

Report on Item 9 of the  
Agenda

**25th Ordinary Shareholders' Meeting**  
of  
**IMMOFINANZ AG**  
on 11 May 2018

**Report by the Executive Board of IMMOFINANZ AG on the exclusion of the shareholders' subscription rights in connection with the authorisation of the Executive Board to issue convertible bonds in accordance with section 174 para 4 in conjunction with section 153 para 4 of the Austrian Stock Corporation Act**

**1. Authorisation**

At the 25<sup>th</sup> ordinary shareholders' meeting of IMMOFINANZ AG (the "**Company**") a motion in connection with item 9 of the agenda shall be proposed that the existing authorisation of the Executive Board to issue convertible bonds shall be withdrawn in the unused volume and the Executive Board shall be authorised, within five years from the date of the resolution, with the consent of the Supervisory Board, to issue convertible bonds up to a total nominal amount of EUR 572,000,000.00 with conversion and/or subscription rights in respect of up to 200,000,000 ordinary bearer shares of the Company representing a pro-rata amount of the share capital of the Company of up to EUR 200,000,000.00, also in several tranches and to determine all other terms of the convertible bonds as well as in respect of the issuance and the conversion procedure. The convertible bonds may be issued against cash and also for contribution in kind. The authorisation to issue convertible bonds may also be exercised repeatedly. In that case the total number of (i) the shares already issued to holders of convertible bonds according to this authorisation and (ii) the shares in relation to which conversion and/or subscription rights may be exercised out of convertible bonds already issued and out of convertible bonds that may be issued pursuant to the repeated exercise of the issuance authorisation, must not exceed the total maximum amount set out in this resolution. The same applies mutatis mutandis for the total nominal amount of the convertible bonds set out in this authorisation. The fulfilment of the conversion and/or subscription rights can be effected through conditional capital, authorised capital, out of treasury shares or by way of delivery from third parties or a combination thereof.

The shareholders' subscription rights for convertible bonds are excluded. Under this authorisation convertible bonds may only be issued, if the total number of new shares, for which conversion and/or subscription rights may be exercised on the basis of such convertible bond, shall not exceed EUR 224,170,539.00 (after effectiveness of the reduction of the share capital according to agenda item 10 EUR 22,417,053.00), corresponding to 20% (twenty per cent) of the share capital at the time this authorisation is resolved upon. This limit shall also include new shares issued from authorised capital under exclusion of the shareholders' subscription rights during the term of this authorisation; further, the number of such new shares for which conversion and/or subscription rights of convertible bonds may be exercised, which are issued under exclusion of the subscription rights on the basis of another authorisation during the term of this authorisation.

In preparation of the shareholders' meeting the Executive Board submits a written report in accordance with section 174 para 4 in conjunction with section 153 para 4 of the Austrian Stock Corporation Act stating the reasons for the exclusion of the subscription rights of the shareholders as well as justifying the proposed issue price of the shares.

## **2. Interest of the Company**

The still existing authorisation to issue convertible bonds pursuant to the resolution of the ordinary shareholders' meeting on 01 December 2015 was partially utilized by issuing the convertible bond 2017-2024 (ISIN: XS1551932046). Thus a renewal of this authorisation shall be proposed.

In particular, the Company shall be able to use convertible bonds in the course of the active management of its capital structure by this authorisation. Convertible bonds are an appropriate instrument for the Company to keep the costs of capital at a minimum. Through financing with convertible bonds the Company in general can obtain more favourable financing conditions compared to (mere) debt instruments (loan financing, bonds).

The exclusion of the shareholders' subscription rights in the course of an issue of convertible bonds is in the interest of the Company for the following reasons:

The Company shall be able to finance itself quickly and flexible by issuing convertible bonds. Such financing requirement may arise from refinancing as well as to finance acquisitions of companies or real estate in the course of the Company's growth strategy.

The financing of the Company by issuing convertible bonds enables the Company to decrease the financing costs and to optimise the capital structure. The more favourable financing conditions are a result from a combination of the following factors:

Convertible bonds bear interest together with a redemption right of the bondholders at maturity. In addition the bonds carry the right to acquire shares of the Company at a price fixed upon issuance of the convertible bond (conversion price), which allows to participate in the substance and the profitability of the Company as well as in the increase of the share value.

In case of an issue of convertible bonds an advantage compared to a capital increase (such as from authorised capital) might be that upon conversion a higher issue price can be achieved compared to an immediate capital increase. Under the common conditions of convertible bonds on the capital market the conversion and/or subscription price of the shares to be issued in the course of a conversion (exercise of conversion and/or subscription rights) is above the share price at the time of issuance of the convertible bonds.

The practise has shown that, with an issue under exclusion of subscription rights, in general better conditions can be achieved by the Company since an immediate placement avoids price effective risks from changes in market conditions and further institutional investors, which focus on investments in convertible bonds, may be better addressed. On the contrary a rights issue with subscription rights requires a minimum two weeks statutory subscription period (sec 174 para 4 in conjunction with sec 153 para 1 of the Austrian Stock Corporation Act). Disadvantages from a time lag may also arise if an authorisation of the Executive Board to exclude the subscription rights is resolved upon and the Executive Board decides to exclude the subscription rights in the course of the issue procedure. In this case the publication of a further report of the Executive

Board is mandatory and a waiting period of at least two weeks must be observed prior to the required resolution of the Supervisory Board to implement the measure.

The consideration and observance of such subscription periods or waiting periods would cause that such investors may not or may only be addressed with a lower amount due to non-market standard arrangements or allocation mechanisms and/or potential market risks for these investors arising during a subscription period or waiting period. Also an investor communication focused on the specific target group is required. The Company can also strengthen this institutional investor base by issuance of convertible bonds in this way.

Based on experience, more attractive financing conditions can be achieved if the Company is able to react swiftly and flexibly to favourable market conditions. These advantages could not be realised to the same extent if the consideration of a subscription period of two weeks or a waiting period of two weeks in case of an authorisation to exclude the subscription rights is required. The issue of convertible bonds under the proposed exclusion of shareholders' subscription rights can be processed faster and more cost efficiently since neither subscription periods nor waiting periods have to be observed nor preparation time for prospectus drafting and obtaining the prospectus approval is required. A placement under exclusion of subscription rights and based on a prospectus exemption can avoid these disadvantages. Further, the placement under a prospectus exemption also reduces the liability risks of the Company compared to an offering with publishing a prospectus significantly.

It is further in the interest of the Company to issue convertible bonds in exchange for contributions in kind, in particular in connection with mergers or for acquiring (also indirectly) companies and parts thereof, shares, businesses or parts of businesses or other assets (in particular real estate) or rights to acquire assets and also receivables against the Company. Convertible bonds can be used – depending on market conditions and the future development of the Company – as an acquisition currency for strategic transactions. It might be possible to realise an issue price above the share price at the issue date in case of conversion, what could be an advantage compared to an acquisition in exchange for new shares (e.g. from authorised capital). Further, it is not required to immediately use liquid funds to finance the consideration. The issue of convertible bonds in exchange for contributions in kind in general requires the exclusion of the subscription rights, because in most cases individual assets are acquired (e.g. real estate, companies, parts of companies and shares or other assets) which cannot be provided by the shareholders. Having the opportunity to offer convertible bonds as acquisition currency can be an advantage for the Company in the competition for assets to be acquired.

The exclusion of the shareholders' subscription right is necessary for strategic, financial and organisational reasons in order to achieve the advantages for the Company in connection with the issuance of convertible bonds.

For the reasons listed above, the exclusion of the shareholders' subscription right in the course of convertible bonds issuances is common practise on the international capital market. This is also accepted by the stock market investors, in particular, if the shareholders are able to purchase convertible bonds on the secondary market. Thus, it is intended that convertible bonds are admitted to trading at an appropriate stock exchange or a multilateral trading facility.

By issuing convertible bonds under exclusion of the shareholders' subscription rights the Company is able to strengthen its equity as well as to reduce its financing costs in the interest of the Company and its shareholders.

### **3. Issue price**

In case of an issue of convertible bonds the Executive Board will determine with the consent of the Supervisory Board and in accordance with the provisions of the Austrian Stock Corporation Act the terms of issuance and the terms and conditions of the convertible bonds, in particular interest rate, issue price, maturity and denomination, dilution adjustment, conversion period and/or conversion date, conversion rights and/or conversion obligations, conversion ratio and conversion price as well as the terms for conversion and/or subscription.

The fulfilment of the conversion and/or subscription rights can be effected through conditional capital, authorised capital, out of treasury shares or by way of delivery from third parties or a combination thereof.

The price of the convertible bonds shall be determined with regard to market-standard calculation methods in a market-standard pricing procedure. The price (issue price) of a convertible bond thereby has to be determined by the price (issue price) of an ordinary fixed-interest bond and the price for the conversion rights taking into consideration the other terms and conditions. The issue price of a bond is determined on the basis of market-standard calculation methods subject to the maturity of the bond, interest rate, current market interest rate as well as considering the credit rating of the Company. The value of the conversion and/or subscription right is calculated by means of option price calculation, in particular considering maturity/exercise period, share price development (volatility) or other financial ratios as well as the relation of the conversion and/or subscription price to the share price. Further conditions, e.g. rights to early redemption, conversion obligations, and a fixed or variable conversion ratio are to be considered.

The issue price of the shares issued upon exercise of conversion (exercise of the conversion and/or subscription right) and the conversion and/or subscription ratio shall be determined with regard to market-standard calculation methods and the stock market price of the shares of the Company (basis of the calculation of the issue price).

In case of an issue of convertible bonds in exchange for contributions in kind the issue price of the convertible bonds determined by applying the pricing terms described above analogously and to be agreed upon with the investors (contributors in kind) and the value of the contributed (acquired) assets must be in an adequate ratio.

The issue price of convertible bonds as well as the issue price of the shares are determined by objective criteria in line with international standards and satisfy the interest of the shareholders, whereby a dilution of the shareholders' financial participation shall be avoided as far as possible.

### **4. Consideration of interests**

The exclusion of the subscription rights for the described purposes is in the interest of the Company and is objectively justified in particular to strengthen and improve the market and competitive position in the interest of the Company and the shareholders.

The exclusion of shareholders' subscription rights is also necessary and appropriate, as in general more favourable conditions for convertible bonds can be achieved and more cost-intensive capital measures can be replaced. This secures long term and flexible financial and business planning. Without the exclusion of the shareholder' subscription rights the Company would not be able to use market conditions and/or acquisition opportunities as swiftly and flexibly. These benefits of the Company are also advantageous for all shareholders and it is to be expected that these benefits and, thus, the interest of the Company outweigh the interference by the exclusion of subscription rights.

Finally, an issue price will be targeted that avoids a dilution of the current shareholders.

If the mentioned circumstances are carefully considered, the exclusion of the subscription rights in case of an issue of convertible bonds within the described limits is necessary, suitable, appropriate and in the prevailing interest of the Company objectively justified as well as required.

Vienna, April 2018

The Executive Board