

CAPITA

Long Term Incentive Plan (LTIP)



General Features

Under an **LTIP** participants are typically provided with free shares after a period of time (usually a minimum of three years) subject to certain conditions such as remaining in employment throughout the period and the company meeting certain performance conditions. The shares that are to be provided to participants will be held in trust and notionally allocated to participants. If the conditions attaching to the awards are met, the trustees release or transfer the shares to the participants.

Eligibility

All employees and full-time directors are usually potentially eligible. However, participation will be at the discretion of the directors or the remuneration committee and the plan is often used to provide benefits to senior management.

Performance Targets

As mentioned previously, a perceived advantage of an LTIP is that performance targets (which must be satisfied prior to the release of shares) can be tailored to the company establishing the plan.

A popular performance measure is total shareholder return or "TSR". This measures a company's increase in share price and the dividends provided to shareholders over the relevant period and then compares that return to the TSR of a comparator group of companies, e.g. FTSE 100 or FTSE 250 or perhaps a sector

encompassing the company's competitors. The position of the company in the comparator group then determines the percentage of shares under the award that is transferred to the participant.

Limits

Shareholder approval is required for a listed company before they can set up the plan. As with option plans, institutional investors are concerned to ensure that their interest is not diluted excessively by awards under an LTIP. Accordingly, the plan limits (e.g. not more than 10% of share capital in 10 years being used for all plans) will apply. Typically these limits will only count shares that are issued to participants (unlikely in the context of an LTIP) or are subscribed by the trustees. The limits do not count shares that are purchased on the market by trustees since the interests of existing shareholders are not diluted.

Cessation of Employment

As the intention of most LTIPs is to encourage the executive to stay with the company then it would normally be set in the rules of the plan that if the employee left voluntarily then his entitlement to the shares may be forfeited.

However, if an employee leaves due to special circumstances (for example leaving due to redundancy, injury or disability) then they would normally be eligible to take the shares vested to them. In the event of death of the employee, the personal representative(s) would normally be eligible to take the shares vested.



Taxation

LTIPs are not drawn up to with the view to gaining tax relief.

Income Tax and National Insurance arises at the point the executive acquires the shares and therefore if needed they are able to sell sufficient shares to cover the tax due.

Dividends

Although dividends would not normally be paid, the number of options or shares which vest could be uplifted to the value of dividends that would have been paid since grant.

Benefits Associated in Operating a LTIP

Employer:

The whole essence of an LTIP is that it is flexible and should be designed to meet the needs of the company and its employees. A corporate tax deduction is available on the receipt of shares by participants.

Employees:

As opposed to a CSOP or Unapproved Share Option the executive benefits from the full value of the shares, not merely the growth in value of the shares over the option period.

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