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 on the partial utilisation of the authorised capital subject to an exclusion of the shareholders' subscription rights (pursuant to § 203 (2) sent. 2 German Stock Corporation Act in conjunction with § 186 (4) sent. 2 German Stock Corporation Act)

By resolution of the General Meeting of 6 February 2017, the Management Board was authorised, with the consent of the Supervisory Board, to increase 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 up to a maximum amount of 417,000,000 euros (authorised capital). The authorised capital was entered in the Commercial Register of the Company on 8 May 2017. The authorised capital includes, among other things, an authorisation for the Management Board, with the consent of the Supervisory Board, to exclude the shareholders' subscription rights pursuant to § 186 (3) sent. 4 German Stock Corporation Act in the case of capital increases against cash contributions if the total nominal amount of such capital increases does not exceed 10 percent of the capital stock and in each case the issue price of the new ordinary shares is not significantly lower than the market price of the Company's ordinary shares already listed on the stock exchange with the same features.

On 28 June 2018, the Management Board, with the consent of the Supervisory Board, resolved to partially utilise the authorised capital and to increase the Company's capital stock by an amount of 83,426,358.63 euros from 835,419,052.27 euros to 918,845,410.90 euros by issuing 32,633,555 new ordinary bearer shares in the form of no-par value shares with dividend entitlement from 1 October 2017 in return for cash contributions with the subscription right of the shareholders being excluded pursuant to §§ 203 (2), 186 (3) sent. 4 German Stock Corporation Act. This corresponds to an increase of slightly less than 10 percent in the Company's capital stock existing at the time the authorised capital became effective and also at the time it was utilised. The volume limitation provided for in the authorised capital for shares issued against cash contributions subject to an exclusion of subscription rights was thus complied with; the Company had not previously taken any other measures to be counted towards this volume limitation.

As part of a private placement, all new shares were subscribed by freenet AG at an issue price of 8.50 euros per new share. This was preceded by negotiations between CECONOMY AG and freenet AG. On 29 June 2018, freenet AG had contractually undertaken vis-à-vis CECONOMY AG to invest a total amount of 277,385,217.50 euros and in return to subscribe 32,633,555 new ordinary bearer shares of CECONOMY AG without par value (no-par value shares) with dividend entitlement from 1 October 2017 (the "New Shares") at an issue price of 8.50 euros per share. The Management Board and Supervisory Board subsequently approved an issue price of 8.50 euros per share.

The issue price was negotiated with freenet AG on the basis of the closing price of the ordinary shares of CECONOMY AG in Xetra trading on the Frankfurt Stock Exchange on 22 June 2018, plus a premium of 12.9 percent. Compared to the Xetra closing price of the CECONOMY AG ordinary share (ISIN DE0007257503) on 28 June 2018, the issue price included a premium of approximately 18 percent.

According to the rules applicable to the exclusion of subscription rights in the case of a capital increase against cash contributions of up to 10 percent of the capital stock, which must also be complied with in the case of authorised capital, the issue price of the new ordinary shares may not be significantly lower than the market price of the Company's ordinary shares already listed with the same features. In the present case, the issue price is not lower but higher. Since the issue price exceeds the stock exchange price of the Company's ordinary shares already listed with the same features, the price requirements of §§ 203 (2), 186 (3) sent. 4 German Stock Corporation Act were met.

The capital increase became effective on 12 July 2018 upon entry of its implementation in the Commercial Register of the Company. The gross proceeds from the capital increase totalled 277,385,217.50 euros, which strengthened the Company’s balance sheet. With the capital increase, the Company also increased its financial strength for the further implementation of its strategic agenda. The new shares were admitted to trading on 16 July 2018 (without a prospectus being required) and to the sub-segment of the regulated market with additional post-admission obligations (Prime Standard) on the Frankfurt Stock Exchange and to trading on the regulated market of the Düsseldorf Stock Exchange.

With the exclusion of the shareholders' subscription rights, the Company has made use of the option provided by statutory law in §§ 203 (2) and 186 (3) sent. 4 German Stock Corporation Act to exclude subscription rights in the case of cash capital increases of listed companies. Such an exclusion of subscription rights was necessary in the present case in order to be able to take advantage at short notice of the favourable situation for such a capital measure from the management's point of view at the time of the partial utilisation of the authorised capital and to achieve the highest possible issue proceeds by setting a price with a significant premium over the current stock exchange price. If subscription rights had been granted, at best an issue price could have been achieved that would have been close to the market, or even slightly lower than the market price. A premium over the market price would not have been achievable.

In addition, the subscription period of at least two weeks which is required if subscription rights are granted (§ 186 (1) sent. 2 German Stock Corporation Act) would have resulted in further uncertainties regarding a successful complete placement. In addition, if subscription rights were granted, the final subscription price would have to be announced at least three days before the end of the subscription period (§ 186 (2) sent. 2 German Stock Corporation Act). Due to the longer period between price fixing and settlement of the capital increase and the volatility of the stock markets, there would have been a higher market risk and, in particular, a higher risk of a share price change than in the case of an allocation without subscription rights. A successful placement in the context of a capital increase with subscription rights would therefore have necessitated a corresponding safety margin on the current stock exchange price when determining the price and would have considerably reduced the issue proceeds. For the above reasons, it was in the interests of the Company to exclude subscription rights.

On the other hand, the interests of the shareholders were also adequately safeguarded by setting the price for the shares issued subject to an exclusion of subscription rights well above the current stock exchange price for the limited scope of just under 10 percent of the existing capital stock. By issuing the new shares significantly above the current market price of the already listed ordinary shares, it was ensured that the capital increase did not lead to any economic dilution of the shareholders' shareholdings. In addition, with a view to liquid stock exchange trading, shareholders had the opportunity to maintain their relative stake in the company by purchasing additional shares on the stock exchange. In the present case, such an additional purchase would even have been possible at conditions that would have been more favourable than the issue price of 8.50 euros per new ordinary share.

Due to the issue of the new shares with dividend entitlements from 1 October 2017, the new shares already had the same dividend rights as the existing shares at the time of issue. This was agreed in the negotiations with freenet AG on the issue of the new shares. The uniform dividend entitlement also made it unnecessary to allocate a separate securities identification number to the new shares for the period up to the General Meeting on 13 February 2019. This made it possible to avoid a lower or missing trading liquidity of the new shares, which would have led to a price discount, which would have been expected in stock exchange trading under a separate securities identification number. For this reason, the reference of the profit participation right to the beginning of the 2017/18 financial year was in the interests of the Company.

Based on the above considerations, on the whole the exclusion of subscription rights was objectively justified, taking into account the requirements of the authorised capital when it was utilised.

Düsseldorf, January 2019

CECONOMY AG

The Management Board