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Report of the Management Board regarding Agenda Point 9 (Decision to grant a new authorisation to issue convertible bonds, option bonds, participation rights, and / or profit participation bonds (and combinations of these instruments) with the option of excluding subscription rights, creation of a new 2017 Contingent Capital, withdrawal of the existing authorisation for the issue of convertible and option bonds and of the existing 2016 Contingent Capital and corresponding amendment of the Articles of Association)

Under Agenda Point 9 of the General Meeting of 23 May 2017, the Management Board and the Supervisory Board propose the repeal of the existing authorisations for the issue of convertible and/or option bonds and/or participation rights with option or conversion rights (or a combination of these instruments) (hereinafter called '**bonds**') as well as the corresponding 2016 Contingent Capital, and to create a new authorisation and a new 2017 Contingent Capital. Pursuant to Section 221 para. 4, sentence 2 in conjunction with Section 186 para. 4, sentence 2 AktG, the Management Board reports to the General Meeting with respect to Agenda Point 9 on the reasons for authorising the exclusion of the subscription rights of shareholders when new bonds are issued, reports to the General Meeting as follows:

By resolution of the General Meeting of 31 May 2016, the Management Board was authorised, with the approval of the Supervisory Board, to issue until 30 May 2021, on one or more occasions, convertible bonds, option bonds, participation rights, and/or profit participation bonds (and a combination of these instruments) (hereinafter also generally called '**2016 bonds**') with a total nominal value of up to EUR 600,000,000.00, with or without fixed terms. A 2016 Contingent Capital of EUR 33,716,163.00 was created to service the 2016 bonds (Section 7 of the Articles of Association).

Making partial use of the Authorised Capital 2016, the company increased in January 2017 the company's registered capital against cash contributions and excluding the subscription rights of

shareholders from EUR 67,432,326.00 by EUR 6,743,232.00, i.e. by approx. 10%, to EUR 74,175,558.00. The authorisation to issue the 2016 bonds enables the issue of bonds with rights to shares which do not exceed a pro rata amount of the registered capital of more than 10% of the registered capital, neither on the effective date nor at the time of exercising this authorisation, excluding subscription rights pursuant to Section 186 para. 3, sentence 4 AktG. In line with the authorisation to issue the 2016 bonds, shares issued from the Authorised Capital during the validity period of the authorisation excluding subscription rights pursuant to Section 186 para. 3, sentence 4 AktG must be included in the threshold. Due to the capital increase carried out by the company in January 2017, the authority to issue the 2016 bonds under exclusion of subscription rights has thus been exhausted completely as well.

Therefore, the Management Board and the Supervisory Board consider it appropriate to repeal the existing 2016 authorisation to issue bonds as well as the existing 2016 Contingent Capital to that extent, and to replace them with a new authorisation and a new contingent capital.

So as to be able to properly use the range of possible capital market instruments which securitise conversion or option rights, it appears adequate to establish the permissible issue volume in the authorisation at EUR 750,000,000.00. The Contingent Capital, which serves to comply with conversion or option rights or conversion or option duties, shall be of EUR 37,087,779.00. This ensures that the authorisation scope can be utilised fully. The number of shares necessary to service conversion or option rights, conversion or option duties, or for the granting of shares instead of the cash amount due on a bond with a certain issue volume generally depends on the stock market price of the company's share at the time of issuing the bond. If sufficient contingent capital is available, the possibility of fully utilising the scope of the authorisation for the issue of bonds is ensured.

Adequate capitalisation is essential for the development of the company. By issuing convertible and option bonds, the company is able to use attractive financing opportunities, depending on the market situation, in order to allow the influx of capital at a low regular interest rate. By issuing participation rights with conversion or option rights, the interest may, for example, be based on the company's regular dividend. The realised conversion and option premiums benefit the company upon issue. Practice shows that certain financing instruments only become placeable when option or conversion rights are granted.

Shareholders must be granted subscription rights for the bond when issuing option and conversion bonds or participation rights and/or profit participation bonds with conversion or option rights

(Section 221 para. 4 in conjunction with Section 186 para. 1 AktG). The Management Board may use the option of issuing bonds to one or more financial institutions with the obligation of offering shareholders the bonds in line with their subscription rights (so-called indirect subscription right pursuant to Section 186 para. 5 AktG). This is not a limitation of the shareholders' subscription rights, because shareholders are ultimately granted the same subscriptions rights as in the case of direct subscription. For purely technical reasons in connection with the settlement, one or more financial institutions are involved in the process.

- (i) With the approval of the Supervisory Board, the Management Board will however be able to exclude subscription rights for residual amounts. This exclusion of subscription rights aims to simplify the procedure for issuances where shareholders are otherwise granted 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. 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) Furthermore, the Management Board shall be authorised, with the approval of the Supervisory Board, to exclude the shareholders' subscription rights in order to grant owners and creditors of bonds a subscription right to the extent they would be entitled to after exercising their conversion or option rights or after fulfilling their conversion or option duties. This provides the opportunity, instead of a reduction of the option or conversion price, to grant a subscription right as dilution protection to owners or creditors of bonds already issued by this time or still to be issued. Equipping bonds with such dilution protection corresponds to the market standard.
- (iii) In analogous application of Section 186 para. 3, sentence 4 AktG, the Management Board shall furthermore be authorised to exclude the subscription right with the approval of the Supervisory Board when issuing bonds against cash consideration, if the issue price of the bonds is not significantly below their market value. This may help in quickly taking advantage of favourable market conditions and being able to quickly and flexibly place a bond on the market at attractive conditions. Given that

stock markets can be volatile, achieving the most beneficial issue outcome often greatly depends on whether quick reactions to market developments are possible. Favourable conditions that are as close to the market as possible can generally only be established if the company is not bound to them for a lengthy offering period. In the case of subscription right issues, a not insubstantial haircut is generally needed in order to ensure the issue's chances of success for the entire offering period. Section 186 para. 2 AktG allows for making the subscription price public (and thus, in the case of option and conversion bonds, the conditions of these bonds) until the antepenultimate day of the subscription period. However, given the volatility of stock markets, there is still a market risk covering several days, which leads to haircuts when establishing the bond conditions. Also, when granting a subscription right, alternative placement with third parties is made more difficult or burdened with additional expenses due to the uncertainty of the exercise (subscription behaviour). Finally, when granting a subscription right, the company cannot quickly react to a change in market conditions due to the length of the subscription period, which may lead to a less favourable capital procurement for the company.

The interests of shareholders are protected by the fact that the bonds are not issued at a price that is significantly below market value. The market value shall be determined according to recognised actuarial principles. When establishing the price, and taking into account the current situation on the capital market, the Management Board shall keep the discount on the market value as low as possible. This means the notional value of a subscription right is so low that shareholders will not incur any significant economic loss due to the exclusion of the subscription rights.

Establishing conditions that are in line with the market and the avoidance of a significant dilution of value may also be achieved by executing a so-called book building process. As part of this process, investors are asked to submit purchase orders on the basis of provisional bond conditions, and, for example, specify at the same time the interest rate considered in line with the market and/or other economic components. After completing the book building period, the conditions that had hitherto remained open, e.g., the interest rate, can be established in line with the market according to offer and demand, based on the purchase orders submitted by investors. In this way, the total value of the bonds is established close to the market. Via such a book building process, the Management Board can make sure that a

significant dilution of the value of shares does not occur due to the exclusion of subscription rights.

In addition, shareholders have the opportunity to maintain their share of the company's registered capital under approximately the same conditions through purchase via the stock market. Thus, their pecuniary interests are properly protected. The authorisation to exclude subscription rights pursuant to Section 221 para. 4, sentence 2 in conjunction with Section 186 para. 3, sentence 4 AktG only applies to bonds with rights to shares with a pro rata amount of the registered capital that does not exceed 10% of the registered capital, neither on the effective date nor at the time of exercising this authorisation.

This threshold must also include treasury shares that were disposed of during the validity period of this authorisation excluding subscription rights, pursuant to Section 71 para. 1, no. 8, sentence 5, clause 2 in conjunction with Section 186 para. 3, sentence 4 AktG. Furthermore, this threshold must include those shares that were issued during the validity period of this authorisation from the Authorised Capital under exclusion of subscription rights, pursuant to Section 203 para. 2, sentence 1 in conjunction with Section 186 para. 3, sentence 4 AktG. This inclusion takes place in the shareholders' interest in a dilution of their participation that is as low as possible.

- (iv) Bonds may also be issued against contributions in kind, in as far as this is in the company's interest. In this case, the Management Board has the right to exclude the subscription right of shareholders, with the approval of the Supervisory Board, if the value of the contribution in kind is proportional to the nominal value of the bonds to be determined by applying recognised actuarial principles. This provides the opportunity of using bonds in suitable individual cases also as acquisition currency, e.g., for the acquisition of companies, interests in companies or other assets. Practice has determined that negotiations often require payment be made not in cash, but also, or exclusively, in a different form. The option of offering bonds in exchange creates a competitive advantage allowing us to benefit from interesting acquisition objects as well as the needed leeway to take advantage of emerging opportunities to acquire companies - even larger ones -, company shares, or other economic goods without putting a strain on liquidity. It may also make sense from the point of view of an optimal financing structure. The Management Board shall carefully verify in every individual case whether it shall make use of the authorisation to issue bonds with conversion or option rights or conversion or option duties against contributions in kind with exclusion of subscription rights. It shall only do so if it is in the interest of the company and thus of its shareholders.

The authorisations to exclude subscription rights explained in the above paragraphs are limited to a total amount that does not exceed 20% of registered capital, neither on the effective date nor at the time of exercising this authorisation. The aforementioned 20% threshold must also include treasury shares that were disposed of during the validity period of this authorisation under exclusion of subscription rights, as well as those shares that were issued during the validity period of this authorisation from other authorised capitals under exclusion of the subscription rights of shareholders. Furthermore, the aforementioned 20% threshold must include those shares that were issued or are to be issued from the Contingent Capital to service share option rights, in as far as the share option rights were granted during the validity period of this authorisation. This limitation also decreases the possibility of a dilution of the voting rights of shareholders excluded from subscription rights. When taking into account all of these circumstances, the authorisation to exclude subscription rights within the given boundaries is necessary, adequate and appropriate, as well as in the company's best interest.

In as far as participation rights or profit participation bonds are to be issued without conversion or option rights or conversion or option duties, the Management Board is authorised to exclude the subscription rights of shareholders, with the approval of the Supervisory Board, if the participation rights or profit participation bonds have the characteristics of a debenture, i.e. do not establish any membership rights in the company, do not grant any participation in liquidation proceeds, and the amount of interest is not calculated based on the amount of the annual surplus, the net profit, or the dividends. In addition, the interest and the issue price of the participation rights or profit participation bonds must correspond in this case to the market conditions in place at the time of issue for comparable borrowings. If the stipulated conditions are fulfilled, the exclusion of subscription rights does not cause any disadvantages for the shareholder, given that participation rights or profit participation bonds do not establish membership rights and also do not grant a share of liquidation proceeds or of company profits. It may be provided that the interest rate depends on the existence of an annual surplus, net profit or dividend. However, any type of structure leading to a higher interest rate based on a higher annual surplus, higher net profit or higher dividend would not be admissible. Therefore, the granting of participation rights or profit participation bonds neither modifies nor dilutes the voting rights or the participation of shareholders in the company and its profit. In addition, as a consequence of issue conditions that are in line with the market, which are binding in this case of exclusion of subscription rights, subscription rights would not bear considerable value.

The planned contingent capital is used to fulfil conversion and option rights or conversion or option duties on company shares from issued bonds, or to grant company shares to creditors or owners of bonds instead of paying the cash amount due. In addition, it is stipulated that the conversion or option rights and conversion or option duties may also be serviced via the delivery of treasury shares or of shares from contingent capital, or via other means.

If during a financial year the Management Board uses one of the above authorisations to exclude subscription rights as part of a bond issue, it shall report on it during the subsequent general meeting.

Berlin, April 2016

TLG IMMOBILIEN AG

Der Vorstand