

This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your shares in Lipoxen plc ("the Company"), please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

## LIPOXEN PLC

Incorporated in England and Wales under the Companies Act 1985 with Registered Number 03213174

### Directors

Sir Brian Richards  
Scott Maguire  
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**To all registered holders of Ordinary Shares as at close of business on Tuesday 30<sup>th</sup> June 2009**

30<sup>th</sup> June 2009

Dear Shareholder

### **2009 Annual General Meeting**

Please find enclosed the following documents:

- Notice of the forthcoming Annual General Meeting (AGM) of the Company to be held at 2.30p.m. on Friday 24 July 2009 at the offices of Buchanan Communications, 45 Moorfields, London EC2Y 9AE
- Form of Proxy in connection with the AGM
- Financial Statements ("FS") for the 12 months ended 31 December 2008 (for any shareholder on the register as of close of business on Tuesday 30<sup>th</sup> June 2009 not previously sent a copy of the FS when first issued on 5<sup>th</sup> May 2009)

Note: Additional copies of the FS may be obtained from the Company's website ([www.lipoxen.com](http://www.lipoxen.com)) or directly from the Company's corporate offices (telephone: 020 7389 5015)

- Reprint of the Chairman's Statement accompanying the Financial Statements for the 12 months ended 31 December 2008

The principal aim of this covering letter is to more fully expand on the rationale lying behind the inclusion this time of certain resolutions in the Notice of AGM, being:

- (a) Electronic communications; and
- (b) Employee incentive plans.

## Electronic communications

You may recall in 2007 that shareholders gave their consent to an amendment to the Articles of Association of the Company to enable the Company to supply documents (“Documents”) and information (“Information”) to shareholders in electronic form via a website.

In addition to amending the Articles to permit such form of communication, we are also required to ask you individually to confirm your agreement to the Company supplying the Documents and Information to you by electronic form by placing such Documents and Information on [www.lipoxen.com](http://www.lipoxen.com) (the “Website”).

Increased use of electronic communications will deliver savings to the Company in terms of administration, printing and postage costs, as well as speeding up the provision of information to shareholders. The reduced use of paper will also have environmental benefits.

Following the date of this letter, one of the following three scenarios can apply to you:

### **Scenario A – Documents and Information will be posted on the Company’s website and you will be notified of this by email**

If you prefer to be notified of the placing of Documents and Information on our website by email please detach the reply slip below (attached as Appendix C), sign and complete **Section A** and return it using the pre-paid reply. Please insert your email address into the appropriate place in Section A.

If your email address changes, please notify us of your new email address as soon as possible by writing to Share Registrars Limited, Suite E, First Floor, 9 Lion and Lamb Yard, Farnham, Surrey, GU9 7LL.

### **Scenario B – Documents and Information will be sent to you by post**

If you prefer to receive the Documents and Information in paper form rather than via email or the Website, please detach the reply slip below (attached as Appendix C), sign and complete **Section B** and return it using the pre-paid reply.

### **Scenario C – Documents and Information will be posted on the Company’s website and you will be notified of this by post**

If we do not receive any response from you within 28 days of the date of this letter, then you will be taken to have agreed (under paragraph 10 of Schedule 5 to the Companies Act 2006) that the Company may supply the Documents and Information to you via the Website and you will be informed of this by post. Therefore, if you agree to the Company supplying the Documents and Information to you via the Website, you need take no further action in relation to this part of the letter.

In order to access the Documents and Information on the Website, you will need access to Adobe Reader software, which can be downloaded from the website [www.adobe.com](http://www.adobe.com).

When we notify you of the Documents and Information being available to access on the Website by post or email we will provide you with:

- the address of the Website;
- the place on the Website where the Documents and Information may be accessed; and
- details of how to access the Documents and Information.

If the Company is required to restrict the sending of any Documents or Information to any shareholders within the European Economic Area (“EEA”) (other than the UK), for example due to the local laws of the EEA country in which the particular shareholders are resident or otherwise located, we will not be permitted to use electronic means to communicate with any shareholders holding shares of the same class as those shareholders within the EEA (other than the UK). In any such case, we will send you hard copies of the Documents or Information.

Please note that there may be particular circumstances in which the Company needs to send Documents or Information to you in hard copy rather than by Website or email, in which case the Company reserves the right to do so.

## Employee Incentive Plans

In summary, the structure being proposed comprises the following:

1. The Lipoxen plc Unapproved Share Option Scheme
2. The Lipoxen plc 2007 Share Option Scheme
3. The Lipoxen plc 2009 Executive Share Ownership Plan (ExSOP)

In common with all progressive companies, the Lipoxen Board is conscious of the continuing need to address the issue of how to attract, incentivise and thus retain the best people to help us fulfil the significant potential that is vested in the company's platform technologies.

While meeting basic market-led remuneration expectations is obviously part of that task, in any early stage technological growth situation such as Lipoxen, a key element of the overall remuneration structure is the ability to deliver appropriate levels of equity-related reward for the achievement of specified goals that underscore the alignment in the capital value growth objectives held mutually by employees and shareholders.

### The Lipoxen plc Unapproved Share Option Scheme (the "Unapproved Scheme")

Historically, the Company adopted what for many years in the UK was a "classic" share option scheme, albeit that the scope of such within UK tax legislation was not usually broad enough to deliver tax efficient (that is Capital Gains Tax ("CGT") and not Income Tax based tax treatment) results in the hands of the grantees.

Most of the current outstanding share options in issue fall under the "unapproved" (that is Income Tax based) taxation regime, the effect of which is that the beneficiaries are taxed (mainly) upon exercise of any share option at his/her marginal rate of personal Income Tax. Indeed for a 40% taxpayer the pro forma *de facto* rate of taxation on any gains made under such share options is 48.68%, as it is usually provided under the Unapproved Scheme that the option holder is responsible for paying any Company National Insurance Contributions (NIC) falling due on the exercise of share options. While generally recognised as being an onerous basis of taxation, the income based method has been further exacerbated for higher rate taxpayers with the introduction of the 50% tax band which comes into full force and effect from 6<sup>th</sup> April 2010.

### Example 1

- (a) In 2006 an employee, being a higher-rate taxpayer, was granted 20,000 share options under the Unapproved Scheme, exercisable at, say, 10 pence per share.
- (b) In 2009, the options are exercised and the shares are sold at a market price of 15 pence per share.
- (c) The net gain of 5 pence per share (being a total of £1,000) is taxable as to:

Income Tax:	£400.00
Employee's NICs:	£ 10.00
Employer's NICs:	£128.00
less IT relief (at 40%) thereon:	(£ 51.20)
	<u>£ 76.80</u>
<b>TOTAL TAX/NIC</b>	<b><u>£486.80</u></b>

- (d) Benefit receivable by employee following exercise : **£513.20**

The Lipoxen plc 2007 Share Option Scheme (the “2007 Share Option Scheme”)

*The undernoted comments should be read in conjunction with Appendix A hereto*

**Resolution 8: The Lipoxen plc 2007 Share Option Scheme**

You will see from the Notice that your approval is sought for the Company's existing 2007 Share Option Scheme which is intended to be an Enterprise Management Incentive scheme whereby, subject always to HMRC conditions, qualifying staff in qualifying companies (such as Lipoxen) can benefit from a more favourable tax treatment on gains arising from the exercise of share options than is possible under so-called unapproved schemes. The principal terms of the 2007 Share Option Scheme are outlined in Appendix A hereto.

Companies incentivising employees have now recognised the limitations of “unapproved” schemes and, in 2000 HM Government introduced the Enterprise Management Incentive (“EMI”) programme, under which, subject to certain caps, a qualifying company (which Lipoxen is) can issue share options to qualifying staff. Any gains in excess of the market value of the shares on the date of grant fall to be treated under CGT rules. At a stroke, this creates the opportunity for the Board to make option grants which are patently more beneficial to grantees, notwithstanding that the strictures of EMI schemes (as evidenced by the summary of the 2007 Share Option Scheme which is appended hereto as Appendix A) pose some limitations for higher levels of management.

While your Board adopted the 2007 Share Option Scheme some 18 months ago, very limited awards have been made under it and now, in view of the overhaul of the entire incentive structure in your Company, good corporate governance requires that such scheme be formally put to shareholders as Resolution 8 in the forthcoming AGM. This is put forward as an Ordinary Resolution requiring only a simple majority of those voting for it to be passed.

For many of Lipoxen's staff, the 2007 Share Option Scheme provides a viable incentive framework and your Board recommends its adoption by shareholders for inclusion in the remuneration structure for the Company going forward.

Example 2

- (a) In 2007 an employee, being a higher-rate taxpayer, was granted 20,000 share options under the 2007 Share Option Scheme, exercisable at, say, 10 pence per share which also represents the market value of the shares on the date of grant.
- (b) In 2009, the option is exercised and the shares are sold at a market price of 15 pence per share.
- (c) The net gain of 5 pence per share (being a total of £1,000) is taxable as to:
- |       |         |
|-------|---------|
| CGT   | £180.00 |
| NIC   | £nil    |
| TOTAL | £180.00 |
- (d) Benefit receivable by employee following exercise: **£820.00**, (a *circa* 60% increase as compared to the net gains arising under the Unapproved Scheme).

The EMI Scheme therefore delivers **£306.80** more net cash to the employee, being, clearly a significantly greater benefit than that arising under the Unapproved Scheme.

Shareholders might care to note that there is NO difference between these option schemes in respect of the “benefit” chargeable to the Income Statement under the accounting treatment of Equity Settled Options. Therefore, the “cost” to shareholders is the same while the benefit – and therefore, the incentive – in the eyes of the grantee is much improved. One may therefore reasonably conclude that, in most cases, for Lipoxen, the Company's 2007 Share Option Scheme should be a key part of the incentive structure going forward.

## The Lipoxen plc 2009 Executive Shared Ownership Plan ("ExSOP")

*The undernoted comments should be read in conjunction with Appendix B hereto*

### Resolution 9: The Lipoxen plc Executive Shared Ownership Plan (or "ExSOP")

You will see from the Notice that your approval is sought for a new executive shared ownership plan under which certain team members may be invited to acquire (for a nominal payment), jointly with a trust or similar co-owner, the beneficial interest in a number of shares upon the terms of a 'joint ownership agreement' ("JOA"). Under the JOA, the employee will (if or insofar as any performance targets are met) benefit from any growth in value of shares that exceeds their market value at the time of the award, less a 'carrying cost' fixed by the Board of Directors but which is expected to be not more than 5% p.a. (simple) accruing over a 3-year period. The principal terms of the ExSOP are outlined in Appendix B hereto.

The final current recommendation to shareholders is that the Company formally adopts the ExSOP, a summary of the terms of which is set out in Appendix B hereto.

The key difference between the ExSOP and the previously described share option plans is that, in the case of the ExSOP, the participant, jointly with the trustee/co-owner, is required to subscribe for the shares at the time of award. The participant will be required to pay for his interest as joint owner and the shares will be issued at a subscription price equal to their market value at the time of issue. The participant will pay an amount equal to the initial unrestricted market value of his interest and the balance will be paid by the trustee/co-owner. The participant will be required to pay for his interest as joint owner an amount equal to the estimated initial unrestricted market value of that interest or, if greater, the market value of that interest as agreed with Her Majesty's Revenue & Customs. The balance of the subscription cost will be paid by the trust/co-owner which will be put in funds by way of a loan from the Company. By way of example:

#### Example 3

- a. In 2009 an employee, being a higher-rate taxpayer, is invited to acquire a joint interest in 20,000 shares under the ExSOP.
- b. The market price per share at the date of the award is 15 pence per share, and the initial unrestricted market value (IUMV) of the participant's interest as joint owner in the award shares is estimated to be, say, 1.5p per share.
  - The participant and the trustee/co-owner pays Lipoxen 15p per share, being £3,000 (of which the participant pays, say 1.5p and the trustee/co-owner, using funds loaned by the Company, pays 13.5p).
  - Carrying cost is set at *circa* 5% per annum of the initial market value of the shares.
- c. 3 years later, in 2012, the ExSOP shares are sold by the joint owners at a price of, say, 100 pence per share.
- d. Excluding the costs of sale, the proceeds of sale are distributed as follows:

<u>Trustee/co-owner receives an amount equal to</u>	
Initial market value and Carry Cost (£3,000 + £450)	<u>£3,450</u>
(these funds are used to repay the trustee/co-owner's loan from the Company)	
<u>Employee receives an amount equal to:</u>	
Gross proceeds LESS co-owner share: (£20,000 - £3,450)	<u>£16,550</u>
<b>Gross Capital Gain</b>	<b>£16,550</b>
Less: Initial acquisition cost	<u>£ 300</u>
<b>Taxable Gain:</b>	<b>£16,250</b>
CGT @ 18%	<u>£ 2,925</u>
<b>Net Employee Gain (£16,550-£300-£2,925):</b>	<b><u>£13,325</u></b>

In accounting terms, the Equity Settled element of ExSOP shares will be computed on a comparable basis to that applied to share options. The principal difference with the ExSOP is that the shares in question are issued at the time an award is made, thereby conferring an immediate dilutive effect. However, as your Remuneration Committee will likely only wish to make awards under ExSOP arrangements in special circumstances, the Board considers that the immediate dilutive effect is more than compensated for by the performance benefits delivered/deliverable by participants. While not being prescriptive, the Remuneration Committee considers that it will seek to make ExSOP awards where:

- (a) the participants are giving up an equivalent number of share options under the previously mentioned schemes, in which case the “fully diluted” share capital position is unchanged (save perhaps for any compensatory award arising from the consequent abandonment of any inherent gain at the relevant date), and/or,
- (b) there is a clear and present need to incentivise key members of staff and there is no remaining scope under the EMI Scheme.

If, by reason of any requirement of company law or other applicable law or regulation (whether in the UK or overseas) the Company is prevented from making a loan to the Co-Owner, the Board intends instead to issue shares for the purposes of ExSOP awards at a subscription price which is not less than their nominal value.

Your Board believes that having an ExSOP facility available to it adds an essential dimension to the Company’s ability to appropriately reward Company employees, not least because, having established success in the clinic on Lipoxen’s EPO and SuliXen (insulin) product candidates, alongside positive preclinical results on both vaccines and siRNA, it is imperative that, not only is the Board able to retain current key management and staff but that, with burgeoning development demands and pressures shortly to eventuate, any development stage company such as Lipoxen has to be able to offer remuneration packages comparable with anything otherwise available to high level professional staff operating in our global marketplace.

While discretionary cash paid performance bonuses also have some part to play in the overall composition of remuneration arrangements, running alongside the share option schemes, the Board recommends shareholder approval for the introduction of an ExSOP programme in a form as summarised in the attached Appendix and, in all material aspects, as more fully set out in the draft Rules, a copy of which will be available for shareholders at the AGM.

The resolution to adopt the proposed ExSOP arrangements is set out in Resolution 9 as an Ordinary resolution. This is put forward as an Ordinary Resolution requiring only a simple majority of those voting for it to be passed.

**Overriding condition of Option/ExSOP arrangements going forward**

***The Board proposes that all of the above-mentioned arrangements for share option schemes and ExSOP awards are approved by shareholders subject to the application of an overall absolute cap on the aggregate that all such options and ExSOP awards cannot exceed 15% of the issued share capital of the Company from time to time.***

***(Please also refer to summary paragraph below)***

## Summary

While I appreciate that the foregoing comprises a significant amount of detail with regard to share capital, it might be useful to place the proposals in the context of the current position. Accordingly I set out a short share table for your review.

### Maximum current fully diluted share capital

Issued share capital at date	154.06	million ordinary shares
Outstanding share options	9.83	million options - being the aggregate number outstanding irrespective of exercise price.
Maximum number of performance shares issuable	11.27	million ordinary shares potentially issuable to collaborative partners against specific performance criteria based on agreements put in place prior to the Company's admission to AIM in 2006

### **Aggregate fully diluted shares at date** **175.16 million shares**

#### Incentive share summary (as proposed)

Proposed "cap" on all incentive shares issuable (15% of issued share capital from time to time, being, at date)	23.11	million
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Currently outstanding share options	9.83	million
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<b>Incentive share "headroom" available for future issue (being 7.58% of aggregate fully diluted position at date)</b>	<b>13.28</b>	<b>million</b>
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#### Share authorities sought

Section 80 authority (being 1/3rd of current issued capital), (normal market authority; for issues of shares not within the "disapplied" portion below)	51.35	million
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Section 89 disapplication amount (being 10% of fully diluted), (issuable by directors for cash)	17.52	million
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You will note that the level of authorities sought by your Board is, generally, lower than in previous years. This is because the Company has recently been successful in raising a total of £2.9 million (before expenses) of new capital from our leading licence partner (Baxter Healthcare), Management and new institutional shareholders. This has positioned the Company to continue the roll-out its business plan in the coming 12 to 24 months. With cash in the bank, a key feature of business development in the upcoming period is the need to convert current and future feasibility and development projects with leading "Big Pharma" and "Big Bio" into licence deals. It is imperative therefore that the share incentive structure in the Company provides adequate scope for the Board to attract, retain and incentivise all members of staff whose efforts lie at the heart of this business objective, the attainment of which will, inter alia, require the recruitment of a number of new staff, at both senior management and laboratory-based levels.

It must also be noted that we continue to operate in uncertain times in the global economy, and while your Board is confident that its market opportunities and available cash resources are sufficient, it would surely be imprudent not to have some modest scope to allot new shares as necessary – whether to take advantage of an unexpected opportunity, back-up a key transaction with a collaborative partner or to build out the balance sheet. Shareholders should note that, in today's climate, many Big Bio and Big Pharma companies, as part of licensing deals, often look to take equity positions as part of a deal (e.g. Baxter Healthcare taking *circa* 5% stake in the recent Lipoxen Placing). The Board therefore considers it appropriate to have the flexibility as

proposed in the Section 89 headroom to pursue such a structure in the context of shareholder value enhancement. The Section 89 authority (referred to above) is proposed to allow your Board to respond to both market and capital opportunities as they may arise in the short term. To place the number in context, the level of authority sought is, in fact, around only 50% of that approved by shareholders at the 2008 AGM.

**Your Board therefore commends the adoption of all of the underlying resolutions to be put to shareholders at the forthcoming Annual General Meeting and I and my colleagues look forward to welcoming as many shareholders as possible to join us on 24 July 2009.**

Yours faithfully,

**Sir Brian Richards, Chairman**

**London: 30<sup>th</sup> June 2009**

## APPENDIX A

### Summary of the principal terms of the Lipoxen plc 2007 Share Option Scheme (“2007 Share Option Scheme”)

The summary below does not form part of the Rules of the 2007 Share Option Scheme and should not be taken as affecting the interpretation of its detailed terms and conditions.

#### 1 BACKGROUND AND STRUCTURE

Lipoxen plc (“the Company”) adopted the 2007 Share Option Scheme (“the Scheme”) in August 2007.

The Scheme provides for the grant of both tax-approved Enterprise Management Incentives (“EMI”) options and unapproved options. The Scheme consists of two parts, namely a set of rules and a model agreement. The rules provide a framework for operating the scheme. The model agreement provides for the grant of options and set out the detailed terms of the options.

#### 2 PARTICIPATION

All employees of the Company are eligible to participate in the Scheme. In the case of tax approved EMI options, full-time working requirements must be met which means that the employee must be required to work 25 hours a week or if less, 75% of the employees’ working time. Employees who have a material interest in the Company cannot be granted EMI options. A material interest is either beneficial ownership of, or the ability to control directly or indirectly, more than 30% of the ordinary share capital of the Company.

#### 3 GRANT OF EMI OPTIONS

EMI Options may be granted over unissued or issued Ordinary Shares of the Company. No consideration will be payable for the grant of an option.

Each EMI Option is personal to the option holder and any transfer, assignment, charge, pledge or other disposal of or dealing with the option will cause it to lapse.

Options may normally only be granted within 42 days of the announcement of the Company’s full or interim financial results or within 90 days of a person becoming an employee. If there are exceptional circumstances, options may be granted outside that 42 day period provided the Company is not within a close period.

Options may be granted such that their exercise is subject to performance conditions being satisfied.

#### 4 EXERCISE PRICE

The Board determines the exercise price of options before they are granted. It is provided in the rules that options must be granted at the prevailing market price provided it is not less than the nominal value of a share.

#### 5 OVERALL SCHEME LIMITS

There is an overall limit that outstanding options under the Scheme and any other employees’ share scheme adopted by the Company must not exceed 15% of the issued share capital of the Company from time to time.

#### 6 EMI SCHEME LIMITS

The Scheme rules incorporate the limits relevant to EMI schemes, namely:

- the individual limit of, currently, £120,000 worth of shares over which options can be granted to an employee (taking the value at the date of grant) and taking into account any other EMI Options or that options obtained under other approved schemes held by the employee; and

- the overall limit of £3 million of options that can be granted by the Company under the Scheme.

## **7 EXERCISE OF OPTIONS**

Options can only be exercised on dates determined by the Board at the date of grant. The first exercise may be linked to determined vesting periods. If no date is determined, the options can only be exercised after the third anniversary of their grant. In any event, an EMI Option will not be exercisable after the tenth anniversary of its grant.

In the case of death, a participant's personal representatives may exercise his options within 12 months after the date of death. Options will remain exercisable for a period of 40 days if the participant is a "good leaver", for example they leave by reason of retirement, injury or redundancy or the Board uses its discretion to permit participants who leave for any other reason to exercise their options.

## **8 TAKEOVERS AND LIQUIDATIONS**

In the event of a takeover, scheme of arrangement, change of control or voluntary winding up of the Company, options become immediately exercisable. If the options are not exercised within an appropriate period, generally 40 days, of the relevant event, they lapse. There is a provision allowing for the roll-over of options provided that such roll-over satisfies the conditions of the EMI Code in the case of EMI Options.

## **9 VARIATION OF SHARE CAPITAL**

In the event of any variation of share capital such as a rights issue, capitalisation, sub-division consolidation of capital, or otherwise the number of shares which may be issued or transferred to a participant pursuant to the Scheme must be adjusted in such manner as the Company's professional advisers in their opinion consider and confirm in writing to the Board to be fair and reasonable.

## **10 TAX**

Where a tax liability arises on the exercise of an option, the Company may make deductions from payments due to the option holder to meet such liability. If such payments are insufficient, the option holder must pay the Company the balance of the liability before Ordinary Shares are allotted or transferred to him. Alternatively, the Board may sell as many of the option holder's Ordinary Shares as are necessary to cover the liability. The option holder may be required to bear the cost of any secondary National Insurance Contributions.

## **11 AMENDMENT, ASSIGNABILITY AND TERMINATION**

The Board of Directors of the Company may make amendments to the rules of the Scheme and also may amend specific grants of options forming part of the Scheme with the consent of the option holders concerned. Variation of an agreement must be by agreement of all parties and must comply with the EMI Code. An EMI agreement cannot be assigned by the option holder and any rights under it are personal only to him.

The Company in general meeting, or the Board, can terminate the Scheme so that no further options are granted but any subsisting options granted before such termination shall not be affected.

## APPENDIX B

### Summary of the principal terms of The Lipoxen plc Executive Shared Ownership Plan (the "ExSOP")

The summary below does not form part of the rules of the ExSOP and should not be taken as affecting the interpretation of its detailed terms and conditions.

#### *Operation*

The Remuneration Committee of the board of directors of the Company (the "**Committee**") will supervise the operation of the ExSOP.

#### *Eligibility*

A participant in the ExSOP must be an employee of the Company or any of its subsidiaries (together, the "**Group**"). Actual participation in the ExSOP will be at the discretion of the board of directors of the Company (the "**Board**") or, in the case of executive directors, the Committee.

#### *Timing of share awards*

No ExSOP Awards may be made more than ten years after the passing of the resolution of shareholders approving the ExSOP.

#### *Structure of an ExSOP award*

Under the ExSOP, selected employees may be invited by the Board to acquire, jointly with a co-owner (which may be an employee benefit trust or, in the case of US-based participants, a specially-formed company owned by a trust established by the Company) ("**the Co-Owner**") and upon the terms of a joint ownership agreement ("**JOA**"), a restricted beneficial interest in a given number of shares ("**Award Shares**") on the basis that, when such shares are sold, the participant will (if performance targets are set, to the extent that they are met), receive a proportion of the proceeds of sale equal to the growth in value of such shares above a threshold amount.

The threshold amount will be fixed by the Committee when an ExSOP Award is made, but will not be less than the market value of the Award Shares at the time of their joint acquisition by the participant and the Co-Owner. The threshold amount may include a carrying cost, being an annual amount applied to the initial market value of the Shares and set at a rate to be determined by the Committee and applicable for up to 3 years (the "**Carrying Cost**").

The balance of the proceeds of sale including the Carrying Cost will accrue to the Co-Owner and, to the extent that it is not used to repay loans to the Company will be available to fund awards under the ExSOP or other share incentive plans. Except insofar as any performance targets are not met, the participant will normally expect to benefit from the growth in value of the Award Shares as reduced by the Carrying Cost.

By contrast with a traditional share option, a participant in the ExSOP will, from the outset, have a restricted beneficial interest in the award shares. A participant will be required to pay for his interest an amount equal to the unrestricted market value (for tax purposes) of that interest. The balance of the subscription cost will be paid by the Co-Owner using funds loaned by the Company.

ExSOP Awards are not transferable and may only be exercised by the persons to whom they were granted, or their personal representatives.

Award Shares will be issued by the Company subject to the overall limit of 15 per cent on the issue of new shares for the purposes of the incentive plans as described below. The price per share at which shares are issued for the purposes of the ExSOP will not be less than their nominal value.

The extent to which a participant is able to benefit from growth in value of the Award Shares may depend upon the extent to which performance targets are met. The Co-Owner will have the option to require the participant to sell, at a price equal to the price paid by the participant for his interest, a proportion of the Award Shares which varies according to the extent to which any performance target is not met.

### ***Leaving the Group***

If a participant leaves before the third anniversary of the date of the Award by reason of death, disability, ill-health, retirement or redundancy or if the business or subsidiary in which he is employed is sold outside the Group, the Co-Owner may exercise its right to require the participant to sell at a price equal to the price paid by the participant for his interest (reduced proportionally if the Award Shares have fallen in value), his interest in unvested Award Shares. If, before the third anniversary of the date of the Award, a participant leaves for any other reason, the Co-Owner will have the right to require the participant to sell, at that price, his interest in all of the Award Shares.

### ***Change of Control or other corporate event***

In the event of a change of control of the Company (as defined in the JOA) all of the Award Shares shall become vested regardless of whether the performance targets set have then been satisfied.

### ***Realising the value of an ExSOP Award***

From the time when an ExSOP Award is made, the employee and the Co-Owner will together own the ExSOP Award shares on unequal terms. At any time after the Award Shares have become vested, the participant may invite the Co-Owner to join in selling the jointly-owned shares which have vested or may, after 5 years, be called upon to exchange with the Co-Owner part of their respective interests (as co-owners of the shares) so that the participant then holds a whole number of shares equal in value to the value of his interest as a co-owner. By this means a participant will acquire shares equal in value to the growth in value (less the Carrying Cost) of the Award Shares.

### ***Dividends on ExSOP Award shares***

A participant and the Co-Owner will together be entitled to dividends (if any) on the ExSOP Award shares. The proportion of any dividend payable to the participant will be equal to his or her proportional entitlement to share in the proceeds of sale of the ExSOP Award shares if the shares were sold at that time.

### ***Company reorganisations and reconstructions***

If there is a reorganisation or reconstruction which results in a new holding being equated with the original holding for capital gains tax purposes, shares or other securities comprised in the new holding shall be held subject to the terms of the JOA.

### ***Overall Limits on the Issue of Shares***

The Company may issue shares for the purposes of making ExSOP Awards. However, the number of shares which may be issued upon the making of ExSOP Awards, or in respect of which rights to subscribe for new shares may be granted, on any day under or for the purposes of the ExSOP and the Share Option Plans or remain issuable under rights to subscribe for shares granted under or for the purposes of the ExSOP and the Share Option Plans or any other employees' share scheme established by the Company, shall not exceed 15 per cent of the issued ordinary share capital of the Company from time to time.

### ***Amendment of the ExSOP***

The Committee may amend the ExSOP. However, the provisions relating to the eligibility of participants, limitations on the number of shares subject to the ExSOP, the basis for adjusting a participant's entitlement to interests in shares if there is a variation of capital, cannot be altered to the advantage of participants without the prior approval of shareholders in general meeting (except for minor amendments to benefit the administration of the ExSOP, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants in the ExSOP or for any member of the Group).

**The Board reserves the right, up to the forthcoming AGM, to make such amendments and additions to the rules of the ExSOP as they consider necessary or appropriate, provided that any amendment does not conflict in any material respect with the above summary.**







