

# euromicron

## **Report of the Executive Board to the General Meeting on item 7 on the agenda in accordance with Section 221 (4) Sentence 2 and Section 186 (4) Sentence 2 AktG (German Stock Corporation Law)**

The proposed authorization to issue cum-warrant, convertible and/or participating bonds and profit-sharing rights, including combinations of these instruments, (hereinafter referred to jointly as “bonds”) to a total nominal amount of up to €7,339,020 and the creation of contingent capital of up to €7,339,020 offer the Company the possibility in the following five years to obtain funding on the capital market quickly and flexibly by issuing said instruments. Reference is made to the resolution proposed by the Executive Board and Supervisory Board under item 7 on the agenda for details of the authorization.

In principle, the shareholders are entitled to a statutory subscription right if bonds are issued (Section 221 (4) in conjunction with Section 186 (1) AktG (German Stock Corporation Law)). However, the Executive Board is to have the possibility of excluding shareholders’ subscription right in the cases stipulated in the authorization. The contingent capital 2018 of €7,339,020 as proposed by the Executive Board and Supervisory Board corresponds to approximately 40% of the capital stock<sup>1</sup>. It is well short of fully utilizing the limit of 50% of the capital stock permitted under the law.

The Executive Board will utilize the authorization to exclude the subscription right only if and insofar as the total proportional amount of the capital stock for the shares to be issued does not exceed 20%. If – during the term of the authorization proposed under item 7 on the agenda and until when it is completely utilized – use is made of other authorizations already existing at the time this authorization is adopted to issue new shares in the Company or to issue rights that enable or obligate subscription to new shares in the Company and the shareholders’ statutory subscription right is excluded as part of that, the issued shares or rights to subscribe to shares shall be counted toward said limit.

The Executive Board shall always require the Supervisory Board’s consent to exclude the subscription right. The authorization to exclude the subscription right is envisaged for three case groups and if participating bonds and profit-sharing rights with characteristics similar to a debenture are issued.

The first case group relates to fractional amounts that may result from the subscription ratio. The authorization to exclude the shareholders’ subscription right for free fractional shares makes it easier to handle a rights issue, if there are fractional amounts due to the issuance volume or to present a practicable subscription ratio. The Company will realize proceeds from the bonds for which the subscription right is excluded at normal market terms in a manner that minimizes any impact on the price.

The second case group enables exclusion of the subscription right if the bonds are issued in exchange for cash payment and the issue price of the bonds is not significantly below the bonds’ theoretical market value as calculated using acknowledged principles of

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<sup>1</sup> Unless otherwise indicated, the disclosures on the Company’s capital stock relate to April 25, 2018 (resolution of the Company’s Executive Board on the resolution recommended to the General Meeting).

financial mathematics or their market value as determined by an acknowledged market-oriented method at the time when the issue price is definitively set. Under the authorization, the option of a simplified exclusion of subscription rights permitted by Section 221 (4) Sentence 2 in conjunction with Section 186 (3) Sentence 4 AktG (German Stock Corporation Law) is utilized. The Company can thereby exploit opportunities on the financial and capital markets quickly and flexibly. It also saves time and costs involved in handling the subscription right. Setting market-oriented issue terms will ensure high proceeds. In the interests of enlarging the shareholder base, the Company is also given the possibility of offering bonds to investors, in particular institutional investors in Germany and abroad. Due to the fact that the subscription period is a minimum of two weeks under law, the possibilities of responding to favorable market circumstances at short notice are restricted if bonds are issued with a subscription round. If bonds are issued with a subscription round, there are also additional risks to successful placement due to uncertainty about the extent to which subscription rights will be exercised. Issuing new bonds at a price geared closely to that of the shares on the stock market helps protect shareholders against dilution of their stake, since every shareholder can acquire the shares necessary to maintain his or her stake on the stock market at approximately comparable terms. An acknowledged market-oriented method for determining the market value is accelerated bookbuilding, for example. Taking into account market circumstances at the time, the Executive Board will endeavor to keep any markdown on the market value low. From the bonds issued with exclusion of the shareholders' subscription right, only option or conversion rights or conversion obligations for shares of up to 10% of the capital stock existing at the time this authorization takes effect or – if lower – at the time this authorization is exercised may be granted. Compliance with this statutory limit is usually ensured by the fact that the amount of contingent capital (€7,339,020) corresponds to only approximately 40% of the Company's capital stock. However, the above maximum amount of 10% of the capital stock to be observed also includes shares and subscription rights to shares that have been issued, sold or created since the resolution on this authorization was adopted, with exclusion of the subscription right of shareholders in accordance with or in corresponding application of Section 186 (3) Sentence 4 AktG (German Stock Corporation Law); shares that have been issued or are to be issued to service cum-warrant, convertible and/or participating bonds and profit-sharing rights shall also be counted toward said 10% limit, provided the said bonds or profit-sharing rights have been issued during the term of this authorization with exclusion of the subscription right in corresponding application of Section 186 (3) Sentence 4 AktG (German Stock Corporation Law).

The third case group governs the exclusion of the shareholders' subscription right if the bonds are to be issued in exchange for non-cash contributions. In this way, the Company is to be enabled to offer bonds as part of business combinations or the acquisition of companies, parts of companies, equity interests in companies (including increases in them) or other assets wholly or partly as a consideration instead of cash payments. The authorization is intended to give the Company the necessary freedom of action to seize opportunities to acquire companies, parts of companies, equity interests in companies and other assets, and to conduct business combinations, quickly and flexibly in the face of international competition, as and when such opportunities arise. Use of the option of being able to offer bonds as a consideration in acquiring companies or equity interests in companies can be sensible. However, it may also be in the Company's interests to be able to offer bonds as a consideration in acquiring other assets. These will usually be property,

plant and equipment or intangible assets. Granting bonds reduces the strain on the Company's liquidity and can help optimize its financial structure. At present, there are no plans to acquire companies, parts of companies, equity interests in companies or other assets in exchange for the issue of bonds. The Executive Board will decide, on a case-by-case basis and after weighing up the possible alternatives, whether it – with the consent of the Supervisory Board – makes use of the possibility of issuing bonds with the exclusion of the shareholders' subscription right in connection with any business combination or the acquisition of companies, parts of companies, equity interests in companies or other assets. The Company does not suffer any disadvantage from that, since issuing bonds in exchange for non-cash contributions presumes that the value of the non-cash contribution is in reasonable proportion to the value of the new bonds issued in exchange for it. In measuring the value of the bonds issued as consideration, the Executive Board will usually be guided by the theoretical market value of the bonds, as calculated using acknowledged principles of financial mathematics and derived from the stock market price of euromicron AG's shares, or the market value of the shares as determined by an acknowledged market-oriented method. However, no rigid linkage to any theoretical market value calculated in this way is envisaged, in particular so that negotiation results that have been achieved are not called into question by fluctuations in the stock market price.

Due to the far lower dilution effect, exclusion of the subscription right is also permitted if participating bonds and/or profit-sharing rights are issued, if these (i) do not grant any option or conversion rights and do not establish any conversion obligations, (ii) have characteristics similar to a debenture and (iii) the interest and issue amount for the participating bonds and/or profit-sharing rights correspond to market terms prevailing at the time of issue. Participating bonds and/or profit-sharing rights have characteristics similar to a debenture if they do not establish any membership rights, do not grant any participation in liquidation proceeds and do not grant any profit-oriented interest. The interest is not profit-oriented if it is merely dependent on the fact that a net loss for the year or net accumulated loss does not arise as a result of the interest or that the interest does not exceed the amount of the dividend, or a defined portion of the dividend, to be paid to the shareholders. Exclusion of the subscription right in these cases does not result in a relevant encroachment on the rights of shareholders. Participating bonds with characteristics similar to a debenture and profit-sharing rights with characteristics similar to a debenture are largely like regular corporate bonds, to which shareholders do not have a statutory subscription right when they are issued.

In order to simplify handling, the bonds can – in accordance with the customary practice in corporate financing – also be taken over by one or more financial institutes with the obligation to offer them for subscription to the shareholders (indirect subscription right within the meaning of Section 186 (5) AktG (German Stock Corporation Law)). Companies that operate in accordance with Section 53 (1) Sentence 1 or Section 53b (1) Sentence 1 or (7) KWG (German Banking Act) are treated as equivalent to financial institutes. In this case, the statutory subscription right is not restricted materially, but merely helps make handling easier by the financial institute or financial institutes and not by the Company.

The Company currently has total authorized capital of €9,173,770. Under item 6 on the agenda, the Executive Board and Supervisory Board have proposed canceling the existing authorized capital and creating new authorized capital of €7,339,020. The proposed new contingent capital 2018 of €7,339,020 for servicing bonds corresponds to 40% of the capital stock. Subject to the General Meeting's adoption of the resolutions in items 6 and

7 of the agenda, the proposed capitals will enable shares to a total amount of up to €14,678,040 to be issued; that corresponds to 80% of the capital stock.

Frankfurt/Main, May 2018  
euromicron AG  
– The Executive Board –