
Annual General Meeting 25. May 2016 at 10:30 a.m. (CEST)

Report of the Board of Management on agenda item 7

In agenda item 7, the Board of Management and the Supervisory Board propose creating new authorised capital. According to section 203 para. 2 and in conjunction with section 186 para. 4 sent. 2 AktG, the Board of Management provides this report on the reasons for the authorisations provided for in the proposed new authorised capital to exclude shareholders' subscription rights when issuing new shares. As part of this invitation, the report can be accessed at agm.leifheit-group.com and will be available for inspection at the Annual General Meeting:

The Annual General Meeting from 26 May 2011 passed a resolution on the creation of authorised capital which expires on 25 May 2016. The Board of Management did not make use of this authorisation. New authorised capital with a term through 24 May 2021 shall be created in order to make it possible for the company to cover its financing needs quickly and flexibly going forward.

Apart from the authorised capital decided on by the Annual General Meeting from 26 May 2011 and which expires on 25 May 2016 (the day of the Annual General Meeting), there is neither any further authorised capital nor conditional capital.

With the approval of the Supervisory Board, the Board of Management shall therefore be authorised to increase share capital from its current level of €15,000,000 by up to €7,500,000 by issuing up to 2,500,000 new no-par-value bearer shares (authorised capital 2016). The authorisation to issue new shares from authorised capital also aims to enable the Board of Management in future, with the approval of the Supervisory Board, to respond to financing requirements that arise at short notice as well as to opportunities to acquire companies, parts of companies or stakes in companies or other assets eligible for contribution or as part of company mergers. Furthermore, it shall be possible to issue scrip dividends at the best possible conditions. The option to exclude subscription rights for capital increases against contributions in cash and in kind is to be limited to a total of 20% of the share capital.

Exclusion of subscription rights for fractional amounts

With the approval of the Supervisory Board, the Board of Management shall be authorised where authorised capital is concerned to exclude fractional amounts from the shareholders' subscription rights. The exclusion of subscription rights for fractional amounts is necessary in order to arrive at a technically feasible subscription ratio. The fraction of shares excluded from the shareholders' subscription rights are sold to the best possible benefit of the company. The potential dilutive effect is low due to the restriction to fractional amounts. The Board of Management and the Supervisory Board consider the potential exclusion of the subscription rights for these reasons to be justified from an objective perspective and reasonable with respect to the shareholders.

Exclusion of subscription rights for cash capital increases according to section 186 para. 3 sentence 4 AktG

With the approval of the Supervisory Board, the Board of Management shall furthermore be authorised to exclude shareholders' subscription rights for a capital increase against cash contributions if the new shares for which the subscription rights are excluded do not exceed 10% of the share capital on the date when the authorisation is entered in the commercial register or, if lower, 10% of the existing share capital on the issue date of the new shares, and the issue price of new shares is not materially lower than the market price of the company's listed shares at the time when the Board of Management sets the issue price. The legal basis for this simplified exclusion of subscription rights is provided for by section 203 para. 1 and 2 in conjunction with section 186 para. 3 sent. 4 AktG. The 10% threshold may not, as a whole, be exceeded, including when aggregating any other authorisations that result in the direct or indirect application of section 186 para. 3 sent. 4 AktG. Any potential discount on the relevant market

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price shall amount to a maximum of 5% of the market price. The option to exclude subscription rights provided for in section 186 para. 3 sent. 4 AktG enables the company to selectively place shares with investors in order to achieve the highest possible sales price by setting prices in line with market conditions and, consequently, the greatest possible strengthening of its equity capital. Since this option makes it possible to take action more quickly, as a rule, the company can achieve higher cash inflow than it would be able to observing shareholders' subscription rights in the offer of subscription rights to all shareholders that would arise. Furthermore, forgoing the lengthy and expensive subscription rights process means that equity capital requirements arising at short notice from market opportunities can be met quickly. Section 186 para. 2 sent. 2 AktG allows for an announcement of the subscription price up to three days before the expiry of the subscription period at the latest. In light of volatility on the stock markets, however, there is also a market risk in this instance, specifically a risk of changes in the share price, lasting several days, which can result in haircuts when determining the subscription price, so that it may not ultimately be in line with market conditions.

In order to comply with the 10% share-capital threshold provided for in section 186 para. 3 sent. 4 AktG with regard to the simplified process of excluding subscription rights, the authorisation to issue new shares under the simplified exclusion of subscription rights is restricted to shares amounting to 10% of the share capital of the company. The calculation of the 10% threshold is to be made on the basis of the amount of share capital on the date when the authorisation is entered into the commercial register or at the time the shares issued, whichever is lower. The proposed resolution also provides for a deduction clause, according to which the authorisation volume decreases if, beginning from the day of the Annual General Meeting, other authorisations for the simplified exclusion of subscription rights are used. This ensures that the 10% threshold provided for in section 186 para. 3 sent. 4 AktG is observed, taking into account all authorisations with the option to exclude subscription rights with respect to the direct, corresponding or logical application of section 186 para. 3 sent. 4 AktG.

For the reasons mentioned, the proposed authorisation is in the interest of the company and its shareholders. As the issue price of the treasury shares to be granted must be determined by reference to the market price and the scope of the authorisation is limited, the interests of the shareholders are adequately protected. Shareholders have the option to maintain their relative stake in the company by acquiring shares through the stock exchange.

Exclusions of subscription rights for capital increases in kind

With the approval of the Supervisory Board, the Board of Management shall furthermore be authorised where authorised capital is concerned to exclude shareholders' subscription rights for capital increases against contributions in kind for the purpose of granting shares within the scope of acquiring companies, parts of companies or stakes in companies or other assets eligible for contribution or as part of company mergers. In terms of global competition, Leifheit must always be able to act quickly and flexibly on the German and international markets in the interest of its shareholders. This includes the option of acquiring companies, parts of companies, stakes in companies or other assets eligible for contribution by granting shares so as to improve the company's competitive position or of merging with other companies. As a result, it may become necessary in negotiations to offer shares as consideration instead of money. The option to offer shares as consideration is particularly essential with regard to international competition for interesting acquisition targets and creates the necessary leeway to take advantage of opportunities that arise to acquire companies, parts of companies, stakes in companies or other assets eligible for contribution or to conserve liquidity within the scope of company mergers. In the case of mergers with other companies, the statutory provisions governing the merger may even require that shares be granted. Experience also shows that the owners of attractive acquisition targets frequently ask for shares in the acquiring company as consideration for the sale due to tax reasons, for example, or in order to continue holding a stake in the previous business. The proposed authorisation aims to provide the company with the option to seize opportunities that arise to acquire companies, parts of companies or stakes in companies or to be part of company mergers for which consideration is to be given in shares, whether in

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whole or in part, and to do so quickly and flexibly on the German and international markets. To be able to acquire such targets, Leifheit AG must also have the option to grant new shares as consideration. Granting shares can also represent a reasonable course of action concerning an optimum financing structure, as using new shares from authorised capital makes it possible to implement plans for mergers and acquisitions in a way that conserves liquidity.

It shall also be possible to acquire other assets eligible for contribution in exchange for issuing new shares from authorised capital. During an acquisition, it may also be reasonable from an economic perspective to acquire other assets in addition to the actual acquisition target, such as those assets of economic service to the company being acquired. In such instances, Leifheit AG shall be in a position to acquire these assets and grant shares as consideration – whether to conserve liquidity or because the seller makes such a request – provided the assets in question are eligible for contribution. Furthermore, it should also be possible in cases where cash consideration was initially agreed for the acquisition of assets to grant shares afterwards in place of money and thereby conserve liquidity. Finally, regardless of another acquisition plan, it should be possible to acquire assets – whether to conserve liquidity or because the seller makes such a request – in exchange for granting new shares, provided these assets are eligible for contribution.

The company does not suffer any disadvantage in this respect, as the issue of shares against contributions in kind requires the contributions in kind to be of fair value compared to the delivered shares. When determining the valuation ratio, the Board of Management will ensure that the interests of the company and its shareholders are adequately protected and obtain an appropriate issue price for the new shares.

Exclusion of subscription rights for scrip dividends

Furthermore, it shall also be possible to exclude subscription rights in order to issue scrip dividends at the best possible conditions. With regard to scrip dividends, shareholders are given the opportunity, by way of a contribution in kind, to acquire new shares from the authorised capital instead of receiving a cash payment for their dividend claim, in whole or in part, arising from the resolution on the appropriation of profits by the Annual General Meeting. Issuing scrip dividends can be carried out by granting the statutory subscription rights. In such a case, only whole shares are offered to shareholders for subscription. With regard to the portion of the dividend claim that does not meet the subscription price for a whole share (or exceeds said price), shareholders are referred to the receipt of the cash dividend and, in this respect, are unable to subscribe shares. An offer of partial rights is not envisaged, nor is the establishment of the trade of subscription rights or fractions thereof. This is justified and reasonable, because the shareholders receive a pro rata cash dividend instead of subscribing their own shares. Depending on the capital market situation, it can be in the interest of the company and its shareholders in individual cases to offer the option of and to issue scrip dividends under exclusion of statutory subscription rights. The exclusion of subscription rights in such an instance makes it possible to issue scrip dividends at conditions with greater flexibility. The Board of Management shall therefore be authorised to exclude the subscription rights of shareholders overall to issue scrip dividends. In this case as well, the Board of Management – without prejudice to the comprehensive exclusion of subscription rights – will offer all shareholders who hold shares eligible to receive dividends shares from authorised capital for subscription in exchange for surrendering their dividend claim, whether in whole or in part. In light of the fact that shares from authorised capital are offered to all shareholders who hold shares eligible to receive dividends and that surplus partial dividend amounts are compensated for with a cash dividend, the exclusion of the subscription rights appears justified and reasonable.

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Limitation of the overall scope of capital increases without subscription rights

The overall shares issued under all authorisations explained above to exclude shareholders' subscription rights, meaning the exclusion of subscription rights for fractional amounts, for capital increases against cash contributions according to section 186 para. 3 sent. 4 AktG, for capital increases against contributions in kind and for scrip dividends, may not exceed 20% of the share capital on the date when the authorisation is entered in the commercial register or, if lower, 20% of the existing share capital (20% threshold) on the issue date of the new shares. The 20% threshold includes treasury shares that are sold under exclusion of subscription rights. This threshold ensures that the total scope of the issue of shares without subscription rights from authorised capital is limited and also safeguards shareholders from a dilution of their stakes.

Utilisation of authorised capital

There are currently no plans to utilise the authorised capital. In each individual case, the Board of Management will carefully review whether to make use of the authorisation to increase capital under exclusion of shareholders' subscription rights. It will only do so if the Management Board and the Supervisory Board believe it is in the interest of the company and its shareholders.

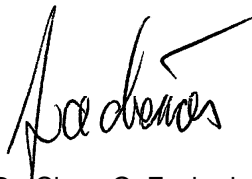
The Board of Management will report to the Annual General Meeting on each instance when it utilises authorised capital.

Nassau/Lahn, in April 2016

Leifheit Aktiengesellschaft
The Board of Management



Thomas Radke



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