Irish Association of Investment Managers
(“IAIM”)

Corporate Governance, Share Option
and other
Incentive Scheme Guidelines

4 March 1999

Introduction

1. Corporate Governance

The Combined Code combines the recommendations of the Cadbury, Greenbury and Hampel Committees on Corporate Governance and proposes Principles of Good Governance and a related Code of Best Practice for listed companies.

The IAIM endorses the Combined Code in its entirety, subject only to reserving its position in relation to the adoption of future amendments to the Code.

The IAIM's endorsement of the Code extends to its requirements regarding disclosure of directors' remuneration, the area of single greatest difference between the corporate governance regimes of Ireland and the UK. It is the IAIM's strong view that, given the increased globalisation of capital markets, trends towards greater accountability and transparency and the need to ensure the optimum attractiveness of Irish stocks in a Euro environment, current disclosure practice in this area is unsustainable. The IAIM recommends that the Combined Code's requirements regarding disclosure of directors remuneration be adopted in their entirety and that the Irish Stock Exchange should amend its Listing Rules accordingly.

2. Share Option & Other Incentive Scheme Guidelines

The IAIM recognises the benefits of share option and other incentive schemes in aligning the interests of participants in such schemes with those of shareholders and in focusing attention on long term growth in shareholder value.

In these revised Guidelines, which have been prepared following a period of consultation with listed companies, the IAIM has placed particular emphasis on the trend towards wider and deeper share ownership. This not only fosters increased employee commitment but also has been shown to enhance corporate performance and shareholder value.

3. Responsibilities of Institutional Shareholders

The fundamental responsibility for initiating, operating and controlling share option and other incentive schemes lies with companies themselves. From an institutional shareholder's perspective such schemes involve making available some of the equity or profits of the company to employees/directors of the company, thus diluting the interests of shareholders (through equity or economic dilution) and, in the case of institutional shareholders, their clients (pension funds, policy holders, unit holders etc.)

In voting in favour of share option and other incentive schemes, institutional shareholders have a responsibility to ensure that in return, enhanced performance is achieved, giving an enhanced return to their clients. The extent of enhanced performance will vary with the level of equity or economic dilution involved in schemes.

These Guidelines are for the benefit of companies which have a listing on the Irish Stock Exchange and are intended to give guidance to them on the attitude likely to be adopted by investment managers when such schemes are presented for approval at meetings of shareholders. In this regard, companies may wish to indicate at general meetings that a particular proposal is in accordance with the Guidelines. It is important to stress that these are Guidelines and companies which have particular issues or concerns should feel free to contact the IAIM.

4. Future Review

The IAIM reserves its right to review and amend these Guidelines in the future. In particular, the non prescriptive approach adopted in certain areas (such as long term incentive schemes (LTIS's) and certain performance criteria) will be assessed with a view to identifying how improvements can be incorporated as required.

In particular the IAIM will consider reviewing the performance criteria outlined in Appendix 1 in the light of any significant change in the economic environment.

Share Option and Incentive Scheme Guidelines

1. Remuneration Committee

The Combined Code recommends that the boards of listed companies should establish a remuneration committee to make recommendations to the board in relation to policy on the remuneration of executive directors and that the membership of this committee should be made up wholly of independent non-executive directors. This committee should ensure that the Guidelines set out hereunder are complied with.

This committee should take responsibility for the framing and explanation of company share option and other long term incentive schemes (LTIS's) and is expected to :

(i) select appropriate performance measures having regard to the Measurement Principles set out in 2 below and Appendix 1;

(ii) satisfy itself that the relevant performance measures have been fully met on a consistent basis prior to the exercise of options or other LTIS's;

(iii) ensure that options and other LTIS's are only exercised where the company has enjoyed real long term sustained performance improvement.

2. Measurement Principles

All share option and other LTIS's should require the satisfaction of measurement criteria which are based on sustained and significant improvement in the underlying financial performance of the company and which meet all of the following four performance criteria principles :

(i) Approved by shareholders;
(ii) Financially underpinned;
(iii) Transparency;
(iv) Comparability.

Guidelines on performance criteria are set out in Appendix 1.

3. Shareholder Approval

Shareholders must have the opportunity to vote on share option and LTIS's on initial scheme adoption, on the material amendment of such schemes and on any changes to performance criteria.

4. Disclosure

Information on share option schemes should be disclosed so as to comply with the requirements of the Appendix to Abstract 10 of the Urgent Issues Task Force and its successors. In accordance with Schedule B of the Combined Code full information on LTIS's should be disclosed in the Annual Report.

Performance criteria should be disclosed when the scheme is first proposed and annually thereafter in the company's annual financial statements.

5. 10% Guideline

Over a period of 10 years no more than 10% of issued ordinary share capital, adjusted for scrip, bonus and rights issues, should be utilised for share option, LTIS's, PSS's and SAYE's of all kinds (See under Employee Wide Share Schemes on page 10 below and Guidelines 19 to 21 which outline conditions which, if satisfied, allow an additional 5% of issued share capital, as adjusted for scrip, bonus and rights issues, to be utilised for broadly based employee share schemes.) This limit includes the parent company's attributable share of any incentive schemes in subsidiary companies. LTIS's which entail the market purchase of shares (as opposed to the issue of new shares) must reflect the spirit of this 10% Guideline.

6. Basic Tier Share Option Schemes

No more than 5% of the issued ordinary share capital (as adjusted for scrip, bonus and rights issues), in any ten year rolling period should be issued or issuable under a basic tier scheme at the time participation is granted.

Guidelines on performance measures under which basic tier share options are exercisable are set out in Appendix 1.

A company with a market capitalisation of €130m (IR£102m) or less may issue up to 10% of its equity capital, adjusted for scrip, bonus and rights issues, in the basic tier share option scheme, provided that the market value of such capital does not exceed €13m(IR£10.2m) at the time of adoption of the scheme. Alternatively, they may adopt a 5% basic tier and a 5% second tier share option scheme.

7. Second Tier Share Option Schemes

Options may be granted, with shareholder approval, on up to an additional 5% of the ordinary share capital (subject to the 10% limit set out in Guideline 5 above), adjusted for scrip, bonus and rights issues, in any ten year rolling period under a second tier share option scheme, such options being exercisable only on the basis of exceptional performance.

Guidelines on performance measures which reflect the exceptional performance to which a second tier scheme relates are set out in Appendix 1.

8. Remuneration Limit

Share Option Schemes

(i) The market value at the grant date of the share capital over which options are granted to any director or employee should not exceed 4 times his/her total annual emoluments (total taxable earnings including bonuses and taxable benefits in kind) from the companies within a share option scheme.

(ii) In arriving at the limit of 4 times annual emoluments, the market value referred to above should be aggregated with the market value at the relevant grant dates of all other share capital over which options have been granted to the individual within the preceding 10 years under that or any other scheme.

(iii) Options with a value of up to a further 4 times annual remuneration may be granted under a second tier scheme with a similar aggregation as in (ii) above applying.

LTIS's

(iv) In the case of LTIS's the maximum permitted individual participation in any one year should be disclosed in the remuneration report as required by the Listing Rules of the Irish Stock Exchange and the Combined Code. Where such participation could be judged disproportionate when compared to that payable as annual basic salary or compared to the basic tier and second tier benchmarks the rationale for this should be explained to shareholders in sufficient detail to enable them form an opinion as to its justification.

9. Issue Price

The price at which options are issued to participants, or at which participants are given an option to subscribe, should not be less than the average price of the shares in question on the dealing day preceding the time when the participation is granted. This principle also applies to LTIS's. An exception to this principal applies in the case of SAYE schemes as provided for under Guideline 19.

Participation should normally be granted within a period of 42 days following the publication of the interim or final results of the grantor company.

10. Parent Company Capital

Options and rights over shares under other LTIS's should only be granted over the capital of the parent company except in the case of certain overseas subsidiaries where required by local legislation or in appropriate cases where at least 25% of the ordinary share capital of a subsidiary is listed and held outside the group.

11. Participation

Participation in share option and other LTIS's is open to Executive Directors and Employees who are required to devote substantially the whole of their time to the business of the grantor company or its subsidiaries.

Individuals may participate in both share option and other LTIS's at the same time provided the spirit of the Remuneration Limit set in Guideline 8 above is being complied with i.e. the combined market value of share options and other LTIS's granted over a rolling ten year period should not exceed the remuneration limits for share option schemes outline in Guideline 8 or should not be judged disproportionate when compared to that payable as annual basic salary.

Options should not be granted to employees of associate companies.

Non executive directors should not participate in any form of share option or other LTIS in order to avoid compromising their independent status.

Shares may be made available to non-executive directors in lieu of all or part of their normal fees and disclosed accordingly.

12. Life of Share Option Schemes and other LTIS's

Benefits arising from share option and other share based LTIS's should not be exercisable within 3 years from the date of grant or, in the case of second tier share option schemes or their equivalent under an LTIS, within 5 years from the date of grant.

Share options and benefits under other LTIS's should not be granted for more than 10 years and not later than 10 years from the date of the adoption of the scheme.

Only in exceptional circumstances should the remuneration committee grant options to an individual where the performance period extends beyond his/her retirement date. Share options and benefits under LTIS's should not be granted in the two years preceding the normal retirement age of the participants, either under their contract of employment or otherwise.

Where share options and benefits under other LTIS's are granted within 3 or 5 years (depending on the scheme tier) preceding the normal retirement age of the participants, either under their contract of employment or otherwise, there should be a measurement at the end of the performance period and reduction pro rata to the portion of the performance period for which the executive was employed subject to a two year minimum service period. In such cases entitlements must be exercised within twelve months of the date of retirement or as soon as practicable thereafter.

13. Flow Rate Controls

The remuneration committee is expected to ensure that the grant of options (or participation in the case of LTIS's) be phased over the lifetime of the scheme rather than be granted in large infrequent blocks. This is to ensure that schemes relate rewards to long-term performance and to ensure that participation is available to key employees in future years. Over a period of 3 years, no more than 3% of the equity should normally be appropriated for options or subscriptions out of profits under all schemes, in order to conserve the opportunity for other participants to be granted options in the future.

In the case of companies newly listed or proposing a share option or LTIS for the first time a limit of 1.5% of the ordinary share capital which can be appropriated for share option and other LTIS's shall apply.

14. Options not assignable

Given that options are designed to give incentives to individuals, they should be non assignable.

15. Cancellation of options

Share option and other LTIS's will not be acceptable to the IAIM if their rules provide that options or rights over shares may be cancelled or the option price may be reduced by agreement between the holder and the company.

Share options and other LTIS's may, following prior approval from the IAIM and shareholders, be cancelled in very **exceptional** circumstances.

16. Replacement options

Options may be granted to replace those already exercised in the following circumstances:

(i) The maximum level of outstanding options by reference to market value does not exceed 4 times annual emoluments.

(ii) The remuneration committee must, prior to granting options to replace those already exercised, be satisfied that there has been a sustained improvement in the performance of the company over the two to three years preceding the further grant. It is emphasised that this is a subjective test imposed on the grant, not the exercise, of replacement options. In addition, definitive performance criteria as a condition of exercise should be applied as for basic options under an executive scheme.

17. Exercise of options in particular circumstances

Options which are capable of being exercised should be exercised or lapse within 6 months of the termination of a participant's employment for any reason other than death or retirement (including retirement because of ill health or permanent incapacity, or as part of an agreed redundancy programme) of the participant.

Options which are capable of being exercised should be exercised or lapse following the expiry of 12 months from the date of retirement of a participant. In the case of death in service, the remuneration committee should use its discretion as to whether options are capable of exercise or not; in any event they should be exercised or lapse within 12 months of date of death.

Options which lapse following termination of employment, death or retirement can be made available to future participants at a new grant price.

In the event of a take-over of the grantor company, options may be exercised within 6 months of the offer being declared unconditional in all respects, lapse or be converted into options of the offeror company where that alternative is available.

18. Small Companies

In the case of companies with a market capitalisation of less than €130m (IR£102m) the 10% Guideline, Flow Rate Controls and limits on ESOP's may be set aside on a temporary basis, in consultation with the IAIM.

Employee Wide Share Schemes

In acknowledging a trend to wider share ownership it is emphasised that part or all of the 10% of issued ordinary share capital available under Guideline 5 is available for broadly based employee share schemes meeting the requirements set out in these Guidelines. In addition, over a period of 10 years a further amount of up to a total of 5% of issued ordinary share capital, (adjusted for scrip, bonus and rights issues) may, following approval by the IAIM, be used for broadly based employee share schemes of all kinds. The Guidelines governing the applicability of this principle are set out below under the headings of Profit Sharing Schemes, Save as You Earn Schemes and ESOP's.

19. Profit Sharing Schemes (PSS)

(i) Up to 1% of ordinary share capital can be issued under a PSS in any one year.

(ii) Up to 5% of profit before tax in any one year which is attributable (in the opinion of the directors) to the operation of the participating employees may be applied in the acquisition of a company's shares by subscription or purchase under a PSS.

(iii) The price at which shares are subscribed should be the average price of the shares on the dealing day prior to the appropriation of profits.

(iv) Appropriation of profits for PSS's shall be made once only by the directors after announcement of the final results for the trading period. The funds should be paid over to the trustees as soon as possible.

(v) Any monies received by the trustees should be used as soon as possible in the subscription or purchase of shares and appropriation to eligible individuals should occur as soon as possible thereafter.

(vi) The trustees should obtain the instructions of the individuals to whom shares have been appropriated and exercise voting rights accordingly.

(vii) Shares issued to employees under a PSS will not count towards the 10% limit outlined in Guideline 5 if employees are entitled to elect to receive cash, or shares to an equivalent value, under the PSS.

20. Save as You Earn Schemes ("SAYE schemes")

Options may be granted under an SAYE scheme at a price of not less than 75% of the average price of the shares in question on the dealing day preceding the time when the participation is granted.

Options granted under an SAYE scheme at not less than the average price of the shares on the dealing day prior to when participation is granted are not subject to the 10% Guideline and flow rate controls. Where options are granted under an SAYE scheme at less than the average price of the shares on the dealing day prior to when participation is granted an amount equivalent to the discount from the average price should be taken into account in calculating the 10% Guideline and flow rate controls.

The IAIM may review the Guidelines following the enactment of legislation to cater for SAYE schemes in the Republic of Ireland.

21. ESOP's

Employee share ownership plans ("ESOP's") which are taken up by all or substantially all employees, do not result in a dilution or transfer of shareholder value, meet the requirements of the 1997 Finance Act and are approved by shareholders and the IAIM are not subject to the 10% Guideline and the flow rate controls. The concept of transfer of shareholder value means a tangible benefit or agreement that will create additional value for existing shareholders to offset any dilution in their shareholding is provided for at the outset of the ESOP.

An ESOP or employee share ownership trust should not be used as an anti-takeover device.

23. Applicability

These revised Guidelines should apply to all publicly quoted companies on the Irish Stock Exchange, the Developing Companies Market and the Exploration Securities Market.

Appendix 1 : PERFORMANCE CRITERIA

The responsibility for setting performance criteria to be used as the basis on which share option and other long term LTIS's are exercisable is a matter for the remuneration committee. As set out in Schedule A to the Combined Code performance criteria should be stretching and designed to enhance the business. We recommend that the following measurement principles be applied in the establishment of performance criteria:

(i) Approved by shareholders -	Shareholders must be afforded the opportunity to approve the selected performance criteria or amendments thereto;
(ii) Financially underpinned -	Measurement criteria selected which are not directly drawn from the audited financial statements must be underpinned by financial measures presented in the audited financial statements e.g. underlying and sustained EPS growth;
(iii) Transparency -	Performance criteria must be clearly explained on the scheme's adoption and thereafter in the annual financial statements;
(iv) Comparability -	Performance measures must be framed so as to allow for clear comparability between companies.

1 Share Option Schemes

The performance criterion recommended as the most appropriate measure of performance for most companies has, heretofore, been earnings per share (EPS). This measure has the advantages of being easily calculated and understood as well as clearly meeting the financial underpinning, transparency and comparability measurement principles. Furthermore, EPS is still regarded as the primary measure of a company's financial performance.

However, a number of other measurement criteria have emerged internationally since the last review of the IAIM guidelines in 1994. These include total shareholder return, or TSR (share price performance plus gross dividend per share) and economic value managed (EVM, also referred to as Shareholder Value Added). Different criteria have different strengths and weaknesses and it is clear that there is no one ideal measure of performance that is appropriate in all circumstances.

In addressing this issue the IAIM wishes to reflect these developments in the interests of ensuring that measurement criteria are closely linked to evolving best practice in the area of how long term underlying financial improvement is best measured. Furthermore, it is the intention of the IAIM that the incorporation of emerging measures can be aligned to more challenging performance criteria than the EPS measures typically applied in the case of basic tier schemes.

Against this background the following guidelines are presented to indicate the approaches considered acceptable in this area :

EPS

EPS is likely to remain as the primary measure of performance for most companies. In a basic tier scheme options granted under an EPS formula should normally be exercisable only if there has been sustained growth in normalised EPS over a 3 year period following date of grant of at least CPI plus X% compound per annum.

The appropriate level of X in the above formula should reflect a sufficiently demanding hurdle that ensures that relatively poor or moderate performance is not rewarded through share option schemes. In the low inflation environment that we have experienced in recent years it is questionable if EPS growth of CPI (averaging c2%) plus 2% giving a total compound return hurdle rate of 4% is adequately demanding. Indeed, such a level of return falls far short of an investors own cost of funds. Accordingly, it is recommended that the minimum level of X should be increased to 5.

In the case of second tier schemes the remuneration committee should devise a measurement proposal reflecting exceptional performance by the Company and which links exercise to a combination of :

(i) CPI plus 10% compound per annum; <u>and</u>
(ii) growth of the performance criterion selected (EPS, TSR or Comparative Share Price) so as to place the Company in the upper quartile as compared to the total market or another appropriate publicly available sectoral or market figure or pre agreed peer group (which does not have to be confined to Ireland).

Comparative Measures

Comparative measures of outperformance may be appropriate where measured against: (i) the median; or (ii) the weighted average of a predefined index or pre-agreed peer group in the case of basic tier options or the achievement of top quartile performance in the case of second tier options.

Where the relevant peer group is a selection of comparable companies as opposed to an index such as the ISEQ or FTSE 100 the IAIM must be consulted in advance to agree its reasonableness as a basis for comparison.

Appropriate comparative measures are as follows :

(i) *EPS*
Outperformance of the median or weighted average rate of increase in normalised earnings of a pre defined and disclosed peer group.

(ii) *TSR*
Where used this should be based on exceeding the relevant benchmark within a predefined and disclosed peer group but, as this formula relies substantially on a measure outside the immediate control of the company, this measure must be supported by a secondary criterion providing a financial underpinning and linking the TSR measure to an underlying and sustained improvement in financial performance e.g. a TSR measure being underpinned by a minimum level of EPS growth.

The share price achieved should be averaged over the period to eradicate the influence of short term market influence.

(iii) *Comparative Share price (CSP)*
Where used this should be based on exceeding the relevant benchmark within a predefined and disclosed peer group but, as this formula again relies substantially on a measure outside the immediate control of the company, this measure (as for TSR) must be supported by a secondary criterion providing a financial underpinning and linking the comparative share price measure to an underlying and sustained improvement in financial performance e.g. a Comparative Share Price measure being underpinned by a minimum level of EPS growth.

The share price achieved should be averaged over the period to eradicate the influence of short term market influence.

Other Measures

Other measures may be used, up to 33 1/3 % of the outperformance package, to facilitate rewards based on individual or divisional performance. The performance criteria and calculation of same used in such packages should be disclosed in the annual report to meet the transparency criterion set out above.

Where other measures are incorporated as part of a performance measurement package this disclosure must confirm the remuneration committee's opinion that the performance measurement package is at least as demanding as the minimum EPS criterion of CPI plus 5% compound in the case of basic tier schemes and in the case of second tier schemes that the performance measurement package is at least as demanding as the EPS criterion of CPI plus 10% compound. These disclosures should be part of the audited financial statements.

2 Other Long Term Incentive Schemes

Though long term incentive schemes do not necessarily fall into the basic tier and second tier categories of share option schemes the general performance criteria principles outlined above apply. In particular:

(i) performance criteria should reflect the company's performance relative to an appropriate index or predefined and disclosed peer group;

(ii) reward should be related to company performance relative to the index or peer group, in the range of median or average performance to top quartile performance;

(iii) the performance measures adopted should be drawn from those outlined as appropriate for share option schemes. i.e. TSR, CSP and EPS.