

# LOEWE.

## **Report of the Executive Board pursuant to Section 71 (1) No. 8 sentence 5 first half of sentence 2 of the German Stock Corporation Act in conjunction with Section 186 (4) sentence 2 of the German Stock Corporation Act concerning the exclusion of the subscription right in agenda item 7**

Section 71, (1) No. 8 of the German Stock Corporation Act offers stock corporations the option to acquire up to a total of 10% of their share capital based on an authorization by the Annual Shareholders' Meeting.

Agenda item 7 contains the proposal to grant such an authorization which is limited to a period of 5 years. It is intended to enable the Company to acquire treasury shares via the stock exchange up to an amount totaling 10% of the Company's share capital. Section 71 (1) No. 8 of the German Stock Corporation Act also allows other forms of acquisition and sale in addition to the typical case of acquisition and sale via the stock exchange. The use of this option is to be made possible.

The Company is also to be given the option to acquire treasury shares via a public offer to buy addressed to the Company's shareholders. The principle of equal treatment under stock corporation law must be complied with in doing so. If a public offer to buy is oversubscribed, the acceptance must be made proportionally. However, it should be possible to provide for a preferential acceptance of small offers or small parts of offers not exceeding a maximum of 100 shares. This possibility serves the purpose of making the technical clearing easier and avoiding small residual amounts.

The purchase price per share offered (not including ancillary acquisition costs) may not be more than 10% higher or lower than the average of the closing prices (as defined in the proposed authorization resolution) on the three preceding trading days. For acquisition via the stock exchange, the applicable point in time is the acceptance of the obligation to acquire shares by the Company. The record date for the acquisition through a public offer to buy is the date the Company announces its decision to issue a public offer, or in the case of a change of offer, the date of the Executive Board's final decision concerning the change of offer. The offer to buy can stipulate conditions, e.g. the achievement of a minimum acceptance quota.

The resolution provides that the Executive Board, with the consent of the Supervisory Board, may decide concerning the use of the acquired shares. The authorization is intended to enable the Executive Board to react flexibly to any business requirements in the interest of the Company while safeguarding the concerns of the shareholders. The Executive Board may thus resell the treasury shares via the stock exchange or via an offer to all shareholders. However, the Executive Board is also to be enabled to offer the acquired shares to individual third parties or shareholders outside of the stock exchange. This is intended, for example to provide the option to use treasury shares as consideration in business combinations, for the acquisition of companies, equity interests in companies, business units or the acquisition of claims against the Company as acquisition currency without having to create shares from the authorized capital for this purpose, which would lead to a percentage dilution of the shareholdings of the shareholders. International competition and the globalization of the economy increasingly demand this form of consideration. The authorization proposed here is intended to enable the Company to take advantage of opportunities rapidly and flexibly

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without burdening the Company's liquidity. The proposed exclusion of the subscription right takes this into account.

In the event that the Company sells acquired treasury shares to individual shareholders or third parties in other cases, pursuant to the provision of Section 186 (3) sentence 4 of the German Stock Corporation Act, the shares may only be sold at a price that is not significantly lower than the stock exchange price of the share at the time of the sale. This provision is intended to protect the interest of the shareholders in not having the value of their investment diluted. The orientation of the sale price to the stock exchange price appropriately guarantees the pecuniary and voting right interests of the shareholders. In determining the final sale price, management will make an effort to keep a possible discount on the stock exchange price as low as possible – while taking the current market circumstances into account. This authorization is necessary to enable the Company to be able to react to offers or investment inquiries from financially strong investors which serve the Company's business purposes.

The Company may recall the treasury shares acquired based on this or an earlier authorization resolution without a new resolution of the Annual Shareholders' Meeting. The recall will result in a reduction of the share capital. In accordance with Section 237 (3) No. 3 of the German Stock Corporation Act, the Company's Annual Shareholders' Meeting may decide to recall its fully paid-in shares even without the necessity of a reduction of the Company's share capital. In addition to a recall with a capital reduction, the proposed authorization expressly provides this alternative. A recall of the treasury shares without a capital reduction will automatically increase the notional portion of the remaining shares in the Company's share capital.

The Executive Board will inform the subsequent Annual Shareholders' Meeting concerning the utilization of the authorization.

Kronach, April 2010

Loewe AG  
The Executive Board