

Report of the Management Board on agenda item 14 (resolution on the granting of new authority to issue convertible or warrant bonds, participation rights and/or participation bonds (or combinations of these instruments) with the option to exclude subscription rights, create a new Contingent Capital 2020, revoke the existing authority to issue convertible and warranty bonds, cancel the existing Contingent Capital 2017/II and amend the Articles of Association accordingly)

Under agenda item 14 at the general meeting on October 7, 2020, the Management Board and Supervisory Board propose the revocation of the existing authority to issue convertible and/or warrant bonds and/or participation rights with conversion or option rights (or a combination of these instruments; hereinafter referred to collectively as “**Bonds**”) and the cancellation of the Contingent Capital 2017/II, as well as the granting of a new authorisation and the creation of a new Contingent Capital 2020. In accordance with Section 221 para. 4 sentence 2 AktG in conjunction with Section 186 para. 4 sentence 2 AktG, for agenda item 15, the Management Board submits to the general meeting this report on the reasons for the authorisation to exclude the subscription rights of shareholders when issuing new Bonds:

By resolution of the general meeting on November 22, 2017 and with the approval of the Supervisory Board, the Management Board was authorised to issue Bonds by November 21, 2022, at once or in stages, with a total nominal amount of up to EUR 750,000,000.00 and with or without limited terms. An Authorised Capital 2017/II of EUR 20,405,764.00 was created in order to service such instruments (Article 7 of the Articles of Association).

The existing authority to issue Bonds makes it possible to issue Bonds to the exclusion of subscription rights and with rights to shares to which a proportionate amount of the share capital of less than 10% in total is attributable, both when the authorisation takes effect and when it is exercised.

In order for the company to still be able to issue Bonds where necessary after November 21, 2022 (including issues to the exclusion of subscription rights) and deposit them with shares in order to serve the resulting option or conversion rights, the Management Board and Supervisory Board consider it practical to rescind the existing authorisation to issue Bonds and cancel the existing Authorised Capital 2017/II replace them with a new authorisation and a new Authorised Capital 2020.

In order to be able to use the full range of potential capital market instruments which securitise conversion or option rights, it seems appropriate to set the admissible issue volume in the authorisation at EUR 750,000,000.00. The contingent capital which serves to satisfy conversion or option rights or obligations should be EUR 44,829,000.00. This ensures that the authorisation can be used to its full extent. The number of shares required to serve conversion or option rights or obligations or provide shares in lieu of the payable monetary amount resulting from a Bond with a certain issue volume is normally dependent on the share price of the company's shares at the time the Bond is issued. If sufficient contingent capital is available, the authorisation can be used to its full extent to issue Bonds.

Adequate capitalisation is a key factor in the development of the company. Depending on the situation in the market, the company can issue convertible and warrant bonds in order to make use of attractive financing opportunities to secure capital for the company with low current interest rates. By issuing participation rights with conversion or option rights, for example, the interest can even be based on the current dividends of the company. The company benefits from the conversion and option premiums upon the issue. Practical experience has shown that certain financial instruments can only be issued after conversion or option rights have been granted.

When Bonds are issued, the shareholders must generally be granted subscription rights (Section 221 para. 4 AktG in conjunction with Section 186 para. 1 AktG). The Management Board can opt to issue Bonds to one or more credit institutions along with the duty to offer them to the shareholders for subscription (an indirect subscription right in the sense of Section 186 para. 5 AktG). This does not restrict the subscription rights of the shareholders. The shareholders are merely granted the same subscription rights as for a direct acquisition. For technical reasons, only one or more credit institutions will be involved in the process.

However, the Management Board should be authorised to exclude subscription rights in specific cases, subject to the approval of the Supervisory Board:

- a) The Management Board should 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 make it easier to issue shares where the shareholders generally have subscription rights because a technically feasible subscription ratio can then be achieved. The value of the fractional amounts per shareholder is normally low, for which reason the potential dilution effect is also considered low. In contrast, significantly more work is involved in a share issue without such an exclusion. Therefore, the exclusion is for the sake of practicality and in order to facilitate a share issue. For these reasons, the Management Board and Supervisory Board consider the potential exclusion of subscription rights objectively justified and reasonable with consideration for the interests of the shareholders.

- b) Furthermore, the Management Board should be authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders in order to grant subscription rights to the holders of Bonds to which they would be entitled upon exercising the option or conversion rights or fulfilling the conversion or option obligations; This makes it possible to grant subscription rights to the holders of Bonds that have already been issued or will be issued by this point as dilution protection in lieu of a reduction in the conversion or warrant exercise price. It is consistent with standard market practice to attach such dilution protection to Bonds.
- c) Furthermore, in application of Section 186 para. 3 sentence 4 AktG, the Management Board should be authorised, with the approval of the Supervisory Board, to exclude these subscription rights when Bonds are issued in exchange for cash contributions if the issue price of the Bonds is not significantly lower than their market value. This can be prudent in order to make quick use of favourable stock market situations and issue a Bond at attractive rates both quickly and flexibly. As the stock markets can be volatile, generating the most advantageous proceeds from an issue is often highly dependent on whether or not the company is able to respond quickly to market developments. Favourable rates that are as near to the market as possible can normally only be set if the company is not bound to them for an excessively long tender period. With regard to the issuance of subscription rights, a significant deduction is normally necessary as a margin of safety in order to ensure that the issue has a chance at being successful throughout the tender period. Section 186 para. 2 AktG does permit the publication of the issue price (and therefore the conditions of the bond in the case of convertible and warrant bonds) up to three days prior to the expiry of the subscription period. Given the volatility of the stock markets, however, there is then a market risk for several days which leads to deductions as margins of safety when the conditions of the bonds are set. With regard to the granting of subscription rights, an alternative placement with third parties is difficult due to the uncertainty as to whether they will be exercised (subscriber behaviour) and would involve additional costs. Ultimately, when granting subscription rights, the company cannot respond to changing market conditions at short notice due to the length of the subscription period; this can result in the company needing to obtain capital at less favourable rates.

The interests of the shareholders are protected by the fact that the Bonds cannot be issued at significantly below market value. The market value must be calculated using recognised financial methods. When setting prices with consideration for the situation in the capital market, the Management Board shall keep the deduction from the market value as low as possible. As such, the theoretical value of a subscription right shall be so low that the

shareholders will not suffer any significant economic disadvantage from the exclusion of subscription rights.

The Management Board can also carry out book building in order to set competitive rates and in turn avoid any significant dilution of value. In this process, investors are asked to submit bids on the basis of preliminary bond conditions and, for example, specify the interest rate and/or other economic components they consider competitive for the market. After the end of the book-building period, the conditions (e.g. the interest rate) that have not yet been finalised are set competitively on the basis of supply and demand using the bids submitted by the investors. This method determines the total value of the Bonds in the market. By means of book building, the Management Board can ensure that the value of the shares does not suffer any significant dilution due to the exclusion of subscription rights.

Additionally, the shareholders have the option to maintain their stake in the share capital of the company at similar rates by acquiring shares on the stock exchange. This serves their financial interests adequately. The authority to exclude subscription rights pursuant to Section 221 para. 4 sentence 2 AktG in conjunction with Section 186 para. 3 sentence 4 AktG only applies to Bonds with rights to shares to which a proportionate amount of the share capital of less than 10% in total is attributable, both when the authorisation takes effect and when it is exercised.

The disposal of treasury shares must be counted towards the 10% limit if it takes place during the term of this authorisation and to the exclusion of subscription rights, pursuant to Section 71 para. 1 no. 8 sentence 5 clause 2 AktG in conjunction with Section 186 para. 3 sentence 4 AktG. Furthermore, shares must be counted towards this limit if they have been issued from authorised capital during the term of this authorisation and to the exclusion of subscription rights pursuant to Section 203 para. 2 sentence 1 AktG in conjunction with Section 186 para. 3 sentence 4 AktG. Counting them in this way takes the shareholders' interest in minimising the dilution of their stakes into consideration.

- d) Bonds can also be issued in exchange for contributions in kind if this is in the interest of the company. In this case, the Management Board is authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders if the value of the contribution in kind is reasonably proportionate to the theoretical market value of the Bonds that must be calculated using recognised financial methods. This makes it possible to use Bonds as consideration as part of acquisitions in suitable individual cases (e.g. in connection with the acquisition of companies, interests in companies or other assets). Practical experience has shown that, during negotiations, it is often necessary to offer not

cash, but rather also or exclusively other forms of consideration. The option of offering Bonds as consideration will strengthen the position of the company when it competes to acquire interesting properties and provide more leeway to seize opportunities to acquire companies, interests in companies or other assets without compromising liquidity, even on a larger scale. Such an approach can also be considered prudent with regard to an optimised financial structure. In every individual case, the Management Board shall examine carefully whether or not to exercise its authority to issue Bonds in exchange for contributions in kind, to the exclusion of subscription rights. It shall only proceed if doing so is in the interest of the company and therefore in the interest of the shareholders.

Where participation rights or participation bonds are to be issued without conversion or option rights or obligations, the Management Board is authorised, with the approval of the Supervisory Board, to exclude the subscription rights of shareholders overall if the participation rights or participation bonds are similar to obligations (i.e. if they do not establish membership rights in the company, do not grant participation in liquidation proceeds and the amount of interest is not calculated on the basis of the net income for the year, net retained profit or dividend). It is also necessary that the interest and par value of the participation rights or participation bonds are consistent with the prevailing market rates for similar issues on the date of issue. If these criteria have been met, the exclusion of subscription rights will not lead to any disadvantages for the shareholders as the participation rights or participation bonds do not establish any membership rights and do not grant rights to a share of liquidation proceeds or the company's profit. The interest can, however, be made contingent on the existence of net income for the year, net retained profit or a dividend. However, a provision would not be permissible if it caused higher net income for the year, higher net retained profit or a higher dividend to lead to an increase in interest. Therefore, the issuance of participation rights or participation bonds shall not change or dilute the voting rights or the shareholders' stake in the company and its profit. Additionally, there can be no significant subscription right value due to the competitive conditions of issue that are mandatory for this case in which subscription rights are excluded.

The purpose of the proposed contingent capital is to satisfy conversion or option rights or obligations to share of the company resulting from Bonds or provide the holders of Bonds with shares of the company in lieu of payment of the mature monetary amount. Additionally, the conversion or option rights or obligations can alternatively be served by providing treasury shares, shares from authorised capital or other considerations.

If, during a financial year, the Management Board exercises one of the above authorisations to exclude subscription rights as part of an issue of Bonds, it shall report on this matter to the next general meeting.

Berlin, August 2020

TLG IMMOBILIEN AG

The Management Board