

PA CONSULTING GROUP LIMITED

2015 Carlyle Investment TAX INFORMATION – US

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LAST UPDATED: 21 July 2020

This document provides guidance for:

- People who held legacy PA Ordinary shares who were directors, employees or linked shareholders (spouse/ trust etc.) of any member of the PA Group as of 1 August 2015 and who had not given or received notice of termination of their employment prior to 1 August 2015.
- People who held Options over legacy PA Ordinary shares who were employees of any member of the PA Group as of 1 August 2015 and who had not 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 employed and tax resident in the US. 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.

Disclaimers:

PA gives no undertaking to update this document. The issue of the document shall not be deemed to be any form of commitment on the part of PA to proceed with any Investment.

This communication is for information purposes only and is not intended to be, and is not, an offer or invitation to sell, or to purchase or subscribe, any shares or other securities.

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The information in this document in respect of taxation is general in nature. The information in this document has not, therefore, been tailored to your personal circumstances and the actual tax consequences for you may be different than as set out in this document. The information in this document applies in respect of an individual who is and has been resident and domiciled for tax purposes in the country to which this document applies (as stated in the title of this document) during the period from the first date on which any PA shares or share options were acquired until the final disposal of any securities referred to in this document. For the avoidance of doubt, if you decide to transfer your shares to any other person, or if any of your options lapse, the information in this document will not take account of this transfer or lapse. The information in this document is based on information provided to PA on the basis of tax laws in force at the time such information was provided to PA. PA has sought to ensure that the information in this document is accurate, but cannot be responsible for any inaccuracies.

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

PACG	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.
PACG Ordinary share	The legacy Ordinary shares in PA Consulting Group Limited
Investment	The proposal from the Carlyle Group to purchase all issued PACG Ordinary shares through a UK court approved scheme of arrangement.
Loan Note (VLN)	This is your vendor (i.e. seller) loan to the new PA group.
Preference shares	These are shares in the new PA group parent company issued to ongoing employees and option holders in the new PA group top company. They are 'stapled' to the B Ordinary shares held by PA people.
B Ordinary shares	The B shares in the new PA group parent company were also issued to ongoing employees. They are 'stapled' to the Preference shares. Together one B and 3.8543 (rounded) Preference shares are known as a 'Share Unit'.
EBT	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 sent 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, Social Security and Medicare on the shares gifted to you by PA's Employee Benefit Trust.](#)
2. [You had a special opportunity to use your share options before the Investment. You paid income tax on the option gains upon tax return filing.](#)
3. [Capital gains tax treatment applied to the new consideration you received on exchange of your legacy PA shareholding held for more than 12 months.](#)
4. [There was no tax charge on any Preference shares or B Ordinary shares you acquired at exchange.](#)
5. [PA Consulting Group Limited's entity classification changes in 2017 eliminates your future annual Schedule K-1 reporting obligation related to your holding on Preference shares, B Ordinary shares and C shares](#)
6. [Future tax charges upon sale of your Preference shares, B Ordinary shares and C Ordinary shares](#)
7. [Future tax charges on your Loan Note](#)
8. [What happens if you leave PA employment before a share realisation event](#)

1. You paid income tax, Social Security and Medicare 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 gave current and former employee shareholders one of its shares for every four PA shares and options (in your name or linked holding) you held. As you did not pay anything for these shares, you paid income tax and Social Security on the full value (£23.89) of each share gifted to you.

Example 1

You hold 400 PACG shares

100 (1 for 4 held) PACG shares are gifted to you by PA's EBT

100 x £23.89 Investment value per share = £2,389 total value gifted

Estimated payroll taxes cost you will pay as a result of you receiving the 100 shares = £2,389 x (25% federal plus 5.2% state (if MA resident) plus 6.2% Social Security and plus 1.45% Medicare) = £904.24

The gifted value was reported through payroll. Applicable payroll taxes on the gifted value were covered by the upfront cash proceeds due to you. The final income tax you paid on receiving share value from the EBT depended upon your marginal federal and state tax rates for the 2015 tax year.

As you paid income tax on the £23.89 value of each share given to you by the EBT, the £23.89 amount becomes the base cost of these new shares.

Note that the consideration mix you received for your gifted shares was the Scheme Class 1 mix of cash, vendor loan and new shares, the consideration for gifted shares in respect of existing options you converted into shares was Scheme Class 3 mix of cash and new shares only.

2. You had a special opportunity to use your share options before Investment. You paid income tax on the option gains upon tax return filing.

As a result of the Investment, you had a special opportunity to use all options you held.

If you held share options, the purchase cost you needed to pay to acquire legacy PACG Ordinary shares (which were then subject to the Investment) was deducted from the upfront Cash consideration due to you. In general, share option holders received sufficient Cash from the Investment to cover both the option purchase cost (for example £7.30 for options issued in March 2014) and also the taxes due on their option gain (for most legacy options, this will be Income tax on the £23.89 Investment per share value less option cost e.g. £7.30).

Tax charge on the option gains

The option gain, i.e., the spread between the share price and the exercise price x number of options used to acquire existing PACG shares, was reported as compensation in your 2015 W-2. This income is subject to income tax which you paid

when filing the return next year. Alternatively, you could make estimated tax payments to the Internal Revenue Service and applicable state tax authority.

The capital gain tax treatment did not apply here because at the Investment effective date when your PACG shares were exchanged for the new PA shares, you would not have held these PACG shares for more than one year from the date of exercise.

The upfront cash proceeds due to you was deducted to cover the share purchase cost. As there was a time gap between the exercise date and the settlement date, you may be subject to an imputed interest charge which is to be reported as taxable benefits in your 2015 W-2 if your share purchase cost plus any outstanding interest free loans at the time of exercise exceeds \$10,000.

An example of the calculation of the option tax charge is set out below.

Example 2

You request to use 100 share options at the share purchase cost of £2.07 each.

The option tax charge is calculated on notional income of new consideration less purchase cost. £23.89 less £2.07 = £21.82 per option

100 options x £21.82 = £2,182 total notional income

£2,182 will be reported as taxable compensation in your 2015 W-2. Payroll tax withholdings are not required. You can make estimated income tax payments to cover the taxes on this income or settle the tax due upon tax return filing.

Payment of the full share purchase cost (£207) is deducted from your cash proceeds.

At the date of the Investment you will receive:

- £1,688 Cash (£16.88 initial value x 100 options)
- £683 Preference shares (£6.83 initial value x 100 shares)
- £18 B Ordinary shares (£0.18 initial value x 100 shares)

Your net cash position at the date of the investment will be £1,481 (£1,688 cash less £207 option purchase cost). You will also hold £683 of Preference shares and £18 of B Ordinary shares.

3. Capital gains tax treatment will apply to the new consideration you received on exchange of your legacy PA shareholding held for more than 12 months.

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

- £9.581940 Cash (value)
- £7.301361 Loan Note (value)
- £6.832863 Preference share (initial value which were issued in £1.00 per share units)
- £0.177281 B Ordinary share (initial value which were issued in £0.10 per share units)

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

At the date of the Investment the following was triggered:

- a. the apportionment of your legacy PACG shares base cost between your cash, Loan Note and new PA shares; and
- b. a gain on the cash and Loan Note components of your consideration on which a tax liability may arise.

a. the apportionment of the base cost between your cash, Loan Note and new PA shares;

The apportioned base cost will be determined as follows.

(A) Consideration:	(B) Cash	(C) Loan Note	(D) Preference share	(E) B Ordinary share
£23.89 split to:	£9.57	£7.31	£6.83	£0.18
Existing base cost x	B/A	C/A	D/A	E/A
Assuming a hypothetical base cost of £7.98 per share being allocated as follows:	£3.19	£2.44	£2.28	£0.07

Important: You must calculate your base cost in your respective PACG shares before you can allocate this to the new consideration.

b. a gain on the cash and Loan Note components of your consideration on which a tax liability may arise.

The taxable gain on the cash and Loan Note consideration will then be:

Cash component:

(Cash consideration of £9.57 - the apportioned Base cost applicable to your Cash consideration) x the number of shares exchanged

Loan Note component:

(Loan Note consideration of £7.31- the apportioned Base cost applicable to your Loan Note consideration) x the number of shares exchanged

Example 1 continued

You have a pool of 500 PACG shares (which includes 100 shares gifted to you). Of these 500 PACG shares, 400 PACG shares have a base cost of £7.98 and the 100 gifted PACG shares have a base cost of £23.89.

At the date of the Investment you will receive:

- £4,785 Cash (£9.57 initial value x 500 shares)
- £3,655 Loan Note (£7.31 initial value x 500 shares)
- £3,415 Preference shares (£6.83 initial value x 500 shares)
- £90 B Ordinary shares (£0.18 initial value x 500 shares)

Your gain per share on your cash consideration will be:

400 PACG shares

£2,552 Gain = [£9.57 cash consideration per share - £3.19 apportioned base cost (i.e. £7.98 x (£9.57 / £23.89))] x 400 shares

100 gifted PACG shares

£0 Gain = [£9.57 cash consideration per share - £9.57 apportioned base cost (i.e. £23.89 x (£9.57 / £23.89))] x 100 shares

Total capital gain on Cash consideration = £2,552 + £0 = £2,552

Please note that the full £9.57 of cash consideration is taken into account when computing the gain even though you will repay any outstanding share purchase loans from the cash consideration value.

Your gain per share on your Loan Note consideration will be:

400 PACG shares

£1,948 Gain = [£7.31 Loan Note consideration per share - £2.44 apportioned base cost (i.e. £7.98 x (£7.31 / £23.89))] x 400 shares

100 gifted PACG shares

£0 Gain = [£7.31 Loan Note consideration per share - £7.31 apportioned base cost (i.e. £23.89 x (£7.31 / £23.89))] x 100 shares

Total capital gain on Loan Note consideration = £1,948 + £0 = £1,948

You were required to disclose in your tax return gains on your cash and Loan Note considerations, and pay taxes due by April 15, 2016.

Depending on the holding period of your legacy PACG shares, such gain may have been taxed at capital gain or ordinary income tax rate plus applicable state ordinary income tax rate. Generally speaking,

- If you purchased and kept legacy PACG shares in March or April 2015, through using share options in the dealing period, receiving your current bonus in PACG shares or through shares granted under the bonus share purchase plan, these shares will have been held for less than 12 months in December 2015. Gains related to these shares will have been taxed at

ordinary income tax rate at the Federal level plus applicable state ordinary income tax rate.

- Your legacy PACG shares acquired prior to 2015 will have had a holding period of more than 12 months by the Investment effective date in December 2015. Gains related to these shares will have been taxed at capital gain tax rate at the Federal level plus applicable state ordinary income tax rate.

A 3.8% net investment income tax may have applied if your modified adjusted gross income for the year was above certain threshold.

With respect to the timing triggering a tax charge on the Loan Note, we discussed the instalment method (i.e., taxable in the year when the Loan Note is paid out to you instead of the year when the Investment takes place) with US advisers but their view was this may be disallowed based on the proposed corporate structure. Reporting share gains is however a personal matter for you which you may want to consider further with your own tax adviser.

4. There was no tax charge on any Preference shares or B Ordinary shares you acquired at exchange.

No tax charge arose on the exchange of legacy PACG shares for Preference shares and B Ordinary shares and you did not need to report the exchange of shares on your 2015 tax return. These Share Units form part of your contribution to the US tax partnership of which you became a member on 11 December 2015 and are then at the point of sale expected to be taxed as capital gain.

For additional comfort to preserve the capital gain tax treatment upon sale in the future, you should consider filing with the Internal Revenue Service a Section 83(b) election statement within 30 days after the Investment date. You should also consider for additional comfort filing Section 83(b) elections for any future PA share acquisitions.

5. PA Consulting Group Limited's entity classification changes in 2017 eliminates your future annual Schedule K-1 reporting obligation related to your holding on Preference shares, B Ordinary shares and C shares – you will be deemed to be a shareholder of a foreign corporation for US tax purposes from 1 January 2017 going forward. (US shareholders were considered as members of a partnership during the period of 11 December 2015 to 31 December 2016)

PA Consulting Group Limited (“the Company”) has filed an entity classification change election with US Internal Revenue Service to convert the entity from a partnership to a corporation for US tax purposes. Consequently, we expect the Company to be considered as a corporation for US tax purposes effective from January 1, 2017. This means the following to you:

- ✓ 2016 tax year is the final year that you receive a Schedule K-1 from the Company.
- ✓ You will no longer be taxed on your allocable share of the Company's income and deductions.
- ✓ You are a “shareholder” of the Company for US tax purposes from January 1, 2017 and onwards.

Going forward you will hold your PA shares as an individual and your base cost to deduct from your sale proceeds when you sell the Company's shares in the future will be as follows:

For share units / C shares acquired	Find your tax basis information in
Prior to January 01, 2017	In a footnote titled "Final Year Return" to your 2016 Schedule K-1.
January 01, 2017 and onwards	.Your PA share and VLN history. (or email shareplans@paconsulting.com if you are a former employee)

6. Future tax charges upon sale of your Preference shares, B Ordinary shares and C shares

At the point your Preference shares and B Ordinary shares 'Share Units' or C shares are sold, (either by you as a current employee following a 'matched market' being operated in Share Units, or on a share realisation event, such as a controlling interest of PA being acquired by a new investor into PA), any gain made is subject to tax. We expect the gain to be taxed as:

Share Units:

At capital gain tax rate plus applicable state ordinary income tax rate if you hold the shares for more than 12 months before the sale. Ordinary income tax rate plus applicable state ordinary income tax rate apply for a holding period of up to 12 months.

The gain you will make which is assessable to tax is the difference between your proceeds on sale, and the tax basis of your sold share units/shares (or interest in the partnership if the sale occurred during 2016).

You will need to report the sale transaction on your return, and if any taxes are due, pay them by April 15 following the tax year end in which the sale occurs. A 3.8% net investment income tax may apply if your modified adjusted gross income for the year is above certain threshold.

For those who sold any share units during 2016 calendar year, you can find your 2016 PA share unit transactions [here](#). In addition, you can find the basis information in the supporting details to your 2016 K-1. The tax characteristic of the capital gain / (loss) (i.e. long term vs. short term) is dependent upon how long you held these share units prior to the sale. You will need to find out the purchase date(s) of the legacy PA shares you owned as of the December 11, 2015 share exchange transaction to determine your holding period of these share units. For a copy of your legacy PA share history, please contact shareplans@paconsulting.com.

C Ordinary shares (held by Partners)

At capital gain tax rate plus applicable state ordinary income tax rate for C shares purchased in 2016 year.

At capital gain tax rate plus applicable state ordinary income tax rate for C shares purchased in 2017, 2018 or 2019 where you have filed a section 83(b) election statement with the IRS within the required period and provided a copy to PA.

The gain you will make which is assessable to tax is the difference between your proceeds on sale, and the tax basis of your sold shares.

You will need to report the sale transaction on your return, and if any taxes are due, pay them by April 15 following the tax year end in which the sale occurs. A 3.8% net investment income tax may apply if your modified adjusted gross income for the year is above certain threshold.

Note that as there is no market in C shares and leaver conditions may apply for C shares to be sold at their original purchase cost in certain circumstances, the C shares have a 'substantial risk of forfeiture' for US tax purposes. As such, for C shares purchased in 2017, 2018 or 2019 where you have not made a section 83(b) election at purchase, the tax treatments at the Carlyle Group's Exit (or at sale if leaving prior to Exit) are as follows:

1. The difference between the share price immediately at Exit (or fixed at leaving PA if earlier) and the amount paid at purchase on the shares will be reported as compensation through payroll and subject to applicable payroll taxes.
2. Your tax basis in these shares is increased by the amount taxed as employment income
3. Report the exchange/sale of these shares with a NIL capital gain.

To mitigate taxation, US partners may have had the leaver provisions on C Ordinary shares removed in August 2020. Where this 'early vesting' applies, the shares were taxed as compensation income through payroll on their share price appreciation to date (the upside from £0.06 / £0.16 / £0.91 to vesting price.) Future price appreciation would be subject to capital gains taxation regime only. For share held > 12 months from vesting, long-terms gains tax rates would apply. For shares held up to 12 months from vesting, short-terms gains tax rates would apply, unless the shares were exchanged in a tax-free exchange for shares in a new investment held for more than 12 months from the date of exchange.

7. Future tax charges on your Loan Note

Interest

Interest was 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 taxed at the ordinary income tax rate. You will need to report the amount as interest income on your tax return. Note that a 3.8% net investment income tax may apply if your modified adjusted gross income for the year is above certain threshold.

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
- £30 million was repaid on 28 September 2018
- £40 million was repaid on 11 April 2019
- £40 million was repaid on 28 June 2019
- £40 million was repaid on 6 December 2019

Together these payments equate to 100% of each holder's total Loan Note amount.

If you as we expect followed our tax guidance in December 2015, you will already have paid all taxes due on the Vendor Loan Note capital amounts and will not then suffer any further tax charge on the repayments.

8. What happens if you leave PA employment before a share realisation event

Once you give or are given notice to leave PA's employment you are no longer able to offer your Share Units or C Ordinary shares for sale, but instead that right has passed to the Company and this is operated using a 'Call Option' placed over your Share Units.

The following steps then take place in connection with your Share Units:

- a) Your leaver status for shares is determined by PA's Succession and Compensation Committee. The leaver section of our [Guide to PA shares](#) provide detail on leaver status.
- b) The Call option price for your shares is set (separate rules apply to Share Units and to C Ordinary shares).
- c) Your Share Units will be sold either at the call option price in order to satisfy employee demand, typically in a share market each April, or sold at lower of the call option price and price offered (to all shareholders) by a third-party buyer of PA.
- d) You C shares will be sold in order to satisfy new partner demand or purchased by the EBT or by a new investor in PA.
- e) You will be paid out your sale proceeds in accordance with PA's articles.

Until your shares have been sold there is no gain to consider for tax purposes. Having a 'Call Option' placed over your Share Units does not trigger any tax reporting or liability.

For Normal and Competing leavers the sale proceeds will become payable on the earlier of:

- i) A share realisation event (when Carlyle exit from PA); and
- ii) 10 December 2023.

For Exceptional and Staged Value exceptional leavers the sale proceeds will become payable as follows:

- i) 50% on 10 December 2017 (or any later Share Unit sale date)
- ii) The balance on the earlier of a share realisation event and 10 December 2023.

For tax reporting purposes the point that taxes are assessed is the date of sale rather than the date of payment. There is however instalment method which allows for the payment of tax to be deferred until the sale proceeds are received by completing Form 6252 – Instalment Sale of Income. Please consult with your tax advisor if you have further questions.

END OF NOTES.