Report of the Board of Management on agenda item 7

In item 7 of the agenda, the Board of Management and the Supervisory Board propose suspending 2016 authorised capital and creating new 2017 authorised capital. The Board of Management issues this report, which is a component of this invitation and available on the internet at agm.leifheit-group.com, according to section 203 para. 2 in connection with section 186 para. 4 sentence 2 AktG, which provides reasons for authorizing the exclusion of shareholders' subscription rights when issuing new shares, as planned for the new proposed authorised capital. The report will also be available for inspection during the Annual General Meeting.

At the Annual General Meeting on 25 May 2016, a resolution was passed to create authorised capital that expires on 24 May 2021. Subject to approval from the Supervisory Board, the Board of Management is authorised to increase share capital by up to € 7,500,000.00 by issuing up to 2,500,000 new no-par-value bearer shares and, in certain circumstances, to exclude shareholders' subscription rights (2016 authorised capital). The Board of Managers has not yet made use of this authorisation.

With regard to the use of company funds to increase share capital as proposed in item 6 of the agenda and in relation to the Board of Management and Supervisory Board's goal of putting the company in a position in which it is able to cover its financial requirements quickly and flexibly in the future as well, 2016 authorised capital shall be suspended and new 2017 authorised capital shall be created that expires on 23 May 2022.

Apart from the 2016 authorised capital adopted by the Annual General Meeting on 25 May 2016, there is neither any further authorised capital nor any conditional capital.

Provided that the resolution to use company funds to increase share capital in item 6 of the agenda is adopted at the Annual General Meeting, the Board of Management shall be authorised to increase share capital by up to € 15,000,000.00 by issuing up to 5,000,000 new no-par-value bearer shares (2017 authorised capital). Subject to approval from the Supervisory Board, this authorisation to issue new shares using authorised capital will also enable the Board of Management to react to funding requirements arising at short notice and to opportunities that present themselves to acquire companies, parts of companies or stakes in companies or other assets eligible for contribution, or as part of company mergers. Moreover, it will become possible to carry out scrip dividends under optimal conditions. The option to exclude subscription rights shall be limited to a total of 20% of the share capital in exchange for cash contributions and non-cash contributions.

Exclusion of subscription rights for fractional amounts

Subject to approval from the Supervisory Board, as part of the authorised capital, the Board of Management shall be authorised to exclude fractional amounts from shareholders' subscription rights. It is necessary to exclude fractional amounts from subscription rights in order to arrive at a technically feasible subscription ratio. The fractional shares excluded from shareholders' subscription rights will be utilised for the company in the best way possible. Any potential dilution effect is low due to the limits placed on fractional amounts. The Board of Management and the Supervisory Board believe the potential exclusion of subscription rights to be objectively justified and reasonable toward the shareholders.

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

Subject to approval from the Supervisory Board, the Board of Management shall continue to be authorised to exclude the shareholders’ subscription rights in the case of a share capital increase in exchange for cash contributions if the total proportional amount of the share capital allotted to the new shares, for which the subscription rights are being excluded, does not exceed 10% of the company’s share capital existing at the time the authorisation is registered or – if this value is less – 10% of the company’s share capital existing at the time the new shares are issued, provided that the issuing price of the new shares does not significantly fall short of the market price of the shares already listed on the stock market at the time the issuing price is set by the Board of Management. The legal basis for this simplified exclusion of subscription rights is section 203 para. 1 and 2 in connection with section 186 para. 3 sentence 4 AktG. Overall, the 10% threshold may not be exceeded, i.e. not even with the addition of any other authorisations that lead to the direct or indirect application of section 186 para. 3 sentence 4 AktG. Any possible markdown from the standard market price will be a maximum of 5% of the market price. The option to exclude subscription rights provided for in section 186 para. 3 sentence 4 AktG enables the company to sell shares to targeted investors in order to achieve an issuing price that is high as possible on the basis of market-consistent pricing, thus strengthening equity as much as possible. This means that it is usually possible to achieve a higher cash inflow to the company’s benefit, as it is possible to take quicker action than would be possible by offering subscription rights to all shareholders by maintaining shareholders’ subscription rights. By eliminating the time-consuming and expensive processing of subscription rights, equity requirements can also be covered quickly by harnessing market opportunities that present themselves on short notice. Although section 186 para. 2 sentence 2 AktG permits subscription prices to be published at the latest up until three days before the expiration of the subscription deadline, in light of share market volatility, this also entails a market risk, i.e. the risk that the price will change within a few days, which can lead to reduced security when setting the subscription price and thus to non-market-consistent conditions.

In order to comply with the threshold for a simplified subscription right exclusion of 10% of the share capital provided for in section 186 para. 3 sentence 4 AktG, the authorisation to issue new shares with the simplified subscription right exclusion is limited to shares with a proportional amount of 10% of the company’s share capital. In order to calculate the 10% threshold, the amount of share capital at the time the authorisation is registered and at the time the shares are issued must be taken into account, although the lesser of these two values applies. The proposed resolution also provides for a deduction clause, which lowers authorisation volumes, inasmuch as other authorisations for simplified subscription right exclusions are used from the day of the Annual General Meeting onwards. This method guarantees that the 10% threshold provided for in section 186 para. 3 sentence 4 AktG is complied with while taking into account all authorisations with potential subscription rights exclusions when applying section 186 para. 3 sentence 4 AktG directly, equivalently or analogously.

The proposed authorisation is in the interests of the company and its shareholders for the aforementioned reasons. It safeguards the interests of shareholders as the issuing price for the treasury shares that are to be issued must be based on the market price and because the authorisation only has a limited scope. Shareholders have the option of maintaining their relative holdings by purchasing shares on the stock market.

Exclusion of subscription rights for non-cash capital increases

As part of the authorised capital, the Board of Management shall also be authorised to exclude shareholders' subscription rights in the case of capital increases in exchange for non-cash contributions 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 order to compete globally, Leifheit must be in a position to take action quickly and flexibly on the domestic and international markets in the interests of its shareholders at any time. This includes the option of acquiring companies, parts of companies, stakes in companies or other assets eligible for contribution in order to improve the company's competitive position by granting shares, or merging with other companies. For example, during negotiations it may be necessary to offer shares instead of money by way of exchange. The option of offering company shares by way of exchange is particularly important in the international competition for interesting acquisition targets and creates the necessary leeway to harness opportunities that present themselves to acquire companies, parts of companies, stakes in companies or other assets eligible for contribution, or as part of company mergers while protecting liquidity. In the case of mergers with other companies, statutory provisions governing the merger may require the granting of shares. Moreover, practice has shown that the owners of attractive acquisition targets may often ask for shares in the purchasing company in return for shares in their company, for example for tax reasons or in order to remain involved in their existing business. The proposed authorisation shall provide the company with the ability to exploit the opportunities that present themselves on both the domestic and the international market quickly and flexibly in order to acquire companies, parts of companies or stakes in companies, or for company mergers where shares are required fully or partially in return. In order to purchase acquisition targets like these, Leifheit AG must be able to grant shares in return. It can also be reasonable to grant shares in terms of optimal financing structure. Because with new shares from authorised capital, merger and acquisition plans can be implemented while protecting liquidity.

Moreover, the company will be able to purchase other assets eligible for contribution in exchange for new shares created using authorised capital. In the case of acquisition plans, it could be economically viable to purchase other asset items in addition to the actual acquisition target, for example, targets that serve the acquisition target economically. In cases like these, Leifheit AG must be in a position to acquire these assets and, for this reason – whether it is in order to protect liquidity or because the seller has requested it – it must be possible to grant shares by way of exchange, provided the assets in question are eligible for contribution. In addition to this, it must also be possible to grant shares instead of money retrospectively in cases where a cash payment was originally agreed upon in order to purchase assets, and thus to protect liquidity. Ultimately, it should be possible to purchase assets, regardless of any other acquisition plans – whether it is in order to protect liquidity or because the seller has requested it – in exchange for the granting of new shares, again, as long as these are eligible for contribution.

This does not create any disadvantage for the company, as issuing shares in exchange for non-cash contributions requires that the value of the non-cash contribution must be proportional to the value of the shares. The Board of Management will ensure that the interests of the company and its shareholders are appropriately protected and that an appropriate issuing price for the new shares is achieved when setting the valuation ratio.

Exclusion of subscription rights for scrip dividends

In addition to this, it will be possible to exclude subscription rights in order to carry out scrip dividends under optimal conditions. In the case of scrip dividends, shareholders are given the option of asserting claims that have arisen from the resolution passed on the appropriation of balance sheet profit at the Annual General Meeting for full or partial payment of dividends from the company as non-cash contributions in order to receive shares from the authorised capital. A scrip dividend can be carried out while granting statutory subscription rights, where shareholders are only offered full shares. With regard to any part of the dividend clam that does not meet the subscription price for a whole share (or exceeds said price), shareholders are referred to the receipt of cash dividends and thus cannot subscribe to any shares. Neither offers of partial rights nor the establishment of a trade in subscription rights or any fractions of these are provided for. This is justified and reasonable as shareholders receive a proportional cash dividend instead of receiving treasury shares. In some individual cases, depending on the capital market situation, it may be in the interests of the company and its shareholders, to grant and carry out scrip dividends without subscription rights. This kind of subscription right exclusion enables scrip dividends to be carried out under flexible conditions. This is why the Board of Management should be authorised to completely exclude shareholders' subscription rights in order to carry out scrip dividends. In this case, the Board of Management – irrespective of the full subscription right exclusion – will also offer all shareholders who have shares that are eligible to receive dividends shares from authorised capital in exchange for the full or partial transfer of their claims to dividends. Considering that shares from authorised capital are offered to all shareholders who hold shares that are eligible to receive dividends and that surplus partial dividend amounts are compensated for with a cash dividend, the exclusion of subscription rights appears justified and reasonable.

Limitation to the overall volume of capital increases without subscription rights

Overall, shares that are issued as part of any of the authorisations explained here to exclude subscription rights – i.e. in the case of the exclusion of subscription rights for fractional amounts, in the case of cash capital increases according to section 186 para. 3 sentence 4 AktG, in the case of non-cash capital increases and in the case of scrip dividends – may not exceed 20% of the company's existing share capital (20% threshold) at the time the authorisation is registered or – if this value is lower – at the time the new shares were issued. Treasury shares that are issued without subscription rights are included in the 20% threshold. This threshold limits the total amount of shares that are issued using authorised capital without subscription rights. This additionally prevents shareholders' stock from being diluted.

Utilisation of authorised capital

There are currently no plans to utilise authorised capital. The Board of Management will carefully examine whether it will utilise its authorisation to increase capital while excluding shareholders' subscription rights on a case- by-case basis. It will only do so if the Board of Management and the Supervisory Board judge that it is in the interests of the company and thus of its shareholders.

The Board of Management will inform shareholders of any use of authorised capital at the Annual General Meeting.