

# CECONOMY

General Meeting of CECONOMY AG on 13 February 2019

The Management Board of CECONOMY AG presents to the General Meeting the following report:

Report of the Management Board to the General Meeting pursuant to § 203 (2) sent. 2 German Stock Corporation Act in conjunction with § 186 (4) sent. 2 German Stock Corporation Act on Agenda Item 6 (Cancellation of the existing authorised capital and creation of a new authorised capital (including the option of excluding subscription rights) and corresponding amendment of § 4 (7) of the Articles of Association)

The Management Board has been authorised by resolution of the Annual General Meeting of 6 February 2017 to increase, with the consent of the Supervisory Board, the capital stock of the Company on one or more occasions on or before 5 February 2022 by issuing new ordinary bearer shares in exchange for contributions in cash or in kind by up to a maximum amount of 417,000,000 euros. This authorisation was partially utilised in July 2018 by issuance of 32,633,555 new ordinary shares. The shareholders' subscription right was excluded pursuant to § 186 (3) sent. 4 German Stock Corporation Act. The Management Board has prepared a report on the partial utilisation of the authorised capital with an exclusion of shareholders' subscription right, which is included in this invitation and can be found at [www.ceconomy.de/general-meeting](http://www.ceconomy.de/general-meeting) together with the other documents relating to the General Meeting.

In order to ensure that the Company remains flexible in the future to strengthen its equity base through the use of authorised capital if required, the authorised capital created by resolution of the Annual General Meeting on 6 February 2017 is to be replaced by a new authorised capital, which is intended to be created – in observance of the legally permissible maximum limit – in an amount of approximately 35 percent of the capital stock and with a term of five years. In this context, the Company is again to be awarded the option of a simplified exclusion of subscription rights. In addition, the Company's flexibility is to be increased by allowing the exclusion of shareholders' subscription rights also for the purpose of granting a so-called share dividend (scrip dividend). The cancellation of the authorised capital created by resolution of the General Meeting on 6 February 2017 will be subject to the condition precedent of the entry of the new authorised capital in the Commercial Register.

With respect to Agenda Item 6, Management Board and Supervisory Board therefore propose, by way of cancellation and new adoption of § 4 (7) of the Articles of Association, to authorise the Management Board to increase, with the consent of the Supervisory Board, the capital stock of the Company on one or more occasions in the period until 12 February 2024, by issuing new ordinary bearer shares in exchange for contributions in cash and/or in kind up to a maximum amount of 321,600,000 euros (authorised capital). The volume of the new authorised capital thus amounts to approximately 35 percent of the Company's current capital stock.

When utilising the proposed authorised capital, shareholders are generally entitled to a subscription right (§ 203 (1) sent. 1 German Stock Corporation Act in conjunction with § 186 (1) German Stock Corporation Act). In addition to an issue of the new ordinary shares directly to the shareholders, the

authorised capital is to provide for the possibility that the new ordinary shares are assumed by credit institutions or by companies that are equivalent pursuant to § 186 (5) sent. 1 German Stock Corporation Act, subject to the obligation to offer them to the shareholders for subscription. The use of credit institutions or enterprises that are equivalent pursuant to § 186 (5) sent. 1 German Stock Corporation Act as intermediaries merely serves the purpose of facilitating the technical processing of the ordinary share issue.

However, the Management Board is to be authorised to exclude the subscription right in certain cases, with the approval of the Supervisory Board.

- (1) The Management Board is to be authorised, with the approval of the Supervisory Board, to exclude the subscription right for the compensation of fractional amounts.

The purpose of this exclusion of subscription rights is to facilitate the processing of a share issue where subscription rights for shareholders are generally granted. Fractional amounts may result from the respective issue volume and from the fact that it is necessary to apply a technically feasible subscription right ratio. The value of the fractional amounts per shareholder is generally low, which is why the potential dilution effect can also be regarded as low. In contrast, the effort required for share issues without such exclusion is significantly higher, which causes additional costs. The new ordinary shares excluded from the shareholders' subscription right as fractional amounts will be realised for the benefit of the Company either by disposal on the stock exchange or in another way as best as possible.

- (2) Furthermore, it is proposed that the Management Board be authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights if the ordinary shares are issued against contributions in kind for the purpose of corporate mergers or for the acquisition (also indirectly) of companies, divisions of companies, operational activities, branches of activity or company interests and the pro-rata amount attributable to the new ordinary shares issued subject to an exclusion of subscription rights does not exceed a total of 10 percent of the capital stock existing at the time this authorisation becomes effective.

With this authorisation for the exclusion of subscription rights, it is intended, in particular, to enable the Company in suitable cases to use ordinary shares as consideration in the course of corporate mergers or for the acquisition (also indirectly) of companies, divisions of companies, operational activities, branches of activity or company interests. As an acquisition currency, own ordinary shares are an important instrument. The international competition and the globalisation of the economy often require this form of consideration. Besides, the granting of ordinary shares can be a cost-efficient way of financing for the Company which preserves the Company's liquidity. The proposed authorisation is intended to allow the Company to quickly and flexibly make use of upcoming opportunities, both nationally and on the international markets, for the acquisition of companies, divisions of companies, operational activities, branches of activity or interests in companies with regard to which the consideration consists of ordinary shares, in whole or in part, without the time-consuming holding of a General Meeting and while also, as the case may be, maintaining confidentiality. If such an opportunity becomes more concrete,

the Management Board will carefully consider whether to exercise its authorisation for a utilisation of the authorised capital and, as the case may be, for an implementation of the capital increase without granting subscription rights. The Management Board will do so only if such exercise is in the best interest of the Company. The Management Board will also carefully examine in this regard whether the value of the contribution in kind is in adequate proportion to the value of the ordinary shares. Only if these conditions are met will the Supervisory Board grant its necessary consent for the utilisation of the authorised capital.

- (3) It is proposed that the Management Board be authorised, with the consent of the Supervisory Board, to exclude shareholders' subscription rights in order to be able to implement a so-called share dividend (scrip dividend) using the authorised capital.

In the case of a so-called scrip dividend, the shareholders are offered, at their option, to contribute their claim for payment of a dividend to the Company (in whole or in part) as contribution in kind against granting of new ordinary shares from the authorised capital. The Management Board is already authorised to acquire the Company's treasury ordinary and/or preference shares and to use these shares to implement a scrip dividend, also subject to an exclusion of subscription rights. Compared to the implementation of a scrip dividend using previously acquired treasury ordinary shares, the implementation of a scrip dividend using the authorised capital is associated with a liquidity benefit for the Company.

The implementation of a scrip dividend may be conducted as an offer addressed to all shareholders in observance of their subscription right. In practice, in the case of a scrip dividend only whole ordinary shares are offered to each shareholder for subscription; with regard to the part of the dividend entitlement which falls short of or exceeds the subscription price for a whole ordinary share, the shareholders are limited to receiving the cash dividend and to this extent are not able to receive ordinary shares. There is usually no offer of partial rights and no establishment of any trading of subscription rights or fractions thereof, because instead of receiving ordinary shares to be newly issued under the authorised capital or treasury ordinary shares the shareholders receive, in part, a cash dividend.

In the course of the implementation of a scrip dividend using the authorised capital, depending on the capital markets situation, it may be preferable to structure the implementation of a scrip dividend in such manner that the Management Board offers to all shareholders who are entitled to dividends, in observance of the general principle of equality (§ 53a German Stock Corporation Act), ordinary shares for subscription against assignment of their dividend entitlement and, thus, economically grants the shareholders a subscription right, but to legally exclude the shareholders' subscription right to new ordinary shares. Such exclusion of the subscription right facilitates the implementation of the scrip dividend at more flexible conditions. In view of the fact that all shareholders will be offered the ordinary shares and excessive dividend amounts will be settled by cash payment of the dividend, an exclusion of the subscription right in this case appears as justified and appropriate.

In addition, it may be preferable to structure the implementation of a scrip dividend in such a way that the Management Board offers ordinary shares from the authorised capital for subscription only to those shareholders whose ordinary shares are entitled to dividends, against assignment of their dividend entitlement and subject to an exclusion of the subscription right of the preference shareholders, and then offers the preference shareholders – subject to an exclusion of the subscription right of the ordinary shareholders – to assign their dividend entitlement against an acquisition of preference shares held as treasury shares. The Company may acquire the treasury preference shares required for such implementation in advance on the basis of the (existing) authorisation to acquire treasury shares. Given the small number of preference shares, this would have practically no significant impact on the liquidity situation of the Company. In this form, the scrip dividend could be implemented without a prospectus, i.e. without an obligation to publish a securities prospectus. Without an exclusion of the subscription rights of the preference shareholders in respect of the new ordinary shares, the implementation of a scrip dividend using the (existing) authorised capital would probably trigger an obligation to publish a securities prospectus, because only a scrip dividend in the form of shares of another class could be offered to the preference shareholders using the authorised capital. The preparation of a securities prospectus in connection with the implementation of a scrip dividend would entail considerable effort and costs.

- (4) Furthermore, the Management Board, with the consent of the Supervisory Board, is to be authorised to exclude the subscription right for the benefit of the holders of warrant or convertible bonds issued by the Company or by such affiliates in which the Company holds at least 90 per cent of the shares, directly or indirectly.

This is intended to afford adequate protection against dilution to the holders of such warrant or convertible rights or warrant or conversion obligations. The terms and conditions of warrant and convertible bonds typically provide that protection from dilution has to be granted in case of a capital increase either by reducing the warrant or conversion price or through the provision of subscription rights. In order to avoid leaving the Company no alternative but to reduce the warrant or conversion price, an authorisation is intended for the utilisation of the authorised capital to exclude the shareholders' subscription rights to new ordinary shares to the extent necessary to grant subscription rights to the holders of warrant or convertible bonds to the extent to which the latter would be entitled upon exercise of their warrant or conversion rights prior to the adoption of the resolution for the capital increase or upon performance of their warrant or conversion obligations prior to the adoption of the resolution for the capital increase or upon exercise of a substitution right by the Company. This authorisation allows the Management Board to choose between the two alternatives when utilising authorised capital, after carefully weighing the interests of the Company and the shareholders.

- (5) In addition, the Management Board is to be authorised, with the consent of the Supervisory Board, to exclude the subscription right pursuant to § 186 (3) sent. 4 German Stock Corporation Act.

With this authorisation to exclude subscription rights in the case of capital increases in exchange for cash contributions, which is provided by statutory law, the Company will be enabled to take advantage on short notice of favourable circumstances on the stock market and, thereby, to achieve an issue amount as high as possible as a result of the price determination close to the market – without a discount for subscription rights – and, therefore, to achieve a maximum strengthening of the equity capital. The option of raising capital at the highest possible price is important for the Company, particularly since it is imperative for the Company to quickly and flexibly exploit market opportunities – this means: without the requirement of an offer for subscription which is open for at least two weeks – and to have access to the equity capital necessary to do so. This authorisation to exclude subscription rights is limited to an amount that on aggregate may not exceed 10 percent of the Company's capital stock. Such shares which during the term of the authorised capital are used or disposed of as treasury shares subject to an exclusion of the shareholders' subscription rights pursuant to § 71 (1) no. 8 sent. 5 sub-clause 2 German Stock Corporation Act in conjunction with § 186 (3) sent. 4 German Stock Corporation Act are counted towards this limit of 10 percent. A corresponding crediting to the limit amount is conducted for shares which are or have to be issued during the term of the authorised capital for the fulfilment of warrant or convertible bonds which themselves were issued during the term of the authorised capital subject to an exclusion of the subscription right in application, *mutatis mutandis*, of § 186 (3) sent. 4 German Stock Corporation Act. In addition, such shares are to be counted towards the limit of 10 percent of the capital stock which during the term of the authorised capital are issued on the basis of other capital measures subject to an exclusion of the shareholders' subscription right in application, directly or *mutatis mutandis*, of § 186 (3) sent. 4 German Stock Corporation Act. The subscription rights may only be excluded if the issue price of the new ordinary shares is not substantially lower than the stock exchange price of the ordinary shares of the Company with the same features that are already listed. The Management Board will determine a possible discount on the stock market price as small as possible in accordance with the prevailing market conditions at the point in time of the placement. By the limitation of the number of ordinary shares to be issued and the obligation to determine the issue price of the new ordinary shares close to the stock price, the shareholders are sufficiently protected against a dilution of the value of their shares. At the same time, it is ensured that the cash flow to be received by the Company is appropriate. Shareholders wishing to maintain the proportion of their shareholding in the case of a capital increase subject to an exclusion of subscription rights also have the opportunity to acquire the required number of ordinary shares through the stock exchange.

To protect shareholders, the authorisation contains a restriction on the total scope of the Company's capital measures for which subscription rights are excluded. In total, ordinary shares issued against contributions in cash or in kind in accordance with this authorisation subject to an exclusion of the shareholders' subscription rights in accordance with no. 2 or 5 may not amount to more than 10 percent of the capital stock existing at the time the authorisation becomes effective. As explained above, such shares that are newly issued subject to an exclusion of the subscription right in direct or analogous application of § 186 (3) sent. 4 German Stock Corporation Act, or which are or have to be issued for the fulfilment of warrant or convertible bonds which themselves are issued during the term of the authorised capital subject to an exclusion of the subscription right in analogous

application of § 186 (3) sent. 4 German Stock Corporation Act, are to be counted towards this maximum limit. Any use of treasury shares subject to an exclusion of subscription rights is not to be credited to the maximum limit. Reference is made in this respect to the report of the Management Board to the General Meeting on the authorisation to issue warrant or convertible bonds (Agenda Item 9).

In consideration of all the circumstances mentioned above, the Management Board, in agreement with the Supervisory Board of CECONOMY AG, considers the authorisation to exclude the subscription right of the shareholders within the defined limits to be objectively justified and appropriate for the reasons stated above and also taking into account the possible dilution effect when using the authorisation.

At the moment, there is no concrete project to utilise the proposed authorisation. The Management Board will examine carefully in each individual case specified in this authorisation whether to make use of the authorisation to conduct a capital increase subject to an exclusion of the shareholders' subscription rights. The Board will only use the authorisation if, in the assessment of the Management Board and the Supervisory Board, the exclusion of the shareholders' subscription right is in the best interest of the Company and, therefore, of its shareholders. The Management Board will report on any utilisation of the authorised capital at the next following General Meeting. Reference is made to the report on the utilisation of the authorised capital in July 2018.

Düsseldorf, January 2019

CECONOMY AG

The Management Board