

2003 BCSECCOM 681

Headnote

Mutual Reliance Review System for Exemptive Relief Application – relief granted from registration and prospectus requirements to allow UK parent company to issue Underlying Shares pursuant to an amended stock option plan to Former Eligible Canadian Employees or Personal Representatives of Former Eligible Canadian Employees provided a *de minimis* Canadian market and trade executed on or exchange outside of Canada – relief granted from registration requirements to allow first trade in Underlying Shares acquired under an amended stock option plan by Former Eligible Canadian Employees or Personal Representatives of Former Eligible Canadian Employees provided a *de minimis* Canadian market and trade executed on or exchange outside of Canada

Applicable British Columbia Provisions

Securities Act, R.S.B.C.1996, c. 418, ss. 34(1)(a), 48, 61 and 76

Multilateral Instrument 45-105 *Trades to Employees, Senior Officers, Directors and Consultants*

**IN THE MATTER OF THE SECURITIES LEGISLATION OF QUEBEC,
ALBERTA, BRITISH COLUMBIA, NOVA SCOTIA, ONTARIO,
NEWFOUNDLAND AND LABRADOR AND MANITOBA**

AND

**IN THE MATTER OF THE MUTUAL RELIANCE REVIEW SYSTEM
FOR EXEMPTIVE RELIEF APPLICATIONS**

AND

**IN THE MATTER OF ROLLS-ROYCE GROUP PLC
AND ROLLS-ROYCE PLC**

MRRS DECISION DOCUMENT

WHEREAS the local securities regulatory authority or regulator, (the “Decision Maker”) in each of Quebec, Alberta, British Columbia, Nova Scotia, Ontario, Newfoundland and Labrador and Manitoba (the “Jurisdictions”) have received an application from Rolls-Royce Group plc (“HoldCo”) and Rolls-Royce plc (“OpCo”) (collectively, the “Filers”) for a decision under the securities legislation of the Jurisdictions (the “Legislation”) that the requirements contained in the Legislation to be registered to trade in a security (the “Registration Requirement”), and to file and obtain a receipt for a preliminary prospectus and a prospectus (the “Prospectus Requirement”) shall not apply to certain trades of securities of the Filers in connection with the Amended Plan (as defined below);

2003 BCSECCOM 681

AND WHEREAS under the Mutual Reliance Review System for Exemptive Relief Applications (the “System”), the *Commission des valeurs mobilières du Québec* is the principal regulator for this application;

AND WHEREAS, unless otherwise defined, the terms herein have the meaning set out in National Instrument 14-101 Definitions;

AND WHEREAS the Filers have represented to the Decision Makers that:

1. The Filers are incorporated in England and Wales and have their registered head offices in London, England.
2. Pursuant to a reorganization of OpCo effected in June 2003, by way of a court sanctioned arrangement under Section 425 of the Companies Act (United Kingdom) (the “Reorganization”), OpCo became a wholly-owned subsidiary of HoldCo. The Reorganization was carried out in order to more closely align the corporate structure of the OpCo group of companies with its operational divisions and management reporting lines by putting in place a new holding company.
3. Prior to the Reorganization, OpCo’s ordinary shares (the “OpCo Shares”) were listed and posted for trading on the London Stock Exchange.
4. Pursuant to the Reorganization, each OpCo Share was cancelled and new shares of OpCo were issued to HoldCo. In consideration of the cancellation of the OpCo Shares, holders thereof received for each share cancelled an ordinary share in HoldCo. The ordinary shares of HoldCo (the “Shares”) were listed on the London Stock Exchange in June 2003 and the OpCo Shares were delisted at approximately the same time.
5. HoldCo is subject to the reporting obligations of the London Stock Exchange. As of August 21, 2003, HoldCo had 1,666,088,898 fully paid Shares outstanding.
6. Neither the Shares nor any other securities of HoldCo are quoted or listed and posted for trading on any securities exchange or over-the-counter market in Canada.
7. The Filers are not, and have no intention of becoming, reporting issuers under applicable securities legislation of any of the Jurisdictions.

2003 BCSECCOM 681

8. In 1999, OpCo adopted the Rolls-Royce International Sharesave Plan (the “Plan”) to enable qualifying employees of OpCo and its subsidiaries (the “Eligible Employees”) to participate from time to time in OpCo’s growth and financial success by acquiring options to purchase OpCo Shares.
9. As a result of the Reorganization, the Plan was amended on May 29, 2003 (the “Amended Plan”) pursuant to which, after June 23, 2003, OpCo will grant options (the “Options”) to Eligible Employees to purchase Shares (the “Underlying Shares”).
10. There are approximately 12,782 Eligible Employees in 29 countries world-wide who are able to participate in the Amended Plan, which is anticipated to commence on September 26, 2003.
11. As of July 11, 2003 approximately 1,638 Eligible Employees reside in Canada (the “Eligible Canadian Employees”), which represents approximately 13% of all Eligible Employees. As of July 11, 2003 approximately 1,518 Eligible Canadian Employees reside in the Province of Quebec (the “Quebec Employees”), which represents approximately 93% of Eligible Canadian Employees. The Province of residence of the other Eligible Canadian Employees is as follows:

British Columbia	72
Ontario	24
Alberta	10
Nova Scotia	9
Newfoundland	4
Manitoba	1
12. Pursuant to the terms of the Amended Plan, an Eligible Employee will be required to enter into a savings contract with Halifax plc, a financial institution, or OpCo, or its subsidiaries to fund the exercise price of the Option through monthly contributions.
13. Eligible Employees will be permitted to apply for a three year, five year or seven year Option. The monthly contributions in the case of a three year Option will be payable over a 36 month period and, in the case of a five year or seven year Option, the monthly contributions will be payable over a 60 month period.
14. The Options are only exercisable within 6 months from the date that the monthly contribution period has ended subject to early release upon the death of the holder whereby the personal representative (the “Personal

2003 BCSECCOM 681

Representative”) will be permitted to exercise the Option. Options may also be exercised by former Eligible Canadian Employees (the “Former Eligible Canadian Employees”) in accordance with the terms of the Amended Plan.

15. The Options are non-transferable other than in accordance with their terms.
16. The Underlying Shares issued upon exercise of the Options may be sold by Eligible Employees through the facilities of the London Stock Exchange.
17. Eligible Canadian Employees will not be induced to apply for Options under the Amended Plan by expectation of employment or continued employment.
18. Eligible Canadian Employees participating in the Amended Plan will be provided with substantially similar disclosure materials with respect to the Amended Plan that are provided to participants in the Amended Plan resident in England and Wales, revised, as necessary, to reflect how the Amended Plan operates in Canada.
19. Less than 10% of the shareholders of HoldCo are resident in Canada and less than 10% of the Shares are held by Canadian residents.
20. The Filers require the consent of the *Commission des valeurs mobilières du Québec* to rely on the exemptions from the Prospectus Requirement under the Legislation of Québec.
21. Holders of Underlying Shares acquired upon exercise of Options under the Amended Plan will not be able to rely on the exemptions from the Prospectus Requirement and Registration Requirement under the Legislation of Quebec with respect to the resale of such shares because they are not reporting issuers under the Legislation of Quebec.
22. HoldCo will not be able to rely on an exemption from the Prospectus Requirement or the Registration Requirement contained in the Legislation of all the Jurisdictions, other than Quebec, with respect to the issuance of Underlying Shares under the Amended Plan to Former Eligible Canadian Employees or Personal Representatives of Former Eligible Canadian Employees because such holders are no longer employees of the Filers or their affiliates and they do not hold previously-issued securities of HoldCo.
23. In all Jurisdictions except Quebec, Former Eligible Canadian Employees or Personal Representatives of Former Eligible Canadian Employees will not have an exemption from the Registration Requirement under the Legislation available to them with respect to the resale of the Underlying Shares because

2003 BCSECCOM 681

at the time of issuance of the Underlying Shares, neither will be an employee or a “permitted assign” (as defined in Multilateral Instrument 45-105) of an employee of the Filers or their affiliates.

AND WHEREAS under the System, this MRRS Decision Document evidences the decision of each Decision Maker (collectively the “Decision”);

AND WHEREAS each of the Decision Makers under the Legislation is satisfied that the test contained in the Legislation that provides the Decision Maker with the jurisdiction to make the Decision has been met;

THE DECISION of the Decision Makers pursuant to the Legislation is that:

- (a) (i) the distribution of Options and the issuance of Underlying Shares upon exercise of the Options in both cases to Quebec Employees pursuant to the Amended Plan; and
- (ii) the resale of the Underlying Shares acquired by Quebec Employees upon exercise of Options granted pursuant to (a)(i) between Quebec Employees or their associates, or outside Canada;

be exempt from the applicable Registration Requirement and Prospectus Requirement under the securities legislation of Quebec;

- (b) except in Quebec, the issuance of Underlying Shares by HoldCo under the Amended Plan to Former Eligible Canadian Employees or to Personal Representatives of Former Eligible Canadian Employees be exempt from the applicable Registration Requirement and Prospectus Requirement under the Legislation in all Jurisdictions, provided that the first trade in any Underlying Shares so acquired shall be deemed a distribution or a primary distribution to the public, unless:
 - (i) at the time of the granting of the corresponding Option, the Filers are not reporting issuers under the Legislation of any Jurisdiction;
 - (ii) at the time of the granting of the corresponding Option, holders of Underlying Shares who are residents of Canada did not own, directly or indirectly, more than 10% of the outstanding Underlying Shares and did not represent in number more than 10% of the total number of holders, directly or indirectly, of Underlying Shares; and
 - (iii) such first trade is made through an exchange, or a market, outside of Canada or to a person or company outside of Canada;

2003 BCSECCOM 681

- (c) except in Quebec, the Registration Requirement of the Legislation in all Jurisdictions shall not apply to the first trade in Underlying Shares acquired under the Amended Plan by Former Eligible Canadian Employees and Personal Representatives of Former Eligible Canadian Employees, if:
 - (i) at the time of the granting of the corresponding Option, the Filers are not reporting issuers under the Legislation of any Jurisdiction;
 - (ii) at the time of the granting of the corresponding Option, holders of Underlying Shares who are residents of Canada did not own, directly or indirectly, more than 10% of the outstanding Underlying Shares and did not represent in number more than 10% of the total number of holders, directly or indirectly, of Underlying Shares; and
 - (iii) such first trade is made through an exchange, or a market, outside of Canada or to a person or company outside of Canada.

DATED this 26th day of September, 2003.

Marie-Christine Barrette
Manager of the Corporate Financing Department