

## **Report from the Management Board:**

The following Management Board report relating to item 5 can be viewed at NFON AG's offices at Machtlfinger Strasse 7, 81379 Munich, and online at <https://corporate.nfon.com/en/investor-relations/annual-general-meeting/>. The report will also be available at the Annual General Meeting and can be sent to shareholders upon request.

### **Regarding item 5**

#### **Management Board report to the Annual General Meeting in accordance with Section 203(2) sentence 2 in conjunction with Section 186(4) sentence 2 AktG**

In accordance with Section 203(2) sentence 2 in conjunction with Section 186(4) sentence 2 AktG, the Management Board of NFON AG provides the company's Annual General Meeting convened for 5 June 2019 with the following written report on the creation of Authorised Capital 2019 against cash and/or non-cash contributions with authorisation to exclude subscription rights, as proposed under item 5:

The existing Authorised Capital I of EUR 368,671.00 in accordance with Section 4(3) of the Articles of Association does not make anything like full use of the legal framework for authorised capital.

The additional authorisation proposed is designed to make extensive use of the legal opportunities to expand the company's equity base. Adequate capitalisation is key to future business, especially given the company's purpose and the desire to secure further financial resources to invest in the future of our company. Authorised Capital 2019 thus aims to utilise authorised capital as far as possible to the full extent permitted by law and also to create the limited possibility of excluding subscription rights for cash capital increases again to the full extent permitted by law.

There are not currently any specific plans in place for the utilisation of the Authorised Capital 2019 proposed to the Annual General Meeting. From a current standpoint, funds from the Authorised Capital 2019 proposed to the Annual General Meeting could be used, in particular, to strengthen the equity base so as to avoid increased reliance on debt financing for future investment projects.

The company could also use new equity to finance acquisitions. As a capital increase in order to make an acquisition must be carried out at short notice, the resolution on this at the Annual General Meeting does not constitute an alternative to using authorised capital. Creating authorised capital allows the Management Board to quickly and easily take advantage of any opportunities that arise to acquire companies in the interests of shareholders in order to meet the company's business requirements and bolster its competitive standing.

If Authorised Capital 2019 is utilised, shareholders have statutory subscription rights. The new shares resulting from a cash capital increase are either to be offered to shareholders for subscription directly or acquired by banks with the obligation to offer them to shareholders for subscription (indirect subscription rights). However, the Management Board is to be entitled, with the approval of the Supervisory Board, to exclude shareholder subscription rights in several cases:

Excluding subscription rights as part of a capital increase against cash contributions within the 10% limit set out in Section 186(3) sentence 4 AktG makes it easier for the company to obtain financing by raising equity. This provides the company with the opportunity to raise new capital on the capital markets flexibly and inexpensively. This authorisation makes it easier for the company to meet any potential capital requirements at very short notice and benefit from market opportunities. Excluding subscription rights makes it possible to act quickly and place shares close to the stock market price, without the markdowns on account of high volatility that are otherwise common for issues with subscription rights. This can improve the proceeds from the issue. This also results in significant cost advantages for the company in the case of smaller capital increases in particular, as it is not necessary to go through the costly process of preparing a prospectus if subscription rights are excluded. This form of capital increase is thus also in the interests of shareholders. Dilution of the value of existing shares is minimized in line with statutory limits by the fact that the issue price is not allowed to be significantly lower than the stock market price. This means that shareholders' subscription rights would have very little economic value. Shareholders can maintain their stake by making corresponding purchases on the stock exchange.

The total cash capital increase, using this authorisation to exclude subscription rights in accordance with Section 186(3) sentence 4 AktG, must not exceed 10% of the share capital, either in relation to the amount on 5 June 2019 or at the time this authorisation becomes effective or at the time it is exercised.

In the case of non-cash capital increases, subscription rights may be excluded in full with the approval of the Supervisory Board. This exclusion of subscription rights allows the Management Board in appropriate cases, with the approval of the Supervisory Board, to acquire companies or investments in companies or to combine with other companies in return for transferring NFON AG shares. This should make it possible for the company to respond quickly and flexibly on national and international markets to favourable offers or other opportunities that arise to acquire companies or investments in companies or to combine with companies that operate in related business areas, in order to improve its own competitiveness in the interests of shareholders. During negotiations, it may become necessary to offer shares, as opposed to money, as consideration in order to meet sellers' expectations or maintain its own liquidity. The proposed option to exclude subscription rights takes this into account. The dilution resulting from excluding subscription rights is offset by the fact that the business expansion through increased equity is financed by third parties and that existing shareholders – albeit with a lower equity and voting share than previously – share in company growth which, if subscription rights were granted, they would have to finance using own funds. However, all shareholders can maintain or increase their stake by purchasing additional shares through the stock exchange listing.

It should also be possible, with the approval of the Supervisory Board, to exclude subscription rights to the extent necessary to grant bearers or creditors of convertible bonds, warrant bonds, participation rights, participating bonds or combinations of these instruments issued by the company or subordinate Group companies a right of subscription to new shares to the extent it would be granted after exercising the option right or right of conversion or after meeting conversion obligations. To make it easier to place bonds on the capital market, the terms of issue generally provide for protection against dilution. Dilution protection allows holders of warrants or creditors of convertible bonds to receive a subscription right to new shares in the event that shares are issued for which the shareholders have subscription rights. They are therefore treated as if they had already exercised their option right or right of conversion or had already met their conversion obligation. As it is not necessary, in this case, to ensure dilution protection by reducing the option or conversion price, a higher issuing price can be set for the new shares to be issued upon conversion or exercise of the option. However, this is possible only if shareholders' subscription rights to the new shares are excluded to this extent. Granting corresponding dilution protection makes it easier to place bonds with conversion and/or option rights or conversion obligations, and so excluding subscription rights is in the interests of shareholders as it facilitates an optimal financial structure at their company.

Subscription rights for fractional shares are also to be excluded. This is intended to make it easier to handle an issue with a shareholder subscription right. Fractional shares may result from the issue volume in question and from the fact that it is necessary to achieve a technically feasible subscription rights ratio. The value of these fractional shares for the individual shareholder is generally low. The possible dilution effect is also negligible due to the limitation to fractional shares. Nonetheless, the effort involved for the company in issuing shares without excluding subscription rights is considerably higher, which incurs additional costs. The new fractional shares excluded from shareholder subscription rights are realised either by selling them on the stock exchange or in another way that most benefits the company. Excluding subscription rights therefore improves feasibility and cost efficiency and makes it easier to execute an issue, and is thus in the interests of shareholders.

In addition, subscription rights to issue up to a maximum of 500,000 bearer shares to employees at the company and/or at affiliated companies within the meaning of Section 15 AktG are to be excluded. This authorisation also allows the Management Board to offer NFON Group employees shares from authorised capital without first having to acquire shares on the market. Issuing employee shares aims to give employees a share in the company's success and strengthen their ties to the company. The authorisation to issue employee shares with a total volume of 500,000 bearer shares is within reasonable limits in relation to the company's share capital and to the overall scope of the authorisation.

The proportion of share capital represented by shares issued on the basis of this proposed authorisation in accordance with item 5, excluding subscription rights, must not exceed 20% of the share capital, either in relation to the amount on 5 June 2019 or at the time this authorisation becomes effective or at the time it is exercised.

Both the limit of 20% and the limit of 10% of share capital for the authorisation to exclude subscription rights in accordance with Section 186(3) sentence 4 AktG include the pro rata amount of the share capital attributable to shares that are issued or sold from the period between 5 June 2019 and the end of the term of this authorisation, excluding subscription rights, in direct or indirect application of Section 186(3) sentence 4 AktG. Furthermore, these limits include the pro rata amount of the share capital of the shares that were issued or may still be issued for the purposes of conversion or option rights or conversion obligations, provided the underlying bonds were issued during the term of this authorisation excluding subscription rights in accordance with Section 186(3) sentence 4 AktG. Finally, these limits include the pro rata amount of the share capital of shares issued from 5 June 2019 onwards on the basis of an authorisation to use treasury shares in accordance with Sections 71(1) no. 8 sentence 5, 186(3) sentence 4 AktG, excluding subscription rights.

These limits on excluding subscription rights prevent excessive changes to shareholders' holdings.

Any time that shares are issued under exclusion of subscription rights, the Management Board will carefully review whether this is in the interests of the company and thus of its shareholders. Only then will the Management Board exercise the option it has been granted and will provide a report on this at the next Annual General Meeting.

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