

## **Report of the Management Board on item 9 of the agenda**

Capital adequacy and adequate financing are a major basis for the further development of LEG Immobilien AG and for a successful capital market appearance. By issuing new shares as part of a capital increase, the equity of the Company and thus, also, the options for action within the scope of acquisitions - as well as in connection with raising debt capital – are increased.

The Management Board is to be provided with flexible options to take advantage of financing options in the Company's interest, and with the approval of the Supervisory Board, in order to use business opportunities and strengthen the Company's equity capital base.

Based on the resolution of the General Meeting dated 17 May 2017 the Management Board is authorised to increase, with the approval of the Supervisory Board, the Company's share capital once or several times until 16 May 2022 by up to EUR 31,594,092.00, in total, by issuing up to 31,594,092 new registered shares against cash and/or in-kind capital contribution (Authorised Capital 2017). The Authorised Capital has not been used so far. In September 2017, LEG Immobilien AG has made use of the authorisation that was granted by the General Meeting on 17 May 2017 under agenda item 7b, and has issued convertible bonds under exclusion of the subscription right in the total nominal amount of EUR 400,000,000.00. The creditors of the bonds are entitled to exercise their conversion right any time during the conversion period. Such right is to be exercised in accordance with the terms and conditions of the bond. In that case, and subject to payment of a cash amount according to the terms and conditions of the bond, LEG Immobilien AG is obligated to convert, at the current conversion price, each bond in the nominal amount of EUR 100,000.00 into registered shares of LEG Immobilien AG with a proportional amount of the share capital of EUR 1,00 each. Thereafter (and subject to any adjustments according to the terms of the bond), the creditors of the bonds will be entitled to subscribe to up to 3,376,406 shares of the Company. Said shares are to be credited against the 10% limit of simplified exclusion of subscription rights in the Authorised Capital. This means that some of the Authorised Capital 2017 can no longer be used for a capital increase under a simplified exclusion of subscription rights.

The Management Board and Supervisory Board believe it reasonable to continue to allow the Company to increase the share capital on short notice under exclusion of the subscription right in order to give the Company flexibility for further growth and any possible acquisitions which may present themselves. The authorised capital is to amount to the statutory maximum limit of half of the share capital existing at the time that the resolution is taken. The plan is thus to resolve on a new Authorised Capital 2018, which in terms of content largely corresponds to the Authorised Capital 2017. With the proposed Authorised Capital 2018, the Management Board of LEG Immobilien AG will be able to, at any time, align the net equity base of LEG Immobilien AG to the business requirements within the specified limits and to act quickly and flexibly in the interest of the Company. In order to be able to do so, the Company must always have the necessary financing instruments available, regardless of concrete utilisation plans. As decisions on the covering of capital needs are normally to be made on short notice, it is important for the Company not to depend on the intervals of the annual general meetings of shareholders and not to have to wait for extraordinary general meetings either. The instrument of authorised capital has therefore been created by law to address this issue. Common reasons for utilising authorised capital include strengthening the equity capital base and financing the acquisition of shares.

By means of the creation of the new Authorised Capital 2018, the Management Board is authorised to increase, with the approval of the Supervisory Board, the Company's share capital once or several

times until 16 May 2023 by up to EUR 31,594,092.00, in total, by issuing up to 31,594,092 new registered shares against cash and/or in-kind capital contribution (Authorised Capital 2018).

When utilising the Authorised Capital 2018, the shareholders are generally entitled to a subscription right. Pursuant to section 203 (1) sentence (1) in conjunction with section 186 (5) of the German Stock Corporation Act, the new shares can also be taken on by one or several credit institutions that must undertake to offer them to the shareholders for subscription (so-called "indirect subscription right"). In this context, the Management Board, with the approval of the Supervisory Board, shall be allowed to design the subscription right such as to provide for direct and indirect subscription rights. For example, it may be in particular advisable and, for financial reasons, in the interest of the Company, to offer a principal shareholder entitled to subscription, who has committed in advance to the subscription of a fixed number of (partial) Bonds corresponding to his subscription right, such Bonds directly for subscription, thus avoiding the issuing bank fees that would be otherwise incurred by the Company in case of an indirect subscription right. Shareholders who are offered the Bonds by way of an indirect subscription right will not suffer any restrictions to their subscription right as a result thereof. The proposed authorisation provides for the Management Board to be allowed to exclude the shareholders' subscription right, in whole or in part, in the below-described cases, in accordance with the legal provisions and with the approval of the Supervisory Board.

#### **Exclusion of the subscription right for fractional amounts**

The Management Board shall be authorised to exclude the shareholders' subscription right for fractional amounts with the approval of the Supervisory Board. Said exclusion of the subscription right shall enable a practicable subscription and thus facilitate the technical aspect of a capital increase. The value of the fractional amounts is normally low, whereas the time and effort required to issue shares without an exclusion of the subscription right for fractional amounts is regularly much higher. When it comes to fractional amounts, the costs associated with trading in subscription rights would be out of proportion to the shareholders' actual benefits. The new shares, which as so-called "free fractions" are excluded from the shareholders' subscription right, will be used in the Company's best possible interest. The exclusion of the subscription right in these cases thus serves to make an emission more practicable and feasible.

#### **Exclusion of the right to subscribe to option and convertible bonds**

The Management Board shall be moreover authorised to exclude the shareholders' subscription right with the approval of the Supervisory Board, if and in as far as this is necessary to grant the bearers or creditors of conversion and/or option rights, and/or the bearers or creditors of financing instruments carrying conversion and/or option obligations, which will be issued by the Company or by domestic or foreign companies, in which the Company holds directly or indirectly the majority of the votes and capital, a subscription right to an extent they would be entitled to after the exercise of the conversion or option rights or after the fulfilment of a conversion or option obligation.

The background to this is as follows: The economic value of the aforementioned conversion and/or option rights or of the Bonds carrying conversion and/or option obligations depends not only on the conversion and/or option price, but also - and in particular - on the value of the Company shares, to which the conversion and/or option rights or the conversion and/or option obligations relate. To ensure a successful placement of the respective Bonds or, rather, to avoid a corresponding markdown during placement, it is thus common practice to include so-called anti-dilution provisions in the terms and

conditions of the bond, which will protect those who are eligible from depreciation of their conversion or option rights as a result of a dilution of the value of the shares to be subscribed; the inclusion of such anti-dilution provisions in the terms and conditions of the bond or option is thus also provided for in the authorisation to issue convertible and/or option bonds and/or participation rights providing for option and/or conversion rights (or a combination of these instruments), as proposed under agenda item 8b. In the absence of such dilution protection, any subsequent issuance of shares along with a granting of shareholder subscription rights would typically result in such a dilution of the value. In that case, the aforementioned anti-dilution provisions in the terms and conditions of the bond regularly provide for a reduction of the conversion and/or option price, having the consequence that the funds received by the Company in case of a later conversion or exercise of the option or later fulfilment of a conversion or option obligation are reduced or that the number of shares to be issued by the Company is increased.

As an alternative, based on which a reduction of the conversion and/or option price can be avoided, the anti-dilution provisions normally allow for those who are eligible for Bonds carrying conversion and/or option rights or conversion and/or option obligations to be granted a subscription right on new shares to an extent they would be entitled to after the exercise of their own conversion and/or option rights or after the fulfilment of their conversion and/or option obligations. They are hence treated as if the exercise of the conversion or option rights or the fulfilment of possible conversion or option obligations had turned them into shareholders already before the subscription offer and as if they were already entitled to subscription to that extent; i.e., they are thus indemnified for the dilution of the value through the value of the subscription right, like all shareholders already participating. For the Company, this second alternative – namely the granting of dilution protection – has the advantage that the conversion and/or option price does not have to be reduced; it therefore serves for granting maximum cash inflow during later conversion or exercise of the option and/or later fulfilment of a potential conversion or option obligation or, rather, reduces the number of shares to be issued in that case. The participating shareholders will also benefit from this, so that it also means compensation for the restriction of their subscription right. Their subscription right, as such, remains intact and is reduced merely proportionately to the extent to which a subscription right is granted not only to the participating shareholders, but also to the bearers of the conversion and/or option rights or of the Bonds carrying conversion and/or option obligations. In case of an emission of subscription rights, the present authorisation enables the Company to choose between one of the two above-described alternatives for granting dilution protection, by weighing the shareholders' interests against the Company's.

#### **Exclusion of subscription rights in case of capital increases for cash**

In case of capital increases for cash, the Management Board shall be authorised to exclude the subscription right pursuant to section 203 (1) sentence (1) and (2), section 186 (3) sentence (4) of the German Stock Corporation Act with the approval of the Supervisory Board, if the par value of the new shares does not fall substantially short of the stock exchange price of the already listed shares.

It may be reasonable to use this option of excluding the subscription right if the Company wishes to take advantage of favourable market conditions quickly and flexibly and to cover, on very short notice, any capital needs that may arise in this context. The two-week subscription period that is required when granting a subscription right to the shareholders (section 203 (1) sentence 1 in conjunction with section 186 (1) sentence 2 of the German Stock Corporation Act) does not allow for comparatively

short response times to current market conditions. Moreover, due to the volatility of the equity markets, market-oriented conditions can be normally achieved only if the Company is not bound thereto over a longer period of time. When granting a subscription right, section 203 (1) sentence 1 in conjunction with section 186 (2) of the German Stock Corporation Act require for the final subscription price to be published no later than three days before the expiry of the subscription period. This means that the granting of a subscription right is associated with a greater market risk – in particular with a change in price risk that lasts for several days – than an allocation without subscription rights. When granting a subscription right, one must hence regularly provide for corresponding safety discounts on the current market price in order to achieve a successful placement; this will normally result in less favourable conditions for the Company than a capital increase under exclusion of the subscription right. The exclusion of the subscription right allows for a placement close to the stock exchange price. Also, when granting a subscription right, complete placement is not readily warranted and a subsequent placement with third parties is normally associated with extra expenses due to the uncertainties regarding the exercise of the subscription rights by those entitled thereto.

The share in the share capital apportionable to the shares that are issued under such an exclusion of subscription rights, must not exceed, in total, 10% of the share capital either at the time of said authorisation taking effect or at the time of said authorisation being exercised. In this context, the legislator assumes it is reasonable to expect the shareholders to maintain their participation quota by purchases on the market. Said restriction to 10% of the share capital applies also to the proportional amount of the share capital that is apportionable to shares, which are sold under exclusion of the subscription right during the term of the Authorised Capital 2018 based on an authorisation to sell own shares pursuant or according to section 71 (1) no. 8 sentence 5, section 186 (3) sentence 4 of the German Stock Corporation Act. Moreover, said restriction applies also to the proportional amount of the share capital that is apportionable to shares, which are issued during the term of the Authorised Capital 2018 based on other authorisations to issue shares of the Company under exclusion of the shareholders' subscription right in direct or corresponding application of section 186 (3) sentence 4 of the German Stock Corporation Act. Furthermore, said restriction applies also to the proportional amount of the share capital that is apportionable to shares, which may or must be issued in order to service Bonds carrying a conversion and/or option right or a conversion and/or option obligation, to the extent that the Bonds are issued during the term of the Authorised Capital 2018 under exclusion of the shareholders' subscription right in corresponding application of section 186 (3) sentence 4 of the German Stock Corporation Act. Such imputations serve to protect the shareholders and keep the dilution of their interest as low as possible.

This model allows for the shareholders' participation quota to be diluted by not more than 10% even when corporate actions are combined and Bonds are issued and/or own shares are sold. Apart from that, because the issue price of the new shares is close to their stock exchange price and because of the limitation of the scope of the capital increase without subscription rights, shareholders can basically maintain their participation quota by acquiring the necessary shares on the stock exchange on almost the same conditions. This therefore ensures that, in line with the legal rationale of section 186(3), sentence 4 German Stock Corporation Act, if Authorised Capital 2018 is used thereby excluding subscription rights, shareholders' financial and investment interests remain adequately protected while opening up further options for the Company in the interests of all the shareholders.

#### **Exclusion of subscription rights in case of capital increases by way of contribution in kind**

The Management Board shall be moreover authorised to exclude the shareholders' subscription right with the approval of the Supervisory Board in case of a capital increase against in-kind capital contributions, in particular in order to acquire (directly or indirectly) companies, assets or participations, other assets connected to an acquisition plan, real estates and real estate portfolios.

This is to enable LEG Immobilien AG to offer the Company's shares quickly and flexibly in individual cases for the purpose of satisfying claims from the preparation, performance, execution or transaction of legal or statutory acquisition procedures and mergers. LEG Immobilien AG must be able to act quickly and flexibly in the interest of its shareholders, at any time. This includes acquiring, on short notice, companies, assets, participations, other assets, real estates and real estate portfolios that are connected to an acquisition project in order to improve its competitive position. In return, it may be reasonable or even necessary to grant shares in order to preserve liquidity or to meet the sellers' expectations. The granting of shares instead of money may also make sense from the perspective of an optimal financing structure. This will not be disadvantageous to the Company, as the emission of shares against a contribution in kind requires for the value of such contribution in kind to be in due proportion to the value of the shares. When determining the valuation ratio, the Management Board must make sure to protect the interests of the Company and of its shareholders appropriately and to achieve an adequate par value for the new shares. Moreover, the Company's listing on the stock exchange basically gives every shareholder the opportunity to increase its participation quota by acquiring additional shares.

#### **Exclusion of subscription rights when issuing employees' shares**

The Management Board shall be moreover authorised to exclude the shareholders' subscription right with the approval of the Supervisory Board, in order to issue up to 1,579,704 shares, i.e. about 2.5% of the share capital at the time of the invitation, to the Company's employees or to companies affiliated with the Company in terms of section 15 of the German Stock Corporation Act. The new shares may also be issued to an appropriate credit institution that will take on such shares with the undertaking to pass them on only to the Company's employees or to companies affiliated with the Company in terms of section 15 of the German Stock Corporation Act. The purpose of this is to strengthen the ties between the employees and their company, which is in the interest of the Company. Moreover, the restriction to 1,579,704 shares is appropriate in the opinion of the Management Board and Supervisory Board.

#### **Limitation of the overall scope of the issuance of shares without subscription rights based on the Authorised Capital 2018**

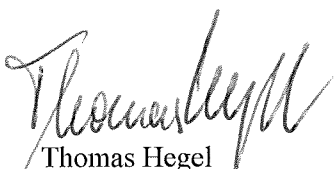
The sum of shares that are issued based on the Authorised Capital 2018 under exclusion of the shareholders' subscription right, must not exceed a calculated amount of 20% of the share capital either at the time of said authorisation taking effect or at the time of said authorisation being utilised, taking into account other shares of the Company that are sold or issued under exclusion of the subscription right during the term of the Authorised Capital 2018 or that are to be issued based on Bonds that were issued under exclusion of the subscription right after 17 May 2018. Such restriction serves to protect the shareholders and keep the dilution of their interest as low as possible. It does not, however, apply to shares that are to be issued based on the convertible bonds issued by the Company in April 2014 and in September 2017.

### **Utilisation of the authorisation**

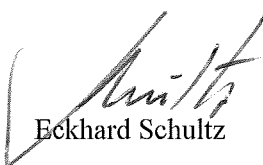
At this time, there are no concrete plans to utilise the Authorised Capital 2018. Corresponding anticipatory resolutions including an option to exclude subscription rights are common both at the national and international level. Each and every such exclusion of subscription rights, as proposed herein, is subject to approval by the Supervisory Board. In every such case, the Management Board will, moreover, carefully review whether a utilisation of the Authorised Capital 2018 is in the interest of the Company; and it will review, in particular, whether a potential exclusion of the subscription right is actually justified in a particular case.

The Management Board will report to the next General Meeting about each utilisation of the authorisation.

Düsseldorf, April 2018



Thomas Hegel



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Holger Hentschel