# GRAMMER AG

# Annual General Meeting 2019

**Report by the Executive Board in accordance with section 203 (2) sentence 2 in connection with section 186 (4) sentence 2 AktG on the exclusion of the shareholders' preemptive subscription rights as provided for in item 6 of the agenda**

The Authorized Capital 2011 created at the Annual General Meeting of May 26, 2011 in accordance with article 5, paragraph 3 of the Articles of Association expired on May 25, 2016. At the Company's Annual General Meeting on June 13, 2018, a resolution was passed to postpone a resolution concerning the creation of new authorized capital (item 8 of the agenda (resolution on the creation of new authorized capital – with the possibility for excluding the shareholders' preemptive subscription rights – and corresponding amendments to the Articles of Association)).

Consequently, a proposal will be made at this year's Annual General Meeting to pass a resolution approving the creation of new authorized capital. With the exception of the modified authorization period, the proposed authorized capital corresponds to the authorized capital proposed in item 8 of the agenda of the Company's Annual General Meeting of June 13, 2018.

Using the proposed authorization, the Executive Board will be able to adjust the Company's capital resources in the light of business requirements within the scope provided for under Authorized Capital 2019. With the proposed Authorized Capital 2019, the Executive Board will be authorized to increase the Company's share capital once or repeatedly by a total of up to EUR 9,682,268.16 by issuing bearer shares on a cash and/or non-cash basis on or before July 11, 2024 subject to the Supervisory Board's approval. Authorized Capital 2019 is capped at 30% of the Company's current share capital.

As a general rule, the shareholders will have preemptive subscription rights if Authorized Capital 2019 is utilized. However, it is proposed that the Executive Board should be authorized to exclude the shareholders' statutory subscription rights subject to the approval of the Supervisory Board,

- as far as this is necessary to avoid fractional amounts.

  The authorization to exclude the shareholders' preemptive subscription rights for fractional amounts ensures that the amount of the new capital to be issued results in a practical subscription ratio. If the shareholders' preemptive subscription rights are not excluded for fractional amounts, the technical execution of the issue is rendered more difficult particularly in the case of even amounts. The fractional amounts of shares for which the shareholders' pre-emptive subscription rights are excluded will be eliminated as efficiently as possible for the Company by selling them on the stock market or in some other manner. Accordingly, the Executive Board and the Supervisory Board consider this authorization to exclude the shareholders' preemptive subscription rights to be appropriate.

- if the shares are issued on a non-cash basis for the purpose of acquiring companies, parts of companies or for settling any amounts owed by the Company.

  This authorization to exclude shareholders' preemptive subscription rights allows the Company to acquire other companies, parts of other companies or investments in other companies by providing consideration in the form of the Company's own shares or to merge with other companies. This gives the Company a means of executing possible acquisitions with the assistance of a flexible funding instrument while preserving its liquidity. The possibility of reacting swiftly and successfully to advantageous offers or opportunities also preserves and enhances the Company's competitiveness.

The authorization particularly covers the acquisition of investments in the form of “share deals”, i.e. the acquisition of shares in another company, or “asset deals”, i.e. the acquisition of another company or part of another company by acquiring its core assets, rights, contracts and the like. The possibility of settling amounts owed by the Company by issuing shares in individual cases has a further advantage in that it preserves the Company’s liquidity. As in such cases fresh equity must be issued at short notice, it is generally not practicable for a resolution to be passed to this effect at the Annual General Meeting, which takes place only once a year. It is not practical to convene an extraordinary shareholder meeting for each individual transaction in such cases due to cost and time reasons. In order to ensure swift action, it is in the Company’s interests to be able to issue new shares on a cash basis subject to the exclusion of shareholders’ preemptive subscription rights.

- as far as this is necessary to grant bearers or creditors of bonds to which option or conversion rights or obligations are attached which are issued by the Company or any subordinate Group companies a right to subscribe to new shares in a quantity to which they are entitled after the exercise of the option or conversion rights or after the settlement of the option or conversion obligations.

  The purpose of the authorization to exclude the shareholders’ preemptive subscription rights in favour of the holders of bonds issued by the Company or its Group members with option or conversion rights or obligations is to avoid the need to reduce the option or conversion price in accordance with the dilution protection clauses included in the option or conversion conditions if this authorization is exercised. Instead, the holders of the bonds with option or conversion rights or obligations are also to be offered subscription rights to the extent to which they are entitled to these after the exercise of the option or conversion rights or settlement of the option or conversion obligations. With this authorization, the Executive Board will be able to select from these two alternatives subject to careful consideration of the respective interests when it utilizes Authorized Capital 2019.

- in the event of cash capital issues provided that the issue amount of the new shares is not materially less than the market price of the equivalent listed shares in the Company on the date on which the issue amount is determined.

  Finally, the authorization provides for the shareholders’ preemptive subscription rights be excluded subject to the Supervisory Board’s approval in cases in which the issue amount of the new shares is not materially less than the market price of equivalent already listed shares. This will permit the Executive Board to make use of favourable conditions in the equity market at short notice and to achieve the highest possible issue amount close to the market price in order to collect the greatest possible amount of equity. The authorization to exclude the shareholders’ preemptive subscription rights is capped at 10% of the Company’s share capital. This is determined on the basis of the Company’s share capital as of the date on which the authorization takes effect or – if lower – on the date on which the authorization is exercised. Shares which are sold during the term of this authorization under authorization to sell treasury stock in accordance with section 71 (1) number 8, sentence 5 and section 186 (3) sentence 4 AktG subject to the exclusion of the shareholders’ preemptive subscription rights will count towards this cap. Moreover, shares which must be issued to settle option or convertible bonds with an option or conversion right or an option or conversion obligation will also count towards this cap provided that the bonds are issued during the term of this authorization subject to the shareholders’ preemptive subscription rights in accordance with section 186 (3) sentence 4 AktG with the necessary modifications. If the Executive Board makes use of this possibility for issuing capital, it will limit any discount on the issue price over the market price to an expected 3%, however no more than 5%. Shareholders wishing to maintain their relative share can buy further shares in the stock exchange on conditions that do not materially differ from those on which the new shares are issued. For this reason, the utilization of the proposed authorization to exclude the shareholders’ preemptive subscription rights in accordance with section 186 (3) sentence 4 AktG will not result in a dilution of the shareholders’ shares in the Company either in absolute or relative terms.

The proportionate amount of the share capital accounted for by shares which are issued on a cash or non-cash basis after authorization subject to the exclusion of the shareholders’ preemptive subscription rights must not exceed a total of 20% of the Company’s share capital as of the date on which the resolution is passed at the Annual General Meeting. This cap provides the shareholders with additional protection from the dilution of their shares. Subject to new authorization to be granted at a future Annual General Meeting, the Executive Board will additionally take account of the issue or sale of shares or bonds with conversion or option rights or obligations executed on the basis of other authorization granted to it subject to the exclusion of the shareholders’ preemptive subscription rights such that it will use the authorization granted to it subject to the exclusion of the shareholders' preemptive subscription rights to increase the Company's share capital by only a maximum of 20% of the amount existing as of the date on which the resolution is passed at the Annual General Meeting. Subject to a resolution passed at a future Annual General Meeting to grant authorization to exclude the shareholders' preemptive subscription rights, the Executive Board will therefore include in the maximum amount by which it may increase the Company's share capital those shares which are issued or sold during the period of this authorization under other authorization subject to the exclusion of the shareholders' preemptive subscription rights or which relate to financial instruments with conversion and option rights or obligations which are issued during the period of this authorization under other authorization subject to the exclusion of the shareholders' preemptive subscription rights. This will also include the issue or sale of shares or bonds subject to the exclusion of the shareholders' preemptive subscription rights in direct or corresponding application of section 186 (3) sentence 4 AktG.

After considering all relevant factors – including the dilution effects arising to the detriment of the shareholders – the Executive Board considers the exclusion of the shareholders' pre-emptive subscription rights in the aforementioned cases to be objectively justified and equitable for the shareholders.

There are currently no plans to utilize the new Authorized Capital 2019. The Executive Board will consider the individual circumstances carefully in each case before deciding whether to make use of this authorization to issue new capital subject to the exclusion of the shareholders' preemptive subscription rights. It will only do this and the Supervisory Board will only grant its approval if after due consideration the Executive Board and the Supervisory Board are satisfied that this is in the best interests of the Company and its shareholders.

The Executive Board will report to the next Annual General Meeting on the utilization of Authorized Capital 2019.