

NORMA Group SE

Annual General Meeting on 30 June 2020

Report of the Management Board on agenda item 7

An adequate capital base and adequate financing are material bases for the further development of NORMA Group SE and for a successful market presence. By issuing convertible bonds and/or bonds with warrants and/or participation rights, the Company can – depending on the market situation and its financing needs – take advantage of attractive financing opportunities at comparatively low interest rates, for example to procure favourable debt capital for the Company. Moreover, by issuing convertible bonds and bonds with warrants as well as participation rights, the Company may possibly even reach new investor groups in addition to using other instruments, such as capital increases. Further, the Company will benefit from the conversion and option premiums obtained when issuing such bonds.

The planned authorisation is intended to replace the authorisation to issue convertible bonds and/or bonds with warrants and/or participation rights which had been resolved in the Annual General Meeting of 20 May 2015. The authorisation that was resolved on 20 May 2015 applies until 19 May 2020 and will therefore already have expired by the time of the Annual General Meeting on 30 June 2020. The Management Board and the Supervisory Board consider it reasonable to allow the Company to issue convertible bonds and/or bonds with warrants and/or participation rights, excluding subscription rights, in a flexible manner even in future. When it comes to its legal arrangement, the authorisation proposed under agenda item 7 largely equals the authorisation granted on 20 May 2015.

The new authorisation to issue bonds as proposed under agenda item 7, and the Conditional Capital 2020 which is also proposed, will enable the Management Board to issue, with the Supervisory Board's consent, once or repeatedly up to and including 29 June 2025, bearer or registered convertible bonds and/or bonds with warrants and/or participation rights carrying conversion or option rights and/or conversion or option obligations (or a combination of these instruments) in a total nominal amount of up to EUR 200,000,000 with or without a limited maturity term (hereinafter referred to collectively as “**Bonds**”) and to grant to or impose on the creditors of Bonds conversion/option rights and/or conversion/option obligations to subscribe to a total of up to 3,186,240 new registered no-par value shares of the Company with a pro rata amount of the share capital of up to EUR 3,186,240 in total in accordance with the terms and conditions of the Bonds (hereinafter together “**Bond Conditions**”). The authorisation proposed in agenda item 7 will furthermore make it possible for the Management Board to issue the Bonds with a variable interest rate, in terms of which the interest rate may be wholly or partially dependent on the amount of the net profit for the year, the balance sheet profit or the Company's dividend.

The sum of shares that are to be issued based on Bonds, which are issued based on the authorisation proposed under agenda item 7, under exclusion of the shareholders' subscription right, must not exceed a proportional amount of 10% of the share capital either at the time of said authorisation taking effect or at the time of the authorisation being utilised, taking into account other shares of the Company issued or sold under exclusion of the subscription right after 30 June 2020. By restricting the overall amount of shares issued without subscription rights to 10% of the share capital, shareholders are protected to a particularly high degree against dilution of their holdings.

The possibility provided for in the authorisation to the effect that Bonds may also be issued with conversion or option obligations at the end of the term or at other times extends the scope for structuring financing instruments of this kind.

When issuing Bonds, the Company shall be able, depending on the market situation, to make use of the German or international capital markets and issue Bonds not only in Euro but also in the legal currency of an OECD country, however, limited to the corresponding equivalent value in Euro. The Bonds may be issued also by domestic or foreign companies, in which the Company holds directly or indirectly the majority of the votes and capital (hereinafter also “**Majority-Owned Subsidiary**”); in that case, the Management Board is authorised to provide a guarantee for the Bonds on behalf of the Company and to grant the creditors of such Bonds conversion and/or option rights on shares of the Company and/or fulfil conversion or option obligations in shares of the Company, as well as to render other declarations and take actions that are necessary for a successful issue.

The proposed Conditional Capital 2020 is to enable the Company to issue shares to the creditors of Bonds which are issued based on the authorisation that is yet to be granted under agenda item 7. The nominal value of the Conditional Capital 2020 corresponds to 10% of the current share capital of the Company. New shares from the Conditional Capital 2020 shall be issued at the conversion or option price to be determined in each case in accordance with the authorisation. Pursuant to section 193(2), no. (3) of the German Stock Corporation Act, the authorisation will merely define the bases for determining the relevant minimum issue price so as to give the Company the necessary flexibility when determining the conditions. The conditional increase in capital shall be performed only insofar as use is made of conversion or option rights that are based on issued Bonds or insofar as conversion or option obligations that are based on such Bonds are fulfilled, and insofar as the conversion or option rights and/or conversion or option obligations are not satisfied through own shares, shares from authorised capital or other consideration.

When Bonds are issued with conversion or option rights or conversion or option obligations, the shareholders are in principle entitled to a subscription right (section 221(4) German Stock Corporation Act in conjunction with section 186(1) German Stock Corporation Act). If the Bonds are issued by a Majority-Owned Subsidiary of NORMA Group SE, NORMA Group SE must ensure that the shareholders are granted the statutory subscription rights. To simplify this process, the Bonds can also be taken on by one or several credit institutions pursuant to section 186(5) of the German Stock Corporation Act, which must undertake to offer them to the shareholders for subscription (so-called indirect subscription right).

In this context, the Management Board shall – with the consent of the Supervisory Board – also be allowed to determine that the subscription right in part shall be a direct subscription right and otherwise an indirect subscription right. It may for example be particularly expedient and, for cost-related reasons, in the interest of the Company for a major shareholder who is entitled to subscription rights and who has undertaken to purchase a fixed number of (partial) Bonds in advance to be offered these Bonds for subscription directly, in order to avoid the costs of the issuing banks that would be incurred by the Company in the case of an indirect subscription right. This does not entail any restriction of the content of the subscription rights of the shareholders to whom the Bonds are offered by way of an indirect subscription right.

In accordance with the legal provisions, the Management Board shall be authorised – with the consent of the Supervisory Board – in the individual cases specified in detail in the authorisation to exclude the shareholders' subscription right.

Exclusion of the subscription right for fractional amounts

Initially, the Management Board shall be authorised to exclude the shareholders' subscription right for fractional amounts with the consent of the Supervisory Board. Said exclusion of the subscription right shall enable a practicable subscription ratio and thus facilitate the technical performance of issuing Bonds. The value of the fractional amounts is normally low, whereas the time and effort required to issue Bonds without an exclusion of the subscription right for fractional amounts is regularly much higher. The Bonds that are excluded from the subscription right due to such fractional amounts will be used in the Company's best possible interest. The exclusion of the subscription right in these cases thus serves to make an emission more practicable and feasible.

Exclusion of the subscription right for bonds with warrants and convertible bonds

The Management Board shall furthermore be authorised, with the Supervisory Board's consent, to exclude the shareholders' subscription right when issuing Bonds insofar as this is necessary to grant holders and/or creditors of conversion or option rights or creditors of Bonds carrying conversion or option obligations issued or still to be issued by the Company or a Majority-Owned Subsidiary a subscription right to the extent to which they would be entitled as shareholders after exercising the conversion or option rights or fulfilling the conversion or option obligations.

The background to this is as follows: The economic value of the said conversion or option rights or the Bonds carrying conversion or option obligations depends not only on the conversion or option price but also, and in particular, on the value of the shares of the Company to which the conversion or option rights or conversion or option obligations relate. To ensure a successful placement of the respective Bonds or, rather, to avoid a corresponding markdown during placement, it is thus common practice to include so-called anti-dilution provisions in the Bond Conditions, which will protect the rightholders from depreciation of their conversion or option rights as a result of a dilution of the value of the shares to be subscribed; the inclusion of such anti-dilution provisions in the Bond Conditions is thus also provided for in the authorisation to issue Bonds, as proposed under agenda item 7. In the absence of such dilution protection, any subsequent issuance of Bonds along with a granting of shareholder subscription rights would typically result in such a dilution of the value. This is because in order to make the subscription rights attractive to the shareholders and ensure that these are taken up, the relevant convertible bonds or bonds with warrants are, in cases in which subscription rights are granted, generally issued under more favourable conditions than would be in line with their market value. This leads to a corresponding dilution of the value. The aforesaid anti-dilution provisions in the Bond Conditions usually provide for a reduction in the conversion or option price in such a case, with the result that in the event of the subsequent conversion or exercising of the option or the subsequent fulfilment of a conversion or option obligation, the funds flowing into the Company are reduced or the number of shares to be issued by the Company is increased.

As an alternative which makes it possible to avoid reducing the conversion or option price, the anti-dilution provisions usually permit the holders of the bonds to be granted a right to subscribe to subsequently issued convertible bonds and/or bonds with warrants to the extent to which they would be entitled after exercising their own conversion or option rights or after fulfilling their conversion or option obligations. They are therefore placed in the position that they would have been in had they, by exercising the conversion or option rights or by fulfilling any conversion or option obligations, already become shareholders before the offer to subscribe and would to this extent also already have been entitled to subscribe; the value of the subscription right therefore compensates them – like all the already

participating shareholders – for the dilution of value. For the Company, this second alternative for granting dilution protection has the benefit that the conversion or option price does not have to be reduced; it therefore serves to guarantee the largest possible inflow of funds in the event of a subsequent conversion or exercising of the option or the subsequent fulfilment of any conversion or option obligation or reduces the number of shares to be issued in this case. This also benefits the participating shareholders, so that it at the same time constitutes remuneration for the restriction of their subscription rights. Their subscription rights as such continue to exist and are merely reduced pro rata to the extent to which, in addition to the participating shareholders, the holders of the conversion or option rights or the Bonds carrying conversion or option obligations are also granted subscription rights. In case of an emission of subscription rights, the present authorisation enables the Company to choose between one of the two above-described alternatives for granting dilution protection, by weighing the shareholders' interests against the Company's.

Exclusion of subscription rights where Bonds are issued for cash consideration

The Management Board shall also be authorised, with the Supervisory Board's consent, to exclude the subscription right if, where Bonds are issued in return for cash payment, the issue price of the Bonds is not substantially below the theoretical market value of the Bonds determined using recognised methods, in particular financial calculation ones.

It may be expedient to make use of this statutory possibility of excluding subscription rights to enable the Company to respond swiftly to favourable market situations and place Bonds on the market quickly and flexibly with attractive conditions. The two week subscription period required when granting subscription rights to the shareholders (in analogous application of section 186(1), sentence 2 German Stock Corporation Act) makes it impossible to react swiftly to the current market situation in this way. Moreover, because of the volatility of the stock markets, conditions which are as close as possible to market conditions can generally only be achieved if the Company is not bound to them for a prolonged period. If subscription rights are granted, section 186(2) German Stock Corporation Act stipulates that the final subscription price or, in the case of bonds carrying conversion and/or option rights or conversion or option obligations, the final conditions for the bonds must be announced no later than three days before the end of the subscription period. As compared to an allocation without subscription rights, this is associated with a greater market risk – in particular with a change in price risk that lasts for several days. When granting a subscription right, one must hence regularly provide for a corresponding safety discount when determining the conditions of the Bonds in order to achieve a successful placement; this will normally result in less favorable conditions for the Company than when placing the Bonds under exclusion of the subscription right. Also, when granting a subscription right, complete placement is not readily warranted and a subsequent placement with third parties is normally associated with extra expenses due to the uncertainties regarding the exercise of the subscription rights by those entitled thereto.

With this exclusion of subscription rights, the shareholders' interests are guaranteed by the fact that the Bonds must not be issued substantially below their theoretical market value, whereby the actuarial value of the subscription right is reduced to almost zero. The resolution therefore provides that before issuing any Bonds, the Management Board must arrive at the conclusion that the envisaged issue price will not lead to any noteworthy dilution of the shares' value. Should the Management Board consider it appropriate to obtain expert advice in the respective situation, it may consult experts, for example the syndicate banks assisting with the Bond issue, an independent investment bank or a private expert to

confirm, in a suitable form, that no significant dilution of the share value is to be expected. Regardless of the assessment by the Management Board, the setting of conditions in line with general market conditions is guaranteed if a book building process is carried out. This means that the exclusion of subscription rights will not lead to a noteworthy dilution of the shares' value.

This authorisation to exclude subscription rights applies only to Bonds carrying rights to shares or obligations to subscribe shares, to which a proportional amount of the share capital of not more than 10% of the share capital is attributable either at the time of said authorisation taking effect or at the time of said authorisation being exercised. In this context, the legislator deems it reasonable to expect the shareholders to maintain their participation quota by purchasing shares on the market. Shares in the Company that are issued or sold by the Company during the term of this authorisation subject to the exclusion of the shareholders' subscription rights pursuant to or in analogous application of section 186(3), sentence 4 German Stock Corporation Act will be counted towards this 10% limit. These limits serve to protect the shareholders and keep dilution of their interests to a minimum.

Exclusion of subscription rights where Bonds are issued for non-cash consideration

The Management Board shall also be authorised, with the Supervisory Board's consent, to exclude the shareholders' subscription rights if Bonds are issued for non-cash consideration and the exclusion of subscription rights is in the interest of the Company.

The aim of this stipulation is to ensure that the Bonds can be used as acquisition currency to selectively acquire specific assets, enterprises, parts of or interests in enterprises. This will enable the Company, especially in combination with other financing instruments or the issuing of Bonds for cash consideration, to act flexibly and to respond to corresponding demands by the sellers. A prerequisite for issuing Bonds for non-cash consideration is that the value of the non-cash consideration at least corresponds to the issue price of the Bonds at the time the Bonds are issued. This means that the Company does not suffer any disadvantage as a result of issuing Bonds for non-cash consideration. Rather, this possibility creates additional flexibility and improves the Company's competitive position in terms of making acquisitions. The Management Board will carefully consider, on a case-by-case basis, whether it will make use of the option of issuing Bonds for non-cash consideration. It will only make use of this option if this is in the best interest of the Company and therefore of its shareholders.

Utilisation of the authorisation

Currently, there are no specific plans to make use of the authorisation to issue Bonds proposed in agenda item 7. Corresponding anticipatory resolutions including an option to exclude subscription rights are common both at the national and international level. Each and every such exclusion of subscription rights, as proposed herein, is subject to consent by the Supervisory Board. The Management Board will moreover in each case carefully consider whether it would be in the interest of the Company to make use of the proposed authorisation to issue Bonds; it will in particular also consider whether any exclusion of the subscription rights in a specific case is objectively justified. The Management Board will then report to the next Annual General Meeting on any use of the authorisation.