

# 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 § 221 (4) sent. 2 German Stock Corporation Act in conjunction with § 186 (4) sent. 2 German Stock Corporation Act on Agenda Item 9 (Cancellation of the existing authorisation for the issue of warrant or convertible bonds of 20 February 2015, as well as granting of a new authorisation for the issue of warrant and/or convertible bonds with the option of an exclusion of the subscription right for these warrant and/or convertible bonds as well as creation of a new contingent capital and cancellation of the existing Contingent Capital I and corresponding amendment of § 4 (8) of the Articles of Association (Contingent Capital))

The Management Board has been authorised by resolution of the Annual General Meeting of 20 February 2015 to issue, with the approval of the Supervisory Board, warrant or convertible bonds made out to the bearer, once or several times, on or before 19 February 2020, with a total nominal amount of up to 1,500,000,000 euros and to grant or impose, as applicable, warrant rights or obligations to the holders of warrant bonds or, respectively, conversion rights or obligations to/on the holders of convertible bonds for ordinary shares of CECONOMY AG made out to the bearer with a proportionate amount of the capital stock of up to a total of 127,825,000 euros.

To enable CECONOMY AG to continue to make flexible use of attractive sources of financing, the authorisation to issue warrant or convertible bonds created by resolution of the Annual General Meeting of 20 February 2015 is to be renewed, in particular in order to have an authorisation pursuant to § 186 (3) sent. 4 German Stock Corporation Act again in the future. The previous authorisation was used up by the capital increase from authorised capital in 2018, for which subscription rights were excluded. In addition, the term is to be extended early to ensure that an authorisation to issue warrant and/or convertible bonds is available to the Company at all times.

Under Agenda Item 9, the Management Board and the Supervisory Board therefore propose to cancel the existing authorisation to issue warrant or convertible bonds as well as the corresponding Conditional Capital I and to create a new authorisation and a new contingent capital (Contingent Capital) with the authorisation to exclude subscription rights.

The Management Board is to be authorised to issue, with the approval of the Supervisory Board, warrant and/or convertible bonds made out to the bearer (together the "Bonds"), once or several times, on or before 12 February 2024, with a total nominal amount of up to 1,000,000,000 euros – with or without a limitation of their term – and to grant or impose, as applicable, warrant rights or obligations to/on the holders of warrant bonds or, respectively, conversion rights or obligations to/on the holders of convertible bonds for ordinary shares of CECONOMY AG made out to the bearer with a proportionate amount of the capital stock of up to a total of 127,825,000 euros, subject to the more detailed provisions of the conditions of the warrant or convertible bonds (hereinafter each referred to as "Bond Conditions").

In addition to issuances in euros, it is intended that the Bonds may also be issued in the legal currency of an OECD country – limited to the appropriate equivalent amount in euros. The authorisation is further intended to enable CECONOMY AG to issue the Bonds also through an affiliate of CECONOMY AG as defined in § 18 German Stock Corporation Act in which CECONOMY AG directly or indirectly holds at least 90 percent of the shares.

In the case of an issuance of Bonds granting a warrant or conversion right or imposing a warrant or conversion obligation, the following applies: The respective warrant or conversion price to be determined for one ordinary share of CECONOMY AG must – except in cases in which a warrant or conversion obligation or a substitution right is provided for – amount to at least 80 percent of the volume-weighted average closing price of the ordinary shares of CECONOMY AG in electronic trading at the Frankfurt Stock Exchange on the 10 exchange trading days prior to the date the resolution is adopted by the Management Board regarding the issuance of the Bonds or – in the event subscription rights are granted – at least 80 percent of the volume-weighted average stock price of the ordinary shares of CECONOMY AG in electronic trading at the Frankfurt Stock Exchange during the subscription period, with the exception of the days of the subscription period required for the timely announcement of the warrant or conversion price pursuant to § 186 (2) sent. 2 German Stock Corporation Act. §§ 9 (1) and 199 (2) German Stock Corporation Act remain unaffected.

In the event that the Bond Conditions create a conversion obligation or warrant obligation at the end of their term (or at another point in time) or that a substitution right of CECONOMY AG is provided for, the warrant or conversion price must – subject to the more detailed provisions of the Bond Conditions – be at least the above-mentioned minimum price or must be equal to the volume-weighted average closing price of the ordinary share of CECONOMY AG in electronic trading at the Frankfurt Stock Exchange during the 10 exchange trading days before or after the final maturity date or the other stipulated point in time, even if this average price is below the above-mentioned minimum price. The proportionate amount of the capital stock of the ordinary shares of CECONOMY AG to be issued upon conversion or exercise of the warrant may not exceed the nominal value of the Bonds.

As a general rule, in the case of an issue of Bonds, the shareholders are entitled to the subscription right for such Bonds carrying warrant or conversion rights or obligations (§§ 221 (4), 186 (1) German Stock Corporation Act). In order to facilitate processing for the issue of Bonds, it is intended to allow for making use of the possibility that the Bonds are assumed by credit institutions or by equivalent companies pursuant to § 186 (5) German Stock Corporation Act, subject to the obligation to offer them to the shareholders in accordance with their subscription rights. Where Bonds are issued by an affiliate of CECONOMY AG as defined in § 18 German Stock Corporation Act in which CECONOMY AG directly or indirectly holds at least 90 percent of the shares, CECONOMY AG has to ensure the granting of the statutory subscription right for the shareholders of CECONOMY AG in accordance with the preceding sentence.

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 an issuance 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 issuances without such exclusion is significantly higher, which causes additional costs.

- (2) Further, the Management Board is to be authorised, with the approval of the Supervisory Board, to exclude the shareholders' subscription right to grant holders of previously issued warrant or conversion rights or obligations a subscription right to the extent to which they would be entitled as shareholders after exercising the warrant or conversion right or upon fulfilment of the warrant or conversion obligation.

The exclusion of the subscription right for the benefit of holders of warrant or conversion rights or obligations that already have been issued has the advantage that the warrant or conversion price for the warrant or conversion rights or obligations that already have been issued does not have to be reduced and that, thus, a higher total inflow of funds can be achieved. Besides, equipping bonds with this type of anti-dilution protection is standard market practice.

- (3) The Management Board is further to be authorised, with the approval of the Supervisory Board, to exclude the subscription right of the shareholders in its entirety – in application, mutatis mutandis, of § 186 (3) sent. 4 German Stock Corporation Act – if the issue of the Bonds carrying warrant or conversion rights or obligations is made against cash payment at an issue price which is not significantly lower than the market price of these Bonds.

This awards CECONOMY AG the opportunity to make use of favourable market opportunities quickly and at short notice and to obtain better conditions for the determination of the interest rate and the issue price of the Bonds by stipulating terms and conditions which are closer to the market environment. A stipulation of terms and conditions that are closely related to the market environment and a smooth placement would not be possible if the subscription right had to be observed. § 186 (2) German Stock Corporation Act allows for a publication of the issue price (and, thus, the terms and conditions of these Bonds) until the third last day of the subscription period. However, given the volatility of the equity markets that is often observable, there still exists a market risk for several days, leading to safety discounts when determining the conditions of the Bonds and hence resulting in terms that are not close to market conditions. Furthermore, if the subscription rights are granted, a successful placement with third parties is made more difficult or entails additional efforts, given the uncertainty regarding the exercise of the subscription right (subscription behaviour). Finally, if granting subscription rights, CECONOMY AG is unable to react to favourable or unfavourable changes in market conditions on short notice because of the duration of the subscription period, but is exposed to declining stock prices during

the subscription period which may lead to CECONOMY AG procuring capital on unfavourable terms.

Pursuant to § 221 (4) sent. 2 German Stock Corporation Act, the provision in § 186 (3) sent. 4 German Stock Corporation Act applies accordingly to this case of an exclusion of the subscription right in its entirety. According to the resolution, the limit stipulated in this provision for the exclusion of the subscription right of 10 percent of the capital stock has to be complied with. It is ensured by means of a respective stipulation in the authorisation resolution that the limit of 10 percent is not exceeded in the case of a capital reduction, since the authorisation to exclude the subscription right must not exceed an amount of 10 percent of the registered capital stock, neither at the time of the becoming effective, nor – in the event that this value is lower – at the time of the utilisation of this authorisation. To the aforementioned maximum limit of 10 percent of the capital stock, the proportionate amount of the capital stock has to be credited which is attributable to shares which since the granting of this authorisation have – subject to an exclusion of subscription rights – either been issued on the basis of an authorisation of the Management Board to exclude subscription rights in direct or analogous application of § 186 (3) sent. 4 German Stock Corporation Act or disposed of as acquired treasury shares in analogous application of § 186 (3) sent. 4 German Stock Corporation Act, until the issue – subject to an exclusion of subscription rights pursuant to § 186 (3) sent. 4 German Stock Corporation Act utilising this authorisation pursuant to § 186 (3) sent. 4 German Stock Corporation Act – of Bonds with conversion and/or warrant rights or conversion and/or warrant obligations.

§ 186 (3) sent. 4 German Stock Corporation Act further stipulates that the issue price may not be significantly lower than the market price. This provision is intended to ensure that no significant economic dilution of the value of the shares occurs. Whether or not such dilution effect occurs in the event of an issue of Bonds carrying warrant or conversion rights or warrant or conversion obligations without granting subscription rights may be determined by calculating the hypothetical market price of the Bonds in accordance with generally accepted financial mathematical methods and comparing it to the issue price. If in the process of a duly conducted examination this issue price is found to be only insignificantly lower than the hypothetical market price at the time of the issue of the Bonds, the exclusion of the subscription right is permissible in accordance with the rationale and purpose of the provision in § 186 (3) sent. 4 German Stock Corporation Act, because the deduction is merely insignificant. Therefore, the authorisation resolution stipulates that, prior to the issue of Bonds carrying warrant or conversion rights or warrant or conversion obligations, the Management Board upon a duly conducted examination has to come to the conclusion that the intended issue price does not lead to a significant dilution since the issue price is not significantly lower than the hypothetical market price determined in accordance with generally accepted financial mathematical methods. This would result in the calculational value of a subscription right being close to zero, thus ensuring that the shareholders will not suffer any material economic disadvantages from the exclusion of the subscription rights. Independently from this examination conducted by the Management Board, a determination of terms and conditions which are closely related to market conditions – and thus the avoidance of a significant dilution of the value – is ensured in cases where a book-building procedure is conducted. In the course of this procedure, the Bonds are being offered at a fixed

issue price; however, individual terms of the Bonds (for example, applicable interest rate and, as the case may be, their term) are stipulated on the basis of the purchasing orders submitted by investors, thus leading to a determination of a total value of the Bonds which is close to market conditions. All this ensures that the exclusion of the subscription right does not lead to a significant dilution of the value of the ordinary shares.

Besides, also after the exercise of warrant or conversion rights or the occurrence of warrant or conversion obligations, the shareholders have the opportunity, at any time, to maintain the extent of their portion of the capital stock of CECONOMY AG by acquiring ordinary shares through the stock market. In contrast, the authorisation to exclude the subscription right facilitates the determination of terms and conditions close to market conditions, the highest possible extent of security regarding a placement with third parties and the utilisation of favourable market situations at short notice by CECONOMY AG.

To protect shareholders, the authorisation contains a restriction on the total scope of capital measures of CECONOMY AG for which subscription rights are excluded. On aggregate, pursuant to this authorisation, the shares that are or have to be issued for the fulfilment of warrant or convertible bonds which are issued subject to an exclusion of subscription rights in application, *mutatis mutandis*, of § 186 (3) sent. 4 German Stock Corporation Act may not amount to more than 10 percent of the capital stock existing at the time the authorisation becomes effective. 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 issued from authorised capital against contribution in kind subject to an exclusion of the subscription right 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, are to be counted towards this maximum limit. The 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 creation of a new authorised capital (Agenda Item 6).

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.

Currently, there are no specific plans to utilise the authorisation to issue warrant or convertible bonds. In each case, the Management Board will examine with due care whether the utilisation of the authorisation is in the interest of CECONOMY AG and its shareholders. The Management Board will report to the General Meeting on any utilisation of the authorisation.

Düsseldorf, January 2019

CECONOMY AG

The Management Board