

**to be held at:**

The Stanneylands Hotel, Stanneylands Road, Wilmslow SK9 4EY  
on Tuesday 23 May 2006, at 1500 hours.

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

If you are in any doubt as to the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other professional adviser authorised pursuant to the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in Bodycote International plc (the Company), please forward this document together with the accompanying Form of Proxy to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale was effected without delay, for delivery to the purchaser or transferee.

If you have sold some but not all of your shares, please contact your stockbroker, bank or other agent through whom the sale was effected without delay for advice as to how to proceed.

Shareholders may, as an alternative, register a proxy electronically on the company registrar's website at [www.capitaregistrars.com](http://www.capitaregistrars.com). To be valid, the form of proxy, or registration of your proxy electronically, in accordance with the instructions printed thereon, must be lodged with the company's registrars, Capita Registrars Limited, Special Projects, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU no later than 15:00 hours on 21 May 2006.

Bodycote International plc  
Registered in England No 519057  
Registered Office: Hulley Road  
Hurdsfield, Macclesfield,  
Cheshire SK10 2SG  
10 April 2006

From the Chairman, Mr J. A. S. Wallace

Dear Ordinary Shareholders

As you will see from the notice of the Annual General Meeting of the Company, to be held on 23 May 2006, in addition to the ordinary business to be transacted at the meeting your Board is proposing six items of special business as set out in resolutions 8 to 13 an explanation of which is given on page 6 to 8 of this circular.

Briefly these relate to; the renewal of the authority for Directors to allot shares; the disapplication of pre-emption rights to permit limited allotment of ordinary shares for cash; and the renewal of authority for the Company to purchase its own shares.

The Company is also seeking your approval for the introduction of new (and amendments to existing) employee share incentive plans as detailed below. By way of background the Company regularly reviews both the appropriateness and efficacy of its incentive arrangements for both its executives and employees to ensure that they remain compatible with market practice. The Company does not intend to issue any more options under its Executive Share Option Scheme and, in accordance with good practice, the Remuneration Committee (the "Committee") has recently undertaken a full review of the Company's long-term executive incentive arrangements. In conducting its review, the Committee wished to ensure that any new plans would:

- support the current business objectives of the Company, in particular the delivery of sustainable long-term profitability for the benefit of the shareholders;
- provide a longer term motivational incentive for participants;
- ensure competitive remuneration packages which are key to the attraction and retention of executives and staff of the calibre required to lead the Company; and
- be successful in aligning the interests of executives, staff and shareholders.

The proposed plans have been developed in conjunction with external professional advice from Inbucon Consulting and have also been discussed with the institutional representatives and the Company's largest institutional shareholders.

The proposed plans for which shareholder approval is being sought are as follows:

#### **Bodycote Incentive Plan**

The Bodycote Incentive Plan ('BIP') under which key and senior executives will be rewarded for the delivery of the Company's Strategic Plan and in particular enhanced Economic Profit.

Economic Profit for these purposes is defined as adjusted earnings before interest and tax ('EBIT'), less a 15% charge per annum for the aggregate average of shareholders' funds, net borrowings and goodwill previously written off to reserves, amortised or impaired.

To achieve the improvement in Economic Profit both pre-tax return on capital employed ('ROCE') as well as EBIT improvements have to be made. The Strategic Plan targets ROCE improvement by approximately one percentage point each year until a mid-teens pre-tax ROCE performance has been achieved. In addition significant growth in EBIT is targeted. Based on the Group's typical capital requirements in the initial three year performance period 2006 to 2008, maximum awards under the Plan will require a compound annual growth of EBIT of approximately 30%. Minimum awards will be made for compound annual growth in EBIT of approximately 15%. Below this level no awards will be made. A sliding scale will be applied to performance between the maximum, target and minimum.

Although specific performance criteria have not yet been formulated for the years 2007 to 2010, it is likely that maximum awards under the Plan will then require compound annual growth in EBIT in excess of 20% with minimum awards being made for compound annual growth in EBIT in excess of 10%.

Key and senior executives may receive an initial conditional award of shares of up to 1 times basic salary per annum with the potential on vesting to increase this to a maximum of 1.75 times the initial conditional award for superior performance. Awards will vest after three years subject to the achievement of the performance criteria and continuation of employment.

The BIP will first operate in 2006 by reference to the Economic Profit performance of the Company in the financial years 2006 to 2008.

### **Bodycote Share Match Plan**

A new deferred share-matching element will be added to the annual bonus arrangements to provide a link between the Company's short and long term incentive arrangements. This plan, the Bodycote Share Match Plan, ('BSMP') will allow the grant of awards of matching shares to participants on an annual basis. This will be based on the number of shares purchased by participants with monies deferred under their annual bonus arrangements. It is intended initially to extend the BSMP to key and senior executives.

This plan will first operate in 2007 by reference to the 2006 financial year bonus. Every year, annual bonus up to the value of 20% of base salary may be deferred into Company shares for three years.

The maximum level of matching shall be up to one share for each share deferred based upon the achievement of performance criteria. Such criteria will be the attainment of a robust and challenging ROCE target.

### **Bodycote Short Term Stock Bonus Plan**

The Short Term Stock Bonus Plan ('STSBP') was introduced in 2005 as a temporary measure until the BIP and BSMP could be presented to shareholders for approval. The STSBP did not need shareholder approval, as it was based on annual performance only and did not allow issue of new shares. No further awards will be made under the STSBP following adoption of the BIP and BSMP. At the time of adoption, the rules stipulated the need for the funding of awards to take place using existing shares held by an Employee Benefit Trust. A review of this practice identified the potential for variable tax treatment on employees, depending upon the source of the shares (i.e. new issue, treasury or market purchase) and hence, the Company would like the ability to fund the awards made in 2005 through new issue shares, for which, under the rules of the STSBP, it requires shareholder approval. Accordingly, the Company seeks authority for the issue of new shares under the STSBP.

The Company will limit the number of shares that may be issued under all such plans, during the preceding ten years to 10% of the issued share capital under employee share schemes and 5% of the issued share capital under executive share schemes.

Copies of the Register of Directors' interests in the company's shares, all Directors' service agreements, the company's Articles of Association, together with the rules of the BIP, BSMP and STSBP will be available for inspection at the registered office of the company at Hulley Road, Hurdsfield, Macclesfield, Cheshire SK10 2SG at any time during normal business hours on each business day (Saturdays, Sundays, and public holidays excepted) from the date of the notice of Annual General Meeting up to the close of the Annual General Meeting, and from 2.45 p.m. on 23 May 2006 until the conclusion of the Annual General Meeting at The Stanneylands Hotel, Stanneylands Road, Wilmslow, Cheshire SK9 4EY. Copies of the rules of the BIP, BSMP and STSBP will also be available at the offices of Eversheds, Senator House, 85 Queen Victoria Street, London EC4V 4JL.

Your Board believes that the resolutions to be proposed as special business are all in the best interests of the Company and its shareholders and accordingly recommend that you vote in favour of them, as the directors propose to do in respect of their own beneficial shareholdings.

You will find enclosed a form of proxy which, to be effective, you should please complete in accordance with the instructions contained in it and return so as to reach the Company's registrar as soon as possible but in any event not later than 1500 hours on 21 May 2006. The completion of the form of proxy will not prevent you from attending the meeting in person if you wish to do so.

I hope that those attending the meeting will also stay for the presentation to be given by the Chief Executive.

Yours sincerely,



**James Wallace**  
Chairman

<sup>1</sup>Adjustment to EBIT will be to exclude any charge for impairment of goodwill where such goodwill remains for the purpose of the BIP & BSMP part of the Company's capital employed.

## Notice of meeting

**NOTICE IS HEREBY GIVEN** that the 53rd annual general meeting of **BODYCOTE INTERNATIONAL PLC** will be held at The Stanneylands Hotel, Stanneylands Road, Wilmslow SK9 4EY on Tuesday 23 May 2006, at 1500 hours for the following purposes:

### As ordinary business

1. To receive the annual report and statement of accounts for the year ended 31 December 2005.
2. To approve the Board Report on Remuneration.
3. To declare a final dividend.
4. To re-elect Mr J A S Wallace as a Director of the Company.
5. To re-elect Mr D R Sleight as a Director of the Company.
6. To re-elect Mr L P Bermejo as a Director of the Company.
7. To re-appoint Deloitte & Touche LLP as auditors of the Company and authorise the Directors to fix their remuneration.

### As special business *(as detailed on page 5)*

8. To authorise the Directors to allot relevant securities within the meaning of the Companies Act 1985.
9. To empower the Directors to allot equity securities pursuant to Section 95 of the Companies Act 1985.
10. To authorise the Directors to make market purchases of ordinary shares pursuant to Section 163(3) of the Companies Act 1985.
11. To approve and adopt the Bodycote Incentive Plan.
12. To approve and adopt the Bodycote Share Matching Plan.
13. To approve and adopt amendments to the Short Term Stock Bonus Plan.

By order of the Board



**J. R. Grime**  
Secretary

Hulley Road, Hurdsfield,  
Macclesfield, Cheshire SK10 2SG  
10 April 2006

Following the formal business of the meeting the Chief Executive, Mr J D Hubbard, will give a brief review of the group's progress and activities.

### Notes

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those shareholders registered in the Register of Members of the Company as at 1700 hours on 21 May 2006 shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their names at that time. Changes to entries on the Register of Members after 1700 hours on 21 May 2006 shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
2. Every member who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and on a poll vote in his/her stead. A proxy need not be a member.
3. Brief biographical details of Directors standing for re-election at the Meeting are set out on page 24 of the Annual Report and Accounts for the year ended 31 December 2005 sent to shareholders separately with this Notice of Meeting.

### As special business

To consider and, if thought fit, to pass the following resolutions which will be proposed as to resolutions 8, 11, 12 and 13 as ordinary resolutions and as to resolutions 9 and 10 as special resolutions:

8. That the Directors be and they are hereby generally and unconditionally authorised pursuant to Section 80 of the Companies Act 1985 to exercise any power of the Company to allot and grant rights to subscribe for or to convert securities into shares of the Company up to a maximum nominal amount of £10,884,514 PROVIDED THAT the authority hereby given shall expire on the date which is fifteen calendar months after the passing of this resolution unless previously renewed, varied or revoked by the Company in general meeting save that the Directors may, notwithstanding such expiry, allot any shares or grant any such rights under this authority in pursuance of an offer or an agreement so to do made by the Company before the expiry of this authority.
9. That, subject to the passing of the resolution numbered 8, the Directors be and they are hereby empowered pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of Section 94 of the Companies Act 1985) for cash pursuant to the authority conferred by the said resolution as if Section 89(1) of the Companies Act 1985 did not apply to any such allotment provided that this power shall be limited:
  - (a) to the allotment of equity securities (within the meaning of Section 94 of the Companies Act 1985) in connection with rights issues in favour of ordinary shareholders where the equity securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them subject to such exclusions or other arrangements as the Directors consider appropriate, necessary or expedient to deal with any fractional entitlements or with any requirements of any regulatory body or recognised investment exchange or otherwise;
  - (b) to the allotment of equity securities pursuant to the terms of the Bodycote International executive share option schemes;
  - (c) to the allotment (otherwise than pursuant to sub-paragraphs (a) and (b) above) of equity securities up to an aggregate nominal value of £1,605,774 being 5% of the issued share capital of the Company at 28 February 2006; and
  - (d) the authority hereby given shall expire at the close of the next annual general meeting of the Company to be held after the date hereof unless such authority is renewed prior to such time; but the Company shall be entitled, before such authority expires, to make an offer or agreement that would or might require relevant securities to be allotted after such expiry.
10. That the Company be and it is hereby generally and unconditionally authorised to make market purchases (within the meaning of Section 163(3) of the Companies Act 1985) of ordinary shares of 10 pence each in the Company provided that:
  - (a) the maximum number of shares hereby authorised to be acquired is 32,115,486;
  - (b) the maximum price which may be paid for any such share is an amount equal to 105% of the average of the middle market quotations for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the share is contracted to be purchased;
  - (c) the minimum price which may be paid for any such share is 10 pence; and
  - (d) the authority hereby given shall expire at the close of the next annual general meeting of the Company to be held after the date hereof unless such authority is renewed prior to such time; but a contract of purchase may be made before such expiry which will or may be executed wholly or partly thereafter, and a purchase of shares may be made in pursuance of any such contract.
11. That the Bodycote Incentive Plan, the main features of which are summarised in Schedules I and II hereto, and the rules of which are produced to the meeting in draft and signed by the Chairman for the purposes of identification, be approved and adopted.
12. That the Bodycote Share Match Plan, the main features of which are summarised in Schedules I and III hereto, and the rules of which are produced to the meeting in draft and signed by the Chairman for the purposes of identification, be approved and adopted.
13. That the rules of the Short Term Stock Bonus Plan, the main features of which are summarised in Schedules I and IV be amended to allow the issue of new shares in settlement of vested conditional awards and, as amended, be approved and adopted.

## Explanatory notes

### Renewal of authority to allot shares (Resolutions 8 and 9)

Under the provisions of Section 80 of the Companies Act 1985 the Directors are not able to allot shares except with the general or specific approval of shareholders. A general authority was granted on 25 May 2005 in respect of the shares then unissued and it is now proposed in resolution number 8 in the notice convening the annual general meeting that this authority be renewed for a period of fifteen months from the date of passing the resolution in respect of £10,884,514 (being the unissued share capital at 28 February 2006), which represents 25.3% of the authorised share capital.

The Board has no present intention of issuing any further shares nor will any such issue be made which would effectively alter the control of the Company without the prior approval of shareholders in general meeting.

Sections 89 and 95 of the Companies Act 1985 provide that any ordinary shares issued for cash must first be offered to existing shareholders unless their approval is obtained that this stipulation should not be applied. The Directors consider it desirable that they should have the authority to make allotments of ordinary shares for cash, other than by way of rights issues to existing shareholders, up to a maximum nominal amount of £1,605,774 (being 5% of the issued ordinary share capital at 28 February 2006) and accordingly recommend the approval of the special resolution set out as resolution number 9.

### Purchase of own Shares (Resolution 10)

Under Article 56 the Company is empowered to purchase its own shares. The Directors consider that the power to make purchases in the market of the Company's own shares should be maintained and accordingly recommend the approval of the special resolution set out as resolution number 10. The Directors intend to exercise this authority only where, in the light of market conditions prevailing at that time, they believe that the effect of such purchases would be to increase earnings per share. Any shares purchased in this way will be cancelled and the number of shares in issue will be reduced accordingly, or held as treasury shares.

The resolution specifies the maximum and minimum prices at which shares may be bought, and the maximum number of shares and awards which may be bought, this being 10% of the Company's issued ordinary share capital at 31 December 2005. At that date outstanding share options over unissued shares totalled 6,932,702 and this represented 2.2% of the Company's issued share capital. In the event that the Company utilised the authority proposed by resolution 10 in full, outstanding share options would then represent 2.4% of the consequently reduced share capital.

### Summary of the provisions applicable to the proposed Bodycote Incentive Plan, Bodycote Share Match Plan and Short Term Stock Bonus Plan (together the 'New Plans')

(Resolutions 11, 12 and 13)

#### Schedule I - General

- 1. Eligibility**

The New Plans are intended to operate internationally.
- 2. Duration of the Plans**

The Company may not grant awards under the New Plans more than ten years after their adoption.
- 3. Grant of Awards**
  - 3.1 Except as otherwise provided, the grant of awards under the New Plans will only be made at times permitted by the Model Code contained in the Listing Rules issued by the UK Listing Authority (as amended from time to time) and any code adopted by the Company or any order or regulation governing dealing in shares by which the Company is bound that may be issued from time to time.
  - 3.2 Shares issued upon the exercise of an award in the form of an option or the release of an award may be newly subscribed shares (at not less than par value), treasury shares or shares purchased in the market.
  - 3.3 The method of providing shares shall be determined by the Company and may be varied during the life of an award as appropriate, according to the availability of new shares and funding demands.
  - 3.4 Benefits under any of the New Plans are not pensionable.
- 4. Adjustment of Awards**

On a variation of the capital of the Company, the number of shares subject to an award, the performance criteria and such other features as are appropriate may be adjusted in such manner as the Committee determines and the auditors of the Company confirm to be fair and reasonable.
- 5. Amendments to the New Plans**

Amendments to the rules of the New Plans may be made at the discretion of the Committee. However, the basic structure and in particular the limitations on participation, the basis for determining a participant's entitlement to an award of shares, the maximum value of awards of shares that may be made to participants, the adjustment that may be made following a rights issue or any other variation of capital and the limitations on the number of shares that may be issued cannot be altered to the advantage of participants without prior shareholder approval, except for minor amendments to benefit the administration of the plans, to take account of a change in legislation or to obtain or maintain UK Inland Revenue approval or an other jurisdiction approval, or obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for the Group.
- 6. Plan Limits**

The following limits will apply, at the time of grant, of each award under the New Plans:-

  - (a) the aggregate number of newly subscribed shares that may be issued or remain issuable pursuant to awards or options granted under all employee share plans operated by the Company, during the preceding ten years ending on the date of grant, shall not exceed 10% of the issued ordinary share capital of the Company at that date; and
  - (b) the aggregate number of newly subscribed shares that may be issued or remain issuable pursuant to awards or options granted under all executive share plans operated by the Company, during the preceding ten years ending on the date of grant, shall not exceed 5% of the issued ordinary share capital of the Company at that date.

## **7. Allotment and Transfer of Shares**

- 7.1 Shares subscribed will not rank for dividends payable by reference to a record date falling before the date on which the shares are acquired but will otherwise rank *pari passu* with existing shares.
- 7.2 Application will be made to the UK Listing Authority for admission to the Official List for new shares that are to be issued following the exercise of an option or release of an award.

## **8. Non-Transferability Awards**

Awards are not transferable except in the case of a participant for whom a trustee is acting, in which case the trustee will be able to transfer the benefit to the participant.

## **9. Vesting and release in exceptional circumstances**

- 9.1 If a participant leaves employment before an award or matching award vests or is released, such award shall normally lapse. However the Committee may determine, in its discretion, to allow the award the matching award or part thereof to vest or to be made subject to the achievement of amended performance criteria and or such other requirements as the Committee may determine. Where the Committee determines to allow vesting and release of part or all of an award or matching award it shall give due regard to the reason for the cessation of employment and the period elapsed since the date of grant of the award or matching award in determining the amount, conditions and timing of the vesting and release of such award or matching award. Where appropriate, the Committee shall pro-rate the award or matching award.
- 9.2 In the event of a takeover, reconstruction, amalgamation or winding up of the Company the awards or matching awards shall immediately vest and be released subject to performance and on a pro rata basis to the period that has elapsed since the date of grant of the awards or matching awards, subject to the agreement of the acquiring company, awards or matching awards shall be rolled over.
- 9.3 In the event of any of the businesses of the Group being merged or demerged, the Committee shall have the discretion to determine whether awards or matching awards shall vest and be released. Vesting and release shall be subject to achievement of the performance criteria and on a pro rata basis to the period that has elapsed since the date of grant of the awards or matching awards.

## **Schedule II**

### **Summary of the Bodycote Incentive Plan ('BIP')**

*(Resolution 11)*

#### **1. Operation**

- 1.1 The BIP will allow the grant of Awards over shares to participants on an annual basis.
- 1.2 Awards will normally vest after three years. The vesting of awards will be dependent upon the Company's performance.

#### **2. Eligible Employees**

The BIP is open to all full time employees, executive directors and trustees of an employee benefit trust acting on behalf of such employees. The Committee intends initially to extend the BIP to some 80 individuals ranging across executive, managerial and professional levels within the Company.

#### **3. Grant and Timing of Awards**

- 3.1 Under the BIP the Committee may grant annual awards.
- 3.2 Subject to shareholder approval, the first awards will be made immediately following the 2006 AGM (at which such approval will be sought) but will be effective from the beginning of 2006.

## **4. Form and Release of Awards**

- 4.1 Awards will be made either:-
- (a) in the form of a promise to provide shares contingent upon continuous employment and achievement of performance criteria; or
  - (b) a deeply discounted option that becomes exercisable dependent upon continuous employment and achievement of performance criteria.
- 4.2 In reaching its decision, the Committee will take into consideration the taxation, national insurance and the cost consequences of the award.

## **5. Performance Criteria**

- 5.1 The Committee will determine the performance criteria governing the vesting of awards.
- 5.2 The initial performance criteria will be based on improvement in Economic Profit for the Three Year Period ending 31 December 2008. ROCE is targeted to improve by approximately one percentage point per annum until a mid teens pre-tax ROCE performance is achieved. In addition significant growth in EBIT is also targeted. Based on the Group's typical capital requirements in the initial three year performance period 2006 to 2008, maximum awards under the Plan will require a compound annual growth of EBIT of approximately 30%. Minimum awards will be made for compound annual growth in EBIT of approximately 15%. Below this level no awards will be made. A sliding scale will be applied to achievement between the maximum and minimum. Although specific performance criteria have not yet been formulated for the years 2007 to 2010, it is likely that maximum awards under the Plan will then require compound annual growth in EBIT in excess of 20% with minimum awards being made for compound annual growth in EBIT in excess of 10%.
- 5.3 However it should be noted that the Economic Profit targets, which will determine how much of an award will vest, may not be achieved at the stated or higher rates of EBIT growth if the absolute level of capital employed has increased out of proportion and, conversely the same Economic Profit targets may be achieved, and hence awards vest at lower rates of EBIT growth, if the amount of capital employed is reduced by a commensurate amount.
- 5.4 In addition to the performance criteria set out above, the Committee may impose additional restrictions on the vesting and or release of awards, as it shall deem appropriate.
- 5.5 The Committee shall ensure that the performance criteria are always challenging and reflect a real and meaningful improvement in the performance of the Company. While the Company does not feel it is appropriate to disclose the actual target figures for either Economic Profit, EBIT or capital employed due to their confidential nature, the targets reflect the aims of the Company's strategic plan, in that they remain both ambitious and challenging.
- 5.6 The Committee will have the discretion to amend or vary the performance criteria for awards, provided that any amendments or alternative criteria selected are no less challenging than the criteria stated above, and after consultation with the Company's main institutional shareholders, if appropriate.
- 5.7 In the event of the performance criteria not being achieved, in whole or in part, the relevant proportion of the award will lapse.
- 5.8 There will be no re-testing.

## **6. Individual Limits**

- 6.1 The value of BIP awards that may be granted to an eligible employee in any financial year will be 1 times base salary, with the potential on vesting to increase this to a maximum of 1.75 times the initial conditional award for superior performance.
- 6.2 Awards levels will vary by seniority taking into account rank, performance and geographic location.

## Explanatory notes

### Schedule III

#### Summary of the Bodycote Share Match Plan ('BSMP') (Resolution 12)

##### 1. Operation

- 1.1 The BSMP will allow the grant of Awards over matching shares to participants on an annual basis based on the number of shares purchased by participants with monies earned under the annual bonus plan either on a gross or net basis.
- 1.2 The participants must hold the shares acquired with the bonus for a period of three years in order to obtain any matching shares.
- 1.3 The vesting of matching shares will be dependent upon predetermined performance criteria.

##### 2. Eligible Employees

The plan is open to all senior full time employees, executive directors and trustees of an employee benefit trust acting on behalf of such employees and who participate in the annual bonus arrangements. It is anticipated that around 20 executives, managerial and professional staff will be invited to participate.

##### 3. Grant and Timing of Awards

Participants will be invited prior to the confirmation of their annual bonus to defer receipt of part of their annual bonus. The deferred monies will be invested in shares at the market value at about the date the bonus is declared. The Committee will grant matching awards.

##### 4. Form and Release of Awards

- 4.1 Matching awards will be made either in the form of:-
  - (a) a promise to provide shares contingent upon continuous employment and achievement of performance criteria; or
  - (b) a deeply discounted option that becomes exercisable dependent upon continuous employment and achievement of performance criteria.
- 4.2 In reaching its decision, the Company may take into consideration the taxation, national insurance and cost consequences of the award.
- 4.3 The shares purchased by the participant shall be immediately released after the three year deferral period.

##### 5. Performance Criteria

- 5.1 The Committee will determine the performance criteria applicable to each award. It is the current intention that the performance criterion for the share matching element will require the achievement of pre determined growth in ROCE. This will be determined each time an award is granted.
- 5.2 In respect of the first grant of matching shares, the requirement will be for an improvement in ROCE from the 2005 base year, in which case vesting at the lower level of one share for each two shares deferred will occur and with maximum levels of vesting available for a mid-teens ROCE performance. Between these two levels of ROCE awards will be matched on a pro rata basis.
- 5.3 In the event of the performance criteria not being achieved, in whole or in part, the relevant proportion of the matching Award will lapse.
- 5.4 The Committee will have the discretion to amend or vary the performance criteria for matching awards, provided that any amendments or alternative criteria selected are no less challenging than the criteria stated above, and after consultation with the Company's main institutional shareholders if appropriate.
- 5.5 There will be no re-testing.

##### 6. Individual Limits

- 6.1 The maximum value of matching shall be one share for each share deferred.
- 6.2 The maximum level of deferral under the annual bonus plan shall be 20% of base salary at the date of grant of an award.

### Schedule IV

#### Summary of the Short Term Stock Bonus Plan ('STSBP') (Resolution 13)

##### 1. Operation

- 1.1 The STSBP was introduced in 2005 and did not require shareholder approval as it was dependent upon an annual performance measurement and could not issue new shares. The STSBP is an interim incentive arrangement and is intended to be used only for a grant based upon the Company's total shareholder return performance in 2005.
- 1.2 Awards are normally released after three years and are dependent upon participants continued service.

##### 2. Eligible Employees

- 2.1 The STSBP was open to all full time employees, executive directors and trustees of an employee benefit trust acting on behalf of such employees. The Committee selects the participants and at present this is in the region of 140 individuals ranging across executive, managerial and professional levels within the Company.

##### 3. Grant and Timing of Awards

Under the STSBP the Committee made a single grant of awards in 2005.

##### 4. Form and Release of Awards

Awards were made in the form of a promise to provide shares contingent upon continuous employment.

##### 5. Performance Criteria

- 5.1 The performance criteria for 2005 was achievement of median TSR performance for an award of 12.5% of basic salary and achievement of upper quartile TSR performance for an award of 50% of basic salary. Upper quartile performance was achieved.
- 5.2 In addition to the performance criteria set out above, the Committee retains the right to impose additional restrictions on the release of awards, as it may deem appropriate.

##### 6. Individual Limits

- 6.1 The maximum value of STSBP awards that were granted to an eligible employee in any financial year was equal to a maximum of 50% of base salary during a financial year.
- 6.2 Awards levels varied by seniority taking into account rank, performance and geographic location.

Note: These Schedules summarise the main features of the New Plans but do not form part of them and should not be taken as affecting the interpretation of the detailed terms and conditions constituting the rules. Copies of the rules will be available for inspection at the registered office of the Company during usual office hours (Saturdays, Sundays and bank holidays excepted) from the date of dispatch of the Notice of the AGM up to and including the date of the AGM and at the meeting itself. The directors reserve the right up to the time of the meeting to make such amendments and additions, as they consider necessary or desirable, provided that such amendments and additions do not conflict in any material respect with the summaries set out in these Schedules.