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Formycon AG
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Annual General Meeting on 12 June 2024

**Report of the Management Board to the Annual General Meeting
on agenda item 9 on the reasons for the
exclusion of shareholders' subscription rights**

The Management Board of Formycon AG submits the following report pursuant to Sections 203(2) sentence 2, 186(4) sentence 2 of the German Stock Corporation Act (*Aktiengesetz, AktG*) on the reasons for the authorization of the Management Board to exclude subscription rights. This report is available from the date of convening the Annual General Meeting on the Company's website at

<https://www.formycon.com/en/investor-relations/annual-general-meeting-2024/>.

The report will also be available for inspection by shareholders at the Annual General Meeting.

Under agenda item 9 of the Annual General Meeting on 12 June 2024, the Management Board and the Supervisory Board propose that the 2023 Authorized Capital be cancelled and a new 2024/I Authorized Capital be created.

After the Management Board partially utilized the 2023 Authorized Capital with the approval of the Supervisory Board as part of the capital increase carried out in January/February 2024 with the exclusion of shareholders' subscription rights, the 2023 Authorized Capital is to be cancelled and replaced by a new 2024/I Authorized Capital in order to give the Company the legal flexibility to act quickly on the capital market at any time in the future. The Company would like to be able to make use of the extended option for the simplified exclusion of subscription rights in accordance with Sections 203(1) sentence 1, 186(3) sentence 4 AktG, which was extended by the German Financing for the Future Act (*Zukunftsfinanzierungsgesetz, ZuFinG*) of 11 December 2023 (published in Federal Law Gazette 2023 I No. 354 of 14 December 2023) up to a maximum of 20% of the share capital in the future if required. One of the purposes of the German Financing for the Future Act is to meet the high financing requirements of growth companies. After the previous 10% limit was no longer considered appropriate, the legislator has now increased it to 20% in order to meet the current economic circumstances and needs of companies, including in European competition. As a fast-growing company in the pharmaceutical industry, the Company is dependent on being able to flexibly and comprehensively increase its own funds as required. In addition, claims from share participation or other share-based programs should also be able to be serviced via the

2024/I Authorized Capital in the future. The 2024/I Authorized Capital should again have a total volume of 50% of the current share capital.

The new 2024/I Authorized Capital proposed under item 9 lit. b) of the agenda of the Annual General Meeting on 12 June 2024 is intended to authorize the Management Board to increase the share capital of the Company in the period until 11 June 2029, with the approval of the Supervisory Board, once or several times by a total of up to EUR 8,828,451.00 by issuing up to 8,828,451 new no-par value bearer shares against cash and/or non-cash contributions. The pro rata amount of the share capital attributable to any new shares issued after 3 May 2024 as a result of the exercise of the 2023 Authorized Capital is to be offset against the aforementioned amount.

The 2024/I Authorized Capital is intended to enable the Company to continue to raise the capital required for further expansion on the capital markets on a short notice by issuing new shares and to flexibly take advantage of a favorable market environment to cover future financing needs quickly. Since decisions on the coverage of future capital requirements usually have to be made at short notice, it is important that the Company is not dependent on the rhythm of the Annual General Meetings or on the long period of notice for an Extraordinary General Meeting. The legislator has taken these circumstances into account with the instrument of the "authorized capital".

When using the 2024/I Authorized Capital for the issue of shares against cash contributions, the shareholders generally have a subscription right (Section 203(1) sentence 1 AktG in conjunction with Section 186(1) AktG), whereby an indirect subscription right within the meaning of Section 186(5) AktG is also sufficient. The issue of shares with the granting of such an indirect subscription right is already not regarded as an exclusion of subscription rights according to the law. The shareholders are ultimately granted the same subscription rights as in the case of a direct subscription. For technical reasons, only one or more financial institution(s) are involved in the transaction.

However, the Management Board is to be authorized, with the approval of the Supervisory Board, to exclude subscription rights in certain cases.

- a) The Management Board shall be able to exclude subscription rights for fractional amounts with the approval of the Supervisory Board. The purpose of this exclusion of subscription rights is to facilitate the handling of an issue with shareholders' subscription rights in principle, as this enables a technically feasible subscription ratio to be represented. The value of the fractional amounts per shareholder is generally low, so the potential dilution effect is also to be regarded as low. In contrast, the cost of the issue without such an exclusion is significantly higher. The exclusion therefore serves the purpose of practicability and ease of execution of an issue. The new shares excluded from the shareholders' subscription rights as free fractions will be utilized in the best possible way for the Company either by sale on the stock market or in some other way. The Management Board considers the possible exclusion of subscription rights for these reasons to be objectively justified and, after weighing up the interests of the shareholders, also appropriate.
- b) Subscription rights may also be excluded in the case of cash capital increases if the shares are issued at an amount which is not significantly lower than the market price of the Company's shares already listed on the stock exchange and such a capital increase does not exceed 20% of the share capital (simplified exclusion of subscription rights pursuant to Section 203(1) and (2) AktG in conjunction with Section 186(3) sentence 4 AktG); the listing in the Regulated Unofficial Market

(*Freiverkehr*) is also included. The authorization enables the Company to respond quickly and flexibly to favorable capital market situations and to place the new shares at very short notice, i.e. without the requirement for a subscription offer lasting at least two weeks. The exclusion of subscription rights makes it possible to act very quickly and place the shares close to the market price, i.e. without the usual discount for rights issues. This creates the basis for achieving the highest possible disposal amount and the greatest possible strengthening of equity. The authorization to simplify the exclusion of subscription rights is objectively justified not least by the fact that a higher inflow of funds can often be generated.

Such a capital increase may not exceed 20% of the share capital existing at the time the authorization becomes effective and also at the time it is exercised. The proposed resolution also provides for a deduction clause. Shares that are sold during the term of the 2024/I Authorized Capital on the basis of an authorization to sell treasury shares in accordance with Section 71 (1) no. 8 sentence 5 clause 2 AktG in conjunction with Section 186(3) sentence 4 AktG with the exclusion of shareholders' subscription rights are to be counted towards the maximum 20% of the share capital to which this exclusion of subscription rights applies. Furthermore, shares issued or to be issued to service bonds with conversion or option rights or with conversion or option obligations pursuant to Section 221(4) sentence 2 AktG in conjunction with Section 186(3) sentence 4 AktG during the term of the 2024/I Authorized Capital with the exclusion of subscription rights are to be included, provided that these bonds were issued during the term of the 2024/I Authorized Capital with the exclusion of subscription rights in corresponding application of Section 186(3) sentence 4 AktG. Shares issued during the term of the 2024/I Authorized Capital from other authorized capital in accordance with Section 203 (2) sentence 1 AktG in conjunction with Section 186(3) sentence 4 AktG or on the basis of other capital measures in corresponding application of Section 186(3) sentence 4 AktG are also to be included.

The simplified exclusion of subscription rights is subject to the condition that the issue price of the new shares is not significantly lower than the stock market price. Any discount from the current price on the stock market or a volume-weighted price on the stock market during an appropriate number of trading days prior to the final determination of the issue price is not expected to exceed approximately 5% of the corresponding price on the stock market, subject to special circumstances in individual cases. This also considers the shareholders' need for protection against dilution of the value of their shareholding. By setting the issue price close to the stock market price in this way, it is ensured that the value that a subscription right would have for the new shares is practically very low. Shareholders have the option of maintaining their relative shareholding by purchasing additional shares via the stock market.

- c) The subscription right may also be excluded in the case of capital increases against contributions in kind. In particular, the Company shall continue to be able to react in the context of business combinations or for the purpose of (also indirect) acquisitions of companies, operations, parts of companies, interests in companies or other assets, including claims against the Company or its Group companies or to offers for acquisitions or mergers, in order to drive forward its further expansion and increase its earning power and enterprise value. Furthermore, the exclusion of subscription rights is intended to service conversion or option rights or conversion or option obligations arising from bonds issued against contributions in kind.

Practice shows that the shareholders of attractive acquisition targets partially have a strong interest – e.g. in order to maintain a certain influence on the object of the contribution in kind – in acquiring no-par value shares in the Company as consideration. From the point of view of an optimum financial structure, another argument in favor of the possibility of paying the consideration not exclusively in cash but also in shares or only in shares is that, to the extent that new shares can be used as acquisition currency, the Company's liquidity is protected, borrowing is avoided and the sellers participate in future share price opportunities. This leads to an improvement in the Company's competitive position in acquisitions.

The possibility of using shares in the Company as an acquisition currency thus gives the Company the necessary scope to seize such acquisition opportunities quickly and flexibly and enables it to acquire even larger units in return for shares. It should also be possible to acquire other assets in return for shares under certain circumstances. For both, it must be possible to exclude shareholders' subscription rights. Because such acquisitions often must be made at short notice, it is important that they are not approved by the General Meeting, which is held usually only once a year. An authorized capital with the option to exclude subscription rights is required, which the Management Board can access quickly with the approval of the Supervisory Board.

The same applies to the servicing of conversion or option rights or conversion or option obligations arising from bonds that were or are also issued for the purpose of acquiring companies, parts of companies or interests in companies on the basis of the authorization under agenda item 6 of the Annual General Meeting on 30 June 2022, with the exclusion of shareholders' subscription rights. The new shares will be issued against contributions in kind, either in the form of the bond to be contributed or in the form of the contribution in kind made on the bond. This leads to an increase in the flexibility of the Company in servicing the conversion of option rights or conversion or option obligations. The offer of bonds instead of or in addition to the granting of shares or cash payments can be an attractive alternative which, due to its additional flexibility, further increases the Company's competitive opportunities in acquisitions. Shareholders are protected by the subscription rights to which they are entitled when bonds with conversion or option rights or conversion or option obligations are issued. The cases in which subscription rights for bonds with conversion or option rights or conversion or option obligations can be excluded were explained in the report of the Management Board on agenda item 6 to the Annual General Meeting on 30 June 2022.

If opportunities arise to merge with other companies or to acquire companies, operations, parts of companies, interests in companies or other assets, the Management Board will in each case carefully examine whether it should make use of the authorization to increase capital by granting new shares. This shall include in particular the examination of the valuation relationship between the Company and the acquired interest in companies or other assets and the determination of the issue price of the new shares and the further conditions of the rights issue. The Management Board will only use the authorized capital if it is convinced that the merger or acquisition of the company, operation, part of the company, the interest in the company or other asset in return for the granting of new shares is in the well-understood interests of the Company and its shareholders.

- d) In addition, the Management Board shall be able, with the approval of the Supervisory Board, to exclude subscription rights to the extent necessary to grant

subscription rights for new shares to holders or creditors of convertible bonds, bonds with warrants, profit participation rights and/or participating bonds (or combinations of these instruments) (collectively referred to as "**bonds**"). Bonds with conversion or option rights or conversion or option obligations regularly provide for protection against dilution in their terms and conditions of issue, granting the holders or creditors subscription rights to new shares in the event of subsequent rights issues and certain other measures. They are thus placed in the same position as if they were already shareholders. In order to provide the bonds with such protection against dilution, the subscription rights of shareholders to these shares must be excluded. This serves to facilitate the placement of bonds and thus the interests of the shareholders in an optimal financial structure of the Company. In addition, the exclusion of subscription rights in favor of the holders or creditors of bonds has the advantage that, if the right is exercised, the option or conversion price for the holders or creditors of existing bonds does not need to be reduced in accordance with the respective terms and conditions of the bonds. This enables a higher inflow of funds and is therefore in the interests of the Company and its shareholders.

- e) In addition, subscription rights may be excluded in order to issue new shares against cash and/or in kind contributions, including claims against the Company, to members of the Management Board of the Company, members of the representative body of a company affiliated with the Company within the meaning of Section 15 AktG or to employees of the Company and its affiliated companies within the meaning of Section 15 AktG, including through the interposition of a credit institution, a securities institution or a company operating in accordance with Section 53(1) sentence 1 or Section 53b(1) sentence 1 or (7) of the German Banking Act (*Kreditwesengesetz, KWG*). Issuing shares to executives and/or employees promotes identification with the Company and encourages them to assume joint responsibility within the Company. Share-based compensation also offers the opportunity to align the compensation of executives and/or employees with a sustainable corporate development in appropriate cases. Within the framework permitted by Section 204(3) sentence 1 AktG, the option is to be granted to cover the contribution to be made on the new shares from that part of the net income for the year which the Management Board and the Supervisory Board could transfer to other revenue reserves pursuant to Section 58(2) AktG. This facilitates the processing of the rights issue and is in line with the fact that the issue in these cases is of a remuneration nature.

Such a capital increase may not exceed 10% of the share capital existing at the time the authorization becomes effective and also at the time it is exercised. The proposed resolution also provides for a deduction clause. Shares that have been issued or transferred from authorized capital, conditional capital or treasury shares to members of the Company's Management Board, members of the management of a company affiliated with the Company within the meaning of Section 15 AktG or employees of the Company and its affiliated companies within the meaning of Section 15 AktG as part of participation programs and/or as part of share-based compensation since the resolution on 2024/I Authorized Capital was adopted are to be counted towards the maximum 10% of the share capital affected by this exclusion of subscription rights.

Insofar as the new shares are to be issued to members of the Company's Management Board, the decision on the granting of the shares will be made not by the Company's Management Board but by the Company's Supervisory Board.

- f) Finally, the subscription right may be excluded for the purpose of implementing a scrip dividend, in the context of which shares of the Company are issued (also partially and/or optionally) against contribution of dividend claims of the shareholders.

This is intended to enable the Company to distribute a scrip dividend on optimum terms. In the case of a scrip dividend, shareholders are offered the option of contributing to the Company all or part of their claims to payment of the dividend arising from the resolution on the appropriation of profits adopted by the Annual General Meeting as a contribution in kind in exchange for new shares in the Company. The distribution of a scrip dividend may be made as a rights issue, in particular in compliance with the provisions of Section 186(1) AktG (minimum subscription period of two weeks) and Section 186(2) AktG (announcement of the issue amount no later than three days before expiry of the subscription period). In individual cases, however, depending on the capital market situation, it may be preferable to structure the distribution of a scrip dividend in such a way that the Management Board indeed offers all shareholders entitled to dividends new shares for subscription against contribution of their dividend entitlement, subject to the general principle of equal treatment (Section 53a AktG), thus economically granting the shareholders a subscription right, but legally excluding the shareholders' subscription right to new shares as a whole.

Such an exclusion of subscription rights enables the distribution of the scrip dividend without the aforementioned restrictions of Section 186(1) and (2) AktG and thus on more flexible terms. In view of the fact that all shareholders will be offered the new shares and that any excess dividend amounts will be settled by cash payment of the dividend, an exclusion of subscription rights in such a case appears to be justified and appropriate.

There currently are no concrete plans to utilize the 2024/I Authorized Capital. The Management Board will in any case carefully consider whether the utilization of the authorization is in the interest of the Company and its shareholders.

If the Management Board makes use of one of the above authorizations to exclude subscription rights in connection with a capital increase from the 2024/I Authorized Capital during a financial year, it will report on this at the following General Meeting.

Martinsried/Planegg, May 2024

Formycon AG
The Management Board