

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 § 71 (1) no. 8 sent. 5 German Stock Corporation Act in conjunction with § 186 (4) sent. 2 German Stock Corporation Act on Agenda Item 7 (Authorisation for the acquisition and use of treasury shares pursuant to § 71 (1) no. 8 German Stock Corporation Act, also subject to an exclusion of the subscription right)

The Management Board was authorised by the Annual General Meeting of 20 February 2015 to acquire treasury shares of any class, until 19 February 2020, up to a maximum amount of 10 percent of the capital stock. To ensure that the Company remains flexible also in the future to acquire treasury shares pursuant to § 71 (1) no. 8 German Stock Corporation Act and to use them – also subject to an exclusion of subscription rights – and in order for the Company to have such an authorisation available at all times, the authorisation to acquire and use treasury shares created by resolution of the Annual General Meeting of 20 February 2015 is to be renewed in order to also adjust it to a change in the Company's capital stock in the meantime.

With respect to Agenda Item 7, Management Board and Supervisory Board therefore propose that the Company be authorised again pursuant to § 71 (1) no. 8 German Stock Corporation Act, for a period of five years until 12 February 2024, to acquire treasury shares, regardless of their class, in an extent of up to 10 percent of the capital stock existing at the point in time of this authorisation becoming effective or – if this value is lower – of the capital stock existing at the point in time of the exercise of this authorisation.

In order to give the Company the necessary flexibility, it is intended to provide for the treasury shares to be acquired both through the stock exchange and by means of a purchase offer addressed to all shareholders of the Company. If in the event of a purchase offer to all shareholders the number of shares offered at the stipulated price exceeds the number of shares required by the Company, the reapportioning may be conducted in accordance with the proportion of the shareholdings held by the tendering shareholders to each other (shareholding quotas) or in accordance with the proportion of the tendered shares (tendering quotas). The possibility of rounding serves the purpose of avoiding calculational fractions of shares. In this respect, the number of shares to be acquired by individual tendering shareholders may be rounded in such manner as is necessary in order to facilitate, from a technical handling perspective, the acquisition of whole shares. Besides, the possibility is to be granted to provide for a preferential acceptance of small numbers of shares (up to 50 tendered shares per shareholder). In particular, this possibility serves the purpose of avoiding smaller, usually economically inefficient residual shareholdings. The purchase offer may provide for additional requirements.

It is intended that the authorisation can be exercised by the Company or its Group companies as defined in § 18 German Stock Corporation Act or by third parties for its or their account. In addition, it is intended that the authorisation may be exercised, in compliance with statutory requirements, for any legally permissible purpose. With regard to the term of the authorisation for the acquisition

of treasury shares, it is intended to provide for the statutory regime which permits a duration of up to five years.

It is intended that the treasury shares acquired pursuant to this authorisation or authorisations granted earlier may be disposed of again through the stock exchange or by an offer to all shareholders. This way, the principle of equal treatment of the shareholders (§ 53a German Stock Corporation Act) is observed in the re-selling of the shares.

To the extent that the shares are disposed by way of an offer to all shareholders, the Management Board is to be authorised to exclude the subscription right of the shareholders for fractional amounts. This serves the purpose of facilitating a subscription ratio that is technically feasible. 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 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.

In addition, the treasury shares which were or will be acquired on the basis of the authorisation to be resolved by the General Meeting on 13 February 2019 or on the basis of an earlier authorisation are to be usable for all legally permissible purposes, in particular also including the following:

- (1) The Company is to be enabled to use the treasury shares acquired pursuant to this authorisation or authorisations granted earlier subject to an exclusion of the subscription right for the introduction to foreign stock exchanges at which shares of the Company are not listed so far. This is a means to broaden the shareholder basis, further increase the attractiveness of the CECONOMY AG share as an investment object and ensure an appropriate supply of the Company with equity capital. Access to adequate equity capital is of considerable importance for the financing of the Company and, particularly, for its further international expansion. By the intended lower limit for the initial offering price, which may fall short of the arithmetic mean of the auction closing prices of the already listed shares of the Company with the same features in Xetra trading on the last 5 exchange trading days before the day of the stock exchange listing by no more than 5 percent, it is ensured that the consideration to be received by the Company is appropriate and the shareholders are sufficiently protected against a dilution of the value of their shares.
- (2) It is also intended for the Company to be able to have the treasury shares acquired pursuant to this authorisation or authorisations granted earlier at its disposal, in order to grant them – subject to an exclusion of the subscription right – as consideration in kind in the course of corporate mergers or for the acquisition (also indirectly) of companies, divisions of companies, operational activities, branches of activity, company interests or other assets. As an acquisition currency, treasury shares are an important instrument. The international competition and the globalisation of the economy often require this form of consideration. Besides, they can be a cost-efficient way of financing for the Company. 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 company interests with regard to which the consideration consists of shares, in whole or in part, in particular without the time-consuming holding of a general meeting and while also, as the case may be, maintaining confidentiality. In addition, the use of treasury shares for acquisitions has the advantage for the existing shareholders – in respect of ordinary shares – that compared to the situation before the acquisition of the treasury shares by the Company their voting right is not diluted. Currently, there are no specific acquisition projects for which treasury shares are to be used.

- (3) The resolution proposal further provides that the Company is to be enabled, subject to the requirements of § 186 (3) sent. 4 German Stock Corporation Act, to dispose of the treasury shares acquired pursuant to this authorisation or authorisations granted earlier, subject to an exclusion of the subscription right, against cash payment in ways other than through the stock exchange or by an offer to the shareholders. This is intended, in particular, to enable the Company to issue shares of the Company at short notice. Thus, the proposed authorisation serves the purpose of securing a permanent and appropriate equity capitalisation of the Company. This is subject to the precondition that in the course of the disposal the selling price must not fall short significantly of the stock market price of the already listed shares of the Company with the same features. 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. The total proportionate amount of the capital stock attributable to the shares to be disposed of may not exceed 10 percent of the capital stock. Such shares are to be counted towards this limit which during the term of this authorisation are issued or disposed of in other ways subject to an exclusion of the subscription right in application, directly or mutatis mutandis, of § 186 (3) sent. 4 German Stock Corporation Act. A corresponding crediting to the limit amount is conducted for shares which are or have to be issued during the term of this authorisation for the fulfilment of warrant and convertible bonds which themselves were issued during the term of this authorisation subject to an exclusion of the subscription right in application, mutatis mutandis, of § 186 (3) sent. 4 German Stock Corporation Act. By the limitation of the number of shares to be disposed of and the obligation to determine the selling price of the treasury 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 consideration to be received by the Company is appropriate.
- (4) In the event that the Management Board issues warrant or convertible bonds on the basis of an authorisation by the General Meeting, it may be advisable not to fulfil the rights for the subscription of shares resulting therefrom by way of a capital increase, but in whole or in part with treasury shares. Therefore, a corresponding utilisation of the treasury shares acquired pursuant to this authorisation or authorisations granted earlier under exclusion of the subscription right is provided for. By using treasury shares, the dilution of the shares of the shareholders, as it would occur in the case of a use of the contingent capital, is prevented. For the decision as to whether treasury shares will be delivered or the conditional capital will be used, the Management Board will carefully consider the interests of the Company and the shareholders. To the extent that treasury shares are disposed of by means of an offer to all shareholders, the possibility is to be created to grant subscription rights for shares of the Company to the holders of

warrant or convertible bonds to the extent they would have such subscription rights upon exercise of the warrant or conversion right or the fulfilment of the warrant or conversion obligation. The resulting exclusion of the subscription right of the shareholders has the advantage that the warrant or conversion price for the warrant or convertible bonds already issued does not have to be reduced pursuant to the conditions of the warrant and convertible bonds for the purpose of dilution protection, with the consequence that in this case, on the whole, the Company will receive more funds upon the exercise of the warrant or conversion rights or upon fulfilment of the warrant or conversion obligations. The shares transferred on the basis of this authorisation must not account for more than a pro-rata amount of 10 percent of the capital stock, provided that the shares are used for the fulfilment of warrant or conversion rights or warrant or conversion obligations which were granted or created in application, mutatis mutandis, of § 186 (3) sent. 4 German Stock Corporation Act. To this limit of 10 percent of the capital stock, such pro-rata amount of the capital stock is to be credited which during the term of this authorisation was issued or disposed of at the time of use in application, directly or mutatis mutandis, of § 186 (3) sent. 4 German Stock Corporation Act.

- (5) Furthermore, it is intended that the treasury shares may be used for the implementation of a so-called scrip dividend. In the case of a scrip dividend for which treasury shares are used, the shareholders are offered to assign to the Company their claim for payment of the dividend, which comes into existence with the resolution of the General Meeting on the appropriation of profits, in order to receive treasury shares in return.

The Management Board is to be authorised to exclude the subscription right of the shareholders in the course of the implementation of a scrip dividend, in order to be able to implement the scrip dividend at the best possible conditions. Depending on the capital markets situation, it may be preferable to structure the implementation of a scrip dividend using treasury shares in such manner that the Management Board offers to all shareholders who are entitled to dividends, in observance of the general principle of equal treatment (§ 53a German Stock Corporation Act), treasury shares for subscription against assignment of their dividend entitlement and, thus, to economically grant the shareholders a subscription right, but to legally exclude the shareholders' subscription right to new 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 treasury 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, compared to a capital increase from authorised capital, the use of treasury shares for the implementation of a scrip dividend also has the advantage for the existing shareholders – in respect of ordinary shares – that compared to the situation before the acquisition of the treasury shares by the Company their voting right is not diluted.

The use of treasury shares to carry out a so-called scrip dividend is particularly advantageous for the Company if preference shareholders are granted previously acquired preference shares and ordinary shareholders are granted new ordinary shares from authorised capital, in each case subject to an exclusion of subscription rights. This would enable the Company to achieve the greatest possible liquidity advantage since it would only have to buy back the required number

of preference shares in advance. Moreover, such a structuring of a scrip dividend would not trigger an obligation to prepare and publish a securities prospectus, which would entail considerable effort and costs. Rather, this could be implemented without a prospectus. In contrast, implementing a scrip dividend solely from authorised capital would not be possible without a prospectus under the current legal situation. The implementation of a stock dividend solely from previously acquired treasury shares would not offer the Company any significant liquidity advantages.

- (6) The Company is also to be enabled to redeem the treasury shares acquired pursuant to this authorisation or authorisations granted earlier without a new resolution of the General Meeting (§ 71 (1) no. 8 sent. 6 German Stock Corporation Act). In this respect, the proposed authorisation provides in accordance with § 237 (3) no. 3 German Stock Corporation Act that the Management Board may also redeem the shares without a capital reduction. By redemption of the shares without a capital reduction, the pro-rata amount of the other no-par value shares in the capital stock of the Company increases. In this respect, the Management Board is authorised to amend the Articles of Association with regard to the changing number of no-par value shares.

All of the authorisations for the acquisition and for the utilisation of treasury shares may be exercised both exclusively for ordinary shares and exclusively for preference shares or for both classes of shares. The authorisations for the utilisation of treasury shares are intended to apply accordingly also to such shares which were acquired on the basis of an earlier acquisition authorisation granted by the general meeting. It is intended to provide for the exclusion of or the possibility to exclude the subscription right of the shareholders also in this respect in the scenarios described above. With regard to the reasons for the exclusion of the subscription right, the statements above apply accordingly.

The Management Board will make its decision regarding the exercise of the proposed authorisation and the utilisation of acquired treasury shares within the framework of its duly exercised discretion. Furthermore, treasury shares will only be used for the purposes set out in Agenda Item 7 lit. c) bb), c) cc), c) dd), c) ee), c) ff) and c) gg) with the prior consent of the Supervisory Board.

At the moment, there are no specific plans to utilise the proposed authorisation for the acquisition of treasury shares. The Management Board will report on any utilisation of the authorisation at the next following General Meeting.

Düsseldorf, January 2019

CECONOMY AG

The Management Board