

## This document is important and requires your immediate attention.

If you are in any doubt as to any aspect of the proposals referred to in the document or as to the action you should take, you should seek your own advice from an independent financial adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or otherwise transferred all of your shares, please pass this document together with the accompanying documents to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

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The Paragon Group of Companies PLC  
(Incorporated and registered in England and Wales under number 2336032)

# Notice of Annual General Meeting

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Your attention is drawn to the letter from the Chairman of the Company which is set out on page 3 of this document and which recommends you to vote in favour of the resolutions to be proposed at the Annual General Meeting.

Notice of the Annual General Meeting of the Company to be held at the offices of Jefferies Hoare Govett Limited at **Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ** on 7 February 2013 at 10.00 a.m. is set out on pages 6 to 9 of this circular.

Shareholders will also find enclosed with this document a form of proxy for use in connection with the Annual General Meeting. **To be valid, the form of proxy should be completed, signed and returned in accordance with the instructions printed thereon, as soon as possible and, in any event, so as to reach the Registrar of the Company by no later than 10.00 a.m. on 5 February 2013.** Completion and return of a form of proxy will not preclude shareholders from attending and voting at the Annual General Meeting should they choose to do so. Further instructions relating to the form of proxy are set out in the notice of the Annual General Meeting.





# The Paragon Group of Companies PLC

(Incorporated and registered in England and Wales under number 2336032)

**Registered and Head Office:**

St Catherine's Court  
Herbert Road  
Solihull  
West Midlands  
B91 3QE  
30 November 2012

**To all shareholders**

## **NOTICE OF ANNUAL GENERAL MEETING**

Dear Shareholder

I am pleased to be writing to you with details of our Annual General Meeting ('AGM') which we are holding at the offices of Jefferies Hoare Govett Limited at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ on Thursday 7 February 2013 at 10.00 a.m.

The resolutions to be proposed at the meeting are set out in the Notice of AGM on page 6. If you would like to vote on the resolutions but cannot come to the AGM, please fill in the proxy card sent to you with this notice and return it to our registrars as soon as possible. They must receive it by 10.00 a.m. on Tuesday 5 February 2013.

Explanatory notes on the business to be considered as special business at the AGM appear on pages 4 and 5 of this document.

The directors consider that all the resolutions to be put at the meeting are in the best interests of the Company and its shareholders as a whole. Those Board members who are also shareholders will be voting in favour of them and the Board unanimously recommends that you do so as well.

Yours sincerely

**R G DENCH**

Chairman

## DETAILS OF RESOLUTIONS TO BE PROPOSED AS SPECIAL BUSINESS AT THE ANNUAL GENERAL MEETING

Resolutions 15 and 16 are proposed as ordinary resolutions. This means that for each of these resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 17, 18 and 19 are proposed as special resolutions. This means that for each of these resolutions to be passed, at least three quarters of the votes cast must be in favour of the resolution.

The Board of Directors considers that all the resolutions to be put to the meeting are in the best interests of the Company and its shareholders as a whole and unanimously recommends that shareholders vote in favour of them.

### Resolution 15

It is recognised that the executives' interests would be better aligned with those of the shareholders if they owned a greater proportion of shares in the Company and since 2003 the Company has operated the Paragon Performance Share Plan (the 'Plan') under which shares may be acquired by executives provided that a demanding performance target has been met over a three year vesting period and provided that they remain employed by the Company.

The Plan comes to the end of its ten-year life in February 2013. Following a review of market practice, the Remuneration Committee has concluded that it needs to introduce a successor long-term incentive arrangement to enable it to recruit, retain and incentivise senior management within the Company's group. The Paragon Performance Share Plan 2013 (the 'Replacement Plan') has been designed to reward management (at an appropriate and market-competitive level) for achieving the Company's strategic objectives and delivering improvements in long-term performance. A summary of the main terms of the Plan is set out on page 10 and the Remuneration Committee's policy intentions in relation to the Plan are explained in more detail in the Directors' Remuneration Report for the year ended 30 September 2012.

A copy of the Replacement Plan is available for inspection from the date of this notice until the close of the AGM during normal business hours on any weekday (public holidays excepted) at the offices of New Bridge Street (an Aon Consulting company), 10 Devonshire Square, London EC2M 3BJ and will also be available for inspection 15 minutes before and during the AGM.

The rules relating to eligibility, the limits on awards, and entitlement of awards will not be altered to the advantage of the participant without the prior approval of shareholders in a general meeting. Minor amendments intended to benefit the running of the Replacement Plan, follow or take account of existing or proposed legislation, or secure favourable tax treatment for the Company or executives in the Replacement Plan will not require approval.

The Remuneration Committee is satisfied that this will ensure that executives will only benefit under this plan provided that the shareholders' investments in the Company are enhanced.

### Resolution 16

Section 549 of the Companies Act 2006 states that the directors may not exercise a company's power to allot shares or grant rights to subscribe for or convert any security into shares unless given authority to do so by resolution of the shareholders in general meeting.

The present authority of the directors to allot the unissued ordinary share capital of the Company was granted at an Annual General Meeting on 9 February 2012 and will expire at the end of the forthcoming Annual General Meeting. Resolution 16 seeks to give the directors authority to allot shares or grant rights to subscribe for or convert any security into shares up to an aggregate nominal value of £100,300,000 representing approximately one third of the Company's issued share capital, excluding treasury shares, at 31 October 2012. At 31 October 2012 the Group held 668,900 treasury shares, representing 0.2% of the Company's issued capital, excluding treasury shares, at that date. The directors have no present intention of exercising this authority, which will expire at the conclusion of the following Annual General Meeting or, if earlier, on 6 May 2014.

## Resolution 17

Under Section 561 of the Companies Act 2006, any shares allotted (or, in the case of any shares held in treasury, sold) wholly for cash must be offered to existing shareholders in proportion to their holdings, but this requirement may be modified by the authority of a special resolution of the shareholders in general meeting.

The authority given at the Annual General Meeting held on 9 February 2012 will expire at the end of the forthcoming Annual General Meeting and Resolution 17 seeks to renew it. The resolution authorises the directors to allot or sell shares for cash, other than to existing shareholders or holders of other equity securities in proportion to their holdings, up to an aggregate nominal value of £15,000,000, representing approximately 5% of the Company's issued share capital, excluding treasury shares, at 31 October 2012. In respect of this aggregate nominal amount, the directors confirm their intention to follow the provisions of the Pre-Emption Group's Statement of Principles regarding cumulative usage of authorities within a rolling three year period where the Principles provide that usage in excess of 7.5% should not take place without prior consultation with shareholders. This authority will expire at the conclusion of the following Annual General Meeting or, if earlier, on 6 May 2014.

## Resolution 18

This resolution, which is being proposed as a Special Resolution, will enable the Company to purchase, in the market, up to a maximum of 30.1 million of the Company's ordinary shares (approximately 10% of the issued share capital, excluding treasury shares, at 31 October 2012) for cancellation, or to be held in treasury, at a minimum price of 10p per share and a maximum price of not more than 105% of the average middle market quotation for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately prior to purchase.

The directors would not expect to purchase ordinary shares in the market unless, in the light of market conditions prevailing at the time, they considered that to do so would enhance earnings per share and would be in the best interests of shareholders generally. Any purchases made by the Company will be announced no later than 7.30 a.m. on the business day following the transaction. This authority will expire at the conclusion of the following Annual General Meeting or, if earlier on 6 May 2014.

## Resolution 19

Shareholders may give approval to shorten the notice period required for general meetings (other than Annual General Meetings) from 21 clear days to 14 clear days. At an Annual General Meeting on 9 February 2012 shareholders approved the reduction of the notice period for general meetings (other than Annual General Meetings) to 14 clear days' notice. In order to preserve this reduction, Resolution 19 seeks to renew this approval. The approval will be effective until the Company's next Annual General Meeting, when it is intended that a similar resolution will be proposed. The shorter notice period would not be used as a matter of routine for such meetings, but only where flexibility is merited by the business of the meeting and is thought to be to the advantage of the shareholders as a whole.

## NOTICE OF ANNUAL GENERAL MEETING

### To all shareholders

NOTICE IS HEREBY GIVEN that the twenty-fourth Annual General Meeting of The Paragon Group of Companies PLC will be held at the offices of Jefferies Hoare Govett Limited at Vintners Place, 68 Upper Thames Street, London, EC4V 3BJ on 7 February 2013 at 10.00 a.m. for the following purposes:

### As ordinary business

- 1 To receive and consider the Company's Accounts for the year ended 30 September 2012 and the Reports of the Directors and the Auditors.
- 2 To consider and adopt the Report of the Board to the Shareholders on Directors' Remuneration.
- 3 To declare a dividend.
- 4 To re-appoint as a director Mr R J Woodman (who retires under article 72(a)).
- 5 To re-appoint as a director Ms F Clutterbuck (who retires under article 72(a)).
- 6 To re-appoint as a director Mr R G Dench.
- 7 To re-appoint as a director Mr N S Terrington.
- 8 To re-appoint as a director Mr N Keen.
- 9 To re-appoint as a director Mr J A Heron.
- 10 To re-appoint as a director Mr E A Tilly.
- 11 To re-appoint as a director Mr A K Fletcher.
- 12 To re-appoint as a director Mr P J N Hartill.
- 13 To re-appoint Deloitte LLP as Auditors
- 14 To authorise the directors to fix the remuneration of the Auditors.

### As special business

To consider and, if thought fit, to pass resolutions 15 and 16 as ordinary resolutions and resolutions 17, 18 and 19 as special resolutions:

#### Ordinary Resolutions

- 15 'THAT the rules of the Paragon Performance Share Plan 2013 (the 'Replacement Plan') referred to in the notice of Annual General Meeting dated 30 November 2012 and produced in draft to this meeting and, for the purposes of identification, initialled by the Chairman, be approved and the Board be authorised to:
  - (a) make such modifications to the Replacement Plan as it may consider appropriate to take account of the requirements of best practice and for the implementation of the Replacement Plan and to adopt the Replacement Plan as so modified and to do all such other acts and things as it may consider appropriate to implement the Replacement Plan; and
  - (b) establish further plans based on the Replacement Plan but modified to take account of local tax, exchange control or securities laws in overseas territories, provided that any shares made available under such further plans are treated as counting against the limits on individual or overall participation in the Replacement Plan.'
- 16 'THAT the Board be and it is hereby generally and unconditionally authorised (in substitution for all subsisting authorities to the extent unused) to exercise all powers of the Company to allot shares in the Company and to grant rights to subscribe for or convert any security into shares in the Company up to an aggregate nominal amount of £100,300,000 PROVIDED THAT this authority shall expire at the earlier of the conclusion of the next Annual General Meeting of the Company after the passing of this resolution and the close of

business on 6 May 2014 (unless previously revoked or varied by the Company in general meeting) save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted after such expiry and the Board may allot shares or grant rights to subscribe for or convert securities into shares in pursuance of such an offer or agreement as if the authority conferred hereby had not expired.'

## Special Resolutions

**17** 'THAT, subject to the passing of resolution 16, the Board be and it is hereby empowered pursuant to Section 571 of the Companies Act 2006 (the 'Act') to allot equity securities (within the meaning of Section 560 of the Act) for cash pursuant to the authority conferred by resolution 16 and/or where allotment is treated as an allotment of equity securities under section 560(3) as if sub-section (1) of Section 561 of the Act did not apply to any such allotment, PROVIDED THAT this power shall be limited to:

- (a)** the allotment of equity securities in connection with a rights issue, open offer or any other pre-emptive offer in favour of ordinary shareholders and in favour of all holders of any other class of equity security in accordance with the rights attached to such class where the equity securities respectively attributable to the interests of all such persons on a fixed record date are proportionate (as nearly as may be) to the respective numbers of equity securities held by them or are otherwise allotted in accordance with the rights attaching to such equity securities (subject in either case to such exclusions or other arrangements as the Board may deem necessary or expedient to deal with treasury shares, fractional entitlements, record dates or legal or practical problems arising in any overseas territory, the requirements of any regulatory body or any stock exchange in any territory or any other matter whatsoever); and
- (b)** the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £15,000,000

and shall expire upon the renewal of this power or, if earlier, at the conclusion of the next Annual General Meeting of the Company after the passing of this resolution (or, if earlier, the close of business on 6 May 2014), save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.'

**18** 'THAT the Company be and is hereby generally and unconditionally authorised for the purposes of Section 701 of the Companies Act 2006 ('the Act') to make one or more market purchases (within the meaning of Section 693(4) of the Act) on the London Stock Exchange PLC of ordinary shares of £1 each in the share capital of the Company ('Ordinary Shares') provided that:-

- (a)** the maximum aggregate number of Ordinary Shares hereby authorised to be purchased is 30,100,000 (representing approximately 10 per cent of the Company's issued ordinary share capital excluding treasury shares);
- (b)** the minimum price which may be paid for an Ordinary Share is 10p;
- (c)** the maximum price which may be paid for an Ordinary Share is an amount equal to 105 per cent of the average of the middle market price shown in the quotations for an Ordinary Share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary Share is contracted to be purchased;
- (d)** unless previously renewed, varied or revoked, the authority hereby conferred shall expire on the earlier of the conclusion of the next Annual General Meeting of the Company and the close of business on 6 May 2014; and
- (e)** the Company may make a contract or contracts to purchase Ordinary Shares under the authority hereby conferred prior to the expiry of such authority which will or may be executed wholly or partly after the expiry of such authority, and may make a purchase of Ordinary Shares in pursuance of any such contract or contracts.'

**19** 'THAT a general meeting other than an annual general meeting may be called on not less than 14 clear days' notice.'

By order of the Board

**John G Gemmell**

Company Secretary

**Registered and Head Office:** St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE

30 November 2012

Registered in England No. 2336032

A member entitled to attend and vote at this meeting may appoint another person as their proxy to exercise all or any of their rights to attend and to speak and vote at a meeting of the Company. A member may appoint more than one proxy in relation to the Annual General Meeting provided that the member specifies the number of shares in relation to which each proxy is appointed and each proxy is appointed to exercise the rights attached to a different share or shares held by that member. A proxy need not also be a member of the Company. A proxy form is enclosed for use in connection with the meeting. Proxy forms and any power of attorney or other written authority under which they are executed (or an office or notarially certified copy thereof) should be lodged with the Registrar of the Company at the address shown on the proxy form by 10.00 a.m. on Tuesday 5 February 2013. The appointment of a proxy or any CREST Proxy Instruction (as described below) will not preclude a shareholder from attending and voting at the meeting.

The proxy appointment rights described above do not apply to any person nominated to enjoy information rights under section 146 of the Companies Act 2006 by a member who holds shares on behalf of that person. The rights described in these paragraphs can only be exercised by members of the Company.

Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.

To be entitled to attend and vote at the Annual General Meeting (and for the purpose of the determination by the Company of the votes they may cast), shareholders must be registered in the register of members of the Company at 10.00 a.m. on Tuesday 5 February 2013 (or, in the event of any adjournment, on the date which is two days before the time of the adjourned meeting). Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting.

Any member attending the meeting has the right to ask questions. The Company must cause to be answered any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

As at 29 November 2012 (being the last business day prior to the publication of this notice) the Company's issued share capital consists of 301,841,614 ordinary shares, carrying one vote each, of which 668,900 were held in treasury. Therefore, the total voting rights in the Company as at 29 November 2012 are 301,172,714.

CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications, and must contain the information required for such instruction, as described in the CREST Manual (available via [www.euroclear.com/CREST](http://www.euroclear.com/CREST)). The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID number 3RA50) by 10.00 a.m. on Tuesday 5 February 2013. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors, or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular message. Normal system timings and limitations will, therefore, apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member, or sponsored member, or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting system providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Except as provided above, members who have general queries about the Annual General Meeting should call our shareholder helpline on 0870 707 1244 (no other methods of communication will be accepted)

You may not use any electronic address provided either in this notice or any related documents (including the chairman's letter and proxy form) to communicate with the Company for any purposes other than those expressly stated.

Under section 527 of the Companies Act 2006 members meeting the threshold requirements set out in that section have the right to require the Company to publish on a website a statement setting out any matter relating to: (i) the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting; or (ii) any circumstance connected with an auditor of the Company ceasing to hold office since the previous meeting at which annual accounts and reports were laid in accordance with section 437 of the Companies Act 2006. The Company may not require the shareholders requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the Companies Act 2006. Where the Company is required to place a statement on a website under section 527 of the Companies Act 2006, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes any statement that the Company has been required under section 527 of the Companies Act 2006 to publish on a website.

A copy of this notice, and other information required by section 311A of the Companies Act 2006, can be found at [www.paragon-group.co.uk](http://www.paragon-group.co.uk).

Under section 338 and section 338A of the Companies Act 2006, members meeting the threshold requirements in those sections have the right to require the Company (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting and/or (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business. A resolution may properly be moved or a matter may properly be included in the business unless (a) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise), (b) it is defamatory of any person, or (c) it is frivolous or vexatious. Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authorised by the person or persons making it, must be received by the Company not later than Monday 24 December 2012, being the date six clear weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

The register of directors' interests, copies of directors' service contracts, the Replacement Plan and letters of appointment of non-executive directors will be available for inspection during normal business hours on any weekday (public holidays excepted) at the Registered Office of the Company, for the time being, from the date of this notice until the date of the meeting and at the place of the meeting from 9.30 a.m. on the date of such meeting until the conclusion thereof.

The Registered Office is presently situated at St Catherine's Court, Herbert Road, Solihull, West Midlands, B91 3QE, but on 3 December 2012 will relocate to 51 Homer Road, Solihull, West Midlands, B91 3QJ.

The Report and Accounts have been sent to the Company's shareholders.

Biographical details of current directors are provided on pages 12 to 13 of the Annual Report and Accounts circulated with this notice.

# Appendix

## Summary of the principal terms of the Paragon Performance Share Plan 2013 (the 'Replacement Plan')

### Operation

The Remuneration Committee of the Board of Directors of the Company (the 'Committee') will supervise the operation of the Replacement Plan.

### Eligibility

Any employee (including an executive director) of the Company and its subsidiaries will be eligible to participate in the Replacement Plan at the discretion of the Committee.

### Grant of awards

The Committee may grant awards over ordinary shares in the Company ('Shares') within six weeks following the Company's announcement of its results for any period. The Committee may also grant awards within six weeks of shareholder approval of the Replacement Plan or at any other time when the Committee considers there are exceptional circumstances which justify the granting of awards. It is intended that the first awards will be made shortly following the adoption of the Replacement Plan.

The Committee may grant awards as conditional share awards, nil (or nominal) cost options or as forfeitable shares. The Committee may also decide to grant cash-based awards of an equivalent value to share-based awards or to satisfy share-based awards in cash, although it does not currently intend to do so.

An award may not be granted more than 10 years after shareholder approval of the Replacement Plan.

No payment is required for the grant of an award. Awards are not transferable, except on death. Awards are not pensionable.

### Individual limit

An employee may not receive awards in any financial year over Shares with a market value (at the time the awards are granted) in excess of 200% of his annual base salary in that financial year.

### Performance conditions

The vesting of any awards granted under the Replacement Plan will be subject to performance conditions set by the Committee.

The principal performance conditions applying to the first awards to be granted under the Plan will be based on the Company's earnings per share ('EPS') and total shareholder return ('TSR') performance over a performance period of three financial years of the Company commencing on 1 October 2012.

50% of the shares subject to these initial awards will be subject to the EPS condition (the 'EPS Tranche'). The remaining 50% of the shares subject to these awards will be subject to the TSR condition (the 'TSR Tranche').

The vesting of the EPS Tranche will be determined by the Company's EPS growth over the performance period. 25% of the EPS Tranche will vest for annual EPS growth of 3% in excess of the growth in the Retail Prices Index over the performance period, with full vesting for annual growth of 7% in excess of the growth in the Retail Prices Index over the performance period. If the Company's annual EPS growth falls between these two targets, the vesting of the EPS Tranche will be calculated on a straight-line basis. These targets are regarded by the Committee as highly challenging in the current economic environment.

The TSR condition will be measured by ranking the Company's TSR performance over the performance period compared to the TSR performance of the constituent companies of the FTSE-250 Index, with 25% of the TSR Tranche vesting for median performance over the performance period rising (proportionately based on the ranking of the Company's TSR compared to the TSRs of the comparator group) to 100% of the TSR Tranche vesting for upper quartile performance or above.

In addition, the Committee has retained the discretion to reduce (including reducing to zero) the vesting of these initial awards if it determines that the Company's underlying financial performance over the performance period has not been satisfactory.

The Committee can set different performance conditions from those described above for future awards provided that, in the reasonable opinion of the Committee, the new targets are not materially less challenging in the circumstances than those described above.

The Committee may also vary the performance conditions applying to existing awards if an event has occurred which causes the Committee to consider that it would be appropriate to amend the performance conditions, provided that the Committee considers the varied conditions are fair and reasonable and not materially less difficult to satisfy than the original conditions would have been but for the event in question.

## Vesting of awards

Awards normally vest on the third anniversary of the date they were granted (or on such later date as the Committee may determine on or prior to grant) to the extent that the applicable performance conditions (see above) have been satisfied and provided that the participant is still employed in the Company's group. Awards structured as options are then exercisable up until the tenth anniversary of grant unless they lapse earlier in accordance with the rules of the Replacement Plan.

## Dividend equivalents

The Committee may decide that participants will receive a payment (in cash and/or Shares), on or shortly following the satisfaction of their awards, of an amount equivalent to the dividends that would have been paid on the Shares delivered between the time when the awards were granted and the time when the Shares are transferred to participants in satisfaction of their awards. This amount may assume the reinvestment of dividends.

## Leaving employment

As a general rule, an award will lapse upon a participant ceasing to hold employment or be a director within the Company's group.

However, if a participant ceases to be an employee or a director because of injury, disability, redundancy or his employing company or the business for which he works being sold out of the Company's group or in other circumstances at the discretion of the Committee, his award will vest on the date when it would have vested if he had not ceased such employment or office, subject to: (i) any relevant performance conditions being satisfied at the end of the period over which the conditions are measured and (ii) the pro-rating of the award to reflect the reduced period of time between the grant of the award and the participant's cessation of employment as a proportion of the normal vesting period, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

If a participant ceases to be an employee or director in the Company's group for one of the 'good leaver' reasons specified above, the Committee can decide that his award will vest when he leaves. The extent to which an award will vest in these situations will depend upon two factors: (i) the extent to which the performance conditions have been satisfied by reference to the date of cessation; and (ii) pro-rating by reference to the time of the participant's cessation of employment as a proportion of the vesting period as described above, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances.

If a participant dies, his award will vest on the date of his death subject to: (i) the performance conditions measured at that time; and (ii) pro-rating by reference to the date of his death as described above, although the Committee can decide, in exceptional circumstances, that his award will vest on the date when it would have vested if he had not died and the performance conditions will be measured at that time.

In any of the above 'good leaver' circumstances, any vested awards structured as options may be exercised within a period of 12 months starting from the later of (i) the date on which the award vested and (ii) the date when the participant ceased employment.

## Clawback

The Committee may decide to reclaim from participants in the Replacement Plan any additional value arising from an award vesting as a result of a material misstatement of the Company's financial results or any other error or inaccurate or misleading information or assumptions. To be effective, the Committee must make this decision within a two-year period following the relevant award vesting or before the Company has published two sets of annual accounts after the vesting of the relevant award.

The Committee may also decide to reclaim (within the period referred to above) the post-tax value of awards delivered to a participant who is dismissed for misconduct.

## Corporate events

In the event of a takeover or winding up of the Company (which is not an internal reorganisation of the Company's group), all awards will vest early subject to: (i) the extent that any applicable performance conditions have been satisfied at that time; and (ii) the pro-rating of the awards to reflect the reduced period of time between their grant and vesting, although the Committee can decide not to pro-rate an award if it regards it as inappropriate to do so in the particular circumstances. Awards structured as options would then be exercisable for a short period as part of the transaction process, and to the extent they are not exercised, would lapse.

In the event of an internal corporate reorganisation, awards may be replaced by equivalent new awards over shares in a new holding company unless the Committee decides that awards should vest on the basis which would apply in the case of a takeover.

If a demerger, special dividend or other similar event is proposed which, in the opinion of the Committee, would affect the market price of Shares to a material extent, then the Committee may decide that awards will vest on the basis which would apply in the case of a takeover as described above.

## Participants' rights

Conditional share awards and options will not confer any shareholder rights until the awards have vested or the options have been exercised and the participants have received their Shares. Holders of awards of forfeitable shares will have shareholder rights from when the awards are made except they may be required to waive their rights to receive dividends.

## Rights attaching to Shares

Any Shares allotted when an award vests or is exercised will rank equally with Shares then in issue (except for rights arising by reference to a record date prior to their allotment).

## Variation of capital

In the event of any variation of the Company's share capital or in the event of a demerger, payment of a special dividend or similar event which materially affects the market price of the Shares, the Committee may make such adjustment as it considers appropriate to the number of Shares subject to an award and/or the exercise price payable (if any).

## Overall Plan limits

The Replacement Plan may operate over new issue Shares, treasury Shares or Shares purchased in the market.

In any ten calendar year period, the Company may not issue (or grant rights to issue) more than:

- (a) 10% of the issued ordinary share capital of the Company under the Replacement Plan and any other employee share plan adopted by the Company; and
- (b) 5% of the issued ordinary share capital of the Company under the Replacement Plan and any other executive share plan adopted by the Company.

Treasury Shares will count as new issue Shares for the purposes of these limits unless institutional investors decide that they need not count.

## Alterations to the Plan

The Committee may, at any time, amend the Replacement Plan in any respect, provided that the prior approval of shareholders is obtained for any amendments that are to the advantage of participants in respect of the rules governing eligibility, limits on participation, the overall limits on the issue of Shares or the transfer of treasury Shares, the basis for determining a participant's entitlement to, and the terms of, the Shares or cash to be acquired and the adjustment of awards.

The requirement to obtain the prior approval of shareholders will not, however, apply to any minor alteration made to benefit the administration of the Replacement Plan, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or for any company in the Company's group. Shareholder approval will also not be required for any amendments to any performance condition applying to an award.

## Overseas plans

The shareholder resolution to approve the Replacement Plan will allow the Board to establish further plans for overseas territories, any such plan to be similar to the Replacement Plan, but modified to take account of local tax, exchange control or securities laws, provided that any Shares made available under such further plans are treated as counting against the limits on individual and overall participation in the Replacement Plan. It is not, however, the Board's current intention to use this authority to establish further plans overseas in the near future.







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