

Report of the Management Board on item 6 (Contingent Capital)

Capital adequacy and adequate financing are a major basis for the further development of LEG Immobilien AG and for a successful market appearance. By issuing convertible and warrant bonds as well as participation rights, the Company can - depending on the market situation and its financing needs - take advantage of attractive financing opportunities at comparatively low interest rates, for example to procure favourable debt capital for the Company. Moreover, by issuing convertible and warrant bonds as well as participation rights, the Company may possibly even reach new investor groups in addition to using other instruments, such as capital increases. And the Company will also receive the conversion and option premiums when issuing such bonds.

In June 2020, LEG Immobilien AG has made partial use of the authorization that was granted by the General Meeting on 17 May 2018 under agenda item 8b, and has issued convertible bonds under exclusion of the subscription right in the total nominal amount of EUR 550 Mio. The creditors of the bonds are entitled to exercise their conversion right at 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 will be 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 approximately 3,54 Mio. shares of the Company.

The Management Board and Supervisory Board believe it reasonable to continue to allow the Company to issue convertible and/or warrant bonds as well as participation rights carrying an option and/or conversion right (or a combination of such instruments) by excluding subscription rights. The Authorization 2018 granted for this purpose by the Annual General Meeting on 17 May 2018 has been largely exhausted by the issue of the convertible bonds in June 2020. In addition, due to the capital measures implemented in June 2020, it is only possible to a very limited extent to issue convertible bonds and/or bonds with warrants as well as participation rights with option and/or conversion rights (or a combination of these instruments) with a simplified exclusion of subscription rights. The Management Board and Supervisory Board thus believe it appropriate to cancel the existing Authorization 2018 to the extent it has not yet been used and to replace it with a new 2020 Authorization, that largely equals the 2018 Authorization.

The new authorization to issue bonds, as proposed under agenda item 6b, allows the Management Board to issue, with the approval of the Supervisory Board, once or several times until 18 August 2025, bearer or registered convertible and/or warrant bonds and/or participation rights carrying an option and/or conversion right (or a combination of such instruments) in the nominal amount of up to EUR 2 billion with or without limited maturity (hereinafter referred to collectively as "**Bonds**"), and to grant the creditors of Bonds conversion and/or option rights on shares of the Company with a proportional amount of the share capital of initially up to EUR 21,413,950,00 as detailed in the terms and conditions of the respective option and/or convertible bonds or of the respective participation rights (hereinafter referred to in each case as "**Terms and Conditions**"). The respective Terms and Conditions may also provide for a mandatory conversion at the end of maturity or at other times, including an obligation to exercise the conversion/option right. The Bonds are to be issued against cash.

When it comes to its legal arrangement, the authorization proposed under agenda item 6b largely equals the authorization granted on 17 May 2018.

The possibility provided for in the authorization to provide for mandatory conversions at the end of the term or at other times, including the obligation to exercise the conversion or option right, increases the scope for structuring such financing instruments. When issuing Bonds, the Company shall be able to make use of the German or international capital markets - depending on the market situation - and issue the Bonds not only in euros, but also in the legal currency of an OECD country, as long as the corresponding EUR-equivalent is not exceeded. The Bonds may be issued also by domestic or foreign companies, in which the Company holds directly or indirectly the majority of the votes and capital; in that case, the Management Board is authorised to provide a guarantee for the Bonds on behalf of the Company and to grant the creditors of such Bonds conversion and/or option rights on shares of the Company.

So far, the Contingent Capital 2013/2017/2018 resolved by the Annual General Meeting on 17 May 2018 under agenda item 8b serves exclusively to grant new shares to holders of bonds issued under the authorizations resolved by the Annual General Meeting on 17 January 2013, 17 May 2017 or 17 May 2018. The proposed change in the Conditional Capital 2013/2017/2018 is to enable the Company to issue shares also to the creditors of Bonds based on the new Conditional Capital 2013/2017/2018/2020, which are issued based on the authorization that is yet to be granted under agenda item 6b. The proportionate amount of the share capital of initially up to EUR 21,413,950.00, which may be allotted to shares to be granted to creditors of bonds in accordance with their terms and conditions, which may be issued on the basis of the authorization proposed for resolution under agenda item 6b, corresponds to 30 % of the share capital of the Company existing at the time of the convening of the Annual General Meeting. In contrast, the nominal amount of the Conditional Capital 2013/2017/2018/2020 corresponds to 50 % of the Company's share capital existing at the time the Annual General Meeting is convened, since the Conditional Capital 2013/2017/2018/2020, in addition to securing the authorization to issue bonds proposed for resolution under agenda item 6b, also serves to grant new shares to holders of bonds that were issued on the basis of earlier authorizations granted by the Annual General Meeting and are still outstanding.

New shares from the Conditional Capital 2013/2017/2018/2020 are issued at the conversion or option price to be determined in each case in accordance with the respective authorization. Pursuant to Section 193 (2) no. (3) AktG, the authorization will merely define the bases for determining the relevant minimum par value so as to give the Company the necessary flexibility when determining the conditions. The conditional increase in capital will be performed only insofar as use is made of conversion or option rights that are based on issued Bonds or insofar as conversion obligations that are based on such Bonds are fulfilled, and insofar as the conversion or option rights and/or conversion obligations are not satisfied through own shares, shares from authorised capital or other benefits.

When issuing Bonds carrying a conversion and/or option right or a conversion and/or option obligation, shareholders are generally entitled to a subscription right (section 221 (4) in conjunction with section 186 (1) of the German Stock Corporation Act). If the Bonds are issued by domestic or foreign companies, in which the Company holds directly or indirectly the majority of the votes and capital, LEG Immobilien AG must guarantee that the statutory subscription right is actually granted to the shareholders. To simplify this process, the Bonds can also be taken on by one or several credit institutions according to section 186 (5) of the German Stock Corporation Act, which 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.

In accordance with the legal provisions, the Management Board shall be authorised – with the approval of the Supervisory Board – in the individual cases specified in detail in such authorization to exclude the shareholders' subscription right.

Exclusion of the subscription right for fractional amounts

Initially, 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 issuing Bonds. The value of the fractional amounts is normally low, whereas the time and effort required to issue Bonds 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 Bonds that are excluded from the subscription right due to such fractional amounts 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

When Bonds are issued, the Management Board shall be moreover authorised to exclude, with the approval of the Supervisory Board, the shareholders' subscription right insofar as this is necessary to grant the bearers or creditors of conversion and/or option rights, or the creditors of convertible bonds and/or convertible participation rights carrying conversion obligations, which were or 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 as shareholders after the exercise of the option or conversion rights or after the fulfilment of conversion obligations.

The reasons for this are as follows: The economic value of the aforementioned conversion and/or option rights and/or of the Bonds carrying conversion 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 and/or the conversion 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 and/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 authorization to issue convertible and/or warrant bonds and/or participation rights carrying an option and/or conversion right (or a combination of such instruments), as proposed under agenda item 6b. In the absence of such dilution protection, any subsequent issuance of further Bonds carrying conversion or option rights and/or conversion obligations, along with a granting of shareholder subscription rights would typically result

in such a dilution of the value. Because, in order to make the subscription right appealing to the shareholders and to ensure subscription, the respective convertible or warrant bonds are normally issued at more favourable conditions than their market value, if a subscription right is granted. This results in a corresponding dilution of the value of the shares. In that case, the aforementioned anti-dilution provisions in the terms and conditions of the bond provide regularly 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 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 and/or conversion obligations to be granted a subscription right to subsequently issued convertible and/or warrant bonds to an extent they would be entitled to after the exercise of their own conversion or option rights or after the fulfilment of their conversion obligations. They are hence treated as if the exercise of the conversion and/or option rights or the fulfilment of possible conversion obligations had turned them into shareholders already before the subscription offer and as if 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 obligation or, rather, reduces the number of shares to be issued in that case. The participating shareholders will also benefit from this, because 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 and/or of the Bonds carrying conversion obligations. In case of an emission of subscription rights, the present authorization 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.

Simplified exclusion of subscription rights under section 221 (4) sentence 2 in conjunction with section 186 (3) sentence 4 of the German Stock Corporation Act

The Management Board shall be moreover authorised to exclude the subscription right with the approval of the Supervisory Board, if at the time of issuance of Bonds against cash the issue price of such Bonds does not substantially fall short of their theoretical value, as determined in accordance with generally accepted actuarial methods.

It may be reasonable to use this option of excluding the subscription right if the Company wishes to take advantage of favourable market conditions on short notice and place Bonds quickly and flexibly on the market at attractive conditions. The two-week subscription period that is required when granting a subscription right to the shareholders (section 221 (4) sentence 2 in conjunction with section 186 (1) sentence 2 AktG) 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 221 (4) sentence 2 in conjunction with section 186 (2) AktG require for the final subscription price or, in case of Bonds carrying conversion and/or option rights or conversion

obligations, the final conditions of the Bonds to be published no later than three days before the expiry of the subscription period. As compared to an allocation without subscription rights, this is associated with a greater market risk – in particular with a change in price risk that lasts for several days. When granting a subscription right, one must hence regularly provide for a corresponding safety discount when determining the conditions of the Bonds in order to achieve a successful placement; this will normally result in less favourable conditions for the Company than when placing the Bonds under exclusion of the subscription right. In addition, 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.

With this exclusion of subscription rights, the shareholders' interests are guaranteed by the fact that the Bonds must not be issued substantially below their theoretical market value, whereby the actuarial value of the subscription right is reduced to almost zero. The resolution therefore provides that before issuing any Bonds, the Management Board must arrive at the conclusion that the envisaged par value will not lead to any noteworthy dilution of the shares' value. If and in as far as deemed appropriate by the Management Board to obtain expert advice in the respective situation, it may seek the help of experts, such as syndicate banks supervising the emission, independent investment banks or experts who will confirm in appropriate form that a noteworthy dilution of the shares' value is not to be expected. Regardless of such an assessment performed by the Management Board, a market-driven determination of the terms and conditions will be ensured in case of book building. This means that the exclusion of subscription rights will not lead to a noteworthy dilution of the shares' value.

Said authorization to exclude subscription rights applies only to Bonds carrying rights to shares, to which a proportional amount of the share capital of not more than 10% of the share capital is attributable either at the time of said authorization taking effect or at the time of said authorization 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 10% limit applies to the Company's own shares, if and in as far as they are sold by the Company during the duration of said authorization under exclusion of the subscription right pursuant to or according to section 71 (1) no. 8 sentence 5, clause 2, section 186 (3) sentence 4 of the German Stock Corporation Act. Moreover, said restriction applies also to such shares that are issued during the duration of said authorization from authorised capital, under exclusion of the subscription right pursuant to section 203 (2) sentence 2, section 186 (3) sentence 4 of the German Stock Corporation Act or based on other authorizations 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. Such imputations serve to protect the shareholders and keep the dilution of their interest as low as possible.

Limitation of the overall scope of the issuance of Bonds without subscription rights

The sum of shares that are to be issued based on Bonds, which are issued based on said authorization under exclusion of the shareholders' subscription right, must not exceed a proportional amount of 10% of the share capital either at the time of said authorization taking effect or at the time of said authorization being utilised, taking into account other shares sold or issued under exclusion of the subscription right after 19 August 2020. Such imputations serve 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 September 2017 and in June 2020.

If and in as far as the subscription right is not excluded under the above provisions, it may be granted to the shareholders also in form of an indirect subscription right pursuant to section 186 (5) of the German Stock Corporation Act or, in part, also in form of a direct subscription right, and otherwise in form of an indirect subscription right pursuant to section 186 (5) of the German Stock Corporation Act, if so determined by the Management Board with the approval of the Supervisory Board.

Utilization of the authorization

At this time, there are no concrete plans to utilise the authorization to issue Bonds, as proposed under agenda item 6b. 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 the utilization of the authorization to issue Bonds, as proposed under agenda item 6b, 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 authorization.

Conversion to LEG Immobilien SE

LEG Immobilien AG intends to establish a European Company (Societas Europea - SE) by way of a merger pursuant to Art. 2 (1) of Council Regulation (EC) No. 2157/2001 of 8 October 2001, on the Statute for European Companies (SE Council Regulation). The new authorization to issue bonds proposed under agenda item 6b and the amended Conditional Capital 2013/2017/2018/2020 are also to apply to the newly established LEG Immobilien SE.

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