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Thales S.A.

Inland Revenue Approved Share Incentive Plan

UK tax treatment for participants

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Elements of Plan with potential tax benefits

- Contributions to buy Partnership Shares
- Partnership Shares
- Matching Shares
- Dividend Shares

Potential tax benefits

- Income Tax
- National Insurance Contributions (NICs)
- Capital Gains Tax
- Favourable tax treatment for “special reasons” leavers

Contributions to buy Partnership Shares

- Pre-income tax and NICs salary
- Maximum £1,500 or 10% of salary for current tax year (whichever is lower)
- Minimum £10

Partnership Shares

- Partnership Shares can be withdrawn from trust at any time (but with a potential tax cost if cease to be subject to Plan before **year 5**)
- Partnership Shares will cease to be held in trust either if they are withdrawn by participant or participant ceases to be a Thales employee
- If held in trust for **5 years** free of income tax and NICs
- If shares cease to be subject to the Plan **before 3 years** income tax and NICs are payable on their market value at release date
- If held in trust for **at least 3 years** income tax and NICs payable on lower of amount originally paid for the shares and their market value at release date
- Any income tax and NICs will be deducted at source under PAYE

Matching Shares

- One free Matching Share for every six Partnership Shares acquired
- No income tax or NICs on award
- Matching Shares are subject to a holding period of 3 years

Matching Shares (continued)

- If held in trust for **5 years** free of income tax and NICs
- If shares cease to be subject to the Plan **before 3 years** income tax and NICs are payable on their market value at release date
- If held in trust for **at least 3 years** income tax and NICs payable on lower of market value of shares when awarded and their market value at release date
- Any income tax and NICs will be deducted at source under PAYE

Dividend Shares

- Dividends paid on Partnership and Matching Shares will be reinvested into further shares “Dividend Shares”
- Dividends paid to non-French residents are subject to French withholding tax
- No UK income tax and NICs to pay on dividends used to buy Dividend Shares
- Dividend Shares are subject to a holding period of 3 years, after which they can be withdrawn without a charge to income tax or NICs
- Where employees leave employment during the 3 year holding period income tax will be payable (in the tax year in which employment ceases) on the original dividend as if it had been received in the normal way

Leavers

Participants leaving employment for “special reasons” i.e. leaving due to injury, disability, redundancy, retirement on or after age 50 or due to business in which employed being sold out of group under TUPE

- Partnership, Matching and Dividend Shares cease to be held in trust
- No income tax or NICs to pay
- May be capital gains tax on any subsequent growth (next slide)

Other leavers pay income tax and NICs as previously described

Capital Gains Tax

- Capital growth (*i.e.* increase in value) while shares remain in trust is free of capital gains tax (CGT)
- Base cost of shares for CGT purposes is market value of shares when they cease to be subject to the Plan
- If participant keeps the shares after release from trust and they have increased in value at time of subsequent sale CGT payable but participants can take advantage of:
 - Annual CGT allowance (first £8,200 for tax year 2004/5 tax free)
 - Taper relief running from date shares cease to be subject to Plan (if hold shares for two years and remain an employee, effective rate of CGT only 10%)

QUESTIONS?