

# Linklaters

This document sets out the rules of the BAE Systems Long-term Incentive Plan 2023 incorporating amendments proposed for shareholder approval at the 2025 Annual General Meeting on 7 May 2025. For clarity, one such amendment is to change the name of the plan to the BAE Systems Long-term Incentive Plan 2025. This introductory paragraph does not form part of the rules.

## RULES OF THE BAE SYSTEMS LONG-TERM INCENTIVE PLAN 2025

BAE SYSTEMS PLC

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## Rules of the BAE Systems Long-term Incentive Plan 2025

### 1 Definitions

In these rules:

**“Acquiring Company”** means a person who has or obtains control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company;

**“Assign”** means to transfer, assign, grant any security interest over, hold on trust or otherwise dispose of;

**“Award”** means a Performance Award, a Restricted Award or a Market Value Option;

**“Award Date”** means the date on which an Award is granted under rule 2.4 (Terms of Awards);

**“Category 1 Performance Award”** means any Performance Award which is subject to two or more applicable Normal Vesting Dates;

**“Category 2 Performance Award”** means any Performance Award which is subject to only one applicable Normal Vesting Date;

**“Category 3 Award”** means any Award (other than a Performance Award) which is subject to a Performance Condition;

**“Change of Control”** means:

- (i) when a general offer to acquire Shares made by a person (or a group of persons acting in concert) becomes wholly unconditional;
- (ii) when, under Section 895 of the Companies Act 2006 or equivalent procedure under local legislation, a court sanctions a compromise or arrangement in connection with the acquisition of Shares; or
- (iii) when a person (or a group of persons acting in concert) obtains control (within the meaning of Section 995 of the Income Tax Act 2007) of the Company in any other way;

**“Clawback Period”** means the period during which clawback will apply;

**“Company”** means BAE Systems plc;

**“Conditional Award”** means a conditional right to acquire Shares granted under the Plan;

**“Dealing Restriction”** means any restriction on dealing in securities imposed by regulation, statute, order, directive or any code adopted by the Company as varied from time to time;

**“Directors”** means, subject to rule 8.7 (Directors), the remuneration committee of the board of directors of the Company or a duly constituted committee of the board of directors, or a person or group of persons duly authorised by the board of directors of the Company or the remuneration committee of the board of directors of the company ;

**“Dividend Equivalent”** means an amount equal to the ordinary dividends payable on the number of Vested Shares between the Award Date and Vesting (or, in the case of Options, the date of exercise) pursuant to rule 6.5 (Dividend Equivalent);

**“Employee”** means an employee of a Member of the Group (including an executive director of the Company);

**“Expiry Date”** means 7 May 2035, the tenth anniversary of shareholder approval of amendments to the Plan;

**“Final Regulations”** means the final Treasury Regulations issued under Section 409A of the US Internal Revenue Code 1986, as amended, or any successor legislation;

**“First Normal Vesting Date”** means the first date on which part of a Category 1 Performance Award would normally vest as set by the Directors under rule 2.4 (Terms of Awards) or, if later, the date on which the Directors determine the extent to which a Performance Condition has been satisfied as set out in rule 6.1 (Determining performance);

**“Grantor”** means, in respect of an Award, the entity which grants that Award under the Plan;

**“Holding Period”** means the period specified in rule 5.3 (Duration of the Holding Period);

**“Market Value Option”** means an Option, which may be subject to a Performance Condition, and in respect of which the Option Price is set by reference to the market value of a Share on the Award Date;

**“Member of the Group”** means:

- (i) the Company;
- (ii) any Subsidiary from time to time; or
- (iii) any other company which is associated with the Company and is so designated by the Directors;

**“Normal Vesting Date”** means the date or dates set by the Directors under rule 2.4 (Terms of Awards) for the Vesting of an Award or a proportion of an Award;

**“Option”** means a conditional right to acquire Shares granted under the Plan which may be exercised by the Participant;

**“Option Period”** means the period starting on the Award Date and ending at the end of the day before the tenth anniversary of the Award Date, or such shorter period as may be specified under rule 2.4 (Terms of Awards) on the grant of an Option;

**“Option Price”** means zero or the amount payable for each Share on the exercise of an Option specified under rule 2.4 (Terms of Awards);

**“Participant”** means a person who holds or has held an Award or his personal representatives;

**“Performance Award”** means a Conditional Award or an Option (other than a Market Value Option) subject to a Performance Condition and designated as such under rule 2.4 (Terms of Awards), granted under the Plan but excludes a Restricted Award;

**“Performance Condition”** means any performance condition imposed under rule 2.6 (Performance Conditions);

**“Performance Period”** means the period in respect of which a Performance Condition is to be satisfied;

**“Plan”** means these rules known as “the BAE Systems Long-term Incentive Plan 2025”, as changed from time to time;

**“Restricted Award”** means a Conditional Award or an Option (other than a Market Value Option), which may be subject to a Performance Condition, and is designated as such under rule 2.4 (Terms of Awards), granted under the Plan but excludes a Performance Award;

**“Retained Shares”** has the meaning given in rule 5.1 (Effect of Holding Period);

**“Shares”** means fully paid ordinary shares in the capital of the Company or any American Depositary Shares or American Depositary Receipts representing ordinary shares;

**“Subsidiary”** means a company which is a subsidiary of the Company within the meaning of Section 1159 of the Companies Act 2006;

**“Tax-Qualified Option”** means a Market Value Option to which Schedule 1 (UK Tax-Qualified Options) will apply;

**“Termination Agreement”** means an agreement entered into between a Participant and a Member of the Group which sets out any terms and conditions relating to the termination of the Participant’s employment;

**“US Taxpayer”** means a Participant who is a citizen or tax resident of the United States of America or any other Participant to the extent that his Award(s) or any portion thereof is or becomes subject to income taxation under the laws of the United States of America;

**“Vest”** in relation to an Option, means an Option becoming exercisable; and in relation to a Conditional Award, means a Participant becoming entitled to have the Shares delivered to him subject to the Plan, and **“Vesting”** and **“Vested”** shall be construed accordingly; and

**“Vesting Period”** means the period from the Award Date to the date of Vesting.

## **2 Granting Awards**

### **2.1 Grantor**

The Grantor of an Award must be the Company, any other Member of the Group or a trustee of any trust set up for the benefit of Employees.

An Award granted under the Plan, and the terms of that Award, must be approved in advance by the Directors.

### **2.2 Eligibility**

The Grantor may grant an Award to anyone who is an Employee (including an executive director) on the Award Date in accordance with any selection criteria that the Directors in their discretion may set.

However, unless the Directors consider that special circumstances exist, an Award may not be granted to an Employee who on the Award Date has given or received notice of termination of employment, whether or not such termination is lawful.

### **2.3 Timing of Award**

Awards may only be granted within 42 days starting on any of the following:

**2.3.1** the date of shareholder approval of the Plan;

**2.3.2** the day after the announcement of the Company’s results for any period;

**2.3.3** the date of the Company’s annual general meeting or any other general meeting;

- 2.3.4 any day on which the Directors resolve that exceptional circumstances exist which justify the grant of Awards;
- 2.3.5 any day on which changes to the legislation or regulations affecting share plans are announced, effected or made; or
- 2.3.6 the lifting of Dealing Restrictions which prevented the granting of Awards during any period specified above.

Awards may not be granted at any time after the Expiry Date.

## **2.4 Terms of Awards**

Awards are subject to the rules of the Plan and any Performance Condition or other condition and must be granted by deed. The terms of the Award must be determined by the Directors. The terms must be set out in the deed or any other document (which may be in electronic form), including:

- 2.4.1 the Award Date;
- 2.4.2 whether the Award is:
  - (i) a Performance Award;
  - (ii) a Restricted Award;
  - (iii) a Market Value Option; or
  - (iv) a Market Value Option designated as a Tax-Qualified Option (to which Schedule 1 (UK Tax-Qualified Options) will apply),and, where relevant, whether the Performance Award or Restricted Award is granted in the form of a Conditional Award or an Option;
- 2.4.3 the number of Shares subject to the Award or the basis on which the number of Shares subject to the Award will be calculated;
- 2.4.4 any Performance Condition or other condition specified under rule 2.6 (Performance Conditions) or 2.7 (Other conditions);
- 2.4.5 the Normal Vesting Date(s);
- 2.4.6 whether the Participant is entitled to receive any Dividend Equivalent;
- 2.4.7 whether the Award will be satisfied in cash pursuant to rule 6.6 (Cash and Share alternative);
- 2.4.8 the Option Price, as applicable;
- 2.4.9 the Option Period, as applicable;
- 2.4.10 whether a Holding Period will apply to the Shares subject to the Award (and if so, its duration); and
- 2.4.11 the extent to which rule 4 (Malus and clawback) applies to the Award and any Clawback Period.

## **2.5 Option terms for US Taxpayers**

For Options granted to US Taxpayers, the Option Price will not be less than the fair market value of a Share on the Award Date and the maximum number of Shares that can be purchased pursuant to the Option shall be set no later than the Award Date. For the avoidance of doubt, the determination of fair market value shall be determined in a manner consistent with §1.409A-1(b)(5)(iv) of the Final Regulations.

## **2.6 Performance Conditions**

When granting a Performance Award, the Grantor must and, in the case of a Market Value Option or a Restricted Award, may make its Vesting conditional on the satisfaction of one or more conditions linked to performance. A Performance Condition must be specified at the Award Date.

The Directors may waive or change a Performance Condition in accordance with its terms or if anything happens which causes the Directors reasonably to consider it appropriate to do so.

## **2.7 Other conditions**

The Grantor may impose other conditions when granting an Award. Any condition must be specified at the Award Date and may provide that an Award will lapse if it is not satisfied. The Directors may waive or change a condition imposed under this rule 2.7.

## **2.8 Award certificates**

Each Participant will receive a certificate setting out the terms of the Award as soon as practicable after the Award Date. The certificate may be the deed referred to in rule 2.4 (Terms of Awards) or any other document (which may be in electronic form). If any certificate is lost or damaged, the Grantor may replace it on such terms as it decides.

## **2.9 No payment**

A Participant is not required to pay for the grant of any Award.

## **2.10 Administrative errors**

If the Grantor grants an Award which is inconsistent with rule 2.2 (Eligibility), it will lapse immediately.

If the Grantor tries to grant an Award which is inconsistent with rule 2.11 (Individual limit for Awards), 2.12 (Plan limits – 10 per cent) or 2.13 (Plan limits – 5 per cent), then the Award will be limited and will take effect from the Award Date on a basis consistent with those rules.

## **2.11 Individual limit for Awards**

An Award must not be granted to an Employee if it would, on the proposed Award Date, cause the market value of Shares subject to all Awards of the same type granted in respect of that financial year under the Plan to exceed the following percentages of the Employee's annual basic salary from all Members of the Group:

**2.11.1** Performance Awards – 500%;

**2.11.2** Restricted Awards – 200%; and

**2.11.3** Market Value Options – 400%.

For these purposes, “**market value**” will be determined by the Directors.

Subject to rule 6.8 (Consistency with directors’ remuneration policy), each of the relevant limits may be exceeded if the Directors determine that exceptional circumstances make it desirable that Awards should be granted in excess of that limit.

“**Basic salary**” means gross base salary excluding benefits in kind expressed as an annual rate payable on the Award Date. Basic salary payable in a currency other than sterling will be converted into sterling by using any rate of exchange which the Directors may reasonably select.

#### **2.12 Plan limits – 10 per cent**

A Grantor must not grant an Award if the number of Shares committed to be issued under that Award exceeds 10 per cent. of the ordinary share capital of the Company in issue immediately before that day, when added to the number of Shares which have been issued, or committed to be issued, to satisfy Awards under the Plan or options or awards under any other employee share plan operated by the Company granted in the previous 10 years.

#### **2.13 Plan limits – 5 per cent**

A Grantor must not grant an Award if the number of Shares committed to be issued under that Award exceeds 5 per cent. of the ordinary share capital of the Company in issue immediately before that day, when added to the number of Shares which have been issued, or committed to be issued, to satisfy Awards under the Plan or options or awards under any other discretionary employee share plan adopted by the Company granted in the previous 10 years.

#### **2.14 Scope of Plan limits**

Where the right to acquire Shares is released or lapses, the Shares concerned are ignored when calculating the limits in rules 2.12 (Plan limits – 10 per cent) and 2.13 (Plan limits – 5 per cent).

As long as so required by the Association of British Insurers, Shares transferred from treasury are counted as part of the ordinary share capital of the Company and as Shares issued by the Company.

#### **2.15 Listing Rules**

No Shares will be issued under the Plan if it would cause Listing Rule 6.1.19 (shares in public hands) to be breached.

### **3 Before Vesting**

#### **3.1 Rights**

A Participant is not entitled to vote, to receive dividends or to have any other rights of a shareholder in respect of Shares subject to an Award until the Shares are issued or transferred to the Participant.

#### **3.2 Transfer**

A Participant may not Assign an Award or any rights in respect of it. If he does, whether voluntarily or involuntarily, then it will immediately lapse.



This rule 3.2 does not apply to the transmission of an Award on the death of a Participant to his personal representatives.

### **3.3 Adjustment of Awards**

If there is:

- 3.3.1** a variation in the equity share capital of the Company, including a capitalisation or rights issue, sub-division, consolidation or reduction of share capital;
  - 3.3.2** a demerger (in whatever form) or exempt distribution by virtue of Section 1075 of the Corporation Tax Act 2010;
  - 3.3.3** a special dividend or distribution, or
  - 3.3.4** any other corporate event which might affect the current or future value of any Award,
- the Directors may adjust the number or class of Shares or securities subject to the Award and, in the case of an Option, the Option Price.

However, the Option Price of an Option to subscribe for Shares may be adjusted to a price less than nominal value only if the Directors resolve to capitalise the reserves of the Company, subject to any necessary conditions. This capitalisation will be of an amount equal to the difference between the adjusted Option Price payable for the Shares to be issued on exercise, and the nominal value of such Shares on the date of allotment. If, at the time of exercise, the Directors do not capitalise the reserves of the Company for this purpose, the adjustment under this rule 3.3 will be deemed not to have taken place.

In relation to Options held by US Taxpayers, any adjustment under this rule 3.3 shall be determined in a manner consistent with §1.409A-1(b)(5)(v) of the Final Regulations.

## **4 Malus and clawback**

### **4.1 Application of malus and clawback**

The Directors may, at the Award Date, decide that all or part of an Award will be subject to malus and/or clawback. Where the Directors so decide, they may determine to apply malus and/or clawback as set out in rules 4.2 (Malus) to 4.5 (General) below, in their absolute discretion and notwithstanding any other rule of the Plan, if one or more of the following circumstances has arisen:

- 4.1.1** the Participant's employer is entitled to terminate the Participant's employment for cause or the Participant has engaged in misconduct (including breach of policy) which gives rise to other disciplinary sanction, as determined by the Directors;
- 4.1.2** the results of the Company and/or any relevant business or businesses for any period have been restated or subsequently appear materially inaccurate or misleading, as determined by the Directors;
- 4.1.3** any Member of the Group or business unit has made a material financial loss; and/or
- 4.1.4** the Directors consider that the measurement of any Performance Condition does not reflect the actual performance of the Company over the Performance Period.

## **4.2 Malus**

Where the Directors determine that malus will be applied in respect of an Award before Vesting (or, in the case of Options, exercise), they will determine whether the Award will lapse wholly or in part and/or whether Vesting or exercise is deferred on such terms as they consider appropriate.

However, the Directors may not apply malus in respect of an unexercised Option after the end of any applicable Holding Period or, where no Holding Period applies, the earliest of the following:

- 4.2.1** the second anniversary of Vesting or such other date specified by the Directors on the Award Date;
- 4.2.2** the date of a Change of Control;
- 4.2.3** the death of the Participant; or
- 4.2.4** if the Directors so decide, on the date of any of the corporate events described in rule 8.1 (Vesting of Awards).

## **4.3 Clawback**

During the Clawback Period, irrespective of whether or not the Participant is still employed by any Member of the Group, the Directors may, in accordance with rule 4.1 (Application of malus and clawback), determine that clawback shall apply.

When clawback applies, the Participant agrees with the Company that, as specified by the Directors:

- 4.3.1** where an Award is subject to a Holding Period, the Participant shall direct the Trustee to transfer to or to the order of the Company a number of Retained Shares which is equal to (or less than) the number of Shares issued or transferred to them pursuant to the Award for no consideration;
- 4.3.2** the Participant shall transfer to or to the order of the Company a number of Shares which is equal to (or less than) the number of Shares issued or transferred to them pursuant to the Award for no consideration;
- 4.3.3** the Participant shall pay to, or to the order of, the Company an amount equal to the value of any dividends received in respect of any Shares which have been subject to clawback under this rule 4.3 or such lower amount as determined by the Directors;
- 4.3.4** the Participant shall pay to the order of the Company an amount representing the value of the Shares acquired under the Award; and/or
- 4.3.5** the Participant shall pay to or to the order of the Company an amount equal to any cash payment made to them pursuant to the Award.

In addition, the Directors may decide that any Award, bonus or other benefit which might have been granted, Vested or paid to the Participant under this or any other arrangement will be reduced, not awarded or not Vest.

## **4.4 Duration of Clawback Period**

The Clawback Period will begin on the date on which an Award Vests and will end on the earliest of the following:

- 4.4.1 the second anniversary of Vesting or such other date set by the Directors under rule 2.4 (Terms of Awards);
- 4.4.2 the date of a Change of Control;
- 4.4.3 the death of the Participant; or
- 4.4.4 if the Directors so decide, on the date of any of the corporate events described in rule 8.1 (Vesting of Awards).

#### **4.5 General**

- 4.5.1 For the avoidance of doubt, the Participant shall bear any liability to taxation which arises as a result of the clawback of Shares and/or dividends in accordance with this rule 4.
- 4.5.2 For the avoidance of doubt, the circumstances described in rule 4.1 (Application of malus and clawback) can arise even if the Participant was not responsible for the matter in question or if it happened before or after the Vesting or grant of the Award or before the Participant's employment with any Member of the Group.
- 4.5.3 Malus and/or clawback may be applied differently for different Participants or for different Awards held by the same Participant in relation to the same matter.
- 4.5.4 The Directors will notify the Participant of any application of malus or clawback.
- 4.5.5 Without limiting rule 10.1 (Terms of employment), the Participant will not be entitled to any compensation in respect of any application of malus or clawback.

### **5 Holding Period**

#### **5.1 Effect of Holding Period**

If an Award is subject to a Holding Period:

- 5.1.1 the Participant will be restricted from dealing with any Shares to be issued or transferred to the Participant on Vesting (or, in the case of Options, exercise), after deductions for income tax and social security under rule 6.7 (Withholding) (the "**Retained Shares**") in accordance with this rule 5.1 to rule 5.3 (Duration of the Holding Period).
- 5.1.2 notwithstanding rules 6.3 (Consequences of Vesting for Conditional Awards) and 6.4 (Consequences of Vesting for Options), the Directors will arrange for the Retained Shares to be issued or transferred to a designated nominee (the "**Trustee**") to be held on trust absolutely for the Participant during the Holding Period on such administrative terms as the Directors determine; and
- 5.1.3 for the avoidance of doubt, to the extent that the Participant exercises an Option after the end of any applicable Holding Period, the resulting Shares will not be subject to the Holding Period and will not be transferred to the Trustee.

#### **5.2 Terms applicable to Retained Shares**

- 5.2.1 The Participant agrees with the Company that they shall not Assign their beneficial interest in the Retained Shares, instruct the Trustee to Assign the Retained Shares or call for the legal title to the Retained Shares during the Holding Period, except:

- (i) in the case of the sale of sufficient entitlements nil-paid in relation to a Share to take up the balance of the entitlements under a rights issue or similar event;
- (ii) in respect of Shares disposed of under rule 6.7 (Withholding); or
- (iii) where the Directors agree otherwise in exceptional circumstances.

**5.2.2** During the Holding Period, the Participant will be entitled to vote and have all other rights of a shareholder in respect of the Retained Shares held by the Trustee. Any dividends payable in respect of the Retained Shares during the Holding Period will not be held by the Trustee but will be paid to the Participant. However, such dividends may be subject to clawback during the Holding Period in accordance with rule 4.3 (Clawback).

### **5.3 Duration of the Holding Period**

The Holding Period will begin on the date on which an Award Vests and will end on the earliest of the following:

- 5.3.1** the second anniversary of Vesting or such other date set by the Directors under rule 2.4 (Terms of Awards);
- 5.3.2** the date of a Change of Control;
- 5.3.3** the death of the Participant; or
- 5.3.4** if the Directors so decide, on the date of any of the corporate events described in rule 8.1 (Vesting of Awards).

At the end of the Holding Period, rule 5.2 (Terms applicable to Retained Shares) will cease to apply to the Retained Shares and the Participant agrees that he will direct the Trustee to transfer the Retained Shares to the Participant or an alternative recipient(s) specified by the Participant.

## **6 Vesting**

### **6.1 Determining performance**

As soon as reasonably practicable after the end of the Performance Period, the Directors will determine how many Shares are due to Vest for each Award, as applicable, as further described in this rule 6.

### **6.2 Timing of Vesting**

Subject to rules 4 (Malus and clawback), 7.2 (Relevant leavers – continuation of Awards) and 7.3 (Relevant leavers – early Vesting), an Award (or a proportion of an Award) will Vest on the later of:

- 6.2.1** the Normal Vesting Date(s); and
- 6.2.2** the date on which the Directors determine the extent to which any applicable Performance Condition or other condition have been achieved

or, if on that day a Dealing Restriction prevents Vesting, the first date on which Vesting is not prevented.

### **6.3 Consequences of Vesting for Conditional Awards**

Within 30 days of a Conditional Award Vesting, the Directors will arrange, subject to rules 4 (Malus and clawback), 5 (Holding Period), 6.6 (Cash and Share alternative), 6.7 (Withholding) and 10.8 (Consents), for the transfer (including a transfer out of treasury) or issue to, or to the order of, the Participant of the number of Shares in respect of which the Conditional Award has Vested.

### **6.4 Consequences of Vesting for Options**

**6.4.1** Subject to rule 7.8 (Lapse of Options), a Participant may exercise his Option in respect of the number of Shares which have Vested from the Normal Vesting Date until the end of the relevant Option Period.

**6.4.2** The Participant may exercise his Option by giving notice in the prescribed form to the Grantor or any person nominated by the Grantor accompanied by correct payment of the Option Price (if any) or details of arrangement agreed between the Participant and the Grantor for the payment of the Option Price.

**6.4.3** The exercise will take effect only when the Grantor or its nominee has received the notice of exercise and the payment referred to in rule 6.4.2. If a Dealing Restriction applies or the Option has not yet Vested when the exercise notice is received, the exercise will take effect when the Participant is permitted to exercise the Option.

**6.4.4** Subject to any other restrictions in the Plan rules, an Option may be exercised in full or in part. However, unless the Option is exercised in full, the Option must be exercised over at least 100 Shares and must be exercised in multiples of 100 Shares. If an Option is exercised in part, the balance remains exercisable and the Directors must on the surrender of the relevant certificate issue a balance certificate.

**6.4.5** Subject to rules 4 (Malus and clawback), 5 (Holding Period), 6.6 (Cash and Share alternative), 6.7 (Withholding) and 10.8 (Consents), the Grantor will arrange for Shares to be transferred (including a transfer out of treasury) or issued to, or to the order of, the Participant within 30 days of the date on which the Option is exercised.

**6.4.6** If an Option Vests under more than one provision of the rules of the Plan, the provision resulting in the shortest exercise period will prevail.

### **6.5 Dividend Equivalent**

An Award, except an Option granted to a US Taxpayer or a Tax-Qualified Option, may include the right to receive a Dividend Equivalent which may be paid in cash or Shares (as determined from time to time by the Directors). Dividend Equivalents will be paid to any relevant Participant as soon as practicable after Vesting or, in the case of Options, exercise. For the avoidance of doubt, the Dividend Equivalent does not include the tax credit.

### **6.6 Cash and Share alternative**

The Directors may decide to satisfy an Award by paying an equivalent amount in cash, subject to rule 6.7 (Withholding). For Options, the cash amount must be equal to the amount by which the market value of the Shares in respect of which the Option is exercised exceeds the Option Price on the date of exercise (the “**Option Gain**”). The Directors may also decide to satisfy an Option by paying the Option Gain in Shares (rounded down to the nearest whole Share). An Award may be granted on the basis that it will be satisfied in this manner.

In respect of Awards which consist of a right to receive a cash amount, the Directors may decide instead to satisfy the Vesting of such Awards by the delivery of Shares, subject to rule 6.7 (Withholding). The number of Shares will be calculated by reference to the market value of the Shares on the date of Vesting for Conditional Awards and the date of exercise for Options.

## **6.7 Withholding**

The Company, the Grantor, any employing company or trustee of any employee benefit trust may withhold such amount and make such arrangements as it considers necessary to meet any liability to taxation or social security contributions in respect of Awards. These arrangements may include the sale or reduction in number of any Shares.

## **6.8 Consistency with directors' remuneration policy**

Notwithstanding any other provision in these rules or the terms of any Award, the Grantor or any other person will not issue or transfer any Shares or make any payment which would be inconsistent with the approved directors' remuneration policy of the Company and in breach of Chapter 4A of Part 10 of the Companies Act 2006. To the extent that the terms of any Award are so inconsistent, the Directors may, acting reasonably and in good faith, adjust (retrospectively or otherwise) the number or class of Shares or securities comprised in an Award and/or impose additional conditions on the Vesting of such Award as they consider appropriate.

# **7 Leaving employment and death**

## **7.1 General rule on leaving employment**

Unless rule 7.2 (Relevant leavers – continuation of Awards), 7.3 (Relevant leavers – early Vesting) or 7.4 (Relevant leavers – Category 1 Performance Awards) applies, a Conditional Award (or proportion thereof) that has not yet Vested or an Option (or proportion thereof) that has not yet been exercised will lapse on the date the Participant leaves employment.

## **7.2 Relevant leavers – continuation of Awards**

Unless rule 7.3 (Relevant leavers – early Vesting) or 7.4 (Relevant leavers – Category 1 Performance Awards) applies, an Award will not lapse and will continue and where relevant Vest on the Normal Vesting Date(s), subject to the rules of the Plan, if a Participant leaves employment due to:

- 7.2.1** ill-health, injury or disability, as established to the satisfaction of the Company;
- 7.2.2** retirement with the agreement of the Participant's employer;
- 7.2.3** the Participant's employing company ceasing to be a Member of the Group;
- 7.2.4** a transfer of the undertaking, or the part of the undertaking, in which the Participant works to a person which is not a Member of the Group;
- 7.2.5** redundancy, but only in circumstances which give rise to a redundancy payment; or
- 7.2.6** any other reason, if the Directors so decide in any particular case.

The number of Shares in respect of which the Award Vests will, unless the Directors decide otherwise, be reduced pro rata as provided for in rule 7.6 (Pro rating Awards).

Notwithstanding the foregoing, rule 7.2.2 shall not apply to the following Awards held by US Taxpayers: (i) Restricted Awards; (ii) Conditional Awards that are not subject to any Performance Conditions; and (iii) Conditional Awards held by a US Taxpayer after the date on which any Performance Period applying to such Conditional Award ends.

### **7.3 Relevant leavers – early Vesting**

Where a Participant leaves employment for one of the reasons set out in rule 7.2 (Relevant leavers – continuation of Awards), the Directors may decide, in their discretion, that the Award will Vest on the date the Participant leaves employment or such other date as they decide. Where they do so:

- 7.3.1 the Award will Vest to the extent that any Performance Condition or other condition has been or is likely to be satisfied (as determined by the Directors, at the relevant time, in the manner specified in the Performance Condition or other condition or in such manner as they consider reasonable); and
- 7.3.2 the Award will lapse to the extent it does not Vest.

The number of Shares in respect of which the Award Vests will, unless the Directors decide otherwise, be reduced pro rata as provided for in rule 7.6 (Pro rating Awards).

### **7.4 Relevant leavers – Category 1 Performance Awards**

Where a Participant leaves employment for one of the reasons set out in rule 7.2 (Relevant leavers – continuation of Awards), the following will apply in respect of his Category 1 Performance Awards:

- 7.4.1 if the Participant leaves employment prior to the First Normal Vesting Date, his Performance Award will not lapse and will continue to Vest on the First Normal Vesting Date and, unless the Directors decide otherwise, the number of Shares in respect of which the Performance Award Vests will be reduced pro rata as provided for in rule 7.6 (Pro rating Awards);
- 7.4.2 if the Participant leaves employment on or after the First Normal Vesting Date, his Performance Awards will Vest on the date the Participant leaves employment and, unless the Directors decide otherwise, no pro rata reduction of the number of Vested Shares will apply; and
- 7.4.3 the Performance Award will lapse to the extent that it does not Vest.

### **7.5 Relevant leavers – US Taxpayers**

With respect to Conditional Awards held by US Taxpayers, notwithstanding rules 7.2 (Relevant leavers – continuation of Awards), 7.3 (Relevant leavers – early Vesting) and 7.4 (Relevant leavers – Category 1 Performance Awards), if a Participant leaves employment due to a reason set forth in rule 7.2 (Relevant leavers – continuation of Awards), the Award does not lapse but will Vest on the date of cessation or, if any Performance Condition applying to the Conditional Award cannot be (or has not been) measured on or before cessation, as soon as practicable after the first opportunity when such Performance Condition may be determined, but in no event shall Shares or cash underlying the Conditional Awards be transferred later than March 15 of the calendar year following the calendar year in which the Performance Period as to which the Performance Condition is measured ends.

The number of Shares in respect of which the Award Vests will, unless the Directors decide otherwise, be reduced pro rata as provided for in rule 7.6 (Pro rating Awards).

## **7.6 Pro rating Awards**

- 7.6.1 Where rule 7.2 (Relevant leavers – continuation of Awards), 7.3 (Relevant leavers – early Vesting) or 7.5 (Relevant leavers – US Taxpayers) applies and the Award is a Category 2 Performance Award or a Category 3 Award, unless the Directors decide otherwise, the number of Shares in respect of which the Award Vests will be reduced to reflect the period from the Award Date to the date the Participant leaves employment as a proportion of the Vesting Period.
- 7.6.2 Where rule 7.2 (Relevant leavers – continuation of Awards), 7.3 (Relevant leavers – early Vesting) or 7.5 (Relevant leavers – US Taxpayers) applies and the Award is not subject to a Performance Condition, unless the Directors decide otherwise, the number of Shares in respect of which the Award Vests will be reduced to reflect the period from the Award Date to the date the Participant leaves employment as a proportion of the Vesting Period (and, where there is more than one applicable Normal Vesting Date, each tranche will be calculated separately).
- 7.6.3 Where rule 7.4.1 (Relevant leavers – Category 1 Performance Awards) applies, unless the Directors decide otherwise, the number of Shares in respect of which the Performance Award Vests will be reduced to reflect the period from the Award Date to the date the Participant leaves employment as a proportion of the period from the Award Date to the First Normal Vesting Date.
- 7.6.4 The Award will lapse to the extent it does not Vest.
- 7.6.5 Where an Option is already Vested, no pro-rating will be applied.

## **7.7 Death**

If a Participant dies his Award will Vest on the date of death to the extent that any Performance Condition or other condition has been or is likely to be satisfied (as determined by the Directors, at the date of death, in the manner specified in the Performance Condition or other condition or in such manner as they consider reasonable) and will lapse as to the balance.

The number of Shares in respect of which the Award Vests will, unless the Directors decide otherwise, be reduced pro rata as provided for in rule 7.6 (Pro rating Awards).

## **7.8 Lapse of Options**

An Option which is exercisable after the Participant has left employment will be exercisable for six months from the date of leaving or, if later, the date on which it Vests. In the case of death, the Option will be exercisable for 12 months from the date of death.

## **7.9 General**

- 7.9.1 A Participant will only be treated as “leaving employment” when he is no longer an Employee of any Member of the Group and, unless the Directors decide otherwise, a Participant will be treated as leaving employment on the date he is no longer an Employee of any Member of the Group.



**7.9.2** The Directors must make the decision referred to in rule 7.2.6 (Relevant leavers – continuation of Awards) no later than 60 days after the Participant has left employment.

## **7.10 Termination agreements**

Where rule 7.2 (Relevant leavers – continuation of Awards) applies and the Participant has entered into a Termination Agreement in connection with his leaving employment, subject to rule 4 (Malus and clawback), Awards will not Vest unless the Participant has complied with, or is released from, his obligations under that Termination Agreement as the Directors determine.

## **7.11 Overseas transfer**

If a Participant remains an Employee but is transferred to work in another country or changes tax residence status and, as a result, would:

**7.11.1** suffer a tax disadvantage in relation to his Awards (this being shown to the satisfaction of the Directors); or

**7.11.2** become subject to restrictions on his ability to exercise his Awards or to hold or deal in the Shares or the proceeds of the sale of the Shares acquired because of the security laws or exchange control laws of the country to which he is transferred,

then the Directors may decide that the Awards will Vest on a date they choose before or after the transfer takes effect. The Award will Vest to the extent they permit, remain exercisable for such period as they decide and may lapse as to the balance if the Directors so decide.

Notwithstanding the foregoing, if this rule 7.11 applies with respect to a Participant who is, or is expected to become, a US Taxpayer, the Directors may decide to accelerate Vesting and the transfer of the underlying Shares to a date earlier than the date originally set for Vesting, but shall not extend, suspend or otherwise change the period of Vesting in any other manner.

# **8 Corporate events**

## **8.1 Vesting of Awards**

In the event of a:

**8.1.1** Change of Control;

**8.1.2** resolution for the voluntary winding up of the Company;

**8.1.3** demerger, delisting, distribution (other than an ordinary dividend) or other transaction, which, in the opinion of the Directors, might affect the current or future value of any Award; or

**8.1.4** reverse takeover (not within rule 8.1.1), merger by way of a dual listed company or other significant corporate event, as determined by the Directors,

an Award Vests subject to rules 8.2 (Extent of Vesting), 8.3 (Lapse of Options) and 8.4 (Exchange). The Award lapses as to the balance except to the extent exchanged under rule 8.4 (Exchange). The Directors may impose other conditions on Vesting.

## **8.2 Extent of Vesting**

Where an Award Vests under rule 8.1 (Vesting of Awards):

- 8.2.1** if the Award is subject to a Performance Condition or other condition, unless the Directors decide otherwise, the Directors will, at their discretion, determine the extent to which such condition has been satisfied and the proportion of the Award which will Vest. In addition, unless the Directors decide otherwise, the Award is then reduced to reflect the period from the Award Date to the date of the relevant event as a proportion of the Vesting Period (and, where there are two or more applicable Normal Vesting Dates, each tranche will be calculated separately); and
- 8.2.2** if the Award is not subject to any Performance Condition or other condition, unless the Directors decide otherwise, the Award is reduced to reflect the period from the Award Date to the date of the relevant event as a proportion of the Vesting Period (and, where there are two or more applicable Normal Vesting Dates, each tranche will be calculated separately).

## **8.3 Lapse of Options**

Following an event described in rule 8.1 (Vesting of Awards), an Option will be exercisable for three months after the relevant event (or such other period, not exceeding one year, as the Directors may determine at the time of the event) or, if earlier, for six weeks after the date on which a notice to acquire Shares under section 979 of the Companies Act 2006 is first served. The Option will lapse at the end of that period to the extent unexercised.

## **8.4 Exchange**

An Award will not Vest under rule 8.1 (Vesting of Awards) but will be exchanged pursuant to rule 8.6 (Exchange terms) to the extent that:

- 8.4.1** an offer to exchange the Award is made and accepted by a Participant; or
- 8.4.2** the Directors, with the consent of the Acquiring Company, decide before the relevant event that the Award will be automatically exchanged.

To the extent that an offer to exchange a Conditional Award is made under rule 8.4.1 to a US Taxpayer, the Conditional Award will not Vest under rule 8.1 (Vesting of Awards) and will lapse to the extent such offer is declined by such US Taxpayer.

## **8.5 Timing of exchange**

Where an Award is to be exchanged under rule 8.4 (Exchange), the exchange is effective immediately following the relevant event.

## **8.6 Exchange terms**

Where a Participant is granted a new award in exchange for an existing Award, the new award:

- 8.6.1** must confer a right to acquire shares in the Acquiring Company or another body corporate determined by the Acquiring Company;
- 8.6.2** must be equivalent to the existing Award, subject to rule 8.6.4, and, with respect to Options held by US Taxpayers, the terms of the new award must be determined in a manner consistent with §1.409A-1(b)(5)(v)(D) of the Final Regulations;

**8.6.3** is treated as having been acquired at the same time as the existing Award and, subject to rule 8.6.4, Vests in the same manner and at the same time;

**8.6.4** must:

- (i) be subject to a condition which is, so far as practicable, equivalent to any Performance Condition or other condition applying to the existing Award; or
- (ii) not be subject to any Performance Condition or other condition but be in respect of the number of shares which is equivalent to the number of Shares comprised in the existing Award which would have Vested under rule 8.2 (Extent of Vesting) and Vest on the Normal Vesting Date(s) set by the Directors on the grant of the Award; and/or
- (iii) be subject to such other terms as the Directors consider appropriate in all the circumstances; and

**8.6.5** is governed by the Plan, excluding rule 9.2 (Shareholder approval), as if references to Shares were references to the shares over which the new award is granted and references to the Company were references to the Acquiring Company or the body corporate determined under rule 8.6.1.

## **8.7 Directors**

In this rule 8, “**Directors**” means those people who were members of the remuneration committee of the Company immediately before the Change of Control.

## **9 Changing the Plan and termination**

### **9.1 Directors’ powers**

Except as described in the rest of this rule 9, the Directors may at any time change the Plan (including the terms of any Awards) in any way, including changes to the disadvantage of Participants.

### **9.2 Shareholder approval**

**9.2.1** Except as described in rules 9.2.2 and 9.2.3, the Company in general meeting must approve in advance by ordinary resolution any proposed change to the Plan to the advantage of present or future Participants, which relates to:

- (i) the Participants;
- (ii) the limits on the number of Shares which may be issued under the Plan;
- (iii) the individual limit for each Participant under the Plan;
- (iv) the basis for determining a Participant's entitlement to, and the terms of, securities, cash or other benefit to be provided and for the adjustment thereof (if any) if there is a capitalisation issue, rights issue or open offer, sub-division or consolidation of shares or reduction of capital or any other variation of capital; or
- (v) the terms of this rule 9.2.1.

**9.2.2** The Directors can change the Plan and need not obtain the approval of the Company in general meeting for any minor changes:

- (i) to benefit the administration of the Plan;
- (ii) to comply with or take account of the provisions of any proposed or existing legislation;
- (iii) to take account of any changes to legislation; or
- (iv) to obtain or maintain favourable tax, exchange control or regulatory treatment of the Company, any Subsidiary or any present or future Participant.

**9.2.3** The Directors may, without obtaining the approval of the Company in general meeting, establish further plans (by way of schedules to the rules or otherwise) based on the rules, but modified to take account of local tax, exchange control or securities law in non-UK territories. However, any new issue or treasury Shares made available under such plans are treated as counting against any limits on individual or overall participation in the Plan under rules 2.11 (Individual limit for Awards), 2.12 (Plan limits – 10 per cent) and 2.13 (Plan limits – 5 per cent).

### **9.3 Notice**

The Directors are not required to give Participants notice of any changes.

### **9.4 Termination**

The Plan will terminate on the Expiry Date, but the Directors may terminate the Plan at any time before that date. The termination of the Plan will not affect existing Awards.

## **10 General**

### **10.1 Terms of employment**

**10.1.1** This rule 10.1 applies during an Employee's employment and after the termination of an Employee's employment, whether or not the termination is lawful.

**10.1.2** Nothing in the rules or the operation of the Plan forms part of the contract of employment of an Employee. The rights and obligations arising from the employment relationship between the Employee and his employer are separate from, and are not affected by, the Plan. Participation in the Plan does not create any right to, or expectation of, continued employment.

**10.1.3** No Employee has a right to participate in the Plan. Participation in the Plan or the grant of Awards on a particular basis in any year does not create any right to or expectation of participation in the Plan or the grant of Awards on the same basis, or at all, in any future year.

**10.1.4** The terms of the Plan do not entitle the Employee to the exercise of any discretion in his favour.

**10.1.5** The Employee will have no claim or right of action in respect of any decision, omission or discretion, which may operate to the disadvantage of the Employee even if it is unreasonable, irrational or might otherwise be regarded as being in breach of the duty of trust and confidence (and/or any other implied duty) between the Employee and his employer.

**10.1.6** No Employee has any right to compensation for any loss in relation to the Plan, including any loss in relation to:

- (i) any loss or reduction of rights or expectations under the Plan in any circumstances (including lawful or unlawful termination of employment);
- (ii) any exercise of a discretion or a decision taken in relation to an Award or to the Plan, or any failure to exercise a discretion or take a decision; and
- (iii) the operation, suspension, termination or amendment of the Plan.

## **10.2 Directors' decisions final and binding**

The decision of the Directors on the interpretation of the Plan or in any dispute relating to an Award or matter relating to the Plan will be final and conclusive.

Neither the Company, the Grantor nor any Director shall be liable for any action or determination with respect to an Award or Awards that results in such Awards (individually or entirely) becoming subject to taxation under Section 409A of the US Internal Revenue Code 1986.

## **10.3 Third party rights**

Nothing in this Plan confers any benefit, right or expectation on a person who is not a Participant. No such third party has any rights under the Contracts (Rights of Third Parties) Act 1999 or any equivalent local legislation to enforce any term of this Plan. This does not affect any other right or remedy of a third party which may exist.

## **10.4 Documents sent to shareholders**

The Company is not required to send to Participants copies of any documents or notices normally sent to the holders of its Shares.

## **10.5 Costs**

The Company will pay the costs of introducing and administering the Plan. The Company may ask a Participant's employer to bear the costs in respect of an Award to that Participant.

## **10.6 Employee trust**

The Company may provide money to the trustee of any trust or any other person to enable them or him to acquire Shares to be held for the purposes of the Plan, or enter into any guarantee or indemnity for those purposes, to the extent permitted by Section 682 of the Companies Act 2006 or any applicable law.

## **10.7 The Participant's information**

### **10.7.1 *Use of the Participant's information***

Subject to rule 10.7.2, by participating in the Plan and accepting an Award, the Participant consents to the holding and processing of personal information the Participant provides to any Member of the Group, trustee or third-party service provider, for all purposes relating to the operation of the Plan. These include, but are not limited to:

- (i) administering and maintaining Participant records;

- (ii) providing information to Members of the Group, trustees of any employee benefit trust, registrars, brokers or third-party administrators of the Plan;
- (iii) providing information to future purchasers or merger partners of the Company, the Participant's employing company, or the business in which the Participant works;
- (iv) transferring information about the Participant to any country or territory that may not provide the same statutory protection for the information as the Participant's home country.

The Participant is entitled, on payment of a fee, to a copy of the personal information held about them, and if anything is inaccurate the Participant has the right to have it corrected.

#### **10.7.2 EU Data Protection**

The basis for any processing of personal information about the Participant under the EU's General Data Protection Regulation (2016/679) ("**GDPR**") (or any successor laws, including its incorporation into UK law as the UK GDPR) is set out in the shareholders' section of the Company's Fair Processing Notice (available here: <https://www.baesystems.com/en/privacy>) and is not the consent given under rule 10.7.1.

The Participant is advised to review the shareholders' section of the Company's Fair Processing Notice which also contains details about how the Participant's personal information is processed and the Participant's rights in relation to that information.

### **10.8 Consents**

All allotments, issues and transfers of Shares will be subject to:

- 10.8.1** any necessary consents under any relevant enactments or regulations for the time being in force in the United Kingdom or elsewhere. The Participant is responsible for complying with any requirements he needs to fulfil in order to obtain or avoid the necessity for any such consent;
- 10.8.2** the Participant providing such information to the Company or its duly appointed agents as may be necessary to give effect to any allotments, issues and transfers of Shares, including any information required pursuant to the Markets In Financial Instruments Directive and other securities market regulations; and
- 10.8.3** the Participant entering into any elections or agreements required by the Company or the Participant's current or former employer in relation to the Plan and the Participant's participation in it, including elections under Part 7 of the Income Tax (Earning and Pensions) Act 2003. If he does not do so within a period specified by the Company, the Award will lapse at the end of that period.

### **10.9 Share rights**

Shares issued to satisfy Awards under the Plan will rank equally in all respects with the Shares in issue on the date of allotment. They will not rank for any rights attaching to Shares by reference to a record date preceding the date of allotment. Where Shares are transferred to a Participant, including a transfer out of treasury, the Participant will be entitled to all rights

attaching to the Shares by reference to a record date on or after the transfer date. The Participant will not be entitled to rights before that date.

#### **10.10 Listing**

If and so long as the Shares are listed and traded on a public market, the Company will apply for listing of any Shares issued under the Plan as soon as practicable.

#### **10.11 Notices**

**10.11.1** Any information or notice to a person who is or will be eligible to be a Participant under or in connection with the Plan may be posted, or sent by electronic means, in such manner to such address as the Company considers appropriate, including publication on any website.

**10.11.2** Any information or notice to the Company or other duly appointed agent under or in connection with the Plan may be sent by post or transmitted to it at its registered office or such other place, or by such other means, as the Directors or duly appointed agent may decide and notify Participants.

**10.11.3** Notices sent by post will be deemed to have been given on the second day after the date of posting. However, notices sent by or to a Participant who is working overseas will be deemed to have been given on the seventh day after the date of posting. Notices sent by electronic means, in the absence of evidence to the contrary, will be deemed to have been received on the day after sending.

#### **10.12 Section 409A of the US Internal Revenue Code 1986**

With respect to all Conditional Awards held by US Taxpayers, the terms of the Plan and all Conditional Awards granted under the Plan are intended to, and shall be interpreted and construed in a manner to, fit within the “short-term deferral” exception from Section 409A of the US Internal Revenue Code 1986. Under the “short-term deferral” exception, payments may be made by the later of the 15th day of the third month following the end of the calendar year in which the right to the payment is no longer subject to a substantial risk of forfeiture or the 15th day of the third month following the end of the employer’s first taxable year in which the right to the payment is no longer subject to a substantial risk of forfeiture. Accordingly, notwithstanding anything in the Plan to the contrary, the Company shall transfer Shares or cash underlying a Conditional Award and any related Dividend Equivalents to US Taxpayers no later than the later of the 15th day of the third month following the end of the calendar year in which the Conditional Award is no longer subject to a substantial risk of forfeiture.

#### **10.13 Governing law and jurisdiction**

English law governs the Plan and all Awards and their construction. The English courts have exclusive jurisdiction in respect of disputes arising under or in connection with the Plan or any Award.

## **Schedule 1**

### **UK Tax-Qualified Options**

The purpose of this Schedule is to provide, in accordance with ITEPA, benefits for employees and directors in the form of Tax-Qualified Options. To this end, the Grantor may, when granting a Market Value Option designate it as a Tax-Qualified Option. If it does so, the provisions of the Plan will apply to it, as amended by this Schedule 1.

#### **1 Definitions**

The following definitions apply to this Schedule 1 and add to or amend, as appropriate, the definitions which are set out in the Plan:

**“Control”** has the meaning given to it by Section 995 of the Income Tax Act 2007;

**“HMRC”** means HM Revenue and Customs;

**“ITEPA”** means Schedule 4 to the Income Tax (Earnings and Pensions) Act 2003;

**“Market Value”** on any particular day means where Shares of the same class are admitted to the Official List and traded on the London Stock Exchange or a foreign stock exchange<sup>1</sup>:

- (a) their middle market quotation on the immediately preceding business day on which Shares are traded;
- (b) the average of the middle market quotations on the three or five immediately preceding business days; or
- (c) such other price as may be agreed in advance with HMRC Shares and Assets Valuation,

in any case, ignoring any restrictions referred to in paragraph 36(3) of ITEPA. The middle market quotation is taken from the Daily Official List of the London Stock Exchange;

**“Official List”** means the list maintained by the Financial Conduct Authority for the purpose of Section 74(1) Financial Services and Markets Act 2000;

**“Schedule 4 Plan”** means a plan in relation to which the requirements of Parts 2 to 6 of ITEPA are (and are being) met; and

**“Shares”** means fully paid ordinary shares in the capital of the Company which satisfy paragraphs 16 to 20 of ITEPA.

Except where paragraph 10 below applies, if any Shares which are subject to a Tax-Qualified Option cease to satisfy Part 4 of ITEPA and the Plan ceases to be a Schedule 4 Plan, then the definition of “Shares” will be automatically changed to “fully paid ordinary shares in the capital of the Company”.

#### **2 Eligibility**

##### **2.1 Tax-Qualified Options may only be granted to an employee of:**

- 2.1.1** the Company;
- 2.1.2** a Subsidiary; or

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<sup>1</sup> If the foreign stock exchange is not a recognised stock exchange, the price will have to be agreed in advance with HMRC Shares and Assets Valuation.



2.1.3 any jointly-owned company (within the meaning of paragraph 34 of ITEPA) designated by the Grantor.

**2.2** Tax-Qualified Options cannot be granted to anyone who is:

2.2.1 a director who is required to work less than 25 hours a week (excluding meal breaks); or

2.2.2 excluded from participation because of paragraph 9 of ITEPA (material interests provisions).

### **3 Award Certificate**

The Grantor will ensure that the Participant is notified of the following as soon as practical after grant of a Tax-Qualified Option:

- (i) the number and description of the Shares subject to the Option;
- (ii) the Option Price;
- (iii) whether or not the Shares subject to the Option are subject to any restriction (as defined in paragraph 36(3) of ITEPA) and, if so, the details of any such restrictions;
- (iv) the times at which the Option may be exercised (in whole or in part);
- (v) the circumstances under which the Option will lapse or be cancelled (in whole or in part), including any conditions to which the exercise of the Option (in whole or in part) is subject;
- (vi) any mechanism (including any Performance Condition) by way of which any terms referred to in sub-paragraphs (i) to (iii) and (v) above can be changed;
- (vii) the extent to which rule 4 (Malus and clawback) applies to the Option and any Clawback Period; and
- (viii) whether or not the Shares subject to the Option are subject to a Holding Period (and if so, its duration).

The notification may be given wholly or partly through the Award certificate.

### **4 Option Price**

The Grantor will set the Option Price and state it on the Award Date.

The Option Price will not be:

- (i) manifestly less than the Market Value of a Share on the Award Date or such other date as HMRC may agree in advance; and
- (ii) if the Shares are to be subscribed, less than the nominal value of a Share.

### **5 Individual limit for Tax-Qualified Options**

The Grantor must not grant a Tax-Qualified Option to an employee which would on the Award Date cause the aggregate Market Value of:

- (i) the Shares subject to that Tax-Qualified Option;
- (ii) the Shares which he may acquire on exercising other Tax-Qualified Options; and

- (iii) the shares which he may acquire on exercising his options under any other Schedule 4 Plan established by the Company or by any of its associated companies (as defined in paragraph 35 of ITEPA),

to exceed the amount permitted under paragraph 6(1) of ITEPA (£60,000 or such other limit as provided for from time to time). For the purposes of sub-paragraph (iii) above, "Market Value" is calculated as at the date of grant of the options as described in the relevant plan rules.

If the Grantor tries to grant a Tax-Qualified Option which is inconsistent with this paragraph 5, the Tax-Qualified Option will be limited and will take effect from the Award Date on a basis consistent with this paragraph 5.

## **6 Adjustment of Tax-Qualified Options**

Rule 3.3 (Adjustment of Awards) does not apply to Tax-Qualified Options.

Adjustments may be made to Tax-Qualified Options so far as necessary to take account of a variation of share capital only where there is a variation of the capital of which Shares form part and:

- (i) the total Option Price after adjustment must be substantially the same as before adjustment;
- (ii) the total market value of the Shares subject to the Option must remain substantially the same; and
- (iii) following any such adjustment the Plan will continue to be a Schedule 4 Plan.

For the purpose of this paragraph, a "variation of share capital" includes a capitalisation or rights issue, consolidation, subdivision or reduction of share capital (or any other event the Directors consider to be similar in nature).

An annual return relating to the Plan submitted to HMRC following any such adjustment must include a declaration that the Plan continues to comply with ITEPA.

## **7 Dividend Equivalent**

Rule 6.5 (Dividend Equivalent) does not apply in relation to Tax-Qualified Options.

## **8 Alternative ways to satisfy Options**

Rule 6.6 (Cash and Share alternative) does not apply in relation to Tax-Qualified Options.

## **9 Material Interest**

A Participant may not exercise a Tax-Qualified Option while he is excluded from participation in a Schedule 4 Plan under paragraph 9 of ITEPA (material interest provisions).

## **10 Exercise and lapse – exceptions to the general rules**

"Redundancy" in relation to Tax-Qualified Options is redundancy within the meaning of the Employment Rights Act 1996.

## **11 Corporate events – shares ceasing to satisfy ITEPA**

If a Tax-Qualified Option is to Vest under rule 8.1 (Vesting of Awards) and, as a result of the event giving rise to Vesting, Shares in the Company would no longer meet the requirements of Part 4 of ITEPA, it may be exercised under that rule only within a 20 day period:

- (i) before (and conditionally on) the relevant event taking place; or
  - (ii) after the relevant event,
- and will lapse at the end of that period to the extent not so exercised.

## **12 Exchange of Tax-Qualified Options**

This paragraph 12 will apply if a Tax-Qualified Option is to be exchanged under rule 8.4 (Exchange).

- 12.1** If the Participant does not agree to any exchange of his Tax-Qualified Option under that rule when required to by the Company, the Tax-Qualified Option will immediately lapse and will not be exchanged.
- 12.2** A Tax-Qualified Option can only be exchanged, as described in rule 8.6 (Exchange terms), if the Acquiring Company:
  - 12.2.1** obtains Control of the Company as a result of making a general offer falling within paragraph 26(2)(a) of ITEPA;
  - 12.2.2** obtains Control of the Company under a compromise or an arrangement sanctioned by the court under Section 899 of the Companies Act 2006; or
  - 12.2.3** becomes bound or entitled to acquire Shares under Section 981 of the Companies Act 2006.
- 12.3** Tax-Qualified Options must be exchanged within the period referred to in paragraph 26(3) of ITEPA and with the agreement of the company offering the exchange.
- 12.4** The new option will be in respect of shares in a body corporate falling within paragraph 16(b) or (c) of ITEPA and will be equivalent to the Tax-Qualified Option as described in paragraph 27(4).

## **13 Changing the terms of Tax-Qualified Options**

The Directors' powers under rule 9 (Changing the Plan and termination) are further restricted in relation to Tax-Qualified Options as described in this paragraph 13.

- 13.1** The Option Price of a subsisting Tax-Qualified Option can only be changed pursuant to paragraph 6 of this Schedule 1.
- 13.2** The number and nature of Shares subject to a subsisting Tax-Qualified Option can only be changed pursuant to paragraph 6 of this Schedule 1 or any mechanism notified under sub-paragraph 3(vi) above.
- 13.3** Any change to the other matters notified under paragraph 3 above in relation to an outstanding Tax-Qualified Option or under the mechanism referred to above must be done in a fair and reasonable manner.
- 13.4** An annual return submitted to HMRC following any change to a term of a Tax-Qualified Option which is necessary to comply with Parts 2 to 6 of ITEPA must include a declaration that the Plan continues to comply with ITEPA.

## Schedule 2

### Recruitment and Retention Plan

This Schedule 2 contains the rules of the BAE Systems Recruitment and Retention Plan (the “**Recruitment and Retention Plan**”). The rules of the Plan, as amended by this Schedule 2, apply to the Recruitment and Retention Plan.

This introduction does not form part of the rules.

#### 1 Rules of the Plan

The rules of the Plan apply to Awards granted under this Schedule 2, subject to the amendments set out below.

#### 2 Rule changes

The rules of the Plan will be changed in respect of Awards granted under this Schedule 2 as follows:

##### 2.1 Rule 1 – Definitions

The following definitions are added:

“**Corporate Event**” means:

- (i) *the results of the Company and/or any relevant business or businesses for any period have been restated or subsequently appear materially inaccurate or misleading, as determined by the Directors;*
- (ii) *any Member of the Group or business unit has made a material financial loss; and/or*
- (iii) *the Directors consider that the measurement of any Performance Condition does not reflect the actual performance of the Company over the Performance Period;*

“**Good Standing Condition**” means that an Award will immediately lapse if the Directors in their absolute discretion determine at any time prior to Vesting that:

- (i) *the Participant is subject to any disciplinary investigation, process or sanction;*
- (ii) *the Participant’s ongoing performance ceases to be satisfactory; or*
- (iii) *the Participant ceases to meet all of their ongoing obligations to the Company or their employer.*

*For the avoidance of doubt, if no such determination is made by the Directors prior to the Vesting of the Award, the Award will not lapse;*

“**Individual Event**” means:

- (i) *the Participant is subject to any disciplinary investigation, process or sanction;*
- (ii) *the Participant’s ongoing performance ceases to be satisfactory; or*
- (iii) *the Participant’s employer is entitled to terminate the Participant’s employment for cause or the Participant has engaged in misconduct (including breach of policy) which gives rise to other disciplinary sanction, as determined by the Directors;”*

##### 2.2 Rule 2.3 – Timing of Award

Rule 2.3 will not apply and the Recruitment and Retention Plan may be operated at any time, subject to any applicable Dealing Restrictions.

### **2.3 Rule 2.4 – Terms of Award**

Rule 2.4.2 is deleted and replaced with the following:

*“2.4.2 whether the Award is:*

- (i) a Performance Award;*
- (ii) a Restricted Award; or*
- (iii) a Market Value Option,*

*and, where relevant, whether the Performance Award or Restricted Award is granted in the form of a Conditional Award or an Option;”*

Rule 2.4.4 is deleted and replaced with the following:

*“2.4.4 any Performance Condition or other condition specified under rules 2.6 (Performance Conditions) or 2.7 (Other conditions) (including, where relevant, whether the Good Standing Condition will apply);”*

The following rule is added:

*“2.4.12 where relevant in accordance with rule 2.11.2 (Individual limit for Awards), that the Award may not be satisfied by Shares being issued or transferred from treasury, and the provisions of the Plan which relate expressly to Shares being issued or transferred from treasury do not apply.”*

### **2.4 Rule 2.7 – Other conditions**

Rule 2.7 is deleted and replaced with the following:

*“2.7 The Grantor may impose other conditions (such as the Good Standing Condition) when granting an Award. Any condition must be set out in the deed or other document referred to in rule 2.4 (Terms of Awards) and may provide that an Award will lapse if it is not satisfied. The Directors may waive or change a condition imposed under this rule 2.7.”*

### **2.5 Rule 2.11 – Individual limit for Awards**

Rule 2.11 is deleted and replaced with the following:

*“2.11.1 Subject to rule 2.11.2, an Award must not be granted to an Employee if it would, on the proposed Award Date, cause the market value of Shares subject to all Awards of the same type granted in respect of that financial year under the Plan to exceed the following percentages of the Employee’s annual basic salary from all Members of the Group:*

- (i) Performance Awards – 500%;*
- (ii) Restricted Awards – 200%; and*
- (iii) Market Value Options – 400%.*

*2.11.2 Subject to rule 6.8 (Consistency with directors’ remuneration policy), each of the relevant limits set out in rule 2.11.1 may be exceeded if:*

- (i) *the Directors determine that exceptional circumstances make it desirable that Awards should be granted in excess of that limit for the purposes of recruitment and/or retention (other than in respect of executive director retention, unless specifically permitted under the approved directors' remuneration policy of the Company);*
- (ii) *such Awards are granted on the basis that no Shares may be issued or transferred from treasury in respect of the Awards, and the provisions of the Plan which relate expressly to Shares being issued or transferred from treasury do not apply to such Awards; and*
- (iii) *in respect of an Award that is to be granted to an executive director of the Company, the Directors are satisfied that the conditions in Listing Rule 9.4.2(2), as varied from time to time, are satisfied in respect of such Award.*

**“Basic salary”** means gross base salary excluding benefits in kind expressed as an annual rate payable on the Award Date. Basic salary payable in a currency other than sterling will be converted into sterling by using any rate of exchange which the Directors may reasonably select.”

## **2.6 Rule 4.1 – Application of malus and clawback**

Rule 4.1 is deleted and replaced with the following:

**“4.1** *The Directors may, at the Award Date, decide that all or part of an Award will be subject to malus and/or clawback. Where the Directors so decide, they may determine to apply malus and/or during the Clawback Period, clawback as set out in rules 4.2 (Malus) to 4.5 (General), in their absolute discretion and notwithstanding any other rule of the Plan, if:*

*4.1.1 a Corporate Event;*

*4.1.2 an Individual Event; or*

*4.1.3 one or more other circumstances,*

*has arisen, provided such circumstance was set out in the deed or other document referred to in rule 2.4 (Terms of Awards).”*

## **2.7 Rule 6.2 – Timing of Vesting**

The reference in rule 6.2 to rules 7.2 (Relevant leavers – Continuation of Awards) and 7.3 (Relevant Leavers – early Vesting) shall be read as a reference to rule 7.2 (Relevant Leavers – early Vesting).

## **2.8 Rule 7 – Leaving employment and death**

Rules 7.1 to 7.6 (inclusive) are deleted and replaced with the following:

### **“7.1 General rule on leaving employment**

*Unless rule 7.2 (Relevant leavers – early Vesting) applies, a Conditional Award (or proportion thereof) that has not yet Vested or an Option (or proportion thereof) that has not yet been exercised will lapse on the date the Participant leaves employment.*

### **7.2 Relevant leavers – early Vesting**

*Where a Participant leaves employment due to:*

- 7.2.1 *ill-health, injury or disability, as established to the satisfaction of the Company;*
- 7.2.2 *the Participant's employing company ceasing to be a Member of the Group;*
- 7.2.3 *a transfer of the undertaking, or the part of the undertaking, in which the Participant works to a person which is not a Member of the Group;*
- 7.2.4 *redundancy, but only in circumstances which give rise to a redundancy payment;*
- 7.2.5 *any other reason set out in the deed or other document referred to in rule 2.4 (Terms of Awards); or*
- 7.2.6 *any other reason, if the Directors so decide in any particular case,*

*the Award will not lapse and, where relevant, will Vest on the date the Participant leaves employment (or such other date as the Directors may decide) to the extent that any Performance Condition or other condition has been or is likely to be satisfied (as determined by the Directors, at the relevant time, in the manner specified in the Performance Condition or other condition or in such manner as they consider appropriate) and the Award will lapse to the extent it does not Vest.*

*The number of Shares in respect of which the Award Vests will, unless the Directors decide otherwise, be reduced pro rata as provided for in rule 7.3 (Pro rating Awards).*

### **7.3 Pro rating Awards**

- 7.3.1 *Where rule 7.2 (Relevant leavers – early Vesting) applies, unless the Directors decide otherwise, the number of Shares in respect of which the Award Vests will be reduced to reflect the period from the Award Date to the date the Participant leaves employment as a proportion of the Vesting Period (and where there is more than one applicable Normal Vesting Date, each tranche will be calculated separately).*
- 7.3.2 *The Award will lapse to the extent it does not Vest.*
- 7.3.3 *Where an Option is already Vested, no pro-rating will be applied."*

### **2.9 Rule 7.7 – Death**

The reference in rule 7.7 to rule 7.6 (Pro rating Awards) shall be read as a reference to rule 7.3 (Pro rating Awards).

### **2.10 Rule 7.9 – General**

Rule 7.9.1 is deleted and replaced with the following:

*"7.9.1 Unless the Directors decide otherwise, a Participant will be treated as leaving employment on the earlier of the date of giving or receiving notice of termination of employment or the date he is no longer an Employee of any Member of the Group, provided he does in fact "leave employment" which, for these purposes, shall mean that the Participant is no longer an Employee of any Member of the Group."*

The reference in rule 7.9.2 to rule 7.2.6 (Relevant Leavers – Continuation of Awards) shall be read as a reference to rule 7.2.6 (Relevant Leavers – early Vesting).