# Annual General Meeting of JOST Werke AG on May 4, 2018

**Report of the Management Board on Item 7 of the agenda pursuant to Section 203(2) Sentence 2 and Section 186(4) Sentence 2 AktG**

The Articles of Association of June 23, 2017 provide for authorized capital in the amount of EUR 5,000,000.00 (Authorized Capital 2017, Article 5 of the Articles of Association). This Authorized Capital 2017 has not yet been utilized to date.

The Authorized Capital 2017 contains some special features that were required as a result of the IPO and for which there is no more need To enhance the company's flexibility, the Management Board and the Supervisory Board consider it appropriate to cancel the existing Authorized Capital 2017 and to create new Authorized Capital 2018 with an increased total volume amounting to EUR 7,450,000.00 with the option of excluding the subscription right. The exclusion of the subscription right will be limited here to a maximum of 20 per cent of the share capital. The authorized capital is intended to enable the company to adapt swiftly in the interests of its shareholders to changing markets. To this end, the company requires the customary and necessary instruments used to raise capital.

The shareholders are entitled in principle to a subscription right when the authorized capital is utilized. Instead of being issued directly to the shareholders, the new shares can also be taken over by one or more banks specified by the Management Board with the obligation to offer them to the shareholders for subscription (indirect subscription right); the interposition of banks simply makes it technically easier to process the share issue. However, the Management Board is authorized to exclude the subscription right of the shareholders in the cases described below.

To begin with, the Management Board should be authorized to remove fractional amounts from subscription right. This authorization is used to be able to present a practical subscription ratio with regard to the amount of the relevant capital increase. If the subscription right concerning the fractional amounts were not excluded, the technical implementation of the capital increase and the exercising of the subscription right would be significantly complicated especially in the event that the capital is increased by rounded amounts. The new shares that are excluded from the subscription right of the shareholders as fractional shares are liquidated in a manner that is most beneficial for the company, either by selling them on a stock exchange or in another way.

The authorization to exclude the subscription right is subsequently intended to apply for the case where the issue amount of the new shares does not significantly fall below the stock market price of the shares already listed at the time the issue amount is finally determined by the Management Board, which should be carried out as close as possible in time to the placement of the shares. When utilizing the authorization, the Management Board will keep the deviation from the stock market price as low as possible given the market conditions prevailing at the time of the placement. The number of shares issued while the subscription right is excluded pursuant to Section 186(3) Sentence 4 AktG may in total not exceed 10 per cent of the share capital either at the time this authorization takes effect or at the time this authorization is exercised. Shares that are issued or are to be issued on account of bonds with option and/or conversion rights or with option and/or conversion obligations are to be credited to this number if the bonds are issued during the term of this authorization in application mutatis mutandis of Section 186(3) Sentence 4 AktG subject to the exclusion of the subscription right; furthermore, shares that are issued or sold during the term of this authorization in direct application or in application mutatis mutandis of Section 186(3) Sentence 4 AktG are to be credited to this number – e.g. on the basis of authorization to use treasury shares pursuant to Sections 71(1) No. 8, 186(3) Sentence 4 AktG to the exclusion of the subscription right. The interests of the shareholders in having protection against any dilution of their shareholding is taken into account in accordance with the statutory regulations as a result of these requirements. On account of the issue amount of the new shares that is close to the stock market price and on account of the limitation in terms of volume of the capital increase while the subscription right is excluded, each shareholder has in principle the option of acquiring the shares necessary to maintain their equity ratio on the stock market on approximately the same terms and conditions. This authorization pursues the goal of making the corporate financing easier for the company by way of raising equity capital. This will enable the company to cover any emerging requirement for equity capital at short notice. A requirement of this kind can emerge for example on account of market opportunities that arise in the short term or also when new groups of shareholders are acquired. This authorization allows these opportunities to be realized quickly and flexibly; furthermore, higher proceeds from the new shares to be issued can be expected on account the uncomplicated processing.

Furthermore, it should be possible to exclude the subscription right if it is necessary in order to grant a subscription right to holders or creditors of bonds with option and/or conversion rights or option and/or conversion obligations that are issued by the company and/or by companies controlled by the company or in which the company directly or indirectly holds a majority share to the extent to which they would be entitled after exercising their option and/or conversion right or after fulfilling the option and/or conversion obligation. The relevant bond terms and conditions generally contain anti-dilution protection in order to make it easier to place bonds on the capital market. One option for anti-dilution protection consists in granting a subscription right to the holders or creditors of the bonds in the case of capital increases, in the same way as shareholders are entitled to, without having to adjust the option or conversion price. They are thus treated as if they were already shareholders. In order to be able to furnish the bonds with dilution protection of this kind, the subscription right of the shareholders to the new shares must be excluded in this respect. Bonds without dilution protection would be significantly less attractive for the market. In this respect, the possibility of excluding the subscription right in future capital increases serves to make it easier to place the bonds and thus serve the interests of the shareholders in the optimal financing structure of the company.

Furthermore, the authorization to exclude the subscription right is intended to apply for the issue of new shares in the context of a capital increase in return for non-cash contributions when the new shares are granted within the framework of business combinations or for the purpose of acquiring companies, parts of companies, equity interests in companies, or other assets. The company faces intense competition. To be able to hold its own in this competition, the company must be able to act quickly and flexibly in the interests of its shareholders. This also includes in particular the possibility of acquiring companies, parts of companies, or equity interests in companies or entering into a business combination or being able to acquire specific other assets, including claims against the company, at short notice when the opportunity presents itself in order to improve the company's own competitive position as a result. The authorized capital and this authorization to exclude the subscription right will enable the company to carry out acquisitions of this kind swiftly and in a way that preserves liquidity, as it is put in a position as a result of this where it can offer shares within the context of a merger or as consideration for the company to be acquired, the part of a company to be acquired, or the equity interest to be acquired, or the asset to be acquired.

Furthermore, the authorization to exclude the subscription right is intended to apply for the case where new shares up to a pro rata amount of the share capital of EUR 447,000.00 in total are issued as employee shares to employees of the company or affiliated companies. This is intended to enable the company to integrate flexible remuneration models in the future without major administrative expense and thus to respond successfully to market requirements. The competences of the executive bodies responsible for granting the remuneration are maintained in any case.

The subscription right can finally be excluded when scrip dividends are distributed, within the framework of which shares of the company are used (also partially and/or alternatively) to satisfy dividend claims of the shareholders. This is intended to allow the company to distribute a scrip dividend on optimal terms and conditions. In a scrip dividend, shareholders are offered the option of depositing their entitlement to the payment of a dividend resulting from the resolution of the Annual General Meeting on the appropriation of the net income in full or in part as a non-cash contribution in the company in order to subscribe for new shares in the company in return. A scrip dividend can be distributed as a subscription right issue especially in accordance with the provisions of Section 186(1) of the AktG (minimum subscription period of two weeks) and Section 186(2) of the AktG (notification of the issue amount no later than three days before the subscription period expires). However, depending on the capital market situation, it can be preferable in the individual case to structure the distribution of a scrip dividend in such a way that the Management Board offers all shareholders who are entitled to a dividend new shares for subscription in return for the contribution of their dividend entitlement while complying with the principle of equal treatment (Section 53a AktG) and thus grants the shareholders a subscription right in economic terms, but on the whole excludes the subscription right of the shareholders for new shares in legal terms. This kind of exclusion of the subscription right allows the scrip dividends to be distributed without the above-mentioned restrictions of Section 186(1) and (2) AktG and thus on more flexible terms and conditions. In the light of the circumstance that all shareholders are offered the new shares and excess dividend amounts are compensated by the cash payment of the dividend, an exclusion of the subscription right appears justified and reasonable in such a case.

The previous Authorized Capital 2017 does not provide for reciprocal offsetting in relation to the exclusion of the subscription rights and an appropriate limitation of the exclusion of the subscription right of the shareholders. Setting a limit of this kind at 20 per cent of the share capital existing at the time the authorization comes into effect or at the time the authorization is utilized, whichever is the lower, is consistent with the market standard here. The new Authorized Capital 2018 should accordingly include reciprocal offsetting of this kind with a ceiling of 20 per cent in relation to the exclusion of the subscription rights. This authorization is therefore limited to the extent that after the authorization is exercised the sum of the shares issued under this authorized capital while excluding the subscription right may not exceed 20 per cent of the share capital existing at the time the authorization comes into effect or at the time the authorization is utilized, whichever is the lower. Treasury shares that are sold during the term of the above authorization subject to the exclusion of the subscription right and shares that are issued from authorized capital during the term of the above authorization subject to the exclusion of the subscription right are also to be credited to this 20 per cent limit; furthermore, shares that are issued as a result of the exercising of option and/or conversion rights or option/conversion obligations attached to bonds are to be credited if the related bonds are issued during the term of this authorization on the basis of another authorization while excluding the subscription right. The total scope of an issue of shares when the subscription right is excluded is limited by this requirement, and the shareholders are therefore additionally safeguarded against excessive dilution of their equity interest.

The Management Board will carefully review in each individual case whether it will make use of the authorization to increase capital while excluding the subscription right. This possibility will be utilized only if in the opinion of the Management Board and the Supervisory Board it is in the interests of the company and therefore of its shareholders. The Management Board will report on the use of the Authorized Capital 2018 to the subsequent Annual General Meeting each time.

Neu-Isenburg, March 2018

JOST Werke AG
The Management Board