

# euromicron

**2019 Annual General Meeting  
on August 29, 2019**

**Report by the Executive Board  
on the exclusion of subscription rights in connection with the issue of new shares  
from Authorized Capital 2018 pursuant to Article 5 (4) of the Articles of Association**

## I.

1. On July 10, 2019, the Executive Board of euromicron AG (the “Company”) resolved with the approval of the Supervisory Board to increase the Company’s share capital by up to EUR 7,339,020 through the full utilization of Authorized Capital 2018 (Section 5 (4) of the Articles of Association) by issuing a total of up to 2,870,558 new no-par value registered shares. The company has taken on Funkwerk AG (“Funkwerk”) as an anchor and backstop investor for the capital increase. Funkwerk is a leading supplier of innovative communication, information and security systems and intends to acquire a total of up to around 28% of euromicron AG’s share capital after the capital measures have been implemented.
2. The resolution of the Executive Board provides for the new shares to be issued in two tranches.
  - a) With the first tranche, 717,639 new shares were issued to Funkwerk as part of a private placement excluding shareholders’ subscription rights and the share capital of the Company was increased by EUR 1,834,753.72 from EUR 18,347,554.88 to EUR 20,182,308.60, i.e. by around 10%. The new shares carry dividend rights from January 1, 2019. The placement price was set at EUR 3.40 per share, so that the gross issue proceeds for the first tranche amount to EUR 2,439,972.60. The capital increase was carried out by July 12, 2019, and entered in the Commercial Register of the Frankfurt/Main Local Court on July 12, 2019. The capital increase became effective upon entry in the commercial register.
  - b) The second tranche is to be affected without a prospectus as part of a cash capital increase with a subscription right. To this end, the Company’s share capital will be increased by a further amount of up to EUR 5,504,266.28 from (now) EUR 20,182,308.60 to up to EUR 25,686,574.88 by issuing up to 2,152,919 new registered shares. The new shares are entitled to divi-

dends from January 1, 2019. The shareholders will be granted an (indirect) subscription right. They will be offered the new shares for subscription at a subscription price of EUR 3.40 in a 22:6 ratio. The shareholders of euromicron AG can subscribe to six (6) new shares in euromicron AG for every 22 shares in euromicron AG they hold at the end of July 25, 2019. The subscription right is excluded for fractional amounts resulting from the subscription ratio. The subscription offer will be published on July 25, 2019. The subscription period runs from July 26, 2019, to August 8, 2019, both days included.

3. Funkwerk has undertaken to the Company to acquire all shares not subscribed to by existing euromicron shareholders (so-called backstop obligation). Funkwerk AG's backstop obligation is subject to approval by the antitrust authorities in the Federal Republic of Germany and Austria. Stock market listing and inclusion of the shares from the second tranche in stock market trading will take place later, probably in July 2020.

## II.

In accordance with sections 203 (1) and (2) sentence 2, 186 (4) AktG, we hereby explain the reasons for the exclusion of shareholders' subscription rights:

### 1. **Admissibility of the capital increase from Authorized Capital 2018**

The capital increase from Authorized Capital 2018 was permissible. The subscribed capital 2018 was regulated as follows in Article 5 (4) of the Articles of Association (excerpt):

“The Executive Board is authorized, with the consent of the Supervisory Board, to increase the Company's share capital by up to EUR 7,339,020 by issuing up to 2,870,558 no-par value registered shares against cash and/or non-cash contributions (Authorized Capital 2018) on or before June 12, 2023. The authorization may be exercised once or several times in partial amounts. The shares may be acquired by one or more banks with the obligation to offer them to the shareholders for subscription (indirect subscription right). Companies operating in accordance with section 53(1) sentence 1 or section 53b(1) sentence 1 or (7) of the German Banking Act (Gesetz über das Kreditwesen - KWG) shall be treated on an equal footing with credit institutions.

The shareholders are generally entitled to a subscription right. However, the Executive Board is authorized, with the consent of the Supervisory Board, to exclude shareholders' subscription rights to shares:

- for fractional amounts resulting from the subscription ratio;
- if the shares are issued against cash contributions and the issue price of the new shares is not significantly lower than the market price of the Company's already listed shares of the same class at the time of the final determination of the issue price and the issued shares do not exceed a total of 10% of the share capital which the Company has at the time this authorization becomes effective or – if lower – at the time it is exercised; other shares and subscription rights to shares which have been issued since the resolution on this authorization was passed, excluding the subscription rights of shareholders in accordance with or mutatis mutandis in application of section 186 para. 3 sentence 4 AktG of the German Stock Corporation Act (AktG) are to be included in this 10% limit.; shares issued or to be issued to service bonds with warrants, convertible bonds and/or participating bonds as well as profit participation rights shall also be included if the aforementioned bonds or participating rights have been issued during the term of this authorization under exclusion of the subscription right in corresponding application of section 186 para. 3 sentence 4 AktG;
- ...
- ...
- The Executive Board is authorized, with the consent of the Supervisory Board, to determine the further content of the share rights and the conditions of the share issue. ...“

The capital increase resolved on 10 July 2019 is covered by the authorization of the Executive Board in accordance with Article 5 (4) of the Articles of Association:

- With the capital increase of up to EUR 7,339,020 by issuing up to 2,870,558 new no-par value registered shares resolved on July 10, 2019, the Authorized Capital 2018 was fully utilized.
- The authorization pursuant to Article 5 (4) of the Articles of Association is available until June 12, 2023.
- The new shares may be issued against cash contributions in any case.
- As described above, Article 5 (4) of the Articles of Association grants the Executive Board the authority, with the consent of the Supervisory Board, to exclude the shareholders' subscription right if (i) the new shares are issued against cash contributions and (ii) the issue price of the new shares is not significantly lower than the market price of the Company's already listed shares of the same class at the time of the final determination of the issue price and (iii) the issued shares do not exceed a total of 10% of the share

capital which the Company has at the time this authorization takes effect or – if lower – at the time it is exercised.

The Executive Board made use of this authorization to exclude subscription rights when placing the first tranche. The Supervisory Board has approved the exclusion of subscription rights. The prerequisites for the exclusion of subscription rights have been met: The first tranche has a volume of EUR 1,834,753.72. This corresponds to almost 10 percent of the share capital, which amounted to EUR 18,347,554.88 on July 10, 2019. The shares were issued against cash contributions. The placement price of EUR 3.40 per share did not fall below the stock exchange price of the Company's shares already listed on the stock exchange, but slightly exceeded it. The stock exchange price in Xetra trading of Deutsche Börse AG developed as follows on the five trading days prior to July 10, 2019:

Date	Opening	Closing price	Daily high	Daily low
07/09/19	3.30	3.31	3.31	3.30
07/08/19	3.37	3.31	3.46	3.31
07/05/19	3.37	3.34	3.37	3.34
07/04/19	3.41	3.37	3.43	3.34
07/03/19	3.54	3.41	3.62	3.41

The unweighted average of the closing prices was EUR 3.348. On July 9, 2019, the weighted average of the closing prices on all German stock exchanges over the last five trading days was EUR 3.4070 and, with regard to XETRA, EUR 3.3975.

- The granting of subscription rights by a bank or a company operating in accordance with section 53 (1) sentence 1 or section 53b (1) sentence 1 or (7) of the German Banking Act is permissible in accordance with section 186 (5) sentence 1 AktG and Article 5 (4) of the Articles of Association. The Executive Board made use of this option for the second tranche to simplify the handling of subscription rights.
- Article 5 (4) of the Articles of Association grants the Executive Board the authority, with the approval of the Supervisory Board, to exclude shareholders' subscription rights for fractional amounts arising from the subscription ratio. The Executive Board made use of this authorization when placing the second tranche.

## 2. Reasons for the capital increase

The company has undergone a capital-intensive restructuring phase. It was therefore necessary to raise new capital.

The gross proceeds from the two capital increases of up to EUR 9,759,897.20 are to be used to accelerate the implementation of euromicron AG's strategic development, such as the digitalization of service processes and the further development of digital business models for our customers, as well as for general company financing. The cooperation with and anchor investment by Funkwerk is intended to tap the joint potential of both companies in the area of critical infrastructures and synergies in the areas of Smart Building Solutions and IoT solutions.

By choosing this path, the Executive Board also avoided uncertainty as to the extent to which the subscription rights would be exercised. In the opinion of the Executive Board, without a backstop obligation on the part of Funkwerk it would not be certain whether, with what volume and with what issue proceeds the new shares could have been placed. In parallel, the Company negotiated a backstop investment with another investor. It preferred the offer of Funkwerk AG.

### **3. Reasons for the exclusion of subscription rights when placing the first tranche**

In its report on Agenda Item 6 of the Annual General Meeting on June 13, 2018, the Executive Board (essentially) stated in accordance with sections 203 (1) and (2) and 186 (4) sentence 2 of the German Stock Corporation Act (AktG) the authorization to exclude subscription rights, which it exercised when placing the first tranche:

“The second case group opens up the possibility of excluding subscription rights if the shares are issued against cash contributions and the issue price is not significantly lower than the market price. The authorization makes use of the option permitted in sections 203 (1) sentence 1 in conjunction with 186 (3) sentence 4 AktG to facilitate the exclusion of subscription rights. This enables the Company to take advantage of market opportunities on the capital markets quickly and flexibly. It also saves the time and expense involved in processing the subscription right. The determination of the issue price in line with market conditions leads to a high inflow of funds. In the interest of expanding the shareholder base, the Company also has the opportunity to offer shares of the Company to investors, in particular institutional investors in Germany and abroad. Due to the legal minimum duration of the subscription period of two weeks, in the case of a share issue with a subscription round, the possibilities of reacting at short notice to favorable market conditions are limited. Furthermore, in the case of a share issue with a subscription round, the successful placement is associated with additional risks due to the uncertainty as to the extent to which the subscription rights will be exercised. The issue of the new shares at a price close to that of the stock exchange serves to protect shareholders from dilution, as each shareholder has the opportunity to acquire the shares required to maintain his or her share quota via the stock exchange at approx-

imately the same conditions. The Executive Board will also endeavor to keep any discount on the stock exchange price low, taking into account current market conditions. The authorization to exclude subscription rights is limited to 10% of the Company's share capital. ....”

In placing the first tranche, the Executive Board proceeded as announced in its report. By placing the first tranche, it preserved a market opportunity on the capital market: The volume-weighted average price of euromicron AG shares was EUR 3.2796 in the period from January 1 to July 9, 2019 and EUR 3.4528 in the period three months before July 10, 2019. The issue of the shares at a placement price of EUR 3.40 per share represents a premium to the volume-weighted average price of the shares of 3.7 percent, based on the stock market price since January. The fact that the placement price was set close to the market led to a high inflow of funds to the Company. At the same time, the Company maintained the opportunity to take on Funkwerk as a new anchor investor for the Company. The Executive Board assumes that it can achieve strategic synergies through an investment by Funkwerk. It sees confirmation of this assessment in the share price performance following the ad hoc announcement of July 10, 2019, and the media coverage. By choosing this path, the Executive Board finally avoided uncertainty as to the extent to which the subscription rights would be exercised.

In an overall assessment, the Executive Board came to the conclusion that the placement of the first tranche, excluding shareholders' subscription rights, is proportionate to the effects of the exclusion of subscription rights on shareholders: The capital increase resolved by the Executive Board with the approval of the Supervisory Board by utilizing the entire Authorized Capital 2018 is in the interest of the Company, as explained in more detail in Note 2. In examining the effects of the capital increase under exclusion of subscription rights, the Executive Board was guided by the following considerations:

- (1) It was foreseeable that the capital market and the press would have a positive influence on the capital increase in the structure as decided by the Executive Board with the approval of the Supervisory Board on July 10, 2019, as it actually occurred on July 10, 2019. The advantage from the positive share price development has accrued to all shareholders of the Company. In the opinion of the Executive Board, a capital increase granting subscription rights (without a backstop investor) would not have led to the same and possibly even to a negative price reaction. In any case, the Executive Board would only have been able to offer the new shares at a substantial discount to the current stock market price. This would have had a significant impact on the volume of newly added equity.
- (2) In addition, the shareholders as well as the Company itself benefit from the inflow of new equity capital in the amount of up to EUR 9,759,897.20, which

would have been significantly lower in a capital increase in which the shares would have been offered for subscription exclusively to the existing shareholders.

- (3) As expected, the capital increase resolved on July 10, 2019, led to a substantial increase in trading volumes in euromicron AG shares.

Date	Trading volume	Shares
07/18/19	40,679	10,286
07/17/19	197,823	49,650
07/16/19	24,716	6,262
07/15/19	59,770	15,253
07/12/19	21,803	5,755
07/11/19	61,831	16,179
07/10/19	206,700	54,839

This is also in the interests of the shareholders, if they wish to maintain their shareholding by purchasing additional shares via the stock exchange, for example.

- (4) The Company does not feel that the investment position of individual shareholders would be diluted by the placement of the first tranche to the exclusion of subscription rights to such an extent that they would have lost an influential position (such as a blocking minority or a minority right). This aspect therefore did not have to be taken into account in the weighing.

In an overall view, the advantages of the resolved capital increase (with exclusion of the subscription right for the shares issued in the first tranche) clearly outweigh any possible negative effects on the position of the shareholders.

#### **4. Reasons for the exclusion of the subscription right to so-called free fractions when placing the second tranche**

The Executive Board has only made use of the authorization pursuant to Article 5 (4) of the Articles of Association to exclude shareholders' subscription rights for so-called free fractions with the consent of the Supervisory Board as a precautionary measure. If the entire Authorized Capital 2018 is placed, there will be no free fractions with a subscription ratio of 22:6. The same applies if the Authorized Capital 2018 is not fully utilized when the second tranche is executed. The Supervisory Board has approved the exclusion of the subscription right to the so-called free fractions.