

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. The action you take with respect to your Award(s) is a matter for you alone to decide. If you are in any doubt about the action you should take, you are recommended to consult immediately your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (as amended) if you are resident in the United Kingdom or, if you are in a territory outside the United Kingdom, from another appropriately authorised financial adviser.

Ei Group plc
(Company number 2562808)

Registered Office:
3 Monkspath Hall Road
Solihull
West Midlands
B90 4SJ

29 November 2019

Private and Confidential

To: Holders of Deferred Share Awards (the “Awards”) (the “Award Holders”) granted pursuant to the EIG Senior Team Deferred Share Bonus Plan (the “DSBP”)

Please note that if you also hold options or awards under any other EIG Share Plan, you will receive a separate proposal letter in respect of those options or awards. Assuming that you wish to accept the proposal set out in each of the proposal letters that you receive, you will need to complete the Form of Instruction that corresponds to those letters using the instructions provided.

Dear Award Holder

Recommended acquisition of Ei Group plc (“EIG”) by Stonegate Pub Company Bidco Limited (“Bidco”)

As an Award Holder, this Proposal Letter and Form of Instruction is very important.

Please read them both carefully.

As a result of the Offer, Awards under the DSBP will (to the extent to which they are not already exercisable) become exercisable in full.

To exercise your Award(s) you will need to complete, sign and date the enclosed Form of Instruction and return it to Loretta Togher at shareplans@eigroupplc.com by no later than 11.00 a.m. on 10th January 2020.

Please see your most recent reward statement for details of your outstanding Awards, or if you have any queries in relation to the number of your outstanding Awards please email shareplans@eigroupplc.com.

1. Background and purpose of this letter

Following on from our letter to you dated 15 August 2019, the purpose of this letter is to explain the impact of the proposed acquisition of EIG by Bidco (the “**Acquisition**”) on any Awards(s) granted to you pursuant to the DSBP.

As you are aware, on 18 July 2019, the board of directors of EIG and Bidco (a wholly owned subsidiary of Stonegate Pub Company Limited) announced that they had reached agreement on the terms of a recommended cash acquisition pursuant to which Bidco intends to acquire the entire issued and to be issued share capital of EIG. The Acquisition is to be effected by way of a scheme of arrangement under Part 26 of the Companies Act 2006 (the “**Scheme**”). The Scheme is a Court approved process whereby, if the Court sanctions the Scheme and it becomes Effective, the Acquisition will complete.

Under the terms of the Scheme, and once it becomes Effective, the shares in EIG (the “**Shares**”) will be acquired for the following consideration:

285 pence (in cash) for each Share (the “Offer Price”)

A copy of the circular dated 15 August 2019, which contains full details of the Acquisition, was sent by EIG to its shareholders in connection with the Scheme (the “**Scheme Document**”) and is available on the EIG website www.eigroupplc.com (together with a copy of this letter). This letter should be read in conjunction with the Scheme Document. Words and expressions defined in the Scheme Document have the same meanings when used in this letter, unless otherwise defined.

You should note that your Award(s) will continue to remain subject to the rules of the DSBP and, to the extent that any of your Award(s) lapse (or have lapsed) pursuant to the rules of the DSBP, the provisions of this letter (and the Proposal set out below) will not apply. In the event that the Scheme is not sanctioned by the Court (or otherwise does not proceed), any choices you make on the enclosed Form of Instruction will be of no effect and your Award(s) will continue as before.

2. Timetable

Following the letter that we sent to you on 15 August 2019:

- the Scheme was approved at a meeting of the Scheme Shareholders convened by order of the Court held at the offices of CMS Cameron McKenna Nabarro Olswang LLP, Cannon Place, 78 Cannon Street, London, EC4N 6AF at 10.00 a.m. on 12 September 2019; and
- implementation of the Scheme was approved by the passing of a Special Resolution by EIG Shareholders at the General Meeting held at the same place at 10.15 a.m. on 12 September 2019.

The remaining timetable in respect of the Scheme is as follows:

- the Court Hearing to sanction the Scheme (the “**Court Hearing**”) is expected to take place in the first quarter of 2020, subject to the prior satisfaction (or waiver) of the conditions set out in Part 4 of the Scheme Document;
- the latest time by which Shares which are to be acquired pursuant to the Scheme need to be on the register of EIG (the “**Scheme Record Time**”) is 6.00 p.m. (UK time) on the business day after the Court Hearing; and
- the Scheme is to take effect on the business day after the Scheme Record Time (the “**Effective Date**”).

Please note that these dates may be subject to change. You will be notified of any change that affects you.

3. The effect of the Scheme on your Award(s)

Certain Awards granted under the DSBP will become exercisable in accordance with their terms in December 2019 (the “**Awards exercisable in December 2019**”). If you hold any such Awards exercisable in December 2019, you will receive notification in due course as to the extent to which such Awards become exercisable in December 2019.

Awards granted under the DSBP that are not due to vest before December 2020 are not yet exercisable. They will, however, (together with any Awards that may be granted to you under the DSBP prior to the Court Hearing in respect of the financial year ending 30 September 2019) become exercisable in full on the Scheme being sanctioned by the Court at the Court Hearing.

If the Scheme becomes Effective, any Shares that you acquire on the exercise of your Award(s) will be acquired by Bidco either pursuant to the Scheme, or otherwise, at the Offer Price (please see ‘Alternative courses of action’ below).

4. Proposal – Exercise of Awards using a cashless exercise facility

EIG’s proposal (the “**Proposal**”) to you is that you agree to exercise all of the Award(s) that you hold at the time the Scheme is sanctioned by the Court (including Awards exercisable in December 2019 (if not already exercised) and any Awards that become exercisable as a result of the Scheme being sanctioned by the Court) by completing and returning the enclosed Form of Instruction. The exercise of your Award(s) will become effective on the Scheme being sanctioned by the Court. It is proposed that EIG will process the exercise of your Award(s) and the transfer of Shares to you before the Scheme Record Time. All Shares that you acquire on the exercise of your Award(s) will then be acquired by Bidco pursuant to the Scheme for the Offer Price.

You will be able to take advantage of a cashless exercise facility if you complete and return the enclosed Form of Instruction to us before the date specified below. The Form of Instruction authorises and instructs us to withhold the exercise price payable by you to exercise your Award(s) (being £1 per Award), and the income tax and employee’s national insurance contributions arising in respect of your Award(s), from the sale proceeds due to you by Bidco. The cashless exercise facility is an easier way to fund these liabilities in respect of your Award(s).

By accepting the Proposal, you will irrevocably:

- a) agree to exercise all of your Award(s) (including Awards exercisable in December 2019, if not already exercised), such exercise to take effect on the Scheme being sanctioned by the Court;
- b) agree that the Shares that you acquire as a result of the exercise of such Award(s) will be acquired by Bidco pursuant to the Scheme;
- c) authorise and instruct Bidco to pay the aggregate Offer Price payable in respect of those Shares (“**Cash Consideration**”) to EIG;
- d) authorise EIG to withhold from your Cash Consideration an amount that is equal to the aggregate exercise price to exercise such Award(s) in order to satisfy your obligation to pay the exercise price in respect of such Award(s);
- e) indemnify EIG and, if different, your employer against any income tax and employee’s national insurance contributions (or any equivalent tax or social security in any jurisdiction outside the United Kingdom) arising as a result of the exercise of your Award(s) and authorise EIG to withhold from your Cash Consideration an amount that is equal to any such liabilities; and
- f) agree that the net amount of your Cash Consideration (after the withholdings made in accordance with paragraphs (d) and (e) above) will be paid to you within 21 days following the Effective Date.

5. Acceptance of Proposal

You may accept the Proposal by completing the enclosed Form of Instruction and returning it to EIG either:

- by post to 3 Monkspath Hall Road, Solihull, West Midlands, B90 4SJ for the attention of Loretta Togher; or
- by scanning each page of the Form of Instruction and emailing the complete Form of Instruction to shareplans@eigroupplc.com (with “Instruction Form” in the subject line). If you return a scanned copy by email, you should retain the original copy in a safe place.

If you do not complete and return the Form of Instruction in the way described by 11.00 a.m. (UK time) on 10th January 2020, you may not be able to accept the Proposal.

If the Scheme becomes Effective, any Shares that you acquire on the exercise of your Award(s) will be acquired by Bidco either pursuant to the Scheme, or otherwise, at the Offer Price (please see ‘Alternative courses of action’ below).

6. Alternative courses of action

If you do not wish to take advantage of the Proposal, you may in any event exercise your Award(s) in the normal manner (subject to and in accordance with the rules of the DSBP). If you wish to exercise your Award(s) in the usual way, you should do so before they lapse (which, in accordance with the rules of the DSBP, will be one month after the Scheme is sanctioned by the Court). As the exercise of your Award(s) otherwise than in accordance with the Proposal may take place after the Scheme has been sanctioned by the Court, the Cash Consideration in respect of the Shares you acquire may be paid to you later than under the Proposal.

If you do exercise any Award(s) without accepting the Proposal, you should note the following:

- a) You will **not** be able to take advantage of the cashless exercise facility and you will have to pay the aggregate exercise price out of your own funds and you will remain responsible for the payment of any income tax and employee’s national insurance contributions under the terms of the DSBP. The exercise of your Award(s) will not be effective unless and until you have entered into suitable arrangements to pay the aggregate exercise price and any income tax and employee’s national insurance contributions.
- b) If you exercise your Award(s) in sufficient time before the Scheme Record Time, the Shares that you acquire on such exercise may be acquired pursuant to the Scheme (provided that the Scheme becomes Effective).
- c) If you do not exercise your Award(s) in sufficient time before the Scheme Record Time, the Shares that you acquire on such exercise will not be acquired pursuant to the Scheme. Bidco, however, intends to acquire compulsorily all outstanding Shares (including those acquired on the exercise of Award(s)) at a price equal to the Offer Price.

If you do not wish to accept the Proposal but still wish to exercise your Award(s) please contact Loretta Togher at EIG at shareplans@eigroupplc.com or on 0121 272 5334 as soon as possible.

If you do nothing and fail either to accept the Proposal or exercise your Award(s), your Award(s) will cease to be exercisable and will lapse in accordance with the rules of the DSBP one month after the Scheme has been sanctioned by the Court.

7. Taxation

A summary of the UK taxation implications of exercising your Award(s) is set out in the Appendix to this letter.

You will be responsible for paying any income tax and employee's national insurance contributions (or any equivalent tax or social security in any jurisdiction outside the United Kingdom) arising as a result of the exercise of your Award(s). If you accept the Proposal, you will authorise EIG to withhold from your Cash Consideration an amount that is equal to any such liabilities.

8. Independent financial advice

If you are in any doubt as to the course of action you should take or your tax position, you should seek your own independent advice from a suitably qualified and authorised independent financial adviser. You should note that none of the directors or employees of EIG or Bidco are authorised to give independent tax or financial advice.

9. Action to be taken

In order to accept the Proposal, you must complete the enclosed Form of Instruction, ensure that it is signed in the presence of an independent witness (someone aged 18 or older and not your spouse or civil partner or a member of your immediate family) and return it to Loretta Togher at EIG using the return instructions given above along with your award certificate(s) (if available) so as to be received by no later than 11.00 a.m. (UK time) on **10th January 2020**.

If your completed Form of Instruction is not received by EIG by 11.00 a.m. (UK time) on 10th January 2020, you will be deemed not to have accepted the Proposal. Whilst you may still be able to exercise your Award(s) in accordance with the 'Alternative courses of action' stipulated above, you will not be able to take advantage of the cashless exercise facility being offered.

It is important that you take action as soon as possible. If you fail to take any action, your Award(s) will lapse in due course and cease to be of any value.

10. Awards relating to the financial year ending 30 September 2020

If the Scheme becomes Effective, the Committee will (in accordance with the rules of the DSBP) determine the value of any discretionary bonus award that may be granted to you under the DSBP in respect of the financial year in which the Acquisition completes. The amount of any such award will be based on performance over the shortened period from 1 October 2019 until the Court Hearing unless the Committee determines otherwise. The value of any such award (if any) will be notified to you once these determinations have been made and will be paid to you in cash as soon as practicable following the Court Hearing and will be subject to deductions for income tax and national insurance contributions.

11. Further assistance

If you have any query regarding the contents of this letter or the enclosed Form of Instruction not requiring the giving of financial, tax or investment advice, you should contact Loretta Togher at EIG at shareplans@eigroupplc.com or on 0121 272 5334.

If you are in any doubt about the Proposal in this letter, you should consult a duly authorised independent financial adviser immediately.

12. Recommendation by the EIG Directors

The Board of EIG, which has been so advised by Deutsche Bank and Rothschild & Co, as to the financial terms of the Proposal, consider the terms of the Proposal described in this letter to be fair and reasonable in the context of the Acquisition. In providing their advice to the Board of EIG, Deutsche Bank and Rothschild & Co have taken into account the commercial assessments of the EIG Directors.

The Board of EIG recommends that Award Holders accept the Proposal set out in this letter to the extent they are able to do so.

Yours faithfully

Simon Townsend
Director
For and on behalf of
Ei Group plc

Simon Longbottom
Director
For and on behalf of
Stonegate Pub Company Bidco Limited

Notes

- (a) Unless the context otherwise requires, words and expressions defined in the Scheme Document and the rules of the DSBP will have the same meaning in this letter and the enclosed Form of Instruction.
- (b) The EIG Directors, whose names appear in Part 8 of the Scheme Document, accept responsibility for the information contained in this letter (including any expressions of opinion) other than information for which responsibility is taken under paragraph (c). To the best of the knowledge and belief of the EIG Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this letter (including any expressions of opinion), for which they accept responsibility, is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (c) The Stonegate Directors whose names appear in Part 8 of the Scheme Document accept responsibility for the information contained in this letter (including any expressions of opinion) relating to themselves, Stonegate, the Stonegate Group and Bidco. To the best of the knowledge and belief of the Stonegate Directors (who have taken all reasonable care to ensure that such is the case), the information contained in this letter (including any expressions of opinion), for which they accept responsibility, is in accordance with the facts and does not omit anything likely to affect the import of such information.
- (d) Deutsche Bank AG is authorised under German Banking Law (competent authority: European Central Bank) and, in the United Kingdom, by the PRA. It is subject to supervision by the European Central Bank and by BaFin, Germany's Federal Financial Supervisory Authority, and is subject to limited regulation in the United Kingdom by the PRA and the FCA. Details about the extent of its authorisation and regulation by the PRA, and regulation by the FCA, are available on request. Deutsche Bank, acting through its London branch ("**Deutsche Bank**"), is acting as joint corporate broker and financial adviser to EIG and no other person in connection with the Acquisition. Neither Deutsche Bank, nor any of its subsidiaries, branches or affiliates will be responsible to any person other than EIG for providing any of the protections afforded to clients of Deutsche Bank nor for providing advice in connection with the Acquisition or the matters referred to in this letter. Neither Deutsche Bank, nor any of its subsidiaries, branches or affiliates, nor any of its or their respective directors, officers or employees owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Deutsche Bank in connection with this letter, any statement contained herein, or otherwise.
- (e) N.M. Rothschild and Sons Limited ("**Rothschild & Co**"), which is authorised and regulated by the FCA in the United Kingdom, is acting as financial adviser to EIG and no one else in connection with the Acquisition and will not be responsible to anyone other than EIG for providing the protections afforded to clients of Rothschild & Co nor for providing advice in connection with the Acquisition or the matters referred to in this letter. Neither Rothschild & Co nor any of its affiliates owes or accepts any duty, liability or responsibility whatsoever (whether direct or indirect, whether in contract, in tort, under statute or otherwise) to any person who is not a client of Rothschild & Co in connection with the Acquisition or the matters referred to in this letter.
- (f) Deutsche Bank and Rothschild & Co have given and have not withdrawn their written consent to the issue of this document with the inclusion of the references to their names in the form and context in which they respectively appear.
- (g) The enclosed Form of Instruction, including the notes and instructions printed thereon, will be deemed to be an integral part of the Proposal and acceptances in respect thereof will be governed by and construed in accordance with English law.
- (h) In the event of any conflict between the information contained in this document, the Form of Instruction and the rules of the DSBP or the relevant legislation, the rules of the DSBP and the relevant legislation will take precedence. References in this document to taxation consequences are for guidance only.

APPENDIX

UK Taxation Consequences

The information contained in this Appendix is intended to provide you with a brief summary of the taxation consequences of exercising your Award(s) (on the assumption that you were resident in the UK at the time that your Award(s) was/were granted and have been so resident at all times since). The summary is provided for guidance purposes only and does not constitute tax advice to any individual Award Holder. It is not a full description of all the circumstances in which a taxation liability may occur. This Appendix is based on current UK legislation and what is understood to be current HM Revenue & Customs practice, both of which are subject to change, possibly with retrospective effect. If you are in any doubt as to your tax position or if at any time on or after the grant of your Award(s) you have been resident outside the United Kingdom, you should consult a duly authorised independent financial adviser immediately.

1. Income Tax and National Insurance Contributions

- 1.1 You will be subject to income tax (at your marginal rate) and employee's national insurance contributions ("NICs") on the exercise of your Award(s). Income tax and employee's NICs are payable on the market value of the Shares which you acquire on the exercise of your Award(s) (which should equate to the Offer Price) less the aggregate exercise price payable by you to exercise your Award(s). Income tax and employee's NICs will be accounted for by EIG under the PAYE system.

As a condition of the exercise of your Award(s), you must make arrangements to reimburse EIG for all income tax and employee's NICs that arise as a result of the exercise of your Award(s). If you accept the Proposal, under the Form of Instruction, you will satisfy this obligation by authorising EIG to withhold an appropriate amount in respect of the income tax and employee's NICs due from the disposal of your Shares pursuant to the Scheme.

If you do not accept the Proposal, appropriate arrangements will be made to recover your income tax and employee's NICs from you under the terms of the DSBP.

2. Capital Gains Tax ("CGT")

2.1 *Overview of CGT on the disposal of Shares*

A capital gain is calculated as the amount by which the Cash Consideration that you receive on the sale of your Shares exceeds the base cost of those Shares.

There is an annual CGT allowance for chargeable gains from all sources (less any allowable losses), which is £12,000 for the tax year 2019/20. This means that the first £12,000 of chargeable gains (less any allowable losses) from all sources in the 2019/20 tax year is exempt from CGT.

Any chargeable gains above the annual allowance are then subject to CGT at a flat rate of 10% (for basic-rate tax payers) or 20% (for higher-rate tax payers).

2.2 *Base cost for Shares acquired on the exercise of Awards*

On the basis that the exercise of your Award(s) will be subject to a charge to income tax (see above), the base cost of your Shares resulting from the exercise of your Award(s) should effectively be taken to be their market value at the time of exercise. As a result, it is not anticipated that you will be liable to CGT on the disposal of your Shares acquired from the exercise of Award(s).