Report of the Management Board regarding Agenda Point 7 (Resolution regarding the creation of a 2016 Authorised Capital with the option of excluding subscription rights, as well as the corresponding supplement to the Articles of Association)

Concerning Agenda Point 7 of the Annual General Meeting of 31 May 2016, the Management Board and the Supervisory Board propose to create a new authorised capital (2016 Authorised Capital) in addition to the 2014/II Authorised Capital that is partially still unused. Pursuant to Art. 203, para. 2, line 2 in conjunction with Art. 186, para. 4, line 2 AktG, the Management Board, in view of Agenda Point 7 regarding the reasons for authorising the exclusion of the subscription rights of shareholders when new shares are issued, reports to the Annual General Meeting as follows:

By Resolution of the Annual General Meeting of 22 October 2014, with the agreement of the Supervisory Board, the Management Board was authorised to increase the Company's Registered Capital for the period until 21 October 2019 by up to EUR 30,651,163.00 once or several times by issuing up to 30,651,163 bearer shares against cash payment and/or contributions in kind (2014/II Authorised Capital).

Making partial use of this authorisation, the Company increased in November 2015 the Company's Registered Capital against cash payment and excluding the subscription rights of shareholders from EUR 61,302,326.00 by EUR 6,130,000.00, i.e. by approx. 10 %, to EUR 67,432,326.00. Therefore, the 2014/II Authorised Capital currently remains at EUR 24,521,163.00.

The issue of shares against cash payment may only take place excluding subscription rights pursuant to Art. 186, para. 3, line 4 AktG if the pro rata amount of the registered capital due to the new shares issued excluding subscription rights does not exceed 10% of the Registered Capital, neither on the effective date nor at the time of exercising the authorisation. The ability to issue shares under exclusion of subscription rights pursuant to Art. 186, para. 3, line 4 AktG is thus exhausted almost in full.

In order to make sure the company remains flexible in the future, so as to strengthen its own resources if needed (including the issue of shares for cash excluding subscription rights pursuant to Art. 186, para. 3, line 4 AktG), in addition to the existing 2014/II Authorised Capital, an additional authorised capital shall be approved and the Articles of Association shall be amended accordingly, making possible the issue of shares for cash excluding subscription rights pursuant to Art. 186, para. 3, line 4 AktG, if the pro rata amount of the Registered Capital due to the new shares issued excluding subscription rights does not exceed 10% of the Registered Capital, neither on the effective date nor at the time of exercising the authorisation.

The additional authorised capital proposed under Agenda Point 7 lit. a) of the agenda of the Annual General Meeting of 31 May 2016 is intended to authorise the Management Board, with the agreement of the Supervisory Board, to increase the company's registered capital for the period until 30 May 2021 by up to EUR 9,195,000.00 once or several times by issuing up to 9,195,000 bearer shares against cash payment (2016 Authorised Capital). Thus, the company maintains the same flexibility with regard to the use of the authorised capital that it already had immediately after the initial public offering.

The 2016 Authorised Capital is intended to allow the Company to continue to be able to quickly obtain on capital markets through the issue of new shares the capital needed for the further development of the Company, and quickly and flexibly be able to use a favourable market environment to cover future financing needs. Given that decisions on covering future capital needs generally need to be taken quickly, it is important for the Company to not be dependent in this regard on the rhythm of annual General Meetings or the long convocation period for an extra Annual General Meeting. Legislation has taken into account these conditions with the instrument of "authorised capital."

When using the 2016 Authorised Capital to issue shares for cash payments, shareholders generally have subscription rights (Art. 203, para. 1, line 1 in conjunction with Art. 186, para. 1 AktG), where an indirect subscription right within the meaning of Art. 186, para. 5 AktG is sufficient. The issue of shares granting such an indirect subscription right is not to be viewed as an exclusion of subscription rights according to law, because shareholders are ultimately granted the same subscriptions rights as in the case of direct subscription. For procedural reasons, one or more credit institutes are involved in the process.

However, the Management Board is to be authorised to exclude subscription rights in certain cases with the approval of the Supervisory Board.

(i) With the approval of the Supervisory Board, the Management Board will be able to exclude subscription rights for residual amounts. This exclusion of subscription rights aims to simplify the procedure for an issue with shareholders' basic subscription rights, as this would permit a technically feasible subscription ratio. The value of the residual amounts is generally low per shareholder, and therefore the possible dilution effect should also be considered low. In contrast, the cost of an issue without such exclusion is significantly higher. Therefore, the exclusion improves the practicality and the ease of implementation of an issue. The shares excluded from the shareholders' subscription right as residuals will be either sold on the stock exchange or otherwise used in the Company's best interest. For these reasons, the Management Board and the Supervisory Board consider the possible exclusion of the subscription rights as objectively justified, and, weighed against the interests of the shareholders, also appropriate.

(ii) Subscription rights can then be excluded in the case of cash capital increases if the shares are issued for an amount that is not significantly below the stock market price, and such capital increase does not exceed 10% of the Registered Capital (facilitated exclusion of subscription rights pursuant to Art. 186, para. 3, line 4 AktG).

The authorisation allows the Company to flexibly react to favourable capital market situations and also be able to very quickly place the new shares, i.e., without the need for a subscription offer lasting at least two weeks. The exclusion of subscription rights makes it possible to act very quickly and perform placements close to the stock market price, i.e., without the reduction that is usual in the case of a subscription issue. This creates the basis for reaching the highest possible sale amount and the greatest possible strengthening of own resources. Authorising the facilitated exclusion of subscription rights is objectively justified not lastly by the fact that a higher cash inflow can often be generated.

Such capital increase may not exceed 10% of the Registered Capital in place at the effective date of the authorisation and also at the time of exercising it. The proposed resolution also provides for a deduction clause. The maximum threshold of 10% of registered capital to which the subscription rights exclusion refers includes shares issued to service bonds with conversion or option rights and those with conversion or option obligations pursuant to Art. 221, para. 4, line 2 in conjunction with Art. 186, para. 3, line 4 AktG during the term of this authorisation excluding subscription rights, or must be issued on the basis of the valid conversion price at the time of the decision of the Management Board on the use of the 2016 Authorised Capital, in as far as these service bonds were issued pursuant to Art. 186, para. 3, line 4 AktG during the validity period of this authorisation excluding subscription rights. Furthermore, own shares that were disposed of during the validity period of this authorisation excluding subscription rights must also be included, on the basis of an authorisation pursuant to Art. 71, para. 1, no. 8, line 5, phrase 2 in conjunction with Art. 186, para. 3, line 4 AktG.

The facilitated exclusion of subscription rights requires that the issue price of the new shares is not significantly below the stock market price. Any deduction from the current stock market price or a volume-weighted stock market price during a reasonable number of trading days prior to establishing the final issue price will likely not exceed by more than approx. 5% the corresponding stock market price, subject to special circumstances in individual cases. This also meets the protection needs of shareholders regarding a value-based dilution of their participation. By establishing the issue price close to the stock market price, we make sure that the value a subscription right would have for the new shares remains practically very low. Shareholders have the option of maintaining their relative participation via an additional purchase through the stock exchange.

If during a financial year the Management Board uses one of the above authorisations to exclude subscription rights as part of a capital increase from the 2016 Authorised Capital, it shall report on it during the subsequent Annual General Meeting.

Berlin, April 2016

TLG IMMOBILIEN AG

The Management Board