Deutsche Konsum REIT-AG

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Deutsche Konsum REIT-AG

Annual General Meeting of Deutsche Konsum REIT-AG, Broderstorf

on Thursday, 11 March 2021, at 11:00 a.m. (CET)

Explanation of the Management Board on agenda item 7

With regard to the exclusion of subscription rights in connection with the issue of bonds with warrants and/or convertible bonds pursuant to §§ 221 (4) sentence 2, 186 (4) sentence 2 AktG, the Management Board reports as follows:

"The proposed new authorisation to issue bonds with warrants and/or convertible bonds in a total nominal amount of up to EUR 150,000,000.00 and to create Conditional Capital I of up to EUR 9,577,969.00 is intended to expand the Company's options for financing its activities and, with the consent of the Supervisory Board, to open the way for the Management Board to obtain flexible and timely financing that is in the interest of the Company, especially if favourable capital market conditions arise.

The issuance of bonds with conversion and/or option rights on shares of the Company enables the raising of capital at attractive conditions. The conversion or option premiums generated benefit the Company. The authorisation gives the Company the necessary flexibility to place the bonds itself or through majority-owned subsidiaries.

In principle, the shareholders are entitled to the statutory subscription right to the bonds with warrants or convertible bonds, § 221 (4) in connection with § 186 (1) AktG. In order to facilitate the settlement, use shall be made of the option to issue the bonds with warrants and/or convertible bonds to a credit institution or a syndicate of credit institutions with the obligation to offer the bonds to the shareholders in accordance with their subscription rights (indirect subscription right within the meaning of § 186 (5) AktG). The exclusion of the subscription right for fractional amounts enables the utilisation of the requested authorisation by whole amounts. This facilitates the settlement of the shareholders' subscription rights and is therefore in the interest of the Company and its shareholders.

Furthermore, the Management Board shall be given the possibility, with the consent of the Supervisory Board, to exclude the shareholders' subscription right in order to grant the holders of conversion and/or option rights or also of convertible bonds with conversion obligations a subscription right to the extent to which they would be entitled after exercising the conversion or option rights or after fulfilling the conversion obligations. This offers the possibility to prevent that, in the event of a utilisation of the authorisation, the option or conversion price for the holders of already existing option or conversion rights must be reduced in accordance with the option and conversion conditions.

Furthermore, the Management Board shall be authorised, in analogous application of § 186 (3) sentence 4 AktG, to exclude the subscription right with the consent of the Supervisory Board if the issue price of the warrant and/or convertible bond is not significantly lower than its market value. This may be expedient in order to quickly take advantage of favourable stock market situations and to be able to place a bond on the market quickly and flexibly at attractive conditions. Achieving the most favourable issuing result possible depends to a greater extent on whether it is possible to react to market developments at short notice. Favourable conditions, as close to market conditions as possible, can usually be set if the Company is not bound to them for too long an offering period.

In the case of rights issues, a not insignificant safety discount is usually necessary to ensure the attractiveness of the conditions and thus the chances of success of the issue for the entire offer period. It is true that § 186 (2) AktG permits publication of the subscription price (and thus, in the case of bonds with warrants and convertible bonds, the terms and conditions of such bonds) until the third last day of the subscription period. However, in view of the volatility of the stock markets, even then there is a market risk over several days, which leads to safety discounts when setting the bond conditions and thus to conditions that are not close to the market. Also, when granting a subscription right, an alternative placement with third parties is more difficult or associated with additional expense due to the uncertainty of exercise. If a subscription right is granted, the Company cannot react to a change in market conditions at short notice due to the length of the subscription period, which can lead to an unfavourable capital procurement for the Company. Warrants and/or convertible bonds are mainly purchased by specialised investors, which is why the best issue prices can be achieved when these financing instruments are only offered to such investors.

The interests of the shareholders are safeguarded by the fact that the option and/or convertible bonds are not issued significantly below the market value. The market value shall be determined according to recognised principles of financial mathematics. The Management Board will keep the discount from the market value as low as possible when setting the price, taking into account the respective situation on the capital market. Thus, the arithmetical value of a subscription right will practically come close to zero, so that the shareholders cannot suffer any significant economic disadvantage as a result of the exclusion of subscription rights. In addition, the shareholders have the possibility to maintain their share in the share capital of the Company at approximately the same conditions through acquisition on the stock exchange. In this way, their pecuniary interests are adequately protected.

The authorisation to exclude subscription rights pursuant to § 221 (4) sentence 2 in conjunction with § 186 (3) sentence 4 AktG only applies to bonds with warrants and/or convertible bonds with rights to shares to which a proportionate amount of the share capital does not exceed 10 % of the share capital, either at the time this authorisation becomes effective or at the time it is exercised. The aforementioned 10 % limit shall include the proportionate amount of the share capital attributable to shares that have been issued since the granting of this authorisation until the issue, without subscription rights, of bonds with option and/or conversion rights and/or obligations under exclusion of subscription rights pursuant to § 186 (3) sentence 4 AktG, either on the basis of an authorisation of the Management Board to exclude subscription rights in direct or analogous application of § 186 (3) sentence 4 AktG or sold as acquired treasury shares in analogous application of § 186 (3) sentence 4 AktG. This crediting is done in the interest of the shareholders in keeping the dilution of their shareholding as low as possible.

For the calculation of the conversion/option price, the authorisation specifies the exact calculation basis. The point of reference is the stock exchange price of the Company at the time of the placement of the Bonds or – in the case of the issue of bonds with an obligation to exercise the conversion right – the conversion.

Notwithstanding § 9 (1) AktG, the conversion/option price shall be adjusted in a value-preserving manner on the basis of an anti-dilution clause in accordance with the terms and conditions underlying the bond if, for example, the Company increases the share capital during the conversion/option period and the holders of conversion/option rights are not granted subscription rights to the extent to which they would be entitled after exercising the conversion/option right.

The issuance of bonds with warrants and/or convertible bonds may also be made against contributions in kind, provided that this is in the interest of the Company. In this case, the Management Board is authorised, with the consent of the Supervisory Board, to exclude the subscription right of the shareholders, provided that the value of the contribution in kind is in an appropriate ratio to the theoretical market value of the bonds with warrants and/or convertible bonds to be determined according to recognised principles of financial mathematics. This opens up the possibility of repurchasing the issued bond against the issuance of a warrant or convertible bond, if necessary with a mandatory conversion option. In addition, warrant and/or convertible bonds can be used as acquisition currency in suitable individual cases, for example in connection with the acquisition of companies, participations in companies or other assets. Thus, in negotiations, the necessity may well arise to provide the consideration not in money but in another form. The possibility of being able to offer bonds with warrants and/or convertible bonds as consideration thus creates an advantage in the competition for interesting acquisition objects as well as the necessary leeway to be able to take advantage of opportunities that arise for the acquisition of companies, participations in companies or other assets in a liquidity-preserving manner. This can also make sense from the point of view of an optimal financing structure. The Management Board will, with the consent of the Supervisory Board, carefully examine in each individual case whether it will make use of the authorisation to issue bonds with warrants and/or convertible bonds with option or conversion rights against contributions in kind with exclusion of subscription rights. It will only do so if it is in the interest of the Company and thus of its shareholders.

In order to increase flexibility, the terms and conditions of the bond may provide that the Company shall not grant shares of the Company to a conversion or option beneficiary, but shall pay a cash amount which, for the number of shares otherwise to be delivered, corresponds to the volume-weighted average closing price of the shares of the Company in XETRA trading (or in a functionally comparable successor system replacing the XETRA system) on the Frankfurt Stock Exchange during the last ten trading days prior to the declaration of the conversion or exercise of the option. Furthermore, a variable conversion ratio and/or a determination of the conversion price within a predetermined range depending on the development of the price of the Company's share during the term of the bond may be provided for. Finally, the terms and conditions of the bonds may also provide for a conversion obligation or an option obligation at the end of the term (or at another point in time) or the right of the Company to grant the holders of the bond, in whole or in part, shares in the Company or in another listed company instead of payment of the cash amount due upon final maturity of the bonds associated with a conversion or option right (this also includes maturity due to termination). This serves to better control the liquidity risks of the Company. The intended conditional capital serves to service the conversion or option rights associated with the bonds with warrants and/or convertible bonds. Instead, treasury shares or existing authorised capital may also be used for this purpose, provided such capital exists and its use is permitted for this purpose.“

Potsdam, January 2021

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The Management Board