

# Cosalt:plc

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## Shareholders' Circular regarding proposed performance share plan

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**This document is important and requires your immediate attention**

If you are in any doubt about the contents of this document or what action you should take, you should immediately contact your stockbroker, bank manager, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all your shares in Cosalt:plc, please forward this document and the accompanying Form of Proxy to the person through whom the sale or transfer was made for transmission to the purchase or transferee.



## **Shareholders' Circular regarding proposed performance share plan**

### **Dear Shareholder**

#### **Proposed performance share plan**

Cosalt:plc (the "Company") is bringing forward a proposal to its shareholders for the introduction of a new share plan, the Cosalt Performance Share Plan (the "PSP").

Although participation in the PSP will be at the discretion of the Company's Remuneration Committee, it is initially intended that the only participant will be the new Chief Executive, Per Jonsson. At the time of Mr Jonsson's appointment in July 2006, the Company made commitments to introduce an appropriate share incentive arrangement for Mr Jonsson. To enable the Company to do so, and to have the ability to issue new shares for the PSP, the approval of shareholders is now being sought.

The Deferred Bonus Plan that was approved by shareholders at the Company's 2006 AGM will continue to be the main share incentive plan for most of the Company's executives.

The PSP is designed to provide an appropriate incentive for Mr Jonsson and will seek to align his interests with shareholders in a direct way by rewarding Mr Jonsson for delivering improvement in the Company's financial performance.

The main features of the PSP are summarised in the appendix to this letter, but key aspects of the PSP are that:

- awards under the PSP will give a participant an immediate (although conditional) interest in shares. This provides a clear alignment of interests between participants and shareholders;
- no awards will vest unless challenging earnings per share ("EPS") growth targets are achieved; and
- the PSP will operate within the Company's existing 10% in 10 years dilution limit for all share plans.

The initially proposed performance targets will require the average annual percentage growth in the Company's EPS over a fixed three year performance period beginning with the current financial year to exceed the average annual percentage growth in the Retail Prices Index plus 10% per annum over the same period. Additionally, for the initial awards to be made in the current financial year, there is a further requirement such that (unless the Remuneration Committee decides otherwise), awards will only vest if the Company's EPS for the financial year ending October 2009 equals or exceeds 30 pence.

In the context of the Company's business, the Remuneration Committee believes these initially proposed targets to be significantly challenging. The Remuneration Committee has considered the merits of alternative long-term performance conditions, and has concluded that earnings per share growth is the most appropriate measure in this case, because it reflects the Company's key internal financial measure and is one to which participants can easily relate and will directly reflect their own performance.

**Shareholder resolution**

Resolution number 9, an ordinary resolution to be proposed by way of special business at the AGM, seeks your authority for the directors to establish the PSP.

**Documents available for inspection**

Copies of the draft rules of the PSP may be inspected during normal office hours at the Company's registered office and at the offices of Pinsent Masons, City Point, One Ropemaker Street, London EC2Y 9AH from the date of this letter until the date of the AGM, and at the place of the AGM for at least 15 minutes prior to, and during, the meeting.

**Recommendation**

The directors consider that the PSP will be beneficial to the long-term interests of the Company and its shareholders as a whole and unanimously recommend shareholders to vote in favour of the resolution authorising the establishment of the PSP, as they intend to do in respect of their own beneficial shareholdings.

Yours faithfully

A handwritten signature in black ink, appearing to read "John Kelly". The signature is written in a cursive, flowing style.

**J A B Kelly**

Chairman

20 February 2007

## **Appendix**

### **Summary of the principal terms of The Cosalt Performance Share Plan (the “PSP”)**

#### **1. Introduction**

The PSP will enable selected employees of Cosalt:plc and its subsidiaries to be granted awards (“Awards”) in respect of ordinary shares (“Shares”) in the capital of the Company. Awards granted under the PSP will not be transferable. Only the person to whom an Award is granted or his or her personal representatives may acquire Shares pursuant to Awards. Benefits under the PSP are not pensionable benefits.

The operation of the PSP will be overseen by the Company’s Remuneration Committee.

#### **2. Eligibility**

A participant must be an employee or an executive director of the Company or of any of its subsidiaries (the “Group”).

The Remuneration Committee can exercise its discretion in selecting the executives and employees to whom Awards are to be made under the PSP. However, it is the Remuneration Committee’s intention that initially the only participant in the PSP will be the Group Chief Executive Officer, Per Jonsson.

#### **3. Grant of awards**

Awards may only be granted:

- 3.1** in the period of 6 weeks beginning with the dealing day following the announcement of the Company’s results for any period;
- 3.2** in the period of 6 weeks following approval of the PSP by the Company’s shareholders;
- 3.3** within 28 days of a person first joining the Group; or
- 3.4** exceptionally, and subject to the Model Code and other relevant restrictions on dealings in Shares, on any other day on which the Remuneration Committee determines that exceptional circumstances exist.

If regulatory or statutory restrictions prevent Awards from being granted in these periods, the Awards may be made after the removal of such restrictions. No Awards will be granted after 25 March 2017.

#### **4. Form of awards**

Awards granted under the PSP may be granted either as nil (or nominal) cost share options or as restricted shares, where a participant will receive complete ownership of free shares automatically on vesting of his Award, but he will have certain shareholder rights prior to the vesting of his Award.

#### **5. Individual limits**

The maximum number of Shares that may be placed subject to Awards granted to a participant in the PSP in any financial year will be limited so that the market value of such Shares on the date of grant will not exceed 100% of the participant’s basic salary. However, in exceptional circumstances, as determined by the Remuneration Committee, Awards of up to 200% of basic salary may be made in a financial year.

## **6. Vesting of awards**

Except as referred to below, and subject to achieving the performance targets, Awards will normally vest so that the participant may acquire the Shares subject to Awards without restrictions applying 3 years after an Award is granted.

If a participant dies or leaves employment within the Group during the period until vesting by reason of ill-health, disability, redundancy, retirement (with the consent of the Committee), the participant's employer company being sold outside the Group or the business in which the participant is employed being sold outside the Group, or other circumstances at the discretion of the Remuneration Committee the participant (or his personal representatives, as the case may be), may normally retain his Award in respect of the full number of Shares until the third anniversary of the Award date. At that time, and depending on the extent to which the performance target has been met, the Award may vest but only in respect of a proportion of the Award Shares, with the full number of Award Shares being pro-rated in accordance with the amount of the performance period that fell before the participant's death or cessation. Exceptionally, the Remuneration Committee may determine that the Award may vest prior to the end of the performance period, based on its assessment, at that time, of the extent to which the performance target is likely to be met.

If a participant ceases to be employed for any other reason than those referred to above, his Award will normally lapse and his interest in the Award Shares shall be forfeited.

On a change of control of the Company or a resolution for its voluntary winding-up, performance periods will immediately determine. Subject to the Remuneration Committee's determination of the Company's performance until that time, Awards will be deemed to vest, normally in proportion to the amount of the performance period that had elapsed before the change of control or the passing of the resolution, as the case may be.

On a demerger, reorganisation, reconstruction or amalgamation of the Company, the Remuneration Committee may determine that a proportion of the Award Shares will be deemed to vest or vary the terms of the Awards and/or the performance target where Awards vest, this will be on the same basis as for a change of control.

## **7. Performance targets**

Awards shall be subject in each case to the achievement of performance targets. Performance targets will be measured over a fixed period of 3 financial years, beginning with the financial year in which the Award is made, and are determined by the Remuneration Committee from time to time.

Details of the performance targets for the initially proposed Awards are described in the Chairman's letter.

Before offering the PSP in future years, the Remuneration Committee will review the continuing appropriateness of these performance targets.

## **8. Issue of new Shares**

In any 10 year period there is a limit, of 10 per cent of the issued share capital of the Company from time to time, on the number of new Shares which may be issued in connection with Awards or which are issued or which may be issued under any other employees' share scheme of the Company.

Shares issued out of treasury or to the trustee of an employees' trust count towards the 10% limit on the issue of new Shares.

### **9. Rights attaching to Shares**

Shares issued in connection with Awards will rank equally in all respects with all other Shares then in issue (save as regards any rights attaching to Shares by reference to a record date prior to the allotment and issue of such Shares).

### **10. Variation of share capital**

If there is any alteration of the issued ordinary share capital of the Company, the Shares subject to an Award will be subject to adjustments on the same basis as the Shares of all other shareholders.

### **11. Alteration of the PSP**

No alteration or addition to the advantage of participants may be made by the directors to the provisions of the PSP relating to eligibility, overall and individual limitations on the numbers of Shares in respect of which Awards may be granted or made, or the basis for determining a participant's entitlement to acquire Shares and the adjustments of such rights in the event of a variation of share capital, without the prior approval of shareholders in general meeting. There is an exception for minor amendments to benefit the administration of the PSP or to take account of any change in legislation or to obtain or maintain favourable tax or regulatory treatment for participants in the PSP, the Company or any associated company.

The above summary of the principal terms of the PSP does not form part of the rules of the PSP and should not be taken as affecting the interpretation of their detailed terms and conditions. The directors reserve the right, up to the time of the forthcoming AGM, to make amendments and additions to the rules of the PSP that they consider necessary or appropriate, provided that any amendment may not conflict in any material respect with the above summary.

