

## NORMA Group SE

## Annual General Meeting on 30 June 2020

**Report of the Management Board on agenda item 8**

In future as well, the Management Board is to have the opportunity to take advantage of financing options in the Company's interest, and with the approval of the Supervisory Board, in order to use business opportunities and strengthen the Company's equity capital base. By resolution of the Annual General Meeting of 20 May 2015, the Management Board is authorised, with the Supervisory Board's consent, to increase the Company's share capital once or repeatedly on or before 19 May 2020 by up to a total of EUR 12,744,960 by issuing up to 12,744,960 new registered no-par value shares against cash and/or non-cash contributions (Authorised Capital 2015). The Authorised Capital 2015 has not been used. It will already have expired by the time of the Annual General Meeting on 30 June 2020. In the opinion of the Management Board and the Supervisory Board, it makes good sense for the Company to remain allowed in future to increase the share capital on short notice, thereby excluding the subscription rights. The plan is thus to resolve on a new authorised capital, which in terms of content largely corresponds to the Authorised Capital 2015. In order to protect shareholders to an even higher degree than up to now against dilution of their holdings, the scope of the new Authorised Capital 2020 shall be reduced significantly in comparison to the Authorised Capital 2015 equalling EUR 3,186,240 only (which is 10% of the current share capital).

For this reason, the Management Board and the Supervisory Board propose to the Annual General Meeting in agenda item 8 that the Management Board shall be authorised, with the Supervisory Board's consent, to increase the Company's share capital by up to a total of EUR 3,186,240 by issuing up to 3,186,240 new registered no-par value shares (Authorised Capital 2020). The Management Board shall be authorised to issue shares any time up to and including 29 June 2025 on the basis of the Authorised Capital 2020. The Authorised Capital 2020 shall be available for capital increases against cash and non-cash contributions.

The Management Board of Norma Group SE will be able to use the proposed Authorised Capital 2020 to adjust NORMA Group SE's net equity base at any time within the specified limits, depending on the requirements of the business, and to act quickly and flexibly in the interest of the Company. In order to be able to do so, the Company must always have the necessary financing instruments available, regardless of concrete utilization plans. As decisions on the coverage of capital requirements normally need to be made on short notice, it is important that the Company does not have to wait for the next Annual General Meeting and does not have to call an extraordinary general meeting either. The instrument of authorised capital has therefore been created by law to address the need to raise capital quickly. Common reasons for utilising authorised capital include to strengthen the equity capital base and to finance the acquisition of shares.

As a general rule, the shareholders have a subscription right when the Authorised Capital 2020 is utilised. Pursuant to section 186(5) German Stock Corporation Act, the new shares may also be acquired by one or more credit institutions which undertake to offer the shares for subscription to the shareholders (so-called indirect subscription rights). The proposed authorisation provides that, with the consent of the Supervisory Board and subject to the legal provisions, the Management Board will be allowed to exclude the shareholders' subscription right in whole or in part in the cases described below.

The sum of shares that are issued based on the Authorised Capital 2020 under exclusion of shareholders' subscription rights must not exceed a proportional amount of 10% of the share capital either at the time the authorisation takes effect or at the time the authorisation is utilised, taking into account other shares of the Company that are sold or issued under exclusion of subscription rights during the term of the Authorised Capital 2020 or that are to be issued based on bonds which were issued 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.

#### **Exclusion of subscription rights for fractional amounts**

The Management Board shall be authorised to exclude the shareholders' subscription rights for fractional amounts with the consent of the Supervisory Board. Excluding subscription rights in this way will make it possible to achieve a practicable subscription ratio and thereby facilitate the technical execution of capital increases. The value of the fractional amounts is normally low, while the time and effort required to issue shares without excluding subscription rights for fractional amounts is generally much higher. The new shares excluded from the shareholders' subscription rights as so-called "non-allocable fractional amounts" will be used in the best interest of the Company. In these cases, the subscription rights are therefore excluded for practical reasons and to facilitate the issuing of the shares.

#### **Exclusion of subscription rights for bonds with warrants and convertible bonds**

Subject to the Supervisory Board's consent, the Management Board shall also be authorised to exclude the shareholders' subscription rights if and to the extent this is necessary to grant the holders or creditors of conversion or option rights, and/or the holders or creditors of financing instruments carrying conversion or option obligations, which were or are issued by the Company or by a domestic or foreign company in which the Company directly or indirectly holds the majority of the votes and capital, a subscription right to the same extent to which they would be entitled after exercising the conversion or option rights or after fulfilling of a conversion or option obligation.

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 convertible bonds and/or bonds with warrants and/or participation rights, as proposed under agenda item 7. In the absence of such dilution protection, any subsequent issuance of shares along with a granting of shareholder subscription rights would typically result in such a 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 bonds with conversion or option rights or conversion

or option obligations to be granted a right to subscribe to new shares 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 subscription rights 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 alternatives for granting dilution protection, by weighing the shareholders' interests against the Company's.

#### **Exclusion of subscription rights in case of capital increases for cash**

Subject to the approval of the Supervisory Board, in the case of capital increases for cash the Management Board shall be authorised to exclude subscription rights pursuant to section 203(1), sentences 1 and 2 and section 186 (3), sentence 4 German Stock Corporation Act if the issue price of the new shares does not fall substantially short of the stock exchange price of the already listed shares.

It may be expedient to make use of this statutory possibility of excluding subscription rights to enable the Company to quickly and flexibly take advantage of favourable market situations and to be able to meet any existing capital requirements at very short notice. The two week subscription period required when granting subscription rights to the shareholders (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 must be announced no later than three days before the end of the subscription period. This means that the granting of subscription rights is associated with a greater market risk – in particular the risk of price changes over several days – than an allocation without subscription rights. To ensure successful placement it is therefore generally necessary, if subscription rights are granted, to deduct corresponding safety discounts from the current stock exchange price; this will normally result in less favourable conditions for the Company than if subscription rights are excluded when the capital is increased. The exclusion of subscription rights means that the shares can be placed at a price that is close to the stock exchange price. Also, if subscription rights are granted, given the uncertainty as to whether shareholders will actually exercise their subscription rights it is not necessarily guaranteed that all the shares will be placed, and subsequently placing the shares with third parties generally involves extra expense.

The proportion of the share capital accounted for by the shares that are issued under such an exclusion of subscription rights must not exceed, in total, 10% of the share capital either at the time when said authorisation takes effect or at the time of when said authorisation is exercised. In this context, the legislator deems it reasonable to expect the shareholders to maintain their participation quota by purchasing shares on the market. This restriction to 10% of the share capital also includes the proportional amount of the share capital that is attributable to shares which are sold under exclusion of subscription rights during the term of the Authorised Capital 2020 based on an authorisation to issue new shares or sell own shares in direct or analogous application of section 186(3), sentence 4 German Stock Corporation Act. The proportional amount of the share capital that is attributable to shares which may or must be issued in order to service bonds carrying conversion or option rights or conversion or option obligations also counts towards this 10% limit if the bonds are issued during the term of the Authorised Capital 2020 under exclusion of the shareholders' subscription rights in corresponding application of section 186(3), sentence 4 German Stock Corporation Act. These limits serve to protect the shareholders and keep dilution of their interests to a minimum.

This model allows for the shareholders' participation quota to be diluted by not more than 10% even when capital measures are combined with the issue of bonds and/or the sale of own shares. And anyway, because the issue price of the new shares is close to their stock exchange price and because of the limitation of the scope of the capital increase without subscription rights, shareholders can basically maintain their participation quota by acquiring the necessary shares on the stock exchange on almost the same conditions. This therefore ensures that, in line with the legal rationale of section 186(3), sentence 4 German Stock Corporation Act, if Authorised Capital 2020 is used thereby excluding subscription rights, shareholders' financial and investment interests remain adequately protected while opening up further options for the Company in the interests of all the shareholders.

### **Exclusion of subscription rights in case of capital increases against non-cash contributions**

Subject to the Supervisory Board's consent, the Management Board shall also to be authorised to exclude the shareholders' subscription rights in the case of capital increases against non-cash contributions, in particular for the purpose of acquiring enterprises, parts of enterprises or interests in enterprises.

This is to enable NORMA Group SE to offer shares of the Company quickly and flexibly in suitable cases in order to fulfil claims arising from the preparation, implementation, closing or settlement of contractual or statutory acquisition processes as well as company mergers without using the stock markets. NORMA Group SE competes at a global level. It must be in a position at all times to act quickly and flexibly in international and regional markets in the interest of its shareholders. This includes acquiring enterprises, businesses, parts of or interests in enterprises or other assets or claims to the acquisition of assets, including claims against the Company or its group companies, at short notice in order to improve its competitive position. In return, it may be expedient or even necessary to grant shares in order to preserve liquidity or to meet the sellers' expectations. Granting shares instead of money may also make sense from the perspective of an optimum financing structure. The Company will not suffer any disadvantage as a result because the emission of shares for no-cash consideration requires that the value of the contribution in kind be in due proportion to the value of the shares. When determining the relation between the respective values, the Management Board must make sure that the interests of the Company and of its shareholders are given appropriate protection and that an adequate issue price for the new shares is achieved. Moreover, the Company's listing on the stock ex-

change basically gives every shareholder the opportunity to increase its participation quota by acquiring additional shares.

### **Utilisation of the authorisation**

Currently, there are no concrete plans to make use of the Authorised Capital 2020. 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 Authorised Capital 2020; 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.