



**Management Board report on the partial utilization of the Authorized Capital 2014/II against contributions in kind with the exclusion of shareholders' subscription rights in October 2017**

On June 27, 2017, the Company submitted a takeover offer in the form of a swap offer (the “**Takeover Offer**“) to the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, a corporation under German law, seated in Frankfurt am Main and registered under HRB 55695, in accordance with Sections 29 et seq. of the German Securities Acquisition and Takeover Act (Wertpapiererwerbs- und Übernahmegesetz, hereinafter: WpÜG) to acquire all of the shares held by them in WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, each with a nominal value of EUR 1,00 [the “**WCM-Shares**”]. Through the Takeover Offer, the Company offered each shareholder of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft to receive 4 new no-par value bearer shares in Company, each with a calculated stake in the share capital of the Company of EUR 1,00 EUR, in return for every 23 submitted WCM-Shares.

For the purpose of the execution of the Takeover Offer, the Management Board resolved in resolutions of May 10, 2017 and October 4, 2017 to increase the Company's share capital from EUR 74.175.558,00 by EUR 20.435.708,00 against contributions in kind to EUR 94.611.266,00 by issuing 20.435.708 new no-par value bearer shares from the Authorized Capital 2014/II with a pro rata amount of the share capital of EUR 1,00 per share and an issue price of EUR 1,00 per non-par value share and a profit participation right as of January 1, 2017 (the “**New Shares**“) with the exclusion of shareholders subscription rights (the “**Takeover Capital Increase**“). The Supervisory Board of the Company approved the Takeover Capital Increase by its resolutions of May 10, 2017 and October 4, 2017.

The execution of the Takeover Capital Increase was entered into the commercial register on October 5, 2017, and the share capital of the Company was increased from EUR 74.175.558,00 by EUR 20.435.708,00 to the current share capital in an amount of EUR 94.611.266,00.

UBS Europe SE, Opernturm, Bockenheimer Landstraße 2-4, 60306 Frankfurt am Main (telefax: +49 69 21798896), in its function as settlement agent and exchange trustee for the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft accepting the Takeover Offer (the “**Exchange Trustee**“) subscribed the 20.435.708 New Shares at the issue price of EUR 1,00 per non-par value share (i.e. in sum EUR 20.435.708,00) against contributions in kind.

Contributions in kind on the New Shares in connection with the Takeover Capital Increase were rendered by the contribution of 117.435.708 WCM-Shares, which were transferred to the Exchange Trustee on behalf of the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft. According to a contribution agreement concluded on October 4, 2017, the Exchange Trustee transferred the WCM-Shares to be contributed as contribution in kind to the Company upon the registration of the Takeover Capital Increase.

On the basis of the Company's consideration of 4 New Shares of the Company for each 23 WCM-Shares, an offer consideration of about 0,174 New Shares for each WCM-Share (equals  $4/23^{\text{rd}}$  rounded) is calculated.

If the consideration consists of shares (as it is the case here), Section 31 paras. 1, 2 and 7 WpÜG, in conjunction with Sections 7, 5 paras. 1 and 3 of the German regulation on the contents of offer documents, the consideration related to takeover bids and mandatory offers and exemptions from the obligation to publish and to make an offer (*Verordnung über den Inhalt der Angebotsunterlage, die Gegenleistung bei Übernahmeangeboten und Pflichtangeboten und die Befreiung von der Verpflichtung zur Veröffentlichung und zur Abgabe eines Angebots*, hereinafter: WpÜG-Angebotsverordnung), stipulates that the value of the offered shares which is required to determine the minimum consideration must be ascertained on the basis of the three-months average market price. According to a communication from the Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin) to the Company of May 17, 2017, the three-month average market price of a share of the Company on the reference day, May 9, 2017, amounted to EUR 18,13.

The three-month average market of a share of the Company of EUR 18,13 multiplied by the fractional amount of roundly 0,174 (equals  $4/23^{\text{rd}}$  rounded) of shares which is offered as offer consideration accounts for roundly EUR 3,15 per share. Thus, the value of the offer consideration of 0,174 (equals  $4/23^{\text{rd}}$  rounded) New Shares which is to be calculated in accordance with Section 31 paras. 1, 2 and 7 WpÜG, in conjunction with Sections 7, 5 paras. 1 and 3 WpÜG-Angebotsverordnung, accounts for roundly EUR 3,15 per WCM-Share.

BaFin on May 17, 2017 notified the Company that the three-month average market price of the WCM-Shares accounted for EUR 3,03 per WCM-Share on the reference day, May 9, 2017. The offered consideration of EUR 3,15 per WCM-Share, thus, contains a premium of roundly EUR 0,12 or roundly 4,06 % in addition to the three-month average market price of the EUR 3,03 of the WCM-Shares.

The Company has ascertained the offer consideration on the basis of the historical development of the market price of the WCM-Shares. The market price is a widely accepted basis for the determination of the adequacy of the consideration for listed shares.

WCM-Shares are admitted to trading on the regulated market of the Frankfurt Stock Exchange and in the sub-section of the regulated market with additional post-admission obligations (Prime Standard) as well as at the stock exchanges in Hamburg and Stuttgart. Prior to the setting of the offer consideration, WCM-Shares were listed in the SDAX, CDAX, DIMAX and FTSE EPRA/NAREIT Developed Europe and showed a functioning stock trading with a significant free float as well as adequate trading activities and volumes.

Prior to the relevant adoption of the resolution on the utilization of the Authorized Capital 2014/II, the Management Board and the Supervisory Board conducted intensive examination concerning the adequacy of the consideration for the issuance of the New Shares.

In the opinion of the Management Board and the Supervisory Board, the premium rendered in addition to the mandatory minimum market price was adequate in order to ensure a reasonable transactional security and was made considering the economical results of the transaction expected for the setting of the offer consideration:

- The transaction strengthens the position of TLG at the already existing portfolio locations Berlin, Dresden, Leipzig and Frankfurt am Main. The properties of the WCM-Group are likewise generally situated in attractive locations and thus fit well the existing portfolio of TLG. At the same time, TLG expands its portfolio with respect to Western Germany's growth markets and reinforces its regional presence in the Rhine-Main area by taking over WCM's offices in Frankfurt am Main.
- TLG maintains its balanced portfolio structure as part of the acquisition of the WCM-Group with a focus on office and retail properties offering an attractive combination of return, stable cash flows and value enhancement potential. The portion of office properties of the company emerging from the execution of the takeover offer will account for roundly 45 % while the portion of retail properties will account for roundly 44 % of the entire portfolio value. This combined company has a net base rent return of 6,7 % and offers additional value enhancement potential. Furthermore, it will be characterized by a German market-leading weighted average lease term (WALT) of 6,6 years and an EPRA vacancy quota of merely 3,7 % (based on the financial information published in the

quarterly financial report of the Company as of March 31, 2017, and in the WCM-Group quarterly report for the three-month period ending on March 31, 2017).

- The successful execution of the takeover offer will accelerate the expansion of TLG's established business model on a Germany-wide basis. Based on the portfolio and the existing platform of the WCM-Group, the local penetration of the market in Western Germany will be reinforced, serving as a catalyzer for the intended portfolio growth. The Germany-wide acquisition pipeline of the company emerging from the execution of the takeover offer will consist of properties in all strategic asset classes in attractive locations and is believed to enable TLG to rapidly promote growth in Western Germany. The established acquisition competences of TLG and WCM as well as TLG's access to growth capital enables this combined company to realize further continuous portfolio growth throughout Germany in accordance with TLG's existing acquisition criteria.
- The successful execution of the takeover offer will in addition allow for the realization of cost synergies which will presumably account for EUR 5 million per annum after complete integration. These synergies can be achieved, in particular, by anticipated reductions of administrative costs as well as from improvements and efficiency increases regarding computing systems. Furthermore, flexibility and efficiency regarding the financing of the company emerging from the execution of the takeover offer will increase in the medium term. Apart from that, additional revenue synergies are anticipated due to increased acquisition capacities of the combined company whereby this company will benefit from WCM's existing tax loss carryovers in future acquisitions.
- The structure of this takeover offer as a purely share-based swap offer allows TLG to maintain the defensive balance-sheet profile with a conservative net debt ratio also for the company emerging from the execution of the takeover offer. The financing structure will continue to have a balanced maturity profile with an attractive term and low average interest costs.

The fact, that the market price of the shares of the Company has increased between the setting of the offer consideration and the issuance of the New Shares, equally leading to an increase of the consideration for the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, does not affect the original adequacy of the consideration and the justification for the exclusion of shareholders' subscription rights as the relevant point of time for setting the offer consideration is the last relevant administrative decision on May 10, 2017.

It follows from the above considerations that the exclusion of subscription rights, partially utilizing the Authorized Capital 2014/II and exercised in accordance with the provisions thereof, was altogether objectively justified.

Berlin, October 2017

TLG IMMOBILIEN AG  
The Management Board