Report of the Management Board to the Annual General Meeting regarding the authorisations proposed in agenda item no. 9 to utilise derivatives to purchase and sell treasury shares and to exclude subscription rights proposed in accordance with section 186 (4) sentence 2 of the AktG

In connection with the purchase of treasury shares in accordance with section 71 (1) no. 8 of the AktG, the Company is to be authorised to use certain derivatives in addition to the scope anticipated in agenda item no. 8 for purchasing treasury shares. The authorisation is to be utilised by the Company, Group companies and third parties acting for the account of the Company or a Group company. The authorisation proposed in agenda item no. 9 will not result in any increase in the cap on the purchase of treasury shares provided for in agenda item no. 8 of a total of ten per cent (10%) of the share capital at the time the relevant resolution is adopted by the Annual General Meeting or – if this value is lower – of the share capital existing at the time this authorisation is exercised. It merely opens up further possibilities for purchasing treasury shares beneath the planned additional cap of five per cent (5%).

This additional alternative, which is already part of the commercial practice of many DAX companies, expands the Company’s options of optimally structuring the acquisition of treasury shares. It may be advantageous for the Company to sell put options, to purchase call options or to acquire Company shares using a combination of put and call options, instead of purchasing its treasury shares directly.

The lifetime of the derivative must, in each case, not exceed 18 months, must expire on 26 May 2025 at the latest and must be selected in such a way that the shares are not acquired through the exercise of the option any later than on 26 May 2025. This ensures that the Company does not purchase any treasury shares under section 71 (1) no. 8 of the AktG on this basis after this authorisation expires on the aforementioned date. Moreover, the purchase of treasury shares using derivatives is capped at five per cent (5%) of the Company’s share capital existing at the time the relevant resolution is adopted by the Annual General Meeting.

The Company grants the purchaser of a put option the right to sell Company shares to the Company at a pre-determined price (exercise price). In return, the Company receives an option premium which equates to the value of the disposal right granted by way of the put option, taking into consideration a variety of parameters, including exercise price and lifetime of the option or the volatility of the Company’s share price. If the purchaser exercises the put option, the option premium paid by the purchaser reduces the total price paid by the Company for the purchase of the shares. Exercising the put option would be financially advantageous to the purchaser only if the share price is below the exercise price at the time of exercise, as in this case the purchaser would be able to sell the shares at the higher exercise price. From the Company’s perspective, the use of put options has the added advantage that the exercise price is already determined when the derivative transaction is entered into, while there will be no outflow of liquidity until the exercise date. If the purchaser does not exercise the option because the share price exceeds the exercise price on the exercise date, the Company will not be able to purchase its treasury shares in this way, but would still retain the option premium collected.

Where the Company purchases a call option, it acquires the right to buy a predetermined number of treasury shares at a predetermined price (exercise price) from the option seller, for payment of an option premium. Exercising the call option would be financially advantageous to the Company if the share price exceeds the exercise price, as in this case the Company would be able to buy the shares from the seller at the lower exercise price. By acquiring call options, the Company can, for instance, limit price risks if the Company itself is obligated to transfer shares at a later time, in connection with conversion rights from convertible bonds, for example.

The purchase price to be paid for the Company’s shares is the exercise price agreed for the relevant option. The exercise price may differ from the stock exchange price of the Company’s share on the day the derivative transaction is entered into, but may not do so by more than ten per cent (10%) from the average closing price of the Company’s share on the Xetra trading platform (or a comparable successor system at the Frankfurt stock exchange) during the three trading days on the Frankfurt/Main stock exchange prior to the relevant derivative transaction (in each case excluding ancillary costs but including the option premium paid or received). The option premium paid by the Company for call options may not significantly exceed, and the option premium collected for put options may not significantly fall below, the theoretical market price of the relevant options determined in accordance with recognised methods, mathematical valuation methods in particular. Among other aspects, the agreed exercise price must be taken into consideration in the determination of the theoretical market price of the relevant options.

The structure of the proposed authorisation precludes any financial prejudice to shareholders if the Company purchases treasury shares using derivatives. The determination of the exercise price and option premium described above, and the mandatory requirement that options are only settled by using treasury shares that were purchased on the stock exchange, in accordance with the principle of equal treatment, at the prevailing share price at the time of the purchase on the stock exchange, ensure that the Company will receive or pay a fair market price and that the Company’s shareholders who do not participate in these derivative transactions will not suffer financial prejudice. This is in keeping with the position of shareholders when treasury shares are repurchased via the stock exchange but not all of the Company’s shareholders can in fact sell shares to the Company. The requirements for the structuring of the options as well as the requirements for the shares to be used for servicing the option rights ensure that the principle of equal treatment of all shareholders is accommodated to the fullest extent. Against this background and given the legal principle underlying section 186 (3) sentence 4 of the AktG, it is reasonable that shareholders should not be entitled to enter into any such derivative transactions with the Company. Likewise, shareholders shall have no right to enter into derivative transactions with the Company to the extent that any such transactions provide for a preferential offer related to small quantities of shares. By excluding the subscription and tender rights, the Company is able to enter into derivative transactions at short notice. The Company would not have this opportunity to the same extent if the offer to purchase or sell options was extended to all shareholders.

Shareholders of the Company should only have a right to tender their shares to the Company using derivatives to the extent that the Company is under a specific obligation towards these shareholders to accept their shares in connection with the applicable option transactions. Otherwise, derivatives could not be used to purchase treasury shares, depriving the Company of the potential advantages associated with this.

After careful consideration of the interests of the shareholders on the one hand and the interests of the Company on the other hand, the Management Board considers the non-granting or the restriction of tender rights justified given the advantages that arise for the Company as a result of the use of derivatives when purchasing treasury shares.

The Management Board will report any utilisation of the authorisation to the Annual General Meeting. There is currently no intention to utilise this authorisation to use derivatives to purchase and sell treasury shares and to exclude the shareholders' subscription rights.

Wiesbaden, April 2020

The Management Board