Management Board Report on Agenda Item 2 (passing of a resolution on the creation of new Authorized Capital 2017/II with the possibility of excluding subscription rights, and the cancellation of the existing Authorized Capital, and the corresponding amendment to the Articles of Association)

With regard to Agenda Item 2 of the General Meeting on November 22, 2017, the Management Board and the Supervisory Board propose to cancel the existing Authorized Capital 2017 and replace it with a new authorized capital 2017 (Authorized Capital 2017/II). Pursuant to Section 203 para. 2 sentence 2, in conjunction with Section 186 para. 4 sentence 2 AktG, the Management Board is providing this report on Agenda Item 2 concerning the reasons for authorizing the exclusion of shareholders' subscription rights when issuing new shares:

By means of the resolution of the General Meeting of October 22, 2014, the Management Board was authorized, with the consent of the Supervisory Board, to increase the share capital of the Company, on one or several occasions during the period until October 21, 2019, by up to EUR 30.651.163,00 by issuing up to 30.651.163 new, no-par value bearer shares in return for contributions in cash and/or in kind (Authorized Capital 2014/II).

Partially utilizing this authorization, the Company in November 2015 increased its share capital against contributions in cash by EUR 6.130.00,00. In addition, the Company increased its share capital in October 2017 in the course of the execution of the takeover offer to the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft for all shares of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft by EUR 20.435.708,00 against contributions in kind in the form of shares of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft tendered by the shareholders of WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft. Therefore, the Authorized Capital 2014/II currently amounts to EUR 4.085.455,00.

The Management Board was also authorized by resolution of the General Meeting of May 23, 2017, with the consent of the Supervisory Board, to increase the share capital of the Company, once or several times during the period until May 22, 2022, by up to EUR 12.566.616,00 by issuing up to 12.566.616 new, no-par value bearer shares in return for contributions in cash (Authorized Capital 2017). The existing Authorized Capital 2017 provides exclusively for the possibility to issue new shares against contributions in cash and is not yet adjusted to the share capital existing after the execution of the takeover offer for all shares of WCM Beteligungs- und Grundbesitz-Aktiengesellschaft in October 2017.

In order for the Company to remain flexible in the future to increase its equity capital in return for contributions in cash and/or in kind when necessary, the Authorized Capital 2014/II as well as the Authorized Capital 2017 are to be canceled and a new Authorized Capital 2017/II is to be resolved. The new Authorized Capital shall authorize the Management Board, with the consent of the Supervisory Board, to increase the Company's share capital, on one or several occasions during the period until November 21, 2022, by up to EUR 47.305.633,00 by issuing up to 47.305.633 new no-par value bearer shares in return for contributions in cash and/or in kind (Authorized Capital 2017/II).

The new Authorized Capital 2017/II shall offer flexibility to the Company through the possibility of the issuance of new shares in return for contributions in cash with the exclusion of subscription rights pursuant to Section 186 para. 3 sentence 4 AktG, provided that the pro rata amount of the share capital attributable to the new shares excluded from subscription rights does not exceed 10% of the Company's share capital at the date on which the authorization becomes effective or at the date on which such authorization is exercised. Apart from that, it shall enable the Company to utilize attractive investment opportunities by providing the ability to exclude subscription rights in the issuance of shares against contributions in kind, provided that during the term of the Authorized Capital 2017/II the total pro rata amount of the share capital attributable to the new shares excluded from subscription rights does not exceed 20% of the Company's share capital at the date of effectiveness or at the date of exercise of such authorization. By creating the new Authorized Capital 2017/II the Company gains the necessary flexibility to continue implementing its concept of growth which it has successfully been pursuing since its initial public offering.

The Authorized Capital 2017/II will enable the Company to continue to raise the capital it needs for its further development on the capital markets in the short term by issuing new shares, and to be flexible enough to benefit promptly from a market environment favorable for covering future financing requirements. As decisions regarding the coverage of any future capital requirements generally have to be taken at short notice, it is important that the Company is not dependent on the frequency of the General Meetings or on the long period of notice required for an Extraordinary General Meeting. In designing the instrument of an "Authorized Capital", legislation has taken such needs into account.

Upon utilization of the Authorized Capital 2017/II for the issuance of shares against contributions in cash, shareholders shall have subscription rights in principle (Section 203 para. 1 sentence 1, in conjunction with Section 186 para. 1 AktG), although indirect subscription rights within the meaning of Section 186 para. 5 AktG shall also suffice. According to the law, the issuance of shares with the granting of such an indirect subscription right is not deemed to be an exclusion of subscription rights. Shareholders are ultimately granted the same subscription rights as in case of a direct subscription. For technical settlement-related reasons, only one or several credit institutions are involved in the settlement. The Management Board shall, however, with the consent of the Supervisory Board, be able to exclude subscription rights in certain cases:

(i) The Management Board shall, with the consent of the Supervisory Board, be able to exclude subscription rights for fractional amounts. The aim of this exclusion of subscription rights is to simplify the process of issuing new shares with general shareholders' subscription rights, as this makes a technically feasible subscription ratio possible. The value of the fractional amount for each shareholder is usually low; therefore, the potential dilutive effect is likewise considered to be low. On the other hand, the cost of issuing shares without such exclusion is significantly higher. The exclusion therefore serves to ensure that an issuance is practical and easier to carry out. The fractions of new shares excluded from the shareholders' subscription rights will be realized either by sale on a stock exchange or in any other manner so as to best further the Company's interests. For these reasons, the Management Board and the Supervisory Board deem the potential exclusion of subscription rights as objectively justified and reasonable in consideration of shareholder interests.

(ii) The Management Board shall, with the consent of the Supervisory board, also be able to exclude subscription rights to the extent necessary to provide holders or creditors of convertible bonds, bonds with warrants, participation rights and/or participating bonds (or combinations of these instruments) ("**bonds**") with subscription rights to new shares. The terms and conditions of issuance for bonds with conversion or option rights, or conversion or option obligations, regularly contain a dilution protection provison, which grants the holders or creditors a subscription right to new shares in the event of subsequent share issuances and certain other measures. They will thus be treated as though they were already shareholders. In order to be able to provide bonds with such dilution protection, shareholders' subscription rights must be excluded from these shares. This facilitates the placement of the bonds and thus fulfills the shareholders' interests in the Company having an optimal financial structure.

Furthermore, the exclusion of subscription rights in favor of the holders or creditors of bonds offers the advantage that, in the case of the authorization being exercised, the option or conversion price for the holders or creditors of existing bonds does not have to be discounted in accordance with the respective terms and conditions of the bonds.

(iii) Subscription rights can also be excluded in the event of cash capital increases, if the shares are issued at a price that is not significantly lower than the market price and such an increase in capital does not exceed 10% of the share capital (simplified exclusion of subscription rights in accordance with Section 186 para. 3 sentence 4 AktG). The authorization enables the Company to respond flexibly to any favorable capital market situations that arise and to flexibly place new shares at very short notice (i.e. without having to offer subscriptions for at least two weeks). The exclusion of subscription rights allows for an extremely quick response and placement close to the market price and therefore avoids the usual discount for issuing subscriptions. This lays the foundations for achieving the highest possible disposal amount and for increasing equity as much as possible. The authorization for the simplified exclusion of subscription rights is objectively justified not least by the fact that often an increased cash inflow can be generated.

Such a capital increase must not exceed 10% of the share capital that exists at the date on which the authorization becomes effective or at the date on which it is exercised. The resolution proposal also provides for a deduction clause. The restriction to a maximum of 10% of the share capital, to which this exclusion of subscription rights relates, shall include shares that were issued to service bonds with conversion or option rights, or conversion or option obligations, pursuant to Section 221 para. 4 sentence 2, in conjunction with Section 186 para. 3 sentence 4 AktG, during the term of this authorization with the exclusion of subscription rights, or which are to be issued based on the conversion price prevailing at the time of the resolution of the Management Board concerning the utilization of the Authorized Capital 2017/II, insofar as these bonds were issued, as specified by Section 186 para. 3 sentence 4 AktG, during the term of this authorization with the exclusion of subscription rights. The sale of treasury shares shall also be included, insofar as they are sold during the term of this authorization based on an authorization pursuant to Section 71 para. 1 No. 8 sentence 5 clause 2, in conjunction with Section 186 para. 3 sentence 4 AktG, with the exclusion of subscription rights.

The simplified exclusion of subscription rights strictly requires that the issue price of the new shares is not significantly lower than the market price. Any discount on the prevailing market price or the volume-weighted market price during an appropriate period prior to the final fixing of the issue amount shall, with the exception of special circumstances in individual cases, presumably be no more than approx. 5% of the relevant market price. This also takes into account the shareholders' protection requirement in terms of a dilution of the value of their shareholding. Fixing the issue price close to the market price of the shares of the Company ensures that the value a subscription right to the new shares would have is effectively very low. In addition, shareholders have the option to maintain their relative shareholding by acquiring the requisite number of shares on the stock exchange.

(iv) Subscription rights can also be excluded for capital increases against contributions in kind. The Company should also be able to continue to make acquisitions, in particular of companies, parts of companies, participations, or other assets (in particular real estate portfolios and shares in real estate companies), or respond to acquisition and merger offers, in order to strengthen its competitiveness and increase the profitability and value of the Company. Furthermore, the exclusion of subscription rights shall also be used to service conversion or option rights, or conversion or option obligations, arising from bonds issued against contributions in kind.

Experience shows that shareholders of attractive acquisition targets will sometimes have a strong interest – e.g. in order to maintain a certain influence over the contribution in kind – in acquiring no-par value shares in the Company as compensation. The option to use other means of payment, rather than just cash, but also shares, or exclusively shares, also has the advantage – from the perspective of achieving an optimum financing structure – of protecting the Company's liquidity and avoiding borrowing to the extent that new shares can be used as acquisition currency, and allowing the seller to participate in future share performance. This results in an improvement in the Company's competitive position in terms of acquisitions.

The option to use Company shares as acquisition currency thus gives the Company the necessary scope to seize such acquisition opportunities quickly and flexibly, and allows the Company to acquire even larger entities, portfolios, or assets in return for shares. In both cases, it must be possible to exclude shareholders' subscription rights. Given that such acquisitions often have to be made at short notice, it is important that these decisions are not generally resolved at General Meetings which are held only once a year. This requires an authorized capital which the Management Board is able to access quickly with the consent of the Supervisory Board.

The same applies to the servicing of conversion or option rights, or conversion or option obligations, arising from bonds, which are likewise issued for the purpose of acquiring companies, parts of companies, participations in companies, or other assets, with the exclusion of shareholders' subscription rights. New shares are issued in return for contributions in kind, either in the form of the bond to be provided or in the form of the contribution in kind made on the bond. This increases the Company's flexibility with respect to servicing the conversion or option rights, or conversion or option obligations. Offering bonds instead of, or in addition to granting shares or cash contributions can be an attractive alternative which increases the Company's competitive position in terms of acquisitions due to the additional flexibility. The shareholders are protected by the subscription right allocated to them upon the issuance of the bonds with conversion or option rights, or conversion or option obligations.

When opportunities arise to merge with other companies or to acquire companies, parts of companies, participations in companies, or other assets, the Management Board will carefully check in each case whether it should make use of the authorization to increase capital by granting new shares. This also includes, in particular, reviewing the valuation ratio between the company and the investment made in the company or other assets as well as the setting of the issue price for new shares and the other terms of share issuance. The Management Board will use the new Authorized Capital 2017/II only if it is confident that the merger with or acquisition of the company or part of the company or the acquisition of a shareholding in return for the granting of new shares is in the best interests of the Company and its shareholders. The Supervisory Board shall only grant its required consent if it is of the same opinion.

The aforementioned authorizations for excluding subscription rights may not, in sum, exceed 20% of the share capital at the date on which the authorization becomes effective or at the date on which such authorization is exercised. This 20% limit shall also include treasury shares sold during the term of this authorization with the exclusion of subscription rights as well as those shares issued during the term of this authorization from authorized capital with the exclusion of shareholders’ subscription rights. Furthermore, the above-mentioned 20% restriction shall also include those shares issued from conditional capital to service stock option rights, provided that the stock option rights are granted during the term of this authorization. This restriction also limits any potential dilution of voting rights of shareholders excluded from subscription rights. In consideration of all of these circumstances, the authorization to exclude subscription rights within the outlined limits is necessary, commensurate, appropriate and in the interest of the Company.

If, during the course of a financial year, the Management Board exercises one of the aforementioned authorizations to exclude subscription rights as part of a capital increase from the Authorized Capital 2017/II, the Management Board will report on this matter at the next General Meeting.

Berlin, October 2017

TLG IMMOBILIEN AG
The Management Board