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Dear Remuneration Committee Chairman,

Uncapped Incentive Plans

I am writing to you on behalf of ABI's Investment Committee regarding concerns raised by members over recent proposals for Uncapped Incentive Plans.

In most cases, these plans have been designed so that scheme participants receive a number of company shares that are determined by reference to an increase of the market capitalisation over a pre-determined target level.

The key concerns centre on the way these plans are operated and where there are potential breaches to the ABI's Executive Remuneration Guidelines. The concerning issues can be found more particularly where:

- Outcomes are likely to create an increasing dilutive risk and which result in an excessive level of value being disbursed;
- Plans are not capped overall on the number or value of company shares that can be awarded to scheme participants;
- Targets may not be sufficiently robust or appropriate.

Where such uncapped incentive plans are being contemplated, companies should be aware that members will not be supportive of such arrangements unless prior observance has been given to the principles set in the following guidance:

- Adequate reasoning has been provided that there are exceptional circumstances to justify the introduction of the plan i.e. such incentive plans are not acceptable as standard arrangements;
- A recognised cap, or such protection as may be acceptable to shareholders, is included in the structure of the plan. There should be a limit on the number of company shares whether purchased on the market or newly issued.

In the event that any of the afore-going cannot be fully satisfied, IVIS would be expected to issue a 'red top' for its analysis report.

If you would like to discuss these issues further please do not hesitate to contact my colleagues, James Upton (tel: 020 7216 7672) or Patrick Neave (tel: 020 7216 7627).

Yours sincerely

A handwritten signature in grey ink, appearing to read 'Hugh Savill', written in a cursive style.

Hugh Savill
Acting Director of Investment Affairs