



**- Translation for convenience -**

*Ordinary Annual General Meeting of NORMA Group AG on Wednesday, May 23rd 2012, 10.00 am, in Japan Center, Taunustor 2, 60311 Frankfurt am Main*

**Explanatory report on matters relevant to acquisitions (section 289 (4) and section 315 (4) HGB (Handelsgesetzbuch – German Commercial Code) and explanatory report to describe the accounting-related internal control and management system (section 289 (5) HGB)**

In the following matters pursuant to section 289 (4) and section 315 (4) and to section 289 (5) as evident in the annual financial statements and the consolidated financial statements shall be described and if applicable be explained.

**1. Matters relevant to acquisitions**

**Sec. 289 (4) / sec. 315 (4) no. 1 HGB**

NORMA Group AG's capital stock totalled EUR 31,862,400.00 on 31 December 2011. This is divided into 31,862,400 registered shares with no par value. Each share entitles the holder to one vote. There are no different classes of shares. NORMA Group AG holds no shares of its own.

**Sec. 289 (4) / sec. 315 (4) no. 2 HGB**

The Management Board of NORMA Group AG is not aware of any restrictions affecting voting rights or the transfer of shares or any agreements between partners which could result in such restrictions.

**§ 289 (4) / § 315 (4) no. 3 HGB**

There are no direct or indirect capital holdings exceeding one tenth of the voting rights other than those voting rights listed in the Notes to annual financial statements and the consolidated financial statements.

**§ 289 (4) / § 315 (4) no. 4 HGB**

There are no shares in NORMA Group AG which provide their holders with special rights, including control rights.

**§ 289 (4) / § 315 (4) no. 5 HGB**

There are no employee share schemes through which employees can acquire shares in NORMA Group AG. Employees with shareholdings in NORMA Group AG exercise

control rights in the same way as other shareholders in accordance with applicable legislation and the articles of association.

#### **§ 289 (4) / § 315 (4) no. 6 HGB**

Management Board members are appointed and dismissed in accordance with Section 84f. of the German Stock Corporation Act (AktG). The articles of association of NORMA Group AG do not contain any provisions related to this issue which contradict the applicable legislation. The Supervisory Board is responsible for determining the actual number of members on the Management Board. It can nominate a Chairman and Deputy Chairman of the Management Board or a Management Board spokesperson and a deputy spokesperson.

Changes to the articles of association are made by the Annual General Meeting in accordance with Section 179 (1) AktG. In accordance with Section 179 (1) (2) AktG, the Annual General Meeting can authorise the Supervisory Board to make changes which affect solely the wording of the articles of association. The Annual General Meeting of NORMA Group AG has chosen to do so. According to Article 13 (2) of the articles of association, the Supervisory Board is authorised to make changes to the articles of association which affect solely their wording. In accordance with Article 19 (2) of the articles of association, a simple majority of the capital represented at the meeting is sufficient to make changes to the articles of association, wherever permitted by law.

If the Management Board exercises its right to retire shares in the company without a capital decrease and thereby increases the proportion of the capital stock represented by the remaining shares, it is authorised to alter the number of shares in the articles of association. The Supervisory Board is authorised to alter the wording of the articles of association after capital increases from authorized capital 2011 / II or following the expiry of the authorisation period if this authorised capital is not used.

#### **§ 289 (4) / § 315 (4) no. 7 HGB**

##### Authorised capital 2011 / II

With the approval of the Supervisory Board, the Annual General Meeting of 6 April 2011 authorised the Management Board to increase the company's capital stock to a total of EUR 15,931,200.00 by 5 April 2016 through the issue of up to 15,931,200 new registered, no-par-value shares against cash or non-cash contributions (authorised capital 2011 / II).

The Management Board is authorised, subject to the Supervisory Board's approval, to exclude the subscription rights of shareholders for one or more capital increases in connection with the authorised capital for fractions entailed by the subscription ratio, for capital increases against non-cash contributions, in particular to acquire companies, for capital increases against cash contributions limited to a maximum of 10% of the capital stock, provided the issue price is not significantly lower than the stock market price (simplified exclusion of subscription rights according to Section 186 (3) sentence 4), to fulfil obligations resulting from conversion and option rights or profit participation rights or income bonds.

Further details can be found in sec. 5 of the Articles of Associations.

#### Conditional capital

The capital stock was conditionally increased by up to EUR 12,505,000.00 by issuing up to 12,505,000 new registered, no-par-value shares with dividend rights from the beginning of the financial year in which they were issued (conditional capital 2011). With the approval of the Supervisory Board, the Management Board is authorised to issue bonds with warrants or convertible bonds and convertible profit participation rights one or more times until the end of 5 April 2016 and to grant the bondholders or creditors of the bonds conversion or option rights to up to 12,505,000 new shares in NORMA Group AG with a proportional share of the capital stock of up to EUR 12,505,000.00.

The purpose of the conditional capital increase is to grant shares to the holders or creditors of bonds with warrants or convertible bonds and profit participation rights with warrants or conversion rights which are issued by the Company or any company in which the Company owns a majority interest or which depends on the Company by the end of 5 April 2016 in accordance with the resolution of the Annual General Meeting on 6 April 2011. The conditional capital increase is only carried out to the extent that holders of the aforementioned bonds with warrants or convertible bonds or profit participation rights with option or conversion rights exercise these options or conversion rights, or conversion obligations arising from such bonds are fulfilled and that the Company's own shares or new shares from the authorised capital are used for this purpose.

#### Authorisation to acquire treasury shares

The Annual General Meeting of 6 April 2011 authorised NORMA Group AG to acquire treasury shares up to a total of 10% of the capital stock existing at the time the resolution was passed via the stock market or a purchase offer that is made available to all of NORMA Group AG's shareholders in accordance with Section 71 (1) (8) AktG. This authorisation may be exercised as a whole or in partial amounts on one or several occasions until 5 April 2016. The acquisition price (excluding incidental costs) may not deviate by more than 10% from the arithmetic average of the closing price of the shares of NORMA Group AG in XETRA trading or a successor system of the Frankfurt Stock Exchange over the five trading days immediately before the acquisition or the assumption of an obligation to acquire shares via the stock market or the publication of a public offer.

The authorisation may be exercised for any purpose permitted by law. The Management Board is authorised to recall all or part of the acquired shares with the approval of the Supervisory Board. The Management Board may require the shares to be recalled without a capital decrease, but is under no obligation to do so. Other than selling them on the stock market or offering them to all shareholders while partially or completely excluding subscription rights, the Management Board is also specifically authorised to use shares acquired on the basis of the aforementioned authorisation for any of the following purposes with the approval of the Supervisory Board: to exclude fractional shares resulting from the subscription ratio from the subscription rights of shareholders, for sale in return for a non-cash contribution, in

particular as part of the acquisition of the company, for sale in return for cash contributions, provided the price is not significantly lower than the stock market price (simplified exclusion of subscription rights according to Section 186 (3) (4) and Section 71 (1) (8) (5) (2) of the German Stock Corporation Act, limited to a maximum of 10% of capital stock), to fulfil obligations resulting from conversion and option rights or conversion obligations.

The Management Board of NORMA Group AG has yet to make use of this authorisation.

#### Cancellation of authorised capital

The Annual General Meeting of 6 April 2011 passed a resolution to cancel the authorised capital that was created as part of NORMA Group GmbH's transition to NORMA Group AG on 9 March 2011.

#### **Sec. 289 (4) / sec. 315 (4) no. 8 HGB**

NORMA Group AG has no material agreements that take effect in the event of a change of control following a takeover bid.

#### **Sec. 289 (4) / sec. 315 (4) no. 9 HGB**

NORMA Group AG has no agreements in place that provide compensation for members of the Management Board or employees in the event of a takeover bid. Please see the remuneration report for further details.

## **2. Internal control and risk management system**

The risk management of the company is broadly described in the annual management report and the consolidated management report of the company. The main characteristics of the accounting-related internal control system and risk management system can be described as follows:

The relationship between the internal control and risk management system and NORMA Group's accounting and external financial reporting can be described by using the following main characteristics. The purpose of this system is to identify, analyse, evaluate and control risks as well as monitor these activities. The Management Board is responsible for making sure that this system meets the specific requirements of the company. According to the way that responsibilities are distributed within the company, the CFO is responsible for our Finance and Investment Management divisions, which are, in turn, responsible for accounting. These divisions define and monitor the Group-wide accounting standards within the Group and compile the information used to produce the consolidated financial statements. The need to provide accurate and complete information within predefined time frames represents a significant risk for the accounting process. Because of this, requirements must be clearly communicated. The divisions affected must also be put in a position to meet these requirements.

The purpose of the internal control system of the accounting process is designed to ensure that consolidated financial statements are drawn up in line with regulations as far as possible, despite the risks identified in the financial reporting process. The Internal Audit division reviews the accounting processes on a regular basis to ensure that the internal control and risk management system is effective. Internal audit measures are also assigned to specialised auditors in order to guarantee their quality. The external auditor also audits selected internal controls as part of the year-end audit of the financial statements and assesses how effective they are.

The IFRS accounting system is defined in an accounting manual. All companies in the Group must base their accounting processes on the standards described in the accounting manual. The accounting manual contains binding definitions of important measurement methods, such as those used in the measurement of inventories, tools and receivables according to IFRS. The Group also has system-supported reporting mechanisms to ensure that identical situations are handled in a standardised way across the Group.

The consolidated financial statements and Group management report are prepared in accordance with a single time schedule for all companies. Each company in the Group prepares their individual financial statements in accordance with the applicable local accounting guidelines and IFRS. Intra-Group settlement accounts are balanced using balance confirmations. The companies in the Group use the COGNOS reporting system for reporting. This system contains both financial data and information that is particularly useful for the disclosures made in the notes to the consolidated financial statements. The data and disclosures are audited by local auditors before being submitted and consolidated.

Local financial accounting uses a variety of different systems. We intend to standardise this in the future and have already begun implementing the process.

All systems have tiered access authorisation systems. The type and design of these access authorisations and authorisation policies are decided by local management in coordination with the Head of IT for NORMA Group Holding GmbH.

Booking transactions too early or too late or failing to comply with accounting regulations are some situations which can result in risks that could potentially affect the accounting process. In order to avoid errors, the accounting process is based on the separation of responsibilities and plausibility checks for reporting. Calculations are monitored on a continuous basis. A number of comprehensive and detailed checklists must be worked through and checked before each completion date. The accounting process is fully integrated into the risk management system of NORMA Group. This ensures that accounting risks are recognised ahead of time, allowing us to implement risk provisioning and prevention measures without delay.

Maintal, March 2012

NORMA Group AG

**Management Board**