

## REPORT BY THE BOARD OF DIRECTORS TO THE ANNUAL GENERAL MEETING REGARDING AGENDA ITEM 8 ABOUT THE EXCLUSION OF SUBSCRIPTION RIGHTS PURSUANT TO SECTION 221 (4) SENTENCE 2 IN CONJUNCTION WITH SECTION 186 (4) SENTENCE 2 AKTG

The Supervisory Board and the Board of Directors will propose to shareholders at the Annual General Meeting of LEONI AG taking place on 24 May 2022 under agenda item 8 that they resolve that a new authorisation be granted to issue bonds with warrants and/or convertible bonds, profit participation rights and/or participating bonds (or combinations

of these instruments) (“**Bonds**”) with a total par value of up to Euro 250 million and that the related contingent capital (Contingent Capital 2022) of up to Euro 16,334,500.00 (this equates to 50% of the share capital) be created. In addition, the presently valid authorisation to issue bonds with warrants and/or convertible bonds of 23 July 2020 is to be cancelled. The new authorisation is intended to give LEONI AG the greatest possible degree of flexibility and an extended scope for financing its activity and, in particular, to enable its management to respond rapidly and flexibly to favourable capital market conditions over the next five years.

Under the new authorisation, the Company is to be permitted to issue Bonds subject to the exclusion of subscription rights in certain cases. Pursuant to Section 186 (4) sentence 2 AktG in conjunction with Section 221 (4) sentence 2 AktG, the Board of Directors therefore reports as follows on the reasons for the exclusion of subscription rights:

a) Pursuant to the resolution proposed under agenda item 8, the Board of Directors is to be authorised to issue, with the Supervisory Board’s approval, Bonds once or several times until 23 May 2027 with a total par value of up to Euro 250 million. The shareholders are, in principle, entitled to the statutory right to subscribe for Bonds that are linked to conversion or option rights or to conversion or option obligations (Section 221 (4) AktG in conjunction with Section 186 (1) AktG). To facilitate settlement, it is to be made possible for the option to be used to issue the Bonds to a financial institution or the members of a syndicate of financial institutions or companies of equal standing as defined by Section 186 (5) sentence 1 AktG with the obligation that such bonds be offered to the shareholders in line with their subscription rights (indirect subscription right).

An additional limitation will apply to the issue of Bonds as regards the maximum number of underlying shares, i.e. the shares in respect of which conversion or option rights are granted, or conversion or option obligations are imposed, as the case may be. The pro-rated amount of the share capital that is attributable to these shares will be limited to 50% of the aggregate share capital, with shares issued from authorised capital being taken into account when calculating the above limit. This ensures that an authorisation to issue Bonds can no longer be used if and when, cumulatively with the shares issued from authorised capital, the limit of 50% of the share capital would be reached. In that case, it would only be permissible to exceed that limit subject to the Annual General Meeting passing another resolution in this regard.

- b) Under this authorisation, the Board of Directors will also be authorised to exclude under certain conditions the statutory right of shareholders to subscribe for the Bonds. The right to subscribe for the Bonds may only be excluded with the Supervisory Board’s approval.
- c) This authorisation to exclude the subscription right for fractional shares serves to ensure that a practicable subscription situation is achieved as regards the amount of an issue in each case. Without the exclusion of the subscription right for fractional shares, the technical execution of the capital increase and the exercise of the subscription right would be made much more difficult, especially in the case of Bonds that are issued in round amounts. The Bonds excluded from the subscription right of shareholders as free fractions will be realised to the best possible benefit of the Company, either through a sale via the stock market or in another way.

- d) The subscription right is excluded in favour of holders of previously issued Bonds with option or conversion rights, or option or conversion obligations, as the case may be, in compliance with dilution protection; such protection is owed to the bondholders, as a general rule, under the terms and conditions of the Bonds. The dilution protection provision provides that, in order to facilitate placement – usually with the possibility of reducing the conversion or option price – the holders or creditors of the Bonds or warrants may also be granted the right to subscribe for new shares, along the lines of the subscription right of shareholders, in subsequent issues of further Bonds. They are thus treated as if they were shareholders already. Such granting of a subscription right makes it possible to prevent the conversion or option price for Bonds or warrants issued previously from having to be reduced. This ensures a higher issue price of the shares that are issued upon conversion or exercise of the option. To be able to grant subscription rights for dilution protection to the holders of Bonds issued previously, the right of shareholders to subscribe to new Bonds used for this purpose must be excluded.
- e) The Board of Directors will also be authorised to exclude the subscription rights of shareholders if the bonds are to be issued for consideration in kind. In this case, the Board of Directors will be authorised to exclude the subscription rights of shareholders with the approval of the Supervisory Board if the value of the consideration in kind is reasonably proportionate to the notional market value of the bonds to be determined in accordance with recognised financial mathematical methods. This provides the Company with the opportunity to issue Bonds, in appropriate individual cases, in connection with the (direct or indirect) acquisition of assets or of rights to acquire assets or

receivables from the Company or its Group companies. This may also be useful with a view to optimising the financing structure. Likewise, this provides the Company with the opportunity to repurchase outstanding Bonds in return for issuing new Bonds, for example in order to facilitate the substitution of existing Bonds, if doing so is reasonable from a business perspective. In each individual case, the Board of Directors will carefully consider whether to make use of the authorisation to issue Bonds for consideration in kind subject to the exclusion of subscription rights. The Board of Directors will do so only if this is in the best interest of the Company and, therefore, of its shareholders.

- f) The Board of Directors will also be authorised to fully exclude the subscription rights of shareholders if the Bonds with option or conversion rights, or option or conversion obligations, as the case may be, are issued in return for payment of an issue price in cash that is not substantially lower than the market value of these Bonds. This provides the Company with the opportunity to take advantage of favourable market situations at very short notice and rapidly and, by setting terms and conditions in line with the market, to ensure the best possible terms and conditions for the Bonds. If the subscription rights were not excluded, setting terms and conditions in line with the market and ensuring a smooth placement would be impossible. While Section 186 (2) AktG does permit the announcement of the subscription price (and thus the terms of the Bonds) up to three days before expiry of the subscription period at the latest, there would also be a market risk continuing for several days in this case, given the volatility that can frequently be observed on the equity markets, which would lead to safety-margin deductions upon setting the terms and conditions

of the Bonds and, thus, to terms not being in line with the market. The existence of a subscription right also threatens successful placement among third parties, or might entail additional costs, because of the uncertainty concerning its exercise (subscription behaviour). Finally, if a subscription right is granted, the Company cannot respond to either favourable or unfavourable market conditions at short notice because of the length of the subscription period.

In the event subscription rights are fully excluded, the provision set forth in Section 186 (3) sentence 4 AktG applies mutatis mutandis pursuant to Section 221 (4) sentence 2 AktG. The limit of up to 10% of the share capital applicable to exclusions of subscription rights provided for in that provision is to be complied with in accordance with the terms of the resolution. The share capital that is relevant for this limit is the lowest amount of the Company's share capital existing at the time the Annual General Meeting resolves on this authorisation, the time this authorisation enters into effect or the time this authorisation is exercised. The sale of treasury shares shall be counted towards this limit, provided that it takes place during the term of this authorisation under exclusion of subscription rights in accordance with Section 186 (3) sentence 4 AktG. Furthermore, shares issued during the term of this authorisation from authorised capital under exclusion of subscription rights in accordance with Section 186 (3) sentence 4 of the AktG shall be granted towards this limit.

Section 186 (3) sentence 4 AktG stipulates that, in the event shares are issued subject to the exclusion of subscription rights under this provision, the issue price of the shares must not be significantly lower than the stock market price. This is to ensure that no notable dilution of the

economic value of the shares occurs. Whether or not such a dilution effect occurs in the event of the issue of bonds with option or conversion rights, or option or conversion obligations, as the case may be, that exclude subscription rights can be determined by computing the theoretical stock market price (market value) of the Bonds in accordance with recognised, particularly financial mathematical, methods and by comparing it to the issue price. If, after due examination by the Board of Directors, this issue price is only insignificantly lower than the theoretical stock market price (market value) at the time of issue of the Bonds, an exclusion of subscription rights is permissible because of the insignificant discount based on the intent and purpose of the provision in Section 186 (3) sentence 4 AktG. The notional market value of a subscription right would thus drop to nearly nil, meaning that shareholders cannot suffer any notable economic disadvantage from the exclusion of subscription rights.

Regardless of any such examination by the Board of Directors, it is ensured that the terms and conditions will be set in line with the market, thus avoiding any notable value dilution, in the event that a bookbuilding process is run. In the bookbuilding process, the terms and conditions of Bonds are set on the basis of the purchase orders of investors and, thus, the total value of the Bonds are determined in line with market conditions. All this serves to ensure that no notable dilution of the value of the shares of the Company occurs as a result of the exclusion of subscription rights.

The shareholders also have the option at any time of maintaining their stake in the Company's share capital, even after the exercise of conversion or option rights or after option or conversion obligations take effect,

by buying more shares via the stock market. On the other hand, the authorisation to exclude subscription rights enables the Company to set terms and conditions in line with the market; to have the greatest possible degree of certainty with respect to placement among third parties and to take advantage of favourable market situations at short notice.

In addition, by incorporating a clause to this effect, it is to be ensured in the best interests of the shareholders that the total of (i) the shares that are to be issued under Bonds under this authorisation subject to exclusion of subscription rights and (ii) the shares that are issued during the term of this authorisation from authorised capital subject to exclusion of subscription rights will not exceed a pro-rated amount of the share capital of Euro 3,266,900.00 (at the time of the authorisation, this equates to 10% of the share capital amounting to Euro 32,669,000.00).

The Board of Directors believes, and the Supervisory Board agrees, that the exclusion of subscription rights is objectively justified in the aforementioned cases for the reasons given above – also taking into account a possible dilution effect – and reasonable with regard to the shareholders.

Corresponding anticipatory resolutions with the possibility to exclude subscription rights are common practice both nationally and internationally. The Board of Directors will in each case carefully examine whether the utilisation of the Authorised Capital 2022 is in the interests of the Company and its shareholders. If the proposed authorisation is used, the Board of Directors will report on this at the next General Meeting.

Nuremberg, April 2022

**LEONI AG**  
**The Board of Directors**

Aldo Kamper    Dr Ursula Biernert    Dr Harald Nippel    Ingo Spengler