Date of the Company following the expiry of a Prescribed Period. The performance target will be achieved in part (25% of the Option will become exercisable) if the average annual percentage growth in the Earnings Per Share of the Company over that Prescribed Period is at least 3% greater than the average annual increase in the RPI over the Prescribed Period. The Option will be exercisable in full if the performance target is at least 6% greater than such average annual increase in the RPI over the Prescribed Period and the Option will become exercisable on a sliding scale for growth in Earnings Per Share of the Company between 3% and 6%. For the purposes of determining the increases in the Earnings Per Share and RPI, the Earnings Per Share will be calculated by reference to the Base Year Accounts and the Latest Year Accounts and the RPIs shall be taken as those ruling at the start and end of the Prescribed Period. Once this target has been achieved, subject to the Rules of the Scheme, Participants' Options will become exercisable in accordance with the Rules.
3. The following provisions apply for the purposes of determining whether the above condition has been satisfied.

(a) The following expressions have the meanings respectively ascribed to them:-

"Accounts"	the consolidated accounts of the Company for a Financial Year drawn up on the historical cost basis in accordance with the Company's accounting policies and in accordance with generally accepted accounting principles applied consistently;
"Accounts Date"	the date on which the Accounts have been made up, audited and published;
"Annualised Earnings Per Share"	Earnings Per Share adjusted proportionately upwards or downwards in a case where the relevant Financial Year is greater or less than one calendar year;
"Base Year"	the Financial Year ending immediately before the start of the Prescribed Period;
"Earnings Per Share"	for any Financial Year of the Company the earnings per ordinary share of the Company calculated in accordance with Company's accounting principles but adjusted to exclude such exceptional items as the Committee deems to be appropriate. In the event a Financial Year is not a complete year or exceeds a year, the Earnings Per Share shall be

appropriately annualised;

“Financial Year”	an accounting reference period as determined in accordance with section 224 of the Companies Act 1985;
“Latest Year”	in relation to the Company, the latest Financial Year for which Accounts have been made up, audited and published;
“Prescribed Period”	a period of three consecutive Financial Years, the first of which shall not in any event be earlier than the Financial Year starting immediately before the Date of Grant of the relevant Option (or such shorter period as may apply under Rule 9);
“RPI”	the Retail Prices Index (All Items) published by H M Government.

4. After each Accounts Date the auditors to the Company will certify whether or not the target has been met.