

Written report of the Executive Board pursuant to Sections 221 para. 4 sentence 2, 186 para. 4 sentence 2 of the German Stock Corporation Act (AktG) on item 10 of the Agenda on the reasons for authorising the Executive Board to exclude shareholders' subscription rights when issuing bonds with warrants or convertible bonds or profit participation rights or a combination of these instruments.

On 21 June 2022, the Annual General Meeting of the Company authorised the Executive Board under item 9 of the then agenda to issue bonds with warrants or convertible bonds or profit participation rights or a combination of these instruments in a total nominal amount of up to EUR 1,000,000,000.00 and resolved on Contingent Capital 2022 I in the amount of up to EUR 8,084,337.00 to secure them. No use has been made of the authorisation to date. Against the background of the increase of the share capital of the Company to EUR 42,641,686.00 under partial utilisation of Authorised Share Capital 2022 I, the existing authorisation and the existing Conditional Capital 2022 I shall be cancelled and superseded by a new authorisation to issue bonds with warrants or convertible bonds or profit participation rights or a combination of these instruments and a new Conditional Capital 2023 I. The new Conditional Capital 2023 I shall be issued in the amount of up to EUR 8,528,337.00, corresponding to approximately 20% of the current share capital.

In addition to the traditional possibilities of raising debt and equity capital, the issuance of bonds can offer the Company the opportunity to use attractive financing alternatives on the capital market, depending on the market situation. The company usually receives debt capital at favourable interest rates, which it may later retain as equity capital. In order to preserve this potential low-interest debt financing for the Company, a new authorisation to issue bonds with warrants or convertible bonds or profit participation rights or a combination of these instruments (collective designation "**Bonds**") shall be created.

The authorisation proposed under item 10 of the agenda to issue bonds in a total nominal amount of up to EUR 1,000,000,000.00 against contributions in kind and/or in cash and to create the corresponding conditional capital of up to EUR 8,528,337.00 is intended to pave the way for the Executive Board, with the consent of the Supervisory Board, to obtain flexible and timely financing in the interests of the Company, in particular in the case of prevailing favourable capital market conditions. If this authorisation is fully utilised, bonds could be issued which, when issued, would grant subscription rights to up to approximately 20% of the current share capital. The authorisation shall expire on 10 July 2028.

The additional possibility envisaged of establishing conversion and/or option obligations in addition to the granting of conversion and/or option rights extends the scope for the structuring of this financing instrument. The authorisation gives the Company the necessary flexibility to issue the bonds itself or through a subordinated Group company.

The conversion or option price may not fall below a minimum issue amount, the calculation basis of which is precisely specified. The point of reference for calculating the conversion or option price in the event of the exercise of conversion and/or option rights shall in each case be the stock exchange price of the Company's shares, which must correspond to at least 80% of the stock exchange price of the Company's shares fixed at the time of the issue of the bonds to which conversion or option rights are attached. In the case of the issuance of bonds which determine a conversion or option obligation or provide for a substitution right, the conversion or option price must, in accordance with the more detailed provisions of the terms and conditions of the bonds, be at least either the above indicated minimum price or the volume-weighted average price of the no-par value of the Company's shares in the XETRA closing auction (or a corresponding successor system) on the Frankfurt Stock Exchange on the ten stock exchange trading days prior to the day of final maturity of the bonds or other specified date, even if this is below the above indicated minimum price (80%).

Without prejudice to Section 9 para. 1 of the German Stock Corporation Act (AktG), the option or conversion price may be reduced on the basis of an anti-dilution clause in accordance with the more detailed provisions of the terms and conditions governing the bonds if, during the option or conversion period, the Company (i) increases the share capital or sells treasury shares while granting an exclusive subscription right to its shareholders or (ii) increases the share capital by means of a capital increase from the Company's own funds or (iii) issues further bonds with option or conversion rights or option or conversion obligations while granting an exclusive subscription right to its shareholders, and in cases (i) and (iii) the holders of already existing option or conversion rights or obligations are not granted a subscription right for this purpose as they would have been entitled to after exercising the option or conversion right or after fulfilment of the option or conversion obligation. The reduction of the option or conversion price may also be affected by a cash payment on exercise of the option or conversion right or on fulfilment of the option or conversion obligation. In addition, the terms and conditions of the bonds may provide for an adjustment of the option or conversion rights or option or conversion obligations in the event of a capital reduction or other measures or events that are associated with an economic dilution of the value of the option rights or conversion rights or obligations (such as dividends, acquisition of control by third parties). In all these cases, the adjustment shall be made in accordance with Section 216 para. 3 AktG in such a way that the economic value of the conversion or option rights or conversion or option obligations after the adjustment essentially corresponds to the economic value of the conversion or option rights or conversion or option obligations immediately before the measure triggering the adjustment. In the event of control being acquired by a third party, provision may be made for an adjustment of the option or conversion price in line with market conditions.

In general, shareholders shall be granted subscription rights. In the case of a placement by a company in which the company directly or indirectly holds 100% of the shares, the Company must also ensure that its shareholders are granted the statutory subscription rights. In order to facilitate processing, there is a possibility to issue the bonds to one or more credit institutions, securities' institutions or companies specified by the Executive Board within the meaning of Section 186 para. 5 of AktG with the obligation to offer the bonds to shareholders for subscription in accordance with their subscription rights (indirect subscription right).

However, the Executive Board shall be authorised, with the consent of the Supervisory Board, to exclude subscription rights in the following cases:

- fractional amounts arising due to the subscription ratio. Such fractional amounts may result from the amount of the respective issue volume and the presentation of a practicable subscription ratio. An exclusion of the subscription right for fractional amounts facilitates the processing of the capital measure in these cases. The free fractional amounts excluded from shareholders' subscription rights will be realised either by sale on the stock exchange or in another manner in the best possible way for the Company. Shareholders will not suffer any significant dilution as a result of the restriction to fractional amounts; in the opinion of the Executive Board, it is materially justified and appropriate.
- In addition, it shall be possible to exclude subscription rights to the extent necessary in order to give the holders of option and/or conversion rights or obligations, which have been issued by the Company or companies in which the Company directly or indirectly holds 100% of the shares when exercising the authorisation, a subscription right to bonds to which they would be entitled as shareholders after exercising the option or conversion right or after fulfilment of a conversion or option obligation. In order to facilitate the placement of bonds on the capital market, the corresponding option or bond terms and conditions usually contain protection against dilution. One possibility of protection against dilution is that the holders or creditors of the bonds are granted a subscription right to bonds in subsequent issues as shareholders are entitled to. They are therefore placed in the same position as if they were already shareholders. In order to be able to provide the bonds with such protection against dilution, shareholder subscription rights to the bonds must be excluded. This serves to facilitate the placement of the bonds and consequently, assure the interests of shareholders in the best possible financial structure for the Company.

Moreover, an exclusion of the subscription right shall be possible on the legal basis of Section 186 para. 3 sentence 4 of AktG, i.e. if bonds are issued against a cash consideration and at a price which is not significantly lower than the hypothetical market value of the bonds determined according to recognised, in particular financial mathematical methods. The potential for excluding subscription rights gives the Company the flexibility to take advantage of favourable capital market situations at short notice and to achieve better conditions when setting the interest rate and issue price of bonds by setting the conditions close to the market. The decisive factor here is that, in contrast to an issue of bonds with subscription rights, the issue price can only be fixed immediately prior to the placement, thereby avoiding an increased risk of price changes during the time of a subscription period. In contrast, if a subscription right were granted, the subscription price would have to be published by the third last day of the subscription period. In view of the frequently observed volatility on the stock markets, this implies a market risk over several days, leading to safety discounts when setting bond conditions. The subscription period also makes it difficult to react to favourable market conditions at short notice. In the case of bonds in particular, the granting of a subscription right jeopardises the successful placement with third parties or entails additional expenses due to the uncertainty regarding its exercise. By setting the issue price of bonds in such cases at a level not significantly below their calculated market value determined according to recognised methods, the shareholders' need for protection with regard to an economic dilution of their shareholdings is to be taken into account. In the case of an issue price at market value, the value of the subscription right falls to virtually zero. Consequently, shareholders will not suffer any significant economic disadvantage as a result of an exclusion of subscription rights. The Executive Board will endeavour to achieve the highest possible issue price and to keep the economic difference to the price at which existing shareholders can buy additional shares on the market as low as possible. Shareholders who wish to maintain their share in the Company's share capital can do so by purchasing additional shares on the market at approximately the same conditions. From the shareholders' perspective, this also rules out any relevant loss of the shareholding quota.

The authorisation to issue bonds under exclusion of subscription rights pursuant to Section 186 para. 3 sentence 4 of AktG is also limited in terms of volume. The number of shares of the Company to be issued to service bonds or profit participation rights issued in this manner during the term of the present authorisation under exclusion of subscription rights (whether on the basis of the present or other authorisation) may not exceed a total of 10% of the share capital, either at the time the authorisation becomes effective or, if this amount should be lower, at the time the authorisation is exercised. This 10% limit shall include the proportionate amount of the share capital attributable to shares that are issued during the term of this authorisation either on the basis of an authorisation of the Executive Board to exclude subscription rights in direct or mutatis mutandis application of Section 186 para. 3 sentence 4 of AktG or sold as acquired treasury shares in corresponding application of Section 186 para. 3 sentence 4 of AktG. Shares to be issued for the purpose of servicing bonds with option and/or conversion rights or option and/or conversion obligations shall also be counted, provided that these bonds are issued during the term of the present authorisation or on the basis of another authorisation under exclusion of subscription rights pursuant to Section 186 para. 3 sentence 4 of AktG. This imputation ensures that no convertible bonds and/or bonds with warrants or profit participation rights are issued if this were to result in the exclusion of shareholders' subscription rights for a total of more than 10% of the share capital in direct or indirect application of Section 186 para. 3 sentence 4 AktG. This further restriction is in the interest of shareholders who wish to maintain their shareholding quota as far as possible in the case of corresponding capital measures; in such cases, their additional investment can be limited to a maximum of 10% of their shareholding.

It shall also be possible to exclude subscription rights insofar as profit participation rights are issued without a conversion right/obligation or option right/obligation, if these profit participation rights have bond-like features, i.e. do not establish any membership rights in the Company, do not grant any participation in the liquidation proceeds and the amount of interest is not calculated on the basis of the amount of the net profit for the year, the balance sheet profit or the dividend. Moreover, in this case, the interest rate and the issue amount of the profit participation rights must correspond to the current market

conditions at the time of issue. In such cases, the exclusion of subscription rights does not lead to a relevant encroachment on shareholders' rights. Obligation-like profit participation rights are largely similar to regular corporate bonds, the issue of which entails no statutory subscription rights for shareholders.

An exclusion of the subscription rights shall also be possible if bonds are to be issued against contributions in kind. The Company shall be given the opportunity to offer bonds as consideration in whole or in part instead of cash payments in the context of mergers or in the (also indirect) acquisition of companies, parts of companies, participations in companies (including increases) or other assets. The authorisation is intended to give the Company the necessary room to manoeuvre to be able to quickly and flexibly exploit opportunities that arise to acquire companies, parts of companies, participations in companies and other assets as well as mergers in international competition. The use of the possibility of offering bonds as consideration can be useful in the acquisition of companies or participations. However, it may also be in the interests of the company to be able to offer bonds as consideration when acquiring other assets. These will usually be tangible or intangible assets. The authorisation also offers the possibility to grant bonds instead of cash payment to the holders of claims against the Company or a company in which the Company directly or indirectly holds a 100% interest (loan or bond claims), for example if the Company has initially undertaken to pay a cash amount when acquiring a company and subsequently bonds are to be granted instead of cash. The granting of bonds relieves the liquidity position of the Company and can serve to optimise its financial structure. At present, there are no plans to acquire companies, parts of companies, participations in companies or other assets against the issue of bonds. The Executive Board will decide on a case-by-case basis, taking into account the alternatives under consideration, whether - with the consent of the Supervisory Board - it will make use of the option to issue bonds with the exclusion of shareholders' subscription rights in the case of a possible merger or the acquisition of companies, parts of companies, participations in companies or other assets. The Company will not suffer any disadvantage as a result, because the issuance of the bonds against contributions in kind requires that the value of the contribution in kind is in an appropriate proportion to the value of the new bonds issued for this purpose. In determining the value of the bonds given as consideration, the Executive Board will generally be guided by the hypothetical market value of the bonds determined in accordance with recognised financial mathematical methods, derived from the stock exchange price of the Company's shares, or by the market value of the bonds determined by a recognised market-led method. However, if a systemic link to the hypothetical market value determined emerges, the aim is in particular to avoid calling into question negotiation results once they have been achieved in the case of fluctuations in the stock exchange price.

Bonds may only be issued under exclusion of subscription rights in accordance with the present authorisation if the total of the new shares to be issued by the Company on the basis of such bonds to be issued under exclusion of subscription rights does not account for more than 10% of the share capital, either at the time of the coming into force of the present authorisation or - if this value is lower - at the time of the exercise of the present authorisation.

The cases below shall be counted towards the above mentioned 10% limit:

- treasury shares sold during the term of the present authorisation under exclusion of subscription rights, as well as
- shares issued during the term of the present authorisation from authorised capital under exclusion of subscription rights.

According to the above authorisation, the possibilities of excluding subscription rights are already very limited. The additional quantitative restriction, which goes beyond the legal restrictions, keeps any possible impairment of shareholders' stockholding' within narrow limits.

The Executive Board and the Supervisory Board will carefully examine in each individual case whether they will make use of one of the authorisations to issue bonds under exclusion of shareholders' subscription rights. This option will only be used if, in the opinion of the Executive Board and the Supervisory Board, this is in the unequivocal interests of the Company and consequently, of its shareholders.

The Executive Board will inform the next Annual General Meeting of any utilisation of the above authorisations to exclude subscription rights.

We would like to point out that, apart from the new Authorised Share Capital 2023 I proposed under agenda item 9, the Authorised Share Capital 2022 II and the new Contingent Capital 2023 I proposed under agenda item 10, the Company will not have any further authorised or contingent capital at the time of the Annual General Meeting.

Ellwangen Jagst, May 2023

VARTA Aktiengesellschaft
Executive Board