THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to the action you should take, you are recommended to seek your own independent financial advice from an independent professional adviser authorised under the Financial Services and Markets Act 2000 or another appropriately authorised independent financial adviser.

If you have sold or transferred all your ordinary shares in Proteome Sciences plc please forward this document, together with the enclosed form of proxy, as soon as practicable to the purchaser or transferee, or to the stockbroker, bank or other person through whom the sale or transfer was effected, for delivery to the purchaser or transferee.

PROTEOME SCIENCES plc

Proposed New Long-Term Incentive Plan and Share Option Plan

Notice of the 17th Annual General Meeting of Proteome Sciences plc to be held on 29 June 2011 at 12:00 midday at Chandos House, 2 Queen Anne Street, London W1G 9LQ is set out on pages 59 and 60 of the Company's Annual Report and Accounts for the year to 31 December 2010, which accompanies this circular. A form of proxy for use at the Annual General Meeting is to be found in the Company's Annual Report and Accounts for the year to 31 December 2010 and should be completed and returned in accordance with the instructions stated on it to Capita Registrars at PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, as soon as possible but in any event so as to be received no later than 12:00 midday on 27 June 2011. Completion and return of a form of proxy will not preclude a Shareholder from attending the meeting and voting in person.

PROTEOME SCIENCES plc
(Registered in England and Wales: Number 02879724)

Registered Office:
Coveham House,
Downside Bridge Road,
Cobham,
Surrey,
KT11 3EP

Directors:
R S Harris, B. Pharm, F R PharmS (Chairman)* (i) (ii) (iii)
C D J Pearce, (Chief Executive)
J L Malthouse, FCA (Finance Director)
Dr. I H Pike, (Chief Operating Officer)
Professor W Dawson, DSc, FR PharmS, FRSC*(i) (ii) (iii)
Dr A I Walker* (i) (iii)

* non-executive directors and members of the (i) Audit (ii) Remuneration and (iii) Nominations Committees.

6 June 2011

To: The holders of ordinary shares.

Dear Shareholder

Proposed New Long-Term Incentive Plan and Discretionary Share Option Plan

As a result of the expiry in 2009 of the Company's most recent equity incentive plans the Remuneration Committee has addressed the need to replace these plans, and has carried out a comprehensive review of the executive incentive arrangements currently available. This letter explains the Company's proposed new plans and seeks your approval for their adoption at the Annual General Meeting of the Company, which is to be held on 29 June 2011.

Background

The Remuneration Committee's consideration of the Company's executive reward strategy has taken into consideration:

- the need to replace the equity incentive plans that expired in 2009;
- the continuing need to clearly align the interests of executive directors and senior management with the interests of shareholders as set out in the shareholding guidelines for executive directors introduced in 2004;
- the requirement to motivate and retain the current, highly experienced executive directors;
- the requirement to ensure that participation in share incentive plans is subject to stringent performance conditions that gauge the Company's performance in comparison with an appropriate index.

Throughout the review the Remuneration Committee has recognised the need to achieve long-term sustained improvement in the performance of the Company by linking the rewards delivered to executives, senior management and employees to its performance with the intention that emphasis on performance should encourage executives and senior management to concentrate on fulfilling the Company's business strategy.

It is also recognised that a competitive and flexible reward structure is essential to recruit, motivate and retain skilled employees in the global market. The Remuneration Committee believes this can be best achieved by wider share ownership and by ensuring that the interests of the Company's executives, senior management and employees are aligned with those of shareholders.

To this end, in 2004 the Company introduced shareholding guidelines for executive directors and has historically operated the following employee share schemes:

- The Proteome Sciences plc 1994 Unapproved Share Option Scheme.
- The Proteome Sciences plc 1994 Approved Share Option Scheme.
- The Proteome Sciences plc 2004 Long-Term Incentive Plan.
- The Proteome Sciences plc 2004 Share Option Plan.

The 1994 Unapproved and Approved Share Option Schemes expired in 2004 and the 2004 Long-Term Incentive Plan and 2004 Share Option Plan expired in 2009.

Proposal

After a thorough review of the Company's current remuneration structure and having considered general market practice and the alternative structures available to encourage wider share ownership, the Remuneration Committee has determined that the adoption of a new long-term incentive plan and discretionary share option plan would continue to be the most appropriate way to achieve this.

The Remuneration Committee therefore proposes to introduce the Proteome Sciences plc 2011 Long-Term Incentive Plan ("the LTIP") along with the Proteome Sciences plc 2011 Share Option Plan ("the Option Plan" and together "the Plans"). It is proposed that awards made under both Plans may be capable of being granted so as to qualify for Enterprise Management Incentive ("EMI") relief, so that tax advantaged options may be granted to UK eligible employees. Shareholders are therefore being asked to consider all the elements of the Plans at the forthcoming Annual General Meeting.

The LTIP

Participation in the LTIP will be open to the executive directors and the Company's senior managers. Awards may be made on an annual basis and the LTIP will allow for the making of awards over shares worth up to a maximum of 150% of salary in any year, or 200% should the Remuneration Committee determine that special circumstances apply, for example on the recruitment of a new executive or senior manager. Awards made under the EMI Schedule will be subject to the relevant statutory limits.

Awards may be made in the form of conditional awards, that is a conditional right to acquire shares subject to the completion of a three-year holding period, or nil cost or nominal value options. Awards made under the EMI Schedule will only be made in the form of nil cost or nominal value options.

Conditional awards will normally vest on the third anniversary of the date of grant. Options will normally vest and become exercisable on the third anniversary of the date of grant and will remain capable of exercise until the tenth anniversary of the date of grant.

In determining the level of option grants to be made the Remuneration Committee will take into account the fact that no annual bonuses are to be paid and that the performance targets imposed before conditional awards vest or options may be exercised are rigorous. To this end the vesting of awards will be subject to the satisfaction of relevant performance conditions so that the vesting of awards will be dependent upon the growth in the Company's total shareholder return ("TSR") over a three-year performance period relative to the growth in the Alternative Investment Market ("AIM") Healthcare Index ("the Index").

TSR is the aggregate of share price growth and the value of dividend payments during the performance period. No awards will vest unless the Company's TSR performance exceeds that of the Index, in which case 30% will vest. All awards will vest if the Company's TSR performance exceeds that of the Index by 10%, with pro-rata vesting between 30% to 100% for each percentage point of out-performance up to 10%, such that where the:

Company's TSR performance out-performs the Index by:	the percentage of the award that Vests shall be:
1%	37%
2%	44%
3%	51%
4%	58%
5%	65%
6%	72%
7%	79%
8%	86%
9%	93%
10% or more	100%

It is considered that such performance conditions are the most appropriate for the Company and would represent a genuine reflection of the Company's underlying performance over the three-year performance period. It is also considered that these performance conditions are sufficiently demanding in their requirement for strong financial performance and are also linked to the achievement of enhanced shareholder value.

In the opinion of the Remuneration Committee the proposed LTIP will provide meaningful incentives to the Company's executives and ensure that an appropriate balance between fixed and performance-related pay is maintained.

The Option Plan

The Remuneration Committee also considers that it is appropriate to offer share incentives to other employees and believes that share options continue to provide an incentive to these employees by giving them the opportunity to participate in the success of the Company. Participation in the Option Plan will therefore be open to all eligible employees, except those who participate in the LTIP.

It is not intended that options will be granted to eligible employees on an annual basis and so options will be granted in specific circumstances, such as on recruitment, and as and when necessary to retain and further motivate employees. The Option Plan will allow for the grant of options over shares worth up to a maximum of 100% of salary in any year, or 125% should the Remuneration Committee determine that special circumstances apply, for example on the recruitment of a new senior manager. Options granted under the EMI Schedule will be subject to the relevant statutory limits.

Options will normally vest and become exercisable on the third anniversary of the date of grant and remain capable of exercise until the tenth anniversary of the date of grant.

As for the LTIP, when determining the level of option grants to be made, the Committee will take into account the fact that no annual bonuses are to be paid and that the performance targets imposed before options may be exercised are stretching. The vesting of options will be subject to the satisfaction of the same, rigorous performance conditions that apply to the vesting of awards made under the LTIP.

Shareholding Guidelines

To encourage the Company's executive directors to build up a substantial, long-term shareholding, the Company introduced minimum shareholding guidelines in 2004, pursuant to which the executive directors are expected to build-up and retain a holding of shares based on a percentage of base salary. The table below summarises the policy introduced in 2004.

Position	Expected level of shareholding (to be built up over 5 years)
Chief Executive	100%
Other Executive Directors	75%

In normal circumstances and provided LTIP awards vest, if the minimum shareholding requirements are not satisfied by the executive directors the Remuneration Committee will take this into account when deciding their future awards under the LTIP.

Adjustment of subsisting options and LTIP awards

In June 2010 the Company undertook a Placing and an Open Offer, and a proportion of the convertible loans provided by the Chief Executive Officer was converted ("the Conversion") into Ordinary Shares at the Placing price.

The Remuneration Committee considers that, in accordance with best practice, it would be fair and reasonable to take account of the aforementioned Placing, Open Offer and Conversion and to adjust the number of subsisting options and awards and their exercise price (where appropriate) to ensure that option holders and award holders are not disadvantaged.

In determining the adjustment factor to be applied to the number of subsisting options and awards the Remuneration Committee has considered the share price prior to the Placing being announced and proposes to make an adjustment for the effect of the Placing, Open Offer and Conversion on the share price. The closing share price prior to the announcement of the Placing was 27.75 pence per share and the closing share price on the day the new shares were admitted to AIM was 20.5 pence per share. Dividing the former by the latter gives an adjustment factor of 1.353 so the Remuneration Committee has resolved that the number of subsisting options and awards should be multiplied by this factor and that the exercise price of subsisting options should be multiplied by the inverse of this factor so that the market value of subsisting options is maintained.

The Remuneration Committee has recently begun the process of notifying option holders and award holders with a view to making the necessary adjustments and issuing new option and award certificates this summer.

Conclusion

The principal features of the Plans, including the respective EMI Schedules are summarised in the Appendices to this letter.

The notice of the Annual General Meeting is set out in the Company's Annual Report and Accounts for the year to 31 December 2010 which accompanies this document and which contains a resolution that proposes the adoption of the Plans including the respective EMI Schedules.

The proposed rules of the Plans are available for inspection at the Company's registered office, and at the offices of Capita Registrars at the Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU from the date of this letter to the conclusion of the Annual General Meeting and at the place of the meeting itself for at least 15 minutes prior to and during the meeting.

Your Board believes that the proposals set out in this letter for the adoption of the Plans are in the best interests of the Company and its shareholders and recommend that you vote in favour of the Resolution to be proposed at the Annual General Meeting, as the Board intends to do in respect of its beneficial holdings amounting to 32,490,677 ordinary shares (representing approximately 16.91 percent of the issued share capital).

Yours faithfully,

Profession W. Dawson
Chairman of the Remuneration Committee

The Proteome Sciences plc 2011 Long-Term Incentive Plan

The principal features of The Proteome Sciences plc 2011 Long-Term Incentive Plan ("the LTIP") are outlined below.

Form

The LTIP will be divided into two parts; the main plan rules will be unapproved for UK tax purposes (the "Unapproved Part") and will have a greater degree of flexibility than options granted under the Enterprise Management Incentive Schedule ("EMI Schedule"), which has been designed to enable the Company to grant qualifying options that satisfy the requirements of Chapter 9, Part 7 and Schedule 5 of the Income Tax (Earnings & Pensions) Act 2003 ("ITEPA 2003").

Awards under the Unapproved Part may be made in the form of conditional awards, that is a conditional right to acquire shares subject to the completion of a three-year holding period, or nil cost or nominal value options.

Awards made under the EMI Schedule will only be made in the form of nil cost or nominal value options, and are hereafter referred to as "Qualifying Options". The EMI Schedule is intended to enable options to be granted to UK taxpayers in a tax efficient manner. The terms of Qualifying Options granted under the EMI Schedule are broadly identical to the terms of options granted under the Unapproved Part except to the extent necessary to maintain the EMI Schedule's qualifying status.

Operation

The Company's Remuneration Committee will be responsible for granting options and administering the LTIP.

The LTIP is discretionary and will only operate in those years that the Remuneration Committee determines. Currently, it is expected that options will be granted annually.

Eligibility

Any employee or executive director of the Group will be eligible to participate in the LTIP at the discretion of the Remuneration Committee. However, those who participate in the LTIP will not be eligible to participate in The Proteome Sciences plc 2011 Share Option Plan (see Appendix 2 for further details).

In order to be eligible for Qualifying Options eligible employees must work a minimum of 25 hours per week for the Company, or if less, work for 75% of their working time for the Company.

Non-executive directors are not eligible to participate in the LTIP.

Grant of awards

Awards may be granted at any time, subject to the terms of the Alternative Investment Market ("AIM") Rules for Companies and the Model Code for transactions in securities by directors. It is envisaged though that awards will normally be made within the 42 day period following the date of publication of the results of the Company, or in connection with the commencement of an eligible employee's employment if this is appropriate.

No awards will be made within six months of an eligible employee's anticipated date of retirement.

No awards may be made later than ten years after the approval of the LTIP by shareholders.

Awards may be made over newly issued shares, treasury shares and shares purchased in the market in conjunction with an employee benefit trust established by the Company.
No payment will be required for the grant of an award. Awards are not transferable (other than on death) without the consent of the Remuneration Committee. Awards will not be pensionable.

Any Qualifying Options will be granted in accordance with the requirements of Chapter 9, Part 7 and Schedule 5 ITEPA 2003.

Option exercise price
Conditional awards will comprise a conditional right to acquire shares at no cost to the participant.

The exercise price for nil cost options, granted under either the Unapproved Part or the EMI Schedule, shall be £nil, whereas the exercise price for nominal value options, granted under either the Unapproved Part or the EMI Schedule, shall be 1 pence per share.

Performance conditions
The vesting of awards will be subject to performance conditions. It is intended that the initial awards made under the LTIP will have performance conditions which relate to the growth in the Company's total shareholder return ("TSR") over a three-year performance period relative to the growth in the AIM Healthcare Index ("the Index").

TSR is the aggregate of share price growth and the value of dividend payments during the performance period. No awards will vest unless the Company's TSR performance exceeds that of the Index, in which case 30% will vest. All awards will vest if the Company's TSR performance exceeds that of the Index by 10%, with pro-rata vesting between 30% to 100% for each percentage point of out-performance up to 10%, such that where the:

Company's TSR performance out-performs the Index by:	the percentage of the award that Vests shall be
1%	37%
2%	44%
3%	51%
4%	58%
5%	65%
6%	72%
7%	79%
8%	86%
9%	93%
10% or more	100%

The Remuneration Committee will regularly review the performance conditions for future awards to ensure they are appropriate for the Company and the prevailing recruitment market. The conditions may be varied in certain circumstances following the making of an award so as to achieve their original purpose, taking account of the interests of the shareholders of the Company, but not so as to make their achievement any more or less difficult to satisfy.

There will be no provision for the retesting of performance.

Individual limits
No employee may receive an award under the LTIP in any financial year over shares worth more than 150% of base salary, unless the Remuneration Committee determines that exceptional circumstances exist which justify exceeding this limit, in which case options shall not exceed 200% of base salary.

Qualifying Options are subject to a statutory limit such that no employee may at any one time hold subsisting Qualifying Options over shares worth more than £120,000 (calculated by reference to the market value of shares at the relevant date of grant) under the EMI Schedule or any other qualifying or HM Revenue & Customs ("HMRC") approved company share option plan established by a Group company or a company associated with a Group company.

Limits on the issue of shares
The LTIP is subject to the following overall limits on the number of new ordinary shares which may be subscribed:

- in any ten year period not more than ten per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired under the LTIP and any employees' share plan adopted by the Company; and

- in any ten year period not more than five per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired under the LTIP and any other discretionary executive share plan adopted by the Company.

For the purposes of these limits, awards or other rights to acquire shares which lapse or have been released or otherwise become incapable of vesting or being exercised will not be included. However, shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share plans adopted by the Company and shares transferred from treasury do count towards these limits.

Where instead of paying the exercise price, an option exercise is satisfied by the issue of the number of shares representing the growth in value of a share between the exercise price and the market value at the date of exercise, only the number of shares actually issued shall count towards these limits.

Vesting of awards and exercise of options
Subject to the participant discharging any relevant tax liability and provided that any specified performance condition has been satisfied:

- conditional awards will normally vest on the third anniversary of the date of grant; and
- options will normally vest and become exercisable on the third anniversary of the date of grant and will remain capable of exercise until the tenth anniversary of the date of grant.

Leavers
If a participant leaves the employment of the Group by reason of death, injury, disability, redundancy, retirement or the sale of the business for which he works to a third party, a proportion of an award may vest and become exercisable depending on the time which has elapsed between the grant of that award and the date of leaving, and the extent to which performance conditions have been satisfied.

In determining the proportion of an award which vests the Remuneration Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

If a participant ceases to be an employee of the Group for any other reason, his option will normally lapse unless and to the extent the Remuneration Committee decides otherwise.

For awards made in the form of options, vested options must be exercised within the period of 12 months (or 40 days in the case of Qualifying Options) of cessation of employment and will lapse if not exercised within this period.

Change of control
In the event of a takeover, reconstruction or winding up of the Company, a proportion of an award may vest depending on the time which has elapsed between the grant of that award and the change of control and the extent to which performance conditions have been satisfied at that date. Again, in determining the proportion of an award which vests, the Remuneration Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

For LTIP awards made in the form of nil cost or nominal value options, the Remuneration Committee will determine the period of time following the change of control within which participants shall be able to exercise all vested options and such options will lapse if not exercised within this period.

Alternatively, awards may (or, if the Remuneration Committee so determines, shall) be exchanged for new equivalent awards where appropriate. In this case any performance conditions will continue unless the Remuneration Committee determines otherwise. It should be noted that awards will only vest on a reconstruction or amalgamation of the Company in circumstances where the reconstruction or amalgamation amounts to a proper change in the control of the Company and there is new ownership of the Company.

In the event of a merger or demerger of the Company, the Remuneration Committee may determine that awards may vest provided that the aforementioned change of control provisions are applied and the transaction amounts to a proper change in the control of the Company. Alternatively, the number of shares subject to an award, or the exercise price of an option may be adjusted, as the Remuneration Committee shall determine and the auditors of the Company confirm to be fair and reasonable.

Rights attaching to shares

Shares allotted or transferred under the LTIP will rank equally with all other ordinary shares of the Company for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the vesting of an award). The Company will apply for the listing of any new shares allotted under the LTIP.

For awards made under the Unapproved Part only, the Remuneration Committee may also satisfy awards in cash provided the participant receives the same economic value as would have been provided by an award over shares. Alternatively, the Remuneration Committee may determine that instead of paying the exercise price, exercise of a nominal value option may be satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value of a share at exercise.

Variation of Capital

In the event of any variation of share capital, demerger or other corporate event the Remuneration Committee may make such adjustments as they consider appropriate to the number of shares subject to awards and the price payable on the exercise of any nominal value options.

In the case of Qualifying Options, such adjustments will only be made to the extent permitted by Chapter 9, Part 7 and Schedule 5 ITEPA 2003 and to the extent that options will remain to be Qualifying Options.

Alterations to the LTIP

The LTIP may at any time be altered by the Remuneration Committee in any respect. However, any alterations to the advantage of participants to the rules governing eligibility, limits on participation and the number of new shares available under the LTIP, terms of exercise and adjustment of options must be approved in advance by shareholders in general meeting unless the alteration or addition is minor in nature and made to benefit the administration of the LTIP, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Group companies.

Overseas Employees

The Remuneration Committee may add to, vary or amend the rules of the Unapproved Part of the LTIP so that it may operate to take account of local legislative and regulatory requirements and may grant options to overseas employees on different terms so as to take account of relevant overseas tax, securities or exchange control laws, provided that the options are not overall more favourable than the terms of options granted to other employees.

The Proteome Sciences plc 2011 Share Option Plan

The principal features of The Proteome Sciences plc 2011 Share Option Plan ("the Option Plan") are outlined below.

Form

The Plan will be divided into two parts; the main plan rules will be unapproved for UK tax purposes (the "Unapproved Part") and will have a greater degree of flexibility than options granted under the Enterprise Management Incentive Schedule ("EMI Schedule"), which has been designed to enable the Company to grant qualifying options that satisfy the requirements of Chapter 9, Part 7 and Schedule 5 ITEPA 2003.

Options granted under the EMI Schedule are referred to as "Qualifying Options". The EMI Schedule is intended to enable options to be granted to UK taxpayers in a tax efficient manner. The terms of Qualifying Options granted under the EMI Schedule are broadly identical to the terms of options granted under the Unapproved Part except to the extent necessary to maintain the EMI Schedule's qualifying status.

Operation

The Option Plan will be administered by two committees.

- The Company's Remuneration Committee is responsible for granting options and administering the Option Plan with regard to executive directors.
- The Board (or a duly authorised committee of the Board) is responsible for granting options to and administering the Option Plan with regard to all other employees.

In the remainder of this Appendix, the term 'the Committee' will refer to the administering body that is responsible for the appropriate award depending on the participant.

The Option Plan is discretionary and will only operate in those years that the Committee determines. Currently, it is expected that options will be granted annually.

Eligibility

Any employee or executive director of the Group, will be eligible to participate in the Option Plan at the discretion of the Committee, provided they have not been invited to participate in the LTIP that year.

In order to be eligible for Qualifying Options eligible employees must work a minimum of 25 hours per week for the Company, or if less, work 75% of their working time for the Company.

Non-executive directors are not eligible to participate in the Option Plan.

Grant of options

Options may be granted at any time, subject to the terms of the AIM Rules for Companies and the Model Code for transactions in securities by directors. It is envisaged though that options will normally be granted within a 42 day period following the date of publication of the results of the Company, or in connection with the commencement of an eligible employee's employment if this is appropriate. It is not intended that options will be granted to eligible employees on an annual basis and so options will be granted in specific circumstances, such as on recruitment, and as and when necessary to retain and further motivate employees.

No options will be granted within six months of an eligible employee's anticipated date of retirement.

No options may be granted later than ten years after the approval of the Option Plan by shareholders. Options may be granted over newly issued shares, treasury shares and shares purchased in the market in conjunction with an employee benefit trust established by the Company.

No payment will be required for the grant of an option. Options are not transferable (other than on death) without the consent of the Committee. Options will not be pensionable.

Any Qualifying Options will be granted in accordance with the requirements of Chapter 9, Part 7 and Schedule 5 ITEPA 2003.

Option exercise price
The price per share payable on the exercise of an option shall be the greater of:

- the closing middle market quotation for a share for the dealing day immediately preceding the date the option is to be granted; and
- where shares are to be subscribed, their nominal value.

Performance conditions
The exercise of options will be subject to performance conditions. It is intended that the initial grant of options under the Option Plan will have performance conditions which relate to the growth in the Company's TSR over a three-year performance period relative to the growth in the AIM Healthcare Index ("the Index").

TSR is the aggregate of share price growth and the value of dividend payments during the performance period. No options will vest unless the Company's TSR performance exceeds that of the Index, in which case 30% will vest. All options will vest if the Company's TSR performance exceeds that of the Index by 10%, with pro-rata vesting between 30% to 100% for each percentage point of out-performance up to 10%, such that where the:

Company's TSR performance out-performs the Index by:	the percentage of the award that Vests shall be
1%	37%
2%	44%
3%	51%
4%	58%
5%	65%
6%	72%
7%	79%
8%	86%
9%	93%
10% or more	100%

The Committee will regularly review the performance conditions for future option grants to ensure they are appropriate for the Company and the prevailing recruitment market. The conditions may be varied in certain circumstances following the grant of an option so as to achieve their original purpose, taking account of the interests of the shareholders of the Company, but not so as to make their achievement any more or less difficult to satisfy.

There will be no provision for the retesting of performance.

Individual limits
No employee may be granted options under the Option Plan in any financial year over shares worth more than 100 per cent of base salary, unless the Committee determines that exceptional circumstances exist which justify exceeding this limit, in which case options shall not exceed 125 per cent of base salary.

Qualifying Options are subject to a statutory limit such that no employee may at any one time hold subsisting Qualifying Options over shares worth more than £120,000 (calculated by reference to the market value of shares at the relevant date of grant) under the EMI Schedule or any other qualifying or HMRC approved company share option plan established by a Group company or a company associated with a Group company.

Limits on the issue of shares
The Option Plan is subject to the following overall limits on the number of new ordinary shares which may be subscribed:

- in any ten year period not more than ten per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired under the Option Plan and any other employees' share plans adopted by the Company; and
- in any ten year period not more than five per cent of the issued ordinary share capital of the Company from time to time may be issued or issuable pursuant to rights acquired any discretionary executive share plan adopted by the Company.

For the purposes of these limits, options or other rights to acquire shares which lapse or have been released or otherwise become incapable of vesting or being exercised will not be included. However, shares subscribed by the trustees of an employee benefit trust to satisfy rights granted under any employees' share plans adopted by the Company and shares transferred from treasury do count towards these limits.

Where instead of paying the exercise price, an option exercise is satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value at the date of exercise, only the number of shares actually issued shall count towards these limits.

Exercise of options
Subject to the participant discharging any relevant tax liability, an option will normally be exercisable between the third and ten years following its grant provided that any specified performance condition has been satisfied.

Leavers
If a participant leaves the employment of the Group by reason of death, injury, disability, redundancy, retirement or the sale of the business for which he works to a third party, a proportion of an option may vest and become exercisable depending on the time which has elapsed between the grant of that option and the date of leaving, and the extent to which performance conditions have been satisfied.

In determining the proportion of an award which vests the Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

If a participant ceases to be an employee of the Group for any other reason, his option will normally lapse unless and to the extent the Committee decides otherwise.

Vested options must be exercised within the period of 12 months (or 40 days in the case of Qualifying Options) of cessation of employment and will lapse if not exercised within this period.

Change of control
In the event of a takeover, reconstruction or winding up of the Company, a proportion of an option may vest and become exercisable depending on the time which has elapsed between the grant of that option and the change of control and the extent to which performance conditions have been satisfied at that date. Again, in determining the proportion of an award which vests, the Committee may take into account such other factors, including the performance of the Company and the conduct of the participant as it deems relevant.

The Committee will determine the period of time following the change of control within which participants shall exercise all vested options and such options will lapse if not exercised within this period.

Alternatively, options may (or, if the Committee so determines, shall) be exchanged for new equivalent options where appropriate. In this case any performance conditions will continue unless the Committee determines otherwise. It should be noted that options will only vest on a reconstruction or amalgamation of the Company in circumstances where the reconstruction or amalgamation amounts to a proper change in the control of the Company and there is new ownership of the Company.

In the event of a merger or demerger of the Company the Committee may determine that options may vest provided that the aforementioned change of control provisions are applied and the transaction amounts to a proper change in the control of the Company. Alternatively, the number of shares subject to an option, or the exercise price of the option may be adjusted, as the Committee shall determine and the auditors of the Company confirm to be fair and reasonable.

Rights attaching to shares

Shares allotted or transferred under the Option Plan will rank equally with all other ordinary shares of the Company for the time being in issue (except for rights attaching to such shares by reference to a record date prior to the exercise of the option). The Company will apply for the listing of any new shares allotted under the Option Plan.

For options granted under the Unapproved Part only, the Committee may also satisfy options in cash provided the participant receives the same economic value as would have been provided by an option over shares. Alternatively, the Committee may determine that instead of paying the exercise price, an exercise of an option is satisfied by the number of shares representing the growth in value of a share between the exercise price and the market value of a share at exercise.

Variation of Capital

In the event of any variation of share capital, demerger or other corporate event the Committee may make such adjustments as they consider appropriate to the number of shares subject to options and the price payable on the exercise of options.

In the case of Qualifying Options, such adjustments will only be made to the extent permitted by Chapter 9, Part 7 and Schedule 5 ITEPA 2003 and to the extent that options will remain to be Qualifying Options.

Alterations to the Option Plan

The Option Plan may at any time be altered by the Board in any respect. However, any alterations to the advantage of participants to the rules governing eligibility, limits on participation and the number of new shares available under the Plan, terms of exercise and adjustment of options must be approved in advance by shareholders in general meeting unless the alteration or addition is minor in nature and made to benefit the administration of the Option Plan, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Group companies.

Overseas Employees

The Committee may add to, vary or amend the rules of the Unapproved Part of the Option Plan so that it may operate to take account of local legislative and regulatory requirements and may grant options to overseas employees on different terms so as to take account of relevant overseas tax, securities or exchange control laws, provided that the options are not overall more favourable than the terms of options granted to other employees.