

## Aero Inventory plc

*e-based procurement  
& inventory management  
solutions for the  
aerospace industry*

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This document is important and requires your immediate attention. If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all of your shares in Aero Inventory plc, please forward this document, together with the accompanying documents, as soon as possible to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

## To Aero Inventory plc Shareholders

**15 November 2007**

Dear Shareholder

### **Aero Inventory plc Long Term Incentive Plan - Extraordinary General Meeting**

I am writing to set out details of the proposed Aero Inventory plc Long Term Incentive Plan (the "Plan") and to give notice of an Extraordinary General Meeting of Aero Inventory plc (the "Company") to consider these proposals. The meeting will take place at the offices of Taylor Wessing LLP, Carmelite, 50 Victoria Embankment Blackfriars, London EC4Y 0DX on 3 December 2007 at 11 a.m. The formal notice of the Extraordinary General Meeting is set out after this letter.

The Plan has been developed to provide a substantial incentive to the Company's management team to maximise the exceptional growth opportunity that the Company's business model has created. If approved by shareholders, it will provide executive directors and other key members of management with substantial rewards if the Company's share price reaches 1500p at the end of three years. This compares with a current share price of 691.50p and an average over the 12 months to the end of October of 428p (Source: Datastream). No reward will be earned if the target is not achieved.

The rewards to be provided by the Plan will be delivered through the grant of performance based share options over 10% of the Company's issued share capital at the date the Plan is approved by shareholders. Successful achievement of the Plan's performance condition will result in the issue of 4,739,857 ordinary shares at their nominal value to Plan participants. Based on the current share price, if the target is achieved the increase in market capitalisation of the Company would be approximately £383m and the participants in the Plan would receive approximately £71m.



The Company and the Remuneration Committee believe that this arrangement is an appropriate one given the Company's market position and opportunities and its desire to provide significant growth for shareholders. A performance condition based on absolute share price is thought to be the best, and most transparent, way of aligning the interests of shareholders and management, and shareholders will only suffer a cost in the form of dilution after, and contingent on, significant value having first been delivered to them.

The Company will bear the cost of employer national insurance contributions when the Plan shares are acquired. There will also be an accounting expense incurred during the life of the Plan, estimated to be in the region of £1m – £3m (depending, *inter alia*, upon the share price on the date options are granted under the Plan).

The purpose of the meeting is to consider resolutions to approve the Plan and to authorise the directors to implement it. The details of the Plan are set out in the Appendix to this document.

### **Recommendation**

The directors of the Company consider that adoption of the Plan at the Extraordinary General Meeting is in the best interests of the Company and its members as a whole and is most likely to promote the success of the Company. The directors unanimously recommend that you vote in favour of the proposed resolutions as they intend to do in respect of their own beneficial holdings.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Nigel McCorkell'.

Nigel McCorkell

Chairman



## **NOTICE OF EXTRAORDINARY GENERAL MEETING**

**Notice is hereby given that an extraordinary general meeting of Aero Inventory plc (the “Company”) will be held at the offices of Taylor Wessing LLP, Carmelite, 50 Victoria Embankment, Blackfriars, London EC4Y 0DX on 3 December 2007 at 11 a.m. for the following purpose.**

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions.

### **ORDINARY RESOLUTIONS**

1. That the principal terms and conditions of the Aero Inventory plc Long Term Incentive Plan (the “Plan”) as set out in the Appendix to this notice be approved, that the directors of the Company be authorised to finalise the rules of the Plan in accordance with such terms and conditions and carry out all acts as necessary to establish the Plan.
2. That subject to the passing of resolution 1 above and in addition to any existing authorities, in accordance with section 80 of the Companies Act 1985 (the “Act”) the directors be and are hereby generally and unconditionally authorised to grant options to subscribe for shares in the Company and to exercise all powers of the Company to allot relevant securities pursuant to the grant of options under the Plan adopted or operated by the Company up to a maximum aggregate nominal value of £59,248.22 and that this authority shall (unless previously renewed, varied or revoked by the Company in a general meeting) expire on the earlier of the conclusion of the next annual general meeting of the Company following the passing of this resolution and the date 15 months after the date of passing of such resolution. The said power shall allow and enable the directors to make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

By order of the board

**Martin Webster**  
*Company Secretary*

**REGISTERED OFFICE**  
30 Lancaster Road  
New Barnet  
Hertfordshire EN4 8AP

15 November 2007



## Appendix

### Long Term Incentive Plan

Aero Inventory plc ("**the Company**") intends to implement a new long term incentive plan ("**the Plan**").

The purpose of the Plan is to provide incentives to executive directors and selected senior management ("**the Participants**"). In the event that a demanding target is achieved, the Participants will participate in the growth they have helped deliver to shareholders. The incentive will take the form of a vested entitlement to acquire newly issued ordinary shares at nominal value following the end of a three year period. The executive directors will not participate in any further share-based incentive arrangements operated by the Company during the period covered by the Plan and as a condition of participation will be subject to a minimum shareholding requirement.

### Main provisions of the Plan

#### **Plan Period and Grant of Options**

The Remuneration Committee ("**the Committee**") may grant options ("**Options**") to eligible employees in any non-prohibited period following the adoption of the Plan by shareholders in general meeting ("**Plan Inception**") until the conclusion of the period over which performance is measured ("**Plan Period**"). No Options may be granted after the end of the Plan Period.

The Company intends to make a one-off grant of Options to executive directors under the Plan in 2007 as soon as practicable following the extraordinary general meeting. Further Options for executive directors will only be granted in exceptional circumstances if new members of the senior management team join the board before performance is measured under the Plan.

Options will state the number of Company shares which the Participant shall be conditionally entitled to acquire and will have an exercise price per share equal to nominal value.

#### **Eligibility**

Any employee (including an executive director) of the Company or any of its subsidiaries (together "**the Group**") will be eligible to participate in the Plan at the discretion of the Committee.

It is currently anticipated that participants in the Plan will be divided into two tiers. Tier one will comprise the Company's current executive directors (and potentially new hires into this population) and tier two will comprise other selected employees who are fundamental to the future of the business. Of the total number of shares available under the Plan, 80% will be allocated to tier one and 20% to tier two. The Chief Executive will make recommendations to the Committee as to the participants for tier 2.

Any Options granted to new Participants would be pro-rated to reflect the period during which they have been employed with the Group. For the purpose of any pro-ration calculation required under the Plan (including those on cessation of employment and corporate events) the Plan Period shall be taken as ending on 30 November 2010.



### **Plan limits**

The maximum number of ordinary shares that may be subject to Options is capped at a number equivalent to 10% of the issued share capital of the Company at Plan Inception. Successful achievement of the Plan's performance condition will result in the issue of 4,739,857 shares of 1.25p each ("**the Plan Shares**") to Participants in satisfaction of their Options. In terms of the management of the Company's share-based incentive arrangements, shares under the Plan will not be counted against the 10% for existing arrangements previously agreed with shareholders.

### **Individual limits**

There are no express limits on the size of Options which may be granted to Participants, provided that the Plan limits are adhered to. However, in granting Options the Committee will consider the need to provide incentives to senior management in the context of the appropriate levels of overall remuneration.

### **Minimum shareholding requirement**

As a condition of participation in the Plan, tier one Participants shall invest 50% of all net cash bonuses paid in calendar years 2008 and 2009 into Company shares, purchased at market value. These shares will be restricted such that the Participant cannot dispose of them during the lifetime of the Plan and if such a condition is not met in any year to the satisfaction of the Committee the related Options would lapse. These shares are not, however, subject to forfeiture, and these restrictions would, in any event, fall away at the end of the Plan Period (or cessation of employment if earlier).

The Company's annual bonus plan is based on a combination of stretching corporate and individual performance targets, and potential payments are subject to a cap of 100% of base salary (150% for the Chief Executive).

### **Performance condition**

Options will vest and become exercisable if the performance condition set out below is met ("**the Performance Condition**"). The Performance Condition will be an absolute share price target which is satisfied if during the Performance Measurement Period (as defined below) if it reaches 1500p per share at the close of any business day as recorded by the London Stock Exchange.

The Performance Measurement Period begins on the date of announcement of the Company's results for the financial year ending 30 June 2010 and ends seven days after the Company's 2010 Annual General Meeting ("AGM"). Typically, results are announced in the second week in September with the AGM following two months later. The duration of the Performance Measurement Period is therefore expected to be in the region of 60 days.

The Performance Condition is an "all or nothing" target. Subject to the provisions regarding a change of control, no vesting will occur if the Performance Condition is not fully satisfied, i.e., there will be no partial vesting of the Options for performance below the target level.

In the event of exceptional circumstances outside the Company's control which are considered to be unreasonably detrimental to Participants, the Committee may propose an adjustment to the Performance Condition applying to future or existing Options. Any proposal to change the material terms of the Plan would be subject to a separate vote by shareholders in general meeting.



### ***Vesting of Options and “lock-in” provisions***

If the Performance Condition is satisfied Options will become immediately exercisable provided the Participant is still employed in the Group. On payment of the exercise price, newly issued ordinary shares will be used to satisfy the Options, and exercise must take place within a period of three months after vesting (after which time they shall lapse). If the Performance Condition is not satisfied Options will lapse immediately.

Once an Option has been exercised and Plan Shares acquired by Participants one half of those Plan Shares will be unrestricted and can be immediately be sold or otherwise transferred. The other half will be subject to restrictions for a period of one year, during which time the Participant cannot sell the shares and will forfeit any right to them if they cease to be employed with the Group (although this may be waived by the Committee in exceptional circumstances, which may include the “Good Leaver” circumstances mentioned below).

### ***Leaving employment***

As a general rule, an Option will lapse upon a Participant leaving the employment of the Group. However, if a Participant leaves employment because of his death, disability, injury, ill-health or any other reason determined at the discretion of the remuneration committee (collectively “**Good Leavers**”) then Options will not automatically lapse, but continue until the end of the Plan Period. There shall be no accelerated vesting and the Performance Condition shall be tested at the end of the Plan Period as usual. If the Performance Condition is then satisfied, the number of Plan Shares which any such leaver may receive will be pro-rated to reflect the proportion of the Plan Period that had elapsed at the date of the cessation of employment.

### ***Lapse of Options***

Options under the Plan shall lapse on the earliest of:

- (i) three months after the date of vesting;
- (ii) the date on which the Committee makes a determination that the Performance Condition (or any other condition attaching to the Option) has not been satisfied;
- (iii) the date of cessation of employment or directorship (except in the case of a Good Leaver);
- (iv) in the event of a takeover, scheme of arrangement, voluntary winding up or a Good Leaver, the expiry of such period as the Committee determines prior to the date of the event; or
- (v) the bankruptcy of the Participant.



### **Corporate events**

In the event of a takeover, scheme of arrangement (not being an internal corporate reorganisation) or winding up of the Company all Options would vest early to the extent that the Performance Condition has, in the opinion of the Committee, been satisfied at that time. Before the Performance Condition is tested, the share price target would be pro-rated according to the proportion of the Plan Period which has elapsed at the date of the corporate event. For example, if the corporate event occurs half way through the Plan Period vesting would occur if the Company's share price had reached a point half way between its price at the Plan Inception and 1500p. The vesting of Options would be determined by reference to this pro-rated condition. If this pro-rated condition is met full vesting will apply immediately with no retention or lock-up condition.

If a demerger or other similar transaction is proposed which, in the opinion of the Committee, would substantially prejudice the interests of Participants, then the Committee may determine that Options will vest to the extent that the Performance Condition (pro-rated as above) has, in the opinion of the Committee, been satisfied at that time. In these circumstances the Committee shall specify whether and when Options shall lapse.

### **Adjustment of share capital**

In the event of any capitalisation, rights issue, consolidation, sub-division, special dividend, reduction or other variation of the share capital of the Company, the Committee may adjust the Options or Performance Condition (or both) to ensure that the value of the Option or the level of stretch in the Performance Condition is not materially affected by the relevant event. The reasonableness of any such adjustment shall be confirmed to the Committee by the Company's auditors acting as independent experts and the details disclosed to shareholders at the following AGM.

### **Rights attaching to Ordinary Shares**

Any ordinary shares allotted when an Option vests will rank equally with ordinary shares then in issue (except for rights arising by reference to a record date prior to their allotment). (It is anticipated that the record date for the 2010 final dividend would be prior to the date of allotment of shares arising from vesting Options under the Plan.)

### **Alterations to the Plan**

The Board may, at any time, amend the provisions of the Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are materially to the advantage of Participants, including, but not limited to those rules governing eligibility, limits on participation, the overall limits on the issue of ordinary shares or the transfer of ordinary shares held in treasury, the terms of vesting or exercise of Options, the rights attaching to the ordinary shares acquired and the adjustment of Options.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for Participants or for any company in the Group.

### **Plan documents**

The proposed rules of the Plan shall be available for inspection at the place of the extraordinary general meeting for at least 15 minutes before and during the meeting.



## Notes

1. Only holders of Ordinary Shares are entitled to attend and vote at this meeting. A member entitled to attend and vote at the meeting is entitled to appoint another person as his proxy to exercise all or any of his rights to attend and to speak and vote at the meeting and at any adjournment of it. Such a member may appoint more than one proxy in relation to the meeting, provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A member may only appoint a proxy using the procedures set out in these notes and the notes to the proxy form. A proxy need not be a member of the Company. Completion and return of a form of proxy will not preclude a member from attending and voting in person at the meeting or any adjournment of the meeting.
2. A form of proxy is provided with this notice and instructions for use are shown on the form. To be effective, the completed form of proxy must be deposited with the Company's registrars, Capita Registrars, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours before the time fixed for holding the meeting (or any adjournment of the meeting) together with, if appropriate, the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy of such power of authority.
3. A vote withheld option is provided on the form of proxy to enable you to instruct your proxy not to vote on any particular resolution, however, it should be noted that a vote withheld in this way is not a 'vote' in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
4. The Company, pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those shareholders registered in the register of members of the Company at 11 a.m. on 1 December 2007 shall be entitled to attend and vote at this extraordinary general meeting in respect of such number of shares registered in their name at that time. Changes to entries on the register of members after that time shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. Except as provided above, members who wish to communicate with the Company in relation to the meeting should do so via the Company Secretary at the Company's Registered Office at 30 Lancaster Road, New Barnet, Hertfordshire EN4 8AP, tel. 020 8447 3447, [martin.webster@aero-inventory.com](mailto:martin.webster@aero-inventory.com).