Management Board Report on Agenda Item 3 (passing of a resolution on the granting of a new authorization to issue convertible bonds, options with warrants, participation rights and/or participating bonds (or combinations of these instruments), with the possibility to exclude subscription rights; creation of a new Conditional Capital 2017/II, cancellation of the existing authorization to issue convertible bonds or options with warrants and of the existing Conditional Capital 2017, and corresponding amendment to the Articles of Association)

With regard to Agenda Item 3 of the General Meeting on November 22, 2017, the Management Board and Supervisory Board propose the cancellation of the existing authorizations to issue convertible bonds and/or bonds with warrants and/or participation rights with option or conversion rights (or a combination of these instruments) (hereinafter collectively referred to as "**bonds**") and the existing Conditional Capital 2017 and the creation of a new authorization and new Conditional Capital 2017/II. In accordance with Section 221 para. 4 sentence 2, in conjunction with Section 186 para. 4 sentence 2 AktG, the Management Board is providing this report on Agenda Item 3 of the General Meeting concerning the reasons for authorizing the exclusion of shareholders' subscription rights when issuing new bonds:

By means of the resolution of the General Meeting of May 23, 2017, the Management Board was authorized, with the consent of the Supervisory Board, to issue, on one or several occasions in the period until May 22, 2022, bonds in a nominal amount of up to EUR 750.000.000,00 with or without a limitation on maturity. A Conditional Capital in the amount of EUR 37.087.779,00 was created to service the bonds (Section 7 of the Articles of Association).

The existing authorization to issue bonds allows for the issuance of bonds with the exclusion of subscription rights with rights to shares, that represent a pro rata amount of the share capital that does not 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. According to the General Meeting's authorization of May 23, 2017 to issue bonds, this shall include in particular shares issued with the exclusion of subscription rights from authorized capital during the term of the authorization. Due to the Company's capital increase carried out in October 2017 in order to execute of the voluntary public takeover offer for all shares of the WCM Beteiligungs- und Grundbesitz-Aktiengesellschaft, the existing authorization to issue bonds with the exclusion of subscription rights is completely utilized.

The Management Board and the Supervisory Board therefore deem it appropriate to completely cancel the existing authorization to issue bonds as well as the existing Conditional Capital 2017 and to replace them with a new authorization and a new Conditional Capital 2017/II.

In order to be able to make proper use of the spectrum of capital market instruments available to securitize conversion or option rights, it seems appropriate to set the permissible issue volume in the authorization at EUR 1.000.000.000,00. The conditional capital that serves to fulfill the conversion or option rights, or conversion or option obligations, shall amount to EUR 42.305.633,00. This shall ensure that the full scope of this authorization can be utilized. The number of shares necessary to service conversion or option rights, conversion or option obligations, or to grant shares in lieu of the cash amount due from a bond with a certain issue volume, generally depends on the market price of the Company's share at the date of issuance of the bond. When sufficient conditional capital is available, this ensures that full use can be made of the authorization scope for the issuance of bonds.

Adequate capital resources are a basic requirement for the development of the Company. By issuing convertible bonds and bonds with warrants, the Company can exploit attractive financing options, depending on the market situation, to acquire capital at low interest rates. By issuing participation rights carrying conversion or option rights, the interest rate, for example, can also be linked to the Company’s current dividend. The generated conversion and option premiums accrue to the Company upon issuance. Practice shows that some financing instruments can only be placed by way of granting option or conversion rights.

In principle, shareholders shall have subscription rights upon the issuance of bonds (Section 221 para. 4 in conjunction with Section 186 para. 1 AktG). The Management Board may make use of the option to issue bonds to one or several credit institutions with the obligation to offer shareholders the bonds in line with their subscription right (indirect subscription right pursuant to Section 186 para. 5 AktG). This is not a limitation of the subscription rights of shareholders. 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 approval of the Supervisory Board, be able to exclude subscription rights in certain cases:

(i) The Management Board shall, with the approval 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 an exclusion is significantly higher. The exclusion therefore serves to ensure that an issuance is practical and easier to carry out. 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 authorized to exclude shareholders' subscription rights, in order to grant holders or creditors of bonds a subscription right to the extent to which they would have been entitled after exercising their conversion or option rights, or upon fulfillment of their conversion or option obligations. This offers the possibility to offer the holders or creditors of bonds already issued at this point, or bonds that still have to be issued, a subscription right as a means of protection against dilution, instead of a discount on the option or conversion price. It is in line with the market standard to provide bonds with such dilution protection.

(iii) Pursuant to Section 186 para. 3 sentence 4 AktG, the Management Board shall, with the approval of the Supervisory Board, also be authorized to exclude this subscription right for an issuance of bonds against contributions in cash if the issue price of the bonds is not significantly lower than their market value. This may be appropriate in order to be able to quickly exploit favorable stock market situations and place a bond quickly and flexibly on the market at attractive conditions. As the stock markets can be volatile, achieving the most advantageous issuance result possible increasingly depends on the ability to react quickly to market developments. Favorable conditions that are as close to the market as possible can generally only be established if the Company is not tied to these for an excessively long offer period. In case of subscription rights issuances, a significant haircut is usually necessary to ensure the issuance’s chances of success for the entire offer period. Section 186 para. 2 AktG permits publication of the subscription price (and therefore in case of convertible bonds and bonds with warrants the terms and conditions of this bond) up until the third-to-last day of the subscription period; however, in view of the volatility of the stock markets, there is also a market risk for several days, which leads to deductions of safety margins in the setting of bonds’ terms and conditions. In addition, when a subscription right is granted, an alternative placement with third parties is more difficult and/or incurs additional expense due to the uncertainty that the rights will be exercised (subscription behavior). Finally, when granting a subscription right the Company cannot react quickly to a change in market conditions due to the length of the subscription period, and this can lead to the Company raising capital at less favorable conditions.

The interests of the shareholders are protected because the bonds are not issued significantly below the market value. The market value must be calculated in accordance with recognized actuarial principles. When pricing the bond, the Management Board shall keep the discount on the market value as low as possible, taking the prevailing capital market situation into account. This means that the calculated value of a subscription right will be so low that the shareholders will not suffer any material economic disadvantage due to the exclusion of the subscription right.

Setting the conditions in line with the market and therefore avoiding a significant dilution of value can, inter alia, also be achieved if the Management Board carries out a book-building process. In this process, investors are asked to submit purchase applications based on provisional bond terms and conditions, and to specify, for example, the interest rate deemed to be in line with the market and/or other economic components. At the end of the book-building period, the conditions that were previously still pending, such as the interest rate, will be stipulated in accordance with supply and demand on the market on the basis of the purchase applications submitted by investors. This means that the total value of the bonds will be determined in line with the market. The Management Board can therefore, inter alia, use this kind of book- building process to ensure that there will be no significant dilution of the share value as a result of the exclusion of subscription rights.

The shareholders shall also have the opportunity to maintain their share of the Company’s share capital at virtually the same conditions through acquisition on the stock exchange. As a result, their financial interests will be adequately protected. The authorization to exclude subscription rights pursuant to Section 221 para. 4 sentence 2, in conjunction with Section 186 para. 3 sentence 4 AktG, applies only to bonds with rights to shares representing no more than 10 % of the share capital, at the date on which the authorization becomes effective or at the date on which such authorization is exercised.

This 10% restriction shall also include the sale of treasury shares, insofar as they are sold during the term of this authorization with the exclusion of subscription rights pursuant to Section 71 para. 1 No. 8 sentence 5 clause 2, in conjunction with Section 186 para. 3 sentence 4 AktG. This restriction shall also include shares that are issued from authorized capital during the term of this authorization with the exclusion of subscription rights pursuant to Section 203 para. 2 sentence 1, in conjunction with Section 186 para. 3 sentence 4 AktG. Including these shares is in the interests of shareholders, to ensure the smallest possible dilution of their shareholding.

(iv) Bonds may also be issued against contributions in kind, provided that this is in the Company's interests. In such cases, the Management Board shall, with the consent of the Supervisory Board, be authorized to exclude shareholders' subscription rights, provided that the value of the contribution in kind is commensurate with the theoretical market value of the bonds calculated in accordance with recognized actuarial principles. This opens up the possibility to also use bonds as acquisition currency in appropriate individual cases (for example in connection with the acquisition of companies, shares in companies, or other assets). It has been shown in practice that it is frequently necessary to provide the consideration not in cash but also, or exclusively, in another form. The possibility to offer bonds as a consideration therefore creates an advantage in the competition for attractive acquisition targets and provides the necessary scope to exploit opportunities that arise to purchase companies, shares in companies, or other assets, also on a larger scale, while preserving liquidity. This can also be sensible from the perspective of achieving an optimal financing structure. The Management Board shall carefully assess in each individual case whether it will exercise its authorization to issue bonds against contributions in kind with the exclusion of subscription rights. It shall only do this if it is in the interests of the Company and therefore its shareholders.

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. The above-mentioned 20% limit shall also include treasury shares that are sold during the term of this authorization with exclusion of subscription rights as well as those shares that have been issued during the term of this authorization from other authorized capitals with the exclusion of shareholders' subscription rights. In addition, the aforementioned 20% limit shall include those shares that were or are to be issued from conditional capital to service stock option rights, provided that the stock option rights were 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.

Insofar as participation rights or participating bonds bearing no conversion or option rights, or conversion or option obligations, are to be issued, the Management Board shall, with the consent of the Supervisory Board, be authorized to completely exclude shareholders' subscription rights if these participation rights or participating bonds carry similar rights to other bonds (i.e. they do not convey membership rights in the Company, nor do they grant a share in the proceeds of a liquidation, and the rate of interest is not calculated on the basis of net income for the year, net retained profits or the dividend). In addition, the interest rate and the issuing amount of the participation rights or participating bonds must be in line with prevailing market conditions for similar borrowing at the time of issuance. If the above requirements are fulfilled, the exclusion of subscription rights will not have any adverse effects for the shareholders since the participation rights or participating bonds do not convey any entitlement to membership rights, a share in the proceeds of any liquidation, or the Company's profits. Although it is possible to stipulate that the interest yield be dependent on the achievement of a net income for the year, a net retained profit or a dividend, it would not be permissible to create a regulation whereby a higher net income for the year, a higher net retained profit or a higher dividend would result in a higher interest yield. Therefore, the issuance of participation rights or participating bonds shall not change or dilute either the voting rights or the stake of the shareholders in the Company or its profits. In addition, the market-driven issuing conditions, which are mandatory for this case of subscription rights exclusion, do not give rise to any notable subscription right value.

The planned conditional capital serves to fulfill conversion or option rights to shares of the Company, or to fulfill conversion or option obligations, or to grant the creditors or holders of bonds shares in the Company in lieu of payment of the cash amount due. It is also stipulated that conversion or option rights, or conversion or option obligations, may also be serviced instead by the provision of treasury shares or shares from authorized capital, or by other means of compensation.

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 bond issue, the Management Board shall report on this matter at the next General Meeting.

Berlin, October 2017

TLG IMMOBILIEN AG
The Management Board