

**Fair Value REIT-AG, Munich**

ISIN: DE000A0MW975 - WKN: A0MW97

**General Meeting**

**on Tuesday, May 27, 2014 at 11:00 a.m.**

**at the Haus der Bayerischen Wirtschaft**

**Europa Saal**

**Max-Joseph-Str. 5**

**80333 Munich**

**Report of the Management Board to the general meeting on item 8 of the agenda regarding excluding subscription rights when issuing convertible bonds and/or bonds with warrants or participation rights in accordance with Section 221 para. 4 sentence 2 AktG in conjunction with Section 186 para. 3 sentence 4 and para. 4 sentence 2 AktG**

The Management Board will make the following report to the general meeting on agenda item 8 in accordance with Section 221 para. 4 sentence 2 AktG in conjunction with Section 186 para. 3 sentence 4 and para. 4 sentence 2 AktG regarding the reasons for authorizing the Management Board to exclude shareholder subscription rights when utilizing the authorisation.

The report will be available for inspection by shareholders from the date the meeting is convened on at the business premises of Fair Value REIT-AG, Leopoldstr. 244, 80807 Munich, Germany, can be downloaded from the company website at [www.fvreit.de/Investor-Relations/Hauptversammlung/Einladung](http://www.fvreit.de/Investor-Relations/Hauptversammlung/Einladung) and will also be available for inspection by shareholders during the general meeting. Upon request, a copy [of the report] will be sent to any shareholder immediately and at no charge. The report reads as follows:

We recommend to the general meeting under agenda item 8 authorisation to issue convertible bonds and/or bonds with warrants or participation rights (collectively “**bonds**”) and under agenda item 9 the Contingent Capital 2014 to service them. The issuance of convertible bonds and/or bonds with warrants or participation rights (or combinations of these instruments) can also offer, in addition to the traditional methods of raising equity and borrowing, the opportunity to utilize attractive financing alternatives on the capital markets, depending on the market situation. The total amount of the theoretical interest in the share capital of the shares to be issued on the basis of the authorisation corresponds to the statutory maximum of 50% of the currently existing share capital. The scope should be

limited to a total nominal amount of bonds of no more than EUR 50,000,000.00 and authorisation to purchase no par value creditor shares of the company having a total pro rata amount of share capital of up to EUR 23,517,205.00. However, if the proposed resolution under agenda item 6 regarding the capital reduction is adopted by the general meeting, the Management Board and the Supervisory Board will submit the above unchanged resolution proposal to a vote in the general meeting in such a way that the theoretical interest in the share capital of the shares to be issued on the basis of the authorisation will be reduced to 50% of the share capital that will exist after the reduction.

Issuing convertible bonds and/or bonds with warrants or participation rights makes it possible to obtain loans at attractive terms and conditions, which at maturity are converted, under certain circumstances, into equity and thus retained by the company. The additionally provided option to establish conversion or subscription obligations in addition to granting conversion and/or option rights expands the leeway for the design of this financial instrument.

The authorisation gives the company the flexibility necessary to place the bonds on its own or through a group company managed by the company ("**group company**"). The authorisation stipulates the bases for determining the conversion and/or option price.

Corresponding Contingent Capital 2014 should be approved to service the conversion and/or option rights arising from these bonds.

In principle, shareholders are granted subscription rights. In the case of a placement by a group company, the company must also ensure that company shareholders are granted the statutory subscription rights. To make processing easier, the option is provided to issue bonds to one or more banks with the requirement that shareholders be offered to buy the bonds in accordance with their subscription rights.

However, the Management Board should be authorised, with the consent of the Supervisory Board, to exclude the subscription right if the issuance of shares based on conversion or option rights or conversion or option obligations is limited to up to 10% of the share capital of the company. This limit of 10% of the share capital shall be offset by any issuance of shares in exchange for cash contribution or the issuance of conversion and/or option rights or conversion and/or subscription obligations, provided this happens by utilisation of an authorisation to exclude subscription rights in accordance with Section 186 para. 3 sentence 4 AktG during the term of this authorisation. Also offset is the share capital that is allocated to

purchased own shares that were sold during the term of this authorisation in a manner other than through the stock market or through an offer to all shareholders in corresponding application of Section 186 para. 3 sentence 4 AktG. These offsets ensure that no convertible bonds and/or bonds with warrants are issued if this would lead to the shareholder subscription right being excluded by the Management Board in direct or indirect application of Section 186 para. 3 sentence 4 AktG for more than a total of 10% of the share capital. The further limitation is in the interest of shareholders that wish to retain, to the greatest extent possible their level of investment in the event of capital adjustments.

This possibility to exclude the subscription right provides the Company with the flexibility to exploit favourable capital market situations on a short-term basis and, by setting the terms and conditions in accordance with prevailing market terms, to achieve better terms regarding the interest rate and issue price of the bond. The crucial factor for this is that, in contrast to an issuance of bonds with subscription rights, the issue price can only be set immediately before placement, thereby avoiding a higher risk of price changes for the duration of one subscription period. However, if a subscription right is granted, the subscription price must be published by the third to the last day of the subscription period. Thus, in view of the frequently observed stock-market volatility, there is a market risk spread over several days that can lead to safety margins being built in when determining the subscription price and thus to terms and conditions not in line with the market. In addition, granting a subscription right jeopardizes successful placement with third parties due to the uncertainty over its exercise and also costs more.

Setting the issue price of the bonds at a level not significantly below their notional market value as calculated using recognized methods of financial mathematics is intended to take into account the shareholder's need protect against dilution of its shareholdings. In the case of such an issue price of bonds, the subscription right would have a value of nearly zero. Thus, the protection of shareholders against economic dilution of their shareholdings is guaranteed and shareholders do not suffer any significant economic disadvantages from the exclusion of subscription rights. Shareholders that wish to retain their share of the share capital of the company or purchase bonds in accordance with their level of investment can achieve this by the purchase of more bonds on the market at almost identical terms and conditions.

The Management Board is also authorised, with the consent of the Supervisory Board, to exclude from subscription rights fractional amounts. Such fractions can result from the amount of the issue volume in question and the elaboration of a practicable subscription

ratio. Excluding subscription rights for fractions in these cases simplifies the processing of measures taken to increase capital. The free fractions excluded from shareholder subscription rights are either sold on the stock market or in another manner to the company's best-possible advantage. Shareholders do not suffer any significant dilution by the limitation on fractional amounts.

The Management Board should also be authorised, with the consent of the Supervisory Board, to exclude shareholder subscription rights when issuing participation rights, the character of which is not similar or equivalent to shares; i.e., in particular, no participation in liquidation proceeds is granted, and in which the amount of the distribution is not based on the amount of the net income for the year, balance-sheet profit or the dividend, and which are not associated with conversion or subscription rights or conversion or subscription obligations. Because of the bond-like character of the participation rights, the shareholder's membership position is not affected; neither the voting right nor the claim to pro rata share of the dividend or the share of the company assets would be altered by the issuance of profit-participation certificates without subscription rights. Moreover, if subscription rights are excluded, the issuing terms of the participation rights must be in line with market conditions so that no significant subscription right value results in this regard. On the other hand, by having the option to exclude subscription rights, the Management Board will be able take advantage of a low interest rate or a favourable demand situation for an issue quickly and flexibly. This will enable it to reduce the placement risk significantly. However, issuing participation rights while maintaining the subscription right entails the risk, which may be greater or lesser depending on the market situation, that the terms and conditions set at one time will no longer be in line with the market by the time of the actual placement on the market. The company thus runs the risk of not being able to place the participation rights at all, or on the other hand, of placing them too cheaply. Neither scenario would be in the best interest of the company or its shareholders. However, in order to take into account the requirement to protect shareholders, in each case the Management Board will carefully analyse whether the interest of the company requires an exclusion of subscription rights.

The Management Board should also have the option, with the consent of the Supervisory Board, to exclude shareholder rights in order to grant to holders or creditors of conversion and/or option rights or also of bonds with conversion or subscription obligations a subscription right to the extent they would be entitled after exercising the conversion and/or option rights or after fulfilling the conversion or subscription obligations. This avoids a worsening of the economic position of the holders/creditors of conversion and/or option rights (also with conversion and/or subscription obligations); they are provided dilution protection

that is in line with capital market practice, facilitates placement of the convertible bond and/or bond with warrant and allows the company to achieve a higher inflow of funds because the conversion or option price does not need to be reduced in these cases and there is no need for any other dilution protection to be granted. The full extent of the disadvantage to existing shareholders exists in the fact that holders/creditors of conversion and/or option rights (also with conversion and/or subscription obligations) are granted subscription rights that they would have been entitled to anyway if they had already exercised their conversion and/or option rights or had already fulfilled their conversion and/or subscription obligations. Therefore, considering the advantages and disadvantages, the exclusion of subscription rights seems appropriate in this case.

The subscription rights should also be excluded to permit the respective financial instruments to be issued in exchange for contributions in kind. The authorisation is intended to give the company the option to use these financing instruments also in connection with the acquisition of company assets. This can be an advantage, in particular when acquiring companies, parts of companies or participations in companies. In such cases, sellers frequently insist on receiving consideration solely in the form of cash or in a form other than cash. Thus, it can be an attractive alternative to offer bonds with option or conversion rights or participation rights (also with conversion and/or subscription obligations) instead of or in addition to granting shares or cash benefits. This option generates additional flexibility and increases the company's opportunities in terms of acquisitions.

However, both the authorisation to issue [securities] in exchange for contributions in kind and an exclusion of subscription rights in this regard should only be utilized if acquiring the asset in question is in the company's best interest and another type of acquisition, in particular through purchase, would not be legally or practically possible, or would only be possible on less favourable terms. In such cases, the company will always check to see whether there is an equally suitable way to acquire the asset that will have less of an impact on the position of shareholders. In the interest of shareholders, it will also be taken into account that the acquisition of contributions in kind in exchange for the issuance of a bond and/or participation rights and/or the issuance of new shares of the company requires the company to use market prices as a basis.

To increase flexibility, the terms and conditions of the bond can provide for the company not to grant shares of the company to beneficiaries or liable parties of conversion or option rights but instead to pay the equivalent value in cash. The proposed Contingent Capital 2014 is intended to service the conversion and/or option rights linked to convertible bonds and/or

bonds with warrants or fulfil conversion or subscription obligations with regard to shares of the company, provided own shares are not used for this purpose.

Munich, April 2014

Fair Value REIT-AG

The Management Board