[CLIENT]
Estimating the IFRS accounting cost of 2022 LTIP awards

[MONTH] 2022

Introduction

[CLIENT] asked Ellason to estimate the accounting cost of awards made to participants under the Long-Term Incentive Plan ('LTIP') in [DATE], in accordance with IFRS2.

Awards under the LTIP are equity-settled. Accordingly, IFRS2 requires the accounting cost to be based on the fair value of the share-based payment calculated as at the date of grant, i.e. not subsequently adjusted for future share price performance. The accounting cost is spread on a straight-line basis over the vesting period, i.e. that before which the participant has an unconditional entitlement to the award.

Awards vest subject to a participant's continued employment over the vesting period, and a number of additional performance conditions:

- 50% of 2022 LTIP awards vest on [CLIENT]'s TSR performance relative to a comparator group comprising the constituents of the FTSE250 Index (excluding investment trusts) as at the start of the performance period. Modelling is based on our understanding of the rules of the scheme including that TSRs for [CLIENT] and all comparators are based on common currency, and that both opening and closing TSR are to be based on a 3-month average. TSR is defined under IFRS2 as a 'market-related' condition; as such, the fair value for accounting purposes is fixed at grant and reflects the expected outcome against this performance condition as at the date of grant.
- The remaining 50% of 2022 LTIP awards is based on Earnings Per Share ('EPS') growth. Under IFRS2, EPS is defined as a 'non-market-related' performance measure; for which the 'fair value' of awards subject to this measure does not incorporate any discount to reflect the attached performance condition. However, the IFRS2 charge in each year should reflect the expected number of shares vesting, applied to the fair value. Ultimately, the total accounting cost taken for this element of the 2022 LTIP award reflects the *actual* vesting outcome.

For all awards, an adjustment to the fair value may also be made to reflect expected forfeiture. At the end of the vesting period, the accounting cost for all elements (regardless of performance condition) is 'trued up' to reflect any actual forfeiture of awards (e.g. as a result of participants leaving [CLIENT]); our analysis does not assume an expected rate of forfeiture.

Accounting cost of LTIP awards granted on [DATE]

For accounting purposes, we understand that awards were granted on [DATE]. The closing share price on the date of grant was [●]p. A summary of awards made is set out below:

Grant date	Performance condition	Weighting	Performance period
[DATE]	Relative TSR	50%	1 January 2022 to 31 December 2024
	EPS growth	50%	

TSR element

The TSR element vests on the basis of [CLIENT]'s TSR % outperformance of the median of the FTSE 250 (excluding investment trusts), as follows:

[CLIENT] TSR % outperformance of FTSE250 (xIT) median	% of element vesting
<0% p.a. (i.e. below median)	0%
0% p.a.	25%
≥●% p.a.	100%

In order to assess the fair value of the TSR element of the awards, we have used a Monte Carlo valuation model. This model generates 10,000 different market scenarios, and calculates a TSR element vesting outcome for each simulation. The fair value of the TSR element is the average of the 10,000 simulations.

Modelling assumptions

Below we set out the assumptions used in the Monte Carlo valuation model:

Input	Assumptions for model	Basis for assumption
Date of grant	[DATE]	The date on which both the Company and participant understood the terms of the award
Share price at grant	●p	The closing mid-market share price on the date of grant
Risk-free rate of interest	●%	The zero coupon UK government bond yield as at the date of grant over a period commensurate with the remaining performance period (c.2.7 years to the midpoint of the final averaging period, being the 3 months to 31 December 2024; *source: Bank of England*)
Embedded TSR: [CLIENT] Comparators	 ●% ●% to ●% (median: ●%)	[CLIENT] and comparator TSR performance, based on the difference between the average return over the 3-month period preceding the start of the performance period (1 Oct 2021 to 31 Dec 2021) and the spot return at the date of grant, calculated in GBP
Volatility: [CLIENT] Comparators	 ●% ●% to ●% (median: ●%)	The historical TSR volatility of [CLIENT] and comparators measured over a period prior to the date of grant commensurate with the remaining performance period (c.2.7 years)
Average correlation	●%	The average historical TSR correlation measured across the comparator group over a period prior to the date of grant commensurate with the remaining performance period (c.2.7 years)
Dividend yield	●%	Dividend equivalents accrue over the vesting period, and are paid in relation to any shares that vest

Valuation result

Based on these assumptions, the fair value for accounting purposes of TSR-based LTIP shares granted on [DATE] (before the application of any forfeiture assumption) is **●p (●% of face value):**

Date of grant	Share price at grant	Fair value estimate	As a % of share price at grant
[DATE]	●p	●p	●%

EPS element

Since dividends accrue on awards that vest, the fair value of the underlying vehicle for this element (i.e. before the application of any forfeiture assumption or any discount to reflect the expected vesting outcome based on EPS performance) is equal to the closing share price on the date of grant, i.e. **●p per share (●% of face value)**.

Most companies value the discount for 'non-market-related' performance conditions on the basis of either:

i. a best (internal or external) estimate of performance over the performance period; or
ii. a probability-weighted expected vesting outcome, as estimated from the 'area under the vesting schedule'.

The final accounting cost is then 'trued up' at the end of the performance period to reflect the actual vesting outcome. For this LTIP award, a starting point for [CLIENT] could be to assume a long-run average payout of 50% of maximum under the EPS performance measure, or alternatively to follow the approach taken in prior years for consistency.

Discount for lack of marketability ('DLOM')

Under IFRS, post-vesting transfer restrictions – such as the mandatory two-year holding period applying to any awards vesting to Executive Directors under the LTIP – can be discounted in estimating fair value, where it is considered that such restrictions would affect the price that a knowledgeable, willing market participant would pay for the share.

There is no single approach to estimating the DLOM for the purposes of IFRS, and a variety of both quantitative and qualitative methods exist. We have considered three option pricing models – Chaffe Finnerty (2012) and Ghaidarov – using the following assumptions:

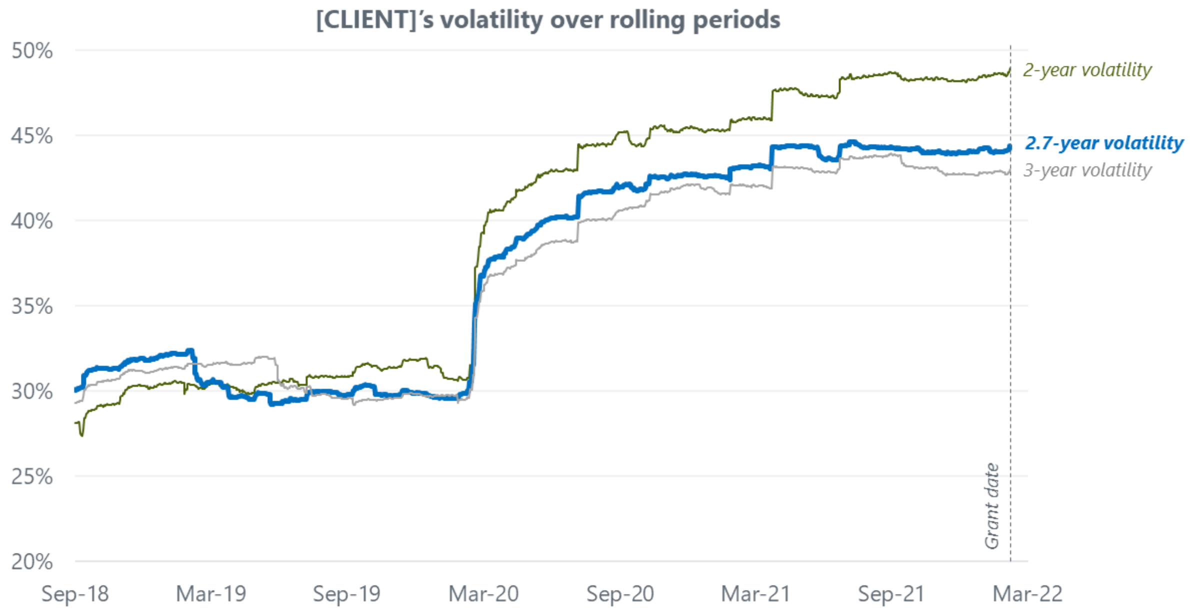
Input	Assumptions for model	Basis for assumption
Share price	●p	The closing mid-market share price on the date of grant
Exercise price	●p	As above; assumes the option is at-the-money on the valuation date
Option term	● years	Aligned with mandatory holding period for vested LTIP awards
Expected volatility	●%	The historical TSR volatility of [CLIENT] over a period prior to the date of grant commensurate with the assumed option term (per 'Option term' above)
Dividend yield	●%	Dividends are paid on shares subject to the holding period
Risk-free rate of interest	●%	The zero-coupon UK government bond yield as at the date of grant over a period commensurate with the assumed option term (per 'Option term' above; *source: Bank of England*)

These models suggest a DLOM of between ●% (Finnerty 2012), ●% (Ghaidarov) and ●% (Chaffe) for those [CLIENT] LTIP shares subject to the mandatory post-vesting holding period. We believe that the average-strike models of Finnerty and Ghaidarov, which consider the possibility of share price increases over the holding period, are most appropriate and that, therefore, the average output of these models (i.e. **●%**) should be used.

Appendix A – Constituents of the FTSE 250 Index (xIT) at 31 December 2021

4imprint Group	Frasers Group	Paragon Banking Group
888 Holdings	Future	Pennon Group
Airtel Africa	Games Workshop Group	Petropavlovsk
AJ Bell	Genuit Group	Pets at Home Group
Ascential	Genus	Playtech
Ashmore Group	Grafton Group	Plus500
Assura	Grainger	Premier Foods
Aston Martin Lagonda Global Holdings	Great Portland Estates	Primary Health Properties
Auction Technology Group	Greencore Group	Provident Financial
Babcock International Group	Greggs	PureTech Health
Balfour Beatty	Hammerson	PZ Cussons
Baltic Classifieds Group	Harbour Energy	QinetiQ Group
Beazley	Hays	Quilter
Bellway	Helios Towers	Rank Group
Biffa	Hill & Smith Holdings	Rathbones Group
Big Yellow Group	Hilton Food Group	Reach
Bodycote	Hiscox	Redde Northgate
Brewin Dolphin Holdings	Hochschild Mining	Redrow
Bridgepoint Group	HomeServe	Renishaw
Britvic	Howden Joinery Group	RHI Magnesita NV
Bytes Technology Group	Ibstock	Rotork
C&C Group	IG Group Holdings	Safestore Holdings
Capita	IMI	Sanne Group
Capital & Counties Properties	Inchcape	Savills
Capricorn Energy	Indivior	Serco Group
Carnival	IntegraFin Holdings	Shaftesbury
Centamin	Investec	Sirius Real Estate
Centrica	IP Group	Softcat
Chemring Group	IWG	Spectris
Cineworld Group	J D Wetherspoon	Spire Healthcare Group
Clarkson	John Wood Group	Spirent Communications
Close Brothers Group	Johnson Matthey	SSP Group
CLS Holdings	JTC	Synthomer
CMC Markets	Jupiter Fund Management	Tate & Lyle
Coats Group	Just Group	TBC Bank Group
Computacenter	Kainos Group	Telecom Plus
ContourGlobal	Lancashire Holdings	TI Fluid Systems
ConvaTec Group	Liontrust Asset Management	TP ICAP Group
Countryside Partnerships	LondonMetric Property	Trainline
Cranswick	LXI REIT	Travis Perkins
Crest Nicholson Holdings	Man Group/Jersey	Tritax Big Box REIT
Curry’s	Marks & Spencer Group	Tritax EuroBox
Darktrace	Marshalls	Trustpilot Group
Derwent London	Mediclinic International	TUI AG
Diploma	Micro Focus International	Tyman
Direct Line Insurance Group	Mitchells & Butlers	UK Commercial Property REIT
DiscoverIE Group	Mitie Group	Ultra Electronics Holdings
Diversified Energy Co	Molten Ventures	UNITE Group
Domino's Pizza Group	Moneysupermarket.com Group	Vesuvius
Dr. Martens	Moonpig Group	Victrex
Drax Group	Morgan Advanced Materials	Virgin Money UK
Dunelm Group	Morgan Sindall Group	Vistry Group
easyJet	National Express Group	Vivo Energy
Elementis	NCC Group	Volution Group
Endeavour Mining	Network International Holdings	Watches of Switzerland Group
Energean	Ninety One	Weir Group
Essentra	OSB Group	WH Smith
Euromoney Institutional Investor	Oxford Biomedica	Wizz Air Holdings
FDM Group Holdings	Oxford Instruments	Workspace Group
Ferrexpo	PageGroup	XP Power
FirstGroup		

Appendix B – [CLIENT] volatility over rolling periods



Appendix C – [CLIENT] relative TSR performance over cycle to grant date