

# 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 8 (Authorisation for the use of derivatives in the course of the acquisition of treasury shares as well as for the exclusion of the subscription and tendering right)

With regard to Agenda Item 8, Management Board and Supervisory Board propose that by way of supplement to the authorisation for the acquisition of treasury shares pursuant to § 71 (1) no. 8 German Stock Corporation Act proposed to be resolved in Item 7 of this Agenda, the Company is to be authorised to acquire treasury shares also by using Derivatives and to enter into corresponding Derivatives transactions.

The authorisation therefore provides that Derivatives in the form of Put Options, Call Options, Forward Purchases or a combination of these instruments may also be used in the course of acquiring treasury shares. Agenda Item 8 thus extends Agenda Item 7 solely by the possibility of the repurchase using certain derivatives and is not an additional or separate authorisation for the repurchase, with the consequence that in all other respects all the conditions for a repurchase under Agenda Item 7 apply, namely the requirements in terms of time. Within the framework of the overall authorisation pursuant to Agenda Item 7, the volume for this kind of acquisition of treasury shares is further restricted to 5 percent of the capital stock. In each case, the term of the individual Derivatives may not be more than 18 months, has to end no later than on 12 February 2024, and has to be designed in such manner that the acquisition of the shares using the Derivatives cannot occur after 12 February 2024. By means of these additional alternative courses of action, the Company expands its possibilities for structuring the acquisition of treasury shares in an optimal manner.

When selling a Put Option, the Company grants to the acquirer of the Put Option the right, during a certain period of time or at a specific point in time, to sell shares of the Company to the Company at a price stipulated in the Put Option (exercise price). As a so-called writer (Stillhalter), the Company is obliged to acquire the number of shares stipulated in the Put Option at the exercise price if the Put Option is exercised. As consideration, the Company receives an option premium in return when selling the Put Option. From the perspective of the Company, the share repurchase using Put Options has the advantage that the exercise price is already stipulated on the date the option is concluded. In contrast, the liquidity is only paid out on the date of exercise. If the option is not exercised, because the share price on the date of exercise is higher than the exercise price, the Company is unable to acquire treasury shares in this manner. However, it still retains the option premium received on the date on which the option was concluded.

When acquiring a Call Option, the Company receives the right against payment of an option premium, to purchase, during a certain period of time or at a specific point in time, a predetermined number of shares at a predetermined price (exercise price) from the seller of the option, the writer (Stillhalter). Exercising the Call Option is economically sensible for the Company if on the date of

exercise the market price of the Company's share is higher than the exercise price, as it is then able to purchase the shares from the writer at the lower exercise price. By the acquisition of Call Options, the Company may hedge against increasing share prices and only has to acquire as many shares as it actually requires at the later point in time. In addition, by using Call Options, the Company's liquidity is spared, since the exercise price for the shares must be paid only when the Call Option is exercised. These aspects may justify in the individual case that the Company uses Call Options for an intended acquisition of treasury shares.

In the case of a Forward Purchase, the Company agrees with the forward seller to acquire the shares at a specified date in the future. The acquisition is made at a forward price stipulated at the time of conclusion of the Forward Purchase. Upon occurrence of this date, the Company pays the forward seller the forward price and the forward seller in return delivers the shares. The conclusion of such Forward Purchases may be advisable for the Company, in particular, for reasons of maintaining liquidity levels.

The Derivatives may be entered into only with one or more credit institution(s) which is/are independent from the Company and/or one or more companies operating in accordance with § 53 (1) sent. 1 or § 53b (1) sent. 1 or (7) of the German Banking Act. Thereby, the management is enabled – in contrast to cases where an offer for entering into Derivatives is made to all shareholders – to conclude Derivatives transactions at short notice and, thus, to react quickly to market situations. In this respect, it has to be ensured that the Derivatives are only fulfilled with shares which are acquired in observance of the principle of equal treatment (§ 53a German Stock Corporation Act), in particular through the stock exchange, at the current stock price of the Company's share at the point in time of the acquisition. Pursuant to the statutory provision in § 71 (1) no. 8 German Stock Corporation Act, it is sufficient for observance of the principle of equal treatment if the shares are acquired through the stock exchange at the current stock price of the Company's share at the point in time of the acquisition through the stock exchange. Any right of the shareholders for the conclusion of Derivatives transactions with the Company is excluded in the same way as any tendering right of the shareholders. This exclusion is necessary, in order to facilitate the use of Derivatives in the course of the repurchase of treasury shares and to achieve the benefits for the Company related thereto. A conclusion of corresponding Derivatives transactions with all shareholders would not be feasible.

Where Derivatives are used, the consideration for the shares to be granted by the Company is the exercise price or forward price agreed in the respective Derivatives transaction (in each case without ancillary acquisition costs, but taking into account any bonuses paid or received). By the stipulations in respect of the option premium made in the resolution and the permissible exercise price or forward price restricted in more detail in the resolution, it is prevented that the shareholders suffer a material economic disadvantage in the case of the acquisition of treasury shares using derivatives. Since the Company receives or pays a fair market price, the shareholders not participating in the derivative transactions do not suffer a material economic disadvantage. This is equivalent in effect to the position of the shareholders in the case of a repurchase of shares through the stock exchange, where not all shareholders are actually able to sell shares to the Company. Besides, the interests of the shareholders are considered by the requirement of the resolution that in exercising the option

only such shares may be delivered which were previously acquired in observance of the principle of equal treatment. Both the requirements for the structuring of the Derivatives and the requirements for the shares suitable for delivery ensure that in the case of this form of acquisition the principle of equal treatment of the shareholders is also taken into account comprehensively. For this reason, it is justified, also in view of the rationale underlying § 186 (3) sent. 4 German Stock Corporation Act, that the shareholders are not entitled to enter into such Derivatives transactions with the Company.

With regard to the utilisation of the treasury shares acquired using Derivatives, the provisions set forth in Agenda Item 7 apply accordingly. These provisions are described in more detail in the Report of the Management Board to the General Meeting pursuant to § 71 (8) sent. 5 German Stock Corporation Act in conjunction with § 186 (4) sent. 2 German Stock Corporation Act on Agenda Item 7.

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

Düsseldorf, January 2019

CECONOMY AG

The Management Board