

Management Board report on agenda item 9

Report of the Management Board pursuant to section 221 (4) sentence 2 in conjunction with section 186 (4) sentence 2 AktG on agenda item 9 (Resolution on the cancellation of the existing authorisation and simultaneous granting of a new authorisation to the Management Board to issue bonds with warrants and/or convertible bonds, profit participation rights, and/or profit participation certificates (or combinations of these instruments) with the possibility of excluding subscription rights, as well as the cancellation of Conditional Capital 2021/I and the simultaneous creation of new conditional capital (Conditional Capital 2025) and the corresponding amendments to the articles of association).

Under agenda item 9, it is proposed to authorise the Management Board until 10 June 2030, to issue, once or multiple times, bearer and/or registered bonds with warrants and/or convertible bonds, profit participation rights, and/or profit participation certificates (or combinations of these instruments) (collectively "**Bonds**") with a total nominal amount of up to EUR 100,000,000.00 with or without a maturity limit, and to grant the holders or creditors of bonds option or conversion rights (also with option or conversion obligations) to a total of up to 3,261,000 shares of the company with a proportional amount of the share capital of up to EUR 3,261,000.00 according to the more detailed terms of the bond conditions.

In addition to the classic options of debt and equity financing, the issuance of bonds can provide the company with the opportunity to utilize attractive financing alternatives in the capital market depending on the market situation. The company usually receives debt capital at favourable interest rates, which may later remain as equity capital.

To continue providing the company with flexibility in financing its activities over the next five years, a new authorisation for the Management Board to issue bonds with warrants and/or convertible bonds, profit participation rights, and/or profit participation certificates (or combinations of these instruments) with the possibility of excluding subscription rights, as well as increased conditional capital (Conditional Capital 2025), is to be resolved. The existing authorisation from 5 May 2021, and Conditional Capital 2021/I are therefore to be cancelled.

The proposed authorisation to issue bonds with warrants and/or convertible bonds, profit participation certificates, and/or profit participation rights or combinations of these instruments with a total nominal amount of up to EUR 100,000,000.00 is intended to open the way for the Management Board to flexible and timely financing in the interest of the company, particularly when favourable capital market conditions arise.

The further possibility of establishing option or conversion obligations in addition to granting option and/or conversion rights expands the scope for designing this financing instrument. The authorisation provides the company with the necessary flexibility to place the bonds itself or through group companies. Bonds can be issued in euros or in foreign legal currencies, such as those of an OECD country, with or without a maturity limit.

Shareholders are generally to be granted a subscription right. In the case of placement through group companies, the company must also ensure that the shareholders of the company are granted the statutory subscription right. To facilitate processing, the possibility is provided to issue the bonds to one or more credit institutions or companies within the meaning of section 186 (5) AktG with the obligation to offer the bonds to the shareholders in accordance with their subscription rights (so-called indirect subscription right). However, the Management Board should also be authorised, with the approval of the Supervisory Board, to exclude fractional amounts from the subscription right. Such fractional amounts can result from the amount of the respective issue volume and the representation of a practicable subscription ratio. Excluding the subscription right for fractional amounts facilitates the handling of the capital measure in these cases. The free fractions excluded from the shareholders' subscription rights are either sold on the stock exchange or otherwise utilized in the best possible way for the company. By limiting the exclusion to fractional amounts, shareholders do not suffer any significant dilution; it is objectively justified and appropriate in the opinion of the Management Board.

Furthermore, the Management Board should be authorised, in analogous application of section 186 (3) sentence 4 AktG, to exclude the subscription right with the approval of the Supervisory Board in the case of an issuance of bonds against cash payment if the issue price of the bonds does not significantly fall below their market value as determined by recognized financial mathematical methods. This can be expedient to quickly take advantage of favourable market situations and to place a bond quickly and flexibly on the market under attractive conditions. Since stock markets can be volatile, achieving the most advantageous issuance result often depends on the ability to react to market developments at short notice. Favourable, market-oriented conditions can generally only be set if the company is not bound to them for too long an offer period. In the case of rights issues, a not insignificant safety discount is usually required to ensure the success of the issue for the entire offer period. Although section 186 (2) AktG allows the publication of the subscription price (and thus, in the case of bonds with warrants and convertible bonds, the terms of

these bonds) up to the third last day of the subscription period, there is still a market risk over several days due to the volatility of the stock markets, which leads to safety discounts when setting the bond terms. Furthermore, granting a subscription right makes alternative placement with third parties more difficult or involves additional effort due to the uncertainty of exercise (subscription behaviour). Finally, if a subscription right is granted, the company cannot react quickly to changes in market conditions due to the length of the subscription period, which can lead to less favourable capital raising for the company. The interests of the shareholders are safeguarded by ensuring that the bonds are not issued significantly below market value. The market value is to be determined according to recognized financial mathematical principles. The Management Board will keep the discount from the market value as low as possible when setting the price, taking into account the respective situation on the capital market. This will ensure that the theoretical value of a subscription right is so low that shareholders will not suffer any significant economic disadvantage from the exclusion of the subscription right. A market-oriented determination of terms and thus the avoidance of significant value dilution can also be achieved by the Management Board conducting a so-called bookbuilding process. In this process, investors are asked to submit purchase orders based on preliminary bond terms and to specify, for example, the interest rate and/or other economic components they consider to be market-appropriate. After the bookbuilding period, the terms that are still open, such as the interest rate, are set in line with the market based on the purchase orders submitted by investors. In this way, the total value of the bonds is determined in line with the market. Through such a bookbuilding process, the Management Board can ensure that significant dilution of the value of the shares does not occur due to the exclusion of the subscription right. Shareholders also have the opportunity to maintain their share in the company's share capital under approximately the same conditions by purchasing through the stock exchange. This adequately safeguards their property interests. The authorisation to exclude the subscription right pursuant to section 221 (4) sentence 2 AktG in conjunction with section 186 (3) sentence 4 AktG applies only to bonds with rights to shares representing a proportionate amount of the share capital totalling no more than 10 % of the share capital, neither at the time of the authorisation becoming effective nor – if this value is lower – at the time of exercising this authorisation. The resolution proposal also includes a set-off clause: The maximum limit of 10 % of the share capital includes those own shares of the company that are issued or sold during the term of the authorisation excluding shareholders' subscription rights in accordance with or corresponding to section 186 (3) sentence 4 AktG. Furthermore, shares issued or to be issued to service bonds with conversion or option rights or conversion or option obligations are to be included in this limit, provided that these bonds are issued during the term of this authorisation excluding subscription rights in corresponding application of section 186 (3) sentence 4 AktG. This set-off serves the interest of shareholders in minimizing the dilution of their participation as much as possible.

The subscription right should also be able to be excluded to the extent necessary to grant the holders or creditors of bonds with option and/or conversion rights or option or conversion obligations, which have been or will be issued by the company or its group companies, a subscription right to bonds as they would be entitled to after exercising the option or conversion right or after fulfilling an option or conversion obligation as shareholders. To facilitate the placement of bonds on the capital market, the corresponding bond terms usually include dilution protection. One possibility of dilution protection is to grant the holders or creditors of the bonds a subscription right to bonds in subsequent issues, as shareholders are entitled to. This puts them in the same position as if they were already shareholders. To be able to equip the bonds with such dilution protection, the shareholders' subscription right to the bonds must be excluded. This serves to facilitate the placement of the bonds and thus the interests of the shareholders in an optimal financial structure of the company. Alternatively, for the purpose of dilution protection, the option or conversion price could merely be reduced, provided the bond terms allow this. However, this would be more complicated and costly for the company to handle. Moreover, it would reduce the capital inflow from the exercise of option and conversion rights. It would also be conceivable to issue bonds without dilution protection. However, these would be significantly less attractive to the market.

The issuance of bonds can also be made against contributions in kind, provided this is in the interest of the company. Contributions in kind may include, but are not limited to, companies, parts of companies, participations in companies, and other assets related to an acquisition project (including receivables), real estate, and real estate portfolios. In this case, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights, provided the value of the contribution in kind is in reasonable proportion to the theoretical market value of the bonds determined according to recognized financial mathematical principles. This opens up the possibility of using bonds as acquisition currency in suitable individual cases. It has been shown in practice that it is often necessary in negotiations to provide consideration not in cash, but also or exclusively in another form. The ability to offer bonds as consideration thus creates an advantage in the competition for attractive acquisition targets and provides the necessary flexibility to take advantage of opportunities to acquire even larger companies, company participations, or other economic goods in a liquidity-preserving manner. This can also be sensible from the perspective of an optimal financing structure. The Management Board will carefully examine in each individual case whether it will make use of the authorisation to issue bonds with conversion or option rights or conversion or option obligations against contributions in kind with the exclusion of subscription rights. It will only do so if it is in the interest of the company and thus its shareholders.

The options or conversion rights or options or conversion obligations associated with the bonds are generally serviced from the Conditional Capital 2025, which is to be opened for this new authorisation.

If profit participation rights or profit participation bonds without options or conversion rights or options or conversion obligations are to be issued, the Management Board is authorised, with the approval of the Supervisory Board, to exclude shareholders' subscription rights entirely if these profit participation rights or profit participation bonds are structured similarly to bonds, i.e., if they do not establish membership rights in the company, do not grant participation in the liquidation proceeds, and if the amount of interest is not calculated based on the amount of the annual surplus, the balance sheet profit, or the dividend. Furthermore, the interest rate and the issue price of the profit participation rights or profit participation bonds must correspond to the current market conditions at the time of issuance. If these conditions are met, the exclusion of subscription rights does not result in disadvantages for the shareholders, as the profit participation rights or profit bonds do not establish membership rights and do not grant any share in the liquidation proceeds or the company's profit.

If the Management Board makes use of one of the aforementioned authorisations to exclude subscription rights in the context of an issuance of bonds during a fiscal year, it will report on this at the following general meeting.

Schramberg, April 2025

hGears AG

The Management Board