

PA CONSULTING GROUP LIMITED

## 2015 Carlyle Investment

# TAX INFORMATION – NORWAY

PREPARED: 6 November 2015

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This document is intended for people who held legacy PA Ordinary shares who were not directors, employees or linked shareholders (spouse/ trust etc.) of any member of the PA Group as of 1 August 2015 or who had given or received notice of termination of their employment prior to 1 August 2015.

This document summarises the information that PA has received from external lawyers and tax advisers in relation to the personal tax implications of the Carlyle Investment which completed on 11 December 2015 when all legacy PA shares were purchased in exchange for a mix of cash, Vendor Loan Notes and new equity.

The information contained herein assumes you are tax resident in Norway. Whilst every effort has been made to ensure the accuracy of the tax information provided, PA does not take any responsibility for personal tax obligations which remain with you the taxpayer and with your personal tax adviser if you have one.

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References in this document to the value of securities are to the value of such securities for the purposes of the Scheme of Arrangement implementing the proposed Carlyle investment only. The value for which such securities may be able to be disposed of may be different, and can fall as well as rise.

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## **ABBREVIATIONS**

<b>PACG</b>	PA Consulting Group Limited. This was the company in which legacy PA shares were held. It was renamed PA Consulting Holdings Limited on 11 December following the Carlyle investment.
<b>PACG Ordinary share</b>	The legacy Ordinary shares in PA Consulting Group Limited
<b>Investment</b>	The proposal from the Carlyle Group to purchase all issued PACG Ordinary shares through a UK court approved scheme of arrangement.
<b>Loan Note (VLN)</b>	This is your vendor (i.e. seller) loan to the new PA group.
<b>EBT</b>	The PA 2004 ESOP. This is PA's Jersey employee benefit trust which held the PACG Ordinary shares not currently held by employees.

## SUMMARY

The Investment was approved by legacy PACG Ordinary shareholders and the court, and became effective on 11 December 2015.

You can review your Personal communication (attached to the email set to you by PA's Share Plans team on 17 December 2015) of what your legacy share and/or share options delivered as a result of the Investment happening on 11 December.

1. [You paid Income Tax and National Insurance on the consideration gifted to you by PA's Employee Benefit Trust.](#)
2. [There was a tax charge on the new compensation you received at the date of the Investment.](#)
3. [Future tax charges on your Loan Note](#)

## 1. You paid Income Tax and National Insurance on the shares gifted to you by PA's Employee Benefit Trust.

Legacy PA shares which were not held directly by employees or covering share options and therefore could be regarded as 'excess' under a 100% employee ownership model, were held in an EBT. The EBT Trustees delivered the excess PA shares to you as share and option holders in the Nordics, by the EBT initially receiving the Carlyle Investment consideration (Cash and Loan Note). A recommendation was then made to the EBT in January 2016 to distribute the mix of consideration it received as follows:

- Cash distribution through payroll

You paid Income Tax and National Insurance through PA's January 2016 payroll on the cash distribution. The final tax you will pay will depend upon your marginal tax rate of up to 47.2% Income Tax plus National Insurance (rate quoted is for the 2015 year). This marginal tax rate includes tax on ordinary income (with a tax rate of currently 27%), and surtax when the income meets certain thresholds (a tax rate of 9% when exceeding the income threshold of NOK 550,500, and a tax rate of 12% when exceeding the threshold of NOK 885,600) and employees' National Insurance contributions at a rate of 8.2%). The ordinary Income Tax and the surtax is calculated on the basis of net income after deducting a personal allowance amount of NOK 50,400 for 2015, while the National Insurance contribution is calculated on the gross amount.

- Loan Note distribution

The EBT transferred, at no cost, Loan Note value into your name. You paid Income Tax and National Insurance through PA's January 2016 payroll on the value transferred. The final Income Tax you will pay will depend upon your marginal tax rate of up to 47.2% Income Tax plus National Insurance (rate quoted is for the 2015 year).

You can review your Personal communication (attached to the email set to you by PA's Share Plans team on 17 December 2015) of what your legacy share and/or share options delivered as a result of the Investment happening on 11 December.

### Example 1

You hold 400 PACG shares

Your EBT gift will be computed on 100 shares (approximately 1 for 4 held).

In January 2016 the EBT gifts you:

- Cash: £1,112 (£11.12 x 100)
- Loan Note: £1,277 (£12.77 x 100)

100 x £23.89 = £2,389 total value gifted

Payroll taxes on cash gift:

£1,112 x 47.2% tax = £524 estimated payroll taxes in January 2016 you will pay as a result of you receiving the cash gift.

Payroll taxes on Loan Note gift:

£1,277 x 47.2% tax = £602 estimated payroll taxes in January 2016 you will pay as a result of you receiving the Loan Note gift.

Note that as the consideration gifted to you by the EBT occurred after the Investment date in December 2015, this consideration is not taken into account in your Capital Gains tax calculations for 2015 year.

For reference, we investigated with external advisers and wrote a detailed submission to HMRC (the UK tax authority) requesting their agreement that the transfer of value from the EBT could be subject to capital gains tax treatment rather than Income tax. This was ultimately not agreed by HMRC who relied on complex provisions of UK tax law to deny such treatment to us.

## **2. There was a tax charge on the new compensation you received at the date of the Investment.**

Each legacy PACG Ordinary share you held (including those given to you by the EBT) was exchanged for the following consideration:

- £11.1234 Cash (value)
- £12.7700 Loan note (value)

Your Cash proceeds were delivered to you in Krone. The market rate on the date the Scheme became effective was applied to convert your Cash proceeds to Krone.

The Investment cannot be treated as a tax free share exchange as the Norwegian tax law only allows for this where the cash element in the transaction is less than 20% of the total consideration.

You will then, for tax purposes, be deemed to have sold all your PACG shares at the date of the Investment with an effective sale price of £23.89. The deemed sale means that you need to calculate how much gain in value you have made on all your PA shares held at the Investment date. You are required to report this gain on your 2015 tax return and, to avoid interest charges, you will have had to pay the taxes due on the gain by 31 May 2016.

You will of course receive part of your consideration from the Investment in Cash, which will provide some funding to cover the taxes payable in 2016.

An example of how you would calculate the gain at the date of the Investment that you needed to report is set out below.

### Example 1 continued

You have a pool of 400 PACG shares with an average base cost of £9.14. (Do not include any "2016 gift" from the EBT in this calculation.)

At the date of the Investment you will receive:

- £4,448 Cash (£11.12 initial value x 400 shares)
- £5,108 Loan Note (£12.77 initial value x 400 shares)

Your gain per share will be:

£23.89 total consideration

-£9.14 base cost

£14.75 gain per share

£14.75 x 400 = £5,900 total gain subject to capital gains tax.

You may recall that as a result of PA's Reorganisation in 2012, you paid tax on your PACG share gains to 7 December 2012. The base cost of your current PACG Ordinary share holding is then a weighted average of:

If you were a shareholder in December 2012, you may recall that as a result of PA's Reorganisation in 2012, you paid tax on your PACG share gains to 7 December 2012. The base cost of your current PACG Ordinary shareholding is then a weighted average of:

- £5.4512 on the shares you held at 7 December 2012
- The price you paid for any subsequent shares you have purchased since this date (either under PA's Bonus Share Purchase Plan or as Current Bonus as Shares)
- The market value of any options you have used since 7 December 2012 to buy PA shares.

The gain will be subject to the Ordinary income tax rate of 27%. An individual shareholder who holds shares by the end of the fiscal year is entitled to a tax free amount called "protection deduction" (skjermingsfradrag)

The "protection deduction" is calculated as a percentage of the cost price of the share. The percentage will be stipulated in January following the fiscal year. For reference, the percentage for 2014 is 0.9%.

If any dividend distribution you have received in the year is less than the "protection deduction", the unused "protection deduction" can be used against gains made on the sale of shares. Unused "protection deduction" from prior years may also be carried forward and used against gains made on the sale of shares.

Taxes related to any capital gain at the date of the Investment will be due to be paid by 30 May 2016. You are required to report the gain made as capital income on form RF-1059, and submit this along with your tax return.

### **3. Future tax charges on your Loan Note**

#### **Interest**

Interest is payable on your Loan Note amount each September at a fixed annual rate of 5% and also on the amount of any repayment of Loan Note at the time it is repaid.

Any interest payments made in respect of the Loan Note will be subject to UK withholding tax at basic rate, currently 20%, and reconciled to your home marginal rate of tax for the year through your tax return.

As an alternative, our [VLN interest tax guidance notes](#) provide information by country and set out how it may be possible for you to seek exemption from the UK withholding tax and how you can apply for a refund of any withholding tax we have paid to HMRC on this and future payments of interest.

#### **Capital repayment**

From the total £200 million total issued Vendor Loan Notes,

- £20 million was repaid on 31 March 2017
- £30 million was repaid on 15 December 2017

Together these payment equates to 25% of each holder's total Loan Note amount.

There will be no additional taxes due when the Loan Note is paid out as you would have already paid Capital Gains Tax in 2015 or Income Tax in 2016 up to the £12.77 Loan Note value.

Example 1 continued

On your 100 "2016 Gift"

In January 2016 the EBT gifted you:

- Loan Note: £1,277 (£12.77 x 100)

Income Tax on Loan Note gift:

£1,277 x 47.2% tax = £602 tax you paid in 2016

You paid Income Tax on the full £12.77 value in 2016.

When the Loan Note is paid out in the future at £12.77 there are no additional taxes to pay.

On your 400 PACG shares

At the date of the Investment you received:

- £5,108 Loan Note (£12.77 initial value x 400 shares)

You paid Capital Gains Tax on the £12.77 value received in 2015.

When the Loan Note is paid out in the future at £12.77 there are no additional taxes to pay.