

**THIS DOCUMENT AND THE ACCOMPANYING FORM OF PROXY ARE IMPORTANT AND REQUIRE YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the contents of this Circular and what action you should take, you are recommended to seek your own financial advice immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser who, if you are taking such advice in Ireland, should be authorised or exempted pursuant to the Investment Intermediaries Act 1995 (as amended) of Ireland or the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) of Ireland or, if you are taking such advice in the United Kingdom, should be authorised pursuant to the Financial Services and Markets Act 2000 (as amended) of the United Kingdom or, in the case of Shareholders resident outside Ireland and the United Kingdom, from another appropriately authorised independent financial adviser.

If you sell or have sold or otherwise transferred all of your Ordinary Shares you should forward this Circular and the accompanying Form of Proxy to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee. If you have sold or otherwise transferred only part of your holding of Ordinary Shares, please immediately contact your stockbroker, bank or other agent through whom the sale or transfer was effected.

This document does not constitute an offer or invitation for any person to subscribe for or purchase any securities in Donegal Investment Group plc (“**Donegal**” or the “**Company**”). This document is provided in connection with the Extraordinary General Meeting, and is not a prospectus, offering circular, placement memorandum or the like containing the information accompanying a securities offering.



**PROPOSED €47.5 MILLION RETURN OF CAPITAL TO  
SHAREHOLDERS  
BY WAY OF SHARE REDEMPTION**

**and**

**NOTICE OF EXTRAORDINARY GENERAL MEETING**

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**This Circular should be read as a whole. Your attention is drawn to the letter from the Chairman of Donegal set out on pages 11 to 19 of this Circular, which explains the purpose of the Resolutions to be proposed at the Extraordinary General Meeting and includes the recommendation from the Board to vote in favour of the Resolutions.**

**The Notice of the Extraordinary General Meeting of Donegal to be held at The Silver Tassie Hotel, Ballymaleel, Ramelton Road, Letterkenny, Co Donegal, on Wednesday, 16 May 2018 at 12:00pm or immediately following the Annual General Meeting, which is scheduled to be held at the same venue on Wednesday, 16 May 2018 at 11:30am, is set out on page 30 of this Circular.**

A Form of Proxy for use at the Extraordinary General Meeting is enclosed. You are requested to complete and return the Form of Proxy as soon as possible whether or not you propose to attend the meeting in person. To be valid, the enclosed Form of Proxy should be completed and returned by hand

or by post to Donegal's Registrar, Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, D18 Y2X6 (the "**Registrar**") to be received by the Registrar by no later than 12:00pm on Monday, 14 May 2018. Completion and return of a Form of Proxy will not preclude you from attending and voting at the Extraordinary General Meeting should you so wish.

The appointment of a proxy may be submitted electronically, subject to the terms and conditions of electronic voting, via the internet by accessing the Company's Registrar's website [www.eproxyappointment.com](http://www.eproxyappointment.com). You will need your control number, shareholder reference number and your PIN number, which can be found on your Form of Proxy; or be submitted through CREST in the case of CREST members, CREST sponsored members or CREST members who have appointed voting service providers. Transmission of CREST proxy instructions must be done and authenticated in accordance with Euroclear specifications as set out in the CREST manual and received by the Registrar under CREST Participant ID 3RA50.

Investec Bank plc (Irish Branch) ("**Investec**"), which is authorised by the Prudential Regulation Authority in the United Kingdom and is regulated in Ireland by the Central Bank of Ireland for conduct of business rules, is ESM adviser (pursuant to the ESM Rules) to Donegal. Investec is acting exclusively for Donegal in connection with the arrangements described in this Circular and is not acting for any other person and will not be responsible to any person for providing the protections afforded to customers of Investec nor for advising any other person in connection with the arrangements described in this Circular.

This document has not been approved by the Central Bank of Ireland, the Irish Stock Exchange or any other regulator. The distribution of this Circular in certain jurisdictions may be restricted by law and therefore persons receiving this Circular should inform themselves about and observe any such restrictions. This document does not constitute, nor is it intended to constitute, investment research or investment advice under the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) of Ireland by Donegal or any other person. This document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research (whether pursuant to the European Union (Markets in Financial Instruments) Regulations 2017 (as amended) of Ireland or otherwise).

## **FORWARD-LOOKING STATEMENTS**

Certain statements contained in this Circular are or may constitute forward-looking statements. Such forward-looking statements involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements of the Company or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements are typically identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “will”, “would”, “should”, “intends”, “estimates”, “plans”, “assumes” or “anticipates” or the negative of such words or other variations on them or comparable terminology, or by discussions of strategy which involve risks and uncertainties. Such risks, uncertainties and other factors include, among others: general economic and business conditions and changes in technology, government policy, regulation, ability to attract and retain personnel and natural and manmade disasters. Should one or more of these risks or uncertainties materialise, or should underlying assumptions prove incorrect, actual results may vary materially from those described in this Circular. The Company assumes no obligation to update or correct the information contained in this Circular, whether as a result of new information, future events or otherwise, except to the extent required under any law or regulation to which the Company is subject.

The statements contained in this Circular are made as at the date of this Circular, unless some other time is specified in relation to them, and publication of this Circular shall not give rise to any implication that there has been no change in the facts set out in this Circular since such date. Nothing contained in this Circular shall be deemed to be a forecast, projection or estimate of the future financial performance of the Company except where expressly stated.

## **PRESENTATION OF FINANCIAL INFORMATION**

Unless otherwise indicated, all references in this Circular to “€”, “euro” or “cent” are to the lawful currency of participating member states of the European Union. The financial information presented in this Circular is in euro millions rounded to one decimal place except where otherwise indicated. In addition, certain percentages, rounded to one decimal place, presented in this Circular reflect calculations based upon underlying information prior to rounding and, accordingly, may not conform exactly to the percentages that would be derived if the relevant calculations were based upon the rounded numbers.

## **TIME**

All references in this Circular to times are to Dublin, Ireland times, unless otherwise stated.

## **DEFINITIONS**

Capitalised terms used in this Circular have the meaning ascribed to them in the section headed “Definitions” in this Circular.

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## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

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|   |   |
|---|---|
| Publication of this Circular  | 23 April 2018   |
| Latest time and date for receipt of Form of Proxy for the Extraordinary General Meeting | 12:00pm on Monday, 14 May 2018  |
| Annual General Meeting  | 11:30am on Wednesday, 16 May 2018   |
| Extraordinary General Meeting   | 12:00pm or immediately after closing of the AGM on Wednesday, 16 May 2018 |
| Conversion Date of relevant Ordinary Shares   | 6:00pm on Thursday, 17 May 2018   |
| Expiry of old ISIN  | 6:00pm on Thursday, 17 May 2018   |
| Redemption of Redeemable Ordinary Shares  | 12:01am on Friday, 18 May 2018  |
| New ISIN enabled  | 18 May 2018   |
| Redemption Payments dispatched  | Within 14 days of the Redemption Date                                     |

**Note:**

Some of the times and dates set out above are indicative only and may be adjusted by the Company. If any details contained in the timetable above should change, the revised times and dates will be notified by means of an announcement through a Regulatory Information Service.

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## DEFINITIONS

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*In this Circular, and the accompanying Form of Proxy, the following expressions have the following meanings unless the context otherwise requires or unless otherwise provided:*

|   |   |
|---|---|
| <b>“2017 Annual Report”</b>                     | the annual report and audited financial statements of Donegal for the year ended 31 August 2017;  |
| <b>“Amended Articles”</b>                       | the Articles of Association as amended by Resolution 1 in the EGM Notice;   |
| <b>“Annual General Meeting” or “AGM”</b>        | the annual general meeting of Donegal to be held at The Silver Tassie Hotel, Ballymaleel, Ramelton Road, Letterkenny, Co Donegal at 11:30am on Wednesday, 16 May 2018;              |
| <b>“Articles of Association” or “Articles”</b>  | the articles of association of the Company;   |
| <b>“Board” or “Directors”</b>                   | the board of directors of Donegal;  |
| <b>“Circular”</b>                               | this Circular;  |
| <b>“Companies Act 2014”</b>                     | Companies Act 2014, as amended;   |
| <b>“Conversion”</b>                             | the reclassification of up to 5,140,000 Ordinary Shares into Redeemable Ordinary Shares pursuant to the Amended Articles;   |
| <b>“Conversion Date”</b>                        | the date of the conversion of the relevant Ordinary Shares to Redeemable Ordinary Shares, which, if the Redemption Resolutions are passed, will be 6:00pm on Thursday, 17 May 2018; |
| <b>“CREST”</b>                                  | the relevant system (as defined in the CREST Regulations) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in the CREST Regulations);                 |
| <b>“CREST Regulations”</b>                      | the Companies Act 1990 (Uncertificated Securities) Regulations 1996 (S.I. No. 68/1996) of Ireland (as amended);   |
| <b>“Deferred Shares”</b>                        | non-voting deferred shares of €0.13 each which will become part of the authorised share capital of the Company if the Redemption Resolutions are approved at the EGM;               |
| <b>“Donegal” or the “Company”</b>               | Donegal Investment Group plc;   |
| <b>“EGM” or “Extraordinary General Meeting”</b> | the extraordinary general meeting of Donegal, to be held at The Silver Tassie Hotel, Ballymaleel, Ramelton Road, Letterkenny, Co Donegal on Wednesday, 16 May 2018, at 12:00pm or   |

|  |   |
|--|---|
|  | immediately after the AGM which commences at 11:30 am;  |
| <b>“EGM Notice” or “Notice of Extraordinary General Meeting”</b> | the notice of the EGM set out at the end of this Circular;  |
| <b>“EGM Record Date”</b>   | 6:00pm on Monday, 14 May 2018;  |
| <b>“Elst”</b>  | Elst Unlimited Company (the holding company of the Monaghan Mushrooms business);  |
| <b>“ESM”</b>   | the market of that name operated by the Irish Stock Exchange;   |
| <b>“ESM Rules”</b>   | the rules governing the admission to and operation of the ESM as published by the Irish Stock Exchange from time to time; |
| <b>“Euroclear”</b>   | Euroclear UK & Ireland Limited;   |
| <b>“Form of Proxy”</b>   | the form of proxy for use at the Extraordinary General Meeting enclosed with this Circular;                               |
| <b>“Group”</b>   | Donegal and its subsidiary undertakings;  |
| <b>“Investec”</b>  | Investec Bank plc (Irish Branch);   |
| <b>“Ireland”</b>   | the island of Ireland, save for Northern Ireland, and the word “Irish” shall be construed accordingly;                    |
| <b>“Irish Stock Exchange”</b>                                    | The Irish Stock Exchange plc;   |
| <b>“Latest Practicable Date”</b>                                 | 18 April 2018, being the latest practicable date prior to the publication of this Circular;                               |
| <b>“MiFID”</b>   | the European Union (Markets in Financial Instruments) Regulations 2017 (as amended);                                      |
| <b>“Option Resolution”</b>                                       | Resolution 3 in the EGM Notice;   |
| <b>“Ordinary Shareholder(s)” or “Shareholder(s)”</b>             | holder(s) of Ordinary Shares;   |
| <b>“Ordinary Shares”</b>   | ordinary shares of €0.13 each in the share capital of Donegal;  |
| <b>“Ordinary Shares Outstanding”</b>                             | the Company’s issued ordinary share capital of 10,285,590 Ordinary Shares minus its Treasury Shares;                      |
| <b>“Professional Investor”</b>                                   | an investor who would be considered a ‘professional client’ under MiFID;  |
| <b>“Profits Available for Distribution”</b>                      | a company’s accumulated, realised profits, so far as not previously utilised by distribution or                           |

|                                     |   |
|-------------------------------------|---|
|                                     | capitalisation, less its accumulated, realised losses, so far not previously written off in a reduction or reorganisation of capital duly made;   |
| <b>“Redeemable Ordinary Shares”</b> | Ordinary Shares which are converted into Redeemable Ordinary Shares in accordance with Article 2 of the Articles of Association of the Company, as amended by Resolution 1 in the EGM Notice, provided Resolution 1 is passed;  |
| <b>“Redemption”</b>                 | the redemption by the Company of the Redeemable Ordinary Shares on the terms and subject to the conditions set out in this Circular;  |
| <b>“Redemption Date”</b>            | the date that the Redeemable Ordinary Shares are redeemed by the Company, which, if the Redemption Resolutions are passed, will be 12:01am on Friday, 18 May 2018;  |
| <b>“Redemption Price”</b>           | €9.25 per Redeemable Ordinary Share;  |
| <b>“Redemption Proceeds”</b>        | proceeds payable in cash to the holders of Redeemable Ordinary Shares which are redeemed by the Company;  |
| <b>“Redemption Resolutions”</b>     | Resolutions 1 and 2 in the EGM Notice;  |
| <b>“Registrar”</b>                  | the Company’s registrar, being Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, D18 Y2X6;   |
| <b>“Resolutions”</b>                | the Redemption Resolutions and the Option Resolution;   |
| <b>“Retail Investor”</b>            | an investor who is not a Professional Investor;   |
| <b>“Return of Capital”</b>          | the Conversion and the Redemption;  |
| <b>“Settlement Agreement”</b>       | the settlement agreement dated 18 October 2017 entered into between (1) Donegal; (2) Danbywiske Unlimited Company; (3) Mr. Ronald Wilson; (4) The General Partners of the Wilson Limited Partnership 1; (5) Monaghan Mushrooms Ireland Unlimited Company; and (6) Elst; |
| <b>“Share Option Scheme 2005”</b>   | the Company’s share option scheme adopted on 27 July 2005;  |
| <b>“Share Option Scheme 2015”</b>   | the Company’s share option scheme adopted on 1 July 2015;   |
| <b>“Share Option Schemes”</b>       | the Share Option Scheme 2005 and the Share Option Scheme 2015;  |



**“Treasury Shares”**

the Ordinary Shares held by the Company as treasury shares from time to time and being 727,531 at the Latest Practicable Date; and

**“UK” or “United Kingdom”**

the United Kingdom of Great Britain and Northern Ireland.

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**DIRECTORS, COMPANY SECRETARY AND ADVISERS**

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|                               |  |
|-------------------------------|--|
| <b>Directors</b>              | Geoffrey Vance (Chairman)<br>Ian Ireland (Managing Director)<br>Padraic Lenehan (Finance Director)<br>Geoffrey McClay<br>Patrick J Kelly<br>Norman Witherow<br>Michael Griffin<br>Frank Browne<br>Henry McGarvey |
| <b>Company Secretary</b>      | Padraic Lenehan  |
| <b>Registered Office</b>      | Ballyraine<br>Letterkenny<br>Co Donegal  |
| <b>ESM Adviser and Broker</b> | Investec Bank plc (Irish Branch)<br>The Harcourt Building<br>Harcourt Street<br>Dublin 2   |
| <b>Auditors</b>               | KPMG<br>1 Stokes Place<br>St Stephen's Green<br>Dublin 2   |
| <b>Solicitors</b>             | VP McMullin & Son<br>Letterkenny<br>Co Donegal<br><br>Arthur Cox<br>Ten Earlsfort Terrace<br>Dublin 2  |
| <b>Registrar</b>              | Computershare Investor Services (Ireland) Ltd<br>Heron House<br>Corrig Road<br>Sandyford Industrial Estate<br>Dublin 18  |



*(Incorporated and registered in Ireland under the Companies Acts 1963 to 1986 with registered number 162921)*

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**PART I - LETTER FROM THE CHAIRMAN**

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*Directors:*

*Registered Office*

Geoffrey Vance (Chairman)\*  
Ian Ireland (Managing Director)  
Padraic Lenahan (Finance Director)  
Geoffrey McClay\*  
Patrick J Kelly\*  
Norman Witherow\*  
Michael Griffin\*  
Frank Browne\*  
Henry McGarvey\*

Ballyraine  
Letterkenny  
Co Donegal

23 April 2018

*\*Denotes non-executive director*

*Company Secretary:*

Padraic Lenahan

*To the Shareholders of Donegal Investment Group plc*

**Proposed €47.5 million Return of Capital to Shareholders by way of Share Redemption and Notice of Extraordinary General Meeting**

Dear Shareholder,

**1. INTRODUCTION**

I am writing to you today, following the release of our 2018 Preliminary Results Announcement, in connection with certain proposals which are being put forward by the Board in the context of making a proposed Return of Capital to Shareholders of an amount expected to be approximately €47.5 million, facilitated by a redemption of shares at the price of €9.25 per share redeemed.

This Circular sets out a number of steps, including obtaining the approval of Shareholders, which are required to be undertaken prior to the proposed Return of Capital.

**2. SUMMARY**

The Board is proposing to provide for a Return of Capital to Shareholders of up to €47.5 million by the creation (through conversion of certain existing Ordinary Shares Outstanding) and subsequent redemption of the Redeemable Ordinary Shares.

Under the Board's proposals, if the Redemption Resolutions are approved and the Conversion and Redemption are fully implemented, approximately 53.7% of each Shareholder's total holding of Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed and each Shareholder will receive:

- cash of €9.25 per Ordinary Share converted into a Redeemable Ordinary Share and subsequently Redeemed, this being the Redemption Price; or
- a Deferred Share for each Ordinary Share, which would otherwise have been Converted and Redeemed, had such Shareholder not notified the Company in accordance with section 83(4) of the Companies Act 2014 before the Conversion Date of their unwillingness to have the pro rata portion of their Ordinary Shares at the Conversion Date converted into Redeemable Ordinary Shares.

Shareholders are being requested to authorise the creation of Redeemable Ordinary Shares through the conversion of certain existing Ordinary Shares Outstanding into Redeemable Ordinary Shares. If approved, the Conversion will be on a pro rata or proportional basis in respect of the shareholdings of all Shareholders held on the Conversion Date (excluding any Ordinary Shares held by the Company as Treasury Shares as a result of prior share buy backs). The exact number of Ordinary Shares Outstanding to be converted will be determined by the Board based on the Ordinary Shares Outstanding at the relevant time. Following the Conversion, all of the Redeemable Ordinary Shares will be redeemed at a price of €9.25 per share. All Shareholders (excluding the Company in respect of its holding of Treasury Shares) will receive a cash amount which will be pro rata or proportional to their entire shareholding and each such Shareholder will retain the same percentage shareholding in the Company following the Redemption as that held on the Conversion Date.

Arising from this process, it is intended that an amount of approximately €47.5 million will be returned to Shareholders. It is anticipated that the Redemption will be implemented on Friday, 18 May 2018.

However, if a Shareholder notifies the Company pursuant to section 83(4) of the Companies Act 2014 before the Conversion Date of his/her/its unwillingness to have the pro rata portion of his/her/its Ordinary Shares converted into Redeemable Ordinary Shares, those shares will be converted into Deferred Shares. A Deferred Share shall have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share. Accordingly, taking up a Deferred Share, instead of participating in the proposed Return of Capital, would be expected to result in a loss for each Ordinary Share currently held equivalent to €9.12 per share. Shareholders should note that: (i) Deferred Shares will have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share and; (ii) unlike Ordinary Shares, the Deferred Shares will not be listed on the ESM.

On the basis that the Redemption is implemented in full, this is expected to result in the Redemption of approximately 5,134,223 Ordinary Shares (or approximately 53.7% of the current issued Ordinary Shares Outstanding) and the number of issued Ordinary Shares Outstanding of the Company, following cancellation of the Redeemable Ordinary Shares so redeemed, is expected to be approximately 4,423,836.

The purpose of this Circular is to provide Shareholders with details of the Board's proposals to:

- convert certain of the Company's existing Ordinary Shares into Redeemable Ordinary Shares;

- redeem all of the Redeemable Ordinary Shares at a price of €9.25 per share; and
- pay each Shareholder their Redemption Price within fourteen days of the Redemption Date.

**A notice convening the EGM, at which the Resolutions will be proposed, is set out at the end of this Circular. The EGM will take place at 12:00pm or immediately following the Company's Annual General Meeting to be held at 11:30am on Wednesday, 16 May 2018. Shareholders wishing to vote on the proposed Resolutions but who cannot attend the EGM, may appoint a proxy to exercise all or any of their rights to attend, vote and speak at the EGM by using one of the methods set out in the notes to the Notice of the EGM.**

### 3. **BACKGROUND TO AND REASONS FOR THE RETURN OF CAPITAL**

Since 2012, Donegal has actively managed and released capital from its non-core assets and businesses. During 2014 and 2015, for example, this included the sale of certain property assets including the Ballyraine Halls student accommodation which in aggregate generated net proceeds of €6 million.

Furthermore, in the 12 months to 31 August 2017, there were a significant number of non-core asset disposals including the sale of the Grianan Estate, Chef in a Box and a number of investment property assets located in or near the Donegal area, which, in aggregate, generated cash proceeds of €20.8 million. Also, in October 2017, Donegal announced that, under the terms of the Settlement Agreement with the majority shareholder of Elst, it would dispose of its interest in the Monaghan Mushroom business. The disposal was approved by Shareholders at the extraordinary general meeting on 27 November 2017.

On 16 February 2018, Donegal announced that, under the terms of the Settlement Agreement, it received €41.5 million in cash proceeds for the sale of its interest in Elst. A further two non-conditional deferred payments are to be received by Donegal as follows: (a) €2 million, to be paid on or before 15 February 2019; and (b) €2 million, to be paid on or before 15 February 2020, bringing the total amount payable pursuant to the Settlement Agreement to approximately €45.5 million.

As a result of, in particular, its disposals of the Grianan Estate and its interest in Elst, Donegal has accumulated a significant amount of surplus cash relative to its market capitalisation and to the strategic and operational requirements of its existing businesses. Cash at bank, and net of overdraft, at year-end, 31 August 2017, was €12.2 million with €5.1 million in term debt. At 28 February 2018, the Group's interim reporting date and its near peak seasonal working capital requirement, cash at bank, net of overdraft, was €51.2m, with €5.1m in term debt.

In the absence of the proposed Redemption, the Board would expect the Group's positive cash position to continue to increase further.

The Board has, in consultation with its advisers, considered a range of strategic and financial options to enhance Shareholder value, which involved the review of a number of factors, including:

- the Group's current cash position;
- the Group's ongoing earnings and cash flow generation;
- further non-conditional deferred payments totalling €4 million to be received as a result of the implementation of the Settlement Agreement;
- further proceeds from potential asset disposals;

- the relatively low interest income capable of being generated by the Group's current cash balance; and
- acquisition and investment opportunities.

Following this review, the Board unanimously believes that it is in the best interests of Shareholders to effect the Return of Capital to Shareholders by means of the proposed Redemption as it provides:

- an ability to maximise the Return of Capital up to the €47.5 million level;
- greater certainty and value realisation for certain of Donegal's Retail Investors;
- the ability for all Shareholders to retain their proportional registered and/or beneficial interest held at the Conversion Date in the Company following the proposed Redemption;
- the ability for all Shareholders, including those with smaller shareholdings, to participate in the proposed Redemption; and
- a significant liquidity event for all Shareholders.

If the Redemption is implemented in full, this is expected to result in the Redemption of approximately 5,134,223 Ordinary Shares (or approximately 53.7% of the Ordinary Shares Outstanding), which contrasts with the modest historic levels of liquidity in the Company's Ordinary Shares, as evidenced by the total volume of Ordinary Shares traded on ESM over the six month period to 18 April 2018, the last date prior to the announcement of the Return of Capital in the Company's 2018 Preliminary Results Announcement, being 914,167.

The Board believes that a return of approximately €47.5 million of capital in cash represents the most effective use of Company funds and that the continued strength of the Group's balance sheet and its cash-flows after the Return of Capital will be sufficient to pursue the Group's activities. Accordingly, the Directors have undertaken to vote their respective shareholdings in Donegal in favour of the Resolutions at the Extraordinary General Meeting.

#### 4. **CONVERSION OF CERTAIN ORDINARY SHARES INTO REDEEMABLE ORDINARY SHARES AND REDEMPTION OF REDEEMABLE ORDINARY SHARES**

It is expected that, if Shareholders approve the Redemption Resolutions and all Shareholders opt to participate, the Company will convert approximately 5,134,223 of its 9,558,059 Ordinary Shares Outstanding into Redeemable Ordinary Shares on a basis proportionate to each Shareholder's holding of Ordinary Shares in the Company as at the Conversion Date. Any partial entitlement to Redeemable Ordinary Shares will be rounded down to the nearest whole share. The Board will determine the number of Ordinary Shares which it deems appropriate to convert into Redeemable Ordinary Shares at the time of the Conversion, bearing in mind the relevant circumstances of the Company at that time. Confirmation of the exact number of shares converted and redeemed and the date of the Conversion (which is expected to be 6:00pm on Thursday, 17 May 2018) and Redemption (which is expected to be 12:01am on Friday, 18 May 2018) will be notified by way of an announcement on the Company's website.

Pursuant to the Companies Act 2014, a company, such as the Company, may not redeem its own shares except out of Profits Available for Distribution by reference to the relevant financial statements, as defined by section 121 of the Companies Act 2014, and, in the case of a public limited company, such as the Company, unless if at the time of redemption, the amount of its net assets is not less than the aggregate of its called up share capital and its undistributable

reserves and the redemption will not result in a reduction of the amount of those assets to less than that aggregate. As at the date of this Circular, the Board is satisfied that the Company will have sufficient Profits Available for Distribution to implement the Redemption and that, at the time of implementing the Redemption, the amount of the Company's net assets will not be less than the aggregate of its called up share capital and its undistributable reserves and implementation of the Redemption will not result in a reduction of the amount of those assets to less than that aggregate. Any such Redemption will also be dependent on the financial position of the Company at the time of the Redemption and will be subject to Board approval at that time.

The Redemption is conditional on the approval of the Shareholders to change the Articles of Association to allow for it. The Redemption is also conditional on the Company's continued compliance with the requirements of Irish company law, including the requirement that the Directors continue to be satisfied that the Company can, and will continue to be able to, satisfy all liabilities as they fall due. If the Directors form the view that it is no longer possible for whatever reason to proceed with the Redemption, Shareholders will be notified as soon as practicable thereafter.

Assuming the Redemption Resolutions are passed and the Company's circumstances at the time have not changed adversely, following the Conversion, on the Redemption Date, the Company will redeem all of the Redeemable Ordinary Shares at a price of €9.25 per share.

Under the terms of the Redemption, the Company will be authorised to redeem all of the Redeemable Ordinary Shares at a Redemption Price of €9.25 per Redeemable Ordinary Share. As at the Latest Practicable Date, the issued ordinary share capital of the Company was 10,285,590 and the Ordinary Shares Outstanding were 9,558,059.

The Redeemable Ordinary Shares redeemed pursuant to the Redemption will be redeemed free of commissions and dealing charges.

Once a Redeemable Ordinary Share has been redeemed, it will be cancelled and will not rank for any future dividends or Return of Capital.

In the case of Shareholders who hold shares in certificated form, the relevant amount of their existing Ordinary Shares will, subject to Shareholder and Board approval, be converted into Redeemable Ordinary Shares (rounded down to the nearest whole number) and the balance will remain as Ordinary Shares. Their existing share certificate will cease to be of value and a new share certificate will be issued for their new balance of Ordinary Shares following the Redemption. The Redeemable Ordinary Shares will then be redeemed at €9.25 per Redeemable Ordinary Share and the Redemption Proceeds will be paid by cheque within fourteen days of the Redemption Date.

In the case of Shareholders who hold Ordinary Shares in CREST, the relevant amount of their existing Ordinary Shares will, subject to Shareholder and Board approval, be converted into Redeemable Ordinary Shares (rounded down to the nearest whole number) and the balance will be reissued as Ordinary Shares on the new ISIN. This is required to facilitate the partial redemption in CREST. Redemption Proceeds will be paid within fourteen days of the Redemption Date by means of a payment through CREST in favour of the Shareholder's payment bank in accordance with the CREST payment arrangements.

Up to and including the Conversion Date, Ordinary Shares will be traded under the old ISIN and as such, a purchaser of such Ordinary Shares will have a market claim for a proportion of the redemption proceeds. CREST will automatically transfer any open transactions as at the Conversion Date (which is the record date for the purposes of the Redemption) to the new ISIN.

In the case of joint holders who hold Ordinary Shares in certificated form, the Redemption Proceeds will be paid by cheque payable to all named joint holders and sent to the Shareholder whose name appears first on the register.

The Redemption Price represents a premium of 2.8 per cent to the Closing Price of €9.00 per Ordinary Share on the Latest Practicable Date and a premium of 17.1 per cent to the volume weighted average price per Ordinary Share over the six month period to 18 April, the last date prior to the announcement of the Redemption in the Company's 2018 Preliminary Results Announcement.

In accordance with section 83(4) of the Companies Act 2014, in the event that a Shareholder notifies the Company, before the Conversion Date, of his/her/its unwillingness to have the pro rata portion of his/her/its Ordinary Shares converted into Redeemable Ordinary Shares, those shares will be converted into Deferred Shares. A Deferred Share shall have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share. Accordingly, the maximum value of such a Deferred Share is €0.13 per share, which is €9.12 less per share than would be received if the Shareholder had participated in the Redemption. It is not the Board's intention to seek a listing for any Deferred Shares.

Once the Redemption Resolutions at the EGM are passed, no further action will be required on the part of Shareholders in relation to the proposed Redemption.

## 5. DIRECTORS' SHAREHOLDINGS

Each of the Directors who holds Ordinary Shares: (i) intends to vote in favour of the Resolutions; and (ii) will **not** notify the Company in accordance with section 83(4) of the Companies Act 2014 of their unwillingness to have some or all of their Ordinary Shares converted into Redeemable Ordinary Shares.

The table below sets out how the Directors' shareholdings will be affected if the Company redeems the expected number (5,134,223) of Redeemable Ordinary Shares for aggregate maximum Redemption Proceeds of €47.5 million.

| Director        | Shareholding as at the Latest Practicable Date | % Ordinary Shares Outstanding | Shareholding post implementation of the Redemption(ii) | % Ordinary Shares Outstanding post Redemption |
|-----------------|--|-------------------------------|--|---|
| Geoffrey Vance  | 187,889  | 1.97                          | 86,945   | 1.97  |
| Ian Ireland     | 181,774  | 1.90                          | 84,115   | 1.90  |
| Padraic Lenehan | -  | -                             | -  | -   |
| Geoffrey McClay | 16,107   | 0.17                          | 7,454  | 0.17  |
| Patrick J Kelly | 4,401  | 0.05                          | 2,037  | 0.05  |
| Norman Witherow | 52,821   | 0.55                          | 24,443   | 0.55  |
| Michael Griffin | 25,000   | 0.26                          | 11,569   | 0.26  |
| Frank Browne    | 12,067   | 0.13                          | 5,584  | 0.13  |
| Henry McGarvey  | 10,377   | 0.11                          | 4,802  | 0.11  |
| <b>Total</b>    | <b>490,436</b>                                 | <b>5.13</b>                   | <b>226,949</b>   | <b>5.13</b>                                   |

- (i) Assumes no change in the Directors' respective holdings between the Latest Practicable Date and the date of Redemption.



(ii) Assumes that the Redemption is implemented in full.

## 6. SUBSTANTIAL SHAREHOLDINGS

In addition to those interests disclosed under Directors' Shareholdings, as at the Latest Practicable Date, the Company had received notification of the following interests in its ordinary share capital:

|   | No. of Shares | % Ordinary Shares Outstanding |
|---|---------------|-------------------------------|
| HSBC Global Custody Nomine (UK) Limited – QUAERO CAPITAL SA | 952,000       | 9.96                          |
| Goodbody Stockbroker Nominees Limited                       | 810,829       | 8.48                          |
| Aurum Nominees Limited – Donegal Investment Group plc       | 634,920       | 6.64                          |
| Aurum Nominees Limited – Danbywiske                         | 495,000       | 5.18                          |
| Pageant Investments Limited                                 | 722,797       | 7.56                          |

Apart from these holdings, the Company has not been notified as at the Latest Practicable Date of any interest of 3 per cent or more in its ordinary share capital.

## 7. AMENDMENT OF SHARE OPTION SCHEMES

The Share Option Schemes do not afford the Company the ability to cash cancel options and, accordingly, it requires the option holder to fully finance the cost of the shares when exercising their option, which can be prohibitive. In line with market practice, we are amending the Share Option Schemes to allow cash cancellation. Should the Option Resolution be passed, it would allow the Company to facilitate certain option holders being treated fairly and participate in the Return of Capital on a similar economic basis as actual Shareholders.

## 8. TAXATION

A guide to the general tax position of Shareholders resident, ordinarily resident and domiciled in Ireland and Shareholders resident and domiciled in the United Kingdom is set out in Part IV of this Circular. However, all Shareholders, regardless of their residence or domicile status, are strongly advised to consult their own professional advisers as to their tax position, based on their own particular circumstances, in relation to the tax implications of the proposed Redemption.

## 9. EXTRAORDINARY GENERAL MEETING

Page 30 of this Circular sets out a notice convening the EGM to be held at The Silver Tassie Hotel, Ballymaleel, Ramelton Road, Letterkenny, Co Donegal, on Wednesday, 16 May 2018 at 12:00pm or immediately following the Annual General Meeting, which is scheduled to be held at the same venue on Wednesday, 16 May 2018 at 11:30am. At the EGM, Shareholders will be asked to consider and, if thought fit, pass the Resolutions. The implementation of the Redemption is conditional on, inter alia, the passing of each of the Redemption Resolutions. If the Redemption Resolutions are not passed by Shareholders at the EGM, the Company will not implement the Redemption and the proposed €47.5 million Return of Capital.

Ordinary Resolutions require the approval of the majority of those Shareholders present and voting (in person or by proxy) at the EGM. Special Resolutions require the approval of not less than 75 per cent of those Shareholders present and voting (in person or by proxy) at the EGM.

At the EGM, the following resolutions will be proposed:

### **Resolution 1**

Resolution 1 will be proposed as a special resolution. This resolution will authorise the conversion of certain of the existing Ordinary Shares into Redeemable Ordinary Shares and will do this by amending the Memorandum and Articles of Association of the Company so that the Board can determine the number of Ordinary Shares which may be converted into Redeemable Ordinary Shares and redeemed.

Resolution 1 will be decided on a show of hands, unless a poll is validly demanded in accordance with the Articles. On a show of hands, each Shareholder present in person or by proxy will have one vote (but no individual shall have more than one vote) and on a poll each Shareholder present in person or by proxy will have one vote for each Ordinary Share held. The passing of Resolution 1 requires the support of not less than 75% of the votes cast (whether in person or by proxy) at the EGM.

### **Resolution 2**

Resolution 2 (which is conditional on Resolution 1 being passed and becoming effective) will be proposed as an ordinary resolution. This resolution will authorise an increase in the authorised share capital of the Company by the creation of an additional authorised amount of 5,140,000 Deferred Shares of €0.13 each having the rights provided for in the Articles of Association of the Company as amended by Resolution 1. Resolution 2 also provides that if no Deferred Shares come into existence within six months of Resolution 1 becoming effective, then the authorised share capital of the Company will be reduced to €7,168,200 by the removal of the 5,140,000 Deferred Shares as a class from the authorised share capital of the Company.

### **Resolution 3**

Resolution 3 will be proposed as an ordinary resolution. This resolution will authorise an amendment to the Company's Share Option Schemes, which amendment will enable the Company to satisfy its obligation to deliver Ordinary Shares to option holders on the exercise of their options by the payment of cash to the option holder calculated in accordance with clause 6.5 of the Share Option Schemes (as amended by Resolution 3). Should Resolution 3 be passed, it would allow the Board to facilitate certain option holders participating in the Return of Capital on a similar economic basis as actual Shareholders.

## **10. ACTION TO BE TAKEN**

You will find enclosed a Form of Proxy for use at the EGM. Whether or not you intend to be present at the EGM, you are requested to complete the Form of Proxy (in accordance with the instructions printed thereon) and return it to the Company's registrars, Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, D18 Y2X6, Ireland as soon as possible and in any event so as to be received by no later than 12:00pm on Monday, 14 May 2018. The completion and return of the Form of Proxy will not preclude you from attending the EGM and voting in person should you wish to do so.

The appointment of a proxy may be submitted electronically, subject to the terms and conditions of electronic voting, via the internet by accessing the Company's Registrar's website [www.eproxyappointment.com](http://www.eproxyappointment.com). You will need your control number, shareholder reference number and your PIN number, which can be found on your Form of Proxy; or be submitted

through CREST in the case of CREST members, CREST sponsored members or CREST members who have appointed voting service providers. Transmission of CREST Proxy instructions must be done and authenticated in accordance with Euroclear specifications as set out in the CREST Manual and received by the Registrar under CREST Participant ID 3RA50.

11. **RECOMMENDATIONS**

The Board considers the proposed Redemption to be in the best interests of the Company and the Shareholders as a whole and, accordingly, unanimously recommends that the Shareholders vote in favour of the Resolutions to be proposed at the EGM and participate in the Redemption.

Each of the Directors who holds Ordinary Shares intends to participate in the Redemption and will not notify the Company in accordance with section 83(4) of the Companies Act 2014 of their unwillingness to have any of their Ordinary Shares converted into Redeemable Ordinary Shares. The Directors intend to vote in favour of the Resolutions in respect of their beneficial interests amounting, as at the Latest Practicable Date, to an aggregate of 490,436 Ordinary Shares, representing approximately 5.13% of the Ordinary Shares Outstanding of the Company.

Choosing the option of taking Deferred Shares will cause any such Shareholder to lose the opportunity to participate in and receive the Return of Capital.

Shareholders who are in any doubt how to proceed are recommended to consult their independent advisers and make their own decision.

Yours sincerely,

Geoffrey Vance

**Chairman**

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## PART II – QUESTIONS AND ANSWERS

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### Questions and Answers regarding the Redemption

Set out below are some questions and answers relating to the Redemption.

**Note: You should read the whole of this Circular and not rely solely on any single part of this Circular.**

**Q. What is the Redemption?**

The Redemption is the method by which the Company intends to return approximately €47.5 million of cash to the Shareholders. Shareholders who participate will have part of their Ordinary Shares converted into Redeemable Ordinary Shares which will subsequently be redeemed by the Company at the Redemption Price.

**Q. Who is eligible to participate in the Redemption?**

The Redemption is open to all Shareholders (excluding the Company which holds certain of its own shares as Treasury Shares which it acquired as a result of prior share buy backs). Further details of the Redemption are set out in the Letter from the Chairman in Part I of this Circular and the terms and conditions of the Redemption are set out in Part III of this Circular.

**Q. Can I choose to retain all my Ordinary Shares rather than participate in the Redemption?**

No, any Shareholder who objects prior to the Conversion Date to having the pro-rata portion of his/her/its shareholding converted into Redeemable Ordinary Shares will instead have those shares converted into Deferred Shares. A Deferred Share shall have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share.

**Q. If I participate in the Redemption, how many of my Ordinary Shares will be converted to Redeemable Ordinary Shares?**

Approximately 53.7% of the Ordinary Shares that you hold on the Conversion Date will be converted into Redeemable Ordinary Shares, rounded down to the nearest whole share.

**Q. Under the Redemption, what will happen to my Redeemable Ordinary Shares?**

The Redeemable Ordinary Shares will be redeemed by the Company and cancelled and you will receive €9.25 per Redeemable Ordinary Share held.

**Q. Will my shareholding in Donegal be diluted?**

No. All shareholders will hold at least the same percentage of Ordinary Shares Outstanding in the Company after the Redemption is completed as they did beforehand. This is because the Board does not expect Shareholders owning a material amount of Ordinary Shares to notify the Company, prior to the Conversion Date, pursuant to section 83(4) of the Companies Act 2014 of his/her/its unwillingness to have the pro rata portion of his/her/its Ordinary Shares converted into Redeemable Ordinary Shares.

**Q. How many Ordinary Shares will there be in issue after the Redemption?**

Assuming the Redemption is implemented in full, the Redemption will result in the redemption (and subsequent cancellation) of approximately 5,134,223 Ordinary Shares (representing approximately 53.7% of the Ordinary Shares Outstanding as at the Latest Practicable Date). It is therefore expected that there will be approximately 4,423,836 Ordinary Shares Outstanding after the completion of the Redemption.

**Q. How much cash will I receive and what percentage of the Ordinary Shares will I hold after the Redemption completes?**

Assuming the Redemption is implemented in full, you will receive €9.25 for each Redeemable Ordinary Share that is redeemed. Your percentage holding of Ordinary Shares will be the same after the Redemption as beforehand as the Redemption is being effected on a pro rata basis amongst all Shareholders.

**Q. Can I delay having my shares redeemed until a later date?**

No. Once the relevant shares are converted to Redeemable Ordinary Shares, Shareholders will not be able to determine the timing of the redemption of their holding of Redeemable Ordinary Shares.

**Q. What do I need to do?**

You are encouraged to sign and return the Form of Proxy by 12:00pm on Monday, 14 May 2018 to vote on the resolutions necessary to facilitate the Redemption and the amendment to the Share Option Schemes. The appointment of a proxy may be submitted electronically, subject to the terms and conditions of electronic voting, via the internet by accessing the Company's Registrar's website [www.eproxyappointment.com](http://www.eproxyappointment.com). Further details on this are set out in section 10 of the Letter from the Chairman in Part I of this Circular. You should contact the Company's registrar, Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, D18 Y2X6 during normal business hours on telephone number 01 4475462 if calling from Ireland or 00 353 14475462 if calling from outside Ireland if you have any query in relation to your shareholding in the Company.

**Q. When will I receive my Redemption Proceeds?**

Under the expected timetable of events, it is expected that if you hold your Ordinary Shares in certificated form, a cheque would be despatched to you for the Redemption Proceeds within fourteen days of the Redemption Date. It is expected that CREST account holders would also have their CREST accounts credited within that timeframe.

**Q. What is the tax treatment for Irish or UK resident Shareholders?**

For information about certain Irish and UK taxation aspects of the Redemption please see Part IV of this Circular. If you are in any doubt about your tax position, or if you are subject to tax in a jurisdiction other than Ireland or the UK, you should consult a professional adviser. All Shareholders are strongly advised to consult their professional advisers regarding their own tax position, based on their own personal circumstances, in relation to the tax implications of the proposed Redemption.

**Q. Do I have to take Redeemable Ordinary Shares?**

Section 83(4) of the Companies Act 2014 provides that any Shareholder may notify the Company of his/her/its unwillingness to have his/her/its Ordinary Shares converted into Redeemable Ordinary Shares before the date of conversion. However, if a Shareholder is proposing to do this, he or she should note that Resolution 1 provides that the percentage of

his/her/its Ordinary Shares which would have been converted into Redeemable Ordinary Shares shall instead be converted into Deferred Shares. Resolution 1 will also amend the Articles so as to provide that a Deferred Share shall have no rights other than a right to participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share, being €0.13 per Deferred Share.

**Q. What happens if the Redemption Resolutions are not approved at the EGM?**

In such circumstances, the planned Return of Capital will not proceed and Shareholders will not receive the Return of Capital of up to €47.5 million at the Redemption Price of €9.25 per Redeemable Ordinary Share.

**Q. Are there any plans to redeem any more shares thereafter?**

There are no plans to redeem any more shares after the proposed Redemption.

**Q. Will I receive a new share certificate?**

New share certificates will be issued to all certificated Shareholders post-Redemption to reflect the new balance then pertaining. Share certificates issued prior to the Redemption will cease to be of value. If you wish to trade after the Redemption and are awaiting that certificate, your stockbroker or other financial adviser can arrange with the Registrar to have the transfer certified against the share register.

**Q. What happens if my shares are held in CREST?**

If you hold your shares in CREST, the relevant amount of your existing Ordinary Shares will, subject to the passing of Resolution 1, be converted into Redeemable Ordinary Shares (rounded down to the nearest whole number) and the balance will remain as Ordinary Shares issued under a separate ISIN to the original. This is required to facilitate the redemption of the pro-rata portion of Ordinary Shares in CREST. The Redeemable Ordinary Shares will then be redeemed at €9.25 each and Redemption Proceeds will be paid via CREST within fourteen days of the Redemption Date.

**Q. Who do I contact if I have a query?**

If you have a query in respect of your shareholding, please contact the Company's Registrar on 01 4475462. If you have a query in respect of the taxation implications of this proposal, please contact your tax adviser. Should you wish to be sent a copy of the Company's 2017 Annual Report, you may request this by telephoning the Company's Registrars on 01 4475462 or by writing to the Company Secretary at the registered office.

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## PART III – TERMS AND CONDITIONS

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### Terms and Conditions of the Redemption

**Shareholders are encouraged to sign and return the Form of Proxy by 12:00pm on Monday, 14 May 2018 to vote on the Resolutions**

**Shareholders who wish to object to having the pro rata portion of his/her/its shareholding converted into Redeemable Ordinary Shares (such shares to instead be converted into Deferred Shares) must notify the Company of this objection prior to the Conversion by notice in writing to the Company's Registrar, Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, D18 Y2X6, such notice to be received by no later than 5:00pm on Thursday, 17 May 2018**

#### 1. INTRODUCTION

Under the terms of the proposed Redemption: (i) a pro rata number of participating Shareholders' Ordinary Shares at the Conversion Date will be converted into Redeemable Ordinary Shares; (ii) the Redeemable Ordinary Shares will be redeemed by the Company at a price of €9.25 per Redeemable Ordinary Share; (iii) all Shareholders will receive a cash amount which will be pro rata to their entire shareholding at the Conversion Date; and (iv) each Shareholder will retain the same percentage holding of Ordinary Shares in the Company following the Redemption as that held at the Conversion Date.

The Board is proposing that approximately 5,134,223 Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed at the Redemption Price. Each relevant Shareholder will be entitled to approximately 53.7 per cent of their Ordinary Shares registered in his/her/its name at the Conversion Date (rounded down to the nearest whole number) converted into Redeemable Ordinary Shares, assuming that no options to subscribe for Ordinary Shares are exercised before the Conversion Date.

Ordinary Shares converted pursuant to the Return of Capital will be converted free of all liens, charges, restrictions, claims, equitable interests and encumbrances and together with all rights attaching thereto. All Ordinary Shares converted into Redeemable Ordinary Shares shall be cancelled by the Company upon payment of the Redemption Proceeds.

#### 2. TERMS AND CONDITIONS OF THE RETURN OF CAPITAL

Shareholders are hereby invited to: (i) vote in favour of the Resolutions; and (ii) participate in the Return of Capital subject to the following terms and conditions:

- (a) the Return of Capital is conditional on:
  - (i) the passing of the Redemption Resolutions; and
  - (ii) the Board passing the required resolutions to convert and redeem the relevant shares;
- (b) if these conditions are not satisfied, the Return of Capital will not proceed and the Company will not effect the Conversion and subsequent Redemption;
- (c) each Redeemable Ordinary Share will be redeemed under the Return of Capital at the Redemption Price;

- (d) the Return of Capital is only available to Shareholders on the register of members of the Company on the Conversion Date and only in respect of the number of Redeemable Ordinary Shares registered in their names on that date;
- (e) the Board determining in its absolute discretion the number of Ordinary Shares which it deems appropriate to convert into Redeemable Ordinary Shares at the time of the Conversion;
- (f) the Company's continued compliance with the requirements of Irish company law, including the requirement that the Directors continue to be satisfied that the Company can, and will continue to be able to, satisfy all liabilities as they fall due. If the Directors form the view that it is no longer possible for whatever reason to proceed with the Redemption, Shareholders will be notified as soon as practicable thereafter;
- (g) subject to the satisfaction or waiver (where applicable) of the conditions referred to in paragraph 2(a) above, Ordinary Shares will be converted into Redeemable Ordinary Shares and redeemed at the Redemption Price by the Company fully paid and free of all liens, charges, restrictions, claims, equitable interests and encumbrances and together with all rights attaching thereto. The Company will cancel such Redeemable Ordinary Shares redeemed by the Company;
- (h) the Return of Capital will be governed by and construed in accordance with the laws of Ireland;
- (i) all documents and remittances sent by or to Shareholders and all instructions made by or on behalf of a Shareholder in CREST will be sent at the risk of the Shareholder concerned;
- (j) further copies of the Form of Proxy may be obtained on request from Computershare Investor Services (Ireland) Limited by telephone on 01 4475462 from within Ireland or on 00 353 14475462 calling from outside Ireland. Lines are open 9:00am to 5:00pm Monday to Friday (except Irish public holidays). The helpline cannot provide advice on the merits of the Return of Capital nor give any financial, legal or tax advice;
- (k) the decision of the Company as to all matters relating to the Return of Capital shall be final and binding on all Ordinary Shareholders who participate in the Return of Capital;
- (l) all questions as to the number of Ordinary Shares converted into Redeemable Ordinary Shares and redeemed, and the validity, form, eligibility (including the time of receipt) and payment of any Redemption Price will be determined by the Company, in its sole and absolute discretion, which determination shall be final and binding on all of the parties (except as otherwise required under applicable law);
- (m) all Ordinary Shares converted to Redeemable Ordinary Shares and redeemed will be redeemed by Donegal, as principal and not as agent, nominee or trustee, at the Redemption Price and free of commissions and any other charges;
- (n) the failure of any person to receive a copy of this Circular or the Form of Proxy shall not invalidate any aspect of the Return of Capital. None of the Company, the Registrar or any other person will incur any liability in respect of any



person failing to receive this Circular or the Form of Proxy. Additional copies of this Circular and the Form of Proxy can be obtained from the Registrar;

- (o) no acknowledgement of receipt of any Form of Proxy will be given;
- (p) the appointment of a proxy may be submitted electronically, subject to the terms and conditions of electronic voting, via the internet by accessing the Company's Registrar's website [www.eproxyappointment.com](http://www.eproxyappointment.com). You will need your control number, shareholder reference number and your PIN number, which can be found on your Form of Proxy; or be submitted through CREST in the case of CREST members, CREST sponsored members or CREST members who have appointed voting service providers. Transmission of CREST Proxy instructions must be done and authenticated in accordance with Euroclear specifications as set out in the CREST Manual and received by the Registrar under CREST Participant ID 3RA50;
- (q) the Company reserves the right to treat any Form of Proxy and/or CREST instructions not strictly complying with the terms and conditions of the Return of Capital as nevertheless valid;
- (r) the Company shall not be required to issue any share certificates in respect of any shares which are converted into Redeemable Ordinary Shares; and
- (s) should any fractions arise from scaling down, the number of Ordinary Shares converted and the number of Redeemable Ordinary Shares redeemed shall be rounded down to the nearest whole share.

### 3. MISCELLANEOUS

Shareholders whose Ordinary Shares are converted into Redeemable Ordinary Shares and redeemed, will not be obliged to pay brokerage fees, commissions or transfer taxes or duty in Ireland on the Conversion and Redemption.

If you are in any doubt as to the procedure to follow, please contact the Registrar by telephone on 01 4475462 from within Ireland, or on 00 353 14475462 if calling from outside Ireland. Lines are open 9:00am to 5:00pm Monday to Friday (except Irish public holidays). The helpline cannot provide advice on the merits of the Return of Capital nor give any financial, legal or tax advice. You are reminded that, if you are a CREST sponsored member, you should contact your CREST Sponsor before taking any action.

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## PART IV - TAX ASPECTS OF THE RETURN OF CAPITAL

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This Part IV does not constitute tax or financial advice and is intended only as a general guide to certain applicable taxation laws and published practice in certain jurisdictions at the date of issue of this Circular (both of which are subject to change, possibly with retrospective effect).

**All Shareholders, regardless of their residence or domicile status, are strongly advised to consult with their professional advisers as to their tax position, based on their own particular circumstances.**

### 1. SHAREHOLDERS RESIDENT IN IRELAND

1.1 The following summary is intended as a general guide only, is based on current tax legislation and the Office of the Revenue Commissioners practice in Ireland at the date of issue of this Circular. It does not constitute tax or legal advice. It summarises the Irish taxation consequences which would arise on a conversion of Ordinary Shares to Redeemable Ordinary Shares and the subsequent Redemption of the Redeemable Ordinary Shares for Shareholders who are resident, ordinarily resident and domiciled in Ireland for tax purposes and who beneficially own their Ordinary Shares as an investment and not for trading purposes. The comments may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules.

#### 1.2 Individual Shareholders

Individual Shareholders who are tax resident, ordinarily resident and domiciled in Ireland who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to Irish capital gains tax on the Redemption of their Redeemable Ordinary Shares. The capital gain is calculated by reference to the Redemption Proceeds less the amount paid by the individual Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for Irish tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The Irish capital gains tax rate is currently 33%.

If the Redemption Proceeds received by the individual Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for Irish tax purposes, which can be offset against other capital gains arising to the individual Shareholder.

There will be no withholding tax applied to the cash payment made by the Company to the individual Shareholders for the Redemption of their Redeemable Ordinary Shares.

#### 1.3 Corporate Shareholders

Corporate Shareholders who are tax resident in Ireland and who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to Irish

corporation tax on chargeable gains on the Redemption of their Redeemable Ordinary Shares. The chargeable gain is calculated by reference to the Redemption Proceeds less the amount paid by the corporate Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for Irish tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The effective rate of Irish corporation tax on chargeable gains is currently 33%.

If the Redemption Proceeds received by the corporate Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for Irish tax purposes, which can be offset against other chargeable gains arising to the corporate Shareholder.

There will be no withholding tax applied to the cash payment made by the Company to corporate Shareholders for the Redemption of their Redeemable Ordinary Shares.

Certain corporate Shareholders holding at least 5 per cent, of the total number of Ordinary Shares in issue may, depending on their circumstances, be able to claim the substantial shareholding exemption so that no tax liability arises on the Redemption of their Redeemable Ordinary Shares (and similarly, any loss arising on the Redemption would not be treated as an allowable capital loss). Various conditions attach to this exemption and corporate Shareholders should seek their own tax advice as to whether this exemption would apply in their specific circumstances.

#### **1.4 Pension Funds and Approved Charities**

Shareholders who have some of their Ordinary Shares converted to Redeemable Ordinary Shares who are Irish approved pension funds or Irish approved charities should be exempt from tax in Ireland on the Redemption of their Redeemable Ordinary Shares.

## **2. SHAREHOLDERS RESIDENT IN THE UNITED KINGDOM**

2.1 The following summary is intended as a general guide only, is based on current legislation and H.M. Revenue and Customs practice in the UK at the date of issue of this Circular, and does not constitute tax or legal advice. It summarises the UK taxation consequences which would arise on a conversion of Ordinary Shares to Redeemable Ordinary Shares and the subsequent Redemption of the Redeemable Ordinary Shares for Shareholders who are resident and domiciled in the UK for tax purposes and who beneficially own their Ordinary Shares as an investment and not for trading purposes. The comments may not apply to certain Shareholders, such as dealers in securities, insurance companies and collective investment schemes, Shareholders who are exempt from taxation and Shareholders who have (or are deemed to have) acquired their Ordinary Shares by virtue of an office or employment. Such persons may be subject to special rules.

2.2 The tax treatment of any Redemption Proceeds received by UK resident and domiciled Shareholders will depend on whether the payment is treated as either a 'capital' or 'income' for UK tax purposes. This analysis is based on case law principles and on the form of the payment under Irish corporate law. Any Redemption Proceeds received by a Shareholder on a Redemption of shares by a company, involving a reduction in the number of shares held by that Shareholder, should be treated as a capital receipt subject to UK capital gains tax.

- 2.3 The paragraphs below describe the tax treatment of the proposed conversion of Ordinary Shares to Redeemable Ordinary Shares and the subsequent redemption of the Redeemable Ordinary Shares by UK resident and domiciled Shareholders assuming capital gains tax treatment applies.

### **Individual Shareholders**

- 2.4 Individual Shareholders who are tax resident and domiciled in the UK who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to UK capital gains tax on the Redemption of their Redeemable Ordinary Shares. The capital gain is calculated by reference to the Redemption Proceeds less the amount paid by the individual Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for UK tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The current UK capital gains tax rate is either 10% or 20% depending on the individual Shareholder's marginal rate of tax in the relevant tax year, and the availability of certain reliefs. No indexation allowance would be available.
- 2.5 If the Redemption Proceeds received by the individual Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for UK tax purposes, which could be offset against other capital gains arising to the individual Shareholder.
- 2.6 There will be no withholding tax applied to the cash payment made by the Company to the individual Shareholders for the Redemption of their Redeemable Ordinary Shares.

### **Corporate Shareholders**

- 2.7 Corporate Shareholders who are tax resident in the UK who have some of their Ordinary Shares converted to Redeemable Ordinary Shares may be liable to UK corporation tax on chargeable gains on the Redemption of their Redeemable Ordinary Shares. The capital gain is calculated by reference to the Redemption Proceeds less the amount paid by the corporate Shareholder to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares (the conversion of Ordinary Shares to Redeemable Ordinary Shares should not constitute a disposal for UK tax purposes, rather the Redeemable Ordinary Shares should be deemed to have been acquired on the same date and at the same cost as the Ordinary Shares which were converted). The effective rate of UK corporation tax on chargeable gains is currently 19%.
- 2.8 If the Redemption Proceeds received by the corporate Shareholder is less than the amount paid by them to acquire the Ordinary Shares which were converted to Redeemable Ordinary Shares, the difference may give rise to a capital loss for UK tax purposes, which could be offset against other chargeable gains arising to the corporate Shareholder or, in certain circumstances, other chargeable gains arising in companies in the same group as the corporate Shareholder.
- 2.9 There will be no withholding tax applied to the cash payment made by the Company to corporate Shareholders for the Redemption of their Redeemable Ordinary Shares.
- 2.10 Certain corporate Shareholders holding more than 10%, of the total number of Ordinary Shares could, depending on their own circumstances, fall within the substantial shareholding exemption so that no corporation tax liability would arise on the

Redemption of their Redeemable Ordinary Shares (and similarly, any loss arising on the Redemption would not be treated as an allowable capital loss). Various conditions attach to this exemption and corporate Shareholders should seek their own tax advice as to whether this exemption would apply in their specific circumstances.

#### **Pension Funds and Approved Charities**

2.11 Shareholders who have some of their Ordinary Shares converted to Redeemable Ordinary Shares who are UK registered pension schemes or UK approved charities should be exempt from tax in the UK on the Redemption of their Redeemable Ordinary Shares.

### **3. OTHER GENERAL TAXATION ISSUES**

There is no requirement for Shareholders to obtain a capital gains tax clearance certificate in advance of the Redemption as the shares in the Company do not derive the greater part of their value from specified assets (as defined in Irish tax legislation).

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### Donegal Investment Group plc

*(Registered in the Republic of Ireland, Registered Number 162921)*

**NOTICE IS HEREBY GIVEN** that an Extraordinary General Meeting (“**EGM**”) of Donegal Investment Group plc (the “**Company**” or “**Donegal**”) will be held at 12:00pm or immediately following the Company’s Annual General Meeting to be held at 11:30am on Wednesday, 16 May 2018 at Silver Tassie Hotel, Letterkenny, Co Donegal for the purpose of considering and, if thought fit, passing the following resolutions:

#### **AS A SPECIAL RESOLUTION (Resolution 1)**

#### **THAT:**

“(a) the memorandum of association of the Company is hereby amended by deleting clause 5 thereof and substituting therefor the following new clause 5:

“5. The share capital of the Company is €7,836,400 divided into 50,000,000 Ordinary Shares of €0.13 each, 5,140,000 Redeemable Ordinary Shares of €0.13 each and 5,140,000 Deferred Shares of €0.13 each, with power to increase or decrease the share capital.”;

(b) the articles of association of the Company are hereby amended by deleting article 2 thereof and substituting therefor the following new article 2:

“2 (a) The share capital of the Company is €7,836,400 divided into 50,000,000 Ordinary Shares of €0.13 each, 5,140,000 Redeemable Ordinary Shares of €0.13 each and 5,140,000 Deferred Shares of €0.13 each, with power to increase or decrease the share capital.

(b) The Ordinary Shares and the Redeemable Ordinary Shares shall rank, save as specifically hereinafter provided, *pari passu* in all respects and any reference in these articles to “Ordinary Shares” shall be deemed, save where the context clearly requires otherwise, to include reference to the Redeemable Ordinary Shares. A Deferred Share shall have no rights other than a right participate in any surplus arising on the winding up of the Company up to the nominal amount paid up on the Deferred Share.

(c) Subject to a member notifying the Company before the conversion of his Ordinary Shares of his unwillingness to have some of his Ordinary Shares converted into Redeemable Ordinary Shares in accordance with the provisions of this Article, the directors (or any director authorised by the directors for this purpose) may resolve to convert up to 5,140,000 of the existing Ordinary Shares into Redeemable Ordinary Shares provided that (i) such conversion will be done as near as possible on a *pro rata* basis for all Shareholders (excluding the Company in respect of its holding of Ordinary Shares) and the exact number to be converted will be determined by the Board of Directors at its discretion rounded to the nearest whole number; and (ii) no Ordinary Shares held by the Company as Treasury Shares (as defined in Section 106 of the Companies Act, 2014) shall be converted into Redeemable Ordinary Shares.

- (d) If a member notifies the Company in accordance with section 83 of the Companies Act 2014 of his unwillingness to have any of his Ordinary Shares converted into Redeemable Ordinary Shares, that percentage of his Ordinary Shares which would have been converted into Redeemable Ordinary Shares shall instead be converted into Deferred Shares.
  - (e) The directors shall not convert Ordinary Shares into Redeemable Ordinary Shares pursuant to this Article and shall not redeem such Redeemable Ordinary Shares unless the redemption is in accordance with the provisions of this Article and with such of the provisions of the Companies Act 2014 as shall apply to any such conversion and/or redemption.
  - (f) Subject to the preceding provisions of this Article, the directors may resolve that the Company will redeem all of the Redeemable Ordinary Shares in accordance with the provisions of this Article (the shares which are to be redeemed being hereinafter referred to in this Article as the Relevant Shares) at a price of €9.25 for each Relevant Share (the “**Redemption Price**”) on the basis that the Redemption Price shall be paid within 14 days of the redemption.
  - (g) The directors may do all acts and things considered necessary or expedient to give effect to any conversion and redemption pursuant to this Article with full power to the directors to make such provisions as they think fit where shares would otherwise have been converted and/or redeemed in fractions (including provisions whereby, in whole or in part, fractional entitlements are disregarded). The directors may authorise any person to enter an agreement on behalf of all the holders of Relevant Shares with the Company providing for such redemption and matters incidental thereto and any agreement made under such authority shall be effective and binding on all concerned.
  - (h) The Company shall not be required to issue any share certificates in respect of any shares which are converted into Redeemable Ordinary Shares except where the directors determine otherwise at their discretion.
  - (i) The directors shall procure that there are delivered to the Registrar of Companies the appropriate returns in respect of the conversion of the Ordinary Shares and the redemption of the Redeemable Ordinary Shares and that an appropriate sum is transferred to a Capital Redemption Reserve Fund in the accounts of the Company and the directors shall comply otherwise with such of the provisions of the Companies Act, 2014 as shall be applicable.”; and
- (c) subject to the provisions of the Companies Act 2014, such part of the issued share capital of the Company shall be converted into Redeemable Ordinary Shares of €0.13 each as the directors shall resolve in accordance with Article 2 of the articles of association of the Company as amended by this resolution and such Redeemable Ordinary Shares shall confer on the holder thereof the rights and obligations specified in the articles of association of the Company as amended on today’s date and as the same may be amended from time to time and be for the time being in force.”

#### **AS AN ORDINARY RESOLUTION (Resolution 2)**

**THAT**, subject to Resolution 1 in the notice of this meeting being passed and becoming effective, the authorised share capital of the Company be and is hereby increased from €6,500,000 to €7,836,400 by, inter alia, the creation of an additional 5,140,000 Deferred Shares of €0.13 each having the rights provided for in the Articles of Association of the Company as amended by Resolution 1 **PROVIDED**

**HOWEVER** that if no Deferred Shares come into existence within six months of Resolution 1 becoming effective then the authorised share capital of the Company be and is hereby reduced to €7,168,200 by the cancellation and removal of the 5,140,000 Deferred Shares of €0.13 each from the authorised share capital of the Company.

### **AS AN ORDINARY RESOLUTION (Resolution 3)**

**THAT**, the Share Option Scheme 2005 and the Share Option Scheme 2015 be and are hereby amended by the deletion of the existing Clause 6.5 in each of the Share Option Scheme 2005 and the Share Option Scheme 2015 and its replacement with the following new Clause 6.5:

“6.5 Where the Remuneration Committee so resolves, in its absolute discretion, the Company may satisfy the obligation to deliver Shares on the exercise of an Option to any Participant (including an Executive Director) by the payment to the Participant of an appropriate cash payment determined by the Remuneration Committee.”

By Order of the Board  
*Padraic Lenehan*  
*Company Secretary*

Registered Office: Ballyraine, Letterkenny, Co Donegal  
Date: 23 April 2018

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#### **NOTES:**

##### **1. Conditions for participating in the meeting**

Every member, irrespective of how many Donegal shares they hold, has the right to attend, speak, and vote at the EGM. Completion of a form of proxy will not affect your right to attend, speak and vote at the EGM in person. The right to participate in the EGM is subject to the registration of the shares on the EGM Record Date (defined at note 2 below).

##### **2. Record Date for EGM**

In accordance with Section 1095 of the Companies Act 2014 and Regulation 14 of the Companies Act, 1990 (Uncertificated Securities) Regulations, 1996 (as amended), the Company specifies that only those Shareholders registered in the register of members of the Company as at 6:00pm on Monday, 14 May 2018 (“**EGM Record Date**”) (or in the case of an adjournment as at 6:00pm on the day which is two days before the time appointed for the holding of the adjourned meeting) shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their names at the time. Changes in the register after that time will be disregarded in determining the right of any person to attend and/or vote at the meeting.

##### **3. Appointment of proxy**

If you cannot attend the EGM in person, you may appoint a proxy (or proxies) to attend, speak, ask questions and vote on your behalf. For this purpose, an individualised Form of Proxy has been sent to each Shareholder. A member entitled to attend and vote at the above meeting is entitled to appoint one or more proxies to attend, speak and vote on his/her/its behalf. A proxy need not be a member of the Company. You may appoint the Chairman of the Company or another individual as your proxy. You may appoint a proxy by completing the Form of Proxy, making sure to sign and date the form at the bottom and return it in the pre-paid envelope provided. Forms of Proxy, to be valid, must reach the Registrars to the Company, Computershare Investor Services (Ireland) Ltd, Heron House, Corrig Road, Sandyford Industrial Estate, Dublin 18, D18 Y2X6, not later than 48 hours before the time appointed for the holding of the Meeting. If you are appointing someone other than the Chairman as your proxy, then you must fill in the details of your representative at the meeting in the box located underneath the wording “I/We hereby appoint the Chairman of the EGM OR the following person” on the Form of Proxy.

If you appoint the Chairman or another person as a proxy to vote on your behalf, please make sure to indicate how you wish your votes to be cast by ticking the relevant boxes on the Form of Proxy. Completing and returning a form of proxy will not preclude you from attending and voting at the meeting should you so wish.



The appointment of a proxy may be submitted electronically, subject to the terms and conditions of electronic voting, via the internet by accessing the Company's Registrar's website [www.eproxyappointment.com](http://www.eproxyappointment.com). You will need your control number, shareholder reference number and your PIN number, which can be found on your Form of Proxy; or be submitted through CREST in the case of CREST members, CREST sponsored members or CREST members who have appointed voting service providers. Transmission of CREST Proxy instructions must be done and authenticated in accordance with Euroclear specifications as set out in the CREST Manual and received by the Registrar under CREST Participant ID 3RA50.

#### **4. How to exercise your voting rights**

As a Shareholder, you have several ways to exercise your right to vote:

- 1) by attending the EGM in person; or
- 2) by appointing the Chairman or another person as a proxy to vote on your behalf;

In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other registered holder(s) and, for this purpose, seniority will be determined by the order in which the names stand in the register of members.

#### **5. How to request/inspect documentation relating to the meeting**

The annual financial statements are contained in the Company's 2017 Annual Report which was approved on 12 January 2018 and is available, together with the amended memorandum and articles of association, on the Company's website, [www.donegaligroup.com](http://www.donegaligroup.com). Copies of the Share Option Scheme 2005 and the Share Option Scheme 2015 are available for inspection by Shareholders during normal business hours at the Company's registered office. Should you wish to be sent a copy of the Company's 2017 Annual Report, you may request this by contacting the Company Secretary at Ballyraine, Letterkenny, Co Donegal.